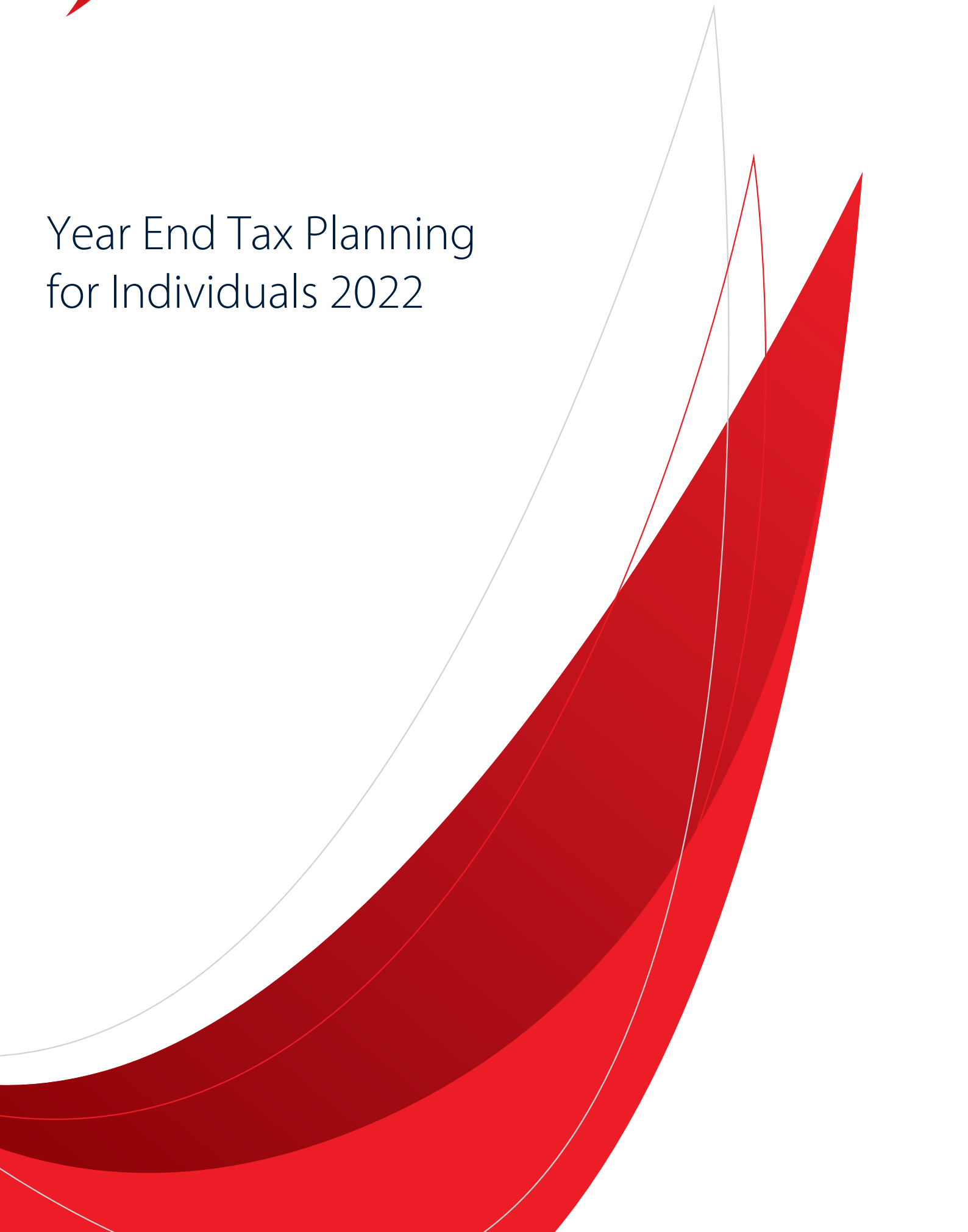




Year End Tax Planning for Individuals 2022



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Introduction

Many of the suggestions in this guide can be reviewed throughout the tax year, but as a tax year ends and a new one beckons there is a particular opportunity to review your tax affairs to make sure you have minimised your tax bill. The following guide provides a selection of ideas and suggestions to reduce your exposure to tax by taking advantage of available reliefs and allowances.

