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Accountants & Financial Planners

KEY GUIDE

Year end tax planning

Introduction

MAKE THE MOST OF YOUR RELIEFS AND ALLOWANCES

Chancellor Jeremy Hunt, presenting his Autumn Statement on 22 November, described it as "the biggest package of tax cuts to be implemented since the 1980s", but he did nothing to reverse already planned stealth tax grabs. The newly announced tax cuts were set to benefit individuals and businesses. Employees were presented with a 2% cut in the main rate of employee national insurance contributions (NIC) from January 2024, and, for self-employed individuals, the abolition of class 2 NIC and a reduction of 1% in the class 4 NIC main rate. These reductions will produce a maximum saving of £754 for an employee, but they are unlikely to be a significant consideration in tax year-end planning.

The personal allowance remains at £12,570 until 2027/28 and the higher rate threshold will stay at £50,270 – the levels that first took effect in 2021/22. With inflation at 4.7% (October 2023), these measures will result in increased taxation for many. Interest rates are likely to remain high for some time and with further rises in energy costs expected, financial pressures are set to continue.

Making the most of tax reliefs and allowances while they are still available remains crucial. This guide offers some advice on the principal opportunities you could consider and forms the basis of a good financial plan to complete the tax year. With ideas affecting income and investment, for couples, company directors and employees, and self-employed people, there will be something for everyone.

If you would like further advice on any of the topics, or to discuss how they affect your individual circumstances, please get in touch.

Contents

This newsletter is for general information only and is not intended to be advice to any specific person. You are recommended to seek competent professional advice before taking or refraining from taking any action on the basis of the contents of this publication. The newsletter represents our understanding of law and HM Revenue & Customs practice.

Income tax saving opportunities

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Switching income from one spouse or partner to the other can help save tax.

Everyone should make sure they use their personal allowance (a maximum of £12,570 in 2023/24, and frozen at this level until 2027/28).

For couples, if either spouse or a civil partner will not be able to use their personal allowance for 2023/24, then claiming the marriage allowance will save the other spouse or civil partner up to £252 in tax. However, a claim can only be made if the recipient does not pay tax above the basic rate. Claims can be backdated for four tax years, so the advantage of making a claim by 5 April 2024 is the inclusion of 2019/20. Also, try to minimise any higher and additional (top) rate tax.

- Income over £125,140 is currently taxed at 45%, or 47% for non-savings, non-dividend income in Scotland.
- The personal allowance is withdrawn where income (less certain deductions) is more than £100,000.
- You might be able to reorganise both your financial affairs to avoid exceeding one of these limits. However, capital gains tax (CGT) may be payable on switching ownership of an investment if you are not married or in a civil partnership.

You can each receive £1,000 of dividends tax free in 2023/24 regardless of your tax status. Reorganising your shareholdings between you may make better use of this limit, which will be reduced to £500 next year. You can also receive £1,000 of savings income tax free if you are a basic rate taxpayer, and £500 if paying tax at the higher rate.

If you or your partner have little or no earnings or pension income, you might also benefit from a 0% tax rate on up to a further £5,000 of savings income. Again, shifting assets between you can help minimise tax on your savings income. A £1,000 tax-free allowance is available for income from property, such as where a parking space is let out, so joint ownership could result in a modest tax saving.

Child benefit

Where either partner has income of £50,000 or more then child benefit is in effect withdrawn. The withdrawal is total if income is over £60,000, and partial for income between £50,000 and £60,000. You may be able to keep some or all of your child benefit by switching income between you and your partner, or by taking other steps to bring your income below one of these limits.

Planning point

You may be able to reorganise your finances now to make use of some of these opportunities for 2023/24, but you should plan ahead for 2024/25 to gain the maximum income tax saving.

PLANNING FOR DIRECTORS AND EMPLOYEES

Bringing forward income could be a sensible approach if you are not currently an additional rate taxpayer but expect to become one next year.

- If your income is less than £125,140 this year but is expected to exceed that figure next year, you could bring forward income into 2023/24 to avoid the additional or top rate next year.

- Conversely, if your income will fall below £125,140 in 2024/25, you might be able to avoid the additional or top rate of income tax this year by delaying a bonus until after 6 April 2024.

