AJBell Youinvest

10 top tips for tax-year-end planning 2019

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1. ISA allowance – use it or lose it

If you haven't already used up your £20,000 ISA allowance for 2018/19, now's the time to do it. You can't carry forward any leftover ISA allowances – so it really is a case of use it or lose it.

Any UK-resident adult can potentially subscribe to an ISA as long as they use their own money. So if you've a non-working spouse or partner, you can gift money to them so they can use their allowance too.

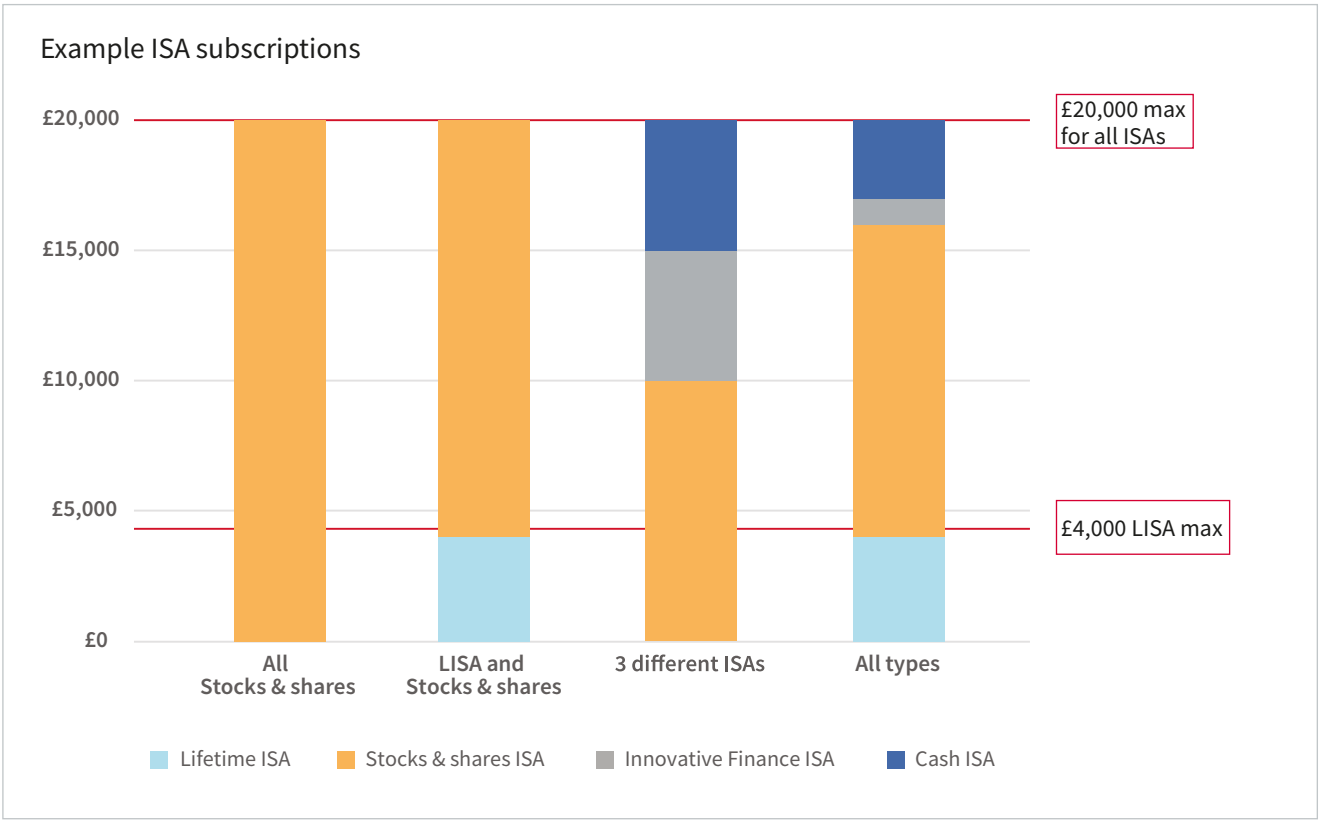
Next tax year, the allowance is staying at the same amount, £20,000. So once you use up this tax year's allowance, you'll have another £20,000 allowance ready to use from 6 April 2019. And if you have the cash handy, it makes sense to put it in at the start of the tax year, so you benefit from compound tax-free growth for longer.

You can pay all of your allowance into one type of ISA, such as a Stocks and shares ISA with AJ Bell Youinvest. Or you can spread it between the different ISA types: stocks and shares, cash, an innovative finance ISA, and (if you're eligible) a Lifetime ISA.

