



End of year Tax Planning



Year-end tax planner

With the current tax year having begun on 6 April 2022, the clock is ticking and it is important to utilise all the tax reliefs and allowances available before 5 April 2023 in order to minimise your liabilities.

That is why the team at TWP has compiled the following list of the key tax planning ideas that you should be considering.

We hope that you find this useful, but please bear in mind that this only provides a summary of the options you should be considering and not all options will be suitable for everyone. Therefore, for more information on any of the ideas outlined or for detailed advice tailored to your specific circumstances, please contact us.



Tax planning

Business Tax

Dividend Taxation: Have you considered whether a dividend of £2,000 can be paid from your company to utilise the zero per cent Dividend Tax Band of £2,000? This is dropping to £1,000 in 2023/24 and £500 in 2024/25. The additional rate threshold is also reducing to £125,140 from £150,000 from 6 April 2023.

Salaries: With the increase in the Corporation Tax Rate from April 2023, as set out below, it would be wise to review your remuneration package moving forward. Depending on your company's level of profit it may be more beneficial to pay a higher salary and reduce dividends from 1 April 2023.

Corporation Tax: The main rate of Corporation Tax is increasing on 1 April 2023 to 25%. This rate will apply to companies with annual profits over £250,000. A small profits rate will be introduced for companies with annual profits of £50,000 or less so that they will continue to pay corporation tax at 19%. Companies with annual profits between £50,000 and £250,000 will pay tax at a marginal rate between 19% and 25%. It would be wise to check that this has been included in any cash-flow calculations and to consider the impact this increase will have on your business going forward. You may wish to consider whether it will still be tax-efficient to run your business as a corporate body.

Company Loans: Have you made any interest free loans to your own company? It may be worth considering charging a commercial rate of interest on these loans. This is a good way of extracting money from your company other than by way of salary and dividends because the interest may fall within your personal savings allowance for the year (£1,000 for basic rate taxpayers/£500 for higher rate taxpayers) and the interest charged will be a deductible expense in your company's corporation tax return.



Tax planning

Business Tax (continued)

Capital Gains: Have you used your annual exemption for 2022/23 of £12,300? This is falling to £6,000 for the 2023/24 tax year and again to £3,000 for the 2024/25 tax year. The annual exemption cannot be carried forward or transferred so you should aim to make disposals before 6 April 2023 to utilise this year's exemption. You could also consider transferring assets to your spouse or civil partner. If your spouse or civil partner is a basic rate taxpayer, gains on assets transferred to them will only attract tax at the lower rate 10% CGT rate (with the exception of residential property at 18%) to the extent of the unused basic rate tax band. At the same time, you will also be utilising their CGT annual exemption. Assets transferred between married couples or civil partners do not normally give rise to a CGT charge.

Capital Gains on UK residential property: Since 6 April 2020, anyone making a taxable gain from selling a UK residential property must submit a residential property capital gains return within 60 days of completion and pay any Capital Gains Tax due (previously 30 days).

Accounting Dates: Have you considered changing your accounting dates and taking advantage of the tax benefits of overlap relief or incorporation? Do you have a year-end that falls outside of 5 April or 31 March and are therefore likely to be impacted by the change in the way that partnership or self-employment profits are reported to HMRC from April 2024? If so then you should consider these changes particularly because there will be a transitional year for 2023/2024 which may increase the amount of tax that will be payable in January 2025.

Self Employed, Partnerships and LLPs: Have you considered changing your accounting dates, and taking advantage of the tax benefits of overlap relief? In addition, you should consider incorporation to a Limited Company if this is a more tax efficient business structure.



Tax planning

Business Tax (continued)

Capital Allowances: Have you purchased any required items before your business year end to ensure these allowances are available a year earlier? There is currently an Annual Investment Allowance of £1 million which means that up to £1 million of qualifying plant and machinery expenditure can be deducted against taxable profits in year one.

Super Deduction: The Super Deduction was introduced from April 2021 and will run for two years until 31 March 2023. This allowance entitles companies to claim 130 per cent first year deduction on qualifying main rate plant and machinery investments. This allowance only applies to brand new plant and machinery and includes assets such as certain commercial vehicles, equipment or machinery and will allow businesses to deduct the value of the investment, plus 30 per cent from their taxable profits. Relief may vary where your business YE differs to 31 March 2023.

