TAX PLANNING TIPS

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Savings & Investment

1. Make the best use of tax-free savings and dividend allowances
For 2019/20, 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 civil partners can save tax by ensuring that each person has enough of the right type of income to make use of these tax-free allowances.

2. Take advantage of the individual savings account (ISA) investment limit and generate tax free income and capital gains
The maximum annual amount that can be invested in ISAs is £20,000 (2019/20). You can put the whole amount into a cash ISA, a stocks and shares ISA, an Innovative Finance ISA, or any combination of the three as desired. Transferring funds into an ISA early in the tax year will maximise the amount of tax-free income arising. The availability of the tax-free savings and dividend allowances may mean that ISAs provide no benefit for many small savers, but ISAs can still offer tax advantages.

Example: *Jerry, an English additional rate taxpayer, has £100,000 invested in a stocks and shares ISA. He uses his dividend allowance and capital gains exempt amount against non-ISA income and gains. During 2019/20, the ISA produced dividend income of £3,000 and capital gains of £8,000. By investing in an ISA, Jerry has saved income tax of £1,143 (£3,000 at 38.1%) and CGT of £1,600 (£8,000 at 20%) for 2019/20.*

3. Plan your capital gains to make best use of 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 exempt amount (£12,000 in 2019/20) is deducted. So losses will be wasted if gains would otherwise be covered by your exempt amount. Consider postponing a sale which will generate a loss until the following tax year, or alternatively realising more gains in the current year.

4. Gain a 50% income tax credit on an investment of up to £100,000 by investing through the Seed Enterprise Investment Scheme (SEIS)
Your capital gains from other assets which are reinvested in SEIS shares can also qualify for a 50% tax reduction as long as the income tax relief claim is made. Capital gains on SEIS shares are also exempt from tax if the shares are held for at least three years. Note that the income tax credit is clawed back if the shares are held for less than three years. If the gain would have been taxed at 28%, the overall tax relief is 64% (50% income tax plus half of 28%). However, investing in small companies can be very risky, so take independent financial advice.