

# End of Tax Year Planning Guide for Barristers

- Your main tax planning opportunities for the 2020–21 tax year
- Focus on financial advice for barristers
- Pensions, ISAs, JISAs, VCTs and EISs
- IHT, CGT and the Dividend Allowance
- Don't miss the tax year-end deadline – 5 April 2021
- Contact us for a free initial consultation



The Bar Council



## The time to take advantage of tax-efficient allowances



As the end of the tax year approaches, now is the perfect time to ensure you have your financial affairs in order and to double check that you have taken advantage of all the tax-efficient allowances available to you through pensions, Individual Savings Accounts (ISAs), Junior Individual Savings Accounts (JISAs), Venture Capital Trusts (VCTs) and Enterprise Investment Schemes (EISs).

### PENSIONS

You can contribute as much as you like into your pension, but there is a limit on the amount of tax relief you will receive each year. This year the Annual Allowance is £40,000. Currently, you are able to carry forward unused allowances from the past three years, provided you were a pension scheme member during those years.

For every £2 of adjusted income (total taxable income including all pension contributions) over £240,000, an individual's Annual Allowance is reduced by £1 (the minimum Annual Allowance is £4,000).

A Lifetime Allowance also places a limit on the amount you can hold across all your pension funds without having to pay extra tax when you withdraw money. This limit is currently £1,073,100, however one can opt to take out an HMRC pension protection which increases this to £1,250,000 subject to certain conditions.

For barristers who have part-time Judicial posts, and other members of the Judiciary, annual accrual under the Judicial Pension Schemes needs to be taken into account when working out annual allowances. While those who have previous accrual under defined benefit schemes (such as the Judicial Pension Schemes) need to consider this accrual when working out the Lifetime Allowance.

You can also invest into a pension for a non-working or non-tax paying spouse and doing so has the additional advantage of allowing them to use their personal tax allowance in retirement. Similarly, you can pay into a pension for children under 18. The maximum annual contribution you can currently make is £2,880 for non-workers and children which, along with tax relief, amounts to £3,600 a year.

Pensions are not the only way to invest for retirement. Many of our clients have no intention to use funds from pensions but instead rely upon other tax advantageous investments and pass on pension funds free of Inheritance Tax to their children.

### ISAs

The ISA allowance is £20,000 for the 2020–21 tax year. You can put all the £20,000 into a Cash ISA, or invest the whole amount into a Stocks and Shares ISA. You can also mix and match, putting some into Cash, some into Stocks and Shares. However, the combined amount cannot exceed your annual ISA allowance. With pension contributions subject to annual and lifetime limits, ISAs represent an excellent alternative way of saving for retirement. There is no Income Tax or CGT payable on ISA proceeds. You cannot carry over your ISA allowance once the tax year has ended.

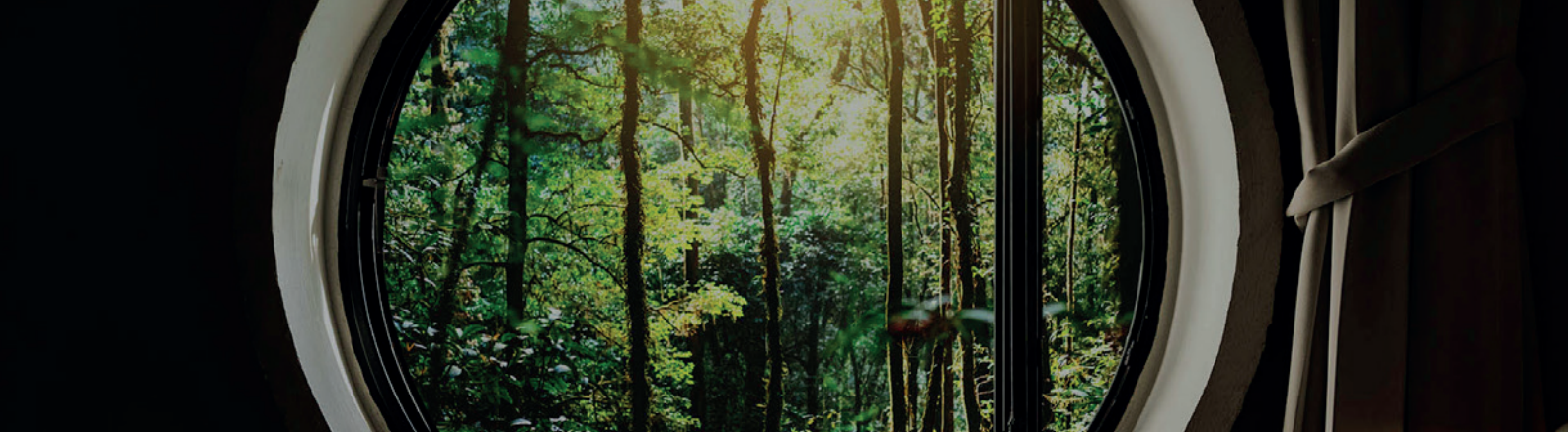
In certain circumstances, investors can use existing holdings to open or top up their ISAs, this arrangement is known as a Bed & ISA. This is a way of transferring assets held outside an ISA into an ISA so that future investment income and growth are sheltered from tax. The investments are sold, cash is transferred into the ISA and the investments are repurchased. Charges apply and you could end up with a CGT liability if the gain you make on selling the asset together with any other taxable gains you make within the tax year exceeds the annual CGT allowance.

