

Year-End Tax Guide **2020/21**



JON DAVIES
ACCOUNTANTS

0151 380 8089

www.jondaviesaccountants.co.uk

tax@jondaviesaccountants.co.uk

HOW TO USE THIS TAX GUIDE

After a year like 2020, you might be forgiven for not paying much attention to organising your finances, but there's still time to arrange your affairs as efficiently as possible before the start of the new tax year on 6 April 2021.

It's important to consider this from every angle: have you maximised all of your tax-free allowances? Have you claimed any reliefs available? We won't know most of the changes for 2021/22 until the Spring Budget on 3 March 2021.

This guide will help you to answer those questions and more, with detailed summaries of the tax rates, allowances and reliefs that apply to businesses and individuals for the remainder of 2020/21.

Each section comes with a set of planning points, too, which you can use as a checklist to ensure you've covered all the key areas to consider.

And, of course, you can contact us if you have any questions or want to discuss your tax planning further.

Important information



The way in which tax charges (or tax relief, as appropriate) are applied depends on individual circumstances and may be subject to future change. ISA and pension eligibility depend on individual circumstances.

FCA regulation applies to certain regulated activities, products and services, but does not necessarily apply to all tax-planning activities and services.

This document is solely for information purposes and nothing in it is intended to constitute advice or a recommendation.

While considerable care has been taken to ensure the information contained in this document is accurate and up-to-date, no warranty is given as to the accuracy or completeness of any information.

CONTENTS

	Personal allowances & reliefs	4
	ISAs	4
	Pension contributions	5
	Inheritance tax	5
	Property taxes	6
	Capital gains tax	7
	Business asset disposal relief	7
	Non-domicile taxation	8
	Tax-efficient staff benefits	8
	VAT	9
	Corporation tax	10
	Penalties	10
	Notes	11



PERSONAL ALLOWANCES & RELIEFS

The personal allowance is £12,500. Non-savings income and non-dividend income above this threshold is taxed at rates from 20% to 45% (or 19% to 46% in Scotland).

A higher marginal tax rate may be payable between £100,000 and £125,000 when the personal allowance reduces by £1 for every £2 earned above £100,000 to give a marginal rate of 60% (61.5% in Scotland) in this band for non-savings and savings income.

You may be able to transfer £1,250 of your unutilised personal allowance to your spouse or civil partner if you do not pay income tax, and neither of you is a higher-rate taxpayer. This is known as the marriage allowance.

Tax on savings & investments

The personal savings allowance allows a basic-rate taxpayer to receive up to £1,000 of savings income tax-free. A higher-rate taxpayer can get up to £500 of savings income without any tax being due. There is no relief for additional-rate taxpayers.

The first £2,000 of income from dividends in 2020/21 is tax-free, while income from dividends that exceeds this amount is usually taxed at rates of 7.5%, 32.5% or 38.1%.

Key considerations

- Are you and your spouse or civil partner using all of your personal allowance? If not, consider the availability of the marriage allowance.
- Are there opportunities to utilise any yet unused allowances this tax year?
- Can you reduce exposure to high marginal tax rates by retaining your full personal allowance?
- Is it worth considering tax-free alternatives instead of a bonus or a salary increase?
- Is your dividend strategy fully tax-efficient?
- Can you utilise rent-a-room relief which, for individuals, is £7,500 or £3,750 for co-owners?



ISAs

If you are planning to use this year's £20,000 ISA allowance, you need to use it before 5 April 2021. There's no rollover from one tax year to the next.

Growth, income and withdrawals are not liable for income or capital gains tax, but the value of an ISA will form part of your estate for inheritance tax purposes.

Under-18s, or those who wish to save on behalf of a minor, can put up to £9,000 into a junior ISA.

As part of the £20,000 ISA allowance, it's possible to invest up to £4,000 in a lifetime ISA which receives an annual government bonus of up to £1,000 a year.

You must be over 18 but under 40 years old to open a lifetime ISA, which can be used to buy a first home or fund retirement. Further scheme rules and early withdrawal penalties apply.

Existing savers into help-to-buy ISAs can continue to put up to £200 a month towards securing a mortgage to purchase their first home.