Research & Development: Has your company carried out any projects which are seeking an advance in science or technology? If so, it is possible that some, if not all, of the project costs will qualify for the generous Research & Development reliefs. For all qualifying expenditure incurred up to 31 March 2023, HMRC will allow an extra 130% of identified costs to be written off against taxable profits or surrendered for a tax credit at 14.5% if in a loss position – this equates to 33p in every pound spent on projects that have led to the creation of new products, processes or services or modifying an existing product, process or service. Claims can even be made for unsuccessful projects. From 1 April 2023 the rate of relief is decreasing from 130% to 86%, and the tax credit rate decreasing from 14.5% to 10%, equating to just 18.6p in every pound spent on qualifying projects. However, following concern from small businesses that carry out substantial R&D activities, the chancellor announced in the Spring Budget that the tax credit rate would remain at 14.5% for loss making Small and Medium Enterprises (SME) that are 'R&D intensive'. This includes SME with qualifying expenditure constituting at least 40% of their total expenditure. This would give an effective rate of relief of 27p in every pound spent on qualifying projects.



Tax planning

Business Tax (continued)

Company Cars and Benefits in Kind: With the increase in Class 1A national insurance contributions and the ever increasing car benefit charges, both employers and employees should consider switching to company cars with low CO2 emissions. If you are thinking of switching to an electric car for business use, the tax benefits are well worth exploring and include enhanced capital allowances, lower benefits in kind (determined by the vehicle's CO2 emissions and fuel type) and £0 road tax for 100% electric vehicles which is expected to last until at least 2025.



Tax planning

Personal Tax

Personal Allowance: If your income is in excess of £100,000 your personal allowance is restricted. It is withdrawn at a rate of £1 for every £2 of income above £100,000 and the impact is punitive with a 60% effective tax rate for income between £100,000 and £125,140. In these instances, you may wish to consider if there are any income tax deductions which can be claimed to reduce your income. These could include donations under Gift Aid, transferring income to others or by making pension contributions. Additionally, those with income of over £150,000 will be subject to the additional rate of tax (45%) so again you should consider income tax deductions to reduce your exposure to additional rate tax. From 6 April 2023, the additional rate threshold is dropping to £125,140.

Inter-spouse Transfers: Have you maximised capital gains and income tax rates and allowances through these exempt transfers? For individuals whose annual income is between £100,001 and £125,140 this is an ideal way of reducing your tax liabilities.

Exchange your salary for benefits: Consider exchanging part of your salary for payments into an approved share scheme or additional pension contributions, to take you below the £100,000 threshold.

Stamp Duty Land Tax: If you are looking to purchase a home, or second home, have you considered stamp duty? If you are purchasing a second property that is not your main home, you may face a three per cent surcharge on top of the current rates of stamp duty.

Inheritance Tax: Have you used your maximum gift allowances? You should consider IHT reliefs and exemptions such as the annual gifts exemption of £3,000 (£6,000 if no gifts were made in the previous year), the small gifts allowance of £250 per donee, and gifts made in consideration of marriage (£5,000 to children, £2,500 to grandchildren, and £1,000 to anyone else).



Tax planning

Personal Tax (continued)

Gifts to Charity: Charitable donations made under the Gift Aid scheme can result in significant benefits for both the donor and the charity. A cash gift of £80 will generate a tax refund of £20 for the charity so that it ends up with £100. The donor will get higher rate tax relief of £20 so that the net cost of the gift is only £60. Where the 45% additional rate of tax applies, the net cost of the gift in this example would be only £55. Care needs to be taken in claiming gift aid if you are a low earner and can create an unexpected tax charge if you have not paid enough tax to cover the gift aid. In addition, tax relief against 2022/23 income is possible for charitable donations made between 6 April 2023 and 31 January 2024. This is provided that the gift aid payment is made before filing the 2022/23 tax return.

Notices of Coding: Where you are employed, or have a pension, it is worth checking your PAYE Notice of Coding to ensure your allowances are correctly stated. This includes relief for pension contributions, charitable donations and any other tax reliefs. HMRC's coding system has, in our experience, led to many incorrect coding notices. If the coding is wrong, many taxpayers could end up with unwanted, and unexpected tax bills after the end of the tax year. May we therefore suggest that you send us a copy of your 2023/24 notices of coding when you receive it so we can check if it is correct.