You could consider a similar strategy to keep your income below the level at which you would lose your personal allowance. Alternatively, you could sacrifice salary to bring your income below any of the thresholds in exchange for a tax-free employer's pension contribution or a low-emission company car.

If you have had to work from home this year, you can claim a tax-free amount of £312 for 2023/24 to cover the additional costs involved (provided your employer does not reimburse them). You can use HMRC's online portal before 6 April 2024 so that you receive the benefit via your PAYE code for 2023/24. However, this relief is only available if you have to work from home, not if you merely choose to do so.

Other considerations

- This is also a good time to review your company car situation, especially if you have been working from home and expect this to continue long term. If you are hardly using your company car, you can return it to your employer to remove the tax charge. Alternatively, switching to a fully electric car or an ultra-low emission hybrid with a high electric motoring range will drastically lower your tax cost. Such a switch will also save tax and NICs for your company.

- If you are going to work abroad for more than a year, it may help to leave the UK before 6 April 2024. There are complex rules around residency, so you should seek specific advice.

Dividends

The current dividend tax-free allowance of £1,000 will fall to £500 in 2024/25. If you are the owner of a limited company, it would be wise to ensure you make use of the dividend tax-free allowance for 2023/24. Similarly, if you are a higher rate taxpayer and may become an additional rate taxpayer in 2024/25 (or Scottish top rate taxpayer), you could bring forward a dividend to avoid the additional rate (or Scottish top rate) next year. This could also help if the income falls into the basic rate band this year (or Scottish starter, basic or intermediate rate bands). But you should avoid bringing forward a dividend if it is more likely to fall into a higher band this year than next year.

You could even give shares to your spouse or civil partner shortly before paying a dividend if they pay tax at a lower rate than you, provided you genuinely transfer ownership. It is advisable to leave as much time as possible between the gift and the subsequent dividend payment.

SELF-EMPLOYMENT

The director/employee tax planning approach around income levels applies equally to people who are self-employed.

If you are self-employed, you might be able to affect the timing of your taxable profits to avoid paying tax at 45% (47% in Scotland), but this will depend on your accounting date.

Complicating matters in 2023/24 is the transition to taxation of business profits actually arising in the tax year. This has impacted those not currently on a 5 April/31 March year end. For 2023/24, taxable profits are based on the 12 months from the end of the 2022/23 basis period, plus a transition component running from the end of this 12-month period to 5 April 2024. For 2024/25, taxable profits will be those arising in the tax year itself.

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Any additional profits arising from the transition are spread over a five-year period, but businesses can opt out of spreading. Any decision on spreading profits should take into account that the personal allowance and higher rate thresholds are frozen, and also that the class 4 NIC main rate is 1% lower from 2024/25 onwards.

Partner's salary

You could pay an otherwise non-earning partner a salary, on which you will get tax relief. You normally must keep PAYE records even if the salary is below the NICs limit, which is £533 a month in 2023/24. If, however, the salary is between £533 and £1,048 a month, your partner will avoid paying any employee NICs, but will still qualify for state benefits. A small amount of employer NICs will be payable if the salary exceeds £758 a month.

You can also pay an employer's contribution to your partner's personal pension plan. There are no taxes or NICs on the payment itself, and it should be an allowable business expense. However, the total value of your partner's salary, benefits and pension contributions must be justifiable in relation to the work performed.

Alternatively, you could plan ahead to share the profits of your business by operating as a partnership in 2024/25. You both need to be genuinely involved as business partners, though not necessarily equally.

Planning point

With corporation tax charged at 25%/26.5% once company profits reach £50,000, there are now fewer tax advantages to running a business as a limited company than was previously the case. If you are considering incorporation, you need to carefully weigh up the tax and other advantages and disadvantages of taking this step.

Useful link: www.gov.uk/business – helpful advice for businesses.

GET AHEAD ON CAPITAL GAINS TAX PLANNING

Some careful forethought can help minimise your CGT bill this year.

Everyone has an annual CGT exempt amount, which in 2023/24 makes the first £6,000 of gains free of tax. For 2024/25, this amount will be halved to £3,000.

