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CHARTERED ACCOUNTANTS
EST 1881

Year end tax *planning*

2022/23

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Partner-led *expertise* to *optimise* your finances

As a client of David Owen, you have direct access to one of our partners and a highly experienced team who can work with you to help optimise your business and personal finances.

This includes planning to make the most of the tax-saving opportunities available to you, particularly ahead of the tax year end. There are many ways we can help you identify suitable tax planning measures to help mitigate personal tax liabilities, increase the profitability of your business and maximise your personal wealth.

This guide considers some tax-efficient planning options you might wish to implement before 5 April 2023.

These include:

- making the most of the tax-efficient investment opportunities available to you and your business
- saving for a comfortable retirement
- reducing your Inheritance Tax bill
- making use of all your allowances.

Act now...

It is essential to act as soon as possible before 5 April 2023, in order to minimise your tax bill and maximise reliefs. Talking to us in good time will ensure that we can discuss the tax planning opportunities available to you and help you manage your cash flow by giving you early warnings of any tax payments due.

Planning for *savings*

The Savings Allowance means a certain amount of savings income, such as bank and building society interest, can be earned tax-free. In 2022/23, this is up to £1,000 for basic rate taxpayers; up to £500 for those paying at higher rate; but nil for additional rate taxpayers.

2022/23 ISA limits

There are now several different types of ISA on the market, including the Lifetime ISA for adults under the age of 40 and Junior ISAs for those aged under 18. Individuals can invest in any combination of ISA investments up to the overall annual subscription limit of £20,000. The table below outlines the current ISA limits.

ISA	2022/23 limit
Cash, Stocks and Shares, Innovative Finance ISA	£20,000 a year
Junior ISA	£9,000 a year
Lifetime ISA	£4,000 a year with no monthly maximum amount

Planning for your *business*

The outlook changes significantly with recent and forthcoming changes:

- change to Corporation Tax rate for some companies
- fall in the Dividend Allowance from 6 April 2023
- higher rates of Income Tax on dividends introduced in 2022 set to continue
- fall in additional rate (top rate in Scotland) threshold from 6 April 2023.

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: essentially, the tax rate increases from 19% to 25% depending on the level of profits. Limits are adjusted where there are associated companies. HMRC has created an online tool to demonstrate how marginal relief works: this can be accessed on gov.uk, by searching for 'marginal relief calculator'.

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 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 change is likely to impact more than 3.25 million individuals in 2023/24.

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) – a saving both for the employer company and the recipient. These advantages are now being undermined.

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 reservoir 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 (top rate in Scotland). You may want to consider accelerating payment of dividends if there is scope to do so.

Planning for your *family*

Looking at household income in the round, and planning to make optimal use of all allowances available is likely to create the most tax-efficient solutions.

We can help you to reduce or redistribute taxable income

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. Appropriate evidence of such transfer is needed.

› 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 (top rate in Scotland) 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' doesn't 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. By the time income is £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.

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

We recommend thinking 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 according to your 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 under-age 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.

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; or between 41% and 47% in Scotland. Scottish taxpayers may also want to accelerate income to reduce the impact of the 1% rise to both the higher and top rates of Income Tax.

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 (PA)

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 its 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 what is called '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. 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 – £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 should be happy to advise further.

If you pay tax at more than the basic rate, you are entitled to claim tax relief at your top rate of tax on the donation

Capital Gains Tax

A phased reduction in the Capital Gains Tax (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. The move is expected to raise an additional £25 million in tax revenue in 2023/24 alone, and it makes 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. Note that Scottish taxpayers pay CGT based on UK rates and bands and therefore need to assess their position based on UK rates.

Gift Aid

It is not always appreciated that donations made under Gift Aid are not only good for the recipient charity or community amateur sports club, they can also be a useful planning tool for the donor – and even generate tax refunds for some taxpayers.

Gift Aid benefits donors, too

Gift Aid donations work to your advantage in reducing the calculation of your taxable income. This means that a timely gift before 5 April 2023 may help keep income under various key tax thresholds, such as:

- High Income Child Benefit Charge, where clawback starts for income above £50,000
- abatement of the personal allowance, from £100,000
- the additional rate threshold (top rate in Scotland).

› Tip: repayment potential

If you pay tax at more than the basic rate, you are entitled to claim tax relief at your top rate of tax on the donation. This means that you get the difference between the basic rate and higher rate tax on the donation. In the year to April 2022, HMRC statistics suggest that some £540 million was due in such relief. Many higher rate taxpayers, however, fail to claim the repayment due.

A repayment claim is made either via the self assessment tax return, or by asking HMRC to amend the tax code. Make sure there is a valid Gift Aid declaration in place for all gifts, and that you record the date, amount of each gift and name of the recipient charity to back up your claim.

Timing is everything

A carry back election can be made, meaning Gift Aid donations are treated as if made in the previous tax year – something which can be of benefit, for example, where income is uneven. Strict time limits and other rules apply here, and we are happy to advise further.

