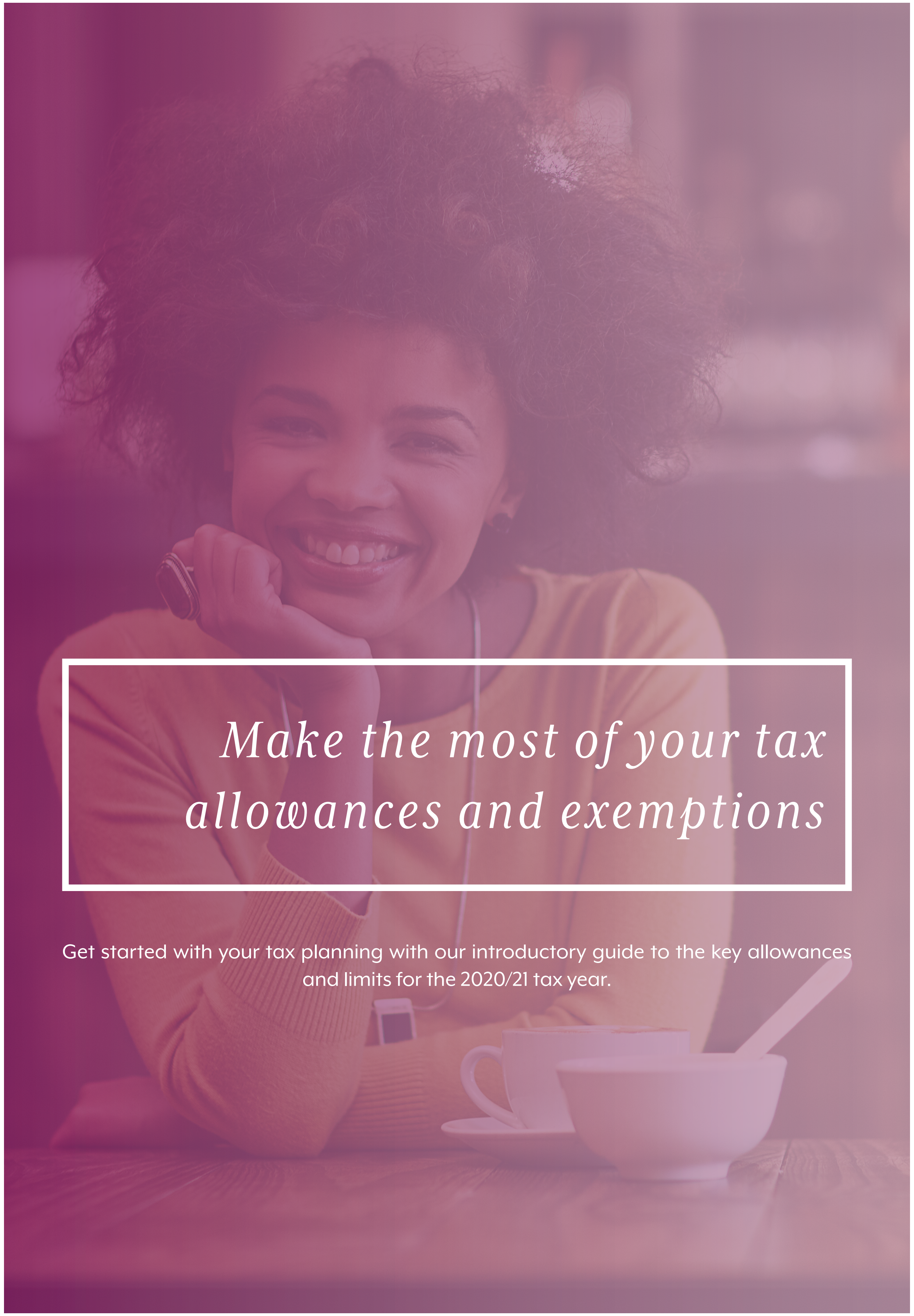
2020/21
Tax Year Guide

CHARLES STANLEY *Direct*



ISA Allowance

Did you know?

Dividend allowance was cut from £5,000 to £2,000 in 2018.

ISAs are often the first port of call for investors looking to save tax. They are simple, flexible and tax-efficient. As well as being able to invest in a wide range of assets you can easily access your money, so they are suitable for a variety of saving and investing needs.

By using your full ISA allowance each year (£20,000 in the current 2020/21 tax year) it's possible to build up a large pot of money sheltered from capital gains tax (see CGT allowance) or income tax. This is especially important since the amount an individual can receive in dividends without paying tax, the 'dividend allowance', was cut from £5,000 to £2,000 in 2018.

ISA investments don't need to be declared on a tax return, so they can make your affairs simpler. Over the years it's possible to build up your own personal (and entirely legal!) 'tax haven' using ISAs. This means investment decisions can be made purely on merit, free from the burden of tax considerations.

Even if keeping your money outside the clutches of the tax man doesn't seem relevant now, it might in the future. It's worth planning ahead for when your wealth grows. Remember, however, tax rules can change and the value of any benefits will depend on your individual circumstances.

The ISA allowance is available to any UK resident over 18 and can be split between different types – the main ones being Cash and Stocks & Shares. Stocks and Shares ISAs could deliver a higher return than Cash ISAs over the longer term, but remember that there is a risk the value of your investments could fall – especially in the short term.

A further option, a Lifetime ISA, can form up to £4,000 of the £20,000 ISA allowance for those eligible. Available to UK residents aged between 18 and 40 saving for retirement or a house deposit, it is possible to pay in up to £4,000 each tax year and continue making contributions up to the age of 50. The government will add a 25% bonus to contributions – a maximum of £1,000 each year.

