PWS Financial Consulting Ltd

DSG. WEALTH MANAGEMENT

HM Wealth

Tax Year Start Planning Guide

Tax Year 24/25

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Introduction

In addition to considering tax planning for the current tax year, it is essential to implement 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-start planning guide covers the main planning opportunities available to UK resident individuals and aims to inspire action to reduce tax for the 2024/25 tax year.

While tax planning is integral to financial planning, it is not the only part. Any tax planning strategy that is being considered must also make financial 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.
    - This allowance broadly enables a spouse or civil partner who is not liable to income tax at a rate higher than the basic rate to give up to £1,260 of their personal allowance to provide their spouse or civil partner with a tax deduction of up to £252 in the tax year.
    - The lower earner must normally have an income below the personal allowance to benefit from this.
- If you are an individual earning over £100,000 for whom the personal allowance is being withdrawn, consider the options available.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 2025 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 the correct tax treatment applies.
    - 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 £3,000).
    - 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 2025.
    - To use two annual exemptions in quick succession, consider making one disposal before 5 April 2025 and another after that.
- 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 involving 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 the 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 2025.
- 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 £500 dividend allowances.
- Those able to control the dividend income they receive, such as shareholding directors of private companies, could consider paying themselves up to £1,000 in dividends.
- Consider using the 0% starting rate band for savings income of £5,000, which is available in addition to 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 2025, consider closing an account just before the tax year-end to bring that interest forward to the 2023/24 tax year.
    - This, for example, may help you make 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 2025, as any unused subscription amount cannot be carried forward.
- This is the maximum amount that can be invested into an ISA each tax year and can be split across the following:
    - Stocks & Shares ISA
    - Cash ISA
    - Lifetime ISA (maximum of £4,000 pa)
    - Innovative Finance ISA
- Another ISA to consider is a Lifetime ISA (LISA) which is designed for anyone over 18 and under 40 saving for their first home or future retirement.
    - You can invest a maximum of £4,000 a year which the government will add a 25% bonus to the maximum of £1,000 per year.
    - You can use the money to purchase a new home (restrictions apply, e.g. property price) or access it from age 60 for later life/retirement.
- A new rule coming into force is that you can now contribute to multiple ISAs of the same type, as long as you keep within the overall limit.
- Money held within an ISA is free from Income and Capital Gains Tax and withdrawals can be made tax-free.

EISs and VCTs

- High earners aware of the likely greater investment risk and lower liquidity that will have to be accepted in return for attractive tax reliefs should consider investing in EISs and VCTs.
    - Subscriptions must be made before 6 April 2025 for them to be relieved in the tax year 2024/25.
- 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%.
    - There is 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, the investor can use the 5% tax-deferred annual withdrawal facility if cash is required.
  - 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 you can personally contribute to a pension and qualify for Income Tax relief is the higher of 100% of your relevant UK earnings or £3,600 gross.
    - Income Tax relief can only be received until age 75.
- Contributions from a limited company are not subject to the earnings limitations.
- Pension contributions are also limited by the Annual Allowance, which for this tax year is £60,000.
    - This limits contributions 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.
    - 5 April 2025 is the last opportunity to use any unused allowance of up to £40,000 from 2021/22.
- For high earners subject to the tapered annual allowance, consideration should be made over whether anything can be done about it.
    - If enough carry forward is 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%.

- Pension contributions can be even more effective if 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 does not attract National Insurance.
    - 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 decide how much of the NIC savings 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 NIC savings.
- Pension contributions can also help families regain their child benefit, which is progressively reduced if one parent or partner in the household earns more than £60,000.
    - The benefit is lost when income reaches £80,000.
- 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 three main ways to extract the funds: salary, dividends, or employer pension contributions.
    - To provide a shareholding director with immediate income needs, the company accountant will often suggest paying a minimal salary, perhaps up to the personal allowance, and the rest in dividends.

