YEAR END tax planning

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CHARTERED ACCOUNTANTS

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IN THIS ISSUE:

» Personal tax
» Pension tax planning
» Capital gains tax planning
» Planning for directors, employees and the self-employed
» Individual savings accounts
» Charitable giving
» Inheritance tax planning
» Checklist

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PERSONAL TAX

How can my partner and I make the most of our income tax reliefs?

Everyone should make sure they use their personal allowance (a maximum of £12,570 in 2024/25, and frozen at this level until 2027/28).

For couples, if either spouse or a civil partner will not be able to use their personal allowance for 2024/25, then claiming the marriage allowance will save the other spouse or civil partner up to £252 in tax. However, a claim can only be made if the recipient does not pay tax above the basic rate. Claims can be backdated for four tax years, so the advantage of making a claim by 5 April 2025 is the inclusion of 2020/21. Also, try to minimise any higher- and additional- (top-) rate tax.

- Income over £125,140 is currently taxed at 45%, or 48% for non-savings, non-dividend income in Scotland.
- The personal allowance is withdrawn where income (less certain deductions) is more than £100,000.
- You might be able to reorganise both your financial affairs to avoid exceeding one of these limits. However, capital gains tax (CGT) may be payable on switching ownership of an investment if you are not married or in a civil partnership.

You can each receive £500 of dividends tax free in 2024/25 regardless of your tax status. Reorganising your shareholdings between you may make better use of this limit, this year and in 2025/26. You can also receive £1,000 of savings income tax free if you are a basic- rate taxpayer, and £500 if paying tax at the higher rate.

If you or your partner have little or no earnings or pension income, you might also benefit from a 0% tax rate on up to a further £5,000 of savings income. Again, shifting assets between you can help minimise tax on your savings income. A £1,000 tax-free allowance is available for income from property, such as where a parking space is let, so joint ownership could result in a modest tax saving.

What do I need to do if my family is liable for the high income child benefit charge?

Where either partner has income of £60,000 or more then child benefit is in effect withdrawn. The withdrawal is total if income is over £80,000, and partial for income between £60,000 and £80,000. You may be able to keep some or all of your child benefit by switching income between you and your partner, or by taking other steps to bring your income below one of these limits.

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DIRECTORS, EMPLOYEES AND THE SELF-EMPLOYED

I am likely to pay more tax at higher rates in 2025/26. How can I bring my tax bill down?

Bringing income forward could be a sensible approach if you think you could end up paying more tax at a higher marginal rate in 2025/26.

- If your income is less than £100,000 this year but is expected to exceed £100,000 next year, you could bring forward income into 2024/25 to avoid the tapering of the personal allowance applying next year.
- If your income will fall below £100,000 in 2025/26, you might be able to avoid the tapering of the personal allowance this year by delaying a bonus until after 5 April 2025.

Alternatively, you might be able to sacrifice salary to bring your income below the personal allowance tapering threshold (or the £60,000 high income child benefit charge threshold) in exchange for a tax-free employer's pension contribution.

Other considerations

- This is also a good time to review your choice of company car. Switching to an electric or hybrid model could mean significant tax savings for you and tax and NICs savings for your company, as well as reducing other related costs.
- If you hold share options, you should consider your tax position both before and after the tax year end when deciding whether to exercise them now or in a future tax year.
- Directors who are shareholders may be able to reduce NICs by taking dividends rather than salary.

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As a self-employed person, what can I do to bring down my tax bill?

The director/employee tax planning approach around income levels applies equally if you are self-employed.

Since 6 April 2024, the basis period reforms have mean that the business profits of the self-employed are assessed and taxed in the tax year in which they arise. These changes affected those who did not already use an accounting period (AP) end date between 31 March and 5 April.

For them, 2023/24 was a transitional year, where taxable profits were split into two parts:

- The standard part: taxable profit for the AP ending in 2023/24.
- The transitional part: taxable profit between the end of the AP in 2023/24 and 5 April 2024.

Any unused overlap relief was deducted from transitional profit. The transitional profit was then automatically spread over the five tax years 2023/24 to 2027/28, unless the taxpayer requested otherwise.