Your particular circumstances must always be considered. As well as possible tax savings, account must be taken of health, age, marital status, children, and whether you intend to remain in the UK. Tax rates and allowances quoted are for England and Wales; Scottish income tax rates and allowances can be different in some cases.

Please read the disclaimer at the end of this guide.

Income tax

- Where income exceeds £150,000 it is taxed at the additional rate of 45%. And income between £100,000 and £125,140 is taxed at 60% due to the gradual withdrawal of the £12,570 personal allowance. Where possible, individuals with income approaching these thresholds should consider ways of reducing their income to keep it below these levels. Two ways of doing this are to make pension contributions or charitable donations.
- Where taxable income exceeds £50,000 (or that of a partner) and child benefit is being claimed, there is a clawback of the child benefit at the rate of 1% of the benefit for every £100 of income over £50,000. The financial benefit of claiming child benefit is lost entirely where individual taxable income reaches £60,000. Care should therefore be taken where possible to keep individual taxable income below £50,000 to avoid the clawback, such as by making pension contributions or charitable donations. It may also be possible to reallocate assets or trading profits between partners to keep both below the threshold.
- Since April 2015 spouses/civil partners who cannot claim the married couples' allowance have instead been able to transfer 10% of their personal allowance to each other to save tax. This is beneficial where one spouse/partner does not have enough income to use their allowance in full. The allowance can be backdated for up to four tax years and can also be claimed by a surviving spouse on behalf of their deceased partner. The transfer is not available where either spouse/partner pays income tax at higher rates.
- Transferring income-generating assets between married couples or civil partners (e.g., private company shares) where one spouse or partner pays little or no tax can result in a much lower tax bill overall. Such transfers must be outright gifts without conditions.
- Where assets are owned jointly between spouses, any income will be treated as divisible equally between the two for tax purposes, unless a joint declaration is made to the contrary. This facility is not available for close company dividends which must be based on actual shareholdings.

- Where one spouse makes gift aid payments but does not have enough income to cover the charges, consideration should be given to transferring the commitments to the spouse with more income, or gifting income-generating assets to the spouse that already has the obligations.
- Instead of gift-aiding cash, an alternative would be to gift stock market listed shares to a charity to generate income tax relief (and avoid a CGT liability).
- Consider reorganising income-producing assets to make use of the Personal Savings Allowance. This annual allowance is £1,000 or £500 depending on whether you are a basic rate or higher rate taxpayer respectively.
- Income can be reduced through maximising claims for certain tax reliefs or through making certain business investments. We can explain what claims and investments are available to achieve this.
- Capital Gains Tax (CGT) is payable at 10% or 20% depending on whether you are a basic rate or higher rate taxpayer. A surcharge of 8% is payable in either case for disposals of residential property. It may be possible to transfer assets pregnant with gains to a spouse or civil partner who would pay tax at only 10%.

Business profits

- Where the accounting date coincides with the tax year, consider bringing forward revenue and capital expenditure to before the year end in order to secure earlier relief, subject to commercial considerations.
- Revenue expenditure could include a salary payment to the spouse, as long as it is justifiable for tax purposes. An approved pension could also be established for the spouse to provide a further deduction against business profits.
- Capital expenditure on plant & machinery (P&M) for the business of up to £200,000 could be 100% relieved under the Annual Investment Allowance (AIA). The allowance is increased to £1m for expenditure incurred between 1 January 2019 and 31 March 2023. Companies planning P&M expenditure should also note that for two years from 1 April 2021 until 31 March 2023 any investment in qualifying new P&M will attract a 130% super deduction, so it may be better to use this in preference to the AIA whilst available.
- Losses from self-employment can be set against your other income in the same or previous tax year, subject to an annual cap of £50,000 (or 25% of your income if higher). Losses of the first four tax years of trading can be carried back up to three tax years, subject to limits on set-off. Making the right claim for loss relief can result in maximum tax relief and an improved cashflow.
- For the tax years 2020/21 and 2021/22 unused trading losses of up to £2m per year can be carried back three years. The same maximum will also apply to companies' unused trading losses, after carry back to the preceding year, for accounting periods 1 April 2020 to 31 March 2021 and 1 April 2021 to 31 March 2022. We can advise on the best use of any losses arising.
- Making improvements to how you manage the finances of your business and record keeping can help to improve profitability and cash flow. Adopting a digital accounting solution will help you comply with Making Tax Digital (MTD) for VAT (which started on 1 April 2019 for VAT-registered business with a taxable turnover above the VAT registration threshold (currently £85,000)). MTD is extended to all VAT-registered businesses from 1 April 2022. MTD for other taxes will be implemented in the next few years. We can advise you on the best ways to comply with the requirements.

