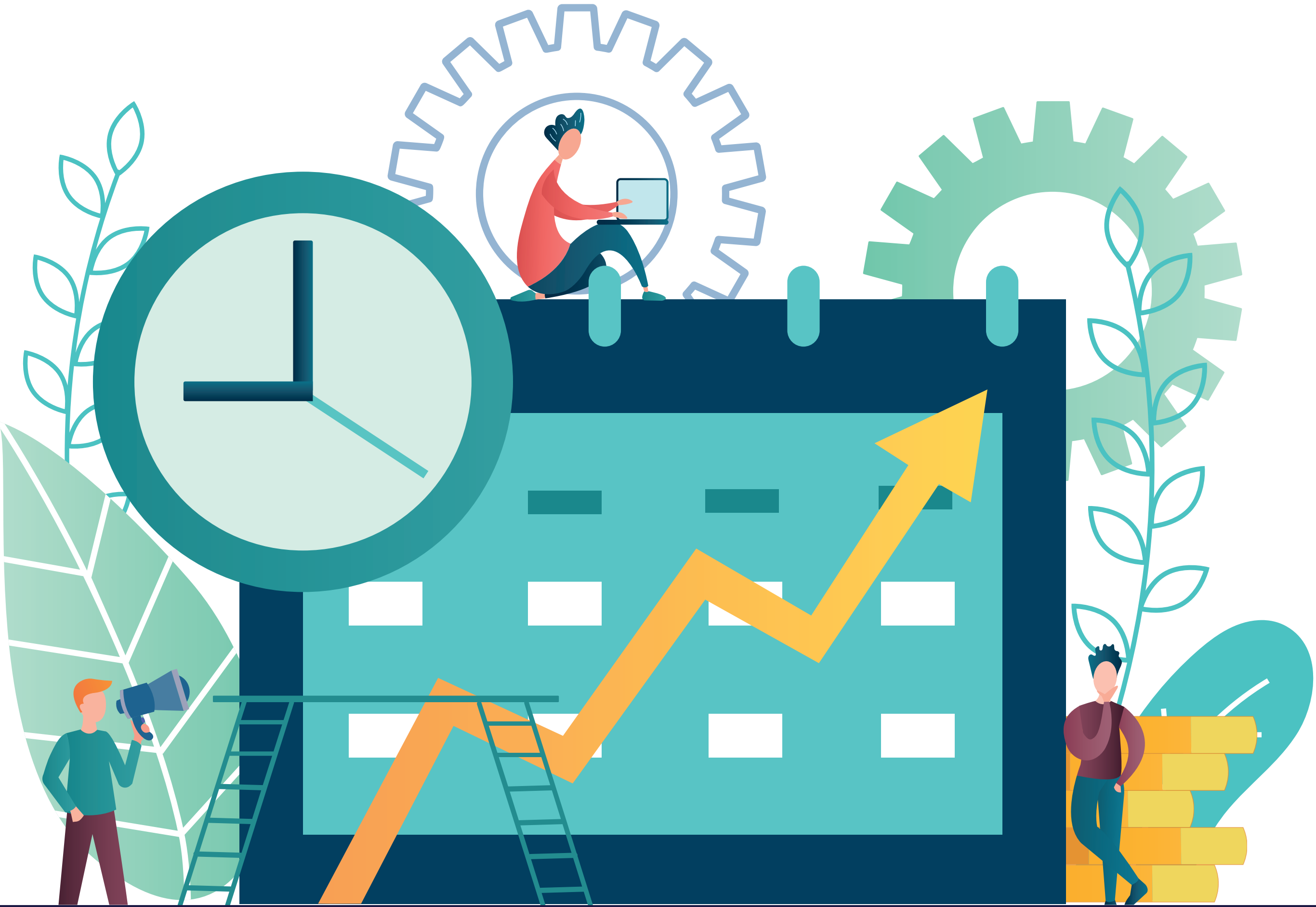


KEY GUIDE

Year end financial planning

Introduction

MAKE THE MOST OF YOUR RELIEFS AND ALLOWANCES

With the tax burden rising in each of the next five years to a post-war high of 37.7% of GDP it is more important than ever to make the most of the tax allowances and reliefs available to you. This guide provides an insight into the core opportunities you should consider. With ideas covering income and investment, couples, company directors and employees, there is something for everyone. We also provide some essential tips for those wanting to reduce their inheritance tax liability.