Transitional profits are not included in the calculation for the high income child benefit charge nor for calculating income for tapering the pension annual allowance. They are, however, used in calculating the withdrawal of the personal allowance where income (less certain deductions) is more than £100,000. If this looks like it could be an issue for you in the next three tax years, you could be better off taking your transitional profits sooner rather than later.

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

www.gov.uk/guidance/get-help-with-basis-period-reform - basis period reform help

> **➥ Planning Point**
>
> *For example, if you expect to move into a higher tax band in any of the next three tax years (i.e. 2025/26 – 2027/28), you may wish to bring some more or all of the transitional profits into 2024/25 so they are charged at, say, the basic rather than the higher (or advanced) rate or at the higher (or advanced) rate rather than the additional (top) rate.*

CAPITAL GAINS TAX PLANNING

How can I manage my capital gains liabilities to maximise the annual exempt amount?

Everyone has a capital gains tax (CGT) annual exempt amount, which in 2024/25 makes the first £3,000 of gains free of tax.

- Gains above the exempt amount are now taxed at 18% where taxable gains and taxable income are less than the UK basic-rate limit of £37,700 in 2024/25.
- The rate is now 24% on gains that exceed this limit.
- For gains realised in 2024/25, but before 30 October 2024, the corresponding rates were 10% and 20%, other than in respect of non-exempt residential property.

You should generally aim to use your annual exempt amount by making disposals before 6 April 2025. 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 that reduces the net gains to the annual exempt amount. You can choose which gains to set against the annual exempt amount.

Timing disposals

If your disposals so far this tax year have resulted in a net loss, the decision on whether to dispose of investments to realise gains before the tax year end will hinge on the amounts involved. Depending on your level of income, the timing of your disposals either before or after the end of the tax year could result in more of your gains being taxed at 18% rather than 24%. Transferring income-producing investments between married couples or civil partners can also mean more gains being taxed at the lower rates of CGT.

Transferring assets between married couples or civil partners before disposal might save CGT, particularly where one partner has an unused annual exempt amount, has not fully used their basic-rate tax band or has capital losses available. You should generally leave as much time as possible between the transfer and the disposal.

If shares or assets have become worthless, you could claim the loss against your capital gains without actually disposing of the asset by making a negligible value claim. You can backdate the loss relief to either of the two tax years before the one in which you make the claim, provided that you owned the asset in the earlier tax year and it was already of negligible value. The deadline for backdating a claim to 2022/23 is 5 April 2025.

CGT is normally payable by 31 January after the end of the tax year in which you make the disposal. So you could delay a sale until after 5 April 2024 to give yourself an extra 12 months before paying, but you'll need to weigh this up against the impact of the reduced annual exempt amount. For a non-exempt residential property disposal, a payment on account of CGT must be made within 60 days of completion.

PERSONAL TAXATION

How can I minimise my income tax bill for 2024/25?

Everyone should use their personal allowance (a maximum of £12,570) and, as much as possible, reduce income charged at higher, advanced (Scotland only) or additional (top) rates.

Two important thresholds to watch are:

- Income over £125,140 is taxed at 45%, or 48% for non-savings, non-dividend income in Scotland. This threshold is frozen (outside Scotland) until April 2028 for all income.
- The personal allowance is gradually withdrawn where income (less certain deductions) is more than £100,000 and is lost entirely once income is £125,140 or more.

If salary sacrifice is an option through your employer, consider using it or think about increasing your pension contributions. If affordability allows, these actions can reduce the amount of income tax paid at the higher, advanced (in Scotland) or additional (top) rates and prevent or reduce the withdrawal of the personal allowance.

How can my partner and I make the most of our income tax reliefs?

Couples could transfer income-producing investments between themselves to avoid exceeding one of these limits and to reduce their combined income tax bill. As only income received after a transfer will benefit, act promptly to benefit in 2024/25. Capital gains tax (CGT) may be payable on switching ownership of an investment if you are not married or in a civil partnership.

Everyone can receive £500 of dividends tax free in 2024/25 (and 2025/26), regardless of their tax status. For couples, reorganising your shareholdings may help. Basic-rate taxpayers can also receive £1,000 of savings income-tax free – £500 for higher- (although not additional-) rate tax payers.

