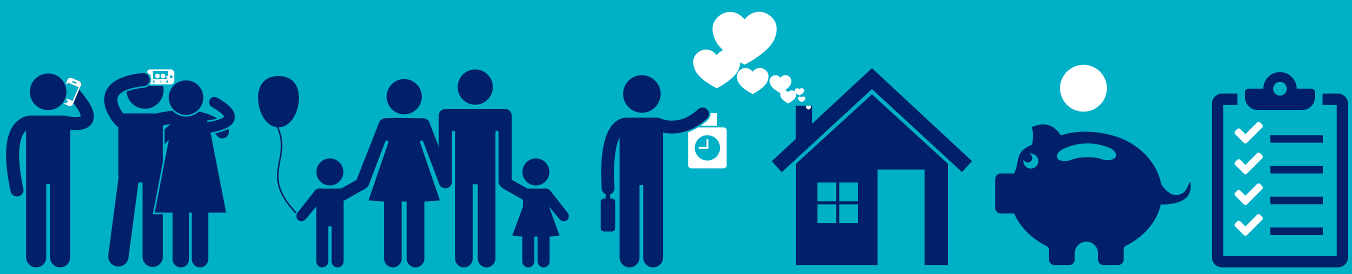
martin aitken
accounting | tax | finance

Tax Planning For Life

2020-21



0141 272 0000 / ca@maco.co.uk / www.maco.co.uk / www.mafsltd.co.uk

Introduction

Our annual Tax planning for life navigates you through a wide range of tax planning opportunities and wealth planning strategies for all stages and facets of life.

The guide is designed to give you ideas on how you can arrange your taxes, investments and wider financial affairs to reduce your own and your family's current and future tax liabilities. The guide is for information only and should not be construed as advice.

We have also included a brief reminder of the support packages available to businesses and individuals to deal with the impacts of Covid-19.

We are here to help, so when you've worked out your own priorities give us a call and we will arrange a suitable time to meet with you to discuss the tax and wealth planning strategies in more detail.

Contents

Your starter for 10 taxing questions

1 Have you used this year's ISA allowance (£20,000) and/or made any other tax efficient investments e.g. EIS, SEISs and VCTs before April 2021?

2 Could you transfer income or assets to your partner, children or grandchildren to minimise higher and additional rate taxation next year and to maximise tax-free savings limits?

3 If you are over 55, have you received advice about the options available to you for drawing your pension savings?

4 Business owners: have you considered the amount and timing of dividend and bonus payments this year?

5 Are you about to make a significant capital purchase for the business – have you considered the allowances and grants that may be available to you?

6 Has your business undertaken any R&D this year (the definition of R&D is wider than you may think)? If so you may be entitled to claim R&D Tax Credits.

7 Are you planning to retire, or realise the value from your business, in the next few years? If so, you should get to know what options are available to you now.

8 Are you investing enough in your pension (or LISA) this year – is there room for a top up payment to reduce your tax bill?

9 Property: should you hold residential investment property personally or in a company? Incorporation could be more attractive for some.

10 Have you considered how you will pass on your estate taking advantage of the reliefs so that the next generation receive the full benefits you intended?

Buzz in when you are ready to discuss.
Our tax and financial advisers are poised, ready and prepared to receive your challenge!

Let us help you to ensure you don't pay a penny more to HMRC than they are due.

Income Tax: UK

No changes from the last tax year. The personal allowance (PA), basic rate and higher rate bands will remain at £12,500, £37,500 and £50,000 respectively.

Remember your PA of £12,500 is reduced by £1 for every £2 of income over £100,000, which is an effective tax rate of 60%.

If you can reduce your income below £100,000 e.g. by making a pension contribution or a charitable gift, or transferring some of your income generating assets you could benefit from the full allowance.

Scotland: Income and Property taxes

Income tax rates will remain the same but the threshold where the upper rate kicks in will be frozen.

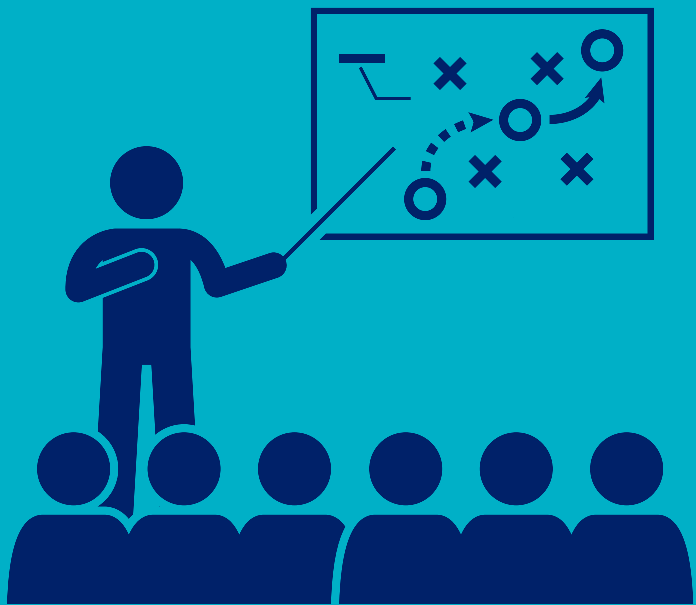
The starter rate (19%) and basic rate (20%) band thresholds will be increased by inflation. The intermediate rate (21%), higher rate (41%) and additional higher rate (46%) band thresholds will be frozen.

As income tax is only partially devolved under the Scotland Act 2016, Scottish taxpayers will continue to pay income tax on their savings, interest and dividend income according to the rates and bands set by the UK Parliament.

Allowances & Relief

The same income tax allowances will apply throughout the UK. See Tax Rates 2020-21 on the inside back page.

Strategies, tactics and formations to reduce your tax bills



Strategy

1. Objectives + team talk. Give your financial, accountant or tax adviser an indication of your financial objectives and requirements over the coming year.

2. Game plan + execute. Your adviser will work with you to devise the best ways you can manage your investments, savings and finance your lifestyle needs, as well minimising your tax bills. They will also help you to plan and prepare for life's financial curve balls

3. Preparing for extra time + avoiding penalties. A good adviser will also help you to set up your estate and structure your investments to minimise future tax bills when it comes to the time to pass things on to the next generation.

