Monthly Update | March 2020

We hope you enjoy reading the newsletter; remember, we are here to help you so please contact us if you need further information on any of the topics covered.

Best wishes

Joanne Beaumont-Walker
DipHE(A) FCCA CTA MCMI
Deputy Managing Partner

Yet Another Chancellor – Big changes in the Budget?

It will be nearly 18 months since the last Budget and in the meantime, we will have had three different chancellors following the unexpected resignation of Sajid Javid. The early years of a new Parliament are a good time to make radical changes and many are predicting significant tax announcements on 11 March.

Rather than increasing headline tax rates it is understood that the Government are considering the abolition or restriction of many tax reliefs that we have got used to relying on.

This would also have the effect of increasing tax revenue, but it is likely that the changes will impact on those who are better off.

Inheritance Tax in the Spotlight

We are expecting major changes to inheritance tax (IHT) in the March Budget following two reviews by the Office of Tax Simplification (OTS) and also a report by an All Party Parliamentary Committee. IHT is perceived as a complicated tax with numerous fairly trivial reliefs and exemptions. Currently the tax only generally applies to transfers on death and gifts within 7 years of death. The All Party Parliamentary Committee suggested that there should be a 10% charge on gifts during someone's lifetime after an annual exemption (suggested £30,000) has been exceeded.

A more radical suggestion was the abolition of Business Property Relief (BPR) and Agricultural Property Relief which currently allow a family business or farm to be passed on without paying IHT.

The OTS also recommended a review of BPR so it may be worth considering bringing forward the transfer of all, or part of, the family businesses.

Monthly Update | March 2020

More routine IHT planning would be to make use of the current £3,000 annual allowance. Gifts up to £3,000 each year are exempt from IHT. If you haven't used your £3,000 allowance from 2018/19 you can make gifts of up to £6,000 before 6 April 2020 without the gift being liable to IHT. Also consider making regular gifts out of your income to minimise the growth of your estate that will be liable to IHT. Gifts out of your surplus income are not subject to IHT if properly structured and we can assist you in keeping the necessary documentation.

Further changes to Entrepreneurs' Relief?

Another tax relief that may be further restricted or even abolished is CGT entrepreneurs' relief. This relief allows business owners to pay just 10% CGT on the first £10 million of capital gains when they dispose of their business and was tightened up in the Autumn 2018 Budget.

When first introduced, the relief only applied to the first £2 million of gains but the limit has been increased twice since 2008 to the current lifetime limit so the relief may be limited again in the March Budget.

Year End CGT Planning

Have you used your 2019/20 £12,000 annual capital gains exemption? Consider selling shares where the gain is less than £12,000 before 6 April 2020.

Also, if you have any worthless shares consider a negligible value claim to establish a capital loss. You may even be able to set off that capital loss against your income under certain circumstances which could save tax of up to 45% of the loss.

Pension Planning before the end of the Tax Year

For most taxpayers the maximum pension contribution is £40,000 each tax year, although this depends on their earnings. This limit covers both contributions by the individual and their employer.

The unused allowance for a particular tax year may be carried forward for three years and can be added to the relief for the current year, but then lapses if unused. Hence the unused pension allowance for 2016/17 will lapse on 5 April 2020. Under the current rules the net after tax cost of saving £10,000 in a personal pension for a higher rate taxpayer is only £6,000.

Will Pension Tax Relief change in the Budget?

There are frequent rumours that pension tax relief will change in the Budget.

Monthly Update | March 2020

This is even more likely this year as the new Government looks for additional tax revenue to fund its ambitious spending pledges such as the HS2 rail link.

There is speculation that the restriction for those with income over £150,000 may be removed but at the same time higher rate tax relief may be removed. One suggestion is that tax relief may be "simplified" by limiting relief to say 25% or 30% so that the government would increase a £750 pension saving to £1,000 but with no further tax relief.

If you have surplus cash, you might wish to consider maximising your pension relief before Budget Day.

Have you used your 2019/20 ISA Allowance?

Your maximum annual investment in ISAs for 2019/20 is £20,000. Your investment needs to be made before 6 April 2020. In addition, have you thought about investing for your children or grandchildren by setting up a Junior ISA? In the 2019/20 tax year, you can invest £4,368 into a Junior ISA for any child under 18.

Don't lose your Personal Allowance

For every £2 that your adjusted net income exceeds £100,000 the £12,500 personal allowance is reduced by £1. Pension contributions and Gift Aid can help to reduce adjusted net income and save tax at an effective rate of 60%.

The restriction applies between £100,000 and £125,000 adjusted net income. Another way that you could avoid this trap would be to sacrifice some of your salary in exchange for a tax-free benefit in kind such as an additional pension contribution.

Consider other Tax Efficient Investments

If you are looking for investment opportunities, have you considered the Enterprise Investment Scheme (EIS)? These investments in certain qualifying companies allow you to set off 30% of the amount invested against your tax bill as well as the ability to defer capital gains tax (CGT) until the shares are sold.

An even more generous tax break is available for investment in a qualifying Seed EIS company where income tax relief at 50 per cent is available and in addition it is possible to obtain relief against your 2019/20 capital gains. Shares in EIS and Seed EIS companies are risky investments and you should seek specialist advice before investing.

Monthly Update | March 2020

30% income tax relief is also available by investing in a Venture Capital Trust or by investing in a qualifying Social Enterprise.

Buy new equipment before 6 April?

Your business year-end, not 5 April, is relevant for capital allowances purposes. If, however you are running a business and making up accounts to 31 March or 5 April you should consider buying plant and machinery to take advantage of the £1 million Annual Investment Allowance (AIA).

The AIA provides a 100% tax write-off for equipment used in your business. This tax relief extends to fixtures and fittings within business premises such as electrical, water and heating systems.

AIA does not apply to motor cars but there is a special 100% tax relief if you buy a new car that emits no more than 50g CO_2 per kilometre.

Diary of Main Tax Events

March / April 2020

Date	What's Due
01/03	Corporation tax for year to 31/05/19 (unless pay quarterly)
19/03	PAYE & NIC deductions, and CIS return and tax, for month to 05/03/20 (due 22/03/20 if you pay electronically)
01/04	Corporation tax for year to 30/06/19 (unless quarterly instalments apply).
05/04	End of 2019/20 tax year, many tax actions need to be taken by this date (see above)
19/04	PAYE & NIC deductions, and CIS return & tax, for month to 05/04/20 (due 22/04/20 if you pay electronically).