- If you have little or no earnings or pension income, you might benefit from a 0% tax rate on up to the first £5,000 of taxable savings income. Again, shifting assets between a couple can minimise tax.
- A £1,000 tax-free allowance is available for income from property, such as where a parking space is let out, so joint ownership could result in a modest tax saving.
- The marriage allowance allows individuals who are non-taxpayers to transfer 10% of their personal allowance (£1,260 in 2024/25) to their spouse or civil partner, providing the intended recipient pays tax at no more than the basic rate. The allowance is not automatic, so it needs to be claimed initially. It will then remain in place until you cancel it. You can backdate claims for up to four tax years, i.e. back to 2020/21.

✣ *Useful link: www.gov.uk/marriage-allowance – how it works and how to apply.*

What do I need to do if our family is liable for the high income child benefit charge?

Where an individual or their partner has income (less certain deductions) of £60,000 or more then child benefit is effectively reduced by the high income child benefit charge. This is a 100% reduction if income is over £80,000, and a pro-rata reduction for income between £60,000 and £80,000.

Individuals may be able to overcome this by using salary sacrifice or by making pension contributions and/or charitable donations to bring income below these limits. Couples could potentially transfer income between partners.

As a business owner, can employing my partner help to minimise tax?

If you are a business owner, you could pay an otherwise non-earning partner a salary. For sole traders, this can reduce the amount of profit charged to tax at the higher (or advanced) or additional (top) rates.

- You normally must keep PAYE records even if the salary is below the national insurance contributions (NICs) lower earnings limit, which is £533 a month in 2024/25.
- If, however, the salary is between £533 and £1,048 a month, your partner will avoid paying any NICs, but will still qualify for state benefits.

Employer's NICs would be due on salary above a threshold of £758 a month in 2024/25, reducing to £417 in 2025/26.

You can also pay an employer's contribution to your partner's personal pension plan. There are no taxes or NICs on the payment itself, which should be an allowable business expense. However, the total value of your partner's salary, benefits and pension contributions must relate to the work performed.

Alternatively, you could plan ahead to share the profits of your business by operating as a partnership in 2025/26. You both need to be genuinely involved as business partners, though not necessarily equally.

➥ **Planning Point**

Using all of the opportunities above, you will gain the maximum income tax saving if plans are put in place before 6 April 2025 so that you benefit for the entire 2025/26 tax year.

INHERITANCE TAX PLANNING

Are there any key issues around estate and inheritance tax planning I should consider before the 2024/25 year end?

IHT is payable if a person's assets on death, plus gifts made in the seven years before death, add up to more than the nil-rate band, which is currently £325,000. A residence nil-rate band of £175,000 may also be available where a residence is left to direct descendants.

Lifetime gifting is a way of reducing the value of your estate. Gifts totalling up to £3,000 in a tax year are exempt from IHT. If you didn't use this exemption in 2023/24, you can make IHT-free gifts of up to £6,000 before 6 April 2025. The exemption for the current tax year must be used first before carrying forward any unused exemption until after 5 April 2025 to take advantage of the 2025/26 exemption.

✣ *Useful link: www.gov.uk/inheritance-tax – HMRC guide to IHT.*

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PENSIONS PLANNING

Pension contributions benefit from a number of tax reliefs, which have widely been viewed as under threat in future Budgets.

Pension funds are broadly free of UK tax on their capital gains and investment income. When you draw the benefits, up to a quarter of the fund is normally tax free, although the pension income will be taxable.

What do I need to consider in making pension contributions in 2024/25?

If you have surplus income, you might consider increasing your pension contributions to boost your retirement funds.

There is a general annual limit – the annual allowance – of £60,000 on pension contributions that qualify for tax relief. However, if your income (including any pension contributions made by your employer) exceeds £260,000 the limit is tapered down, with a minimum of £10,000 applying if the figure is £360,000 or more. You can carry forward unused annual allowances for up to three tax years to offset against a contribution of more than your annual limit. If you are already drawing a flexible income from a pension, the annual allowance is £10,000 and you cannot take advantage of carry forward.

