Planning for tax year end 2022/23

Helping you to prepare for 5 April 2023.

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Introduction

Make the most of your tax allowances and reliefs

With the largest proportion of adults forecast to pay higher rate tax since the beginning of the individual income tax system in 1990/91 according to the Institute for Fiscal Studies, it is now 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 as the old tax year ends and the new begins. We also provide some essential tips for those wanting to reduce their inheritance tax liability.

If you would like personalised advice on any of these topics, **please get in touch.**

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Income tax saving opportunities

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

All individuals 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 £150,000 is taxed at 45%, or 46% for non-savings, non-dividend income in Scotland. From 2023/24 this threshold will be cut to £125,140 and frozen until April 2028 for all income (other than in Scotland, where, at the time of writing, the lower limit will apply only to savings and dividend 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- The personal allowance is withdrawn where income (less certain deductions) is more than £100,000.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 could 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, act promptly to benefit in 2022/23. 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 £2,000 of dividends tax free in 2022/23, regardless of their tax status, but this is halving to £1,000 in 2023/24 and then to £500 in 2023/24. For couples, reorganising your shareholdings may help. Basic rate taxpayers can also receive £1,000 of savings income tax free – £500 for higher (but not 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 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 2022/23) 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 2018/19.

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 could potentially transfer 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) rate. For limited companies, this strategy may go some way to offsetting the corporation tax rise from 1 April 2023. 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 2022/23. 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, which should be an allowable business expense. However, the total value of your partner's salary, benefits and pension contributions must relate to the work performed.

Alternatively, you could plan ahead to share the profits of your business by operating as a partnership in 2023/24. You both need to be genuinely involved as business partners, though not necessarily equally.

Planning point

Using all of the opportunities above, you may gain the maximum income tax saving if plans are put in place before 6 April 2023 so that you benefit for the entire 2023/24 tax year.

"Although we fall under one of the most stringent and complex tax regimes across the globe, this does create opportunities for individuals to explore the various tax allowances available and utilise these in the most efficient manner.

Through consultation with their financial planner and based on their own personal circumstances, they can identify how these allowances can be best used to alleviate their tax burden."

Emil McKenzie
Financial Planner

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 2023/24.

- If your income is less than £150,000 this year but is expected to exceed £125,140 next year, you could bring forward income into 2022/23 to avoid the additional (top) rate applying next year, and to make the most of the dividend allowance before it reduces from 2023/24.
- If your income will fall below £125,140 in 2023/24, you might be able to avoid the additional (top) rate of income tax this year by delaying a bonus until after 5 April 2023.
- 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.

Key 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 related 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 2023 from £2,000 to £1,000, 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 2022/23. You could even give shares to your spouse or civil partner shortly 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 will diminish further with the increase in corporation tax from 1 April 2023.

You might be able to affect the timing of your taxable profits to avoid paying tax at 45%, or 46% in Scotland, but this will depend on your accounting date. However, tax rules are changing for the self-employed from 2023/24, when the basis period rules change from 'current year' to 'tax year', potentially accelerating tax due.

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

While income tax is increasing, tax allowances are decreasing and there is good opportunity to make the most of pension relief.

Company directors should also consider employer pension contributions as this saves corporation tax and moves money from a limited company into a very tax efficient investment personal portfolio, which can be used for the future and/or can be accessed immediately if you are 55 or older.

For everyone, including the self-employed, making pension contributions can still give you great tax relief – especially those in the band who have lost their personal allowance and are paying 40% as well as an additional 20% on £25,140. For every £2 over £100k you lose £1 of your personal allowance. So, on the £25,140, your net income is £10,056 (before NI contributions). From 6th April, tax-payers will pay 45% on income over £125k. With pensions, you can get your tax back and put money into a highly tax efficient portfolio.

Nicola Tait
Financial Planner

Get ahead on capital gains tax planning

With the capital gains tax (CGT) annual exempt amount due to fall by more than half in 2023/24, and to then halve again 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 2022/23 makes the first £12,300 of gains free of tax. For 2023/24 this figure falls to £6,000. In 2024/25 it will be just £3,000 and 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 2022/23.
- The rate is 20% on most gains that exceed this limit.
- Residential property gains 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 2023. If you have already made gains over £12,300 this tax year, you might be able to dispose of loss-making investments to create a tax loss, to reduce the net gains to the annual exempt amount.

Carry forward losses

With 2022 being a challenging year for markets, investors could find themselves making a loss during the 2022/23 tax year. If this is the case, you are able to carry forward these losses indefinitely as long as they are reported to HMRC within 4 years after the end of the tax year. These losses could then be utilised as offset gains in future years where the gains aren't covered by the CGT annual exempt amount. This could prove to be valuable as the annual exempt amount reduces.

Managing 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, the timing of 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 2020/21 is 5 April 2023.

Planning point

CGT is normally payable on 31 January after the end of the tax year in which you make the disposal. So you could delay a major sale until after 5 April 2023 to give yourself an extra 12 months before paying, 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.)

With the reduction in the capital gains tax annual exempt amount falling over the next two tax years, many individuals that have historically not needed to be too concerned about CGT may need to start paying more attention.

With careful planning, harvesting gains within the annual exempt amount and utilising tax efficient vehicles such as ISAs and pensions, the tax liability can be mitigated.

Robert Appleby
Financial Planner

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 might consider increasing your pension contributions to boost your retirement funds, especially if you reduced contributions over the last few years or are likely to become subject to tax at the additional rate due to the reduced threshold from 6 April 2023.

