

101 Practical Tax Tips

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Contents

About This Guide	1
Chapter 1: Making the Most Of Allowances And Lower Rates Of Tax	2
1. Keeping The Full Personal Allowance	1
2. Make Use Of The Marriage Allowance	3
3. Utilising Your Annual CGT Exemption	5
4. Transfer Income-Earning Investments To Use Non-Taxpayers' Personal Allowances	7
5. Utilising A Spouse's Or Civil Partner's Annual CGT Exemption	9
6. Equalising Marginal Rates Of Tax	11
Chapter 2: Savings and Investments	14
7. Use Your Personal Savings Allowance	15
8. Use Your ISA Allowance	17
9. Using ISAs To Save For Retirement	19
10. Make Use Of A Lifetime ISA	21
11. Junior ISAs	23
12. The Tax-Free Savings Band	24
13. Using The Tax-Free Savings Band: Couples	26
14. Equalising Savings Income To Save Tax	28
15. Savings And A Mortgage? Consider Reducing Your Mortgage	30
16. Utilise The Dividends Allowance	32
17. Pension Funding	34

18.	Making The Most Of The Pension Tax Annual Allowance	36
19.	Pension Contributions And High Earners	39
20.	Making Pension Contributions For Family Members	42
21.	Invest In A Venture Capital Trust (VCT)	43
22.	Invest In An Enterprise Investment Scheme (EIS)	44
23.	Invest In A Seed Enterprise Investment Scheme (SEIS)	47
Chapter 3: Family Companies		48
24.	Pay A Small Salary To Retain State Pension Entitlement	49
25.	Optimal Salary Where NIC Employment Allowance Is Not Available	51
26.	Pay A Higher Salary Where The NIC Employment Allowance Is Available	53
27.	Extraction Of Profits In A Tax-Efficient Manner	56
28.	Dividend Allowance For All	59
29.	Use An Alphabet Share Structure To Tailor Dividends	61
30.	Timing Of Bonus Payments To Delay Tax	63
31.	Make Use Of Loans To Directors	65
32.	Leave A Loan To A Director Outstanding And Pay Section 455 Tax	67
33.	Employ Your Family	70
Chapter 4: Employers and Employees		72
34.	Quarterly PAYE Payments	73
35.	Pay PAYE On Time To Avoid Penalties	74
36.	Allow For Bank Holidays When Making PAYE Payments	75

37.	Submit RTI Returns On Time	77
38.	Reduce Your Employer's NIC Bill By £4,000	78
39.	Use Basic PAYE Tools	80
40.	Take Advantage Of The Exemption For Paid And Reimbursed Expenses	81
41.	Claim A Deduction For Mileage Payments	83
42.	Company Cars – Make Green Choices	84
43.	Company Cars – Electric Cars And Hybrid Cars	87
44.	Cut The Fuel Benefit Charge	90
45.	Company Car Or Car Allowance?	92
46.	Putting Your Mobile Phone Through The Company	94
47.	Tax-Free Benefits Using Salary Sacrifice Arrangements	96
48.	Working Abroad – Tax-Free Trips For Your Family	98
49.	Claiming Tax Relief For Expenses	99
	Chapter 5: Self-Employed	102
50.	No Class 2 Or Class 4 NICs For Low Earners	103
51.	Paying Class 2 NICs Voluntarily	104
52.	Choosing Your Accounting Date	106
53.	Use The Cash Basis To Calculate Taxable Income And Save Work	108
54.	Claim Simplified Expenses	110
55.	Choosing A Cessation Date	112
56.	Self-Employed? Consider If Incorporation Is Worthwhile	113
	Chapter 6: Losses	116

57.	Maximising Trading Losses	117
58.	The Loss Relief Extension To Capital Gains	119
59.	Special Relief For Early Year Losses	120
60.	Take Advantage Of The Extended Carry Back Rules	121
61.	Relief For Losses On Cessation	123
62.	Losses And Capital Allowances	125
63.	Unlisted Share Losses	127
64.	Beware Cap On Income Tax Reliefs	128
65.	Registering Your Capital Losses	129
66.	Registering Your Rental Losses	131
Chapter 7: Capital Allowances		134
67.	Capital Allowances: Annual Investment Allowance	135
68.	Annual Investment Allowance: Take Advantage Of The Temporary Increase	137
69.	Beware Chargeable Accounting Periods Spanning 31 December 2021	139
70.	Take Advantage Of The Super-Deduction Available To Companies	141
71.	Claim The 50% FYA For Companies	143
72.	Short Life Assets	145
73.	Write Off Small Pools	146
74.	Zero Emission Cars And 100% FYA	147
75.	Time Your Capital Expenditure	149
Chapter 8: VAT		150