- You can pay up to the whole of your annual earnings into a pension scheme in any one tax year, but the tax relievable amount is capped by the annual allowance plus any unused allowances brought forward.
- Unused allowances are calculated based on the annual allowance from the tax year they are brought forward from. For two of the last three tax years (2021/22 and 2022/23), this was a maximum of £40,000, rather than the £60,000 which applies for the current tax year and 2023/24.
- Tax relief on pension contributions is normally at least 20%, with higher- and additional rate taxpayers receiving relief at 40% or 45%. In Scotland, intermediate, higher-, advanced- and top-rate taxpayers receive relief at 21%, 42%, 45% or 48% respectively.
- The value of tax relief is greatest where it exceeds the eventual tax on benefits, for example, where a higher-rate taxpayer becomes a non- or basic-rate taxpayer in retirement.
- Limiting your contributions to amounts that qualify for tax relief at the higher rates will give you the most benefit.
- Effective relief can be as high as 60%, or 63% in Scotland, where the personal allowance is being withdrawn, and can be even higher if tax credits or Universal Credit payments are being withdrawn.
- You could set up a pension for a non-working partner or your children since they don't need earnings to contribute up to £3,600 in a personal pension. Even if they do not pay any tax, they can still benefit from 20% tax relief.

What other lifetime allowances could affect me?

From 6 April 2024, the £1,073,100 lifetime allowance was abolished. For 2024/25, two new allowances apply:

- Lump sum allowance (LSA): £268,275 (25% of the former lifetime allowance), the maximum tax-free lump sum you can take from your pension during your lifetime, unless you have a protected right to take a higher amount.
- Lump sum and death benefit allowance (LSDBA): £1,073,100, the total tax-free amount you can take from your pension while alive and upon death, unless you have a protected right to a higher amount.

Amounts above these limits are taxed as income. In certain circumstances higher limits may apply, for example if you have a transitional protection.

I am over 55 – what are my options for drawing benefits from my pension?

Many people aged 55 and over (57 from 6 April 2028) can draw their pension savings flexibly. Withdrawals above the tax-free amount are liable to income tax at your marginal rate. You should take advice before accessing pension savings as there are several options, each with their own pros and cons, and they will generally have a long-term effect on your financial position.

If you are already drawing your benefits from a pension fund that is not guaranteed and are considering reducing your withdrawals, be aware that this should also reduce the amount of income tax due.

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

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate will writing, tax and trust advice and certain forms of estate planning.

The value of your investment and the income from it can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.

CHARITABLE GIVING

I would like to contribute more to charities that are important to me. What are the tax implications?

You can get tax relief for any gifts to charity if you make a gift aid declaration.

You make the gift out of your taxed income and the charity benefits by claiming back basic-rate tax on the value of the gift. Higher- and additional-rate taxpayers can claim an extra 20% or 25% in relief. Intermediate-, higher-, advanced- and top-rate taxpayers in Scotland can claim an extra 1%, 22%, 25% or 28% in relief, respectively.

You can obtain both income tax and CGT relief on gifts to charities of shares listed on the stock market and certain other investments.

Gifts to charity are free of IHT, so remembering a charity in your will can reduce the total amount of IHT that will be paid on your estate. If at least 10% of your net estate is left to charity, then 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*

FINANCIAL PLANNING CHECKLIST

- ✔ Could you **transfer savings or investments to your partner** to minimise tax payable at the higher rates next tax year, to maximise use of the personal savings and dividend allowances, or to avoid losing your personal allowance or child benefit?
- ✔ Have you considered **the timing of dividends and bonuses** to minimise tax payable?
- ✔ Have you used your **CGT annual exempt amount** by making available disposals before the tax year end?
- ✔ Are you **investing enough in your pension** (or possibly a lifetime ISA) if you wish to, or have to, retire earlier than state pension age, which is likely to keep going up?
- ✔ If you are aged over 55, have you taken advice about the options for **drawing your pension savings**?
- ✔ Have you used **this year's ISA allowance** and made any other tax-efficient investments before 6 April 2025?
- ✔ Have you made gifts to use your **annual IHT allowances**?