TAX SAVING TIPS 2021

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TABLE OF CONTENTS

TAX SAVING TIPS

General information only. Please seek professional advice before making decisions.

Taxes allows your money to circulate and put to better use. Government also incentivizes you to put your money to better use yourself sometimes. Let us have a look at some of the ways you can help yourself and others directly.

1. Invest Your Tax

- Invest in Start-ups and reduce your Income tax as well as save tax on gains!
  Start-ups find new solutions to world problems and create jobs in doing so. Most start-ups are risky, so government encourages investors by incentivizing with tax benefits when they invest in eligible businesses.

SEIS & EIS schemes

- Seed Enterprise Investment Scheme (SEIS) receives 50% income tax relief on investments up to £100,000 per year, with similar capital gains tax exemptions.

- You can invest up to £1,000,000 per tax year directly in small companies under the Enterprise Investment Scheme (EIS) and receive a tax reduction of 30% of the amount invested. There is an exemption from capital gains tax if you hold those shares for at least three years.

For more information: https://www.gov.uk/guidance/venture-capital-schemes-tax-relief-for-investors

Are your investments held between you and your spouse/civil partner so as to minimise your income tax? If you pay 40% or 45% tax and your spouse/partner pays 20% or less, you should consider transferring some income producing investments to your spouse/partner to reduce higher rate tax you pay.

- You can invest up to £200,000 per tax year indirectly in small companies through a Venture Capital trust (VCT), which will give you a tax reduction of 30% of the amount invested. These VCT shares must be held for five years to be free of capital gains tax on sale.

- You can invest up to £50,000 in premium bonds, and all prizes are tax free. You do not lose your capital and have the chance of winning £1 million each month, as well as smaller prizes. The prizes are tax free.

For more information: https://www.nsandi.com/products/premium-bonds

Do you make use of your £12,000 Capital Gains annual exemption each year?

If you have made a large capital gain, or plan to make a large gain within the next year, you can defer the tax payable on that gain by investing in EIS or SEIS shares.

ISA accounts - Cash / Stocks & shares

Do you take advantage of your ISA investment limit? You can currently invest up to £20,000. The income and capital growth on savings in an ISA is tax free.

Have you considered a junior ISA for under 18's?

Property Investment

Beneficial interests in joint property & income	Consider buying your next buy-to-let property in the joint names of yourself and your spouse/civil partner as tenants-in-common. The rental income can then be divided between you according to the proportion of the property you each own, e.g. 20%: 80%, giving the lower earning partner a bigger share, so the rents may be taxed at the lower income tax rates.
Rent a room relief	If you rent a room out in your own home, the first £7,500 of rental income you receive each year is free of tax.

For more information:

https://www.gov.uk/government/publications/income-tax-declaration-of-beneficial-interests-in-joint-property-and-income-17

https://www.gov.uk/government/publications/private-residence-relief-hs283-self-assessment-helpsheet/hs283-private-residence-relief-2020

2. Save Your Tax

Pensions

Yours	When you contribute to a registered pension scheme you automatically get basic rate tax relief on your contributions. If you are a 40% taxpayer, you can also claim an additional 20% tax relief through your tax return. This means that when you contribute £4,000 (net of 20% tax) to the pension scheme, you will get a further tax reduction of £1000, and a total of £5,000 will go to the pension scheme.
Children	You can contribute up to £2,880 net (£3,600 gross) per year into a pension on behalf of your children or grandchildren. The funds will be protected from tax charges and cannot be drawn on until the child/grandchild is at least 55 years old.
Limits	Do you know how much your pension fund is worth? You need to check that it will not exceed the lifetime allowance (currently £1.07 million) when you start to draw your pension, to avoid high tax charges. Tax on any excess is taxed as the top slice of income at either 55% or 25% depending on how the extra is used, 55% applies when the excess is withdrawn from the pension fund, 25% where it is left in the fund, and the extra tax due can be paid directly from the pension fund in both instances.
Drawings	It is possible to draw your pension while you are still working. An old-style pension policy may allow you to commence a pension from age 55. You can work, draw some pension benefits, and contribute to another pension scheme all at the same time, until you reach age 75.

For more information: https://www.gov.uk/tax-on-your-private-pension

- If you are a non-taxpayer, make sure you receive any bank or building society gross, without any tax deducted by the bank.

- Have you claimed child benefit for your younger children? If you are a higher rate taxpayer, the amount will be restricted for those with earnings between £50,000 and £60,000. Over £60,000 the Child Benefit is nil.

Get Tax-Free Childcare

You can get up to £500 every 3 months (up to £2,000 a year) for each of your children to help with the costs of childcare. This goes up to £1,000 every 3 months if a child is disabled (up to £4,000 a year). https://www.gov.uk/tax-free-childcare

3. Gift Your Tax

Do you make regular gifts out of your income? All such gifts are free of inheritance tax once a pattern is established, and the total gifted does not reduce your standard of living, or your capital assets.

