WRIGHT VIGAR
CHARTERED ACCOUNTANTS

YEAR END TAX PLANNING GUIDE

IN ALL THINGS TAX, TIME IS OF THE ESSENCE.

Checking that your personal affairs, your family and business affairs, and your plans for the long term are arranged as tax efficiently as possible is always important: and the period before the end of the tax year, on 5 April 2023, is the best time to check.

This year, such a review may be even more beneficial than usual. Major changes to tax bands and allowances have been announced over the course of 2022. This means some last-chance opportunities to make use of allowances at current rates and to access current tax bands. Similarly, there may be areas where you have discretion over the timing of income and it is worth establishing whether income is better taken this year or next. Here again, a review before 5 April 2023 could have a significant effect on your tax position.

As your accountants, we have the all-round vision of your circumstances which can really help make an impact. To make the tax rules work to your advantage, it's best to start the discussion as soon as possible before 5 April 2023. We look forward to being of assistance.

In this briefing, we use the rates and allowances for 2022/23. Please note that throughout this publication, the term spouse includes a registered civil partner.

To discuss any of the points raised in further detail, please contact Wright Vigar on 0800 058 1648.

CORPORATION TAX

From 1 April 2023, the main rate of corporation tax rises to 25%. However, not every company will pay at this rate. Profits exceeding £250,000 will be charged at the main rate, but a small profits rate of 19% applies where profits do not exceed £50,000. Companies with profits under this level, therefore, effectively see no change. For companies with profits between £50,000 and £250,000, the tax rate is tapered. These companies pay at the main rate reduced by marginal relief, whereby essentially, the tax rate increases from 19% to 25% depending on the level of profits. Limits are adjusted where there are associated companies.

Director-shareholders in companies with higher levels of profits are likely to need to plan for the cash flow implications of higher corporation tax bills.

DIVIDENDS

The overall picture is less favourable for the future. The Dividend Allowance is set to fall, while dividend tax rates are at a new high, making the extraction of profits by way of dividend payment more expensive.

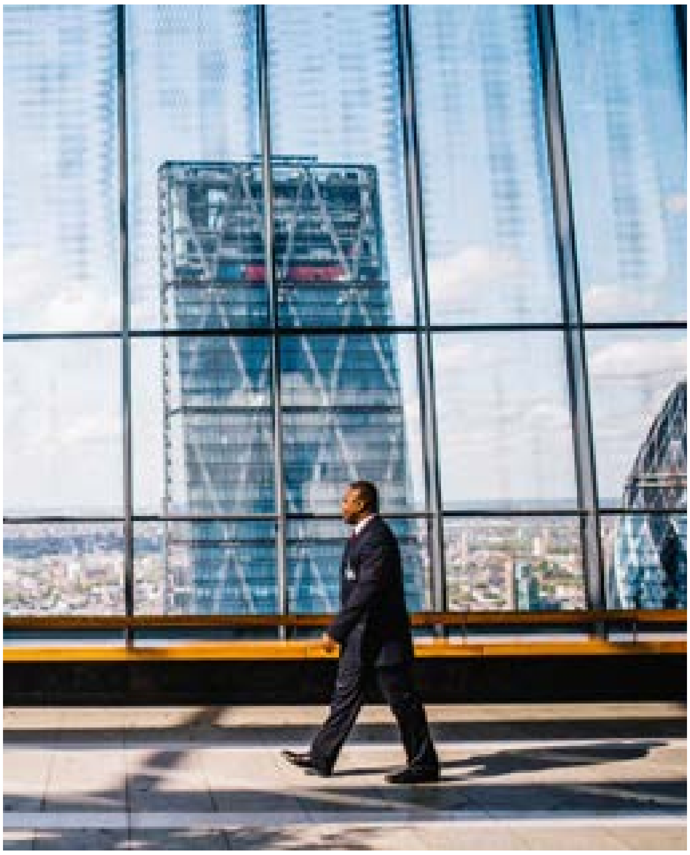
Dividends falling within the Dividend Allowance are not taxable, and for 2022/23, the Dividend Allowance is £2,000 per year. From 6 April 2023, however, it falls to £1,000, with a further fall to £500 per year from 6 April 2024.

