MOORE Kingston Smith
Financial Advisers

TAX-EFFICIENT PLANNING FOR 2021/22

IT IS ALWAYS A GOOD IDEA TO REVIEW TAX PLANNING OPPORTUNITIES TO ENSURE YOU ARE MAXIMISING ALLOWANCES AND YOUR PLANNING IS IN LINE WITH CURRENT LEGISLATION. A BRIEF REMINDER OF THE KEY POINTS THAT SHOULD BE ADDRESSED WITH THE START OF A NEW TAX YEAR:

ISAs

Have you used your ISA allowance of £20,000?

- The ISA allowance is £20,000. For a couple, that is a savings allowance of £40,000 this tax year.
- Any income or growth that is generated within the ISA is tax free.
- You can save your full allowance into a stocks and shares ISA, a cash ISA, or combination of both.
- Up to £9,000 can be contributed to a Junior ISA/Child Trust fund.

Dividend allowance

Have you used the dividend allowance of £2,000?

Pensions

The Lifetime Allowance is £1,073,100 – should you take advantage of this by making pension contributions? Have you maximised the £40,000 annual allowance for pension contributions?

- The annual allowance for tax relievable pension contributions is up to £40,000 depending on your income.
- Tax relief on personal contributions is available at your highest marginal rate of tax.

Carry-forward

Have you used carry forward in order to benefit from any unused allowances from the previous three tax years?

- It may be possible to carry forward unused allowance from the three previous tax years, if the current year's allowance has been used up.
- If your income is over £100,000, a pension contribution may also help to reclaim any "lost" personal allowance, potentially resulting in effective tax relief of up to 60% on your contribution.
- Consider making a net contribution of up to £2,880 (£3,600 gross) for family members including those with no earnings e.g. children. This could help couples make best use of both of their personal allowances for income tax in retirement.
- Employer pension contributions are a tax efficient way of extracting profits for owner –managers and should be deductible for corporation tax purposes. This offers owner managers a tax efficient deferred income.

Watch out

Those with an adjusted income of over £240,000 and with threshold income over £200,000 have their annual allowance restricted on a sliding scale from £40,000 down to a minimum of £4,000. Previously the minimum contributions for high earners had been £10,000.

- Excess contributions above an individual's annual allowance are subject to an income tax charge (in some circumstances this may be paid by the pension provider).
- The Money Purchase Annual Allowance (MPAA) is £4,000 for individuals who have flexibly accessed their pension benefits.

Make the most of Inheritance Tax allowances

- You can gift up to £3,000 each tax year free of IHT, or £6,000 if there was no gift in the previous tax year. Any of the previous year's unused allowance can be carried forward, meaning a couple can between them potentially make a tax free gift of up to £12,000.
- On the occasion of their children's marriage parents can gift £5,000 (grandparents £2,500).
- You can make as many gifts of up to £250 per person, per tax year.
- Gifts as part of your normal expenditure are exempt from an IHT charge. A pattern of making these payments should be established and documented.
- The tax exempt nil rate band will remain frozen at £325,000 until April 2026.
- Homeowners may benefit from the Residence Nil Rate Band (RNRB) this is in addition to the standard nil rate band. The qualification is that your home must be passed down to your direct descendants, i.e. children, grandchildren.
- The relief is £175,000 in 2021/22. There is a tapered withdrawal of the additional nil rate band for estates with a net value of more than £2 million. This is at a withdrawal rate of £1 for every £2 over this threshold.
- This is beneficial to married and civil couples as their IHT relief is doubled. RNRB can be transferred to the deceased's spouse or civil partner's estate. On first death, the unused RNRB is capped at the value of the home. This can even be done if the first of the couple died before 6 April 2017.
- If you leave at least 10% of your net estate to charity, your estate could pay the reduced rate of 36% on assets above £325,000.
- You can also mitigate any potential IHT liabilities by implementing simple assurance policies written under suitable trusts.

Have you reviewed your Will in the last 5 years?

- Review your Will to ensure that your current wishes are reflected and that you are maximising the IHT relief available.

Capital gains

- UK resident individuals are entitled to realise capital gains of up to £12,300 (2021/22) without having to pay any Capital Gains Tax (CGT.
- The ownership of any asset may be transferred to or shared with a spouse/civil partner without triggering a tax charge, so that each individual's annual exemptions may be used for that disposal.
- The 2021/22 CGT rates are 10% for individuals who have not used their entire basic rate tax band against their income and 20% for higher or additional rate taxpayer.
- The CGT rate for transactions involving residential property (other than your principal residence), or carried interest, remain at 18% at the lower rate and 28% for the higher income tax rate.
- If you have an unused ISA allowance, it maybe beneficial to use your CGT allowance to crystallise funds held in a non-tax-privileged investment account and reinvest it in an ISA.

EIS Investment

Have you considered an Enterprise Investment Scheme, which offers income tax relief of 30% and unlimited capital gains tax deferral?

- Up to £1,000,000 can be invested in 2021/22 tax year with 30% income tax reduction being given on the amount invested or your income tax bill if less;
- This limit is doubled to £2,000,000 provided any amount over £1 million is invested in "knowledge Intensive Companies";
- An EIS must be held for at least three years to retain the tax relief. The full allowance of EIS relief in the year could equate up to a £600,000 reduction in your income tax bill.*

SEIS Investment

Have you considered investing into a Seed Enterprise Investment Scheme?

- Up to £100,000 can be invested in 2021/22. The relief provides a 50% income tax credit and the ability to exempt capital gains equal to 50% of the amount invested.*

VCT Investment

Have you considered Venture Capital Trust, which offers 30% income tax relief available on £200,000?

- Up to £200,000 can be invested and up to 30% income tax relief is available with future dividends exempt from income tax. It is recommended that you hold the VCT for five years.**

*A pension is a long term investment and the fund value may fluctuate and can go down.Your eventual income may depend upon the size of your fund at retirement, future interest rates and tax legislation. Information is based on our current understanding of taxation legislation and regulations. Any levels and bases of, and reliefs from taxation are subject to change.

**Enterprise Investment Schemes (EISs) and Seed Enterprise Investment Schemes (SEIS) are very high-risk investments. An EIS/SEIS investment is usually concentrated in one single unquoted trading company. Often there is no market for the shares and it may therefore be very difficult to make a disposal. There is a possibility of the chosen company failing.

***VCTs are high risk investments and there may be no market for the shares should you wish to dispose of them. You may lose your capital. Investment values and income from them may go down. You may not get back the original capital invested. *

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