There is a general annual limit of £40,000 on pension contributions that qualify for tax relief. However, if your income (including any pension contributions made by your employer) exceeds £240,000 the limit is tapered down, with a minimum of £4,000 applying if the figure is £312,000 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 £4,000 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 the tax relievable amount is capped by the annual allowance plus any unused allowances brought forward.
- 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%, 41% or 46% respectively.
- The value of 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 61.5% 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 maximum you can hold in a tax-favoured pension scheme without triggering an extra tax charge has been frozen at £1,073,100 until 2025/26. A higher allowance can apply if an appropriate claim has been made.

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 alternative means of saving for retirement to minimise the extra tax charge of up to 55%.

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

Along with the upfront income tax relief benefits of pension contributions, the growth within them is tax free.

Although this generosity comes with the trade off that pensions are inaccessible until 55 (increasing to 57 in 2028 and potentially further). If accessibility to funds is needed, ISA's will also provide tax free growth but without the access restrictions. ISAs can either hold investments or cash and you have a £20,000 allowance each tax year.

If your pension allowance is used or you have lifetime allowance restrictions and you are still seeking income tax relief, you could consider enterprise investment schemes (EIS) or venture capital trusts (VCTs). These are both government incentives to encourage investment into early-stage companies by providing tax relief. These are high risk investments so seek advice to ensure they fit with your wider planning needs.

Victoria Ross
Chartered Financial Planner

Tax-efficient investments

Individual savings accounts

With interest rates on the rise after a long low period, tax-efficient savings and investments like individual savings accounts (ISAs) can give your returns a further boost.

You can invest in one cash ISA, one stocks and shares ISA and one 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 investment limit of £20,000 (for 2022/23) applies across all 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.

Remember that 16- and 17-year-olds can open a cash ISA, but 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 2022/23 and funds are generally locked in until the child is 18.

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 over the next two tax years, they are becoming more attractive to those wishing to set aside smaller regular or ad-hoc sums.

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 take 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.

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Utilising the various ISA and LISA tax wrappers during your lifetime can have significant impact on your finances.

With the effects of compound tax-efficient growth and continued contributions into these accounts, they snowball over time. Many clients have accrued hundreds of thousands in ISAs which are now being used to tax efficiently compliment traditional retirement income, or bridge the gap between early retirement and the commencement of mainstream pensions. Ad hoc withdrawals can also be made without concern for capital taxes which could mean buying that dream holiday home or perhaps paying off a child or grandchild's university debts.

VCT, EIS and SEIS investments are not strongly correlated to traditional investment markets and provide an essential source of new capital for small businesses.

These investments can be far more volatile and could result in total loss. However, on the upside, it is possible to capture multiples of your initial investment if you are fortunate. As the risks attaching tend to be high, the government provide income tax relief for individuals making these investments.

For those that have fully funded pensions or wish an alternative approach to long term investment planning VCT, EIS and SEIS can be an option. Careful selection and a modest weighting to such investments would be advised, along with working with a professional financial adviser.

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Dominic Lobo
Associate Director, Wealth

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 2021/22, you can make IHT-free gifts of up to £6,000 before 6 April 2023. If you have already used your exemption for 2022/23, you could delay your next gift until after 5 April 2023 to take advantage of the 2023/24 exemption.

Planning point

The freeze on the IHT nil rate and residence nil rate bands until April 2028 has been described as a stealth tax raid. It highlights the need for intergenerational planning to pass on wealth in the most effective way.

"With careful planning around Inheritance Tax (IHT), there are many options that clients have to mitigate this tax for their loved ones and beneficiaries.

Taking out life cover to insure the risk is one possibility but it can be prohibitive as a result of health issues or costs of the cover. Gifting money and surviving seven years is another option but can be ruled out if you still need access to the capital.

There are other exempt allowances available for clients who have excess income and can make gifts on a regular basis. We can also work with you to look at AIM portfolios, if appropriate for your circumstances and risk profile, which still give you access to your money and fall outside of your estate after just two years.

There are also various trust options at your disposal, where you have control over the money and access to the funds if necessary. If IHT planning is one of your objectives, speak to your adviser to start preparing as soon as possible."

Anna Jones
Chartered Financial Planner

Charitable giving

Clients often ask how they can make charitable donations and philanthropy a part of their financial plan, and the best ways to do it.

Recent events like the war in Ukraine and the cost-of-living crisis can strengthen our conviction to donate to those in need, both on a global and local scale. As advisers, we are fully committed to helping clients find the right charities and ways to donate to causes they are passionate about.

There are many ways to incorporate charitable giving into your financial and estate planning, with various schemes available to help you maximise the value of your charitable donations tax efficiently to help as much as you can.

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%, 21% or 26% 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 10% of your net estate is left to charity, for instance, then the rate of IHT payable will be reduced from 40% to 36%.

Useful link: www.gov.uk/donating-to-charity – information about gift tax relief.

In today's climate more than ever, charitable giving can make such a difference to those less fortunate. As Winston Churchill remarked:

"We make a living by what we get, but we make a life by what we give."

From a practical standpoint, it is good practice to keep a record of the charitable gifts you make at the time you make them. This makes it easier to claim that higher rate relief. You shouldn't feel bad about claiming the relief because it just gives you more money to gift again!

Ian McKenary
Financial Planner

Tax year end 2022/23 financial planning checklist

7 key considerations to ask yourself in preparation for the 5th April deadline.

- 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 2023?
- Have you made gifts to use your annual IHT allowances?

Get ready for tax year end

If you'd like professional support on how to prepare for tax year end 2022/23, speak with one of our expert advisers today.

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