Personal + family

Tactics

1. Reorganise your income producing assets to use up the lower tax band of your spouse, partner and/or family members.

2. Rearrange your investments and savings and consider changing your assets from income producing to capital growth.

3. Contributing to a pension is an opportunity for high earners to reduce your tax liability. There are some restrictions here, so do get in touch with us to discuss further.

4. Married couples and civil partners who are both basic rate tax payers and have not fully used their personal allowance can transfer 10% of the basic personal allowance to their other half. The wife / husband / partner receiving the transferred allowance will benefit from a tax reduction of 20% of the transferred amount.

5. Assets can be passed between couples without any CGT liabilities.

6. Transferring assets to joint names can also ensure that both spouses' annual CGT exemptions are fully utilised in a sale.

7. Any unused portion of the £325,000 Nil Rate Band (NRB) and the Residence NRB (£175,000) can be passed to the surviving partner on the death of the first spouse/civil partner.

8. Couples can combine their NRB and RNRB allowances to a pass on property worth £1 million free of IHT. It is a complex area with qualifying conditions and additional conditions for estates >£2m and requires expert estate planning advice.

9. This year's ISA allowance remains at £20,000 which means you can save up to this amount tax-free.

10. The Enterprise Investment Scheme (EIS) investments offer CGT deferral and investments held for at least two years usually quality for relief from IHT.

11. Ensure you use the Annual Exempt Amount (AEA). Capital gains of £12,300 or less for individuals (£6,150 for trusts) are exempt from CGT.

Formations

When it comes to investing in property, should you hold residential investment personally or in a company? The short answer is: it depends.

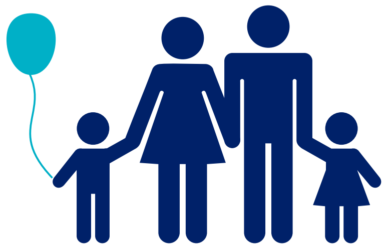
There are number of factors and options to consider, each having benefits and potential drawbacks depending on your circumstances. There is certainly no "one solution fits all".

Deciding which formation e.g. limited company, partnership, sole trader, should be made with reference to the strategy you have for your property portfolio:

- How do you intend to fund the purchases?
- Who will own them?
- How do you want to extract income and how often?
- How do you intend to dispose of properties?
- What is your investment term – 5, 10, 15 years or more?

We will discuss all of the options with you and help you to select the best commercial and tax option and structure suited to your circumstances.

Personal + family



One of the simplest ways to legitimately reduce tax is to hold assets and divide income with your spouse and children (and grandchildren).

Gift-wrapped income

You can gift a total of £3,000 per year which will be exempt from IHT. If you didn't make a gift of this kind in the previous tax year, the threshold rises to £6,000.

A married couple doing this for the first time can combine their allowances and gift up to £12,000 to their children.

To celebrate the marriage of your child, consider giving the happy couple a gift of up to £5,000, or up to £10,000 if from a couple, which will again be exempt from IHT.

Grandparents can gift the happy couple up to £2,500 (£5,000 if from a couple) to reduce their IHT bill.

Unlimited gift allowance: Gifts out of income

If you are in a situation where you have an excess of income it would be prudent to make regular payments, for example, into a pension pot for your children and/or grandchildren, or to pay school fees.

Under the normal expenditure out of income exemption this will reduce your IHT bill by the total value of the gifts each year. There are conditions that need to be satisfied to ensure the gift benefits from the exemption.

Capital Gains Tax (CGT)

CGT is payable when you sell an asset, or gift it to a relative, and there has been an increase in the value of the asset. CGT rates on most gains are 10% for lower rate tax payers and 20% for higher rate tax payers.

Gains from a residential property that does not qualify for principal private residence relief are taxed at rates of 18%/28%.

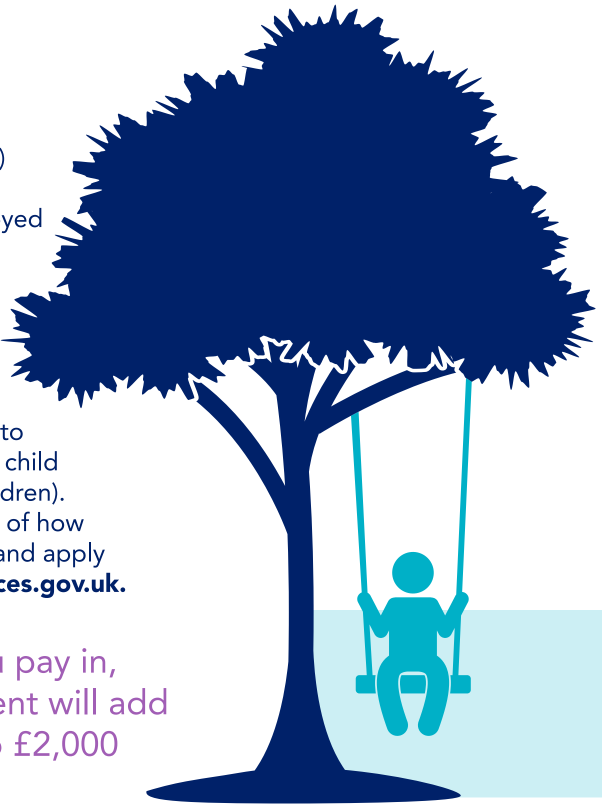
From April 2020, payment of CGT from a sale of UK residential property must be made within 30 days of sale (from completion). Previously, CGT under self-assessment was not due until the 31st January following the end of the tax year.

Tax-free childcare

Tax-Free Childcare (TFC) is for working families, including the self-employed in the UK with children under 12 (or under 17 if disabled).

For every £8 you pay in, the UK Government will add an extra £2, up to maximum of £2,000 per child (£4,000 for disabled children). You can get an estimate of how much help you can get and apply on: **www.childcarechoices.gov.uk.**

"For every £8 you pay in, the UK Government will add an extra £2, up to £2,000 per child."



Business

There are numerous allowances and incentives to help businesses become more competitive. This section will help to make you aware of the main opportunities for minimising tax.

Dividends

Any dividends you currently take in excess of the £2,000 dividend allowance will attract an income tax liability.

If you haven't already considered changing the way in which you balance your income and dividend payments, consider the following:

"Taxpayers will see a liability of at least 7.5% on dividend income received above £2,000."

- Married couples and civil partners should make sure they spread their taxable portfolios between them, where possible, to ensure they fully utilise each of their dividend allowances, personal allowances and basic rate bands.
- Taxpayers will see a tax liability of at least 7.5% basic rate (Higher rate: 32.5% and Additional rate: 38.1%) on dividend income received above £2,000. This makes sheltering taxable investments in an ISA all the more important as unlimited dividends can be withdrawn from an ISA tax-free and there is no CGT to pay in an ISA.