The effect of this change is compounded by the increase in dividend tax rates. From April 2022, rates rose by 1.25 percentage points. They are now 8.75% for dividends falling within the basic rate band; 33.75% for those falling in the higher rate band; and 39.35% where falling in the additional rate band. Though the increase was originally part of the measures around the Health and Social Care Levy, the rates are set to continue, despite the fact that the Health and Social Care Levy has been scrapped.

IMPACT ON PROFIT EXTRACTION STRATEGY

Traditionally, many director-shareholders have relied on a combination of low salary and a significant level of dividend payments to extract profits. Tax advantage has arisen from the availability of the Dividend Allowance, a low rate of corporation tax, and because dividends do not incur National Insurance contributions (NICs) thus creating a saving for both the company and the recipient. These advantages are now being eroded.

Dividends are paid out of retained profits, that is profits on which corporation tax has already been paid. In future, for companies with profits above £50,000, this will mean profits subject to a higher rate of corporation tax, and thus a reduction in the pool available to pay dividends. And as the Dividend Allowance shrinks, there will be a much less significant amount available for extraction free of tax. Although incorporation is about more than just tax advantage, these changes make it prudent to keep under review the question of whether a company is the best structure for your business.



REMUNERATION: LAST-CHANCE OPPORTUNITIES

An appraisal of remuneration strategy is always beneficial. The best solution for you will depend on your individual circumstances. Given the increasing burden of income tax for Scottish taxpayers, it may even vary depending on where in the UK you are based. However, in every case, the form (bonus as against dividends) and timing of remuneration take on unusual significance for director-shareholders this year, with the potential to impact the overall tax position even more than usual.

PLANNING POTENTIAL: WATCH TIMING

Dividend payment in the 2022/23 tax year gives a last-chance bite at the current higher Dividend Allowance, and the higher additional rate threshold. You may want to consider accelerating payment of dividends if there is scope to do so.

Procedures around the declaration and payment of dividends is complex and it is important to check that it is done correctly. In times of economic stress, it is also important to be sure that there are profits available for distribution.

END OF THE SUPER DEDUCTION

From April 2021, companies have been able to claim the super deduction on certain qualifying capital expenditure, where enhance rates of capital allowances can be claimed, offering enhanced tax relief. The super deduction comes to an end on 31 March 2023. Where capital expenditure is due to be incurred, it is important to review the timing of this to benefit from the enhancement whilst it is still available.

KEY POINTS TO NOTE

- the personal allowance (PA) is frozen at £12,570 until 5 April 2028 across the UK
- the basic rate band is frozen at £37,700 for the same period (England, Wales and Northern Ireland). This means that the point at which someone with the standard PA starts to pay higher rate tax continues to be £50,270 until 2028
- the additional rate threshold falls from £150,000 to £125,140 from 6 April 2023. Note too, that £125,140 is the figure at which all PA is lost
- no change to tax rates in England, Wales and Northern Ireland.

IMPACT OF RECENT ANNOUNCEMENTS

Much has been made of these changes representing a 'stealth' tax, because as wages rise, a bigger slice of income falls to be taxed. This will be particularly noticeable in a time of inflation. Freezing the PA and basic rate band, for example, will push more people into the higher rate tax band. There will be a similar effect in Scotland, where the tax burden for some individuals is already higher than for equivalent earners elsewhere in the UK.

Lowering the additional rate threshold will significantly increase the tax take from those on higher incomes. It is expected to bring a quarter of a million more taxpayers into additional rate tax from 2023/24.

