Managing your wealth and tax profile requires constant review and revision. Striking a balance between managing risk, maximising your personal wealth and creating value in your business is complex. Our team work with you to make sure we consider your business and personal tax affairs in the round, so that you are able to plan with clarity and certainty.

In this guide, we provide key pointers to consider as you review your affairs ahead of the tax year end. We encourage you to take some time and reflect on your needs now and in the future so that you are able to plan ahead and ensure the right long term structures are in place.

Unless otherwise specified, the tax rates used are those for the 2020/21 tax year to 5 April 2021. There are different rates of income tax in Scotland, which are highlighted where appropriate.

Current tax rates, reliefs and allowances may well be subject to change as the Chancellor continues to review the position with regards to the Coronavirus pandemic. We will revisit and revise this guide accordingly.
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Personal Tax

Understanding where your personal income falls relative to current tax thresholds is the starting point for any tax planning.

» Income Tax
» Personal Allowances
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» Savings Income
Residents of England and Northern Ireland pay income tax at the following rates on their taxable income (i.e. their income above the personal allowance £0 - £12,500):

<table>
<thead>
<tr>
<th>Income</th>
<th>Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>£0 - £37,500</td>
<td>20%</td>
</tr>
<tr>
<td>(Basic rate)</td>
<td></td>
</tr>
<tr>
<td>£37,501 - £150,000</td>
<td>40%</td>
</tr>
<tr>
<td>(Higher rate)</td>
<td></td>
</tr>
<tr>
<td>£150,001 +</td>
<td>45%</td>
</tr>
<tr>
<td>(Additional rate)</td>
<td></td>
</tr>
</tbody>
</table>

For 2020/21, there is no difference between the Welsh rates of tax and the main UK rates of tax above.

For Scottish taxpayers, the rates of tax on their taxable income for 2020/21 are:

<table>
<thead>
<tr>
<th>Income</th>
<th>Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>£1 - £2,085</td>
<td>19%</td>
</tr>
<tr>
<td>(The starter rate of tax)</td>
<td></td>
</tr>
<tr>
<td>£2,086 - £12,658</td>
<td>20%</td>
</tr>
<tr>
<td>(The basic rate of tax)</td>
<td></td>
</tr>
<tr>
<td>£12,659 - £30,930</td>
<td>21%</td>
</tr>
<tr>
<td>(The intermediate rate of tax)</td>
<td></td>
</tr>
<tr>
<td>£30,931 - £150,000</td>
<td>41%</td>
</tr>
<tr>
<td>(The higher rate of tax)</td>
<td></td>
</tr>
<tr>
<td>£150,000 +</td>
<td>46%</td>
</tr>
<tr>
<td>(The top rate of tax)</td>
<td></td>
</tr>
</tbody>
</table>

Your personal allowance reduces when your taxable income exceeds £100,000. You lose £1 of your allowance for every £2 over the limit. For example, if your taxable income is £110,000, your personal allowance is reduced by £5,000. This means that if your income falls between £100,001 and £125,000 you have an effective tax rate of 60%.

Every UK resident taxpayer is entitled to a tax-free personal allowance.

**2020/21 → £12,500**

Your personal allowance reduces when your taxable income exceeds £100,000. You lose £1 of your allowance for every £2 over the limit. For example, if your taxable income is £110,000, your personal allowance is reduced by £5,000. This means that if your income falls between £100,001 and £125,000 you have an effective tax rate of 60%.

There is therefore no personal allowance where your income exceeds £125,000.

Non-UK residents are also entitled to a UK personal allowance if they:

- hold a British passport,
- are a citizen of a European Economic Area country (including countries in the EU as well as Iceland, Liechtenstein and Norway),
- have worked for the UK government during the tax year, or
- are eligible under a double tax agreement.

Planning Points

- If your income falls above one of the thresholds, you can reduce your tax liability by reducing your taxable income. There are several ways you can achieve this such as: making pension contributions, gift aid charity donations or tax efficient investments.
- Where a spouse or civil partner does not use all of their personal allowance, consider electing to transfer an element to the other person, if they are a basic rate taxpayer, to reduce your family tax burden.
- Where possible, generate sufficient income to utilise fully the personal allowance and basic rate band – this is best done through careful planning of the timing of dividends from a private company or distributions from a family trust.
- If you have children, it may be possible to switch income between spouses (also applicable to civil partnerships) so that both incomes remain below the £50,000 threshold for High Income Child Benefit.
Dividends can be used as part of your profit extraction strategy from a limited company.

The first **£2,000** of dividends are **tax free** regardless of which tax rate band into which you fall. This relief is in addition to your personal allowance.

After the tax-free allowance, dividends are then taxed at the following rates:

- **Basic Rate**: 7.5%
- **Higher Rate**: 32.5%
- **Additional Rate**: 38.1%

The dividend allowance applies whether from UK companies or overseas companies.