The guidance included here forms the base of a good financial plan as the old tax year comes to an end and the new one starts. If you would like personalised advice on any of these topics, please get in touch.

Contents

This report 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 Financial Conduct Authority does not regulate tax advice, so it is outside the investment protection rules of the Financial Services and Markets Act and the Financial Services Compensation Scheme. Tax rates may differ in Scotland. The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. The report represents our understanding of law and HM Revenue & Customs practice.

Income tax saving opportunities

If you're in a couple, switching income from one spouse or civil partner to the other can help save money.

Everyone should make sure they use their personal allowance (a maximum of £12,570) and, as much as possible, reduce income charged at higher or additional (top) rates.
Two important thresholds to watch are:

- Income over £125,140 is taxed at 45%, or 47% for non-savings, non-dividend income in Scotland. This threshold is frozen (outside Scotland) until April 2028 for all income.

- The personal allowance is withdrawn where income (less certain deductions) is more than £100,000.

If salary sacrifice is an option through your employer, consider using it or think about increasing your pension contributions. If affordability allows, both of these actions can reduce the amount of income tax paid at the higher or additional (top) rates and prevent or reduce the withdrawal of the personal allowance.

Couples might be able to transfer income-producing investments between themselves to avoid exceeding one of these limits and to reduce their combined income tax bill. As only income received after a transfer will benefit, prompt action may well be needed if there is to be any benefit in 2023/24. Capital gains tax (CGT) may be payable on switching ownership of an investment if you are not married or in a civil partnership.

Everyone can receive £1,000 of dividends tax free in 2023/24, regardless of their tax status, but this is halving to £500 in 2024/25. For couples, reorganising your shareholdings may make better use of this limit. 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. There is no such allowance for additional rate taxpayers.

If you have little or no earnings or pension income, you might benefit from a 0% tax rate on up to the first £5,000 of taxable savings income. Again, shifting assets between a couple can help minimise tax. 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.

The marriage allowance allows individuals who are non-taxpayers to transfer 10% of their personal allowance (£1,260 in 2023/24) to their spouse or civil partner, providing the intended recipient pays tax at no more than the basic rate. The allowance is not automatic, so it needs to be claimed initially. It will then remain in place until you cancel it. You can backdate claims for up to four tax years, i.e. back to 2019/20.

Useful link: www.gov.uk/marriage-allowance – how it works and how to apply.

Child benefit

Where an individual or their partner has income (less certain deductions) of £50,000 or more then child benefit is effectively reduced by the High Income Child Benefit Charge. This is a 100% reduction if income is over £60,000, and a pro-rata reduction for income between £50,000 and £60,000.

Individuals may be able to overcome this by using salary sacrifice or by making pension contributions and/or charitable donations to bring income below these limits. Couples have the additional option of transferring income between partners.

Partner's salary
If you are a business owner, you could pay an otherwise non-earning partner a salary. For sole traders, this can reduce the amount of profit charged to tax at the higher or additional (top) rates. You normally must keep PAYE records even if the salary is below the national insurance contributions (NICs) lower earnings 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 NICs, but will still qualify for state benefits. Employer's NICs would be due on salary above £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
Using all of the opportunities above, you will gain the maximum income tax saving if plans are put in place before 6 April 2024 so that you benefit for the entire 2024/25 tax year.

DIRECTORS, EMPLOYEES AND THE SELF-EMPLOYED

Bringing income forward could be a sensible approach if you think you could end up paying more tax at higher rates in 2024/25.

- If your income is less than £125,140 this year but is expected to exceed £125,140 next year, you could bring forward income into 2023/24 to avoid the additional (top) rate applying next year, and to make the most of the dividend allowance before it reduces further in 2024/25.

- If your income will fall below £125,140 in 2024/25, you might be able to avoid the additional (top) rate of income tax this year by delaying a bonus until after 5 April 2024.

This same strategy can keep your income below the level at which you would lose your personal allowance. Alternatively, you might be able to sacrifice salary to bring your income below any of the thresholds in exchange for a tax-free employer's pension contribution.