If an ISA holder dies, the surviving spouse or civil partner is able to inherit the tax benefits of their ISA through an 'additional permitted subscription'.

Junior ISAs

The annual investment limit this tax year is £9,000 per child.

Education, a first car, getting married and the need accumulate a deposit for a house are some of the costs faced by the younger generation. A Junior ISA could be a way to give your child a head start towards them.

These are a popular way for family and friends to build up tax-efficient savings and investments for a child. Withdrawals are possible from age 18 when it automatically converts to an adult ISA, meaning the pot can be useful to help with the cost of university or a deposit for a house.

A parent or legal guardian of an eligible child can open a Charles Stanley Direct Junior ISA online, manage the account and make the investment decisions. Grandparents, relatives or family friends can then also contribute up to the annual investment limit, which this tax year is £9,000 per child having more than doubled from last tax year.

Inheritance Tax

Simple ways to reduce the size of your estate

Inheritance Tax (IHT) is a tax on the estate (the property, money and possessions) of someone who's died. It is currently payable at a rate of 40% on estates worth over a basic allowance threshold of £325,000. Married couples and Civil Partners can pass their thresholds between them meaning that there is normally nothing to pay on the first £650,000 of a joint estate. A 'main residence' allowance in respect of family homes under £1m in value can increase this figure up to £1m.

The simplest way to reduce the size of your estate, and a potential IHT bill, is to gift money to others, perhaps children or grandchildren to help them out financially. Gifts exempt from IHT include an annual £3,000 lump sum, which can be given to one person or divided between a number of people, plus £250 a year to as many people as you like.

CGT Allowance

Capital Gains Tax is the tax you pay when you realise a profitable investment – unless it is in a tax efficient wrapper such as an ISA or pension.

This 2020/21 tax year you can realise profits on investments of up to £12,300 free from capital gains tax (CGT). The rates payable on Capital Gains Tax are 10% basic rate and 20% higher rate, but on residential property (other than your own home) the rates are 18% and 28% respectively. Your rate of capital gains tax will depend on your taxable income.

If you have holdings outside an ISA or pension that are showing a gain it may be worth selling them and buying them back in a tax-efficient wrapper. This "crystallises" the gain and could reduce the amount of tax you would have to pay in future – it could also be a good way of using your ISA or pension allowances. This process is also known as a "Bed & ISA" or "Bed & SIPP" depending on which is used.

It's not possible to carry the CGT allowance over to the next tax year. Therefore if you are planning to sell assets that have gone up in value more than your capital gains tax allowance it may make sense to split this over more than one tax year.

Pension contributions

Anyone under 75 with relevant UK earnings can receive tax relief.

Almost everyone includes a comfortable retirement as one of their financial goals. Pensions are often a highly effective means of achieving this due to the tax relief available on payments into them.

Currently, anyone under 75 with relevant UK earnings can receive tax relief when they make a contribution within the annual allowance to a personal pension such as the Charles Stanley Direct SIPP. 20% is added by HMRC and any further higher or additional rate income tax relief can be reclaimed – potentially a simple way of reducing your income tax bill for the year.

For example, an investor contributes £8,000 into their SIPP and £2,000 is claimed back from HMRC by the pension provider. A higher rate tax payer could claim back up to a further 20% via their tax return, reducing the overall cost of the contribution to as little as £6,000. In the same instance, additional rate tax payers could claim back up to a further 25% making the cost just £5,500 for a £10,000 contribution. Please note that rates of income tax and relief differ in Scotland.

Tax relief on your personal contributions is limited to 100% of your relevant UK earnings. Contributions, including those paid by your employer, are also subject to the annual allowance, which for the 2020/21 tax year is usually £40,000. However, those with 'adjusted' income (broadly speaking income plus pension contributions from employers) over £240,000 for this tax year can have a reduced annual pension allowance, the minimum being £4,000. These rules are complex and should you be in any doubt take regulated financial advice. For people who receive 'flexible' retirement benefits, such as a flexi-access pension (e.g. pension drawdown or taking more than 25% cash from their pension), a lower annual allowance of £4,000 also applies.

If you haven't used your full annual allowance from up to three previous years, you might be able to carry it forward and use it in the current tax year provided your earnings are high enough and you have been a member of a registered pension scheme in those preceding years. People earning more than £40,000 in the 2020/21 tax year who wish to maximise pension contributions may be able to take advantage of this. There's guidance and examples here.

It is also possible for non-tax payers to benefit from pension tax relief. In the 2020/21 tax year individuals under age 75 can contribute up to £2,880 to a pension and receive a further £720, resulting in an overall contribution of £3,600. In addition to upfront tax relief, money in a pension is free from capital gains tax and any income tax.

It is also important to be aware of the cap on the total value of your pensions from which you can draw benefits without triggering a tax charge (known as the "lifetime allowance"). This is £1,073,100 and is to rise with inflation. Defined benefit ('final salary') pension benefits are also tested against this limit based on the amount of income they provide when they come into payment.

Remember, should you be in any doubt about whether an investment is suitable you should seek regulated financial advice.

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This guide does not constitute personal advice based on your circumstances and the contents should not be considered as a personal recommendation to deal. Investment decisions in funds and other collective investments should only be made after reading the Key Investor Information Document, Supplemental Information Document and/or Prospectus. If you are unsure of the suitability of any investment please seek professional advice.

The Taxation of pensions is based on individual circumstances and may be subject to change in the future.

The information contained within this article is based on our understanding of current UK tax provisions, which is subject to change, and the benefits of which would depend on your personal circumstances.

Investors should be aware that past performance is not a reliable indicator of future results and that the price of shares and other investments, and the income derived from them, may fall as well as rise and the amount realised may be less than the original sum invested.

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