**Planning Points**

- Director shareholders should always consider declaring a dividend of at least £2,000 to utilise the dividend allowance, provided their company has distributable profits available.

- Dividends are taxed at a lower rate than earnings, meaning that business owners can choose to take a mixture of salary and dividends when deciding how best to extract profits from their company.

- If you own a family company, you may wish to consider who else in your family could have shares, in order to make use of their allowances. Income from jointly owned assets is generally shared equally for tax purposes – regardless of whether the asset is owned in unequal shares. It is possible to submit an election with HM Revenue and Customs to split the income proportionally in line with the ownership of the asset. This planning needs to take into account settlements legislation.

**Savings Income**

**Personal Savings Allowance (PSA)**

Individuals who pay tax at the basic rate of tax have a PSA of £1,000, which means that the first **£1,000** of savings income is tax-free.

For individuals who pay tax at the higher rate the PSA is £500. Those who pay tax at the additional rate of tax are not given a PSA and will therefore pay tax on all of their savings income.

**Starting Rate for Savings**

The first **£5,000** of savings income is taxed at the starting rate for savings, which is 0%. However, this is only available to an individual on low income and is restricted where non-savings income exceeds the personal allowance (£12,500 for 2020/21).

**Planning Points**

- Whilst most owner managers find themselves ineligible to benefit from the starting rate for savings (due to the level of their other non-savings income) for those that are, it can be possible to structure the way you extract profits from the company, so that you take more in the form of dividends than salary. You should seek professional advice beforehand, as there may be other non-tax consequences to consider.
Pension Contributions

Whatever your plan for the future, we can help you map out what that may look like and understand the planning you need to undertake in order to realise your end goal.

» Personal Pension Contributions
» Annual Allowance
» Employer Contributions
» Lifetime Allowance

» Flexible Drawdowns
» Pension Planning for Your Family
» Inheritance Tax Benefits
If you are a higher or additional rate taxpayer you can save income tax by making personal pension contributions for the tax year.

However, you need to ensure that you have sufficient earnings for example, employment income or trading profits, in order to cover the tax relief on the contributions.

If you have no earnings, your annual contribution is capped at £2,880, with the government granting a tax-free credit of 20% on top of the contribution, taking it to £3,600.

You can contribute £40,000 per year (which includes employer and personal contributions) into a pension scheme.

If you have not made use of your full allowance in the preceding three years and were a member of a qualifying pension scheme in that time, you can increase your allowance in this tax year.

From 2016/17 the AA is reduced if your income in a tax year exceeds £150,000. It reduces by £1 for every £2 of your adjusted income over £150,000. If your income exceeded £210,000 the AA could potentially reduce to £10,000. From 6 April 2020 the adjusted income limit is increased to £240,000.

Should you breach the rules and pay too much into your pension, you will be subject to an annual allowance charge, which is charged at your marginal rate of tax.

If you are a member of a Final Salary (Defined Benefit scheme) be particularly aware of the tapering as this will be determined by reference to the increase in the value of defined benefits rather than contributions to the pension scheme.

**Lifetime Allowance**

- Your pension savings are subject to a Lifetime Allowance, currently £1,073,100 for 2020/21.
- Once you turn 55, you can take out 25% of your pension fund tax-free (with the tax-free amount capped at the LTA). There is a tax charge on the value of the pension funds that exceed the LTA.
- However, you may be eligible for Individual Protection 2016, which can potentially elevate your LTA to £1.25m.
Flexible Drawdowns

You now have more flexibility with how you can access your pension fund once you turn 55 (i.e. you do not have to buy an annuity).

For example, you can take it all out as a lump sum or spread your drawings over more than one tax year and decide on how much you draw each year.

However, you need to consider the potential tax implications of drawing large amounts from your pension fund.

Pension Planning for Your Family

You can make personal contributions on behalf of your family, with the contributions going to their respective pension funds. This can include your children, grandchildren and members of your family who are not working.

Where they have no earnings, you can make yearly contributions of £2,880 for each individual, with the government granting a tax-free credit of 20% on top of the contributions.

Inheritance Tax Benefits

A long-term benefit with building up a pension fund is that the value of the fund is not liable for IHT at 40%.

The pension funds can be transferred to the beneficiaries free of IHT. You must ensure that you have nominated who inherits your pension fund.

The beneficiaries will be liable for income tax if they subsequently draw from the pension fund. However, there is no income tax charge if the pension fund holder dies before the age of 75.

Planning Points

- If the total of all your pension funds is likely to be at or near £1m by the time you retire, you should seek advice on your options.
- If you were already in flexible drawdown prior to 6 April 2015, you can move to the new unlimited regime and draw more income than the current maximum, however that can lead to restrictions on further contributions.
Capital Gains Tax

The decision to sell capital assets combines both tax and investment motivations. Understanding what you want to achieve and why, is vital to efficient Capital Gains Tax planning.

» Capital Gains Tax (CGT) Annual Exemption
» Business Asset Disposal Relief
» Investors’ Relief
It is important to remember that you have an annual exemption this tax year.