Other considerations

- This is also a good time to review your choice of company car. Switching to an electric or hybrid model could mean significant tax savings for you and tax and NICs savings for your company, as well as reducing other costs.

- If you hold share options, you should consider your tax position both before and after the tax year end when deciding whether to exercise them now or in a future tax year.

- Directors who are shareholders may be able to reduce NICs by taking dividends rather than salary.

Dividends
With the tax-free dividend allowance decreasing by 50% on 6 April 2024 from £1,000 to £500, you may need to take action. You should consider paying a dividend before then if you operate your business as a limited company and have not already made full use of the higher allowance.

Bringing forward a dividend could also help if you expect your marginal tax rate to be higher next tax year than it is in 2023/24.

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

Self-employed
The director/employee tax planning approach around income levels applies equally if you are self-employed. There are now fewer tax advantages to running a business as a limited company than was previously the case and these diminished further with the increase in corporation tax from 1 April 2023 and changes to NICs announced in the Autumn Statement 2023.

From 6 April 2024, the basis period reforms will mean that the business profits of the self-employed are assessed and taxed in the tax year in which they arise. These changes affect those who do not already use an accounting period (AP) end date between 31 March and 5 April.

For them, 2023/24 is a transitional year, where taxable profits are split into two parts:

- The standard part: taxable profit for the AP ending in 2023/24.
- The transitional part: taxable profit between the end of the AP in 2023/24 and 5 April 2024.

Any unused overlap relief is deducted from transitional profit. The transitional profit is then automatically spread over the five tax years 2023/24 to 2027/28, unless the taxpayer requests otherwise.

Transitional profits are not included in the calculation for the High Income Child Benefit charge, nor for calculating income for tapering the pension annual allowance. They are, however, used in calculating the withdrawal of the personal allowance where income (less certain deductions) is more than £100,000. If this looks like it could be an issue for you in the next four tax years, you could be better off taking your transitional profits sooner rather than later.

Planning point

For example, if you expect to move into a higher tax band in any of the following four tax years (i.e. 2024/25–2027/28), you may wish to bring some or all of the transitional profits into an earlier tax year so they are charged at, say, the basic rather than the higher rate or at the higher rate rather than the additional (top) rate.

If you intend to stop trading or incorporate on or before 5 April 2024, you should be aware that any overlap relief brought forward will be deducted from the final year's profits and there will be no spreading of the transitional part.

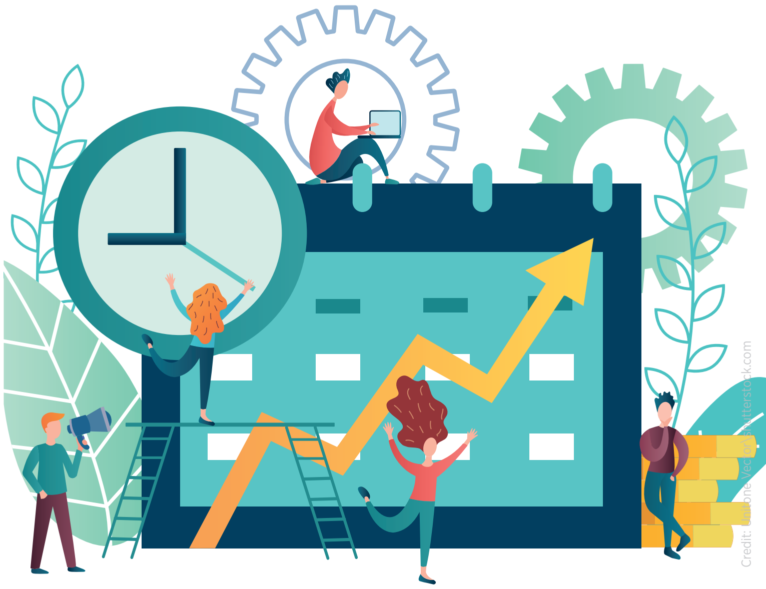
Useful link: www.gov.uk/business – helpful advice for businesses.

https://www.gov.uk/government/publications/basis-period-reform/basis-period-reform – basis period reform.