76.	Should I Register For VAT Voluntarily?	151
77.	The VAT Cash Accounting Scheme	153
78.	Is The VAT Flat Rate Scheme For Small Businesses Beneficial?	154
Chapter 9: Capital Gains Tax		156
79.	Timing Your Disposals For CGT	157
80.	Roll-Over Relief For Business Assets	158
81.	Make A Negligible Value Claim For Worthless Assets	160
Chapter 10: Property		162
82.	Utilise Rent-A-Room Relief	163
83.	Furnished Holiday Lettings	165
84.	Claim The Property Income Allowance	167
85.	Claim Relief For Replacement Domestic Items	168
86.	Principal Private Residence Relief	169
87.	Choosing Your Main Residence	170
88.	The Final Period Exemption	172
89.	Private Lettings Relief: Shared Occupancy	173
Chapter 11: Inheritance Tax		176
90.	IHT And Gifts Out Of Income	177
91.	Make A Will	179
92.	Potentially Exempt Transfers	180
Chapter 12: Tax Returns and Administration		182
93.	File Your Tax Return By 30 December	183
94.	File Your Tax Return On Time To Avoid Hefty Penalties	184

95.	Avoid Unnecessary Interest	186
96.	Do You Need A Tax Return?	187
97.	Save Work By Completing The Short Self-Assessment Tax Return	188
98.	Check Your Tax Code	189
99.	Payments On Account	191
100.	Watch Out For The Online Tax Calculation...	193
Chapter 13: Final Tips		194
101.	Register For Child Benefit	195
102.	BONUS TIP: Beware The Gift Aid Tax Trap	197

About This Guide

All taxpayers like to save tax and there are many simple steps that can be taken to achieve this aim.

This guide contains 101 ultimate tax tips. By reading through these practical tips you will come across at least a few that will apply to your circumstances and save you some tax. Or at the very least they have given you food for thought and you will take some professional advice before taking any action or refraining from any action as a result of reading these tips.

The tips are for guidance only and professional advice should always be sought before undertaking tax planning of any sort. The savings that can be made will depend on the precise circumstances and the examples are a guide only.

There are always more tips as tax is a very complex subject. However, this book covers the more practical ideas so that everyone can take something from it.

Chapter 1:

Making the Most Of Allowances And Lower Rates Of Tax

1. Keeping The Full Personal Allowance
2. Make Use Of The Marriage Allowance
3. Utilising Your Annual CGT Exemption
4. Transfer Income-Earning Investments To Use Non-Taxpayers' Personal Allowances
5. Utilising Spouse's Or Civil Partner's Annual CGT Exemption
6. Equalising Marginal Rates Of Tax

1. Keeping The Full Personal Allowance

The personal allowance allows a person to receive the first £12,570 of their income tax-free for 2021/22. This is worthwhile. However, once income exceeds a certain level, the personal allowance may be lost.

For 2021/22 the basic personal allowance is reduced where a person has 'adjusted net income' in excess of £100,000 by £1 for every £2 by which this limit is exceeded until the allowance is fully abated.

This means that anyone with adjusted net income of more than £125,140 in 2021/22 loses all their personal allowance.

However, it is possible to preserve entitlement to the personal allowance by reducing income to below £100,000. There are various ways in which this can be achieved, for example by transferring income-producing assets to a spouse or civil partner (see Tip 4).

Likewise, adjusted net income can be reduced by making pension contributions, which is in itself beneficial due to the higher rate relief that is available on pension contributions up to the available annual allowance. Charitable donations made under gift aid would also work (although the donor would lose the benefit of money made as the donation).

Alternatively, a sole trader or proprietor of an unincorporated business could employ a spouse or civil partner or other family member and pay them a salary to reduce his or her self-employment income, shifting income to the family member.

Note: the personal allowance will remain at £12,570 for future tax years up to and including 2025/26.

Keeping The Full Personal Allowance

John has adjusted net income of £128,000 for 2021/22, of which £30,000 is in the form of interest from investments. His wife has income of £10,000 for the year.

