

"Money talks but sometimes you need a translator"

SMARTMONEY

# Abram

## Partnership

GUIDE TO

# 2021/22 TAX YEAR-END PLANNING

*Protect yourself, your family and your future*

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GUIDE TO

# 2021/22 TAX YEAR-END PLANNING

Protect yourself, your family and your future

As another tax year end approaches, it's important to finalise your 2021/22 tax planning to reduce your obligations wherever possible. The current tax year started on 6 April 2021 and ends on 5 April 2022. Reviewing your tax affairs now will enable you to make the most of any allowable deductions and strategies available to minimise or mitigate a potential tax burden.

**A**fter another unprecedented year of the continued COVID-19 pandemic and an uncertain economy, it's important to keep up with any tax changes that could affect your tax position in the future. Taking action now before 5 April could potentially save you thousands of pounds.

The UK tax system is notoriously complex, but the benefits of structuring our finances tax-efficiently can be significant. We've provided a summary and some key tax and financial planning areas that may be appropriate to certain taxpayers and should be considered prior to the end of the tax year on Tuesday 5 April 2022.

## Identifying any tax planning opportunities

Personal circumstances differ, so if you have any questions or if there is a particular area you are concerned about, please do not hesitate to contact

us. If you have not done so already, take the time to carry out a review of your tax and financial affairs to identify any tax planning opportunities and take action before it's too late.

## Tips to help you get ahead on managing your tax affairs

### Check your PAYE tax code

It's important to check your tax code. Your tax code is based on the amount of tax you should be paying and the amount you can earn before tax applies. The tax code is the identifier that tells your employer how much tax should be deducted from your salary each time you get paid. If you have multiple employers or pension providers, you may get more than one tax code. If you're on the wrong one, you could be paying HM Revenue & Customs (HMRC) more than you ought to be. On





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the other hand, you risk getting penalised if you're paying too little.

### **Transfer part of your personal allowance**

Married couples and registered civil partners are permitted to share 10% of their personal allowance between them. The unused allowance of one partner can be used by the other, meaning an overall combined tax saving. The amount you can transfer is £1,260 for 2021/22 and a transfer is not permitted if the recipient partner pays tax at a rate higher than the basic rate of 20% (higher than the intermediate rate of 21% for Scottish taxpayers).

### **Contribute up to £9,000 into your child's Junior ISA**

The fund builds up free of tax on investment income and capital gains until your child reaches age 18, when the funds can either be withdrawn or rolled over into an adult ISA. Relatives and friends can also contribute to your child's Junior ISA, as long as the £9,000 limit for 2021/22 is not breached.

Tax-free savings and dividend allowances

For 2021/22, savings income of up to £1,000 is exempt for basic rate taxpayers, with a £500 exemption for higher rate taxpayers. The tax-free dividend allowance is £2,000 for all taxpayers. Married couples and registered civil partners could save tax by ensuring that each person has enough of the right type of income to make use of these tax-free allowances.

Individual Savings Accounts (ISAs)

You can put the entire amount into a Cash ISA, a Stocks & Shares ISA, an Innovative Finance ISA or any combination of the three. Usually when you invest, you have to pay tax on any income or capital gains you earn from your investments. But with an ISA, provided you stick to the rules on how much you can pay in, all capital gains and income made from your investments won't be taxed. Every tax year



you have an ISA allowance, which is currently £20,000 for the 2021/22 tax year.

### Utilise any capital losses

If you realise capital gains and losses in the same tax year, the losses are offset against the gains before the capital gains tax exempt amount (£12,300 in 2021/22) is deducted. Capital losses will be wasted if gains would otherwise be covered by your exempt amount. Consider postponing a sale that will generate a loss until the following tax year or, alternatively, realise more gains in the current year.

### Maximise pension contributions

Pension contributions can reduce your tax liability by increasing the tax thresholds. The annual allowance for 2021/22 is £40,000. To avoid an annual allowance tax charge, the

pension contributions made by yourself, and by your employer on your behalf, must be covered by your available annual allowance.

If you haven't used all your allowance in the last three tax years, it might be possible to pay more into your pension plan by 'carrying forward' whatever allowance is left to make the most of the tax relief on offer, though bear in mind the amount is still capped at 100% of your earnings. However, different rules apply if you've already started to take money out of your pension plan and you're affected by the Money Purchase Annual Allowance, or if your income when added to your employer's payments are more than £240,000.

