Half a dozen quick end of year tax planning tips for you

My doesn't time fly by? It only seems like yesterday it was Christmas and now Easter is almost upon us. In the meantime we have the tax year end looming large on 5th April. The question is have you completed your end of year tax planning yet? If you haven't then you only have a maximum of 26 days to do it.

So what end of year tax planning should you do?

ISAs

If you haven't already done so, invest up to the maximum of £20,000 per person into an ISA. If you have children under age 18 consider investing up to £4,368 each into Junior ISAs for them. If the child has a child trust fund (CTF) £4,368 can be added to that or the CTF can be transferred to a JISA enabling further funds to be added to the JISA instead (a child with an open CTF isn't eligible to open a JISA). Children aged 16/17 could have £20k invested in a cash ISA, also.

Pensions

Pay up to the maximum amount into your pension. The annual allowance for most people is £40,000. Personal contributions up to 100% of your earnings (or £3,600 if more) can receive tax relief, but a tax charge applies if your total pension funding exceeds the annual allowance. Check with your adviser first. Again if you have children why not pay up to £2,880 net into a personal pension for them? Your non-tax paying child even gets tax relief on those contributions meaning that £2,880 net becomes £3,600 gross with the addition of basic rate tax relief of £720. That's an immediate increase in value of 25%! Sounds too good to be true doesn't it? Only it's not.

Capital Gains Tax

The annual CGT exemption is worth £12,000 per person. Do you have taxable investments and/or other assets such as investment property/ies? If so do consider selling or partially selling assets in order to use up your CGT exemption. Worth double if you are a couple who own an asset jointly. Capital Gains Tax of up to 20% can be saved (28% for residential property).

Inheritance Tax

Did you know you can gift up to £3,000 a year IHT free and you can carry forward last tax year's £3,000 allowance to the current tax year if you didn't use it last year as long as you also use the current year's allowance as well? Allowance is doubled if you are a couple as it is given to each person.

Charitable giving

If you or your partner are fortunate or unfortunate enough to be a higher earner and either of you are earning over £50,000 a year you will have to pay back a portion of your child benefit to the government. 100% of the child benefit will have to be paid back if either of you has an income of more than £60,000 a year. If you are an even higher earner and you earn over £100,000 a year you will lose some or all of your personal allowance of £12,500 a year. If you earn more than £125,000 you will lose your entire personal allowance.

If you make charitable contributions e.g. through Gift Aid you can legitimately reduce your taxable income for both child benefit claims and your personal allowance retention. This applies to pension contributions too.

Husbands and wives and civil partners

Husbands and wives and civil partners have a number of tax advantages over unmarried couples. They can make gifts to each other free of IHT and free of CGT (though the recipient inherits the donor's cost history). So with most of the above tax planning tips they can double up their tax savings as long as the gifts are genuine and unconditional.

They even inherit their late spouse's/civil partner's IHT exemptions (Nil Rate Band £325K and Residence Nil Rate Band £150K rising to £175K from 6 April) worth up to £500K from 6 April as long as their estates are left entirely to each other. When added together a widow/er may have as much as £1 million in IHT exemptions this way in 2020/21 (and then expected to rise with CPI from April 2021).

Unfortunately by the time you read this tip you probably won't have time to get married before 6 April and do your tax year end planning too! Still you will have another 12 months to arrange your next year's tax planning though!

So if you haven't yet completed your year end tax planning it is not too late to do so. Do contact us if you would like help in doing it. You know it makes sense.