LAST-CHANCE OPPORTUNITIES

Where income is expected to be between £125,140 and £150,000 in 2023/24, bringing income into 2022/23 could mean the difference between being taxed at 40% in 2022/23, rather than being taxed at 45% in 2023/24.

There are a variety of ways that this may be done, and we can help you review the possibilities in your circumstances.

GETTING THE BEST OUT OF THE PERSONAL ALLOWANCE

Everyone has a PA. Look, wherever possible, to use the PAs available in your household. Now that the PA has been frozen, planning to avoid it being wasted assumes new importance.

The standard PA is £12,570 throughout the UK. It can be higher if you are eligible for the Blind Person's Allowance, or have an income less than the PA, and are eligible to make a transfer of what is called the Marriage Allowance to your spouse.

You start to lose the PA if you have 'adjusted net income' over £100,000. Adjusted net income is, broadly speaking, total taxable income before personal allowances, but after some deductions such as Gift Aid and pension contributions. The PA is clawed back by £1 for every £2 of adjusted net income over £100,000. When income is £125,140 or more, all PA is lost.

PLANNING POTENTIAL: KEEPING THE PERSONAL ALLOWANCE

If you are in the £100,000 to £125,140 income bracket, planning to keep your taxable income below £100,000 can help you keep the PA. There are various possibilities here, including the following:

- where one spouse is in a lower tax band, married couples may have opportunities to redistribute income, or transfer income-producing assets

- there can be further planning potential if you are in business with your spouse. If you are in partnership, for example, it may be possible to review the profit-sharing ratio. If you are self-employed, increasing wages for a spouse who works in the business is another possibility, provided that this is commercially justifiable and reflects the underlying reality of the way your business is run.

These are areas in which it is important to make sure that arrangements are fully compliant with relevant legislation, and we would be happy to advise further. Do please talk to us prior to action.

YOU AND YOUR SPOUSE

The income of each spouse is taxed separately, with each party being entitled to a personal allowance. Capital gains are also taxed separately, each party having their own annual exemption.

Where you each have a different tax band, a key part of planning is getting the right distribution of income between you. This can ensure that the personal allowance of the lower income spouse is not wasted, and give access to lower tax bands. Transferring income-producing assets, such as property, stocks and shares, or even bank accounts, can be an efficient way to do so. Anti-avoidance legislation exists in this area, and we recommend taking advice prior to any action, to ensure that any arrangements are compliant. It is important, for example, that the transfer is an outright gift, with the donor no longer exerting control over it, or deriving a benefit from it.

PLANNING POTENTIAL: ALLOCATE INCOME

An optimal allocation of income between spouses can only become more important in the future, especially with the fall to the additional rate threshold for income tax.

HIGH INCOME CHILD BENEFIT CHARGE (HICBC)

Where either you or your partner get Child Benefit, and have adjusted net income more than £50,000, the HICBC applies. Note that for the HICBC, 'partner' does not just mean spouse or civil partner, but includes someone you live with as if you were married.

The HICBC claws back Child Benefit at a rate of 1% for every £100 of income between £50,000 and £60,000. Once adjusted net income reaches £60,000, all Child Benefit payment is effectively lost. You can disclaim payment in these circumstances, to avoid having to pay the charge: but it is usually recommended that the actual claim itself is continued, in order to maintain eligibility for the State Pension credit.

If both you and your partner are over the income threshold, HICBC is the responsibility of whoever has the higher income. Where income reaches £50,000, the taxpayer has an obligation to notify HMRC of their liability to the charge. HMRC may make the initial contact, but this should not be relied upon.

PLANNING POTENTIAL: THE HICBC

Think tactically where there is discretion over how income is distributed between you and your spouse.

£100,000 split equally between you and your spouse, for example, keeps you out of HICBC: if it is all taxable on one spouse, the benefit of Child Benefit payment is lost. We can help you review ways to reduce or redistribute taxable income in these circumstances.