Tax planning

Inheritance Tax Planning

Switch your Assets: Inheritance Tax (IHT) must be paid on the value of any estate above £325,000. However certain assets including business and agricultural as well as shares in private trading companies may qualify for 100 per cent relief from IHT.

An additional nil rate band is available in respect of a property that at some point has been the deceased's main residence and which is passed on death to a direct descendant. This is the Resident Nil Rate Band (RNRB) and for 2022/23 is £175,000. This, in total, provides an IHT allowance of £500,000 per person, so a married couple could have a £1 million allowance. Estates worth over £2 million will start to lose the RNRB, with it being withdrawn at a rate of £1 for every £2 over £2 million.

Charitable and Personal Gifts: If you leave at least 10 per cent of your net estate to charity a reduced rate of 36 per cent rather than 40 per cent applies and could save your family money. Gifts to a spouse can be made now to use up his or her nil rate band and could help you to reduce the value of the part of your estate above the £325,000 band. You can also make regular gifts out of your income which are tax-free if they are used for normal expenditure, which could include, for example, paying for a grandchild's school fees. Other gifts may be free of IHT but it is important to seek advice first.

Passing on your Pension: Following the change to pension rules in 2015, if you have not already done so, you should revisit your current plans and update your Will to ensure that your family receives the full benefit of any remaining pension fund when you die.

Trust Funds: There are many ways that a formal trust fund can protect and maximise your family's future assets. There have been a number of changes to the treatment of trust funds recently which are complex and could affect some people. If you are considering setting up a Trust, seek advice.



Pensions

Protecting a large Pension: The Lifetime Allowance (LTA) reduced from £1.5 million to £1.25 million in 2014. The LTA has since been reduced further and is now £1,073,100 for 2022/23. If this is likely to affect you, we urge you to take advice as there are ways of protecting your funds. Please note the above has been abolished from April 2024.

Stakeholder Pensions: All UK residents including children can make annual net contributions of £2,880 per year (£3,600 gross) regardless of whether they have any earnings. There are ways of using these payments to keep below the £50,000 income threshold to retain child benefit. It is also a very beneficial way of giving your children a helping hand for the future. If pension investments were to grow at a rate of nine per cent every year, investing £2,880 a year for your 10 year old child could result in a maximum pension pot of £1 million by the time he or she is 68 years old. Please note the above has been abolished from April 2024.

Pension Drawdown: If you are 55 or over, you may be able to start drawing down pension benefits now from a personal pension such as a SIPP, even if you are still working. You may take up to 25 per cent tax-free with the rest taxed at your marginal rate. Anyone who is entitled to flexible drawdown and who is considering retiring overseas should seek advice on potential additional tax savings available to them.

Annual Pension Allowance: Have you used your full pension allowance as you can invest up to £40,000 a year into a pension tax-free? You can also make use of any unused annual allowance from the previous three tax years providing you were a member of a registered pension scheme during that period. For instance, in 2022/23, any unused annual allowance for the three previous tax years (2019/20, 2020/21 and 2021/22) can be added to your 2022/23 allowance (giving a maximum contribution of £160,000) and will attract tax relief at your marginal rate. The last opportunity to utilise any available carry forward allowance from the 2019/20 tax year will be 5 April 2023. Increasing from £40k to £60k from April 2023.



Pensions

Tapered Annual Allowance: Individuals with adjusted net income exceeding £240,000 will have their annual pension contribution allowance restricted. Their standard allowance of £40,000 will be reduced by £1 for every £2 of income in excess of £240,000. Individuals with an adjusted net income in excess of £312,000 will suffer the full reduction of their annual allowance to £4,000. No tax relief will be available for contributions in excess of this figure. If you earn over £312,000 and do not have any unused brought forward annual allowance, you could be subject to a pensions savings charge at 45% on any contributions made in excess of the £4,000 tapered annual allowance. Increasing from £4k to £10k from April 2023. Increasing from £240k to £260k from April 2023.

Income Tax Relief on Pensions: Have you claimed your higher or additional tax relief?