Employees

- Where possible, a portion of salary could be sacrificed for pension contributions, childcare, low emission cars and health-related benefits (such as cycling to work). Such arrangements save National Insurance Contributions (NICs) and can save income tax where the sacrifice brings income to below £100,000. The employer also benefits by saving employer's NIC. Other types of benefit were removed from salary sacrifice from 6 April 2017.
- Consider the timing of bonuses so that they fall into the right year for tax purposes, taking in account other commercial and financial issues.
- Consider investing in an employee share scheme that offers tax advantages. There are saving limits and holding periods to consider.
- Since 6 April 2016, the amount that savers can pay into a pension and still benefit from tax relief is reduced by £1 for every £2 that their annual income exceeds £240,000 (£150,000 for 2019/20). The pension annual allowance is restricted to just £4,000 (£10,000 for 2019/20) for anyone on an adjusted income of more than £312,000. Carry forward of unused annual allowance continues, but the amount available will be based on the unused tapered annual allowance. It is therefore important to correctly calculate income as far in advance as possible to check whether tapering of the annual allowance may apply.
- The IR35 off-payroll working rules apply to payments made for services provided by a contractor on or after 6 April 2021. So, it is important to ensure your procedures to comply with the new regime. It will also be necessary to ensure any fee invoices correctly state what work was carried out before and on/after 6 April 2021. This is a complex area, so please contact us for advice.

Company cars

- The provision of a company car is now a highly taxed benefit, and it is far better to consider alternatives (or a low CO2 emission vehicle). One alternative would be for the employer to offer an interest free loan of up to £10,000 per annum to enable an employee to run their own vehicle. Such a loan would be tax free. Another alternative would be for the employee to use their own car for business travel and claim a tax-free mileage allowance from the employer.
- Where fuel has been provided by the employer for private use, consider whether full reimbursement of the cost to the employer would be a cheaper option than paying the fuel scale charge.

Children

- Each child under the age of 18 can have their own Junior Individual Savings Account (ISA). Parents and grandparents can contribute up to £9,000 a year free of tax for each child into a Junior ISA.
- Child Trust Funds (CTFs) were launched in 2002 and mature when a child becomes 18. On maturity, CTFs can be transferred into an ISA tax free and without affecting the overall ISA subscription limit, though they will count towards the Lifetime ISA payment limit.

- Where there are children aged 16 or over who would like to buy a home, funds could be gifted to them in order that they can then invest in a help-to-buy ISA. Accounts could be opened until 30 November 2019, but money can continue to be added to an existing account until 30 November 2029. You must claim your bonus by 1 December 2030. Individuals can invest up to £200 per month, with the government adding 25% tax free up to a maximum of £3,000 on £12,000 of savings.
- A net contribution can be made for each child into a stakeholder pension of up to £2,880 (net), even where they do not have any income. The pension provider will reclaim 20% tax relief direct from HMRC, ensuring the policy is credited with a gross contribution of £3,600. The sooner a pension is started, the greater will be the final pension fund at retirement.

