Origen
Private Client Solutions

The Origen Guide to Tax Year Planning

Investments | Income | Savings & Dividends | Retirement | Inheritance Tax

Illuminating Advice

Tax Year Planning

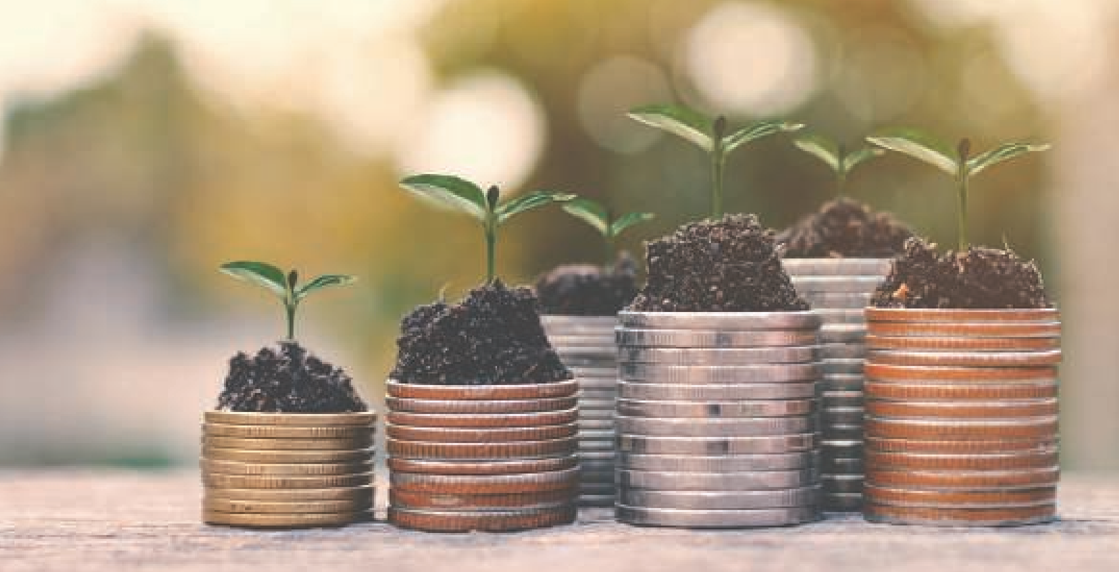
Tax allowances are available every year to help you make the most of your money. This guide shows some of the key allowances which are available to you.

Each tax year, if you have not used these allowances they may be lost, so you should take action to avoid missing out.

Have you made the most of these financial planning opportunities:

- [ ] Tax free savings
- [ ] Reducing your Income Tax
- [ ] Maximising returns on your investments
- [ ] Saving for your retirement
- [ ] Passing on your wealth

This guide is intended to be for your information only and not to be taken as financial advice. Before you take any action based upon the information in this guide, you should seek advice regarding suitability and tax consequences.



Tax-free savings

When it comes to investing, an Individual Savings Account (ISA) is one of the most tax efficient ways you can save for the future. It protects your investment from Income Tax and Capital Gains Tax (CGT). An ISA should be an essential part of your financial arrangements; allowing your savings more potential for tax-free growth.

Every UK resident over 18 (age 16 for cash ISAs) has an **ISA allowance** for each tax year, which can be invested in a stocks and shares ISA, a cash ISA or an Innovative Finance ISA.

2019/20	2020/21
£20,000	**£20,000**

The Lifetime ISA is available for people aged under 40, with an annual limit of £4,000 which counts towards your overall ISA allowance. If a Lifetime ISA is used for a first time property purchase up to the value of £450,000 or retirement it qualifies for a 25% bonus from the Government.

If you have used your own allowance, you may wish to make payments into an ISA for a spouse, civil partner or family member. Children have a **Junior ISA allowance** each tax year, which can be an excellent way to save for their future.

2019/20	2020/21
£4,368	**£9,000**

Actions you should consider

- You should consider using your ISA allowance for this tax year. Any remaining unused allowance will be lost at the end of the tax year.
- Do you have cash or non-ISA investments which you are willing to hold over the medium to long term of five years or more? Investing them into an ISA will mean that they are exempt from future Income Tax and Capital Gains Tax charges.
- If you have Cash ISAs, are you happy to review them and see if you can access more growth potential by exposing these investments to some market risk to match your attitude to risk?
- Have you considered making ISA investments for other family members, who have their own ISA allowance, which can help your IHT planning?

Reducing your Income Tax

Your income is subject to Income Tax, but you have a personal allowance where income is tax free and thresholds where the rate of Income Tax increases.

Tax rates for the UK (excl Scotland):	**2020/21 (unchanged from 2019/20)**	
Personal allowance	Up to £12,500	
Basic rate (20%)	£12,501 - £50,000	
Higher rate (40%)	£50,001 - £150,000	
Additional rate (45%)	Over £150,000	
Tax rates for Scotland:	**2019/20**	**2020/21**
Personal Allowance	Up to £12,500	Up to £12,500
Starter rate (19%)	£12,501 - £14,549	£12,501 - £14,585
Basic rate (20%)	£14,550 - £24,944	£14,586 - £25,158
Intermediate rate (21%)	£24,945 - £43,430	£25,159 - £43,430
Higher rate (41%)	£43,431 - £150,000	£43,431 - £150,000
Additional rate (46%)	Over £150,000	Over £150,000

You can reduce your taxable income, for example by making a pension contribution.