Before you decide what is best for you, get in touch with us and we'll help you look at the tax impacts on all of the options available to you.

Corporation tax rate frozen

The rate of corporation tax will remain at 19% and will not fall to 17% in 2020, as had been planned.

Directors Loan Accounts

These are a popular form of remuneration for owner-managers. However, they can give rise to a benefit in kind in the hands of the Director and tax liabilities for the company.

If proceeds are to be extracted in this manner, it is worth considering repaying the loan within 9 months of the end of the accounting period in which funds were withdrawn as this will ensure the company has no tax liability on the loan (currently 32.5%).

Research + development = (even more) reward

If your company has been engaged in research or process improvements, you should call us to check if the associated expenditure qualifies for Research & Development (R&D) Relief.

Broadly speaking, SMEs can claim an additional 130% on qualifying (the definition is wider than you would imagine) R&D costs.

The rewards available are an enhanced tax deduction or a cash payment from HMRC. The rate of tax credit for R&D expenditure for SMEs is 14.5% and for large companies it has increased from 12% to 13% from 1 April 2020..

Business

Selling Assets

If you are thinking about selling a business asset and a gain is likely to accrue – before you do, make sure you tax advantage the sale. For instance, tax due on an asset sale can be delayed by reinvesting the proceeds in another qualifying asset.

If you sell your business you could, by reinvesting the proceeds in a qualifying trading venture, further reduce your tax bill on the sale. The proceeds must be reinvested in the 12 months preceding or in the 36 months following the disposal.

Incentive to plan & invest

Capital Allowances (CAs) represent a valuable tax deduction for your business. They can be claimed on a wide variety of capital assets including plant, machinery, equipment, fixtures & fittings and vehicles.

There are a range of allowances available, including the Annual Investment Allowance (AIA), which offers a reduction in taxable profits of 100% of the allowable expenditure.

The AIA is £1,000,000 for all qualifying expenditure until 31 December 2020. Investment above this limit will attract the usual 18% or 6% writing down allowances (WDA). Electric charge points qualify for 100% WDA.

Business Asset Disposal Relief (BADR)

When considering the possible sale of your business, BADR (previously known as Entrepreneur's Relief) should be at the forefront of your mind. BADR allows the seller to access a 10% rate on the entire qualifying proceeds, thus preserving up to 90% of the sale proceeds.

Shareholders should also consider the advantage of transferring shares to a spouse/civil partner. Each person has a £1m lifetime limit for BADR – this was reduced from £10m in the 2020 March Budget. As with many reliefs, there are a number of conditions to be satisfied.

Structures and buildings

The annual rate of capital allowances for qualifying investments to construct new, or renovate old, non-residential structures and buildings will increase from 2% to 3% from April 2020.

Incentive to go green extended

The Enhanced Capital Allowance for companies investing in electric vehicle charge points will be extended to 31 March 2023.

Share Options and Incentives

Share options can be commercially and tax-advantageous, to both companies and individuals. They can help to attract and retain talent, especially in ambitious early stage businesses. However, recent announcements from HMRC may prevent the anticipated tax benefits from being available. If you have an existing scheme in place, or are thinking about implementing a new scheme, please speak to us.

Business

Contractors take note: IR35 changes delayed

The UK government was planning to introduce a change to the legislation transferring the responsibility for tax of individuals working under personal services company's (IR35), to the company the work is performed for. However, the change has been put back to April 2021.

NICs increase

The primary threshold (employee contributions) for Class 1 NICs and the lower profits limit for Class 4 NICs will rise to £9,500 from April 2020. However, the secondary threshold (employer contributions) will not move in parallel, but instead it will increase to £8,788.

Auto-Enrolment contributions

The minimum employer contribution is 3% and the employees' minimum contribution is 5% for the coming tax year.

Employment Allowance

The employment allowance will be increased from £3,000 to £4,000 a year for 2020/21. But it will be restricted to employers with an employer Class 1 national insurance contributions (NICs) bill below £100,000 in 2019-20.

Company Cars

Company car tax rose for all but the highest emission vehicles from April last year. The taxable cash equivalent percentages will all increase by three percentage points, subject to the current ceiling of 37% of list price.

All zero emission cars will attract a reduced percentage of 0% in 2020-21 and 1% in 2021-22, before rising to the 2% rate in 2022-23. For cars registered before 6 April 2020, there will be no further changes to percentages previously set.

Only zero emission vehicles will qualify for first year allowances from April 2021. The main rate of writing down allowance (WDA) of 18% will be given for cars with emissions up to 50g/km. The 6% WDA rate will apply to cars with emissions above 50g/km.

First year allowances for zero emission goods vehicles and natural gas and hydrogen refuelling equipment will be extended until 2025!

Salary sacrifice schemes

The tax and NIC advantage of these schemes was removed from April 2017, except for arrangements relating to pensions, workplace nurseries, cycle to work and ultra-low emission cars. Arrangements for cars, accommodation and school fees will be protected until 2021.

Succession planning

Part 1: Thinking of selling or passing on the business?

Succession planning is a must for all business owners as sooner or later everyone wants or needs to retire.

If you are planning to retire, or realise the value from your business, in the next few years there are a number of options to considered, including:

- Sale to another shareholder
- Company buy-back
- Ownership transfer within the family
- Employee buyout
- Management buyout
- Trade sale
- Flotation
- Close the business

There are many tax, commercial and emotional intricacies and implications that will arise from each of these routes.

We can provide you with our assessment on the viable options to ensure that your tax exposure is minimised and a good outcome is achieved – for you, the business and the family.

Part 2: Inheritance tax - what should be on your agenda?

During our discussion with you about the options for the business, we'll also look at how you will finance the next stage of your life.

1. What will be your income, capital and lifestyle needs and requirements in retirement?
2. What asset protection strategies will you and your partner/spouse need to preserve your investments?
3. What strategies will you need to minimise any potential Capital Gains Tax liabilities?
4. Consider the use of trusts to reduce your tax liabilities.
5. Maximising the usage of the tax allowances, reliefs and incentives available to you and your partner/spouse.
6. Creating your estate plan and beneficiary mapping – what will they receive, who will receive and when will they receive, and any conditions you may wish to include.
7. Giving them the right start: financial planning meetings for your family members and your other beneficiaries.

