Piccadilly
Wealth Management

Tax year end
2020/21 special

End of year tax breaks – use them or lose them !

Some might say that the government take more than they give when it comes to tax and in general when we think of tax its usually enough to cause a sharp intake of breath or the occasional wince.

However, as a famous British actor once said, *"not a lot of people know that"* – in this context not a lot of people know that there are things we can do to get some of it back.

The tax year runs from 6th April to 5th April the following year, which means you have still got time to find out how……

Individual Savings Accounts (ISA's)

Traditionally the most recognised in the UK are the **Cash ISA** and the **Investment ISA** (also known as Stocks & Shares ISA)

- Anything inside this valuable "wrapper" is free of tax be it income or capital gains.
- Think of it like your morning coffee – the coffee (being your money), will not attract tax providing it stays within the confines of the cup.
- In April each year we can simply get a bigger cup, by adding as much as £20,000 into the cup (your ISA) in that 12-month period – this option is then repeated each year if you have the funds available and hence the saying "if you don't use it, you lose it!"
- Applicants must be 16 years of age or above to take advantage (and 18 years and above for the Investment ISA)

Individual Savings Accounts (ISA's) continued....

- The **Lifetime ISA (LISA)** might be of interest If you are saving for your first home. If you are aged between 18 and 39 then the Lifetime ISA is a good string to your bow and currently you can invest up to £4,000 per annum into a LISA , plus the government will pay you a 25% bonus on the money you invest each year (capped at £1,000 bonus in total).
- If you don't use it to buy a house, you can access it when you are 60, including bonuses, tax free. Outside of buying a house and using it for retirement, penalties will apply, so beware !
- We find a lot of people open a **Junior ISA (JISA)** for their children (under age 18), and if you were to open an ISA on the way home from the hospital (you won't, but it's perfectly conceivable that you might), then by juniors 18th birthday you (or grandparents or in fact anyone) could have contributed a significant sum to help your son or daughter get their foot on the ladder.
- The current annual allowance limit stands at £9,000 and the usual cash or investment options remain.
- Importantly your child cannot touch this money until they are 18, but they can control the pot from their 16th birthday – we find the JISA is a great way to introduce children to money

! You can save up to a maximum of £20,000 per year (for 2020/21), and this can be in a **cash ISA**, a **stocks & shares ISA**, a **Lifetime ISA** or a mixture of all of them

Personal Income Tax

All UK citizens are entitled to earn a set amount of personal income before the tax man wants a piece of the pie, called the **Personal Allowance.**

- This amount is £12,500 and so if for example you earned £35,000 in the tax year and had a full annual allowance, you only incur tax on £35,000 - £12,500 = £22,500
- Beware, the **Personal Allowance** goes down by £1 for every £2 of income above the £100,000 limit and reduces to zero when earnings exceed £125,000 assuming no other deductions from your annual allowance.

! Consider your overall income position before you turn on your retirement income, by thinking smart you can maximise this allowance before paying any further tax.

Tax on savings interest

Most people can earn some interest from their savings without paying tax. Your allowances for earning interest before you have to pay tax on it include:

- your **Personal Allowance** (see previous page) – if you haven't used it on wages, pension or other income it's available for savings
- **starting rate for savings** - you may also get up to £5,000 of interest and not have to pay tax on it. This is your starting rate for savings.
- **Personal Savings Allowance** - you may also get up to £1,000 of interest and not have to pay tax on it, depending on which Income Tax band you're in. This is your Personal Savings Allowance and goes down to £500 if you are a 40% tax-payer and zero if you earn over £150,000.

You get these allowances each tax year and it can be quite complicated to work out, so take advice if you need to.

! The more you earn from other income (for example your wages or pension), the less your **starting rate for savings** will be. You're not eligible for the starting rate for savings if your other income is £17,500 or more

! Savings in tax-free accounts like **Individual Savings Accounts (ISAs)** and some National Savings and Investments accounts do not count towards your allowance.

Taxation on dividends

Typically, it is not uncommon to pick up the odd banking share during our lifetime, be given some via employment or perhaps inherit some stock via an inheritance.

- A lot of people pick up a tax charge on these stocks and shares holdings and may not be aware that any dividends paid from them each year could potentially be mitigated.
- Check your **Personal Allowance** (see previous page) – you do not pay tax on any dividend income that falls within your Personal Allowance.
- You also get a **dividend allowance** each year, for this year it is £2,000, and you only pay tax on any dividend income above this allowance.

! How much tax you pay on dividends above the **dividend allowance** depends on your Income Tax band, and ranges from 7.5% to 38.1%. You do not pay tax on dividends from shares in an **Individual Savings Account (ISA)**.

Capital Gains

For those of us who hold assets outside of a Pension or an ISA wrapper another tax comes into play known as a tax on gains.

- You only have to pay Capital Gains Tax on your total gains above an annual tax-free allowance.
- Your annual capital gains tax-free allowance (call the **Annual Exempt Amount**) is £12,300, and the rate of tax due after that is dependent on the type of asset held.
- You do not usually pay tax on gifts to your husband, wife, civil partner or a charity.

! You may be able to offset this tax by careful planning, provided you have the right attitude to risk. This can lead to better outcomes than simply selling down your assets in one go.

If you need advice this tax year end, please don't hesitate to get in touch.

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