GET AHEAD ON CAPITAL GAINS TAX PLANNING

With the CGT annual exempt amount due to fall by half in 2024/25, managing your capital gains liabilities to maximise this reducing allowance should be a priority.

Everyone has a CGT annual exempt amount, which in 2023/24 makes the first £6,000 of gains free of tax. For 2024/25 this figure falls to £3,000 and is frozen thereafter.



- Most gains above the exempt amount are taxed at 10% where taxable gains and taxable income are less than the UK basic rate limit of £37,700 in 2023/24.
- The rate is 20% on most gains that exceed this limit.
- Residential property gains that are not eligible for private residence disposal are taxed at 18% and 28%.

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 annual 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 the tax year end will hinge 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 at 18% instead of 28%). Transferring income producing investments between married couples or civil partners can also mean more gains being taxed at the lower rates of CGT.

Transferring assets between married couples or civil partners before disposal might save CGT, particularly where one partner has an unused annual 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.

If shares or assets have become virtually worthless, you could 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 tax year and it was already of negligible value. The deadline for backdating a claim to 2021/22 is 5 April 2024.

Planning point

CGT is normally payable by 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, but you'll need to weigh this up against the impact of the reduced annual exempt amount. (For a non-exempt residential property disposal, a payment on account of CGT must be made within 60 days of completion.)

PENSIONS PLANNING

Pension contributions benefit from a number of tax reliefs, which are widely viewed as under threat in future Budgets.

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

Contributions

If you have surplus income, you may wish to consider increasing your pension contributions to boost your retirement funds.

There is a general annual limit of £60,000 on pension contributions that qualify for tax relief. However, if your income (including any pension contributions made by your employer) exceeds £260,000 the limit is tapered down, with a minimum of £410,000 applying if the figure is £360,000 or more.

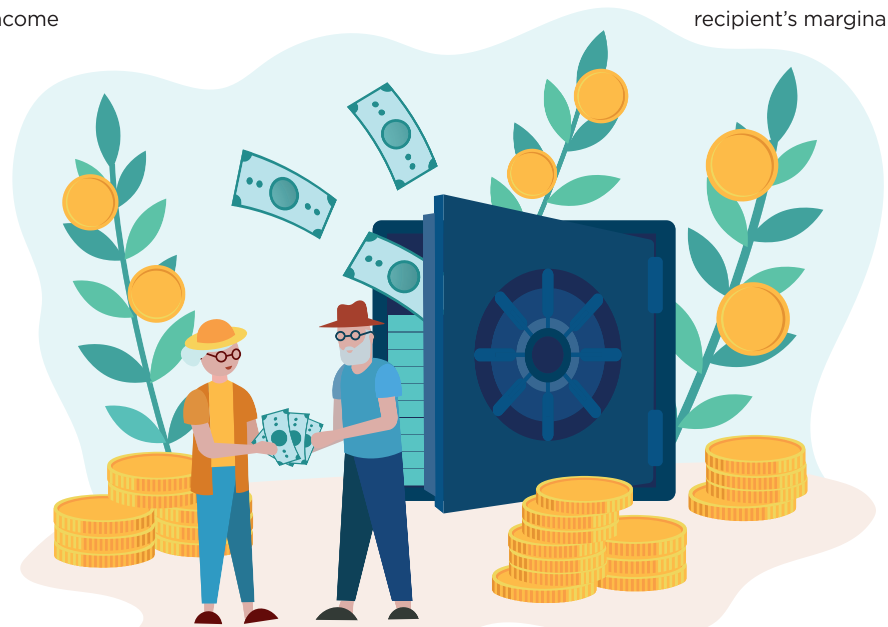
You can carry forward unused annual allowances for up to three tax years to offset against a contribution of more than your annual limit. If you are already drawing a flexible income from a pension, the annual allowance is £410,000 and you cannot take advantage of carry forward.