Succession planning

Business Property Relief (BPR)

If you meet the conditions, you can potentially remove the full value of a business – sole trader, partnership, shares in private company – from being subject to an IHT charge, either via lifetime gifts or on death.

Agricultural Property Relief (APR)

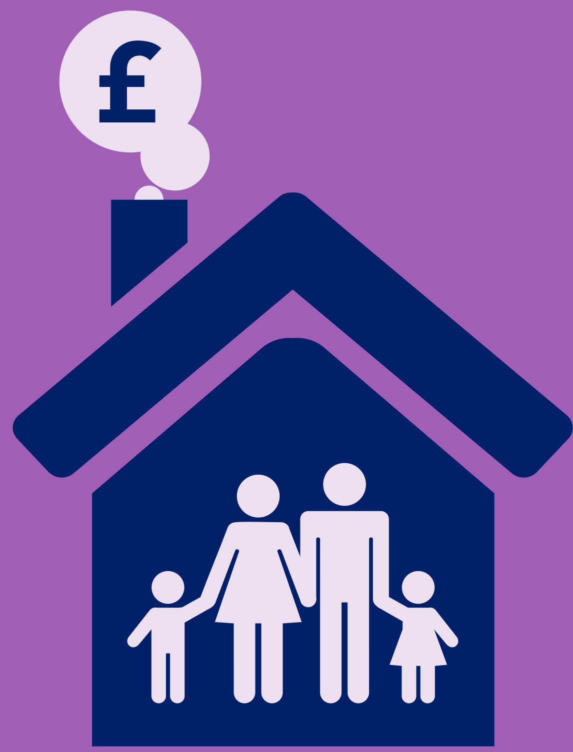
Similar to BPR, APR is available for farm land or pastures, woodlands occupied with agricultural land, buildings used in connection with agriculture and, in some cases, farm cottages and houses.

APR is complex, but in essence it is designed to prevent IHT forcing families to sell the main assets from which they draw income to pay the IHT bill. There are two rates available. If the conditions are not met for 100% relief, then 50% relief may apply.

Estate Planning

If you don't want to give direct you could consider a trust. With a little planning you can transfer asset(s) into a trust with no capital gains or inheritance tax consequences. A double tax saving in your favour.

There are some additional tax charges and costs related to trusts that may be applicable – they don't suit everyone's circumstances but they are worth a thought.



Gifting Assets

Gifting income producing assets to the children, such as shares in the family business or an investment property, can be a good way of reducing the overall family income tax bill.

This is also a good way to start your succession planning. Do take care to ensure there are no current or stored up CGT or IHT liabilities.

VAT: Reverse Charge – contractors take note

From 1 October 2020 the VAT Reverse Charge will be introduced in the construction sector. The change basically means that the main contractor will become responsible for accounting for both sides of the VAT on their own VAT return. The sub-contractor will not receive the VAT element, only the net charge.

Subcontractors' cashflow could be adversely affected as they will no longer be receiving Output VAT on their services which they could previously retain for several months before paying over to HMRC.

Enterprise Investment Scheme (EIS) investment doubles

From April last year, EIS offers 30% income tax relief on investments up to £2m, up from £1m, subject to at least £1m being invested in knowledge-intensive companies and no CGT is payable when the shares are sold. EIS also offers CGT deferral relief.

Seed EIS is targeted at companies looking to raise funds in their first two years of trading. 50% income tax relief is available on investments of up to £100,000 and again no CGT is payable when the shares are sold. Conditions apply.

Corporate losses

Losses arising in an accounting year can be off-set against other income/profits in that year. Unused losses (other than capital losses) arising from 1 April 2017 onwards can in most cases be carried forward and set against the total profits of a company or another company within the same group.

The proportion of annual capital gains that can be relieved by brought-forward capital losses will be restricted to 50% from 1 April 2020, on similar lines to the corporate income loss rules.

Agricultural flat rate scheme – new entry and exit rules

New entry and exit rules for the agricultural flat rate scheme will be introduced from 1 January 2021.

Businesses will be able to join the scheme when their annual turnover for farming-related activities is below £150,000.

They must deregister from it once such turnover exceeds £230,000 and register for VAT instead. Businesses with a turnover that exceeds £85,000 for non-farming activities will be ineligible for the scheme and will have to register for VAT.

Having a party at work?

Expenses incurred by employers on the cost of providing a social function for employees are taxable except when the Annual Party Exemption applies e.g. Christmas party or annual Summer BBQ. One-off events e.g. retirement party do not qualify. If you provide two or more annual parties or functions, there is no tax to pay in respect of the party, or parties, for which total cost(s) per head do not exceed £150.

Patent Box

Do you hold a patent?
If so, you could reduce your tax bill. Profits from qualifying patent interests can be taxed at rates as low as 10% thus providing effective tax rate benefits.

Structures and buildings allowance
The annual rate of capital allowances for qualifying investments to construct new, or renovate old, non-residential structures and buildings will increase from 2% to 3%, from 1 April 2020 for corporation tax and 6 April 2020 for income tax.

Digital Services Tax – pass the parcel?

A 2% levy on UK revenues of technology businesses will commence in April 2020. This levy is primarily aimed at tech companies that pay little or no corporation tax in the UK because their EU HQs are based in lower tax areas e.g. Luxembourg or Ireland.

A similar levy (3%) was introduced in France in July 2019. Amazon decided to pass this on to the small business sellers who use Amazon's marketplace by increasing its charge for the service by 3%. They may well adopt a similar approach in the UK.

Think you're safe from an investigation?

HMRC raised a significant amount of revenue through investigations. Last year, HMRC raised a record £34bn from challenging accounts, tax returns and business records. It's not unusual for tax enquiries to last for well over a year and run up fees of thousands of pounds. Protect yourself against the cost of an investigation by getting in touch with us.

Coronavirus Support available to Scottish businesses

The UK Chancellor and Scottish Government Ministers announced a package of temporary measures to support businesses and employees through the period of disruption which began in March 2020. There are some conditions that apply to the schemes, so get in touch with us to discuss and we'll run over the issues you'll need to consider.

Coronavirus Job Retention Scheme

All UK employers will be able to access support to continue paying part of their employees' salary for those employees that would otherwise have been laid off during this crisis. HMRC will reimburse 80% of furloughed workers wage costs, up to a cap of £2,500 per month.