Family company

- Where you are a director of a family company you can seek to minimise your tax exposure by taking a combination of salary, dividends and benefits in kind. We can advise you on the most tax-efficient permutation.
- From 6 April 2022, dividend tax rates (outside of an ISA) will increase by 1.25% as part of the Health & Social Care Levy initiative, so, the current dividend basic rate of 7.5% becomes 8.75%, and the higher and additional rates increase from 32.5% and 38.1% to 33.75% and 39.35% respectively. Subject to commercial and personal circumstances, director shareholders may wish to consider taking a dividend before the rates increase, but please discuss this with us before taking any action.
- On a straight comparison, dividends remain slightly more tax efficient than salary. However, if you are normally a basic rate taxpayer, the receipt of an extra dividend this year could push you into higher rate tax, or even cause you to lose personal allowances, which would be counterproductive. In addition, you should always consider whether there are any non-tax reasons for taking a salary, bonus or a mixture of these and dividends - for example the requirement for a certain level of pensionable earnings to allow for pension payments to be made.
- There may also be other reasons for preferring salary: (1) for example where a childcare voucher scheme is in place, or where Research & Development (R&D) Tax Relief is being claimed on it; (2) the government's Coronavirus Job Retention (furlough) Scheme was more favourable to directors who took salary rather than dividends; (3) as corporation tax rates rise from 19% to 25% from 1 April 2023 for profits of £250,000 or over, salary rather than dividends becomes more tax efficient.
- Could the company shares be owned between members of the family in a way that is more income tax efficient (considering wider non-tax issues)? We can discuss this with you.
- The company can make pension contributions on behalf of its directors and receive tax relief for the payment against corporation tax. In addition, no employer's NIC would be payable.
- An overdrawn director's loan account with a small company will result in a (reclaimable) 32.5% tax charge (25% for pre-6 April 2016 loans) where the loan is not repaid within nine months of the company's accounting period end. The rate increases from 6 April 2022 to 33.75% for new loans. Where possible, arrange to repay any loan before this deadline, perhaps via a dividend from the company.
- If your company is engaged in research or improvements to processes, it may be entitled to R&D relief in the form of either enhanced tax deductions or payable credits from the government.
- Since 6 April 2016, certain small company capital distributions can be taxed as income rather than capital, resulting in a higher tax bill for the individual. This could catch a winding up, a company purchase of own shares, a repayment of share capital, or the sale of shares to a connected party. It is therefore important to take advice before any action is considered, to minimise the risk of losing capital treatment.

Property

- If you own a second home it may be possible to save CGT by nominating which is your main residence, where you have lived in both. Valuable relief will then be available against the CGT arising on the sale of the property with the largest gain, or that which is likely to be sold first.
- Since 6 April 2016, landlords can only claim for actual amounts they spend on replacing furnishings in let property during a year. Therefore, consider advancing the replacement of any furnishings to before 6 April to claim the relief in the current year.
- Since 6 April 2017 tax relief for landlords' finance costs (including loan interest) has been gradually restricted, meaning a greater proportion of rental income is taxed. Financing costs incurred by a landlord are now only given as a basic rate tax reduction. Companies and furnished holiday lets are not affected. If you have borrowings against your rental properties, you need to review your investment strategy and we will be happy to discuss this with you.
- Since 1 April 2016 an additional 3% stamp duty is charged on purchases of additional residential properties (above £40,000). This affects landlords, as well as homeowners looking to downsize whilst keeping their larger property. Where such a property purchase is planned, it is important to contact us for advice to see if the extra charge can be avoided. The higher rate does not apply to purchases of caravans, mobile homes or houseboats.

Pensions

- Consider making a pension contribution of up to £40,000 before 6 April to soak up any unused pension relief available. Tax relief will be available at your marginal rate. If you have unused relief from the previous three tax years, then that too can be used in the current year to reduce your tax bill.
- Stakeholder pensions allow contributions to be made by, or for, all UK residents, including children. It can therefore be worth making a net contribution of up to £2,880 (£3,600 gross) before 6 April for members of your family, even for those who do not have any earnings.
- If you don't currently have a pension, now is a good time to start one before the tax year end.
- NOTE: it is important to take advice from an independent financial adviser on contribution levels, because if the total contributions you make, or that are made on your behalf, exceed your available allowance (including any unused relief brought forward), a tax charge will arise.