A Lifetime ISA is available to those aged 18 or over, but under 40, who want to buy their first home or save for later life. You can put in up to £4,000 each tax year, until you are 50. The government will add a 25% bonus to your savings, up to a maximum of £1,000 per year. This contribution counts toward your annual ISA limit of £20,000. Conditions apply.

### JISAs

Junior ISAs are a tax-efficient way to build up savings for children (and grandchildren) and can be opened for any child under 18 living in the UK. The money can be held in Cash and/or invested in Stocks and Shares. They work in exactly the same way as an ISA, however, the maximum investment is £9,000 per child per tax year.





### **GIFTING FOR INHERITANCE TAX (IHT) PURPOSES**

You can make gifts worth up to £3,000 in each tax year which will be exempt from IHT on your death. You can carry forward any unused part of the £3,000 exemption to the following year but if you don't use it in that year, the exemption will expire.

Certain gifts don't use up this annual exemption, however, there is still no IHT due on them e.g. wedding gifts of up to £5,000 for a child, £2,500 for a grandchild (or great grandchild) and £1,000 to anyone else. Individual gifts worth up to £250 are also IHT free.

These are relatively small sums, but you should use these up where possible to gradually reduce your overall estate.

### **CAPITAL GAINS TAX (CGT)**

Every individual is entitled to a CGT annual exemption which is currently £12,300 (£6,150 for trusts). You cannot carry forward this relief and so you may look to crystallise gains up to this amount before the end of the tax year. Capital losses can also be used to offset gains.

Above the CGT allowance, basic rate tax-payers selling investments would pay CGT at 10%, with higher rate tax payers paying at 20%.

Spouses have two annual exemptions between them and can take advantage of the rules allowing assets to be gifted with no CGT implication until the asset is subsequently disposed of.

### **DIVIDEND ALLOWANCE**

For the current tax year, investors can earn up to £2,000 in dividend income tax-free. How much tax you pay on dividends above the Dividend Allowance depends on your Income Tax band; this is 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers.

### **VENTURE CAPITAL TRUSTS (VCTs)**

VCTs offer growth potential by investing in smaller VCT-qualifying companies that are not listed on the main London Stock Exchange. For 2020–21 the maximum investment into VCTs is £200,000.

VCTs provide a number of tax incentives including:

- 30% upfront Income Tax relief, provided you hold the VCT for five years
- No CGT on profits
- Tax-free dividends

### **ENTERPRISE INVESTMENT SCHEMES (EISs)**

For this tax year, the maximum investment in EISs £1 million (or £2 million as long as at least £1 million of this is invested in knowledge intensive companies. Tax incentives are a feature of EISs and include:

- 30% upfront Income Tax relief, provided you hold the EIS for three years
- No CGT on profits after three years
- No IHT after two years

Both EISs and VCTs are only suitable for investors who are comfortable holding high-risk investments. This enhanced risk element stems from the fact that EISs and VCTs invest in small, fledgling and therefore typically fragile enterprises. In recent years, both EISs and VCTs have gained significant popularity amongst wealthier investors and both schemes undoubtedly remain an attractive proposition for experienced investors looking to maximise tax-efficiency and diversify their portfolios.



## Fleet Street Wealth



**Fleet Street Wealth is an independent wealth management firm providing tailored advice, to individuals, corporations, trustees and charitable bodies.**

We are a Chartered independent financial advisory and wealth management firm, one of the main providers of financial services to barristers, working with several hundred barristers from within most of the London sets and members of the Judiciary. Furthermore, we are a Bar Council Partner. We are well known within chambers, by many of the clerks, accountancy firms who operate within this sector and other affiliated bodies. We also act as adviser to most of the main legal charities based on Chancery Lane.

We recognise the issues barristers face due to the unpredictable nature of self-employment and can help provide structure to one's financial affairs, analytical rigour and quality fund management. We account regularly to clients on benchmarked performance and costs and provide a comprehensive review process to serviced clients.

As a Chartered firm, with a highly competitive, transparent fee structure, including fixed initial fees, discounts for multiple transactions and capped ongoing charges for larger accounts, we are a firm you can trust.

### **The end of the tax year presents significant opportunities, this year perhaps more than ever.**

**It is important to ensure that you take expert advice to ensure that you benefit from those opportunities. To arrange a free initial consultation or to discuss your end of tax year planning, please call us on 0207 353 6373, email [barristers@fswealth.co.uk](mailto:barristers@fswealth.co.uk) or visit [www.fswealth.co.uk](http://www.fswealth.co.uk).**

The information contained in this guide is based on our understanding of current allowances and rates at 18.1.21, which could be subject to change.

The value of investments can go down as well as up and you may not get back the full amount you invested.

The past is not a guide to future performance and past performance may not necessarily be repeated.

It is important to take professional advice before making any decision relating to your personal finances. Information within this document is based on our current understanding and can be subject to change without notice and the accuracy and completeness of the information cannot be guaranteed. It does not provide individual tailored investment advice and is for guidance only. Some rules may vary in different parts of the UK. We cannot assume legal liability for any errors or omissions it might contain. Levels and bases of, and reliefs from, taxation are those currently applying or proposed and are subject to change; their value depends on the individual circumstances of the investor. No part of this document may be reproduced in any manner without prior permission.

**[www.fswealth.co.uk](http://www.fswealth.co.uk) | [barristers@fswealth.co.uk](mailto:barristers@fswealth.co.uk) | Fleet Street Wealth, 3-7 Temple Avenue, London, EC4Y 0HP**

Fleet Street Wealth is a trading style of Fleet Street Financial which is authorised and regulated by the Financial Conduct Authority.