Providing the funds are used to buy a first home, the savings will earn interest and qualify for a 25% government bonus of up to £3,000.

Key considerations

- If you don't already have an ISA, should you start one this tax year?
- If you have used your ISA allowance, can excess savings be put into a spouse or civil partner's ISA?
- Can you use the maximum tax-free investment allowance?



PENSION CONTRIBUTIONS

Making the most of the annual pensions allowance is a particularly attractive option for higher earners.

Personal tax relief applies on pension contributions, although this may be restricted by the annual allowance or net relevant earnings.

The annual allowance is £40,000 for those with an adjusted annual income from all sources, including pension contributions under £240,000 or threshold income of £200,000 or less.

If these thresholds are exceeded, the annual allowance is tapered to a minimum annual allowance of £4,000, usually for those with total income plus employer pension contributions of £312,000 or more.

Provided you had a pension fund during a previous tax year (up to a maximum of three years), it is possible to carry forward any unused allowances for those years.

If your total pension savings exceed the lifetime allowance of £1,073,100 in 2020/21, you may be liable to tax when you draw benefits.

Key considerations

Consider making the most of 20% tax relief on pension contributions – this might be withdrawn soon.

If you are over 55, consider the potentially serious tax implications before accessing your pension early – and always seek advice before you do this.

- Do you have unused allowances from previous tax years which will soon expire and could be utilised?
- Have you reviewed both your employee and employer pension contributions?
- Should you pay more into your pension?
- Are you aware of the potential inheritance tax benefits of maximising your pension fund?
- Review your letter of instruction to the trustees of your pension fund.



INHERITANCE TAX

Inheritance tax is usually due at a rate of 40% on the portion of the estate that exceeds £325,000.

An extra tax-free threshold of £175,000 – known as the residence nil-rate band – is available in certain conditions. These include leaving the family home, or share of the family home, to children or grandchildren.

The residence nil-rate band gives a total tax-free threshold of £500,000 for individuals – or £1m for married couples or civil partners. However, a taper reduces this threshold on estates exceeding £2m.

The percentage of any unused nil-rate band from the first death may be transferred to the surviving spouse or civil partner, allowing up to double the nil-rate band applicable at the date of the second death.

Gifts or transfers made within seven years of death are also added back into the estate. These are liable to inheritance tax, but may be subject to some exemptions as well as a tapered reduction for inheritance tax on transfers made between three and seven years.

Key considerations

- Do you have an up-to-date will that reflects your wishes, and are you happy with the choice of executors?
- Are you taking advantage of exemptions, such as the annual £3,000 exemption, gifts from income, and gifts on marriage or civil partnership?
- Do you have surplus assets that you can give away and thus potentially reduce the value of your estate that is chargeable to inheritance tax?
- Should you consider altering the spread of your investment portfolio into more inheritance tax-efficient products?

PROPERTY TAXES

Stamp duty land tax in England & Northern Ireland

People who are moving house within the UK have until 31 March 2021 to take advantage of a temporary property tax holiday.

In England and Northern Ireland, buyers will not be liable to stamp duty land tax on residential purchases of up to £500,000. For some, this represents a tax saving of up to £15,000.

The 5% tax rate applies on the excess above £500,000 up to £925,000, while the higher stamp duty land tax rates and thresholds remain unchanged.

However, taxpayers trying to buy additional residential property pay a stamp duty land tax surcharge at 3% on the first £500,000. Above this, the 3% surcharge is added to the other tax rates on the whole purchase price.

The stamp duty land tax holiday also applies to first-time buyers until the end of March 2021.

Subject to future change, the following stamp duty land tax rates in England and Northern Ireland will be in place from 1 April 2021 onwards.

Residential purchase price*	Rate	Non-residential purchase price	Rate
£0 – £125,000	0%	£0 – £150,000	0%
Over £125,000 – £250,000	2%	Over £150,000 – £250,000	2%
Over £250,000 – £925,000**	5%	Above £250,000	5%
Over £925,000 – £1.5m	10%		
Above £1.5m	12%		

*First-time buyers pay nothing on the first £300,000 for properties up to £500,000. A rate of 5% applies between £300,000 and £500,000.

