Personal tax planning considerations

The Ensors Private Client Team highlight some planning considerations relevant to the current economic environment. While a reduction in income combined with a fall in asset values is most unwelcome, it does not necessarily mean that there is no reason to consider action.

Reduced Income

Deferring 31st July Tax Payments

You will have seen that the Government has announced that, in order to assist cashflow during this difficult time, it is open to those who are due to make payments on account on 31st July 2020 to defer these (interest free) until 31st January 2021.

Dividend Payments

If your total 2020/21 personal income reduces to the point where you are paying tax at a lower rate than usual, for company owners / directors it might be worth paying additional dividend or bonus to extract funds from the company in a tax efficient way, always assuming the company has sufficient cash reserves.

Pension Payments

It is likely that many people will see a reduction in earnings (either salary or business profit) in the 2020/21 tax year. Be aware that the ability to make pension contributions is linked to net relevant earnings and that, as these reduce, so does the amount that can be contributed to a pension scheme. If you have existing direct debits or standing orders you should ensure that the amounts contributed remain within the (likely reduced) limits for this year.
For some who were previously "higher earners", the ability to make larger contributions may have been restricted by a reduced Annual Allowance. As a result, it may be that a reduction in their total income this year actually enables them to obtain tax relief on a larger pension contribution.

Gift Aid

On a similar vein, where you make charitable donations upon which gift aid is claimed you are agreeing that you have either paid sufficient income tax to cover that gift aid amount, or else will do so.
If you make donations under gift aid the charity will "reclaim" tax that you have paid from the Government. If you have not paid enough tax in the year then you will need to pay additional tax via your tax return.
If your income is falling you might reconsider whether some gifts should be made outside of the Gift Aid regime, or whether there is capacity to carry the claim back to the previous year (when income was higher).

Information

Child Benefit
Where the higher earner of a married couple anticipates that their income is likely to reduce to below £60,000, it may be appropriate to consider requesting that Child Benefit payments which were previously stopped are now reinstated.

Business Income
There are, of course, a number of direct measures available from Government to assist businesses including:

- Income Support
- Rates
- Grants
- Loans
- Deferring VAT liabilities
- Time to Pay for PAYE liabilities
- Furloughing staff

Please visit our website https://www.ensors.co.uk/coronavirus-support-for-business/ for further details on these.

Extending the Business Year End
In terms of how tax planning might assist, it may be worth, in some limited cases, thinking about extending the business' financial year end.
As an example, someone with a 30th April 2020 year end may find that for that year they still have (overall) a good trading year as a result of profits made before Coronavirus . Tax will be due on that profit in due course.
Of course, trading in the current period is likely not to be so profitable. In certain specific cases it may be worthwhile extending the year end to dilute the profits taxable in 2020/21.
There are a number of other tax and non-tax factors to consider in such a scenario and we will be happy to advise in detail. Certainly such a measure should not be undertaken lightly and without considering all of the relevant factors.

Reduced Values
If there is a positive to be gleaned from the dramatic fall in value of investment portfolios, it is that the reduction in value may make the assets more flexible for tax planning considerations.

Inheritance Tax
For inheritance tax, the value of a gift is the value on the day it is gifted. If you believe that assets are currently undervalued and are likely to return to full value in the medium term it would make sense to gift now – freezing the gift at the lower value and allowing greater value to accrue to the donee.
This will apply both to gifts to individuals (where IHT is only in point if the donor fails to survive for 7 years) and to gifts into trust.
We can advise on the relevance of each to your own particular circumstances.

Capital Gains Tax
When clients are considering gifts on to the next generation they are often prevented from gifting shares because the gains arising on those shares would generate an unacceptable CGT charge. If that was the case for you it may be worth revisiting this option now to see whether, in fact, shares could now be gifted with little or no CGT.
In relation to trusts, it may be an opportune time to consider appointing out assets that previously would have created an unacceptably high capital gains tax (or inheritance tax) charge based on a higher value.
As always with tax planning there are traps to avoid and we would be happy to advise of the do's and don'ts.

Practical Measures

At the current time we are all very much more aware of our own mortality. If you do not have an existing Will then you should consider getting one now. It need not be complex – even the most straightforward Will can save cost and reduce stress on those left behind.

Solicitors are able to advise on how signing / witnessing issues can be overcome while we are in a lockdown period, and we are happy to provide tax advice on anything from the very straightforward to the very involved, as your circumstances require.