As John has income for 2021/22 in excess of £125,140, he will lose all his personal allowance for that year. By transferring the investments to his wife, his income is reduced to £98,000 and he retains the personal allowance of £12,570. For a higher rate taxpayer paying tax at 40%, the personal allowance is worth £5,028 for 2021/22 ($£12,570 \times 40\%$). By transferring income to his wife, John retains his personal allowance.

As he is a higher rate taxpayer, he is entitled to a personal savings allowance of £500. Had he not transferred the investments to his wife, he would have paid tax on the investment income of £11,800 ($(£30,000 - £500) \times 40\%$). By transferring the investments, and thus the tax liability on the interest to his wife, he saves tax of £11,800 plus a further £5,000 by retaining the personal allowance. His tax bill is therefore reduced by £16,800 ($£11,800 + £5,000$).

As far as the £30,000 savings income transferred to his wife is concerned, the first £1,000 is covered by her personal savings allowance of £1,000, the next £2,570 is covered by the remainder of her personal allowance ($£12,570 - £10,000$) and the next £5,000 is taxed at the savings rate of 0%. The remaining £21,430 ($£30,000 - (£1,000 + £2,570 + £5,000)$) is taxed at 20% – a tax bill of £4,286.

As a couple, they are £12,514 better off. Although his wife pays an additional £4,286 in tax, John saves tax of £16,800 – a combined saving of £12,514.

2. Make Use Of The Marriage Allowance

The marriage allowance allows an individual to transfer 10% of his or her personal allowance (rounded up to the nearest £10) to his or her spouse or civil partner, as long as neither pays tax at a rate that is higher than the basic rate of tax.

This measure allows a couple, where one party does not fully utilise their personal allowance, to give the benefit of some of that allowance to their partner, saving tax of up to 20% of the amount transferred. This is useful where it is not possible to transfer income-producing assets from one spouse or civil partner to the other in order to mop up the personal allowance (see Tip 4).

For 2021/22, the basic personal allowance is £12,570. This means that where neither party pays tax at a rate above the basic rate, the marriage allowance allows £1,260 of the personal allowance to be transferred, making it possible to save tax of up to £252 (£1,260 @ 20%).

The transferor's personal allowance is reduced by the amount of the marriage allowance – from £12,570 to £11,310 for 2021/22 – and the transferee's personal allowance is increased by the amount of the marriage allowance, from £12,570 to £13,830 for 2021/22. Each party's tax code is amended – with the M suffix denoting the individual is in receipt of the marriage allowance and the N suffix denoting that the individual has transferred the marriage allowance to their spouse or civil partner.

The allowance cannot be tailored – the transfer is 10% of the allowance rounded up to the nearest £10 or nothing. Where the transferor's income is less than the personal allowance but is more than an amount equal to the personal allowance less the marriage allowance (i.e. between £11,310 and £12,569 for 2021/22), claiming the marriage allowance will still be worthwhile and will save tax, but the saving will be less than £252. The

transferee will save £252, but the transferor will pay tax to the extent that his or her income exceeds the amount equal to the personal allowance less the marriage allowance (£11,310 for 2021/22, being the personal allowance of £12,570 less the marriage allowance transferred of £1,260).

Note: the personal allowance will remain at £12,570 and the marriage allowance will remain at £1,260 for tax years up to and including 2025/26.

Make Use Of The Marriage Allowance

Josh and Hannah are married. Hannah does not work as she stays at home to look after their two-year-old son. Josh earns £20,000 a year. They claim the marriage allowance to transfer £1,260 of Hannah's personal allowance for 2021/22 to Josh. As a result, Hannah's personal allowance is reduced to £11,310 (£12,570 – £1,260) and Josh's personal allowance is increased to £13,830 (£12,570 + £1,260). By making the transfer, Josh pays £252 (£1,260 x 20%) less tax.

Harry has income from freelance work of £12,000 in 2021/22. His wife Lily has income of £18,000 from her job as a teaching assistant.

As Harry is unable to utilise £570 of his personal allowance for 2021/22, the couple claim the marriage allowance. Lily's personal allowance is increased to £13,830 and her tax bill is reduced by £252 (£1,260 @ 20%). Harry's personal allowance is reduced to £11,310 and, as a result, he must now pay tax on £690 of his income (£12,000 - £11,310), a tax bill of £138 (£690 @ 20%). By claiming the marriage allowance, the couple are £114 better off (£252 saved by Lily less than £138 additional tax payable by Harry).