New Tax Year, New Opportunities

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Lancaster Knox

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Now that the 2019/2020 tax year has arrived, it is never too early to start thinking about making the most of tax reliefs and opportunities to streamline your affairs. By taking a little time now to put yourself on the front foot, a lot of time (and cost) can be saved in the long run.

Reflect on Last Year

Although the deadline for filing 2017/18 tax returns has passed, it is possible to amend your return if necessary within a 12-month window – meaning corrections can be made up until 31 January 2020. So make sure you claimed all allowable expenses and deductions; used any available reliefs; and reported all sources of income and gains as applicable. It's good practice to look at this sooner rather than later.

CARRY BACK PROVISIONS

Certain reliefs may also be carried back to the prior year, which can be beneficial if you paid tax at a higher rate previously. For example, an investment made under the Enterprise or Seed Enterprise Investment Schemes ('EIS' and 'SEIS') between 6 April 2018 and 5 April 2019 may be treated for both income tax and capital gains tax purposes as having been made in 2017/18, subject to meeting the relevant statutory conditions. If an overpayment for 2017/18 arises as a result, a repayment from HMRC should follow. As well as a being a welcome cheque through the post, this can have a substantial positive effect on cash flow.

An often-overlooked provision is the ability to carry back qualifying donations made under the Gift Aid scheme, as long as your tax return has not already been submitted. Therefore, it may be possible for donations made up to 31 January 2020 to be claimed on your 2018/19 tax return, allowing relief to be obtained sooner.

Pension Contributions

The maximum amount of pension contributions on which you can receive tax relief will depend on a number of factors, including your "relevant earnings", your total income for the year, and your available annual allowance. The annual allowance – currently £40,000 for those earning less than £150,000 – can be carried forward up to three years if unused, meaning those who have not previously made the maximum pension contributions may have a substantial sum to invest on which tax relief may be claimed.

The calculation of your specific annual allowance can be complicated, but understanding early in the tax year how much you may be able to contribute can be beneficial from a planning and cash flow perspective.

Holding Assets Appropriately

Now is a good time to consider whether your assets are being held in the most effective way, both from a tax and practical perspective. For example, it may be beneficial for assets to be transferred tax-free from one spouse to another where there is a difference in marginal tax rates (provided any such gifts are absolute and unconditional).

Family Investment Companies ('FICs') are commonly used to hold assets in a tax-efficient manner, whilst also providing an opportunity for family wealth to be gradually transitioned to the next generation with parental control and oversight. Although FICs can be an important part of tax and estate planning, they are not right for everyone. Specialist advice should be taken before implementing any structure, as getting it wrong can have disastrous consequences further down the line.

Payments on Account

For those within the payment on account regime (where the following year's tax liability is paid in advance in two instalments), you will need to budget for your next payment due by 31 July 2019.

If your income for 2018/19 was lower than in 2017/18, there may be scope to reduce your payments on account accordingly. This should be done with care, as reducing payments too far can cause interest charges to apply. However, now that the 2018/19 tax year has ended, you may have a much clearer idea of the potential for a payment on account reduction.

Non Dom Changes

For UK-resident but non-UK domiciled taxpayers, it has been hard to miss the raft of changes that were introduced in April 2017 and 2018. Those who have been UK resident in at least 15 of the prior 20 tax years will now be 'deemed' domiciled in the UK, meaning their worldwide income and gains will be subject to UK tax. Their worldwide assets will also be within the scope of UK Inheritance Tax. The position is even more complex for individuals who were born in the UK with a UK domicile of origin but now have a non-UK domicile of choice. There have also been a raft of changes to the taxation of non-UK resident trusts.

For non-doms, it is vital to ensure you understand your tax position and are clear as to any actions you may need to take. In some instances, leaving it too late may mean some options are no longer available to you. This is an extremely complex area of tax law requiring specialist input.

Investor's Relief

To qualify for a reduced rate of CGT under Investors' Relief (10% on a lifetime limit of £10million of eligible gains), shares must have been held for a minimum of three complete years. 6 April 2019 is therefore the first opportunity for investors who subscribed for their shares between 17 March and 6 April 2016 to make a disposal and claim the reduced rate of CGT (investments made between 17 March and 5 April 2016 are treated as having been made on 6 April 2016).For investors who intend to retain their shareholdings for the time being, it would be worthwhile reviewing their investment periodically to ensure they continue to qualify.

Non UK Resident Property Investors

The Non-resident Capital Gains Tax ('NRCGT') provisions have been extended with effect from 6 April 2019 (1 April 2019 for companies) such that all UK property (both residential and commercial) owned by non-UK residents is now within the scope of CGT. In addition, new provisions also bring 'indirect disposals' into charge – namely those where a non-resident holds an interest of at least 25% in an entity that derives at least 75% of its gross asset value from UK property.

From April 2020, non-resident landlord companies will also be brought within the scope of UK Corporation Tax ('CT'), rather than the current income tax regime. Although this may mean a lower headline rate of tax (17% CT compared to 20% income tax), companies will also need to comply with other CT rules, such as the Corporate Interest Restriction regulations. Non-residents holding UK property would be well-advised to review their structures and ensure they remain fit for purpose.

Selling Current or Former Main Residences

Thinking ahead to next year, from 6 April 2020 there will be changes to both Principal Residence Relief ('PRR') and Lettings Relief ('LR').

The sale of an individual's main residence is currently exempt from CGT under PRR, excluding certain periods of non-occupation. In addition, the final 18-month period of ownership is also exempt provided the property has been the owner's main residence at some point during ownership. From 6 April 2020, this final period of exemption will be reduced to 9 months. This may affect individuals who have moved homes and find that it takes longer than anticipated to sell their former home. Separate rules apply for homeowners moving into residential care.

In addition, LR provides relief of up to £40,000 for periods where an individual's current or former main residence is let to a third party. From 6 April 2020, LR will be restricted to owners who share occupancy with their tenant(s), bringing the availability of LR in line with the original policy intent when it was first introduced in 1980.

Summary

These are just a few points to consider early in the new tax year, and of course any planning should always take account of your wider circumstances. By starting as you mean to go on and thinking ahead, the rest of 2019/20 can run smoothly and give you a degree of certainty over your affairs.

CONTACT US

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This article is intended to provide only an overview of a limited number of areas for possible consideration, and does not constitute advice under any circumstances. No reliance may be placed on the contents of this article and Lancaster Knox accepts no liability whatsoever towards any person who does so.

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