Make Tax-free Pension Contributions: Pension contributions made to employees by an employer are tax efficient. If you own the company you can claim a business tax reduction. Where employees exchange some of their salary in return for a larger pension contribution made by the employer both parties can save on national insurance contributions.

Retirement Planning: Have you ensured that you have a suitable plan in place to meet your needs in retirement? There are many tax reliefs and investment opportunities available that can increase your income and savings in retirement.



Tax-efficient investment

ISAs: Have you used your maximum annual investment of £20,000?

Junior ISAs or Child Trust Fund: Has £9,000 been invested for any child under the age of 18?

Help-to-buy ISAs: This ISA was available to first time buyers over the age of 16. Savings of up to £1,200 in the first month and thereafter a maximum of £200 per month attract a 25 per cent tax-free bonus from the Government, providing £3,000 cashback on a maximum saving of £12,000. New accounts were closed from 30 November 2019, but those with existing accounts can still save but must make use of savings by 30 November 2029.

Lifetimes ISAs: Introduced in April 2017, you must be aged between 18 and 40 to open a Lifetime ISA. The Government will provide a bonus of 25 per cent on the money you invest up to a maximum of £1,000 per year. You can save up to £4,000 a year, and can continue to pay into it until you reach 50.

Tidying-up your investments: Have you realised investments and bond gains or closed deposit accounts where funds may be attracting negligible rates of interest?

Take advantage of share schemes: If your company offers a share scheme, such as a share incentive plan (SIP) or a sharesave (SAYE) there are usually price discounts and tax incentives for taking part.

EIS investment: If you invest in EIS or SEIS shares then you can claim up to 30% income tax relief on EIS investments and 50% tax relief on SEIS investments. There is also favourable capital gains tax reliefs which may be applicable.



Tax-efficient investment

Venture Capital Trust Investment: You can obtain income tax relief of 30% by subscribing up to £200,000 for shares in VCTs in 2022/23. In addition, capital gains are generally exempt from CGT after 5 years if ownership and any dividends received are tax free.

Seed Enterprise Investment Schemes: Although investing in an SEIS can carry more risk than an EIS or VCT, there is substantial tax relief available to offset a large part of potential losses.

Community Investments: Share purchases or loans to a Community Development Finance Institution (CDFI) qualify for tax relief. Over a period of 5 years relief is provided at a five per cent, providing 25 per cent relief in total.

Social Enterprise Investments: Investing in certain 'social impact' organisations can attract social investment tax relief (SITR) of 30 per cent. The limits have been changed this year. The amount of qualifying investment a qualifying social enterprise can raise has, in most cases, increased to a maximum of £1.5 million over its lifetime.

Life Assurance Bonds: Insurance backed bonds allow five per cent of the original capital to be withdrawn each year tax-free. Although you need to consider commissions, management costs and basic rate tax charges within the bond, the five per cent tax-free withdrawal is still attractive to anyone whose level of income means they will lose their personal allowance and pay 45 per cent income tax.

Offshore Bonds: As with UK bonds, five per cent of the original capital invested can be withdrawn each year tax-free. Although they are taxed in full when disposed of they provide a useful way of deferring tax.



Succession Planning

Selling a business: Are you thinking about selling a business or part of a business as part of your succession plan? You need to consider the personal and business tax implications of a sale. The sale of shares could lead to capital gains while selling part of your business or assets could create chargeable gains for Corporation Tax.

Management Buyout: If you are seeking a management buyout the structure of the transaction could have a substantial impact on how much tax each party pays. Have you considered how the new management will be remunerated? Will the sale be achieved through shares or assets? Are deal costs tax-deductible? Is Stamp Duty due on the transfer or sale of property?

Business Asset Disposal Relief: If you are looking to sell your business or shares in your business and this leads to a capital gain you could be taxed at a rate of up to 20 per cent, depending on your marginal tax rate. Business Asset Disposal Relief, formerly known as Entrepreneurs' Relief, could reduce this rate of tax to just 10 percent.

Passing a business on to a family member: Gifting a business or shares in a business to a family member is still considered a disposal for Capital Gains Tax. Depending on when you pass on after gifting a company, the value of its shares and assets could also be included in calculations for Inheritance Tax but you could take advantage of Business Relief which reduces the value of a business or its assets by up to 100 per cent. Have you considered the tax implications of transferring your business to family?

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