2020/21 → £12,300

This is a “use it or lose it” exemption so it is not possible to carry it forward.

Married couples and civil partners can transfer assets between themselves at no gain, no loss so it is possible to crystallise combined capital gains of £24,600 without being subject to tax.

Gains above this are taxed as follows:

| Standard Rate | 10% | where capital gains when added to the individuals taxable income do not exceed £37,500 for 2020-21. |
| Higher Rate | 20% | where capital gains when added to the individuals taxable income exceed £37,500 for 2020-21. |
| Business Asset Disposal Relief | 10% | if the gains qualify for Business Asset Disposal Relief (previously Entrepreneurs’ Relief) up to a lifetime limit of £1 million. |

Property

- The standard and higher rates of 10% and 20% also apply to gains on commercial property.
- The standard and higher rates for gains on residential property are 18% and 28%.

Trusts

The annual exemption for 2020-21 is £6,150, gains above this are taxed at 20% or 28% if in relation to residential property.

Consideration should be given to utilising the lower tax rate as well as the annual exemption.

Business Asset Disposal Relief

Earlier this year HMRC announced changes to Entrepreneurs Relief, now known as Business Asset Disposal Relief.

The main change is the reduction in the lifetime allowance. With effect from 11 March 2020, the relief has been limited to the first £1m of gains in a taxpayer’s lifetime. Any taxpayers that have already claimed the relief on more than £1m of gains will not be able to claim any further relief.

Investors’ Relief

Investors’ Relief enables shareholders to benefit from a 10% rate of capital gains up to a lifetime limit of £10 million. Investors’ Relief is available to investors in qualifying shares of an unlisted trading company (or the holding company of a trading group).

Investors relief is only available to investors who are not employees involved in the running of the business.

Planning Points

- The annual exemption cannot be carried forward or transferred, so aim to make disposals before 6 April 2021 in order to use this year’s exemption.
- The timing of a disposal may affect the amount of CGT payable. For example, if you are a lower rate tax payer in this tax year but expect to be a higher rate tax payer next tax year, realising a disposal in this year may reduce the CGT amount payable.
- Use capital losses. Capital losses must be offset against capital gains in the same year or carried forward to offset against future capital gains above the annual exemption. Careful timing of the disposals of assets which will realise losses can reduce future capital gains tax liabilities. Where losses arise a formal claim is required and must be submitted to HMRC within four years of the end of the tax year of the loss.
Inheritance Tax

Inheritance tax impacts your ability to enjoy life when you retire and pass on wealth tax efficiently to the next generation. Early planning is the best way to achieve your aims.

» Inheritance Tax Rates
» Residential Nil Rate Band
» Small Gifts to the Same Person
» IHT Annual Exemption
» Potentially Exempt Transfer

» Business Property Relief
» Agricultural Property Relief
» Normal Expenditure Out of Income
» Pension
Inheritance Tax Rates

Inheritance Tax can be reduced or potentially avoided through careful and timely planning.

Inheritance tax is payable at 40% if an individual’s assets on death, together with any gifts made during the seven preceding years, total more than the nil-rate band (NRB). The current nil-rate band is £325,000 (frozen until April 2021). IHT is charged on the net estate value.

In addition to the nil-rate band, from 6th April 2017 the Residential Nil Rate Band (RNRB) was introduced. This is available where a taxpayer’s main residence passes to direct descendants on his/her death.

Residential Nil Rate Band

Each individual will therefore have a maximum combined Nil Rate Band of £500,000 after 5 April 2020. However, for estates in excess of £2m the RNRB will be reduced by £1 for every £2 that the net estate exceeds £2m.

Spouses and civil partners are chargeable separately, so that any available exemptions apply to each of them and each can make transfers free of tax up to the nil-rate band. Any unused NRB and RNRB on the first death is transferred to their surviving husband, wife, or civil partner to be used in calculating the IHT payable on the death of the survivor. The combined available nil-rate bands on the death of the surviving spouse or civil partner could therefore be £1m.

To maximise tax savings, the drafting of a taxpayer’s will should be considered in conjunction with appropriate lifetime IHT planning which will take into account their income requirements.

Small Gifts to the Same Person

Any outright gifts to any one person in a tax year are exempt if the total gifts to that person do not exceed £250 in that year.

Small gift exemption applies separately to each donee. It does not matter how many different donees there are, as long as each is given no more than £250 in a tax year.

If the gifts to any one donee in the same tax year exceed £250, the exemption is wholly lost in relation to that donee.

When considering IHT planning, it is important to consider the IHT reliefs and exemptions available. The main exemptions and reliefs are explained on the following page:
**Inheritance Tax**

For transfers exceeding the Small Gifts exemption, the first £3,000 of gifts in a tax year are exempt.

Any unused portion of the annual exemption can be carried forward for one year to the next tax year.