The lifetime allowance is the limit on how much you can build up in pension benefits over your lifetime while still enjoying the full tax benefits. If you go over the allowance,

you'll generally pay a tax charge on the excess at certain times. The lifetime allowance for most people is £1,073,100 in the tax year 2021/22 and has been frozen at this level until the 2025/26 tax year. The allowance applies to the total of all the pensions you have, including the value of pensions you have through: any defined benefit (final salary or career average) schemes you belong to; any savings you have in defined contribution pensions, but excluding your State Pension.

### Pay pension contributions to save NICs

If you pay pension contributions out of your salary, both you and your employer have to pay National Insurance Contributions (NICs) on that salary.



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When your employer pays a contribution directly into your pension scheme, the employer receives tax relief for the contribution and there are no NICs to pay – a saving for both you and your employer.

You could arrange with your employer to cover the cost of the contributions by foregoing part of your salary or bonus. You must agree in writing to adjust your salary before the revised pension contributions are paid for this arrangement to be tax-effective, although pension contributions are not caught by the clampdown on salary sacrifice arrangements.

### Make a Will/Review existing Wills

If you die without making a Will, your assets will be divided between your relatives according to the intestacy rules. Your surviving spouse or registered civil partner may only receive a portion of your estate, and Inheritance Tax will be due at 40% on anything else above £325,000 (up to £500,000 if the Residence Nil-Rate Band is available).

### Leave some of your estate to charity

Where you leave at least 10% of your net estate to charities, the Inheritance Tax on the remainder is charged at 36% instead of 40%. The exact calculation of your net estate is quite complicated, so it's important to receive professional advice when drawing up or amending your Will.

### Make regular IHT-free gifts

As long as you establish a pattern of gifts that can be shown to be covered by your net income, without reducing either your capital assets or your normal standard of living,

these gifts will be free of Inheritance Tax. The recipients of the gifts need not be the same people each year.

### Use the IHT marriage exemption

If your son or daughter is about to marry, you and your spouse can each give them £5,000 in consideration of the marriage, and the gift will be free of Inheritance Tax. The marriage exemption can also be combined with your £3,000 a year Inheritance Tax exemption to allow you to make larger exempt gifts. You can make an Inheritance Tax-free gift of £2,500 for a grandchild's wedding. Registered civil partnerships attract the same exemptions.

#### Make IHT-free gifts each tax year

These gifts are free of Inheritance Tax and, if you forget to make your £3,000 gift one year, you can catch up in the next tax year by giving a total of £6,000 but you can only carry forward the £3,000 allowance for one tax year. Remember, you and your spouse or registered civil partner can each give £3,000 out of your capital every tax year in addition to gifts you make out of your regular income. ■

### LOOKING FOR TAX PLANNING ADVICE?

Few of us can claim to be experts in everything, which is why it's important to enlist the help of a financial professional – especially when it's about something as important as our tax. Don't delay, please contact us if you require further information.

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED. PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

A PENSION IS A LONG-TERM INVESTMENT NOT NORMALLY ACCESSIBLE UNTIL AGE 55 (57 FROM APRIL 2028 UNLESS THE PLAN HAS A PROTECTED PENSION AGE).

YOUR PENSION INCOME COULD ALSO BE AFFECTED BY THE INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS.

THE TAX IMPLICATIONS OF PENSION WITHDRAWALS WILL BE BASED ON YOUR INDIVIDUAL CIRCUMSTANCES, TAX LEGISLATION AND REGULATION WHICH ARE SUBJECT TO CHANGE IN THE FUTURE. YOU SHOULD SEEK ADVICE TO UNDERSTAND YOUR OPTIONS AT RETIREMENT.

THE FINANCIAL CONDUCT AUTHORITY DOES NOT REGULATE TAX ADVICE, INHERITANCE TAX PLANNING AND TRUSTS.

# PERSONAL TAX ADVICE THAT PUTS YOU IN CONTROL TODAY AND READY FOR TOMORROW

We're here to help secure your financial future by supporting you with trusted advice every step of the way.

**To discuss your options, please contact us for further information – we look forward to hearing from you.**

This guide is for your general information and use only, and is not intended to address your particular requirements. The content should not be relied upon in its entirety and shall not be deemed to be, or constitute, advice. Although endeavours have been made to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough examination of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions taken in respect of the content. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts. Levels and bases of, and reliefs from, taxation are subject to change and their value depends on the individual circumstances of the investor. The value of your investments can go down as well as up and you may get back less than you invested. All figures relate to the 2021/22 tax year, unless otherwise stated.