Deferring VAT and Income Tax

The Government will support businesses by deferring Valued Added Tax (VAT) payments that are due during the period 20 March 2020 to 30 June 2020 until March 2021 and Income Tax payments due in July 2020 under the Self-Assessment system can be deferred until January 2021.

Short term cashflow support

The Coronavirus Business Interruption Loan Scheme is offering loans of up to £5 million for SMEs. The UK Government will provide lenders with a guarantee of 80% on each loan up to £5m. UK based businesses with a turnover up to £45m are able to access the scheme.

A new 100% UK Government backed bounce back loan scheme for small businesses will open for applications on 4 May through a network of accredited lenders. Small businesses will be able to borrow between £2,000 and £50,000. The Government will also pay any fees and interest for the first 12 months and there will be no repayments due during the first 12 months.

Statutory Sick Pay relief package

SMEs and employers are able to reclaim Statutory Sick Pay (SSP) paid for sickness absence due to COVID-19. The refund will cover up to 2 weeks' SSP per eligible employee who has been off work because of COVID-19. Employers with < 250 employees on 28 February 2020 will be eligible. Some other conditions apply.

12-month business rates holiday

For all retail, hospitality, leisure businesses (and nursery businesses in England). The support in Scotland includes:

- small firms receiving the small business bonus or rural relief will be eligible for a £10,000 grant.
- 12 months relief for businesses in hospitality, leisure and retail. Grants are also available for companies in this sector
- a £25,000 grant for buildings in those sectors with a rateable value between £18,000 and £51,000. From 5 May 2020, small business ratepayers will be eligible for a 100% grant on their first property and a 75% grant on all their subsequent properties. The grants are available from your Local Authority.
- All properties across Scotland will receive a 1.6% rates relief, thereby reversing the planned inflationary increase in the poundage from April 2020.

Help for the self-employed

If you are self-employed or a member of a partnership and have suffered a loss in income, you can apply for a taxable grant worth 80% of your profits up to a cap of £2,500 per month. Your self-employed trading profits must be less than £50,000 and more than half of your income must come from self-employment to qualify for the scheme. Grants are also available from Scottish Local Authorities for newly self-employed people and viable micro and SME businesses to help them through the pandemic. You can find out more on **findbusinesssupport.gov.scot**

Other considerations

There are other ways to **obtain rebates and tax reliefs** as a way of getting cash into the business, admittedly they make take longer to obtain than some of the measures above, but they are worth considering: Claiming Capital Allowances, applying for a R&D Tax Credit.

Property

There have been a number of changes introduced which provide another reminder that the tax benefits from property investments will not be as good in coming years.

First time buyer or purchasing a second home?

There is no Land and Buildings Transaction Tax (LBTT) to pay on properties purchased by first time buyers in Scotland on the first £175,000 giving a maximum saving of £600.

First time buyers of residential property in England & Northern Ireland (NI), will pay no SDLT on the first £300,000 of the purchase price, provided the property value doesn't exceed £500,000. In Wales, there is no Land Transaction Tax (LTT) due on the first £180,000.

The applicable SDLT, LTT and LBTT rates and an additional 3% (4% in Scotland) is due on the total price for relevant additional residential purchases over £40,000.

A 2% SDLT surcharge will be introduced from April 2021 for non-UK residents purchasing residential property in England and NI.

See the Tax Rates 2020-21 on the back page for the applicable rates and bands: Scotland, England & NI and Wales.

Selling residential property?

The additional LBTT/SDLT on second homes and buy-to-lets may mean that exit routes in terms of selling unwanted rental properties could be restricted.

Married couples, civil partners, parent & child, in fact any form of joint ownership will now be treated as single units, meaning that the higher rate will apply if just one of the co-owners already owns another property.

Non-residential property

The lower rate for non-residential properties was reduced from 3% to 1% (2% in England & NI) and the upper rate increased from 4.5% to 5% from April 2019.

The upper rate will apply to the portion of the purchase price over £250,000.In Wales purchases of non-residential properties over £1m are taxed at 6%. See Tax Rates 2020-21 on the inside back cover for the full table of rates and bands across the UK. cover for the full table of rates and bands across the UK.

Reliefs extended

The reliefs available from the Annual Tax on Enveloped Dwellings (ATED) and 15% rate of SDLT were extended from April 2016 to include equity release schemes, property development activities and properties occupied by employees. The ATED annual charges increased by inflation this tax year.

Property

Commercial leases

From February 2020, the rates of LBTT for non-residential leases changed. A new 2% band will apply to any rental over £2m. Commercial tenants in Scotland will therefore see a significant increase in their LBTT bill. The higher LBTT rate in England and NI is £5m, so again another area of divergence is emerging with Scottish companies bearing a higher tax cost than our southern and celtic cousins.

Capital gains tax (CGT) – residential properties

From 6 April 2020 there will be the following changes to CGT on residential property:

1. UK residents making a chargeable disposal of UK residential property must deliver a return to HMRC, and pay the tax, within 30 days following completion;
2. The estimated CGT due must be paid by the same date;
3. Lettings relief of up to £40,000 will only be available where the owner of the property is in shared occupancy with the tenant; and
4. The final period principal private residence exemption will be reduced from 18 months to 9 months. The 36-month final period exemption will remain for disabled individuals or those in a care home.

Property tax relief

Landlords are no longer able to deduct their finance costs e.g. mortgage interest from their property income. Instead landlords will receive a basic rate reduction from their income tax liability for their finance costs from April 2020.

Full relief continues to be available for companies at 19%. Incorporation may be an option for some landlords, however, consideration must be given to the potential implications of LBTT and CGT.

Self-catering properties

Following the Barclay Review recommendation, Scottish Government has introduced a requirement for self-catering property to be actually let for 70 days in order to be considered non-domestic and liable for NDR rather than Council Tax.

Taxation of profits + gains

Individuals continue to be taxed on the annual profit arising from investment properties, at their marginal rate of tax (potentially 46% in Scotland).

Companies, on the other hand, pay tax on profits and gains at 19%. Individuals only suffer income tax to the extent that the profits are extracted from the company.

Savings + investments

Allowances & Reliefs

The same income tax allowances will apply throughout the UK. See the Tax Rates 2020/21 on the inside back page.

Personal Annual Allowance (PAA)
The PAA effectively sets the maximum tax-efficient annual input to all your pension benefits, regardless of source. It started life in 2006 at £215,000, reached a maximum of £255,000 and is now just £40,000.