› Tip: decide which tax year to use

If you are likely to pay higher or additional rate tax (top rate in Scotland) in 2023/24, Gift Aid donations in that year should have the potential for a larger repayment.

If you are making any substantial donation, and you have discretion over timing, consider whether a donation in 2023/24 is preferable to one in 2022/23.

Planning for the *long-term*

Review your retirement plans

Planning is vital for those aiming to enjoy a comfortable retirement, and pensions provide a significant opportunity.

The annual allowance (AA) – the maximum you can contribute to a pension and still get tax relief – is £40,000. Exceeding this can result in an AA clawback charge.

The threshold income calculation helps to provide certainty for individuals with lower salaries who may have one off spikes in the value of their employer pension contributions and is broadly defined as an individual's net income for the year.

Those with both threshold income over £110,000 and adjusted annual income (their income plus their own pension contributions and their employer's pension contributions) over £200,000 will see their AA tapered down. For every £2 of adjusted income over £200,000, a taxpayer's AA is reduced by £1, down to a minimum of £4,000.

'Unused relief' is brought forward where pension savings in any of the last three years' pension input periods were less than the AA. This can be used in 2022/23, providing the means of making a significant contribution without incurring a charge.

Meanwhile, the lifetime allowance for tax-advantaged pension savings is £1,073,000 in 2022/23. A tax charge arises where total pension savings exceed the lifetime allowance at retirement, provided that fixed, primary or enhanced protection is not available.

From advising you on the tax implications of the contributions you make to your pension scheme to exploring other ways of boosting your pension savings, we can help you to secure the comfortable retirement you deserve. Please get in touch with us for more information.

Make use of IHT exemptions

Inheritance Tax (IHT) is payable where an individual's wealth is in excess of £325,000 (the nil-rate band). Those who own property and have savings, business assets or life assurance policies could be liable to IHT.

It is vital that people plan ahead to minimise their exposure to IHT. Here, we consider ways in which individuals can reduce their IHT liability.

Outlining IHT

IHT is charged at 40% on the proportion of an individual's taxable estate exceeding the nil-rate band. An estate includes both the value of chargeable assets held at death, plus the value of any chargeable lifetime gifts made within seven years of death.

The residence nil-rate band (RNRB) applies where a residence is passed on death to one or more direct descendants (including a child, stepchild, adopted child or foster child). The RNRB is set at £175,000 for 2022/23.

The additional band may only be used in respect of one residential property, which must have been, at some point, a residence of the deceased. In regard to estates with a net value above £2 million, the RNRB may be tapered at a withdrawal rate of £1 for every £2 over this threshold. Additionally, the RNRB is available when a person downsizes or ceases to own a home on or after 8 July 2015.

Making lifetime gifts

You can give away a total of £3,000 as gifts each tax year without them being added to the value of your estate. This is known as your annual exemption (AE). You can give gifts or money up to £3,000 to one person or split the £3,000 between several people.

You can give as many small gifts of up to £250 per person as you want each tax year, as long as you have not used another allowance on the same person. Birthday or Christmas gifts you give from your regular income are also exempt from IHT.

Each tax year, you can also use an exemption for gifts made for weddings or the forming of a civil partnership.

You can give up to:

- £5,000 to your child
- £2,500 to your grandchild or great-grandchild
- £1,000 to any other person.

If you're giving gifts to the same person, you can combine a wedding gift allowance with any other allowance, except for the small gift allowance.

For example, you can give your child a wedding gift of £5,000 as well as £3,000 using your annual exemption in the same tax year.

You may also significantly reduce your estate's IHT liability by making a series of lifetime gifts. As long as you survive the gift by seven years and do not benefit from the gift yourself, it escapes IHT. Gifts allow your family to benefit during your lifetime.

Taper relief can also apply where lifetime gifts were made between three and seven years before death. Note, however, that the discount applies to the tax on the gift, as opposed to the gift itself.

Utilising IHT reliefs

A number of IHT reliefs are available, including relief on business and agricultural property. These effectively take such property outside the IHT net (although please note that detailed conditions apply).

Trusts and Wills

Trusts give individuals a degree of control over the assets being gifted. Life assurance policies can be written into trust, meaning that the proceeds will not form part of the estate on your death.

In regard to Wills, it is particularly important to review your own Will following changes to your personal or family circumstances, or the introduction of new tax rules.

As your accountants, we can assist you in minimising your IHT liability. Please contact us for more information.

We are here to help...

This guide is designed to help you identify some of the areas that could have a significant impact on your tax planning. Please consult us early for help in taking advantage of tax-saving opportunities. We will be delighted to assist you.

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davidowen
CHARTERED ACCOUNTANTS
EST 1881

17 The Market Place, Devizes, Wiltshire SN10 1HT
T: 01380 722211 | devizes@davidowen.co.uk

126 High Street, Marlborough, Wiltshire SN8 1LZ
T: 01672 512163 | marlborough@davidowen.co.uk

ICAEW CHARTERED ACCOUNTANTS

davidowen.co.uk