TAX AND YOUR CHILDREN

Children are treated independently for tax purposes. They have their own personal allowance, annual capital gains tax exemption and their own basic rate tax band and savings band. From a tax perspective, it is usually more efficient for grandparents - rather than parents - to provide funds for investment for minor children.

When it comes to funding children through university, parental input is increasingly common, and the purchase of housing is something often considered. It is important that any such arrangement is structured correctly. Key questions are who owns and buys the property – whether it is the parents, or the parents and child together, or whether the child is provided with funds to make the purchase. The tax and legal implications need to be thought through, alongside your personal and family preferences.

PLANNING POTENTIAL: THE RENT-A-ROOM SCHEME

Children living in a property at university which they own outright, and letting out furnished accommodation in the property, may be able to benefit here. Provided the relevant conditions are met, the scheme could allow them to earn up to £7,500 in rent, free of tax. When added to the personal allowance, this provides scope for £20,070 in tax-free income.

SAVINGS

Interest of up to £1,000 from savings such as bank and building society accounts, unit trusts, and trust funds, can be sheltered from tax by the Savings Allowance for basic rate taxpayers. This falls to £500 for higher rate taxpayers, whilst additional rate taxpayers receive no allowance.

INDIVIDUAL SAVINGS ACCOUNTS (ISAS)

ISAs are referred to as a tax 'wrapper' for investments, they allow you to make a tax-efficient investment, rather than dealing directly in the investment market and facing the tax consequences attached.

The tax benefits here are considerable. ISAs are free of income tax and capital gains tax and do not impact the availability of the savings or Dividend Allowance.

Anyone over the age of 18 (or 16 for a cash ISA), who is resident in the UK, can open an ISA: for Lifetime ISAs, applicants must also be under the age of 40.

There are four types of ISA: cash ISAs, stocks and shares ISAs, innovative finance ISAs and Lifetime ISAs. The total you can invest in any tax year is set by the government: for the tax year 2022/23, it is £20,000. This can be allocated across the different types, as you choose.

Although you cannot hold an ISA with, or on behalf of, someone else, you and your spouse each have an ISA subscription limit: this means you can invest £40,000 between you.

PLANNING POTENTIAL: REVIEW YOUR POSITION EACH YEAR

ISA limits cannot be carried into future years. Use it before 5 April 2023, or lose it. Looking forwards, once the capital gains tax annual exemption falls from 6 April 2023, ISAs become an even more important tool for tax planning.

PENSION CONTRIBUTIONS

Pensions are a valuable tool for tax efficient saving. Tax relief is available on pension contributions and in certain circumstance effective relief can be as high as 60%.

Pension contributions can have the effect of extending rate bands and reducing your net adjusted income which can help you retain your personal allowance where income exceeds £100,000, or prevent the high income child benefit charge from applying where income exceeds £50,000.

TAX-EFFICIENT INVESTMENTS

The venture capital schemes, providing finance for new, higher-risk companies, continue to afford individual investors with a significant source of tax relief.

The Enterprise Investment Scheme (EIS), Seed Enterprise Investment Scheme (SEIS) and Venture Capital Trusts (VCTs) were subject to sunset clauses in the original legislation, but have now been given a new lease of life. The government has given the commitment to extend them beyond 6 April 2025, and is changing some of the detail of the rules to provide more generous relief. This is the case with the SEIS, which offers the potential for 50% income tax relief, and where, from 6 April 2023, the annual investor limit doubles to £200,000. It is important to note, these investments generally carry a significant level of risk and professional advice should be sought.

PLANNING POTENTIAL: CAPITAL GAINS TAX (CGT)

A phased reduction in the CGT annual exemption is on the horizon. Currently £12,300, the exemption falls to £6,000 from 6 April 2023. A further reduction takes effect from 6 April 2024, when it drops to £3,000 making planning in this area even more important.

