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# Tax-saving strategies to implement before the 5 April year end

**The end of the 2018/19 tax year is quickly approaching, and businesses and individuals should be seeking to plan ahead in order to minimise the tax bill. Within this factsheet, we consider strategies for you to implement into your financial plan to ensure it is as tax-efficient as possible. We also review the changes to taxation set to take effect from 2019/20 and beyond.**

## Utilise the allowances available to you

Your personal financial plan should ensure that you are making the most of any allowances available to you.

Each individual is entitled to their own personal allowance (PA), which is set at £11,850 in 2018/19. This is due to increase to £12,500 for 2019/20.

As each spouse or civil partner is taxed separately, tax planning involves making best use of the PA; the starting and basic rate tax band; the Savings Allowance; and the Dividend Allowance. The aim is to distribute income within the family to take maximum advantage of these. There is also the possibility of making gifts of assets to distribute income more evenly – but gifts must be outright and unconditional.

Part of the PA can be transferred between spouses and civil partners. The Marriage Allowance of £1,190 for 2018/19 can be transferred, but only where neither spouse/civil partner pays tax at the higher rate.

### Take note!

Transferring just £1,000 of savings income from a higher rate (40%) tax-paying spouse or civil partner, who has used their Savings Allowance in full, to a basic rate spouse or civil partner with no other savings income may save up to £400 a year.

## Make use of children's allowances

For tax purposes, children are treated independently. They have their own PA, and their own savings and basic rate tax band. They also have their own capital gains tax (CGT) annual exemption. In some cases, a tax saving can be made by transferring income-producing assets to a child. However, when shifting income from a parent to a child who is a minor, any income in excess of £100 will still be taxed on the parent. It is therefore not always possible to use a child's PA by means of a parent transferring income-producing assets.

### Take advantage of tax-free savings opportunities

A Junior ISA or Child Trust Fund (CTF) account offers tax-free savings opportunities for children. The Junior ISA is available for UK resident children under the age of 18 who do not have a CTF. In 2018/19, both CTFs and Junior ISAs allow parents, other family members or friends to invest up to £4,260 yearly in a tax-free fund. There are no government contributions and no access to the funds until the child reaches the age of 18.

### Employment and family businesses

If you have a family business, employing your teenage children may be an appropriate way to utilise the PA and the basic rate band. The arrangement should be formalised, and hours worked and rate of pay should be recorded.

### The High Income Child Benefit Charge

If you receive Child Benefit, it is important to remember that taxpayers with adjusted net income in excess of £50,000 during the tax year are liable to the High Income Child Benefit Charge. If both partners have income above this level, the charge applies to the partner with the higher income.

It is important to consider appropriate strategies to keep each parent's income below £50,000. If two parents have income of £50,000, for example, the household can receive full Child Benefit. But if one parent receives all the income, and the other none, all Child Benefit is lost.

## Take note!

Gift Aid payments and pension contributions can reduce adjusted net income for the purposes of the High Income Child Benefit Charge.

## Consider your pension and savings plans

Pensions provide significant planning opportunities. The annual allowance (AA) – the maximum you can contribute to a pension and still get tax relief – is £40,000. Exceeding this can result in an AA clawback charge. However, in many circumstances you may have unused AA from the three previous years, which can be used in 2018/19, providing the means of making a significant contribution without incurring a charge. Please contact us for advice tailored to your circumstances.

### Use savings vehicles

The Savings Allowance means a certain amount of savings income, such as bank and building society interest, can be earned tax-free. In 2018/19, this is up to £1,000 for basic rate taxpayers; up to £500 for those paying at higher rate; and nil for additional rate taxpayers.

ISAs are a popular investment. Savings held within an ISA are free of income tax and capital gains tax. Investments must be made by 5 April 2019 to take advantage of limits for 2018/19. The maximum you can save is £20,000 in 2018/19. It remains at this figure for 2019/20.

## Take note!

As ISA investment limits cannot be carried into future tax years, check that family members make full use of the limits available for this year.

## Give to charity

If you make a charitable donation under the Gift Aid scheme, the charity can claim back 20% basic rate tax on any donations. Using Gift Aid can also generate a refund for higher rate and additional rate taxpayers. Higher rate taxpayers can claim back the tax difference between the higher rate and basic rate on the donation.

A cash gift of £80, made under the Gift Aid scheme, will generate a refund of £20 for the charity, which receives £100. The donor claims back tax of £20, making the net cost of the gift only £60.

Scotland now has tax rates which differ from those which apply in the rest of the UK. Donations by Scottish taxpayers paying at the starter rate of 19% will be treated in the same way as 20% taxpayers in the rest of the UK. Donors may need to check that they have paid enough tax to cover the Gift Aid claim, however. Scottish taxpayers using Gift Aid who pay tax at 21%, 41% or 46% claim the difference between this and the basic rate.

## Take note!

Tax relief against 2018/19 income is possible for charitable donations made between 6 April 2019 and 31 January 2020, providing payment is made before filing the 2018/19 tax return.

## Tips for family companies

### Make use of the personal allowance

Making use of the PA for all family members is always prudent. Salaries paid at a level realistically reflecting the duties carried out, and made for the purposes of the business, will also attract a corporation tax deduction. Payment should be formally recorded, as should hours worked.

The PA is reduced where total income is over £100,000, by £1 for every £2 of income above this limit. Careful thought should therefore be given to deferring such income as you have discretion over – bonus payments and dividends potentially falling into this category. Holding such payments back until the new tax year may produce a more favourable outcome.

### Utilise dividends

Dividend payment has traditionally been part of the profit extraction strategy for director-shareholders. Most family companies will pay directors a minimal salary – preserving State Pension entitlement, but below the threshold at which National Insurance Contributions (NICs) are due – with the balance extracted as dividends. The NIC saving here can be considerable.

Dividends have their own tax treatment. In 2018/19, tax is paid on dividends at 7.5% for basic rate taxpayers; 32.5% for higher rate taxpayers; and 38.1% for additional rate taxpayers. Taken in conjunction with the Dividend Allowance (£2,000 for 2018/19), this may prove to be very favourable. However, company profits taken as dividends remain chargeable to corporation tax: 19% in 2018/19, falling to 17% from 1 April 2020.

### Time payments accurately

The timing of dividend payments to shareholders is important, and again the question is whether to make the payment before or after the end of the tax year. A dividend payment in excess of the Dividend Allowance, delayed until after the end of the tax year, may give the shareholder an extra year to pay any further tax due. The deferral of tax liabilities on the shareholder depends on a number of factors. Please contact us for detailed advice.

Timing is important with directors' bonuses, too. Should a bonus be timed before or after the end of the tax year? The date of payment will affect when tax is due, and possibly the rate at which it is payable.

### Bonus or dividend?

Careful judgment may be required when deciding whether a bonus payment or dividend is more tax-efficient. Bonuses are liable to employee and employer NICs. For Scottish taxpayers, a further point to consider is that bonuses are now taxed at Scottish rates of income tax as employment income, but dividends are taxed at UK rates as savings income.

**As your accountants, we can provide advice in regard to a range of tax-efficient planning strategies to implement ahead of the 5 April year end. Please contact us for more information.**