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INVESTOR PROFILE

The **2020/21** end of tax year guide

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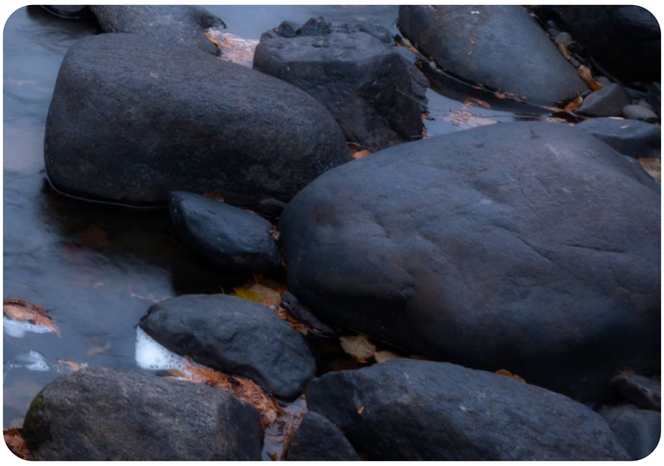
The 2020/21 tax year ends on Monday 5th April 2021. This is the date when many allowances reset and it could be your last opportunity to make use of some of them.

Keeping track of how you've used your allowances can reduce your tax liability and help you get the most out of your money. Reviewing your finances ahead of the end of tax year end could reduce the amount of tax you pay and improve your financial security in the future.

Here are seven allowances you should consider to ensure you're ready for the new tax year.



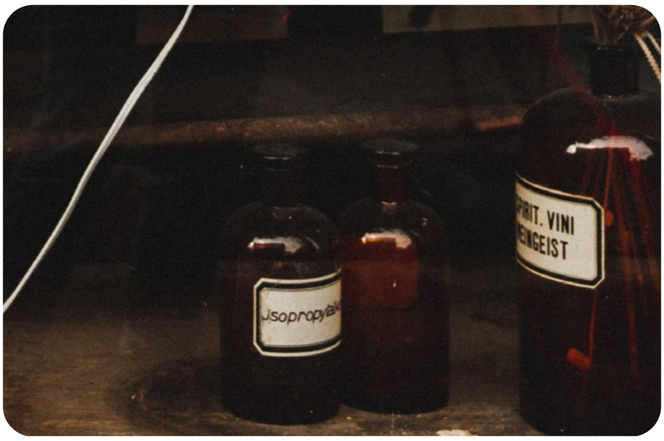
1. Marriage Allowance

2020/21 allowance: up to £1,250

The Marriage Allowance allows a husband, wife, or civil partner to give some of their unused Personal Allowance to their partner.

The Personal Allowance is the amount of income you can receive before Income Tax is due. For the 2020/21 tax year, it is £12,500 for most people. If you or your partner has an income below this threshold, the person on the lower-income can pass up to £1,250 of their Personal Allowance to the other, effectively increasing their Personal Allowance to £13,750. It's a step that saves up to £250 in Income Tax.

To be eligible, you must be married or in a civil partnership. The partner with the higher income must pay Income Tax at the basic rate in England and Wales, usually meaning their income is between £12,501 and £50,000. In Scotland, they must pay the starter, basic or intermediate rate of Income Tax, usually meaning their income is between £12,501 and £43,430.



Why should I use the Marriage Allowance? What happens if I don't use it before 5 April 2021?

It can reduce your tax bill by up to £250. The Marriage Allowance can be backdated for up to four years, so you won't lose the 2020/21 allowance at the start of the new tax year.

2. Pension Annual Allowance

2020/21 allowance: up to £40,000

The pension Annual Allowance is the maximum that you can pay into your pension each tax year while still benefitting from tax relief. This includes pension contributions made by your employer or other third parties.

For the current tax year, the Annual Allowance is 100% of your annual earnings up to £40,000 for most people. However, there are two reasons why your Annual Allowance may be lower:

1. The Tapered Annual Allowance means if your threshold income is over £200,000 or your adjusted income is more than £240,000, your Annual Allowance will be reduced by £1 for every £2 your income exceeds these thresholds. It can be reduced by a maximum of £36,000, meaning your Annual Allowance can be as low as £4,000.
2. If you have flexibly accessed your pension, you may be subject to the Money Purchase Annual Allowance. This reduces the amount you can tax-efficiently save into a pension to £4,000 per tax year.

It's important to know what your Annual Allowance is, please contact us if you're unsure or have any questions.

Why should I use the Pension Annual Allowance? What happens if I don't use it before 5 April 2021?