**For residential purchases by 'non-natural persons' of more than £500,000, a rate of 15% applies subject to certain exclusions.

Land & building transaction tax in Scotland

In Scotland, people can buy a residential property worth up to £250,000 before 31 March 2021 without being liable for land and buildings transaction tax.

For homes worth between £250,000 and £325,000, the 5% land and building transaction tax rate kicks in. The higher rates and thresholds are unchanged.

People trying to buy additional residential property in Scotland pay a surcharge at 4% up to £250,000, and this 4% surcharge applies to the rest of the total purchase price.

The £250,000 land and building transaction tax-free threshold also applies to first-time buyers in Scotland until the end of March 2021.

Beyond that and subject to future change, the previous land and buildings transaction tax regime is set to resume from 1 April 2021.

This means the nil-rate band should drop back from £250,000 to £145,000 and the 2% rate will reapply on the portion of the residential property price above that up to £250,000. It should also mean first-time buyers in Scotland pay nothing on the first £175,000.

Land transaction tax in Wales

In Wales, the land transaction tax-free threshold kicks in on purchases worth more than £250,000 until 31 March 2021.

Residential homes in Wales bought before this date will attract a reduced 5% tax rate on the portion of purchase between £250,000 and £400,000.

Above this tax rate, the existing higher rates of land transaction tax remain unchanged.

This holiday does not extend to purchases of additional homes in Wales. These are liable for a 4% surcharge (3% before 22 December 2020) on properties worth up to £180,000, rising to 16% (15% before 22 December 2020) for homes worth at least £1.6m.

Non-residential property transactions completed on or after 22 December 2020 attract no tax on the first £225,000 (£150,000 before 22 December 2020), with a new 1% rate applying from £225,000 to £250,000.

Subject to future change, the previous land transaction tax rates and thresholds will apply in Wales from 1 April 2021.

This means the temporary £250,000 nil-rate threshold drops back to £180,000, while the 3.5% rate on main homes above this up to £250,000 is reinstated. The current tax rates above £250,000 will remain in place.



CAPITAL GAINS TAX

The capital gains annual exemption for 2020/21 is £12,300, or £6,150 for trusts.

Married couples and civil partners have a £12,300 exemption each, with gains above this usually taxed at a rate depending on income and the type of asset.

Where taxable income is less than the UK basic-rate limit of £37,500, the capital gains tax rate for gains up to the remaining basic-rate band allowance is 10%.

After this it rises to 20%, while the standard rate applicable to a trust is 20%.

Gains from the sale of residential properties which are not your main residence are taxed at rates of 18% in the basic-rate band and 28% in the higher or additional-rate bands. The gains made on UK residential property must be reported and paid within 30 days of the sale being completed.

The rate usually applicable to disposals of residential properties by trustees is 28%.

Key considerations

- Have you used your £12,300 annual exemption?
- What can be saved by maximising family member tax-free exemptions?
- To utilise the spouse annual exemption, should an asset be put into joint names before being sold?
- Do you have other depreciating assets that can be used to reduce your gains by creating a capital loss?
- If a negligible value claim can be made on any shares you hold, they do not need to be sold to create a capital loss to offset against any gains made in the tax year
- If tax is owed, can you defer or rollover the gain?
- Is your main residence election a property with the largest gain?



BUSINESS ASSET DISPOSAL RELIEF

Business asset disposal relief reduces the rate of capital gains tax due on disposal of all or part of your business from 20% to 10%. Prior to 6 April 2020, this relief was known as entrepreneurs' relief.

To qualify, you must have owned the business – either as a sole trader or in a business partnership – for the last two years.

If you are selling shares or securities, you may also qualify if you have been an employee or office holder of a 'trading' company for two years up to the date you sell your shares.

You must also have at least 5% of both the shares and voting rights, plus be entitled to at least 5% of either the profits that are available for distribution and the assets on winding up, or the disposal proceeds if the company is sold.

Different rules apply to shares from an Enterprise Management Incentive Scheme.

If you are closing your business, the same conditions apply, and you must also dispose of any assets owned by the business within three years.