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**Potentially Exempt Transfer**

Where a taxpayer makes a gift, the transfer will represent a Potentially Exempt Transfer for IHT purposes.

If the taxpayer lives for seven years or more from the date of the gift, the asset gifted will not form part of his/her estate for IHT purposes, assuming that the anti-avoidance legislation would not apply. Taper relief is available should the taxpayer die between three and seven years from the date of the gift.

It is vital to carefully select suitable assets for gifting to maximise the potential tax savings.

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**Business Property Relief**

BPR is one of the most important IHT reliefs available as it reduces the value of certain transfers liable to IHT by either 50% or 100%.

BPR can be claimed either on death or on any other chargeable event. BPR can be claimed on the value of qualifying assets, for example shares in an unquoted trading company, a business or an interest in a business, and assets used wholly and mainly for the purposes of the business.

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**Agricultural Property Relief**

APR reduces the value transferred for IHT purposes when assets such as farmland and farm buildings are gifted either during lifetime or on death.

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**Normal Expenditure Out of Income**

To obtain this exemption, the taxpayer (or the executors of the estate) must show that a gift formed part of the transferor’s normal expenditure, was made out of his/her income and the taxpayer was left with enough income to maintain his/her lifestyle.

We recommend keeping detailed records so support a claim in the future.
The value of funds in a registered pension scheme are not subject to IHT on the death of the taxpayer.

The distribution of funds to named beneficiaries after death may however give rise to income tax charges. The accumulation of pension funds therefore represents an opportunity for IHT planning.

However, pension planning is a complex area and should not be undertaken without the benefit of specialist advice.

**Planning Points**

- Start the seven-year IHT ‘clock’: consider gifting assets during your lifetime to minimise the IHT payable on your death provided you don’t reserve a benefit in the asset once it has been transferred. These gifts fall outside of the IHT net after seven years. After three years, the relief is tapered.
- If you have surplus income, consider making use of the IHT exemption for gifts out of income. Ensure you retain documentation to show that this gift is regular and made from income.
- Consider making additional contributions to your pension scheme – but be careful not to breach your annual allowance or the lifetime allowance.
- Carefully consider Wills and potential future inheritance. It is possible to vary a Will within two years of death. This can be valuable in redirecting assets to maximise IHT reliefs and minimise future IHT liabilities.
Property

In recent years the Chancellor has targeted individuals with second properties, particularly buy-to-let landlords. A raft of measures including the restriction on expenses which can be set against rental profits, a hike in capital gains tax rates and revisions to Stamp Duty Land Tax (SDLT) have made it more important than ever, to undertake careful planning.

Holding residential property in the UK as an individual or partnership has become more expensive. As a result, many property owners have incorporated their portfolios – which means they have transferred their property business to a company where there is no restriction on interest costs. There are pros and cons to this, so careful planning is required.

- Letting Property
- Finance Cost Restriction for Individual Landlords
- Annual Tax on Enveloped Dwellings
- Capital Gains Tax 30 Days
- Stamp Duty Land Tax
- Principal Private Residence Relief
- Furnished Holiday Lettings
Property

Letting Property

Profits from rentals are subject to income tax at your marginal rate of tax. Expenses incurred wholly in connection with the rental business are deductible when calculating net taxable profits, providing they are not capital in nature.

The rules for determining whether an expense is capital or revenue in nature, is not always straightforward, so advice is recommended.

Finance Cost Restriction For Individual Landlords

Tax relief on finance costs for landlords that hold buy to let properties personally, has been slowly withdrawn over the past three tax years to the point where now relief for finance costs is fully provided as a basic rate tax reduction.

This effectively means that only basic rate tax relief can be obtained for these types of expenses regardless of the individual’s marginal rate of tax.

Annual Tax on Enveloped Dwellings

ATED is a tax charge on companies that own UK residential property valued at more than £500,000.

The tax charge varies depending on the value of the property held. ATED uses a periodic valuation system to determine the level of the charge. The last valuation date was 1 April 2017 and the value at that date or at the date of purchase determines the tax payable for the years 2018-2022.

Returns must be filed and the tax paid at the beginning of the relevant tax year by 30 April. If the property is disposed of during the tax year then a claim for a refund can be made.

There are several reliefs from the ATED regime which can be claimed in certain circumstances including, those applying to property developments and properties let to third parties on a commercial basis.

Planning Points

- Be aware that a change in use of a property may mean you will need to file an amended ATED return.
Property

**Capital Gains Tax 30 days**

From 6 April 2020, individuals, trustees and personal representatives are required to report and pay CGT on the disposal of UK residential properties within **30 days** of completion.

In addition, non-residents are also required to report disposals of commercial property within 30 days. Where properties are held jointly or in partnership, each owner is required to submit a return (and pay the tax) in respect of their share of the disposal. Penalties will apply if the return is filed late.

The amount to pay is based on an estimate of the tax payable. This will be treated as a “payment on account” against your total income tax and CGT liability for that tax year in which your annual self-assessment tax return is submitted.