A few important rules to remember:

- the maximum you can pay into all your ISAs in one year is £20,000
- the maximum you can pay into a Lifetime ISA is £4,000
- you can only pay into one of each type of ISA in a single tax year

So your ISA subscriptions could look like any of the below:



2. Carry forward unused annual allowance in your pension

One of your pension's most valuable tax-saving perks is the ability to 'carry forward'. Simply, it means that you can contribute not just this year's annual allowance, but also any unused annual allowance going back three tax years.

But keep in mind this is very much a case of use it or lose it. You need to carry forward any leftover allowance within the next three years. Any longer, and it disappears forever.

And in the current tax year (2018/19), there's another consideration. This is your final opportunity to use any remaining annual allowance from 2015/16, a tax year which was split into two 'mini tax years', as follows:

1. First mini tax year: 06/04/2015 – 08/07/2015
   Annual allowance of £80,000

2. Second mini tax year: 09/07/2015 – 05/04/2016
   No annual allowance
   Could carry forward up to £40,000 of unused allowance from the first mini tax year

It is whatever carry forward you then have left over from the second mini tax year that you have the last chance to use now.

Contributions use up annual allowances in a strict order. The allowance from the current tax year is used first, then the previous three tax years, starting with the earliest tax year first.

What this all means is that in 2018/19, you can carry forward your unused annual allowance from the 2015/16 second mini tax year, 2016/17 and 2017/18.

It's important to consider that for any member contribution, you must have sufficient UK earnings equal to or greater than the value of the gross contribution in order for tax relief to apply.

Notes

- Carry forward doesn't apply when the Money Purchase Annual Allowance has been activated.
- Carry forward can be used when the Tapered Annual Allowance applies during a particular tax year.

Case Study

David has an AJ Bell Youinvest SIPP. The contributions he's made, as well as the carry forward available for the previous three tax years, are shown in the table:

Tax year	Annual allowance	Contribution	Carry forward
2015/16 (post 9 July)	£40,000*	£15,000	£25,000
2016/17	£40,000	£5,000	£35,000
2017/18	£40,000	-	£40,000
Total carry forward			**£100,000**

The maximum amount that David can contribute in the current tax year without incurring an annual allowance tax charge is £140,000, as long as he has sufficient UK earnings. This is made up by using this year's £40,000 allowance first, followed by £100,000 carry forward as shown in the table.

If David doesn't make a contribution exceeding £40,000 in the current tax year, he'll lose the opportunity to use the unused annual allowance from the 2015/16 tax year.

The information in the above table is based on the assumption that the Money Purchase Annual Allowance and the Annual Allowance Taper were not applicable in any of the tax years mentioned.

*Assumes the maximum of £40,000 annual allowance was available to carry forward from the first mini tax year in 2015/16

3. Making contributions having accessed your pension

Most people can make pension contributions of up to £40,000 a year and receive tax relief on the full amount. However, for 'money purchase' pension schemes such as SIPPs, personal pensions and many workplace pensions, this limit drops to **£4,000** once you flexibly access your pension savings. You also lose the ability to carry forward unused allowances from previous tax years. (This doesn't apply to 'defined benefit' pensions, also called final salary or career average pensions.)

'Flexibly accessing' your pension means taking taxable income from your drawdown fund (not including capped drawdown, i.e. drawdown set up on or before 5 April 2015) or a taxable lump sum.

If you're employed with earnings of £50,000 or more, over £3,500 will be automatically contributed under auto-enrolment (unless you've opted out).

If you're still employed, don't forget that unless you opt out, your employer will have auto-enrolled you in a workplace pension. From April 2019, the contribution limits for this are increasing – meaning a total of 8% of qualifying earnings must be paid into a pension for you. Many employers will pay more than the minimum, so it's important to check what's going into your pension and take this into account when reviewing the other contributions you're making.

If you do exceed your allowance, you'll be subject to an annual allowance charge. The size of this charge is calculated by adding the amount by which you've exceed the allowance to your earned income for the year, and applying income tax. You need to report this via self-assessment.

If you do face an annual allowance charge, you may be able to pay it via your pension scheme. See our guide for more information.

4. Maximise tax relief on pension contributions

At this time of year, you're usually thinking about making the most of your allowances. But in some circumstances, you might be better off waiting, or saving some of your allowance – at least for the next year or so.

As we mentioned in tip one, your ISA allowance falls firmly into the 'use it or lose it' category. But when it comes to pensions, you're able to carry forward your unused allowance from up to three years previously (providing you haven't flexibly accessed your pension – see tip two). And there can be times when delaying is in your best interest.