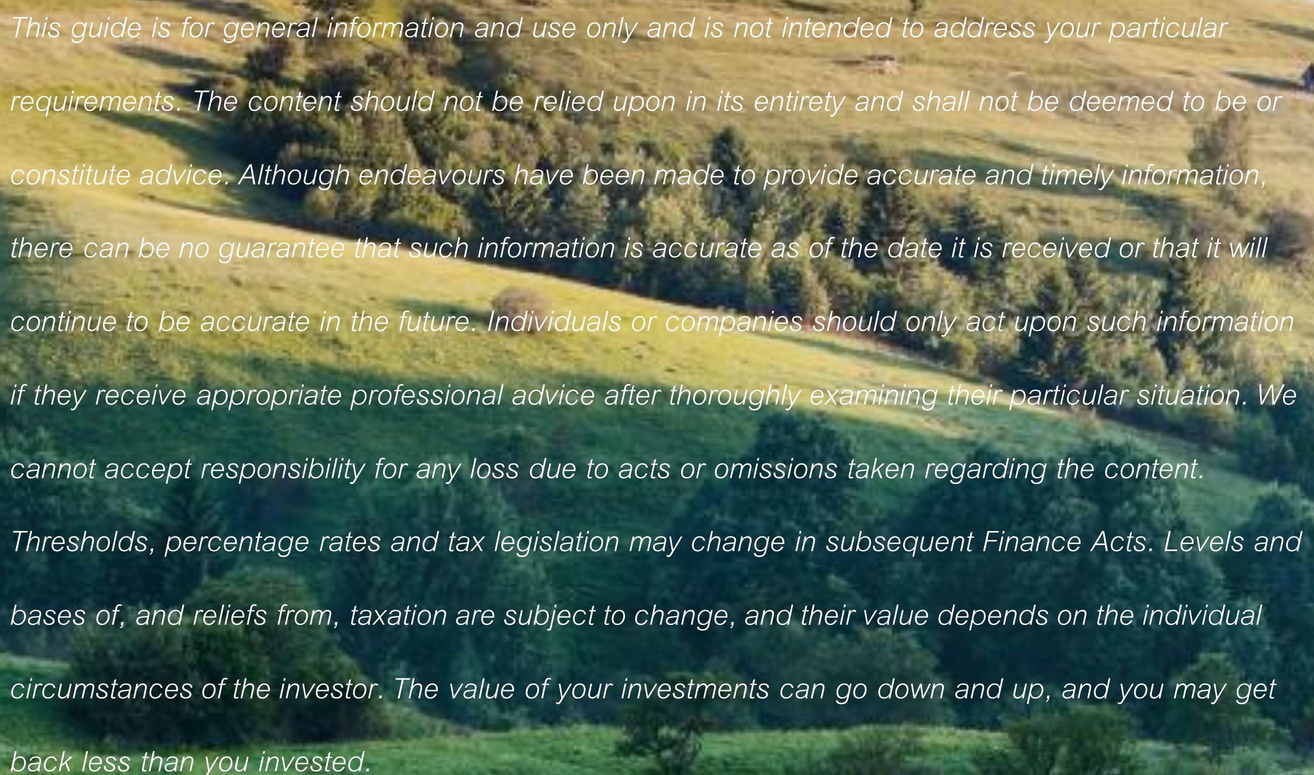
Tax Year Dates for 2024/2025

The UK tax year spans 12 months, starting on the 6th of April each year and ending on the 5th of April the following year. The tax year, therefore, runs from 6th April 2024 to 5th April 2025. Knowing the tax year dates enables you to organise your financial plan and ensure timely compliance with tax deadlines. Overlooking these dates might lead to forfeited entitlements or penalties. Here are the important dates that you need to know:

- April 6th 2024 - The start of the current tax year.
- April 19th 2024 - The deadline for the final PAYE submission for the previous tax year 2023/24 which ended on 5th April 2024.
- April 30th 2024 - The date for which the penalties for any unfiled self-assessment tax forms will be applied from.
- 31st July 2024 - An important date for the self-employed, as this is the last day to make a second payment for your taxes owed from the previous tax year.
- 5th October 2024 - The first deadline for submissions of tax returns for the tax year and also the deadline for self-employed workers to register with HRMC for the current tax year.
- 31st October 2024 - The deadline for submission of tax returns in paper format for the tax year ending 5th April 2024.
- 30th December 2024 - The deadline to submit your online tax return for automatic payment of owed taxes from your pension and wages.
- 31st January 2025 - The deadline for online self-assessment tax returns for the 2023/24 tax year to be completed.
- 5th April 2025 - The final day for the current tax year.

Self-Assessment Tax Return

- A self-assessment tax return is for people and businesses with other income which is not automatically taxed.
- A self-assessment must be completed by:
    - Anyone who is self-employed as a 'sole trader' and earned more than £1,000.
    - Partners in a business partnership.
    - Anyone earning £100,000 or more (even if you are taxed via PAYE)
- A self-assessment will also be needed if you have any untaxed income, this could include:
    - Rental income
    - Commissions or tips
    - Income from savings, investments and dividends
    - Foreign income streams



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