HMRC have created a facility where you can report the disposal and pay the tax by creating a 'Capital Gains Tax on UK property account'.

There are exceptions where the gain is covered by losses or an individual’s annual exemption for the year of disposal.

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**Stamp Duty Land Tax**

Stamp Duty Land Tax (SDLT) is due on property transactions by the purchaser and is calculated based on the consideration.

The rates were temporarily reduced from 8 July 2020 in response to the Coronavirus pandemic and have been set as follows until 31 March 2021:

<table>
<thead>
<tr>
<th>Property or lease premium or transfer value</th>
<th>SDLT rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to £500,000</td>
<td>0%</td>
</tr>
<tr>
<td>£500,001 to £925,000</td>
<td>5%</td>
</tr>
<tr>
<td>£925,001 to £1,500,000</td>
<td>10%</td>
</tr>
<tr>
<td>Over £1,500,000</td>
<td>12%</td>
</tr>
</tbody>
</table>

From 1 April 2021, the rates will be as follows:

<table>
<thead>
<tr>
<th>Property or lease premium or transfer value</th>
<th>SDLT rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to £125,000</td>
<td>0%</td>
</tr>
<tr>
<td>£125,001 to £250,000</td>
<td>2%</td>
</tr>
<tr>
<td>£250,001 to £925,000</td>
<td>5%</td>
</tr>
<tr>
<td>£925,001 to £1,500,000</td>
<td>10%</td>
</tr>
<tr>
<td>Over £1,500,000</td>
<td>12%</td>
</tr>
</tbody>
</table>

The additional rate surcharge of 3% still applies for individuals who already own property or for transfer into a limited company. Different rates also apply for first time buyers.

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**Planning Point**

- Due to the current low rates of SDLT and interest restriction for landlords that hold the property as individuals, it may be an optimum time to transfer property portfolios into limited companies.
**Principal Private Residence Relief**

Principal Private Residence (PPR) relief provides full or partial relief on the gain on the sale of a property where you have used it as your principal private residence at some point during ownership.

The relief is attributable to any gain for periods during ownership where it was used as your main residence.

Where the property was once your PPR, relief is also provided for a certain number of months before the sale whether it is still your PPR or not. From 6 April 2020, this period has reduced from 18 months to 9 months.

Prior to 6 April 2020, relief was also available for periods in which the property was let but this has been restricted and will now only apply where the property is occupied by you and let to a lodger.

**Furnished Holiday Lettings**

There are special tax rules for rental income from properties that qualify as Furnished Holiday Lettings (FHLs).

**If you let properties that qualify as FHLs:**

- you can claim Capital Gains Tax reliefs for traders (Business Asset Rollover Relief, Business Asset Disposal Relief, relief for gifts of business assets and relief for loans to traders);
- you’re entitled to plant and machinery capital allowances for items such as furniture, equipment and fixtures; and
- the profits count as earnings for pension purposes.

**To be classed as a FHL the lettings must constitute ‘the commercial letting of furnished holiday accommodation’ in the UK or in the European Economic Area (EEA), as well as the following additional conditions:**

- ‘the availability condition’: the accommodation must be available for commercial letting to the public generally as holiday accommodation for a minimum of 210 days during the tax year;
- ‘the letting condition’: the accommodation must actually be commercially let as holiday accommodation for a minimum of 105 days during the tax year; and
- ‘pattern of occupation condition’: during the tax year, there must not be more than 155 days falling in ‘periods of longer term occupation’. A ‘period of longer term occupation’ is a continuous period of more than 31 days during which the accommodation is in the same occupation.
Tax efficient investment offers an investor relief from one or more taxes, which may include relief from income tax, capital gains tax and inheritance tax. Each type of investment has its own set of qualifying conditions, which must be satisfied by an investor and the company seeking investment for a certain period of time.

» Individual Savings Accounts
» Seed Enterprise Investment Scheme
» Enterprise Investment Scheme
» Social Enterprise Tax Relief
Individual Savings Account

The ISA wrapper is a useful tool for a higher rate taxpayer, since any growth will be free of income tax and capital gains tax.

The ISA limit for the 2020/21 tax year is £20,000. This limit cannot be carried forward therefore, if a taxpayer fails to utilise the annual limit it will be lost.

There are various types of ISAs (such as junior ISA, help to buy ISA, lifetime ISA).

Junior ISAs are available for all UK resident children under 18 years of age. Up to £9,000 can be invested in 2020-21 on behalf of a child (by parents, grandparents, relatives or friends). No withdrawals are permitted until the child reaches 18. Generally, if you give money to your own children, the interest earned must not exceed £100 per tax year, if it does you will be subject to tax on the income at your marginal tax rate. However, Junior ISAs are excluded from this rule.

Seed Enterprise Investment Scheme

The SEIS is designed to encourage individuals to invest in shares issued by qualifying unquoted companies established in the United Kingdom.