Inheritance

- It is important to plan ahead to mitigate inheritance tax (IHT). Such planning can be complex, so it is vital to take professional advice before embarking on any particular transaction. There are, however, a number of reliefs available which should be considered.
- You can gift up to £3,000 each tax year free of IHT, or £6,000 if there was no gift in the previous tax year. You are also allowed to make as many gifts of up to £250 each as you wish to other people as well as gifts on the occasion of a marriage. Regular gifts out of income can also be made as long as your capital or standard of living is not reduced, though advice should be taken before doing this.

- If you prefer not to make gifts now you may prefer to fund any potential IHT liabilities by the use of assurance policies.
- Certain types of assets attract business profit relief (BPR) or Agricultural property relief (APR) from IHT. Consider investing in assets that would qualify for BPR or APR.
- Consider making a will or reviewing an existing will to ensure your wishes are properly reflected in writing. A will avoids the intestacy rules which could create undesired results. It also allows for some considered tax planning to minimise your family's future tax exposure. A review of the will may be necessary as a result of the transferrable Residence Nil Rate Band (RNRB) which commenced from 6 April 2017 and is set against a residence passed on to a direct descendent (including step, foster and adopted children).
- An estate can pay IHT at a reduced rate of 36% on some assets (instead of 40%) if 10% or more of the 'net value' of the estate (after all IHT exemptions, reliefs and nil-rate band) is left to charity. To take advantage of this, ensure that such charitable gifts are specified as a percentage of your estate, rather than a fixed sum or specific asset, to prevent changes in asset values resulting in the gift falling under the 10% threshold.
- A trust can be useful in saving tax as well as protecting valuable assets. We will be happy to discuss how a trust could benefit you and your family based on your individual circumstances.
- As a surviving spouse can inherit a deceased spouse's Individual Savings Account (ISA) funds (which can then remain in the ISA), ensure where possible that your will makes clear that your spouse is to inherit your ISAs rather than other family members.

Investments

- The overall annual amount you can invest in a tax-free ISA each year is £20,000 (£40,000 if combined with a partner). You can save money in both a cash ISA and a Stocks and Shares ISA, as long as the total annual amount does not exceed £20,000.
- Lifetime ISAs (LISAs) were launched in April 2017 and allow savers aged 18 to 39 to open a long-term tax-free account to help buy a first home or save for retirement. Savers can invest up to £4,000 a year until they reach the age of 50, with the government adding in an extra 25% bonus on the savings – up to a maximum of £1,000 per year. Investment in a LISA is subject to the overall annual ISA savings limit of £20,000.
- There are various tax incentives for investing in companies such as the Enterprise Investment Scheme (EIS) and the Seed EIS. Whilst EIS offers 30% income tax relief, SEIS offers 50% relief – although the investment limits in the latter are far less than the former. There is also relief against capital gains tax (CGT) when you come to sell the investments, provided you have held them for at least three years. It is possible to carry back qualifying EIS investments to a previous tax year to accelerate tax relief. We would be happy to discuss these reliefs with you in more detail.
- A capital gain on the disposal of a business asset can be rolled over into the purchase of another business asset bought within a period starting one year before and ending three years after the disposal. EIS deferral relief has a similar effect if the gain were to be reinvested in a qualifying company within the same time period (subject to the relevant conditions being met).
- Each individual (and each minor child) is entitled to an annual CGT allowance (£12,300 for 2021/22). If this has not already been used, it may be possible to dispose of assets that could soak this up, subject to commercial considerations. Where the allowance has already been used for the current year, it may be worthwhile holding off selling any further assets until after 5 April in order to use next year's allowance, again subject to commercial considerations.