- You can pay up to your entire annual earnings into a pension scheme in any one tax year, but tax is capped by the annual allowance plus any unused allowances brought forward.
- Unused allowances are calculated based on the annual allowance from the tax year they are brought forward from. For the last three tax years (2020/21–2022/23), this was a maximum of £40,000, rather than the current £60,000.
- Tax relief on pension contributions is normally at least 20%, with higher and additional rate taxpayers receiving relief at 40% or 45%. In Scotland, intermediate, higher and top rate taxpayers receive relief at 21%, 42% or 47% respectively.
- Tax relief is greatest where it exceeds the eventual tax on benefits, for example, where a higher rate taxpayer becomes a non- or basic rate taxpayer in retirement.
- Limiting your contributions to amounts that qualify for tax relief at the higher rates 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 tax credits or Universal Credit payments are being withdrawn.
- You could set up a pension for a non-working partner or your children since they don't need earnings to contribute 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

The pension standard lifetime allowance is £1,073,100 in the tax year 2023/24, the allowance's last year of existence. The maximum amount of cash you can take tax-free from your pension is 25% of this amount, i.e. £268,275. A higher allowance can apply if an appropriate claim has been made.

In previous years, you would have paid a lifetime allowance charge on any pensions savings over this amount. But from 6 April 2023 that charge has been removed. Certain lump sum payments which would have been subject to a lifetime allowance charge are instead subject to income tax at the recipient's marginal rate.



Credit: AlisaRut\shutterstock.com

Drawing benefits
Many people aged 55 and over (57 from 6 April 2028) 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, each with their own pros and cons, and they will generally have a long-term effect on your financial position.

If you are already drawing your benefits from a pension fund that is not guaranteed and are considering reducing your withdrawals, be aware that this should also reduce the amount of income tax due.

Planning point
If your pension fund is over or close to the £1,073,100 lifetime allowance, you might consider speaking to a financial adviser to ascertain the implications for you of the allowance's abolition from 6 April 2024.

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

TAX-EFFICIENT INVESTMENTS

Some investments have income tax and CGT advantages.

Individual savings accounts
Tax-efficient savings and investments like individual savings accounts (ISAs) can give your returns a further boost.

You can invest in one cash, stocks and shares and innovative finance ISA in each tax year. If you are aged 18 to 39, you can also invest up to £4,000 in a lifetime ISA (LISA). If you already have a LISA, you can contribute until you reach age 50. However, the maximum ISA investment limit of £20,000 for 2023/24 (and 2024/25) applies across all four types of ISA. This sum may be invested in one type of account or split between two or more. ISAs are free of UK tax on investment income and capital gains, and there is a wide choice of funds and providers.

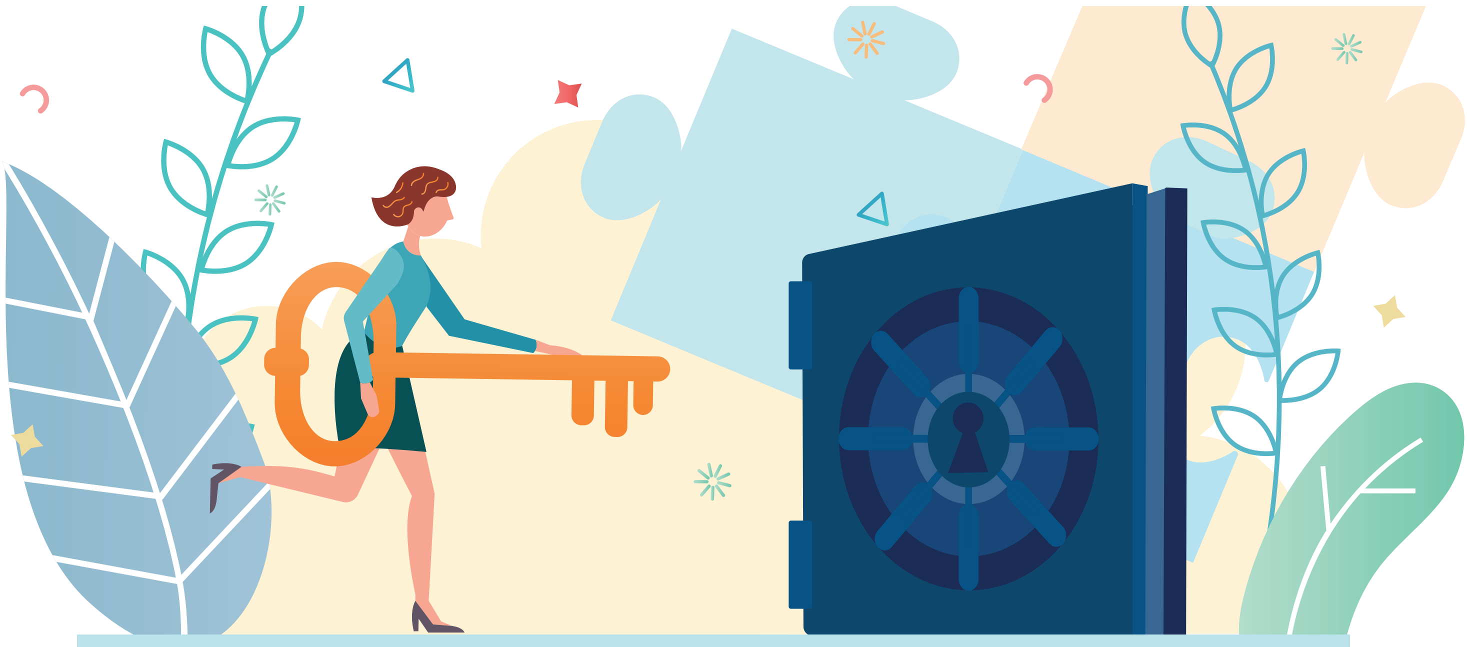
The government adds a 25% bonus to investments of up to £4,000 a year in a LISA. You can use these savings to help buy a first home or keep the funds to use from age 60. Eligible savers can use a LISA either instead of or alongside more traditional ways of saving for retirement.