The scheme is specifically designed for small start-up trading companies.

There are various conditions that a company and investors must satisfy for a certain period of time.

There are no particular tax reliefs available to a qualifying company that is seeking investment. A company can raise a maximum of £150,000 through SEIS investment.

The tax reliefs are given to investors. An investor can invest up to £100,000 per tax year. The investor receives income tax relief of up to 50% of the amount invested. The relief can be claimed against the current year and/or previous year’s income tax liability. Where SEIS shares are sold after three years any gains should be exempt from capital gains tax.

The SEIS also offers a form of reinvestment relief for investors who subscribe for shares in a qualifying company. If a taxpayer disposes of an asset which results in a chargeable gain and he/she re-invests all or part of the amount of the gain in shares which qualify for SEIS relief, then 50% of the amount invested up to £50,000 of the original capital gain may be exempt from CGT.

The value of SEIS shares would be exempt from Inheritance Tax after being owned for two years.

Planning Point

- Consider making full use of your ISA allowances before the end of the tax year. Always seek professional advice before making investment decisions so that you are clear on the implications.
Enterprise Investment Scheme

The EIS is designed to help small UK trading companies to raise funds by offering tax favoured equity investment to investors.

There are various conditions of the scheme that a company and investors must satisfy.

A company can raise up to £12m, and a Knowledge Intensive Company can raise up to £20m, under the EIS scheme.

An investor can invest up to £1m in a tax year or £2m if the company is a ‘Knowledge Intensive Company’. An investor’s tax liability for the year of subscription will be reduced by 30% of the sum invested. Relief can be claimed against the current year and/or previous year’s income tax liability. EIS shares are normally exempt from capital gains tax and inheritance tax, subject to certain conditions being met.

The EIS offers capital gains tax relief, where a capital gains tax liability can be deferred where the gain is invested in the shares of an EIS qualifying company in the twelve months before or three years after the disposal. The capital gain deferred can arise from the disposal of any kind of asset.

Social Enterprise Tax Relief

An investor who subscribes for equity or a debt instrument issued by a ‘Social Enterprise’ is entitled to income tax relief of 30% of the amount subscribed. A Social Enterprise means a ‘Community Interest Company’, ‘Community Benefit Society that is not a charity’, or ‘a charity’.

The maximum subscription by an investor is £1m in a tax year. An investor can make a claim to carry back relief to the tax year preceding the year of investment. If the investment is by subscribing for shares then any gain realised on the disposal will not be subject to tax provided conditions are met.

A type of reinvestment relief is available for capital gains arising from disposals made between 6th April 2014 and 5th April 2021, where an investor elects for the gain to be rolled into a qualifying Social Enterprise. The gain deferred could become chargeable to CGT if the investor or the Social Enterprise fails to meet the qualifying conditions.

The above provides a brief summary of SEIS, EIS and SETR reliefs, and should not be relied upon without seeking further advice.

The EIS offers CGT relief, where a CGT liability can be deferred where the gain is invested in the shares of an EIS qualifying company in the twelve months before or three years after the disposal. The capital gain deferred can arise from the disposal of any kind of asset.
International Tax

Understanding UK residency and tax rules will reduce unforeseen tax impacts on you and enable you to plan your tax affairs effectively.

» The Statutory Residence Test (SRT)  » The Remittance Basis
» Non-domiciliaries  » Covid and Residence & Domicile
The Statutory Residence Test (SRT)

For UK tax purposes, an individual’s residence status is determined by the Statutory Residence Test.

The rules relating to this are complex and involve checking a number of different factors, which hinge on the number of days a person spends in the UK during a tax year.

There are three key elements to the test:

- **Automatic overseas tests** (this tests for non-residence)
- **Automatic UK tests** (this tests for non-residence)
- **Sufficient ties test** (examines ongoing ties or connections to the UK)

The first two elements are based on employment status (overseas or in the UK) and where your primary or only home is located. These are both calculated on number of days in the UK in a given tax year.

The Sufficient Ties Test assesses residency based on the number of UK connections or ties an individual has and the number of days spent in the UK.

**Planning Points**

- If you are planning to leave or move to the UK, ensure you are familiar with the rules that trigger residence, and allow sufficient time to undertake necessary planning for different tax regimes.

- If you are non-resident with a UK source income, UK tax may still be due, this depends on the nature and amount of income. You should seek advice specific to your circumstances.

Non-domiciliaries

Non-doms are deemed domiciled in the UK for Income Tax, Capital Gains Tax and Inheritance Tax purposes once UK resident in at least fifteen out of the last twenty tax years.

Once deemed domiciled, an individual is taxed on their worldwide income and capital gains, on an arising basis. Some protections are provided for trusts set up before an individual becomes deemed domiciled.
The Remittance Basis

UK resident non-doms who are not deemed domiciled can choose, from one year to the next, whether to be taxed on worldwide income and gains as they arise or to claim the remittance basis of taxation.

