Suggested tax planning points for consideration.

As well as considering tax planning for the current tax year, it is essential to put in place strategies to minimise tax throughout the next tax year. Most planning strategies have the most significant effect if implemented as soon as possible. This tax year-end planning checklist covers the main planning opportunities available to UK resident individuals and aims to inspire action to reduce tax for the 2023/24 tax year.

While tax planning is an integral part of financial planning, it is not the only part. It is essential that any tax planning strategy that is being considered also makes commercial sense.

In this summary, all references to spouses include civil partners, and all references to married couples include registered civil partners.

Income tax

- Consider reducing taxable income below £125,140 to avoid additional rate tax (45%).
  - Pension contributions are one of the few ways to reduce taxable income.
- For married couples/civil partners, consider ensuring each has enough income to use their personal allowance: £12,570 in 2023/24.
  - Also, consider using the marriage allowance if one of you has little income and the other is a basic-rate taxpayer.
- If you are an individual earning over £100,000 for whom the personal allowance is being withdrawn, consider the options available.
  - If income is above £100,000, pension contributions before 6 April 2024 can reduce income to £100,000 to restore all or part of a personal allowance which would otherwise be lost.
- Consider reinvesting in tax-free investments, such as ISAs, to replace taxable income and gains with tax-free income and gains or investment bonds that can deliver valuable tax deferment.
  - Investments delivering tax-free, potentially tax-free, or tax-deferred income can benefit an individual in contrast to an income-producing investment which might otherwise result in an erosion of personal allowances.
  - Note that once an investment bond gain is triggered, for example, by encashment, it is included in an individual's income without top-slicing when assessing entitlement to the personal allowance.
- Consider redistributing investment capital between spouses / civil partners to reduce the rate of tax suffered on income and gains.
  - No capital gains tax (CGT) or income tax liability will arise on transfers between married couples or civil partners living together or where the asset to be transferred is an investment bond.
  - Any transfer must be done on a 'no-strings-attached' basis to ensure that the correct tax treatment applies. o This means investments must be fully transferred with no entitlement retained by the transferor.

Capital Gains Tax

- Consider maximising the use of this year's annual exemption (currently £6,000).
  - Any amount unused cannot be carried forward – "use it or lose it".
- To defer the tax payment for a year, consider selling an asset after 5 April 2024.
  - The annual exemption falls to £3,000 from this point which should be considered.
- To use two annual exemptions in quick succession, consider making one disposal before 5 April 2024 and another after 6 April 2024.
- Consider trying to ensure each spouse/civil partner uses their annual exemption.
  - Assets can be transferred tax efficiently between spouses / civil partners to facilitate this.
  - Any such transfer must be outright and unconditional.
  - In transactions which involve the transfer of an asset showing a loss to a spouse / civil partner who owns other assets showing a gain, care should be taken not to fall foul of anti-avoidance rules that apply (money or assets must not return to the original owner of the asset showing the loss).

Inheritance tax

- Consider using the annual gifting exemption everybody has of £3,000 to use each tax year.
  - Any unused annual exemption can be carried forward for one year only.
  - So, use any available annual exemption carried forward from last year before 6 April 2024.
- Consider the options around the annual £250 per donee exemption, which cannot be carried forward.
  - A person can make as many outright gifts of up to £250 per individual per tax year as they wish free of inheritance tax (IHT), provided that the recipient does not also receive any part of the donor's £3,000 annual exemption.

Savings and investments

Savings income and dividends

- For married couples/civil partners, consider ensuring each has sufficient savings income to use their £500 or £1,000 personal savings allowances and sufficient dividends to use their £2,000 dividend allowances.
- Those able to control the dividend income they receive, such as shareholding directors of private companies, could consider paying themselves up to £2,000 in dividends in the tax year 2023/24 and £2,000 in 2024/25.
- Consider using the 0% starting rate band for savings income of £5,000 which is available on top of the dividend allowance and personal savings allowance.
    - It reduces £1 for £1 by all non-savings income over the personal allowance, so people cannot take advantage of this starting rate band where earnings and/or pension income exceeds £17,500 in 2023/24.
    - However, if a person does qualify, they must have the correct type of investment income (e.g., interest) to pay 0% tax.
- Where interest is due just after 5 April 2024, consider closing an account just before the tax year-end can bring that interest forward to the 2023/24 tax year, which, for example, may help in making better use of any surplus personal savings allowance or nil rate starting (savings) band for the current tax year.

