Make the most of your tax allowances and reliefs.

As more adults are expected to pay higher tax rates than ever, taking advantage of tax allowances and reliefs is essential. This guide provides an overview of opportunities to consider as the old tax year ends and the new one begins. We also offer tips for reducing inheritance tax liability.

Income tax saving opportunities

Couples can save tax by transferring income from one partner to the other.

It is essential for everyone to use their personal allowance, which is a maximum of £12,570, and try to minimise income that is charged at higher or additional rates. Two critical thresholds to keep in mind are as follows:

- Income above £150,000 is taxed at 45%, or 46%, for non-savings, non-dividend income in Scotland.
- From 2023/24, this threshold will be reduced to £125,140 and kept frozen until April 2028 for all income (except in Scotland, where the lower limit applies only to savings and dividend income).
- The personal allowance is removed if income (minus certain deductions) exceeds £100,000.

If your employer offers salary sacrifice, consider using it or increasing your pension contributions. Doing so can help you reduce the income tax you pay at higher or additional rates. Additionally, it can help prevent or lessen the withdrawal of your personal allowance.

If you are a couple, you can transfer income-producing investments between yourselves to avoid exceeding certain limits and reduce your combined income tax bill. To benefit this tax year, act promptly and make the transfer soon. However, be aware that if you are not married or in a civil partnership, you may have to pay capital gains tax (CGT) when switching ownership of an investment. Remember that only income received after the transfer will benefit you.

If you are a couple, reorganising your shareholdings might benefit you. Basic rate taxpayers can also receive a tax-free savings income of up to £1,000, with the amount being £500 for higher rate taxpayers (but not those in the additional rate bracket).

If you do not have much income from work or pension, you may be eligible for a 0% tax rate on up to the first £5,000 of your taxable savings income. Transferring assets between partners can also help reduce taxes. An allowance of £1,000 tax-free is available for property income. For example, if you rent out a parking space, joint ownership can help you save some money on taxes. If you are a non-taxpayer, you can transfer 10% of your personal allowance, which is £1,260 in 2023/24, to your spouse or civil partner using the marriage allowance. Your spouse or civil partner must pay tax at no more than the basic rate. You need to claim this allowance initially, and it will remain in place until you cancel it. Furthermore, you can backdate claims for up to four tax years.

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.

There is a 100% reduction in child benefit where income is over £60,000 and a pro-rata reduction for income between £50,000 and £60,000.

You may need to pay more taxes if you earn more than a certain amount. However, there are ways to reduce your income and avoid this. For example, you can use salary sacrifice, contribute to your pension, donate to charity, or transfer income between you and your partner.

Partner's salary

You could pay an otherwise non-earning partner a salary if you are a business owner.

If you are a sole trader, you can lower the profit you're taxed on at a higher or additional rate. Even if your salary is below the National Insurance Contributions (NICs) lower earnings limit of £533 a month in 2023/24, you still need to keep PAYE records. However, if your salary is between £533 and £1,048 a month, your partner will not have to pay any NICs while still qualifying for state benefits. If your salary exceeds £758 a month, you must pay the employer's NICs.

You can pay an employer's contribution to your partner's pension plan. This payment is free from taxes and NICs and can be classified as a business expense. However, the total value of your partner's salary, benefits, and pension contributions must relate to their work. Alternatively, you can operate as a partnership to share your business profits. To do so, you and your partner must be genuinely involved as business partners, although your roles do not need to be equal.

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 2024/25.

- If you will earn less than £125,140 in 2024/25, you might be able to avoid paying the higher income tax rate by waiting to receive your bonus until after 5 April 2024.
- You can use the same method to keep your income below the level where you lose your personal allowance. Another option is to reduce your salary so that your income falls below any of the thresholds in exchange for a tax-free contribution to your employer's pension plan.

Key considerations:

- It might be a good time to review your choice of company car. Switching to an electric or hybrid model could save you significant amounts of tax and save your company money on tax and NICs too. It could also help to reduce other related costs.
- If you have share options, it is important to think about how taxes will affect you both before and after the tax year ends. This will help you decide whether to exercise your options now or wait until a future tax year.
- Shareholder directors may be able to lower their National Insurance Contributions (NICs) by taking dividends instead of a salary.

Dividends

If you think that your tax rate will be higher next year than it is currently, then you might want to bring forward a dividend. You can also transfer ownership of shares to your spouse or civil partner before paying a dividend, but it is essential to leave enough time between the gift and the subsequent dividend payment.

Self-employed

If you are self-employed, you can apply the same tax planning approach around income levels as directors or employees. Running a business as a limited company used to have more tax advantages, but these have reduced and will decrease even more after April 1, 2023, due to an increase in corporation tax. Depending on your accounting date, you may be able to avoid paying tax at 45% or 46% in Scotland by affecting the timing of your taxable profits. However, the tax rules for the self-employed will change from 2023/24, when the basis period rules change from 'current year' to 'tax year'. This change could speed up tax payments.