Those who qualify for the remittance basis, must pay an annual Remittance Basis Charge (RBC).

There are two levels of RBC, depending on the length of time you have been UK resident:

- **£30,000** if you have been tax resident in the UK for at least seven out of the previous nine UK tax years
- **£60,000** if you have been tax resident in the UK for at least twelve out of the previous fourteen tax years.

Planning Points

- Non-doms who are not deemed domiciled should seek advice as to whether it is more tax efficient to be taxed on an arising basis or remittance basis.
- Non-doms should seek advice before becoming deemed domiciled to minimise their future exposure to UK taxation.
- If you own crypto assets, it is worth seeking specialist advice on the tax implications. HMRC has specific guidance that renders these assets subject to UK tax where the individual is UK tax resident.
- Be careful when using overseas income or gains as security for a loan, this can trigger a taxable remittance to the UK.
- Non-residents (individuals, companies and trusts) who let out UK property will have tax obligations in the UK.

Residence, Domicile and the Coronavirus Pandemic

There has always been a special rule for days spent in the UK because of exceptional circumstances, which are defined in the Finance Act 2013 as including “national or local emergencies such as war, civil unrest or natural disasters” and “a sudden or life-threatening illness or injury”.

For an individual to benefit from the rule the exceptional circumstances that prevent them from leaving must be beyond the taxpayer’s control and the taxpayer must leave the UK as soon as the circumstances permit.

HMRC published guidance on this matter on 19 March 2020, which outlines their position and is as follows:

The Coronavirus (COVID-19) pandemic may affect your ability to move freely to and from the UK or require you to remain unexpectedly in the UK. Whether days spent in the UK can be disregarded due to exceptional circumstances will always depend on the facts and circumstances of each individual case.

However, the circumstances are considered exceptional if you:

- are quarantined or advised by a health professional or public health guidance to self-isolate in the UK as a result of the virus
- find yourself advised by official Government advice not to travel from the UK as a result of the virus
- are unable to leave the UK as a result of the closure of international borders, or
- are asked by your employer to return to the UK temporarily as a result of the virus

In issuing the guidance, HMRC has indicated that it will look sympathetically at any individual cases where the virus has caused specific issues or difficulties.
Corporation Tax

For many business owners, your personal wealth is inextricably linked to your business. While the focus of this guide is on personal tax planning, we highlight key corporate tax considerations that may have an impact on your personal tax position.

» Rate of Tax
» Profit Extraction

» Pension Contributions
» Family Investment Companies

Capital Allowances

» Annual Investment Allowance

» Structures & Buildings Allowance

Enhanced Tax Reliefs

» Research and Development
» Patent Box Regime

» Creative Sector
» Land Remediation Relief
**Rate of Tax**

The current rate of corporation tax is 19%.

This was set to increase to 20% from 1 April 2020 however, during the 2020 Budget it was confirmed that the rate would remain at 19% for the years starting 1 April 2020 and 2021.

**Profit Extraction**

There are a number of factors to consider when reviewing the most tax efficient method to extract profits from your limited company.

**These include:**
- Corporation tax rates
- Personal tax rates
- Spouse’s income tax allowances
- Dividend allowance
- Other personal income
- Personal pension contributions
- Employment allowance; and
- Exit strategy.

**Pension Contributions**

Pension contributions are efficient for both the company and the employee.

For the employee it is a tax free benefit so there will not be any benefit in kind or P11D reporting requirements.

For the employer, the contribution will be tax deductible for corporation tax purposes providing tax relief at 19%.

It will still be necessary to ensure that annual allowances or lifetime allowances are not exceeded for the employee when making contributions to avoid any adverse tax consequences.

**Family Investment Companies**

Family Investment Companies (FICs) have increased in popularity over the last few years with the continued decrease of the corporation tax rate.

The basic structure of a FIC involves providing different share classes to different family members which can be a standalone company or could be as a result of the reorganisation of an existing company. The FIC is then free to make various investments and generate income from these investments.

**The advantages of a FIC are as follows:**
- Control can be maintained by the business owner(s), through the ability to separate out the rights and powers between the different share classes
- Income from investments is taxed at lower corporation tax rates and can be reinvested without incurring additional tax charges
- Dividend income not taxable in the hands of the company
- Flexibility when extracting profits; and
- Capital can be passed onto younger generations without incurring an inheritance tax charge.

**Planning Point**

As a business owner, it is important to balance the commercial objectives of the business with your long-term personal and family wealth ambitions. It is therefore vital to review your corporate and personal tax affairs in the round so that you make informed decisions that best meet your objectives at the time.
In the Autumn Budget of 2018 the Chancellor increased temporarily the annual investment allowance to £1m. This means the first £1m of qualifying expenditure can be relieved in the year it is incurred. The Annual Investment Allowance was due to reduce to £200,000 from 1 January 2021, however the Chancellor has extended the temporary increase to £1m until 31 December 2021.

