FINANCIAL FOCUS

PAVEY GROUP FINANCIAL SERVICES NEWSLETTER

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PAVEY group FINANCIAL SERVICES

Taxing times

Time for a tax health check?

With the current tax year having begun on 6 April 2022, the clock is ticking and it is important to utilise all the tax reliefs and allowances available to you before 5 April 2023 in order to minimise any potential liabilities.

Personal tax planning should be at the top of your agenda as the end of the current tax year is not too far away. Taking action now may give you the opportunity to take advantage of any remaining reliefs, allowances and exemptions.

At the same time, you should be considering whether there are any planning opportunities that you need to consider either for this tax year or for your long-term future. We've listed a few reminders of the issues you may want to consider as worthy of including in your 2022/23 tax health check to-do list.

Some key things you might need to action before the tax year end

Personal reliefs: Married couples should consider utilising each person's personal reliefs, as well as their starting and basic rate tax bands. Could you make gifts of income-producing assets (which must be outright and unconditional) to distribute income more evenly between you both?

Salary sacrifice: This is an especially tax-efficient way for you to make pension contributions, to save and reduce your Income Tax and National Insurance. Have you considered exchanging part of your salary for payments into an approved share scheme or additional pension contributions?

Pensions annual allowance: Unless you are an additional rate taxpayer or have already accessed pension benefits then you are entitled to make up to £40,000 of pension contributions per tax year. Have you fully utilised your tax-efficient contributions for this tax year or any unused allowances from the three previous tax years?

Stakeholder pensions: A stakeholder pension is available to any United Kingdom resident under the age of 75. Children can also make annual net contributions of £2,880 per year, making the gross amount £3,600 regardless of any earnings. It is also a very beneficial way of giving children or grandchildren a helping hand for the future. Is this an option you or a family member should be utilising?

Large pension funds: The Lifetime Allowance (LTA) is currently £1,073,100 and has been frozen at this level until the 2025/26 tax year. The maximum you can pay in is £40,000 per annum unless you pay tax at 45% in which case the annual limit could be as low as £4,000. Inflationary increases by the end of the current tax year could also have an impact on your pension funds. Do you have a plan in place to protect your money from this?

Pension drawdown: If your are 55 or over you could access 25% tax-free cash from your Defined Contribution (also known as Money Purchase) pension pots and invest the rest. However, drawing large amounts in one tax year can lead to a larger tax bill than if spread over a longer period. Do you know the implications of taking money out of your pension pots?

Passing on your pension: Usually called a 'spousal by-pass trust', although the recipient may not always be a spouse, this is a discretionary trust set up by the pension scheme member or pension holder to receive pension death benefits. Are your pension death benefits written in trust?

Individual Savings Accounts (ISAs): An ISA allows you to save and invest tax-efficiently into a cash savings or investment account. The proceeds are shielded from Income Tax, tax on dividends and Capital Gains Tax. The government puts a cap on how much you can put into your ISA or ISAs in any tax year (from 6 April to 5 April). The ISA allowance for 2022/23 is set at £20,000. Have you fully utilised the maximum annual allowance?

Junior ISAs: This is a long-term tax-efficient savings account set up by a parent or guardian, specifically for the child's future. Only the child can access the money, and only once they turn 18. Have you invested the maximum £9,000 allowance for your child or children?

Lifetime ISAs (LISAs): The Lifetime ISA (Lisa) is a tax-efficient savings or investments account designed to help those aged 18 to 39 at the time of opening to buy their first home or save for retirement. The government will provide a 25% bonus on the money invested, up to a maximum of £1,000 per year. You can save up to £4,000 a year, and can continue to pay into it until you reach age 50. Could you be taking advantage of this very tax-efficient option?

Capital Gains Tax (CGT): There are two different rates of CGT – one for property and one for other assets. If your assets are owned jointly with another person, you could use both of your allowances, which can effectively double the amount you can make before CGT is payable. If you are married or in a registered civil partnership, you are free to transfer assets to each other without any CGT being charged. It is currently £12,300 but will be reduced to £6,000 from 6 April 2023 and £3,000 from 6 April 2024. Have you fully used your current £12,300 annual exemption?

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Inheritance Tax (IHT) relief: IHT must be paid on the value of any estate above £325,000, or up to £1 million for married couples including the residence nil-rate band). However, certain business assets, including some types of shares and farmland, in private trading companies can qualify for 100% relief from IHT. The government has frozen the IHT thresholds for two more years to April 2028. Are you taking advantage of the reliefs available to you?

Residence nil-rate band (RNRB): This allowance was introduced during the 2017/18 tax year and is available when a main residence is passed on death to a direct descendant. The allowance is currently £175,000. When combined with the nil-rate band of £325,000, this provides a total IHT exemption of £500,000 per person, or £1 million per married couple. If you are planning to give away your home to your children or grandchildren (including adopted, foster and stepchildren). The RNRB must be claimed. There is a form for this purpose – IHT435. The form is available on the Gov.uk website. If applicable, have you applied for the RNRB?