If your income is likely to increase and tip you into the next tax band (whether from basic to higher, or from higher to additional) it's beneficial to wait before using your allowance – since it means you'll get extra tax relief. If you live in Scotland, which has five different tax bands to navigate, this is even more likely to apply (though the tax relief you receive at source gives you a minimum of basic-rate relief even if you only pay starter-rate tax).

It may also be worth delaying your personal contributions if your earnings are about to tip over the £100,000 mark. At this point, you start losing your personal allowance at a rate of £1 for every extra £2 of income – until you lose your personal allowance completely. Making personal contributions can help reduce your income so you keep more of your personal allowance.

If your income is likely to be more than £150,000, you may be caught by the tapered annual allowance. Since it's likely you won't know your precise income until after the tax year end, it can be a good idea to wait and mop up any unused allowance you have in later tax years – rather than risk going over your available allowance this year. Just remember you have only three years to do this, and you lose the ability to carry forward once you flexibly access your pension.

Case Study

Jo

- Earns £46,000 in 2018/19
- Has £5,000 surplus cash to pay into her personal pension
- 10% of salary going into workplace pension (5% employer/5% employee)
- Due to start new position from 1 April 2019
- New salary will be £57,000
- Resident in England

If Jo puts the additional £5,000 into her personal pension now, she'll get basic-rate tax relief of £1,250, via relief at source. If she waits until 6 April 2019, she'll also get higher-rate tax relief of an additional £1,250.

5. Make sure you claim tax relief on contributions

One of the key attractions of paying into your SIPP is the tax relief you earn. For every 80p you pay into your pension, the government will automatically top it up to £1.

This top-up is paid directly into your pension, meaning it gives your SIPP an immediate* boost. And that's before you've even begun to take into account the tax-free investment returns you can potentially earn in your SIPP.

What's more, if you pay more than 20% tax on your earnings, you have the opportunity to claim significantly more tax relief. Higher- and additional-rate taxpayers can earn a further 20% or 25% tax relief on top. It can provide you with a sizeable bonus, but you don't receive this extra tax relief from HMRC automatically – so it's important to remember to claim it.

The standard way to do so is by completing a self-assessment tax return. If you already complete self-assessment returns each year, you just need to make sure you add details of the pension contributions you make. Employer contributions work differently, so only the contributions you make personally should be included.

If you don't already receive a self-assessment return from HMRC, you can register easily on HMRC's website. Once you've registered, you'll receive a unique reference code which you'll need to keep hold of. You'll also be notified by HMRC that you need to complete a return.

The key point to remember is that if you don't complete a self-assessment return, HMRC won't know about your pension contributions and you won't receive this valuable extra tax relief. If you receive less tax relief than you should, because you haven't claimed, HMRC won't automatically correct this error the following tax year – the way it does it if you pay the wrong rate of income tax.

Estimates of the amount of pensions tax relief that goes unclaimed each year have ranged from £300 million to a huge £2.45 billion. This last figure, if accurate, is an incredible amount for taxpayers to be missing out on. Just make sure that you're not one of them!

Scottish taxpayers

If you're a Scottish resident, you don't need to be a higher-rate taxpayer to claim further tax relief on your contributions. The recently introduced 21% Scottish intermediate tax rate also allows further tax to be reclaimed – although the rewards aren't quite as valuable as for those paying tax at higher rates.

If you're an intermediate-rate (21%) Scottish taxpayer, don't forget to complete a self-assessment or contact HMRC to get your extra 1% relief.

(*) Tax relief is paid into your SIPP account between 6 and 11 weeks after you make a contribution.

6. Seven ways to make the most of your capital gains tax allowance

If you hold investments outside of a SIPP or ISA and you sell them for a profit, you may have to pay tax on that profit in the form of capital gains tax (CGT).

Assets you're liable to pay CGT on when you sell them include personal possessions worth more than £6,000 (excluding your car), buy-to-let property and shares or funds you hold personally – for instance in a Dealing account or in certificated form.

And CGT doesn't just apply to sales. If you gift assets to other people, this may count as a disposal for CGT purposes, and you may need to pay tax on it in the same way as a sale.

Fortunately, all investors have a tax-free capital gains allowance. For 2018/19, this is £11,700 (and will rise to £12,000 in 2019/20). For any capital gains under that amount, you don't need to report or pay tax. If your capital gains exceed that amount, the tax charge is 20% for a higher rate tax payer (or 28% for residential property).

CGT calculations are not always straightforward. Here are seven quick tips to make it easier for you to calculate your liability while making the best use of your annual tax-free allowance.