The Structures and Buildings Allowance (SBA) was introduced from 29 October 2018 to be claimed on qualifying expenditure incurred after this date.

To be able to claim the SBA, it is necessary for the structure to be used for a qualifying activity, which includes:

- any trades, professions and vocations
- a UK or overseas property business (except for residential and furnished holiday lettings)
- managing the investments of a company
- mining, quarrying, fishing and other land-based trades such as running railways and toll roads

The costs included within the SBA claim would be the acquisition costs of a structure or the construction costs of building the structure. The cost of the land should not be included within the claim.

From 1 April 2020, the applicable rate for the SBA is 3% of the written down allowance. It isn’t possible to claim the annual investment allowance on expenditure that qualifies for the SBA.
Enhanced Tax Reliefs

Taking advantage of these reliefs can create funds which you can reinvest in your business. If you are a loss making business, in some cases you can surrender these losses to HMRC for a cash tax credit.

Research and Development
Research and development tax relief is an incentive available to UK limited companies which encourages investment or innovation. R&D tax credits can reduce a company’s tax liability or, if a company is not in profit, provide a payable cash refund.

R&D tax relief for SMEs can be worth up to 43.7% of a company’s R&D expenditure. Claims can be made retrospectively for any R&D activity carried out in the last two years.

Patent Box Regime
The patent box provisions can be used to reduce tax following R&D activities that result in a patented innovation. Effectively, a 10% tax rate can be applied to all profits attributable to products, processes or royalties that carry on or include a qualifying patent.

Creative Sector
There are a raft of tax reliefs available specifically for the creative sector, which includes: films, animation, high end TV programmes, video games, theatres, orchestras, museums and gallery exhibitions. Qualifying conditions vary and you should therefore review in the context of your company’s activities.

Land Remediation Relief

Land Remediation Relief provides an additional tax deduction of 50% for qualifying expenditure incurred by companies in cleaning up land acquired from a third party, on a contaminated state.

Qualifying expenditure includes the cost of establishing the level of contamination, removing the contamination or containing it so that the possibility of relevant harm is removed. There is, however no relief if the remediation work is not carried out.

Land Remediation Relief is available for both capital and revenue expenditure. However, the company must elect, within two years of the end of the accounting period in which the expenditure is incurred, to treat qualifying capital expenditure as a deduction in computing taxable profits.

A company that makes a loss can surrender that part of the loss that is attributable to Land Remediation Relief in return for a cash payment (a tax credit) from the Government.

Planning Points

- If your business qualifies for the patent box regime, you must make an election within specific deadlines, generally two years from the end of the relevant accounting period.
- R&D tax relief applies to a wide range of activities. It is worth checking whether any of the activity you undertake, qualifies.
Making Tax Digital

Making Tax Digital is a move by the UK government to introduce a digital tax system that makes it easier for businesses and individuals to keep their tax records up to date and transfer information to HMRC.

» Making Tax Digital (MTD) for VAT
» MTD: Income tax and corporation tax
Making Tax Digital (MTD) for VAT

MTD is being implemented in stages. Since 2019 businesses with a turnover above the VAT threshold (currently £85,000) have been required to keep digital records for VAT purposes and provide their VAT return information to HMRC using MTD compatible software.

The Government has announced that MTD will include all VAT registered businesses as of April 2022 and will extend to those who submit self-assessment tax returns for property and/or business income (over £10,000) as of April 2023.

MTD: Income Tax and Corporation Tax

HMRC continue to run their pilot for MTD for income tax purposes. It would appear that the earliest date for introduction of MTD for income or corporation tax purposes would be April 2021 although in light of the Coronavirus pandemic, this may be deferred until April 2022.
COVID-19

As the impacts of the epidemic evolve so does your planning.

» COVID-19 Impact
COVID-19 Impact

The impact of the Coronavirus pandemic on businesses, business owners and individuals continues to change as do the support measures introduced by the Government and HM Revenue and Customs.

We continue to update the support available on our website www.hwca.com

Planning Points

• If, as a result of the Covid pandemic, you have entered into Time To Pay (TTP) arrangements with HM Revenue and Customs or made use of the self-assessment deferral, it is important that you take this into consideration when preparing your year-end personal tax return.

• If you are affected by rules governing residence and domicile, which may have been impacted by the pandemic, it is important you clarify your position before submitting your annual UK tax return.
There are a raft of tax allowances and reliefs which if carefully reviewed can help minimise your tax bill and protect your wealth. Often these savings depend upon specific timing of events, so planning is crucial.

Take action now so that you allow yourself sufficient time to review your affairs. Ensure you consult experts who can recommend the best tax saving strategy to suit you and your business. Where tax planning involves making an investment of any kind, the commercial merits of the investment need to be considered as a separate issue and independent financial advice should be sought.

Please do speak with your Haines Watts advisor who will be on hand to discuss ideas and opportunities in advance of the tax year end.