ISAs and JISAs

- Annual subscriptions (£20,000 and £9,000, respectively) should be maximised before 6 April 2024, as any unused subscription amount cannot be carried forward.

EISs/VCTs

- For high earners who are aware of the likely greater investment risk and lower liquidity that will have to be accepted in return for the attractive tax reliefs, consider investing in EISs and VCTs.
  - For subscriptions to be relieved in the tax year 2023/24, they must be made before 6 April 2024.
  - EISs- Up to £1 million can be invested; £2 million, where any amount above £1 million is invested in knowledge-intensive companies.
    - Maximum income tax relief is 30%.
    - Unlimited CGT deferral relief- provided some of the EIS investment potentially qualifies for income tax relief.
  - VCTs – Up to £200,000 can be invested.
    - Maximum income tax relief is 30%.
    - No ability to defer CGT, but dividends and capital gains generated on amounts invested within the annual subscription limit are tax-free.

Investment bonds

- Investment bonds can deliver valuable tax deferment.
  - To minimise taxation on encashment, consider deferring the encashment until later tax years if other taxable income is likely to be lower or nil or when you will be a basic rate taxpayer.
  - In the meantime, if cash is required, the investor can use the 5% tax-deferred annual withdrawal facility.
  - Alternatively, it may be worth triggering a chargeable event gain before the end of this tax year so that the liability to tax falls in 2023/24 if you anticipate that your top tax rate in 2024/25 will be greater than in this tax year.

Pensions

- The maximum amount an individual can pay into pensions has increased from £40,000 to £60,000.
  - This is from all sources, including personal contributions and contributions from third parties such as an employer.
- The carry-forward rules allow unused annual allowances to be carried forward for a maximum of three tax years.
  - This means that 5 April 2024 is the last opportunity to use any unused allowance of up to £40,000 from 2020/21.
- For high earners subject to the tapered annual allowance, consideration should be made over whether anything can be done about it.
  - If there is enough carry forward available and threshold income is just above £200,000, making additional individual pension contributions could restore the annual allowance.
  - This means more pension savings and the possibility of avoiding a tax charge.
- Making extra pension contributions for those who may be subject to a reduced personal allowance a pension contribution could claw back some of this allowance, giving an effective tax saving of around 60%.
- This increases if the contribution is made via salary sacrifice/salary exchange.
  - Employees can sacrifice part of their earnings in return for their employer paying the amount sacrificed as a pension contribution on their behalf.
  - Unlike salary/bonus, an employer pension contribution doesn't attract National Insurance.
  - The 1.25% increase in employer and employee National Insurance Contributions (NICs) makes salary sacrifice even more attractive.
  - As well as the usual income tax relief, the additional benefit of salary sacrifice is the NIC savings for both employer and employee, made by reducing salary.
  - Employers make their own decisions of how much of the NIC saving they pass onto their employees, with some passing all and some nothing at all.
  - However, even if none, the employee will still benefit from their employee NICs savings.

- Pension contributions can also help families get back their child benefit, which is progressively cut back if one parent or partner in the household has an income of more than £50,000.
    - The benefit is lost when income reaches £60,000.
- Individuals should consider making a net pension contribution of up to £2,880 (£3,600 gross) each year for family members, including children and grandchildren, who do not have relevant UK earnings.
    - The £720 basic rate tax relief added by the Government each year is a significant benefit, and the earlier that pension contributions are started, the more they benefit from compounded tax-free returns.
- For those in control of how they distribute funds from their company, there are broadly three main ways to extract the funds; salary, dividends or by making employer pension contributions.
    - To provide a shareholding director with their immediate income needs, the company accountant will often suggest paying a minimal salary, perhaps up to the personal allowance (or, in previous years, the employer NICs secondary earnings limit) and the rest in dividends.
    - As the rate payable on both the employer and employee NICs will have increased by 1.25%, this is likely to stay the same, despite the increase in dividend tax rates.

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