- This is a use-it-or-lose-it allowance. So you may need to plan ahead by several years if you're thinking of selling large parts of your portfolio. For example, if you have a large shareholding you want to sell, consider selling part in this tax year and part at the beginning of the next tax year – to get the benefit of both years' allowances.
- If you're considering disposing of an asset to use your CGT allowance, but want to keep the investment, you could consider buying it back in an ISA or SIPP. Any future investment gains will be free from CGT once the investment is in your ISA or SIPP.
- If you do sell an asset and pay the money into a SIPP to buy the investment back, remember that you'll get tax relief on the money you're paying in.
- Balance off capital gains against declared losses from other investments. You have up to four years to report losses, so these can be losses in the current or previous tax years.
- However, remember that losses can be carried forward only if they've been declared. Make sure you keep clear records of any investment losses – it will make it easier to declare them at a later date.
- Make use of your spouse's or civil partner's annual CGT allowance as well as your own. You can do this by transferring part of the asset into their name before selling it. The spousal transfer itself is exempt from CGT, and they're deemed to receive the asset at the original purchase price.
- Making a pension contribution to bring taxable income below the higher-rate tax threshold can reduce the rate of CGT from 20% to 10%. For example, if a combination of income and capital gains (net of the annual allowance) pushes you £5,000 into the higher rate tax band, a net contribution of £4,000 (gross £5,000) will not only give you pension basic rate tax relief of 20% but can also reduce your CGT liability by 10%.

7. Investing for children

It's worth remembering that children have their own allowances – separate to their parents.

In a Junior ISA (JISA), your child's money grows free of income and capital gains tax. Importantly, it can't be accessed until they turn 18 – when it becomes an adult ISA. In 2018/19, you can invest £4,260 into a Junior ISA for each child, and this is rising to £4,368 in 2019/20. Although the account must be set up and managed by the child's parent or legal guardian, anyone can pay in to it, making it perfect for gifts from grandparents who want to help your child afford future university fees or a first-home deposit.

> If you start saving into a JISA from your child's birth and put in the maximum each year, by their 18th birthday they could have over £155,000!*

If your child already has a Child Trust Fund (CTF), they can't have a JISA too. But you can open a JISA for them as long as you transfer the CTF to the JISA as part of the application process. The CTF and JISA allowances are the same amount, but keep in mind they are separate allowances – and differ in one important respect. With CTFs, the allowance period starts on the child's birthday, and ends the day before their next birthday, while JISA allowances run in tax years. This difference offers you an opportunity to get extra funds in.

Case Study

Mike & Harry

- Mike is Harry's Dad
- Harry was born on 15 April 2010
- Harry already has a CTF
- Mike hasn't made any subscriptions to Harry's CTF this tax year

Mike can pay £4,260 into Harry's CTF on or before 5 April 2019, then £4,368 on or after Harry's birthday on 15 April 2019. He can then transfer the CTF to a JISA and subscribe a further £4,368 into the JISA.

There's another quirk for older teenagers. If you have a child aged 16 or 17, they're allowed to hold an adult cash ISA and still have a JISA. This means they get both allowances. So you could pay £4,260 into a JISA for them this year – and £4,368 after 6 April – and they could pay £20,000 into a cash ISA in both years too. Just remember the cash ISA will be in their own name, and they'll have full access to the cash. Once they reach 18, if they want to invest longer term, they can transfer any money they have in a cash ISA to a Stocks and Shares ISA without using their annual subscription limit. And they could transfer up to £4,000 to a Lifetime ISA to earn the government bonus to help them get on the property ladder.

If you really want to plan ahead, children can have a Junior SIPP too. For non-earners, you can pay in £2,880 net which HMRC will top up to £3,600 each year – but remember your child can't access it until their retirement age.

Finally, remember that children have all the usual adult allowances – a personal allowance, a starting savings allowance and a personal savings allowance. So saving in a bare trust dealing account could be an attractive option. As trustee, you could access the account any time – as long as it's for the child's benefit, e.g. paying their school fees – or you could leave it invested for them to take over at age 18. Just remember that any gifts from a parent (or step-parent) that generate more than £100 a year in interest will be taxed on the parent. This doesn't apply to gifts from other family members: so can work well for generous grandparents.

* Assumes subscriptions increase 3% annually, subscriptions paid at start of year, growth of 5%.