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

Until 5 April 2024, 16- and 17-year-olds can open a cash ISA. However, the rules effectively prevent you from opening an ISA for them. 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 a generous £9,000 in 2023/24 (and 2024/25) and funds are generally locked in until the child is 18.

Enterprise investment schemes and venture capital trusts
These are schemes that offer significant income tax and CGT benefits. However, they are high-risk investments and may be difficult to sell so you should seek specialist advice.

- Enterprise investment schemes (EISs) give income tax relief at 30% for investing in new shares in relatively small qualifying trading companies that are not listed on any main stock exchange.
- The seed enterprise investment scheme (SEIS) is similar but gives income tax relief at 50% and is aimed at start-up companies.
- Gains from both EISs and SEISs escape CGT after three years. CGT reinvestment relief is also available.



- Once held for two years, investments in EISs and SEISs are usually outside of an individual's estate for IHT purposes.
- Income tax relief for investment in newly issued shares in venture capital trusts (VCTs) is 30%. Normally gains are exempt from CGT and dividends free of income tax. VCTs are investment trusts that invest in relatively small trading companies.

Planning point

ISAs have always been valuable for those who can afford to regularly invest the annual maximum and consequently build up substantial tax-free savings. Now, with the CGT annual exempt amount and the dividend allowance both falling next tax year, they are becoming more attractive to those wishing to set aside smaller regular or ad-hoc sums. Greater flexibility will be introduced from April 2024, which will include allowing partial transfers of ISA funds in-year between providers and in-year contributions to multiple ISAs of the same type from different providers.

REVIEW YOUR INHERITANCE TAX PLANNING

Most inheritance tax (IHT) planning is not related to the tax year end, but this is as good a time as any to review your will.

IHT is payable if a person's assets on death, plus gifts made in the seven years before death, add up to more than the nil rate band, which is currently £325,000. A residence nil rate band of £175,000 may also be available where a residence is left to direct descendants.

Lifetime gifting is a way of reducing the value of your estate. 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.

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

CHARITABLE GIVING

You can get tax relief for any gifts to charity if you make a gift aid declaration.

You make the gift out of your taxed income and the charity benefits by claiming 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, respectively.

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 at least 10% of your net estate is left to charity, then the rate of IHT payable will be reduced from 40% to 36%.

The value of tax reliefs depends on your individual circumstances. Tax laws can change.

The Financial Conduct Authority does not regulate will writing, tax and trust advice and certain forms of estate planning.

The value of your investment and the income from it can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.

Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.