Charitable and personal gifts: If you leave at least 10% of your net estate to charity a reduced inheritance rate of 36% applies rather than the usual 40%. Other exemptions apply for inter-spousal transfers, transfers of unused annual income, business and agricultural assets, and for various other fixed, small amounts. Are you intending to make gifts before the end of the current tax year?

Trust funds: These help protect your assets and guarantee that your loved ones have financial stability for their future. Crucially, a trust can help to avoid IHT and ensure that the majority of your money, shares and equity are passed on in the most efficient way. Should you consider setting up a trust?

Future legislation could potentially result in changes to tax law, which could in turn require adjustments to your plans.

WANT TO TALK ABOUT A TAX HEALTH CHECK?

We hope you find this checklist useful, but please bear in mind that this only provides a summary of the options available and not all options will be suitable for everyone. Therefore, for more information in respect of the ideas outlined, please contact us.

A PENSION IS A LONG-TERM INVESTMENT NOT NORMALLY ACCESSIBLE UNTIL AGE 55 (57 FROM APRIL 2028 UNLESS PLAN HAS A PROTECTED PENSION AGE).

THE VALUE OF YOUR INVESTMENTS (AND ANY INCOME FROM THEM) CAN GO DOWN AS WELL AS UP WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

YOUR PENSION INCOME COULD ALSO BE AFFECTED BY THE INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS.

THE VALUE OF YOUR INVESTMENTS CAN GO DOWN AS WELL AS UP AND YOU MAY GET BACK LESS THAN YOU INVESTED.

THE FINANCIAL CONDUCT AUTHORITY DOES NOT REGULATE TAXATION AND TRUST ADVICE. TRUSTS ARE A HIGHLY COMPLEX AREA OF FINANCIAL PLANNING.

Ins and outs of CGT

Ways to potentially reduce your Capital Gains Tax liability

Capital Gains Tax (CGT) is a form of taxation imposed on profits earned from the sale of certain types of assets. Gains are calculated by subtracting the purchase price and related expenses (such as sales charges) from the selling price. They are generally taxed at a rate higher than income taxes in order to discourage speculation.

If you plan to sell assets that have appreciated in value, such as real estate, stocks or bonds, it is important to be aware of CGT and how it can affect your bottom line. Proper planning can help you minimise or even avoid CGT liabilities.

For years, the annual CGT exemption has been a useful way of reducing your liability for CGT on any profits you may make from investments or disposals of assets. But with news in last year's Autumn Statement that this exemption will be cut to £6,000 in 2023/24 and £3,000 in 2024/25, now is the time to take action if you want to protect your tax-free allowance.

Here are some ways to potentially reduce your CGT liability.

Use your CGT exemption

Have you made full use of the current 2022/23 CGT exemption, taking into account the upcoming reduction of this exemption commencing from the next tax year? The Chancellor, Jeremy Hunt, in his Autumn Statement last November announced that the CGT personal allowance will be more than halved to £6,000 in April 2023, and halved again to £3,000 in April 2024.

It is important to consider making any capital gains before the end of this current 2022/23 tax year, in order to maximise your current £12,300 CGT exemption. This approach will ensure that you are able to take advantage of all available resources and protect yourself from incurring a large liability down the line.

Make use of losses

When reporting capital gains to HM Revenue & Customs (HMRC), you may be able to reduce your tax liability by making use of losses. Losses and gains realised within the same tax year must be offset against each other, which in turn can help lower the overall gain that is taxable. Furthermore, any unused losses from earlier years can be carried forward for use, provided they are reported to HMRC within four years from the end of the corresponding tax year in which the asset was sold.

It's important to keep accurate records of all losses and gains so as professional advice can be sought when necessary. This can help ensure that you make the most out of available reliefs and minimise your CGT liability accordingly.

Transfer assets to your spouse or registered civil partner

Couples and registered civil partners can take advantage of their combined annual CGT exemption by transferring assets between them. This is a tax-exempt transfer as long as it is a genuine, outright gift. By taking advantage of this exemption, couples and registered civil partners can benefit from increased capital gains opportunities that wouldn't otherwise be available on an individual basis. The assets can be any type of property or investments that are liable to CGT, such as stocks and shares, land, buildings, business assets or personal possessions.

It's important to note that the transferred asset will become part of the receiving partner's estate for Inheritance Tax purposes in the event of their death. This could potentially result in a larger Inheritance Tax bill, so professional advice should be sought before making any transfers. In addition, if the transfer takes place when the asset has appreciated in value, it's important to consider whether it would benefit you more to pay CGT on the gain before transferring the asset and using your single annual exemption instead.