Lifetime Allowance (LTA)
Your LTA effectively sets the maximum tax-efficient value of all your pension benefits. The current LTA is £1.073m and will be increased annually by the CPI rate at the beginning of each new tax year.

Tapered Annual Allowance (TAA)
The two tapered annual allowance thresholds for pensions will each be raised by £90,000 from 2020-21. The 'threshold income' figure will therefore be £200,000 and the 'adjusted income' figure will be £240,000.

This will help many people, such as medical consultants, who have faced large tax bills on extra pay. While the rate of taper is unchanged, the maximum annual allowance for the highest earners from April 2020 will be reduced from £10,000 to £4,000 – at an 'adjusted income' of £312,000 or more.

Personal Savings Allowance (PSA)
Savers benefit from the PSA which exempts the first £1,000 (£500 for higher rate tax payers) of interest from income tax. The PSA for additional rate taxpayers is zero.

Money Purchase Annual Allowance (MPAA)
If you've flexibly accessed your defined contribution pension pot you may have triggered the MPAA. You can still make contributions to a pension and earn tax relief, but you will receive a lower annual allowance if you want to make further contributions. The MPAA for 2020-21 is £4,000.

Don't dismiss annuities

Ruling out annuities, as many have done, has maybe been a tad premature. Annuities provide income for life so if you plan to live to receive your birthday card from the Queen, you may want to have another look and, unlike those who have invested and suffered losses in the stock market, annuities don't fall in value.

Thinking about setting up a trust?

A trust is a legal arrangement which allows assets, usually property or money, to be looked after by a trustee for the good of one or more beneficiaries. By setting up a trust you can, provide for both you and your partner, whilst keeping the assets intact for the benefit of your children and protect the family home from being sold to pay for residential care fees.

Trusts can also reduce your IHT bill by taking assets out of your estate. There are several types of trust to consider and although they do not suit everyone and there may be some additional tax charges associated with the trust, they are worth a thought.

Invest in ISAs

Up to £20,000 may be paid into an ISA in 2020-21 and the earlier you use your allowance in the tax year the potential for better returns is greater as any investment returns you might make have longer to compound.

JISA limit doubles!

Junior ISAs (JISAs) are a tax-efficient way to build up savings for a child. Contributions of up to £9,000 annually (up from £4,368 last year) can be saved into a cash JISA or a stocks and shares JISA.

Savings + investments

Social Investment Tax Relief (SITR)

SITR offers income tax relief to investors who invest in new shares or qualifying investments in a social enterprise. Investors can receive an income tax deduction of up to 30% of the value of the investment (up to a ceiling of £1m).

LISA: 25% annual bonus available

Any adult under 40 is able to open a new Lifetime ISA (LISA) with a 25% annual bonus paid by the government on every £1 invested up to an annual contribution limit of £4,000.

LISA Contributions can continue up to the age of 50 and funds can be withdrawn tax-free from age 60, or earlier for the purpose of buying a first home. If you are buying a home with someone else, you can both take advantage of separate Lifetime ISAs.

Investment in Venture Capital Trusts (VCTs)

An indirect investment in small companies enables the taxpayer investor to benefit from 30% Income Tax relief on investments of up to £200,000 with a CGT exemption on the sale of VCT units.

From April 2019, the proportion of the VCT funds that must be held in qualifying holdings increased from 70% to 80% and the period for reinvestment of gains on disposal of qualifying holdings increased from 6 to 12 months. Conditions apply.

Corporate bonds

The income from fixed interest funds and corporate bonds in many cases is subject to interest tax, not dividend tax.

The first £1000 (£500 for higher rate payers) of any interest received from e.g. bank accounts, corporate bonds will be income tax free, which provides an additional source of tax-free income.

Protect yourself against the unexpected

You should never be without sufficient financial protection whether you're married or living with a partner, with family or without, or even single. That way should an event such as bereavement, serious illness, unemployment or incapacity occur, you'll at least have the comfort of knowing yourself and your loved ones are covered financially.

Are you a key person?

Business owners should also consider key person assurance and shareholder/partnership protection. Don't leave your business's future health and prospects to chance, protect the business against unexpected events and risks.

Combine your pension pots

Disparate pension pots can be consolidated to purchase commercial property.

Consider a SIPP as part of your succession planning

Self-Invested Pension Plans (SIPPs) provide the benefit of tax free dividends within the fund. If you have retirement savings and do not require access to the pot until you are 55, there are significant tax benefits available to you.

For instance, most people can invest up to 100% of earnings (effectively capped at £40,000 in this tax year) and receive tax relief.

Key moments in our financial life

Growing up, education and qualifying

-

Financial education is key from an early age.

From managing their pocket money to their first pay packet, to saving for their first holiday (without parents) and/or their first car.

Learning how to manage their personal finances and budgeting are among the key areas that you can help with.

Entering the workplace

-

As soon as the next generation enter the workplace they should be saving towards their retirement and making regular contributions to a savings account or an ISA.

They could be saving towards a deposit for a flat, or to fund an extended career break, or insulating themselves against financial bumps in the road.

Whatever the goal, it is a good habit to develop early.

Taking a career break, starting a family and/or caring for a relative.

-

A career break for whatever reason is likely to result in a reduction in working hours and a knock-on fall in earnings.

You should prepare for this by taking into account the financial needs of everyone in the family and not just for the reduction in income experienced by the wage-earner during the career break.

Personal relationships, marriage, civil partnerships and breaking up

-

Couples can organise their income, investments and savings between them to minimise tax.

See p4-5 on ways to reduce your tax bills.

In the event of a divorce, you should speak to us about the potential financial consequences.

A pension can be one of the largest financial assets that may need to be divided in a divorce settlement and the impact can be far reaching.

Planning for later life and those happy golden years

-

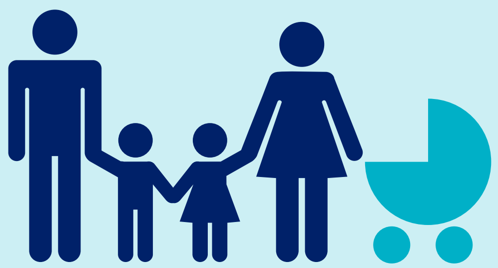
Don't put the annual statements from your pension provider to the bottom of the drawer. Look at the financial illustrations and projected income in retirement. Are you on the right trajectory to fund your lifestyle in retirement?

If you are a business owner and have no succession plan, you should prepare to pay more inheritance tax.

