Tax Planning Before 5 April 2019

As we approach the end of another tax year our thoughts turn to planning for the coming year and ensuring where possible we have maximized all reliefs available to us for the 2018/19 tax year before it is too late.

2018/2019

Pension Contributions

There are still a few weeks left to make any personal pension contributions. Pension relief is given on a "paid" basis, which means your tax relief is given in the year you physically make the payment. Most of us can contribute the lesser of our earnings for the year or £40,000 into a personal pension and making a top up payment can be particularly beneficial for anyone who expects their 2018/19 earnings to be in the £100,000 - £123,700 bracket where the tax rate is effectively 60%.

Child Benefit high income Charge

If you're earnings hover around the £50,000-£60,000 level and you have children for whom your household receives child benefit, then they can also be a useful tool to avoid being caught in the High Income Child Benefit Restriction trap. You also get an additional 25% of the contribution as tax relief to top up your pension pot.

The contributions need to be made personally, that is they can't be a company contribution on your behalf, so you do need to have the funds to be able to make the payment. If this is something that might be of interest to you please get in touch with Fara Raked at KM Financial Services as soon as possible as there isn't a lot of time to get everything in place for you before the end of the tax year.

Gift Aid

If you aren't able to make additional pension contributions but you'd still like a way to mitigate your income tax, then charitable donations under Gift Aid work in exactly the same way as the pension contributions above. There is a little more flexibility as Gift Aid can be carried back into 2018/19 from payments made after 6 April. Of course, unlike a pension the Gift Aid doesn't stay in your investments, but if you're already a charity giver then you might be happy to up the amounts. The only caveats are the payments must be made under Gift Aid or to a Community Amateur Sports Club. And if you know you're going to be in the £100K+ band for 2018/19 but it's unlikely for 2019/20 why not bank the relief this year by using a Charities aid Foundation account or something similar.

Marriage Allowance

For a few years now it's been possible for the lower earner in a married couple or civil partnership to give away part of their personal allowance to their spouse, you can do this provided your total income is less than the personal allowance £11,850 for 2018/19 and provided your partner's income is less that the point where 40% tax kicks in, so £46,350. While the tax saving is only around £200 a year it is worth having if you fit the circumstances and if you could have applied but didn't in earlier years, we can still make a claim for you going back to April 2014, provided we contact HMRC by the end of March.

Inheritance Tax

There are some often overlooked reliefs available if you are looking to make gifts of capital to reduce your inheritance tax exposure in the future.

The first £325,000 of your estate is exempt on death, provided you haven't made any significant gifts in the seven years before you die. If you're married or civil partners, you each have an exempt amount and if on first death you leave your entire estate to your partner, they will also acquire any used exemption.

Additionally, you have an annual allowance of £3,000 which you can give away to anyone and which will not create any liability on death. If you don't use it one year you can carry it forward

to the next year, but after that it is lost. So, if you didn't use your 2017/18 allowance you could now make a gift of £6,000 before 5 April and £3,000 after with no inheritance tax implications for your estate.

Tax Planning for the New Year.

The new tax year sees a fairly generous increase in both personal allowance and basic rate band, meaning those with total income of less than £50,000 won't pay any higher rate tax.

Your first £2,000 of dividend income over and above unused personal allowance is taxed at 0% and for basic rate taxpayers the first £1,000 of interest received is also at 0%. Dividends falling into the basic rate band are taxed at 7.5%.

If your total income exceeds £50,000 then your first £500 of interest is at 0% and your dividends which exceed your £50,000 limit are taxed at 32.5%.

As always, if you're in business for yourself and you're thinking of making a big purchase, changing your car or buying a new van, it can make sense to do so before your yearend rather than after. By doing so you advance the tax relief and see the benefit earlier, however it isn't a one size fits all decision, so it's always worth a phone call before you make any major purchases.