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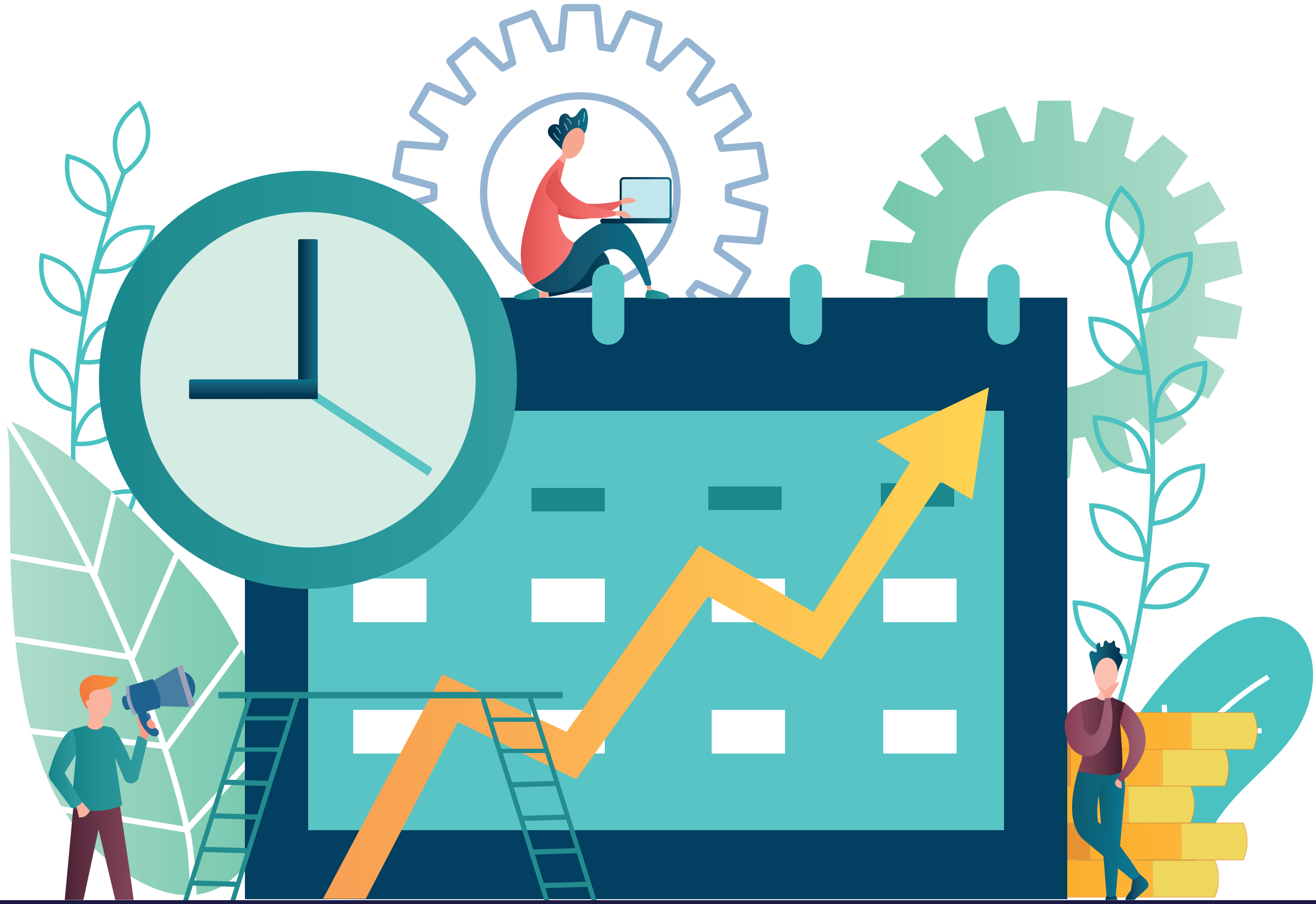
CHECKLIST

- Could you **transfer savings or investments to your partner** to minimise tax payable at the higher rates next tax year, to maximise use of the personal savings and dividend allowances, or to avoid losing your personal allowance or child benefit?
- Have you considered the **timing of dividends and bonuses** to minimise tax payable?
- Have you used your **CGT annual exempt amount** by making any available disposals before the tax year end?
- 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 used **this year's ISA allowance** and made any other tax-efficient investments before 6 April 2024?
- Have you made gifts to use your **annual IHT allowances**?



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