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

Pension contributions

If you are worried about the increase in income tax and the decrease in tax allowances, there is a good opportunity to make the most of pension relief. Even self-employed individuals can benefit from making pension contributions, especially those who have lost their personal allowance and are paying 40% plus an additional 20% on £25,140. For every £2 over £100k, you lose £1 of your personal allowance. By contributing to your pension, you can still get great tax relief.

As a company director, you should also consider making employer pension contributions. This not only saves corporation tax, but also moves money from a limited company into a highly tax-efficient personal investment portfolio. This investment can be used in the future, or accessed immediately if you are aged 55 or older.

Capital Gains Tax planning.

If you have capital gains tax (CGT), it is important to manage your liability to make the most of the CGT annual exempt amount. This amount is £6,000 in 2023/24 and will fall to just £3,000 in 2024/25. After that, it will be frozen.

If your taxable income and gains are less than £37,700 in 2023/24, most gains above the exempt amount are taxed at 10%. If your gains are higher than that limit, the rate is 20%. Residential property gains that are 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 2024. If you have already made gains over £6,000 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.

If you incur losses while investing, you can carry these losses forward indefinitely. To do so, make sure to report them to HMRC within four years after the end of the tax year. This will allow you to use them to offset gains in future years, as long as the gains are not covered by the CGT annual exempt amount. This could be helpful, particularly as the annual exempt amount decreases.

Managing disposals

If you made a loss from your disposals in this tax year, you may need to decide whether to sell your investments before or after the tax year ends. The amount of money involved will impact your decision. Depending on how much you earn, selling before or after the end of the tax year could mean that more of your gains will be taxed at a lower rate of 10% instead of 20% (or 18% instead of 28%).

If you are married or in a civil partnership, transferring assets that produce income between you two could result in more of your gains being taxed at lower rates for Capital Gains Tax (CGT). By transferring assets before disposing of them, you might be able to save on CGT, especially if one partner has unused annual exempt amounts, has not fully used their basic rate tax band, or has capital losses available. When doing this, it is best to leave as much time as possible between the transfer and the disposal.

If you own shares or assets that have lost their value, you can claim the loss against your capital gains without selling the asset. This can be done by making a negligible value claim. You can get backdated relief for the loss for up to two tax years prior to the one you claim in, provided you owned the asset in the earlier year, and it had already become of negligible value. You must make the claim by 5 April 2024 if you want to get relief for the 2021/22 tax year.

You usually need to pay CGT by 31 January after the tax year when you sell something. But if you wait until after 5 April 2023 to sell, you will have an extra year to pay. Just remember that the annual exempt amount will be lower by then. If you sell a non-exempt residential property, you must pay some CGT within 60 days of finishing the sale.

Pensions planning

Contributing to your pension can offer you tax benefits, but these benefits may be at risk in future Budgets. When you invest your pension funds, they are largely tax-free. When it is time to withdraw the funds, up to 25% is usually tax-free, but the pension income will be subject to taxation.

Contributions

If you have extra money, you may want to put more money into your pension to increase your retirement savings, especially if you lowered contributions in recent years or may be taxed at an additional rate due to a lower threshold. There is a limit of £60,000 a year on pension contributions that qualify for tax relief. However, if you earn more than £260,000 a year (including any pension contributions made by your employer), the limit is reduced, with a minimum of £10,000 if you earn £360,000 or more. You can carry forward unused annual allowances for up to three tax years to offset contributions more than your annual limit. If you already receive a flexible income from a pension, the annual limit is £10,000, and you cannot use the carry-forward option.

- When it comes to contributing to a pension scheme, you can add up to the total amount you earned in a year. However, the amount eligible for tax relief is limited by the annual allowance and any unused allowances brought forward.
- Tax relief on pension contributions is usually at least 20%, but higher and additional rate taxpayers can receive relief of up to 40% or 45%. In Scotland, intermediate, higher, and top rate taxpayers can receive relief of 21%, 41%, or 46%, respectively.
- When planning for retirement, it is important to know the tax relief on pension contributions. The most value of tax relief is received when it exceeds the eventual tax on benefits. For instance, if a higher rate taxpayer becomes a non- or basic rate taxpayer in their retirement, they will benefit the most from limiting their contributions to amounts that qualify for tax relief at the higher rates.
- The effective relief can be as high as 60%, or 61.5% in Scotland, where the personal allowance is being withdrawn. It can be even higher if tax credits, or Universal Credit payments are being withdrawn. Therefore, it is recommended to limit pension contributions to amounts that qualify for tax relief at the higher rates to get the most benefit.
- You can also consider setting up a pension for a non-working partner or your children who can contribute up to £3,600 in a personal pension, even if they do not pay any tax. This is because they can still benefit from 20% tax relief.

