

ACTIVE PRACTICE UPDATES

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Chartered Accountants

PERSONAL TAX PLANNING FOR 2020/21

What you need to know for the tax year.

The Government left it to the very last minute to announce its tax plans for 2020/21. Fortunately, Chancellor Rishi Sunak had few surprises up his sleeve in last month's Spring Budget.

Three of the main taxes in the UK – income tax, corporation tax and VAT – saw their rates and thresholds frozen or, for income tax thresholds in Scotland, merely tweaked in line with inflation.

However, there were changes to pensions and capital gains tax. Here's what you need to know from April 2020.

PENSIONS AND SAVINGS

Changes to the way pensions are taxed were anticipated prior to Spring Budget 2020, after the controversial taper spent most of 2019/20 in the headlines.

The annual pensions allowance remains at £40,000 in 2020/21, while you can still also utilise any unused allowance from the last three tax years of an existing pension scheme.

High earners, such as doctors who felt the weight of unexpectedly high tax bills, will benefit after Sunak raised the tapered allowance thresholds by £90,000 each.

That means threshold income rises from £110,000 to £200,000 in 2020/21 along with adjusted income, which increases from £150,000 to £240,000. So, for every £2 of income you have over £240,000, your annual allowance could be decreased to as low as £4,000, instead of £10,000.

Changes to the maximum reduction are also coming in, so if your income exceeds £240,000 you will have an annual tapered allowance of £4,000 instead of £10,000.

You will retain your entire allowance if neither threshold is breached in 2020/21. However, if you have withdrawn any flexible benefits, the money purchase annual allowance of £4,000 will apply instead of the annual allowance.

The total amount you can save into a pension over the course of your life rose to £1.0731 million for 2020/21, and an extra tax charge still kicks in for exceeding this.

ISAs

ISAs remain tax-free up to an annual subscription value of £20,000, whether the income is from interest or investments.

Types of ISA include cash, stocks and shares, innovative finance ISAs, lifetime ISAs, and junior ISAs for under-18s.

You can opt to put all your savings in one type of ISA, or you could split them across several items.

Bear in mind, the lifetime ISA (£4,000) and junior ISA (£9,000), have maximum annual contribution limits and the help-to-buy ISA is closed to new applicants.

IN THE FAMILY

Inheritance tax

Despite all the noise surrounding big changes to inheritance tax, nothing materialised when it all came out in the wash.

The only change to be aware of for 2020/21 is one we already knew about – the residence nil-rate band increases from £150,000 to £175,000 from 6 April 2020.

Other than that, the nil-rate threshold stay at £325,000 and the flat-rate of inheritance tax stays at 40% for the next 12 months.

Marriage allowance

If you earn less than your spouse or civil partner, you can continue to transfer £1,250 of your personal allowance to them in 2020/21 by using the marriage allowance.

Assuming you are employed with no other sources of income, you will need to earn less than £11,250 to be able to do this without paying any tax, but this can reduce their tax bill and can be backdated for four years.

The marriage allowance is only available if one spouse or civil partner earns less than the personal allowance, and the other is a basic-rate taxpayer.

INCOME

Taking charge of planning your finances requires you to know how much income you receive from all sources and to be aware of any rates or allowances that may apply to reduce what you end up owing HMRC.

How much income tax you pay depends on where in the UK you live, with different thresholds and rates applying in Scotland.

Income tax in England, Northern Ireland & Wales

Band	Threshold	Rate
Personal allowance	Up to £12,500	Nil
Basic-rate	Over £12,500 to £50,000	20%
Higher-rate*	Over £50,000 to £150,000	40%
Additional-rate*	Above £150,000	45%

Income tax in Scotland

Band	Threshold	Rate
Personal allowance	Up to £12,500	Nil
Starter-rate	Over £12,500 to £14,585	19%
Basic-rate	Over £14,585 to £25,158	20%
Intermediate-rate	Over £25,158 to £43,430	21%
Higher-rate*	Over £43,430 to £150,000	41%
Top-rate*	Above £150,000	46%

*The personal allowance reduces by £1 for every £2 of income from £100,000 to £125,000.

Dividends

The dividends allowance remains at £2,000 for 2020/21, for the second successive year.

Taking into account the frozen personal allowance, the maximum tax-free income you can receive through dividends in 2020/21 is £14,500.

Above that threshold dividends falling in the basic-rate band pay tax at 7.5%, in the higher-rate band at 32.5% and dividends that fall within the additional-rate band will be taxed at 38.1%.

Capital gains tax

If you have any chargeable assets that you plan to sell and are worth more than you paid for them, your gain could be liable to capital gains tax.

Gains that are sold in 2020/21 for more than £12,300 will be liable for capital gains tax. The rate of tax paid will depend on the type of asset sold and which marginal rate of income tax you pay, with different rates applying to basic-rate taxpayers and those in higher or additional-rate bands.

That is unless the asset is held in trust, in which case capital gains tax kicks in if the asset is sold for more than £6,150. The same tax rates apply as to individuals.

The lifetime limit for gains falling within **entrepreneurs' relief**, which reduces the capital gains tax rate to a flat 10%, has been reduced to £1m. This threshold was previously £10m but was reduced in last month's Spring Budget.

If you plan to sell a residential property after 6 April 2020, you may have to report the gain and pay any capital gains tax within 30 days of completion.

The **30-day payment window** specifically applies to those with residential properties where capital gains tax is due on the sale, such as second homes or buy-to-let properties.

If that applies to you and you're planning to sell a property that's not your main residence in 2020/21, any gain must be reported within 30 days of the deal going through.

Going forward, you will no longer be able to report and pay tax on the gain through the previous method of self-assessment.

Changes to **letting relief** will result in this valuable capital gains tax break now only being available if you were in shared occupancy with a tenant.

The amount of letting relief that was previously available was whichever was the lowest of private residence relief, the chargeable gain made from letting the home or £40,000.

Last but not least, the **final-period private residence relief exemption** will fall from 18 months to nine months for 2020/21, in the majority of cases.

The Treasury estimates these changes to capital gains tax will increase receipts to around £17bn by 2024/25.

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