- Most gains above the exempt amount are taxed at 10%, where taxable gains and income are less than the non-Scottish basic rate limit of £37,700 in 2023/24.
- The rate is 20% on gains that exceed this limit. Residential property gains are taxed at 18% and 28%.

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You should generally aim to use your annual exempt amount by making disposals before 6 April 2024. If you have already made gains of more than £6,000 in this tax year, you might be able to dispose of loss-making investments to create a tax loss. This could reduce the net gains to the exempt amount.

Timing disposals

If your disposals so far this tax year have resulted in a net loss, the decision on whether to dispose of investments to realise gains before 6 April 2024 will depend on the amounts involved. Depending on your level of income, timing your disposals either before or after the end of the tax year could result in more of your gains being taxed at 10% rather than 20% (or 18% instead of 28%). With the Treasury shelving potentially radical recommendations from the Office for Tax Simplification at the end of November on reforming CGT, planning for the year ahead is now simpler.

Transferring assets between married couples or civil partners before disposal might save CGT, particularly where one partner has an unused exempt amount, has not fully used their basic rate tax band or has capital losses available. You should generally leave as much time as possible between the transfer and the disposal.

CGT is normally payable on 31 January after the end of the tax year in which you make the disposal. You could therefore delay a major sale until after 5 April 2024 to give yourself an extra 12 months before you have to pay the tax. However, a payment on account of CGT must be made within 60 days of a residential property disposal (other than of an exempt principal private residence). There is therefore no timing advantage to delaying such a disposal.

Planning point

Timing your disposals is particularly important if disposals in this tax year have already resulted in a net loss. Depending on the level of your income, making a further disposal either side of the tax year end could save or cost you tax.

A shareholding or another chargeable asset might have lost virtually all value. If so, you can claim the loss against your capital gains without actually disposing of the asset, by making a negligible value claim. You can backdate the loss relief to either of the two tax years before the one in which you make the claim, provided that you owned the asset in the earlier year and it was already of negligible value. The deadline for backdating a claim to 2021/22 is 5 April 2024.

PENSION TAX PLANNING

The tax privileges of investing in pension plans generally make them a key focus in tax planning.

Pension funds are broadly free of UK tax on their capital gains and investment income. When you take the benefits, up to a quarter of the fund is normally tax free, but the pension income will be taxable.

Most people aged 55 (rising to 57 in 2028) and over can draw their pension savings flexibly. Withdrawals above the tax-free amount are liable to income tax at your marginal rate. You should take advice before accessing pension savings as there are several options and they will generally have a long-term effect on your financial position.

The annual allowance was left untouched in the Autumn Statement of 22 November 2023, but a future reduction in tax relief for pension contributions remains a possibility. You might want to maximise your pension contributions for 2023/24 by making further contributions before 5 April 2024.

Contributions

There is an annual limit of £60,000 on pension contributions that qualify for tax relief, although it is tapered down to a minimum of £10,000 if your income exceeds £260,000. You can, however, carry forward unused annual allowances for up to three years to offset against a contribution of more than the annual limit. For individuals already drawing a flexible income from a pension, the annual allowance is also £10,000.

- You can pay up to the whole of your earnings into a pension scheme, but the tax relief is capped by the annual allowance plus any unused allowances brought forward.
- Tax relief on pension contributions is normally at least 20%, and higher or additional rate taxpayers receive relief at 40% or 45%. In Scotland, intermediate, higher and top rate taxpayers receive relief at 21%, 42% or 47% respectively. Limiting your contributions to amounts that qualify for at least 40% tax relief will give you the most benefit.
- Effective relief can be as high as 60%, or 63% in Scotland, where the personal allowance is being withdrawn, and can be even higher if Universal Credit payments or tax credits are being withdrawn.
- You could set up a pension for your partner or children since they don't need earnings to build up to £3,600 in a personal pension. Even if they do not pay any tax, they can still benefit from 20% tax relief.

Lifetime allowance

There is no longer any limit to the amount you can hold in a tax-favoured pension scheme without triggering an extra tax charge. However, all tax-free lump sums, including death benefits, are still tested against a lifetime limit set at £1,073,100.

