AN INTRODUCTION TO

End of Tax Year Planning

Getting to grips with the basics

End of Tax Year Planning

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've taken advantage of all the tax-efficient allowances available to you.

Your pension

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 annual allowance is currently £40,000. You may be able to, however, carry forward unused allowances from the past three years, provided you were a pension scheme member during those years.

Threshold Adjusted Income limit is £200,000 and the Adjusted Income Limit is £240,000. If your income plus pension contributions exceeds the Adjusted Income Limit, your Annual Allowance is reduced by £1 of every £2 you are over the Adjusted Income Limit.

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.

If you have children under 18, a spouse who does not work, or who may not be earning enough to pay Income Tax, you can invest into a pension for each of them. The maximum annual contribution you can currently make is £2,880 which, along with tax relief, would amount to £3,600 a year.

Your Individual Savings Account (ISA) allowance

The ISA allowance is £20,000 for the 2021-22 tax year. You can put all the £20,000 into a Cash ISA or invest the whole amount into a Stocks and Shares ISA or a combination of the two. However, the combined amount can't exceed your annual ISA allowance. With pension contributions subject to annual and lifetime limits, ISAs represent an excellent way of topping up retirement income. There is no Income Tax or Capital Gains Tax (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 another option available.

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.

Junior ISA Contributions

Junior ISAs are a tax-efficient way to build up savings for your 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 your own ISA, however, the maximum investment is £9,000 per child.

Gifting for Inheritance Tax (IHT) purposes

You can make gifts worth up to £3,000 in each tax year. These gifts 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.

Using your CGT allowance

Every individual is entitled to a CGT annual exemption which is currently £12,300 (£6,150 for trusts). You can't 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%.

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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.

Venture Capital Trusts (VCTs) and Enterprise Investment Schemes (EIS)

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 2021-22 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 is £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

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.

Both EISs and VCTs are high risk investments. This enhanced risk element stems from the fact that EISs and VCTs invest in small, fledgling, and therefore typically fragile enterprises. There may be no market for the shares should you wish to sell them and it could therefore be difficult to make a disposal. You may lose all your capital.

Using your 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:

Basic rate	7.5%
Higher rate	32.5%
Additional rate	38.1%

From April 2022 Dividend Tax will increase due to the Health and Social Care Levy.

Tax year-end deadline 5 April 2022

Here's a reminder of the main tax planning opportunities:

- **Pensions**
  current Annual Allowance of £40,000
- **Individual Savings Accounts (ISAs)**
  maximum contribution of £20,000 each
- **Junior Individual Savings Accounts (JISAs)**
  maximum contribution of £9,000 per child
- **Gifting for Inheritance Tax (IHT)**
  purposes up to £3,000 a year
- **Using Capital Gains Tax (CGT) allowances**
  £12,300 annual exemption per person
- **Enterprise Investment Schemes (EISs)** maximum investment of £1 million (or £2 million as long as at least £1 million of this is invested in knowledge intensive companies)
- **Venture Capital Trusts (VCTs)**
  maximum investment of £200,000

To arrange a free initial consultation to discuss your end of tax year planning, please call us on 0207 353 6373, email financialadvice@fswealth.co.uk or visit www.fswealth.co.uk.

The Bar Council

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