To make the most of your pension contributions by benefitting from the maximum amount of tax relief available. Unused pension Annual Allowance can be carried forward for up to three tax years. This is your last chance to make full use of your allowance from the 2017/18 tax year.

Make use of your family's Annual Allowance

Tax relief makes saving into a pension efficient. Don't just use your own allowance but make use of your loved ones' too, it can help them create long-term financial security. Even those without an income, including children, can contribute to a pension and benefit. Non-taxpayers can add up to £2,880 each tax year to their pension. Contributions would benefit from tax relief at the level of Income Tax they pay or at 20% if they are a non-taxpayer.

3. ISA allowance

2020/21 allowance: £20,000

An ISA is a tax-efficient way to save or invest. For the current tax year, you can place up to £20,000 into ISAs, choosing one account or spreading the allowance across several.

There are four types of adult ISA to choose from:

1. **Cash ISA:** A Cash ISA operates similar to a savings account, but the interest you earn is tax-free. Some Cash ISAs are subject to restrictions, for example, how much you can withdraw. These typically offer higher interest rates.
2. **Stocks and Shares ISA:** Using a Stocks and Shares ISA allows you to invest in the stock markets and other assets. Returns are tax-free. As with all investments, you should have a long-term outlook when using a Stocks and Shares ISA.
3. **Lifetime ISA (LISA):** If you're aged between 18-39, you can open a LISA. You will receive a 25% government bonus on contributions. However, you will be penalised if you make a withdrawal before you turn 60 for a purpose other than buying your first home. The maximum amount you can place into a LISA each year is £4,000. A LISA can be a Cash or Stocks and Shares ISA.
4. **Innovative Finance ISA:** An Innovative Finance ISA is designed for peer-to-peer lending investments. Usually, these kinds of investments are higher risk than traditional alternatives and, therefore, are not appropriate for most investors. Returns are tax-free.

Why should I use the ISA Allowance? What happens if I don't use it before 5 April 2021?

An ISA is a tax-efficient way to save or invest. If you don't use your ISA allowance by the end of the tax year, you lose it.

Personal Savings Allowance

You may also have a Personal Savings Allowance. This is the amount of interest you can earn without paying tax. The allowance depends on which Income Tax band you're in:

- £1,000 for basic rate
- £500 for higher rate

You do not have a Personal Savings Allowance if you are an additional rate taxpayer.

Junior ISAs (JISA)

A JISA is a tax efficient way to save or invest for a child.

The annual allowance for 2020/21 is £9,000. The child can begin managing their ISA from 16, but they cannot withdraw money until they are 18.

Like their adult counterparts, interest and returns are tax-free. If you don't use the allowance before the end of the tax year, it will be lost.

4. Gifting allowance

2020/21 allowance: £3,000

If you're concerned about Inheritance Tax, gifting to loved ones now can reduce the value of your estate and, therefore, the eventual bill. However, not all gifts are immediately exempt from Inheritance Tax. Some may be considered part of your estate for up to seven years.

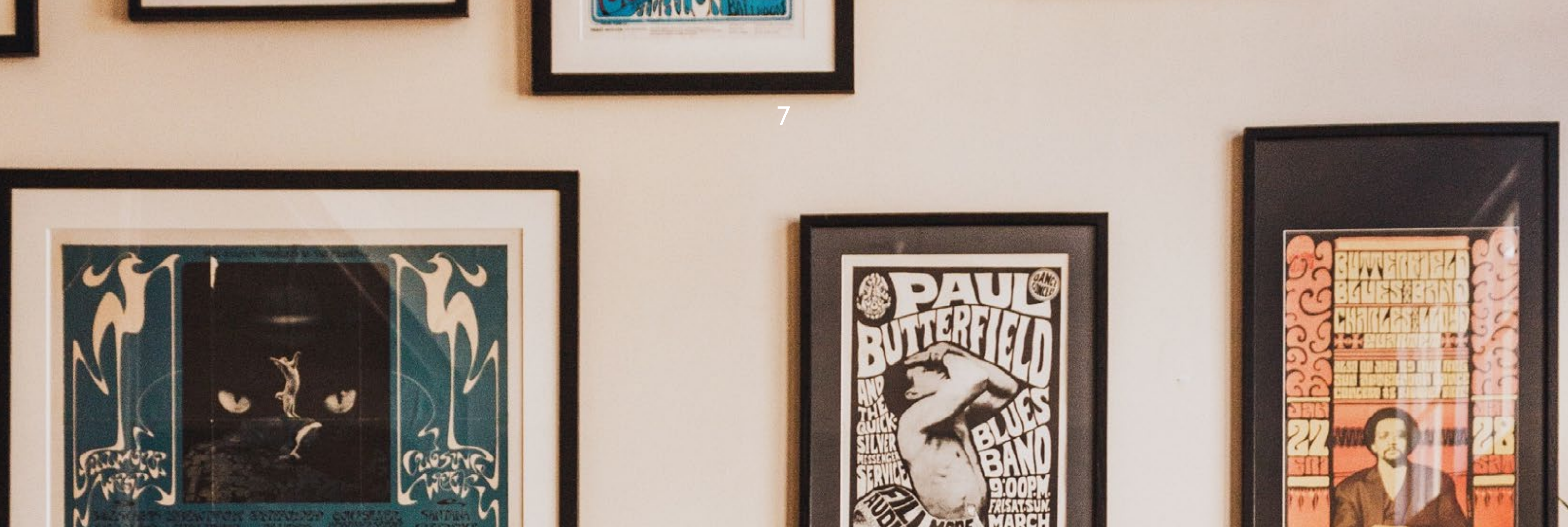
Taking advantage of gifts that are outside of your estate immediately can provide peace of mind. Each year, the gifting allowances means you can pass on up to £3,000 tax-free. The limit applies per individual, so couples can gift up to £6,000 between them.