Planning point

The combination of tax relief on contributions, tax-free growth within the fund and the ability to take a tax-free lump sum on retirement makes a pension plan an attractive savings vehicle, the more so since the abolition of the lifetime allowance.

Useful link: www.gov.uk/plan-retirement-income – information about pensions and pensioner benefits.

INDIVIDUAL SAVINGS ACCOUNTS

Individual saving accounts (ISAs) have income tax and CGT advantages.

You can currently invest in one cash ISA, one stocks and shares ISA and one innovative finance ISA in each tax year. This is set to change from April 2024. ISAs are free of UK tax on investment income and capital gains. If you are aged 18 to 39, you can also invest up to £4,000 in a lifetime ISA. However, the maximum investment limit of £20,000 (for 2023/24) applies across all four types of ISA.

Lifetime ISAs

The government adds a 25% bonus to investments of up to £4,000 a year in a lifetime ISA. You can use these savings to help buy a first home or keep the funds for retirement. A lifetime ISA will be a more attractive approach to retirement saving than a traditional pension for some, or you can, of course, opt for both forms of pension saving.

The decisions can be complex so taking advice is essential. You will incur a lifetime ISA government 25% withdrawal charge if you transfer the funds to a different type of ISA or withdraw the funds before age 60 and you may therefore get back less than you paid into a lifetime ISA.

Junior ISAs

Parents and others can contribute to a Junior ISA for children up to 18 who do not have a child trust fund. The contribution limit is £9,000 in 2023/24.

Useful link: https://uk.reuters.com – financial and market analysis.

USE YOUR INHERITANCE TAX EXEMPTIONS

Inheritance tax (IHT) planning is generally not related to the tax year end, although this is as good a time as any to review your will and ensure your stated wishes are up to date.

There are, however, certain IHT exemptions that are related to the tax year.

- Gifts totalling up to £3,000 in a tax year are exempt from IHT. If you didn't use this exemption in 2022/23, you can make IHT-free gifts of up to £6,000 before 6 April 2024. If you have already used your exemption for 2023/24, you could delay your next gift until after 5 April 2024 to take advantage of the 2024/25 exemption.

- Gifts of up to £250 to any person in any one tax year are exempt. You can use this exemption for any number of different recipients.

- Regular gifts out of excess income can also be exempt, with the amount of excess income determined each tax year. You need careful documentation to prove that you make the gifts from income rather than capital.

Useful link: www.gov.uk/inheritance-tax – HMRC guide to IHT.

CHARITABLE GIVING

Charities make a difference to millions of lives in the UK and around the world. Whatever cause you care about there will be a charity working on it. Remember you can get tax relief for any charitable gifts if you make a gift aid declaration

You make the gift out of your taxed income and the charity can claim back basic rate tax on the value of the gift. Higher and additional rate taxpayers can claim an extra 20% or 25% in relief. Intermediate, higher and top rate taxpayers in Scotland can claim an extra 1%, 22% or 27% in relief.

You can obtain both income tax and CGT relief on gifts to charities of shares listed on the stock market and certain other investments.

Gifts to charity are free of IHT, so remembering a charity in your will can reduce the total amount of IHT that will be paid on your estate. If 10% of your net estate is left to charity, then the rate of IHT payable on the remainder of your estate will be reduced from 40% to 36%.

Useful link: www.gov.uk/donating-to-charity – Information about tax relief when donating to a charity.

CHECKLIST

- Could you **transfer income to your partner** to minimise higher and top rate taxation next year, to maximise the tax-free savings and dividend income limits, or to avoid losing child benefit?
- Have you considered **the timing of dividends and bonuses** to minimise tax rates?
- Have you used your **annual CGT exempt amount** by making any available disposals before 6 April 2024?
- Have you used this **year's ISA allowance** before 6 April 2024?
- Are you **investing enough in your pension** (or possibly a lifetime ISA) if you wish to, or have to, retire earlier than state pension age, which is likely to keep going up?
- If you are aged over 55, have you taken advice about the options for **drawing your pension savings**?
- Have you made gifts to use your **annual IHT allowances**?
- Are you considering any **charitable gifts** now or in your will?

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