Drawing benefits

If you are over 55 (57 from 6 April 2028), you might be able to draw your pension savings flexibly. Just know that if you withdraw more than the tax-free amount, you are going to have to pay income tax based on your marginal rate. Before you access your pension savings, it is important to seek advice because there are different options available to you, each with their own benefits and drawbacks. These decisions can have a long-term impact on your financial situation. If you are already receiving your pension benefits from a non-guaranteed pension fund and are thinking about reducing your withdrawals, keep in mind that doing so will also lower the amount of income tax you owe.

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

Saving for your retirement is a good idea, and there are different ways to do it. One way is to contribute to a pension plan. This can give you a tax relief on your income, and your pension fund will grow without having to pay tax on it. But keep in mind that you will not be able to access your pension until you turn 55 (increasing to 57 in 2028) and potentially later.

Another option is to use an Individual Savings Account (ISA). This also provides tax-free growth, but without the restrictions on accessibility. You can have up to £20,000 per year in an ISA account, which can be invested or kept as cash.

If you have used up your pension allowance and still want to benefit from tax relief, you can consider investing in an enterprise investment scheme (EIS) or venture capital trusts (VCTs). These are government incentives to encourage investment in early-stage companies, which provide tax relief. These investments are high risk, so it's essential to seek advice to ensure they are suitable for your needs.

Tax-efficient investments.

Individual savings accounts

If you are looking to get more out of your savings and investments, it might be worth considering Individual Savings Accounts (ISAs). With interest rates increasing after a long period of being low, these tax-efficient accounts can help boost your returns.

In each tax year, you can invest in one Cash ISA, one Stocks and Shares ISA, and one Innovative Finance ISA. If you are between 18 and 39 years old, you can also invest up to £4,000 in a Lifetime ISA (LISA). If you already have a LISA, you can keep contributing until you are fifty. However, the maximum investment limit of £20,000 (for 2023/24) applies across all types of ISA. You can invest the entire amount in one type of account or split it between two or more.

ISAs are free of UK tax on investment income and capital gains, and there is a wide range of funds and providers to choose from. The government also adds a 25% bonus to investments of up to £4,000 a year in a LISA. You can use the savings in a LISA to help buy your first home or keep the funds to use from age 60. A LISA can be used instead of or alongside more traditional retirement savings methods if you are eligible.

It is important to seek advice when making complex decisions. If you transfer your LISA funds to a different ISA or withdraw them before you turn sixty, you will be charged a government withdrawal fee of 25%, which means you might receive less money than you put in. For children under eighteen without a child trust fund, parents and others can contribute up to £9,000 to a Junior ISA. The funds are usually locked in until the child reaches eighteen.

Enterprise investment schemes and venture capital trusts

These investment schemes can give you significant tax benefits. However, they are high-risk, and you may have trouble selling them. Seek help from a specialist before investing in them.

The Enterprise Investment Scheme (EIS) can give you income tax relief of 30% for investing in new shares of small qualifying trading companies that are not listed on any main stock exchange. The Seed Enterprise Investment Scheme (SEIS) provides similar benefits but gives 50% income tax relief and is specifically aimed at start-up companies.

Investing in both EISs and SEISs can help you avoid Capital Gains Tax (CGT) after three years. Moreover, if you reinvest your CGT, you can claim relief. If you hold EISs and SEISs for two years, they usually will not count towards your estate for Inheritance Tax (IHT) purposes.

Finally, investing in Venture Capital Trusts (VCTs) can provide you with 30% income tax relief for newly issued shares. Usually, you will not have to pay CGT on gains, and the dividends will be exempt from income tax.

Review your inheritance tax planning.

Most people do not plan for inheritance tax (IHT) based on the tax year end, but now is as good a time as any to review your will. IHT is a tax that applies if the assets you leave behind, as well as any gifts you made in the seven years before your death, add up to more than the nil rate band, which is currently £325,000. If you leave your residence to your descendants, you may qualify for a residence nil rate band of £175,000.

You can reduce the value of your assets through lifetime gifting. Gifts of up to £3,000 in a tax year are exempt from IHT. If you have not used this exemption in the current tax year, you can gift up to £6,000 before 6 April 2024 without incurring IHT. If you have used up your exemption for the current tax year, you can wait until after 5 April 2024 to take advantage of the 2024/25 exemption.

Charitable giving

People often ask how they can donate to charity as part of their financial planning and the best ways to do it. Recent events, such as the war in Ukraine and the cost-of-living crisis, make us more determined to help those in need locally and globally. As advisers, we are committed to helping clients find the right charities and ways to donate to causes they care about.

There are many ways to include charitable giving in your financial and estate planning, such as schemes that can help maximise the value of donations and provide tax relief. For example, you can receive tax relief for any charitable donations you make with a gift aid declaration. You can also obtain income tax and CGT relief on gifts to charities of shares listed on the stock market and certain other investments.

It is worth remembering that gifts to charity are free of IHT. By remembering a charity in your will, you can reduce the total amount of IHT that will be paid on your estate. If you leave 10% of your net estate to charity, 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.