Why should I use the Gifting Allowance? What happens if I don't use it before 5 April 2021?

It allows you to pass on wealth to a loved one that is immediately considered outside of your estate for Inheritance Tax purposes. If you don't use it the exemption can be carried forward for one year.

Mitigating Inheritance Tax

In addition to the gifting allowance, you can gift small amounts (up to £250 per person) to as many people as you like. There are also many other ways you can reduce Inheritance Tax. Please get in touch if you'd like to discuss this.



5. Gifts from your income

2020/21 allowance: Dependent on your disposable income

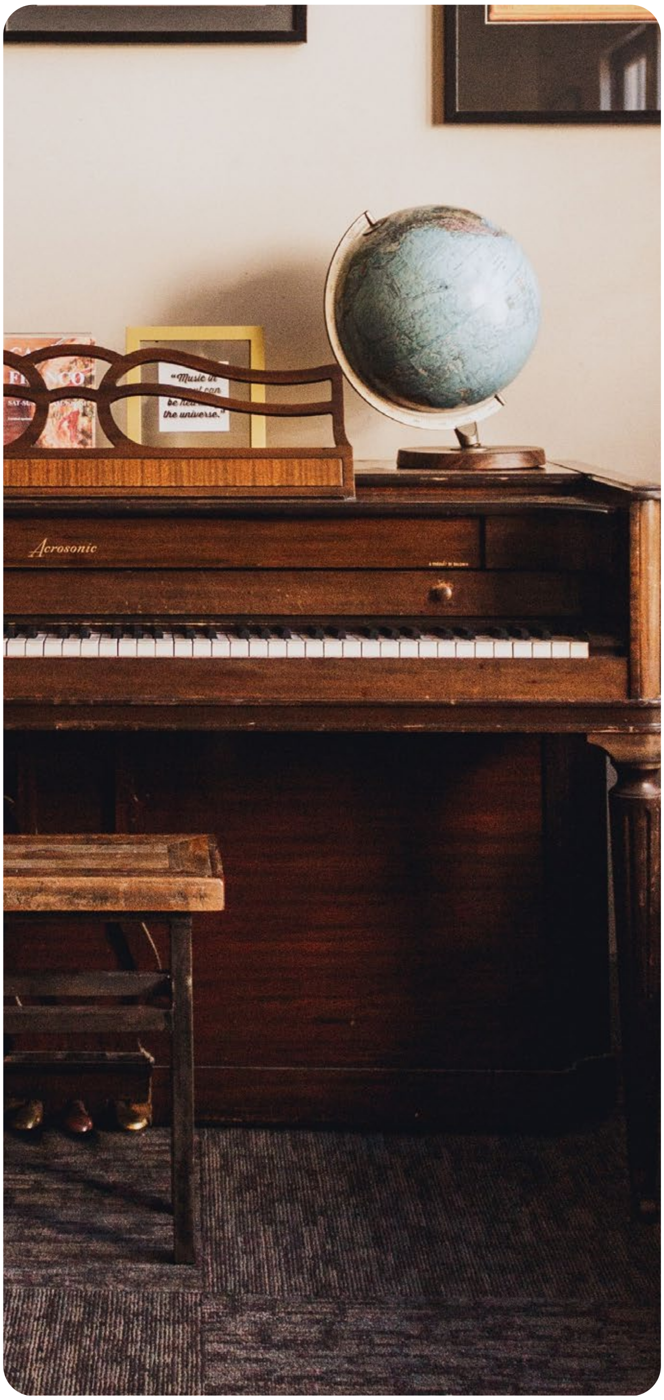
If Inheritance Tax is a concern, gifting from your income is another way to reduce the bill. However, these need to be made regularly and must:

- Be made from your income
- Be part of your normal expenditure
- Leave you with sufficient income to maintain your current lifestyle

This can be a useful way to offer financial support to loved ones, for example, paying the school fees of grandchildren or making regular deposits to pay for living costs of children. If you want to take advantage of this, it's important to make sure your regular gifts have continued throughout the current tax year. You should also keep a record of gifts made under this exemption.

Why should I make gifts from my income? What happens if I don't use it before 5 April 2021?

Gifting to loved ones now can reduce the amount of Inheritance Tax due on your estate. Gifts from your income must be made regularly.



6. Capital Gains Tax (CGT) allowance

2020/21 allowance: £12,300

CGT is paid when you sell certain assets and make a profit. This may include stocks that aren't held in an ISA, a second property, or personal possessions worth more than £6,000 (excluding your car).

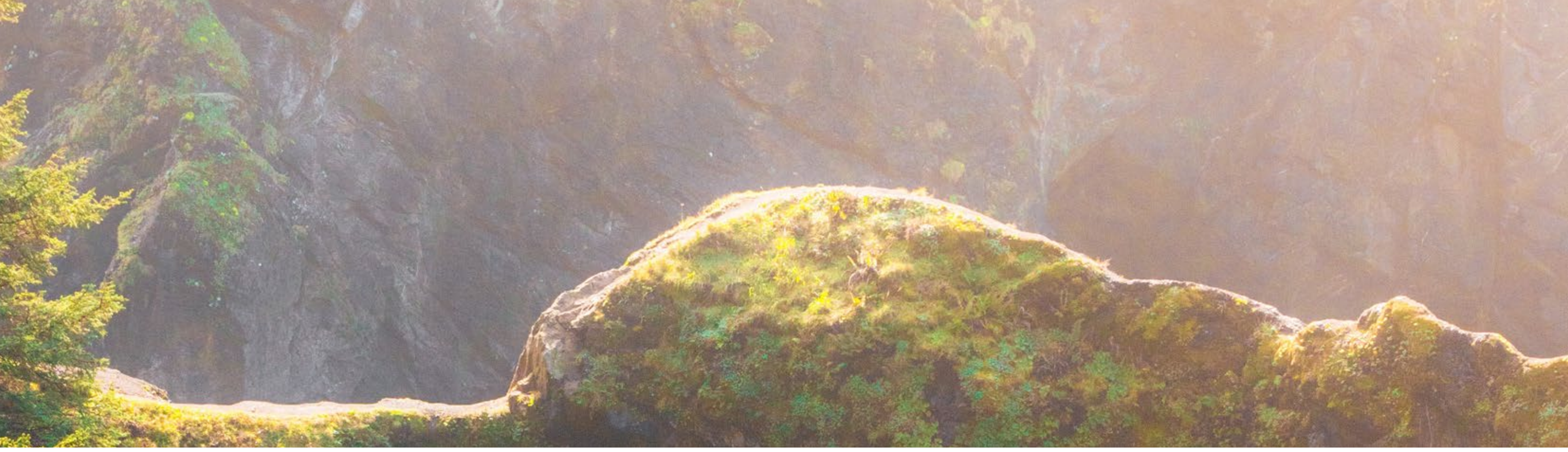
For the 2020/21 tax year, the CGT allowance means you can make profits up to £12,300 per individual before tax is due. In some cases, spreading out the disposal of assets across several tax years can help reduce CGT liability. If you exceed this allowance, your rate of CGT will depend on other taxable income:

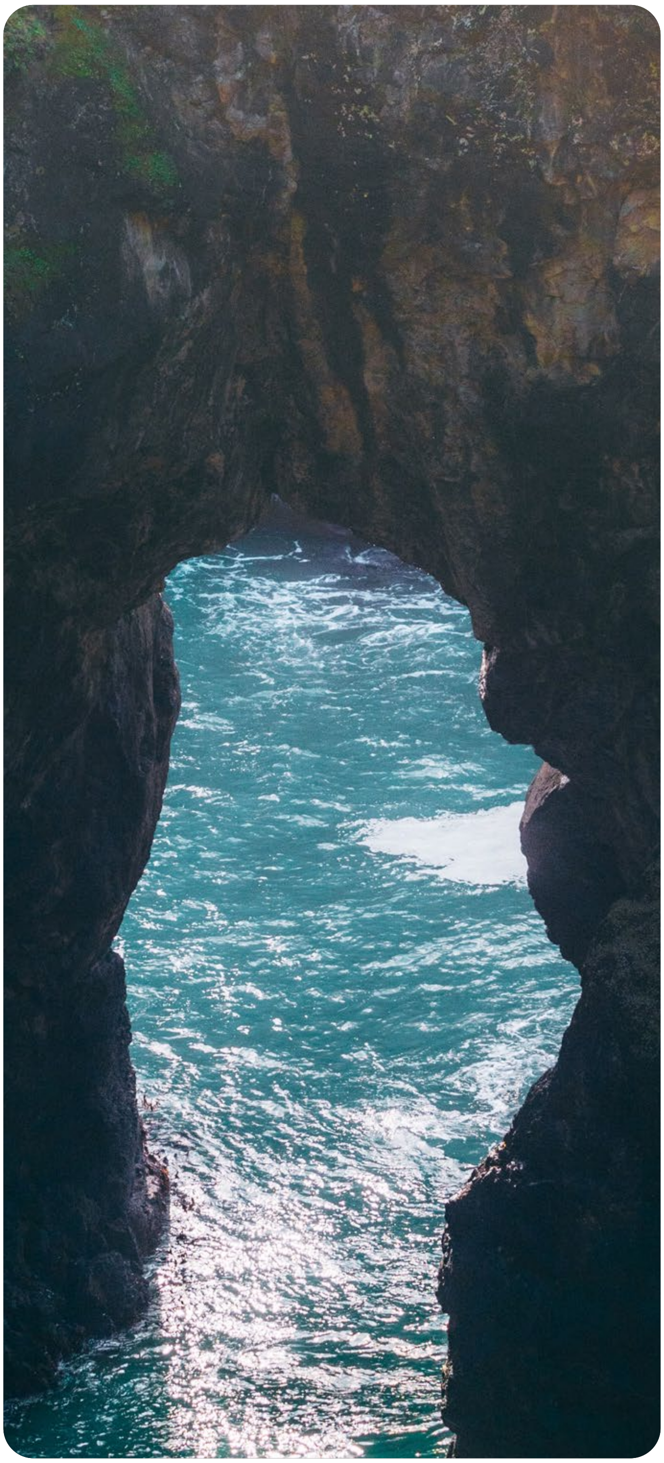
- Standard CGT rate: 18% on residential property, 10% on other assets
- Higher CGT rate: 28% on residential property, 20% on other assets

If you're not sure what rate of CGT you'd pay, please get in touch.

Why should I use the Capital Gains Tax Allowance? What happens if I don't use it before 5 April 2021?

It will reduce the amount of tax due when you dispose of assets. If unused, the Capital Gains Tax allowances cannot be carried forward.





7. Dividend allowance

2020/21 allowance: £2,000

Dividends are paid by companies to share out the profits they have made. If you hold shares in a dividend paying company, you will receive payments. The amount you receive will usually be dependent on performance and stock price. Dividends are usually paid by larger, established companies that have relatively predictable profits. However, there are no guarantees.

The dividend allowance means you can receive up to £2,000 in this way without incurring tax. The dividend allowance is per individual. If you're a company director, you can pay yourself up to £2,000 in dividends from the business to make use of this allowance.

How much tax you pay on dividends that exceed the allowance will depend on your Income Tax band:

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

Why should I use the Dividend Allowance? What happens if I don't use it before 5 April 2021?

It can boost your income without increasing tax liability. If you don't use your dividend allowance before the end of the tax year, it is lost.

Organising your finances to make the most out of allowances

Keeping on top of allowances and how to use them can be challenging. But creating a financial plan that helps you get the most out of your money can put your mind at ease.

As a financial planner, we can help you take advantage of this year's allowances to reduce tax liability and set up a plan for the coming year. Organising your finances now can put you in a position to make the most of opportunities as they arise in 2021/22 and avoid a last-minute rush as the deadline approaches.

We're here to help you get the most out of your money, including taking advantage of appropriate allowances. To create a financial plan with your goals in mind, please get in touch.

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Please note: This blog is for general information only and does not constitute advice. The information is aimed at retail clients only.

A pension is a long-term investment. The fund value may fluctuate and can go down, which would have an impact on the level of pension benefits available. Your pension income could also be affected by the interest rates at the time you take your benefits.

The tax implications of pension withdrawals will be based on your individual circumstances, tax legislation and regulation which are subject to change in the future.

The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.

The Financial Conduct Authority does not regulate estate and tax planning.