As well as tax bands, there are also tax traps which you should consider:

- For income over £50,000, you will lose child benefit at the rate of 1% for each £100 of income you are over the £50,000 threshold. For income over £60,000, no child benefit will be payable.
- Higher earners with income over £100,000 will lose their personal allowance at the rate of £1 for every £2 over this limit.

Actions you should consider

- Assess your annual income levels and consider if you can make allowable deductions to reduce your tax band.
- If you earn over £50,000 or you are a higher earner, you can take action (such as making pension contributions) to reduce your taxable income and keep your child benefit or your personal allowance.
- If your spouse / civil partner is a lower band taxpayer you may consider passing income generating assets to them or opting for joint ownership.

Maximising returns on your investments

If you hold cash investments such as savings accounts or cash ISAs, your returns may be low, as UK base rates are currently low. Your money may not even keep pace with inflation, which will reduce the real value of the money in the future.

If you have investments held directly in shares you may receive dividends. The **dividend allowance** means that you can receive dividends tax free up to this limit.

2019/20	2020/21
£2,000	**£2,000**

Interest on savings has an allowance of £1,000 for basic rate taxpayers, reducing to £500 for higher rate taxpayers and there is no allowance for additional rate taxpayers.

If you sell investments, including shares, your gains will be subject to Capital Gains Tax (CGT) at either 10% or 20% (with an additional 8% on the sale of properties, other than your main residence which is generally CGT exempt). You have a **CGT allowance** for each tax year.

2019/20	2020/21
£12,000	**£12,300**

*For most trustees the CGT allowance is half of the individual CGT allowance (£6,150 for tax year 2020/21).

Actions you should consider

- If you have cash investments which you are willing to hold over the medium to long term of five years or more, then you should consider whether you are willing to take some investment risk in search of higher potential returns.
- To ensure that interest and dividends are exempt from tax, you should consider putting any savings or share investments into an ISA.
- If you are making large gains, you should plan when you sell or cash in assets to make use of CGT allowances in each tax year. For example, you could use your CGT allowance in two tax years, by selling part of your investment in different tax years, to enable you to take more gains tax free.

Saving for your retirement

Saving for your retirement is an important part of financial planning. Putting money aside while you are working is vital if you want to continue a good quality of life in retirement. You may have pension savings with your employer or previous employers – but you can also make your own pension contributions. You have an **annual allowance** and you will receive tax relief on pension contributions up to the value of your annual earnings in each tax year.

2019/20	2020/21
£40,000	**£40,000**

If you have started to take your retirement benefits flexibly, your annual allowance may be reduced to £4,000 under the Money Purchase Annual Allowance rules.

If you are approaching your annual allowance, you may be able to use the previous three years' allowances using the carry forward rules, provided you have been in a pension scheme. But care should be taken as exceeding allowances will incur a tax charge. If you have income over £200,000 you should be aware that your annual allowance may be reduced below £40,000, to a minimum of £4,000 if you have income over £312,000.

You can make pension contributions through your employer using Salary Sacrifice. This will reduce your taxable income and National Insurance contributions and therefore your tax bill. Your employer will also reduce their National Insurance payments.

Actions you should consider

- Consider your target retirement income and your existing pension savings, including those from previous employers to identify any shortfall.
- If you have an employer pension scheme, consider making additional pension contributions to it. If you wish to make a large pension contribution, consider whether you have any unused allowances you can carry forward.
- Complete a State Pension forecast to assess how much and when you might receive the State Pension (available at **www.yourpension.gov.uk**).
- If you are planning to take pension income make sure you understand the rules around the Money Purchase Annual Allowance, as triggering this could severely restrict future pension saving.

Passing on your wealth

Inheritance Tax (IHT) is payable at 40% on the value of an estate on death. However, everyone has a nil rate band and an additional residence nil rate band provided the residence is left to a direct descendant.

	2019/20	2020/21
Nil rate band	£325,000	£325,000
Residence nil rate band	£150,000	£175,000
Total	**£475,000**	**£500,000**

You can reduce the value of your estate for IHT purposes by making lifetime gifts which may be treated as potentially exempt transfers if you survive for seven years after making the gift. However, you can also make gifts up to £3,000 each year or gifts from income which will be exempt from Inheritance Tax. Any gifts up to £250 are allowable as tax-free gifts, but this cannot be combined with the £3,000 allowance.

You can see the benefits of making these gifts in your lifetime – as well as reducing the potential IHT bill. Before making gifts, you should consider your own future financial requirements.

You can also reduce the value of your estate for IHT purposes by putting assets into a trust as they are outside your estate – but they may still be liable to Inheritance Tax either as a Potentially Exempt Transfer (PETs) or a Chargeable Lifetime Transfer.

Any investments that you gift or put into trust must be given without reservation, otherwise they will still be treated as part of your estate.

Actions you should consider

- Have you used your £3,000 annual gift allowance? You can use any unused allowance from the previous year – but if you don't use the allowance for the previous tax year before 5 April then it will be lost.
- If you are making gifts, you should consider tax efficient investments and use any unused ISA allowance or pension allowance which are available to the recipient of the gift.
- Assess the value of your estate – if you are likely to have an IHT liability, you could consider putting some of your assets into a Trust.
- You could make a regular gift to fund a 'whole of life' plan which can be used to meet an IHT bill.

These tax allowances can help you and your family get your money working harder. Ask your adviser to see how you can use these tax planning opportunities to keep you on track towards achieving your financial goals. The tax rates for 2020/21 were announced in the March 2020 Budget.

To discuss your financial plans, please contact your adviser or our Client Liaison team on:

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Calls are charged at your phone company's basic rate. All calls are recorded for business purposes.

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