- Remember you can make gifts of up to £3,000 per tax year free of inheritance tax in any event. If you did not use this exemption last year you can make gifts of up to £6,000 in this tax year.

- If you want to make larger gifts to your loved ones, consider making those gifts as soon as possible. If you live 7 years after the date of the gift, the amount is not counted in the total subject to inheritance tax on your death.

Remember you can make gifts of up to £3,000 per tax year free of inheritance tax in any event.

- If you give to charities, remember to make a gift aid declaration so that the charity can reclaim the basic rate tax relief on the gift, and you can claim the higher/additional rate tax relief.

- If you are not married or in a civil partnership but want to leave assets to a long-term companion or partner, inheritance tax will be payable on that gift. The only way to get exemption from inheritance tax on the gift is to marry/register a civil partnership with the intended recipient before you make the gift.

- A tax efficient strategy is to write a will containing a provision to pass on value equal to the inheritance tax nil rate band, (currently £325,000), and leave the rest free of tax to your spouse or civil partner.

- Is there a wedding or civil partnership planned in your extended family? You can make an inheritance tax-free gift to one person in the couple of up to £1,000. If you are a parent of the person receiving the gift it can be up to £5,000 tax free.

For more information: https://www.gov.uk/inheritance-tax/gifts

4. Protect Your Tax

If you are ill or die what will happen to your business?

Do you have your policies for life assurance, critical illness cover, sometimes called key-man insurance?

- Your business can pay for your life insurance too.
  What is relevant life insurance? A relevant life insurance policy is a death in service benefit that your employer might offer. It is paid for and set up by your employer. It pays out a tax-free lump sum if you die or are diagnosed with a terminal condition while you are still employed by the company.

- Make sure your Will is up to date, any existing will becomes invalid when you marry. If you do not have a valid will, your spouse or partner will not automatically inherit all your assets and may be left with insufficient funds to support themselves.

5. Organise Your Tax

Administration

- If you want the Taxman to collect the tax you owe through your PAYE code, and hence give yourself longer to pay, you need to submit your tax return online by 30th December or in paper form by 31st October. The Taxman will agree to only collect up to £3,000 of tax owing in this way.

- If your taxable income decreases so that your tax bill is going to decrease you can apply to reduce your income tax payments on account which are due on 31st January in the tax year, and 31st July after the end of the tax year.

For more information on payments on account:
https://www.gov.uk/understand-self-assessment-bill/payments-on-account

Tax queries

If you receive any queries from the Taxman either in writing, or by telephone, or during a visit to your premises, make sure you consult your accountant before answering the Taxman's questions. You can ask the Taxman to put their queries in writing if you need to research the answer. A wrong or estimated answer can be a very costly mistake.

The Taxman does make mistakes. If you are accused of underpaying any tax, ask your accountant to check the calculations before you agree to pay up.

"Ask your accountant to check calculations before you agree to pay up."

Record keeping

Make sure you keep complete and accurate business records. Good records can reduce the risk of paying extra tax and penalties if you are subject to a tax enquiry.

INCOME TAX RATES

Thresholds	Income tax bands of taxable income (£ per year)		Income tax rates		Dividend rates**	
	Tax year 2020 to 2021	Tax year 2021 to 2022	Tax year 2020 to 2021	Tax year 2021 to 2022	Tax year 2020 to 2021	Tax year 2021 to 2022
*Personal allowance**	*12,500*	*12,570*	*0%*	*0%*	*First £2k is tax free dividend allowance*	
Basic rate	£1 to £37,700	£1 to £37,700	20%	20%	7.5%	7.5%
Higher rate	£37,701 to £150,000	£37,701 to £150,000	40%	40%	32.5%	32.5%
Additional rate	Over £150,000	Over £150,000	45%	45%	38.1%	38.1%

* The Personal Allowance reduces where the income is above £100,000 - by £1 for every £2 of income above the £100,000 limit.

**Apply to dividend income received above the £2,000 tax-free Dividend Allowance.

CAPITAL GAINS TAX RATES

Thresholds	Income tax bands of taxable income (£ per year)		Capital Gains Tax		Capital Gains Tax (Property)	
	Tax year 2020 to 2021	Tax year 2021 to 2022	Tax year 2020 to 2021	Tax year 2021 to 2022	Tax year 2020 to 2021	Tax year 2021 to 2022
*Personal allowance**	*12,500*	*12,570*	*First £2k is tax free dividend allowance*		*First £2k is tax free dividend allowance*	
Basic rate	£1 to £37,700	£1 to £37,700	10.0%	10.0%	18.0%	18.0%
Higher rate	£37,701 to £150,000	£37,701 to £150,000	20.0%	20.0%	28.0%	28.0%
Additional rate	Over £150,000	Over £150,000	20.0%	20.0%	20.0%	20.0%