A key component of any such planning is to make best use of the annual exemption. It is possible to transfer assets between you and your spouse on a no gain/no loss basis in order to make best use of the exemption. It is essential to get the detail of any transfer correct. Do please discuss any disposal with us first to make sure that it is effective for tax purposes.

CGT is charged at a lower rate of 10% (18% on residential property) for UK basic rate taxpayers and 20% (28% on residential property) for UK higher and additional rate taxpayers. Where one spouse is a higher rate taxpayer, and the other has not used their basic rate band in its entirety, transfer of assets thus has the potential to enable access to the 10% tax rate, rather than the 20% tax rate.

REPORTING CHANGES — MAKING TAX DIGITAL:

From April 2026, HM Revenue and Customs will be requiring landlords with gross rental income in excess of £50,000 to make quarterly reports of their income and expenses. From 2027 the scope widens to include landlords with income exceeding £30,000.

Final details of the mechanisms of making these reports are yet to be released, however landlords will need to keep up to date with developments.

We will continue to release further details as they are announced.

RESTRUCTURING – MARRIED COUPLES:

Where married couples are in different tax bands, property ownership should be reviewed to ensure the lower rates of tax are utilised.

Transfers between spouses are capital gains tax exempt. However, where the property is mortgaged, Stamp Duty Land Tax charges may arise.

A review should be undertaken to ensure any charges crystallised in the transfer are not disproportionate to the tax savings sought.

STAMP DUTY LAND TAX (SDLT):

There have been significant changes in Stamp Duty Land Tax legislation over recent years with the introduction of higher rates for additional properties and purchases by non-resident individuals.

Where properties have been purchased which contain additional dwellings, such as annexes, it is possible that excess SDLT may have been paid.

Likewise, where the additional property surcharge has been paid, there is potential for this to be reclaimed in certain circumstances.

A review of all property transactions and the SDLT treatment applied could result in significant refunds.

ELECTED MAIN RESIDENCE:

Should you reside in two or more properties, a review of your main residence elections could result in tax savings on the future sale of these properties.

RESTRUCTURING – INCORPORATION:

With the restriction on mortgage interest relief, many property investors are considering incorporating their property portfolios to operate through a limited company.

Capital Gains Tax and Stamp Duty Land Tax require careful consideration as the charges on incorporation can be prohibitive but, in certain circumstances, incorporation can be achieved with minimal upfront costs.

A full review of your circumstances, portfolio and current and future plans would be required to ascertain the potential advantages of such a restructure.

REDUCING DEBT:

Mortgage interest relief is no longer available in full to higher rate taxpayers. A phased withdrawal of higher rate relief commenced in 2017/18 with full withdrawal now complete.

With interest rates on savings low, it may be beneficial to consider realising other investments to pay down the level of borrowing on buy-to-let properties.

REPORTING SALES:

Where a property is sold and Capital Gains Tax is payable as a result of the sale, a CGT return must be made to HMRC within 60 days of completion, and the tax paid by the same deadline.

If the sale of the property is by a non-resident taxpayer, a CGT return must be made regardless of whether a tax liability arises or not.

If you are thinking of selling a property, we would be happy to guide you through the process.

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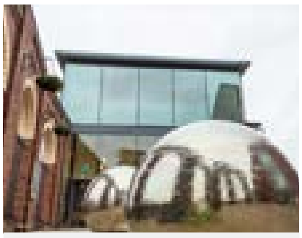

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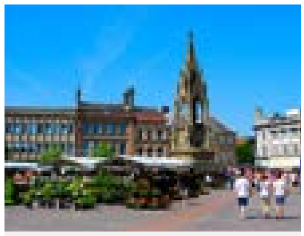

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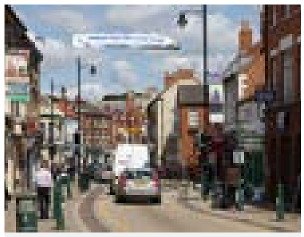

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