You should also factor in to your later life plan how you will potentially pay for medical and or residential care if you become unable to look after yourself.

Will + POA = Life essential

Everyone should have Will and Power of Attorney as no one can predict when it will be needed. If you've not got these in place, take action today. We can help you to get started on the most important aspect of financial planning and personal responsibility.



TAX RATES 2020-21

INCOME TAX

UK taxpayers excluding Scottish taxpayers' non-dividend, non-savings income		20/21	19/20
20% basic rate on first slice of taxable income up to		£37,500	£37,500
40% higher rate on next slice of taxable income over		£37,500	£37,500
45% additional rate on taxable income over		£150,000	£150,000
All UK taxpayers			
Starting rate at 0% on band of savings income up to*		£5,000	£5,000
Personal savings allowance at 0%:	Basic rate	£1,000	£1,000
	Higher rate	£500	£500
	Additional rate	£0	£0
Dividend allowance at 0% – all individuals		£2,000	£2,000
Tax rates on dividend income:	Basic rate	7.5%	7.5%
	Higher rate	32.5%	32.5%
	Additional rate	38.1%	38.1%
Trusts: Standard rate band generally		£1,000	£1,000
Rate applicable to trusts:	Dividends	38.1%	38.1%
	Other income	45%	45%

*Not available if taxable non-savings income exceeds the starting rate band

Scottish taxpayers – non-dividend, non-savings income		
19% starter rate on taxable income up to	£2,085	£2,049
20% basic rate on next slice up to	£12,658	£12,444
21% intermediate rate on next slice up to	£30,930	£30,930
41% higher rate on next slice up to	£150,000	£150,000
46% top rate on income over	£150,000	£150,000

High Income Child Benefit Charge, 1% of benefit per £100 of adjusted net income between £50,000 – £60,000

Main personal allowances and reliefs	20/21	19/20
Personal allowance**	£12,500	£12,500
Marriage/civil partner's transferable allowance	£1,250	£1,250
Married couple's/civil partner's allowance at 10%† (if at least one born before 6/4/35) – maximum	£9,075	£8,915
– minimum	£3,510	£3,450
Blind person's allowance	£2,500	£2,450
Rent-a-room relief	£7,500	£7,500
Property allowance and trading allowance (each)	£1,000	£1,000

**Personal allowance reduced by £1 for every £2 of adjusted net income over £100,000

†Married couple's/civil partner's allowance reduced by £1 for every £2 of adjusted net income over £30,200 (£29,600 for 19/20), until minimum reached

REGISTERED PENSIONS

	20/21	19/20
Lifetime allowance	£1,073,100	£1,055,000
Money purchase annual allowance	£4,000	£4,000
Annual allowance*	£40,000	£40,000

Annual allowance charge on excess is at applicable tax rate(s) on earnings
Lifetime allowance charge if excess is drawn as cash 55%; as income 25%
Pension commencement lump sum up to 25% of pension benefit value

*Reduced by £1 for every £2 of adjusted income over £240,000 (£150,000 for 19/20) to a minimum of £4,000 (£10,000 for 19/20), subject to threshold income being over £200,000 (£110,000 for 19/20)

STATE PENSIONS

	Annual	Weekly
New state pension – where state pension age reached after 5/4/16	£9,110.40	£175.20
Basic state pension – single person*	£6,981.00	£134.25
Basic state pension – spouse/civil partner*	£4,183.40	£80.45

*State pension age reached before 6/4/16

TAX INCENTIVISED INVESTMENT

	20/21	19/20
Total Individual Savings Account (ISA) limit excluding Junior ISAs (JISAs)	£20,000	£20,000
Lifetime ISA	£4,000	£4,000
JISA and Child Trust Fund	£9,000	£4,368
Venture Capital Trust (VCT) at 30%	£200,000	£200,000
Enterprise Investment Scheme (EIS) at 30%*	£2,000,000	£2,000,000
EIS eligible for CGT deferral relief	No limit	No limit
Seed EIS (SEIS) at 50%	£100,000	£100,000
SEIS CGT reinvestment relief	50%	50%

*Above £1,000,000 investment must be in knowledge-intensive companies

NATIONAL INSURANCE CONTRIBUTIONS

Class 1	Employee	Employer
NICs rate	12%	13.8%
No NICs for employees generally on the first	£183 pw	£169 pw
No NICs for younger employees* on the first	£183 pw	£962 pw
NICs rate charged up to	£962 pw	No limit
2% NICs on earnings over	£962 pw	N/A
Employment Allowance		£4,000

Per business – not available if sole employee is a director or employer's NICs for 19/20 £100,000 or more

Limits and Thresholds	Weekly	Monthly	Annual
Lower earnings limit	£120	£520	£6,240
Primary threshold	£183	£792	£9,500
Secondary threshold	£169	£732	£8,788
Upper earnings limit (and upper secondary thresholds*)	£962	£4,167	£50,000

*Employees generally under 21 years and apprentices under 25 years

Class 1A Employer On car and fuel benefits and most other taxable benefits provided to employees and directors	13.8%
Class 2 Self-employed Flat rate per week	£3.05 (£158.60 pa)
Small profits threshold No compulsory NICs if annual profits less than	£6,475
Class 4 Self-employed On annual profits of	£9,500 to £50,000: 9% Over £50,000: 2%
Class 3 Voluntary flat rate per week	£15.30 (£795.60 pa)

CAPITAL GAINS TAX

Tax Rates – Individuals		20/21	19/20
Below UK higher rate income tax band		10%	10%
Within UK higher and additional rate income tax bands		20%	20%
Tax Rate – Trusts and Estates		20%	20%
Surcharge for residential property and carried interest		8%	8%
Exemptions			
Annual exempt amount:	Individuals, estates, etc	£12,300	£12,000
	Trusts generally	£6,150	£6,000
Chattels gain limited to ⁵⁄₃rds of proceeds exceeding		£6,000	£6,000

Entrepreneurs' Relief
10% on lifetime limit of £1,000,000 (£10,000,000 before 11 March 2020)
For trading businesses and companies (minimum 5% participation) held for at least 2 years

INHERITANCE TAX

	20/21	19/20
Nil-rate band*	£325,000	£325,000
Residence nil-rate band*†	£175,000	£150,000
Rate of tax on excess	40%	40%
Rate if at least 10% of net estate left to charity	36%	36%
Lifetime transfers to and from certain trusts	20%	20%
Overseas domiciled spouse/civil partner exemption	£325,000	£325,000