There is no cap on the number of times you can claim the relief, but you can only claim up to £1 million of business asset disposal relief in your lifetime. Before 11 March 2020, this limit was £10m.

If you have already claimed business asset disposal relief on gains of £1m or more, any future disposals will not qualify for business asset disposal relief.

Alternatively, if you have never previously claimed business asset disposal relief, only the first £1m will qualify for the 10% with the rest of the disposal taxable at 20% in 2020/21.



NON-DOMICILED TAX

A non-dom is a UK resident whose permanent home, or domicile, is outside of the UK. An individual may have more than one tax residence but can only have one domicile at any given time.

Domicile status is incredibly difficult to change and is significant because it determines an individual's liability to UK income tax, capital gains tax and inheritance tax.

As a non-dom taxpayer you can choose to be taxed on either the arising basis or the remittance basis.

Under the arising basis you are taxed as any other UK domiciled and resident taxpayer would be, on your worldwide income and gains.

Under the remittance basis you are only taxed on your UK earnings and gains. Any income or gains arising outside of the UK are not taxed unless you choose to bring that money into, or enjoy use of it in, the UK.

New deemed-domicile rules were introduced from 6 April 2017 to limit the time that these beneficial rules can be used.

Non-doms will be deemed UK-domiciled for income tax, capital gains tax and inheritance tax purposes if they've been a UK resident for at least 15 out of the past 20 tax years immediately before the start of the current tax year.

If you become deemed domiciled moving forward you will no longer be able to claim the remittance basis and will be assessed on your worldwide income and gains on the arising basis. You will also potentially be liable to inheritance tax on worldwide assets.



TAX-EFFICIENT STAFF BENEFITS

Homeworking relief

Millions of employees have spent most of 2020/21 working from home due to COVID-19 and seen household bills increase as a result. As such, it's possible to claim tax relief of £26 a month from HMRC. Alternatively, employers can pay the allowance to employees tax-free through payroll.

Electric vehicles

Drivers of electric vehicles and some hybrids provided by an employer will effectively pay no income tax on this benefit in kind in 2020/21. The 0% rate is only in place for 2020/21.

HMRC has previously announced benefit-in-kind rates of only 1% and 2% for electric vehicles in 2021/22 and 2022/23 respectively.

Hybrid company cars need to be registered from 6 April 2020, have CO² emissions of less than 50g/km, and travel at least 130 miles on a single electric charge to qualify for the existing 0% rate.

Other low benefit-in-kind rates apply depending on the CO² emissions and the electric miles it can travel on a single charge.

Trivial benefits

Employers can provide trivial benefits worth up to £50 per employee, as long as it's not cash or a cash voucher, not a performance-related bonus and not in their contracts. No tax or Class 1A NICs will be due.

Directors also qualify, although it is limited to six occasions per tax year (e.g. £300 per tax year).

Key considerations

- Have you or your employer claimed homeworking relief in 2020/21?
- Employers that provide pure electric cars in 2020/21 will save Class 1A NICs and employees may see significant income tax benefits.
- The employer can also pay for vehicle repairs and servicing, car insurance and car tax, as part of the benefit, and if VAT-registered may be able to claim back 50% of the VAT on any lease charges.



In 2020, around 2.6 million businesses in the UK were registered for VAT, which is usually charged at 20% on the sale of goods and services.

Your business must register for VAT when it has taxable turnover of more than £85,000 in the previous 12 months or if it expects to exceed this threshold in the next 30 days.

Your VAT taxable turnover is the total of everything sold that is not exempt.

You can voluntarily register for VAT, and also voluntarily deregister if your taxable turnover is less than £83,000.

Schemes exist to simplify accounting for VAT, including the cash accounting scheme, annual accounting scheme, and the flat-rate scheme.

COVID-19 has led to several temporary changes to VAT, such as the reduced rate of 5% relating to certain supplies made from 15 July 2020 to 31 March 2021 in hospitality, hotel and holiday accommodation and admissions to certain attractions.

There was an automatic interest-free deferral of any VAT for the period between 20 March and 30 June 2020, which required payment in full on or before 31 March 2021.

