



A financial review could help to reduce your tax liabilities

Reviewing your financial plans on a regular basis can help you to make best use of the tax-efficient investment strategies available and ensure that you do not pay more in taxes than is necessary.

The following overview highlights some areas for consideration:

Pension Tax Relief

When you contribute into a pension, the Government provides tax relief at the highest rate of income tax you pay, as follows:

	Pension tax relief on personal contributions	
	England, Wales & Northern Ireland	Scotland
Starter	n/a	20%
Basic	20%	20%
Intermediate	n/a	21%
Higher	40%	41%
Additional	45%	46%

Even if you don't pay tax, or have no earnings at all, you may be able to contribute up to £3,600 gross and obtain tax relief on the contribution.

For 2020-21, the annual pension contribution limit (Annual Allowance) for tax relief purposes is 100% of your salary or £40,000, whichever is lower.

You may also be able to make use of any Annual Allowance that you have not used in the three previous tax years under pension carry forward rules, as long as you were a member of a pension scheme during those years.

Note: If you have a threshold income of more than £200,000 per year and an adjusted income of more than £240,000 per year, your Annual Allowance will be tapered.

If you have flexibly accessed your pension benefits the Money Purchase Annual Allowance (MPAA) limits the maximum amount that you can pay into your money purchase arrangements without a tax charge applying to £4,000 in the 2020-21 tax year.

Savings Income

The **Personal Savings Allowance** is currently £1,000 per tax year for Basic Rate taxpayers, £500 per year for Higher Rate taxpayers and nil for Additional Rate taxpayers. Savers only pay tax on interest that exceeds their Personal Savings Allowance.

The **Starting Rate for Savings** is available to those whose non-savings income and savings income added together is less than their personal allowance plus £5,000.

Investment Income

Income from investments is treated as taxable income. However, the proceeds taken from **Individual Savings Accounts (ISAs)** are free from tax on capital gains, dividend income and interest. You may also invest for children or grandchildren under the age of 18 by putting money into a Junior ISA (JISA). ISA and JISA allowances will be lost if they are not used by the end of the tax year. The current ISA/JISA allowances for 2020-21 are £20,000 and £9,000 respectively.

The **Dividend Allowance** gives you an additional £2,000 in tax free income from share dividends and other share-based investments, such as OEICs and Unit Trusts which invest mainly in shares, which are held outside of an ISA.

Venture Capital Schemes

Venture capital schemes provide funding for companies in the relatively early stage of the business cycle. They offer generous tax breaks but involve high levels of risk and therefore are only suitable for experienced investors who are comfortable taking this degree of risk.

Three types of scheme have been set up by the UK Government:

The Enterprise Investment Scheme (EIS)

The EIS is designed to encourage investment into early-stage companies that are not listed on a stock exchange. It offers investors a range of tax breaks, including Income Tax relief of 30%, no Capital Gains Tax (CGT) on gains realised on the disposal of EIS investments (provided the investments are held for three years), CGT deferrals if proceeds are invested in qualifying EIS investments, and Inheritance Tax (IHT) relief if the investments are held for two years. You can carry back some or all of the shares to the previous tax year, as long as you had not reached the limit for the value of EIS shares purchased (£1,000,000) in that year.

The Seed Enterprise Investment Scheme (SEIS)

The SEIS is designed to promote investment into start-up companies that are raising their first £150,000 in external equity capital. Like the EIS, it offers a range of generous tax breaks, including Income Tax relief of 50%, no CGT on gains realised on the disposal of SEIS investments (provided the shares are held for three years), reinvestment tax relief, and IHT relief if the investments are held for two years.

Venture Capital Trusts (VCTs)

VCTs are investment companies that are listed on the London Stock Exchange and invest in smaller companies that meet certain criteria. VCTs offer investors a range of tax breaks including 30% Income Tax relief, tax-free dividends and tax-free growth, subject to qualifying criteria.

Capital Gains Tax (CGT)

CGT is charged on the profit or increase in value of an asset, other than your main residence, when it is either sold or gifted to another.

The CGT allowance for 2020-21 is £12,300 – any gains above this amount are taxable. The rate you pay is determined by adding the value of the gain, after the CGT allowance has been taken into account, to your taxable income.

In England, Wales and Northern Ireland, gains, which when added to taxable income fall into the Basic rate tax band will be charged at 10%. Gains which when added to taxable income fall into the Higher and Additional rate tax bands will be charged at 20%.

If you live in Scotland and are a Scottish taxpayer the same rules apply. You must use the UK rates and bands to work out your CGT, even if you pay income tax at the Scottish rates.

This allowance cannot be carried forward, but spouses and civil partners can transfer assets between themselves before they are sold to make the most of their annual CGT allowances.

Marriage Allowance (MA)

The MA is available to married couples and those in a civil partnership where one spouse or civil partner doesn't pay tax or who has an income below the personal allowance (£12,500 in 2020-21) and their partner pays tax at the Basic Rate. It allows the lower earner to transfer £1,250 of their personal allowance to their spouse or civil partner. Those who are eligible can also backdate their claim to include any tax year since 5th April 2016.

Charitable Gifts

Charitable gifts can reduce your tax bill in a similar way to pension contributions. Gifts made under the Gift Aid scheme qualify for immediate tax relief at 20%, with Higher or Additional Rate taxpayers claiming back the difference via self-assessment. (NB Scottish taxpayers who pay tax at 21%, 41% or 46% can claim the difference between this and the Basic Rate of 20%.) You may be asked to give evidence of a gift when claiming back the extra amount at the end of the tax year, so make sure you keep good records and get receipts.

Please remember that tax treatment depends on individual circumstances and current tax benefits may change in the future.

The calculation and application of many of these tax reliefs can be complex, and professional advice should be sought to ensure that they are utilised effectively.

This document is based on our understanding of current legislation and HMRC rules as at January 2021.

How can we help you?

If you require assistance with any area of financial planning please contact us.

We do not charge for an initial conversation where we can determine where you require advice and whether we may be able to offer added value in terms of your financial planning.

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