100% relief: businesses, unlisted/AIM companies, certain farmland/buildings
50% relief: certain other business assets e.g. farmland let before 1/9/95
Annual exempt gifts of: £3,000 per donor £250 per donee

Tapered tax charge on lifetime gifts within 7 years of death

Years between gift and death	0–3	3–4	4–5	5–6	6–7
% of death tax charge	100	80	60	40	20

*Up to 100% of the unused proportion of a deceased spouse's/civil partner's nil-rate band and/or residence nil-rate band can be claimed on the survivor's death

†Estates over £2,000,000: the value of the residence nil-rate band is reduced by 50% of the excess over £2,000,000

STAMP DUTIES AND PROPERTY TRANSACTION TAXES

Stamp Duty and SDRT: Stocks and marketable securities 0.5%

Additional residential and all corporate residential properties £40,000 or more – add 3% to SDLT/LTT rate(s) and 4% on LBTT rate(s)

England & N Ireland – Stamp Duty Land Tax (SDLT) on slices of value

Residential property	%	Commercial property	%
Up to £125,000	0	Up to £150,000	0
£125,001–£250,000	2	£150,001–£250,000	2
£250,001–£925,000	5	Over £250,000	5
£925,001–£1,500,000	10		
Over £1,500,000	12		

First-time buyers: 0% on first £300,000 for properties up to £500,000

Residential properties bought by companies etc over £500,000: 15% of total consideration, subject to certain exemptions

Scotland – Land and Buildings Transaction Tax (LBTT) on slices of value

Residential property	%	Commercial property	%
Up to £145,000	0	Up to £150,000	0
£145,001–£250,000	2	£150,001–£250,000	1
£250,001–£325,000	5	Over £250,000	5
£325,001–£750,000	10		
Over £750,000	12		

First-time buyers: 0% on first £175,000

Wales – Land Transaction Tax (LTT) on slices of value

Residential property	%	Commercial property	%
Up to £180,000	0	Up to £150,000	0
£180,001–£250,000	3.5	£150,001–£250,000	1
£250,001–£400,000	5	£250,001–£1,000,000	5
£400,001–£750,000	7.5	Over £1,000,000	6
£750,001–£1,500,000	10		
Over £1,500,000	12		

CORPORATION TAX

	Profits	Diverted profits	Loans to participators
Years to 31/3/21 and 31/3/20	19%	25%	32.5%

VALUE ADDED TAX

Standard rate 20% Reduced rate, e.g. on domestic fuel	5%
Since 1/4/17: Registration level £85,000	Deregistration £83,000
Flat rate scheme turnover limit	£150,000
Cash and annual accounting schemes turnover limit	£1,350,000

CAR BENEFITS

Taxable amount based on original list price and CO_2 emissions in g/km.
Zero emission cars no charge

Petrol and diesel hybrids with CO_2 emissions 1–50g/km

Range – electric-only miles	< 30	30–39	40–69	70–129	130 +
Registered pre-6/4/20 (NEDC)	14%	12%	8%	5%	2%
Registered post-5/4/20 (WLTP)	12%	10%	6%	3%	0%

All non-diesel cars over 50g/km CO_2	51–54	55 & over
Registered pre-6/4/20 (NEDC)	15%	16%*–37%
Registered post-5/4/20 (WLTP)	13%	14%*–37%

*Increased for every extra 5g/km by 1% up to the maximum 37%

Diesels not meeting RDE2 standards: add 4%, up to 37% maximum

Fuel Benefit – taxable amount for private use	20/21	19/20
CO_2 % charge used for car benefit multiplied by	£24,500	£24,100

VANS – FOR PRIVATE USE

	20/21	19/20
Zero emission: chargeable amount	£2,792	£2,058
Other vans: chargeable amount	£3,490	£3,430
Fuel: chargeable amount	£666	£655

TAX-FREE BUSINESS MILEAGE ALLOWANCE – OWN VEHICLE

Cars and vans first 10,000 miles	45p per mile	then 25p per mile
Qualifying passenger	5p per mile	
Motorcycles	24p per mile	Bicycles 20p per mile

MAIN CAPITAL AND OTHER ALLOWANCES

Plant and machinery 100% annual investment allowance (1st year)	
1/1/19 to 31/12/20	£1,000,000
From 1/1/21	£200,000
Enterprise zone plant and machinery (max €125m per project)	100%
Plant and machinery*	18%
Patent rights and know-how*	25%
Certain long-life assets and integral features of buildings*	6%
Structures and buildings (straight line)	3%
Electric charge points	100%

Motor Cars

CO_2 emissions of g/km:	50 or less†	51–110	Over 110
Capital allowance:	100% first year	18% pa*	6% pa*

*Annual reducing balance † New cars only

Research and Development

Capital expenditure	100%
Revenue expenditure relief – small/medium-sized companies	230%
Research and development expenditure credit – large companies	13%

martin aitken
accounting | tax | finance

martin aitken
financial services

0141 272 0000 / ca@maco.co.uk / www.maco.co.uk / www.mafsltd.co.uk

It is important to take professional advice before making any decision relating to your personal finances. This publication represents our understanding of law and HM Revenue and Customs and Revenue Scotland practice as at the date of publication. It does not provide individual tailored investment advice and is for guidance only.

Some rules may vary in different parts of the UK; please ask for details. We cannot assume legal liability for any errors or omissions it might contain. Levels and bases of, and reliefs from taxation are those currently applying or proposed and are subject to change; their value depends on the individual circumstances of the investor.

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated. If you withdraw from an investment in the early years, you may not get back the full amount you invested.

Changes in the rates of exchange may have an adverse effect on the value or price of an investment in sterling terms if it is denominated in a foreign currency.

Martin Aitken Financial Services Ltd
AUTHORISED AND REGULATED BY THE FINANCIAL CONDUCT AUTHORITY

Martin Aitken Financial Services Limited would like to confirm that Trusts, Wills, some Buy to Let mortgage products, general tax planning advice are not FCA regulated activities, nor is all estate planning.

Martin & Aitken & Co Ltd (www.maco.co.uk) provides audit, accounting, corporate & personal tax, business advisory services and financial advice and services to businesses, individuals and third sector organisations. Martin Aitken & Co is registered to carry on audit work and regulated for a range of investment business activities by the Institute of Chartered Accountants of Scotland.

Chartered
Financial
Planners