There is now a new VAT deferral payment scheme, which may allow businesses to opt to pay the deferred VAT in up to 11 monthly instalments, without interest charges. Certain conditions apply.

MTD for VAT

Most VAT-registered firms need to keep digital records of these sales, and file monthly or quarterly VAT returns using digital software under the Making Tax Digital (MTD) regime.

Unless HMRC has agreed your business is exempt from MTD for VAT, non-compliance penalties kicked in for accounting periods starting April 2020.

Additionally from April 2021, HMRC will be moving to a points-based penalties system to encourage good taxpayer behaviour. This is also when stringent rules around the way businesses digitally link their software and how they must upload their VAT returns come in.

Key considerations

- Could your business use one of the simplified accounting schemes?
- Does your business need to be VAT registered?
- Are you entitled to claim VAT bad debt relief?
- Are you accounting for VAT correctly on the fuel used for private motoring? Should you be accounting for the appropriate scale charge?
- Are you reclaiming VAT only where you are entitled to? You are not entitled to reclaim VAT on certain assets or expenses. For example, only certain types of business may reclaim VAT on cars.
- If you are just registering for VAT, you can reclaim the VAT on certain pre-registration expenses including services you have paid for in the six months prior to registration or any goods you still have (or that were used to make other goods you still have) in the four years before registration.

More changes to UK VAT could be announced when Chancellor Rishi Sunak delivers his Spring Budget 2021 to the House of Commons on 3 March 2021.



CORPORATION TAX

Most companies making profits in the UK pay the main rate of corporation tax at 19% in 2020/21.

Companies need to keep accounting records and prepare company tax returns.

Payment is usually due nine months and one day after the company's accounting period, while company tax returns are usually due 12 months after the company's accounting period. However, larger companies may be required to pay via quarterly instalments depending on the profits being made.

Business deductions

When you're working out your business's taxable profit, you can deduct any costs that were incurred wholly and exclusively for the purposes of the trade.

These could include the cost of travel, staff salaries, pension contributions, bills for your business premises, advertising and marketing, and training.

Directors' bonuses can also be claimed as a deductible cost, as long as they are paid within nine months of the company year-end, and the entitlement to the bonus is established before the accounting date.

You may also be able to claim capital allowances for things you buy to keep in your business, such as equipment, machinery and business vehicles.

Key considerations

- If you are due a director's bonus, have you claimed it as a deductible cost?
- Have you paid any employer pension contributions? These must be paid before the year-end to get tax relief in the accounting period.
- Are you paying a member of your family a salary? Salaries can be paid to family members as long as they are justifiable and at commercial rates.
- Have you considered tax-efficient ways of extracting profits, such as dividends, pension contributions and benefits-in-kind?
- Have you brought qualifying capital expenditure forward to take advantage of the 100% annual investment allowance? This provides same-year tax relief on capital investments in plant and machinery worth up to £1 million until 1 January 2022.



PENALTIES

Fines are in place for non-compliance with income tax, corporation tax, VAT and inheritance tax.

Miss the deadline for filing your tax return through self-assessment at midnight on 31 January 2021 and you will be fined £100 the very next day.

Leave it another three months and a daily penalty of £10 applies, up to a maximum of £900.

If you still have not filed your return you can expect another £300 fine or a fine equal to 5% of the tax still due, whichever is the higher.

There are separate penalties for late payment of tax owed.

If you have not paid your tax within 30 days of the deadline, a penalty of 5% of the tax still due is applied.

This process is repeated for amounts still owed after six months and 12 months.

On top of the penalties, HMRC will charge you interest on any tax owed and on the penalties and charges incurred. The current rate applied is 2.6%.

New businesses also face being fined for not notifying HMRC that they have commenced trading.

If the business is a company then it will also need to ensure it submits its annual accounts ahead of their deadline to avoid incurring a penalty.

Penalties vary from £150 for a private company filing their annual accounts one month late to £7,500 for a public company that files their accounts more than six months late.

Get in touch for tax-planning advice.



Business First
23 Goodlass Road
Liverpool
L24 9HJ

www.jondaviesaccountants.co.uk | 0151 380 8089 | tax@jondaviesaccountants.co.uk

Year-End Tax Guide **2020/21**