- Married couples and civil partners can transfer assets between them on a no gain/no loss basis. Such transfers may be beneficial to ensure both annual exemptions are used.
- If you are a basic rate taxpayer in the year to 5 April 2022 but consider it likely that you will be a higher rate taxpayer in 2022/23, making a disposal by 5 April 2022 could result in some gains falling within the basic rate band to reduce the amount of tax payable (although this would accelerate the payment of tax by a year). Please contact us for advice before taking any action.
- CGT is payable at either 10% or 20%, depending on your other income. A surcharge of 8% is payable in either case for disposals of residential property. Where you are likely to pay CGT at 20% on the disposal of an asset, consider making a pre-disposal transfer to the spouse where they would pay tax at only 10%.
- Subject to what is said above, where practical it may normally be worthwhile delaying a disposal until after the 5 April in order to defer the payment of CGT by a further year. But do note that there is a 60-day (30-day for completions before 27 October 2021) payment rule for sales of UK residential property after 5 April 2020.
- Where an asset has become of negligible value, consider making a claim for the loss.
- If you have substantial investments outside of an ISA or other tax-efficient envelope, consider changing them to secure either a tax-free return, or a return of capital taxed at a maximum rate of 20%, instead of income taxable at up to 45%.
- Business Asset Disposal Relief (BADR) (previously Entrepreneurs Relief) can reduce your CGT rate to just 10%, provided you meet certain conditions. There is a lifetime limit on gains eligible of £1m. If you are contemplating a disposal of all or part of your business, please contact us to see if this relief may be available.
- Capital losses from disposals are deducted from gains before deduction of the annual exemption or any BADR. Consider deferring the disposal of assets with losses that would otherwise waste exemptions and reliefs.
- Gifting stock market listed shares to a charity not only generates income tax relief on the donation, but also avoids a CGT liability for the donor. If, however, the asset is running at a loss, it should ideally first be sold before gifting the sale proceeds to the charity, to ensure the capital loss is available for set off against any other capital gains – as well as securing the gift aid relief.
- As the annual Dividend Tax Allowance is now only £2,000, it may mean that you prefer to restructure your investments towards growth, rather than income, from a tax efficiency point of view, particularly if investing outside a tax wrapper.

Residency

- Leaving the UK or coming to live in the UK from abroad needs careful planning, as residence status for tax purposes can raise complex issues. There are anti avoidance rules surrounding CGT where you move abroad.
- If you are non-UK resident, you will need to monitor your visits to the UK to avoid becoming UK resident and liable to tax.
- If you are UK resident and have any offshore assets or income, you need to let us know. The UK tax office is now receiving information from over 100 countries on international investments and financial structures held offshore by UK tax residents. There will be penalties for not declaring such overseas interests.
- If you are not UK domiciled and are living in the UK and have overseas income and gains, you may wish to consider the remittance basis of taxation where it could save tax. As the rules are becoming much stricter, now is an opportune moment to discuss your circumstances.
- Since April 2017, IHT can be charged on UK residential property that is held indirectly by a non-domiciled individual via an offshore company or trust. If you are in this position, it is essential that you seek professional advice to review your options.
- Also, since April 2017, a non-UK domiciled individual is deemed UK domiciled for UK income tax and capital gains tax purposes if: (1) the individual has been tax-resident in the UK for at least 15 of the previous 20 tax years (15/20 test), or (2) the individual was born in the UK, has a UK domicile of origin and is UK tax resident in the relevant tax year after April 5, 2017 (a UK Returner). Once deemed domicile, you will be taxed on your worldwide income and gains, and IHT will be chargeable on gifts of assets situated anywhere in the world. If this is likely to be of relevance to you, please contact us so that we can help you to review your options.

Contact us

For further help and advice, please contact your usual Bishop Fleming adviser.

Disclaimer

The information and suggestions contained in this guide are of a general nature and are not a substitute for professional advice. Whilst we have taken every effort to ensure that the information contained within this guide is accurate and up to date, you should not rely solely upon nor act upon anything here without first contacting us and seeking specific professional advice. In the preparation of this guide, every effort has been made to offer the most current and correct information possible. Nonetheless, errors can occur, and UK tax law can change. Bishop Fleming does not accept any responsibility for any damage or loss occurring by any person as a result of any use or any action you take or do not take in reliance on any information in this guide.



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