Invest in an ISA (Bed and ISA)

Investing in an ISA can be beneficial for higher and additional rate taxpayers due to its exemption from CGT, so it is important to consider this option when making financial decisions. Gains and losses made on investments held within an ISA are exempt from CGT. Utilising the 'bed and ISA' tactic can be a professional way to maximise tax savings. 'Bed and ISA' is a way to invest without being exposed to the tax implications associated with CGT. By selling assets to realise a capital gain and then immediately buying back the same assets inside an ISA, all future gains can be exempted from CGT.

This helps investors make the most of their ISA allowance each year as they are able to use up to £20,000 in the 2022/23 tax year for single savers or £40,000 for married couples and registered civil partners. Investors need to understand that they may pay stamp duty and other costs when repurchasing investments in an ISA and there is a risk that time out of the market, however small, will detrimentally impact your investments.

Contribute to a pension

Making regular pension contributions from relevant earnings is a highly effective way to save on CGT. A pension provides an ideal opportunity for those looking to reduce their CGT burden while ensuring their funds remain secure in the long term. Investing in pensions could not only make you more tax-efficient but provide peace of mind that your money will still be available when needed most .

By contributing to your pension, you can effectively increase your upper limit of the Income Tax band. For example, if you make a gross contribution of £10,000 into your pension pot in the 2022/23 tax year, it would move the point at which higher rate tax becomes payable up from £50,270 to £60,270. This means that any capital gain plus other taxable income now falls within this extended basic-rate income tax band and as such CGT is payable at just 10% instead of 20% (18% on residential property gains).

Give shares to charity

One of the most rewarding ways to support a charity is to donate shares. By donating qualifying shares, you may be eligible for Income Tax relief and CGT relief from HMRC. This means that the value of your donation could be worth more than if you had donated money or other assets. It's important to remember that only certain types of UK shares qualify for CGT relief, so it's best to consult professional financial advice before making any donations.

Additionally, as with all donations, it's important to keep records of your gifts in case HMRC needs further information at a later date.Donating shares to charity can be an incredibly meaningful way to show your support whilst also benefiting from generous tax relief.

Invest in an Enterprise Investment Scheme

Enterprise Investment Schemes (EIS) allow investors to benefit from CGT relief on investments. This tax relief applies to qualifying investments in smaller, unquoted trading companies and can significantly reduce the amount of CGT due as well as providing other potential benefits. Any gains made on investments in an EIS are tax-free if held for at least three years from the later of the date of issue or the date the qualifying trade begins. Moreover, it is also possible to defer a capital gain by investing that gain in an EIS qualifying company but only within one year before or up to three years after the gain arose.

Once money is taken out of the EIS qualifying company, the deferred capital gain will come back into charge. When investing in an EIS, professional advice should always be sought to ensure that you are making the most suitable decision for your individual circumstances. This scheme is higher risk than more traditional investments, so investors need to make sure that they fully understand the risks associated.

Claim gift hold over relief

Gift hold-over relief is a tax consideration for anyone transferring business assets. If you meet the requirements, then you are eligible for a tax reduction when giving away certain business assets. To be eligible, there must be a genuine gift of the asset and the recipient must not make any payment in return. In addition, both parties must agree to the transfer and it must have been made at least one year before the date of sale by the recipient.

If you do qualify for gift hold-over relief, then you won't have to pay CGT on the gifted assets; however, if they are subsequently sold by the recipient they may incur CGT liabilities . It's important to note that it must be proven that the asset was given away and not sold in order for the relief to apply. If you're considering utilising gift hold-over relief, professional advice is advised as there are a number of conditions that must be met before being eligible.

Chattels that escape CGT

Chattels are personal possessions, such as antiques and collectibles, for which CGT does not always apply. Wasting assets – items with a predictable life of 50 years or fewer – may be exempt from CGT altogether provided they were not eligible for business capital allowances.

For non-wasting chattels, the CGT position depends on the sale proceeds, those under £6,000 usually being free of tax. It is important to seek professional advice if you are unsure about any aspect of CGT relating to your chattels so that you can ensure that you comply with the relevant legislation.

Seek professional advice

When it comes to CGT, professional advice is essential. Seeking professional financial advice can help you understand your CGT options, make sure you are taking advantage of all tax reliefs, allowances and exemptions available to you and advise on the best course of action for your individual circumstances.

We provide comprehensive professional advice and can help guide you through the complexities of CGT. We understand that each person's financial situation is unique, so our tailored advice will ensure that you get the most from your investments. ■

WANT TO FIND OUT MORE ABOUT YOUR OPTIONS?

Our professional advice can help you manage, review and plan for CGT effectively and provide peace of mind that all your CGT obligations are being met. To discuss your options if you're just getting started, please get in touch.

To arrange a complimentary consultation or review, please contact our Independent Financial Advisers on 01803 224888.