8. Feeling generous? Use your annual IHT exemptions to gift wealth in your lifetime

When you die, there are several tax-free ways you can pass your wealth on. The inheritance tax (IHT) threshold is £325,000, and if an individual doesn't use the full threshold when they die, the unused part can be transferred to their spouse. There has also, since 2017, been an additional nil-rate band when a residence is passed on death to a direct descendant. It's currently £125,000, but from 6 April 2019, will rise to £150,000. All good to know for planning for your loved ones, but what can you do in your lifetime?

Well, every tax year your 'annual exemption' lets you give away £3,000 worth of gifts, without worrying it'll being chargeable to IHT if you die within seven years. You can also carry forward any unused allowance to the next tax year, so if you didn't give any gifts last year, you've got £6,000 available now, and another £3,000 from 6 April 2019. Just remember you can only carry the allowance forward for one year.

Depending on your inclinations you can make gifts to charities and political parties IHT-free, and wedding gifts worth up to £5,000 for your child, £2,500 for a grandchild and £1,000 for anyone else.

You can make as many gifts as you like of up to £250 in a tax year – provided you're not giving it to someone who has already benefitted from your generosity under a different exemption in the same year.

Usually if you give money away, it's a "potentially exempt transfer", or PET. If you live for at least another seven years, the recipient doesn't have to pay IHT. But if you die in that time, they can be charged IHT on a sliding scale. The longer you live, the lower IHT will be due, thanks to taper relief.

Finally, you can give gifts from your normal income – provided these gifts do not impact your standard of living. These can include Christmas or birthday presents, or regular payments for things such as school fees. Just remember it's really important to keep records of these regular gifts and proof of your regular income so your executors have evidence when administering your estate.

9. An extra bonus! A Lifetime ISA

The Lifetime ISA (LISA) is the newest addition to the ISA family, which aims to help younger people buy their first home or save for later in life. A LISA gives savers a 25% government bonus and you can choose either a cash LISA or a stocks and shares one.

If your 40th birthday is behind you, but you have adult children, have they considered a LISA? It could give them a real boost if they're looking to get on the property ladder.

There are a few things you need to be aware of before you open a LISA.

Lifetime ISA basics:

- Lifetime ISAs can be opened by savers aged 18 to 39
- The account must be funded before you turn 40
- You can pay in up to £4,000 a year until you turn 50
- Receive a 25% government bonus of up to £1,000 a year on all your payments
- Payments in also count towards your overall £20,000 ISA allowance
- Withdraw money tax-free to buy a first home, or from age 60

You can make lump-sum payments or smaller amounts in a LISA, and you'll receive the bonus on a monthly basis. It'll then be available for you to invest as well. If you don't use all your allowance in one tax year, you'll lose it. If you don't have spare cash to invest, or have already used all your £20,000 overall ISA allowance, then you could consider transferring in existing ISA funds of up to £4,000 to get the bonus.

If you're planning on buying your first home, it's important to know that you must have funded the LISA at least 12 months before. Any sooner, and you can't make a penalty-free withdrawal. This is really important if you're planning on buying soon, and may mean a LISA isn't the best option for you.

But if you haven't started your home search, you could fund the LISA with a minimal amount to start the clock even if you aren't ready to invest more right now.

Similarly, if you are nearing age 40, you may want to open and fund the LISA before the big birthday, or you'll lose out forever. If you have a Help to Buy ISA, you could transfer it into a LISA as long as it's within your LISA allowance. A LISA has a number of advantages over Help to Buy: the bonus is paid monthly, rather than when you buy your home (meaning you can get compound growth on it), you can use the money towards a deposit, and it applies to higher-value homes across the country, not just in London. Just keep in mind that while you can have both a Help to Buy ISA and a LISA, you can only use one for the bonus to purchase your first home.

It's also important that you check whether a LISA is going to be suitable for you. If you withdraw money below the age of 60 for any reason other than buying your first home, and you aren't in terminal ill health, you'll pay a 25% government withdrawal charge. This means you may get back less than you paid in.

A LISA could be a great way to save for your own or your child's future, but it's worth remembering that if you choose to save in a Lifetime ISA instead of a workplace pension scheme, you'll miss out on free money from your employer.

10. A pension savings boost for non-working spouses and children

Did you know that even if you earn no income, or not enough to pay tax, you can still receive tax relief?

Most UK residents can make personal contributions of up to £3,600, or the total of their earnings – whichever is higher. This means that if you have a non-working spouse, they can pay up to £2,880 into their pension each year with the government adding 20% in tax relief, a boost of £720, adding up to £3,600 gross.

The same applies for children. So you can set up a Junior SIPP and make payments for your child that also benefit from the 20% basic rate tax relief – up to the £3,600 allowance.

This allowance cannot be carried forward, so if it isn't used every tax year, it will be lost.

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