



FINURA

YOUR GUIDE TO YEAR END TAX PLANNING



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INTRODUCTION

As one of the most crucial dates on the financial planning calendar approaches, at Finura our mission is to provide our clients with all the information, support and advice they need to select the correct wrappers for effective tax planning.

With many avenues to plan for and consider, we have put together this brief guide on the key areas of tax planning that should be taken into account ahead of this important deadline to ensure Clients can make the most of any available allowances and new rules that may have been brought into force since the previous year end.

Unless otherwise specified, the tax rates used are for the 2022/23 tax year to 5 April 2023. It has been announced that the tax bands should remain unchanged until 5 April 2026.

INCOME TAX

Each family member is taxed separately, including children, so it is important to ensure that everyone is making use of the relevant personal allowances.

TAX BANDS

BAND	INCOME	RATE
Basic Rate	First £37,700	20%
Higher Rate	£37,701 - £150,000	40%
Additional Rate	£150,001 +	45%

PERSONAL ALLOWANCE

The first £12,570 of income earned is tax free. It cannot be carried forward so it is important to make full use of it every tax year.

For those earning above £100,000, the personal allowance is reduced by £1 for each £2 of income in excess of £100,000, meaning there is no personal allowance at all where income exceeds £125,140. For those earning over £150,000, this is compounded by the additional rate of tax of 45%.

Individuals with incomes near these thresholds can reduce their tax liabilities by reducing their taxable income below £100,000 or £150,000. This can be achieved by changing income into non-taxable forms, giving income yielding assets to a spouse with lower income, deferring income, making pension contributions or making payments to charity.

MARRIED COUPLES (INCLUDING CIVIL PARTNERSHIPS)

Married couples can use each others personal reliefs and thus their applicable tax bands. Depending on the tax rate of each spouse, there may be an option to consider gifting of assets or for possible tax savings to be made by transferring income producing assets to a non-earning spouse.

For example: a saving of up to £15,000 in income tax per tax year could be achieved by the transfer of assets (that produce £50,000 of income per year) from an additional rate (45%) taxpayer to their non-earning spouse.

Income from jointly owned assets is automatically split 50:50, unless an election to split the ownership proportions differently is made to HMRC. If you wish to change the ownership allocation, please speak to your financial adviser.

CHILDREN'S ALLOWANCES

As children have their own allowances, it may be possible for tax savings to be achieved by transferring income producing assets to a child. Bare Trusts can also be established, which make use of their income tax and capital gains tax allowances.

DIVIDEND ALLOWANCE

Dividends are subject to their own tax rate bands but you only pay tax on dividends that go above your dividend allowance in the tax year. The allowance for 2022/2023 is £2,000. These rates have been increased by 1.25% for 2022/2023 as part of the package of measures to fund social care and the NHS.

BAND	RATE
Basic Rate	8.75%
Higher Rate	33.75%
Additional Rate	39.35%

SAVINGS ALLOWANCE

Depending on which tax band you are in, you can earn a certain amount savings interest per year without paying tax, known as the savings nil rate band. It is non-transferable between spouses but you could still transfer savings held in your name to your spouse to make use of theirs.

BAND	NIL RATE BAND
Basic Rate	£1,000
Higher Rate	£500
Additional Rate	£0

Where a taxpayer has relatively modest non-savings income, they may be entitled to the £5,000 starting rate for savings allowance, which applies before the £1,000 nil rate band for a basic rate tax payer. This tax band is only fully available where earned income (e.g. salary, benefits in kind, pensions, etc.) does not exceed the personal allowance, and it reduces to the extent that earned income does exceed the personal allowance. So, for example, if earned income is £13,000, the 0% starting rate for savings income reduces from £5,000 to £4,500. Also, this 0% tax band is not a true exemption as it uses up part of the basic rate tax band.

INTERNATIONAL & OFFSHORE RESIDENCY RULES

As a consequence of the Statutory Residency Test (SRT) you can enjoy more certainty as regards your residency status for UK tax purposes. That said, the rules still require careful thought and planning especially for those who believe that they are non-UK tax resident but continue to visit the UK.

For those relocating to the UK, it is key that UK tax advice is taken beforehand. This is because a great deal of the planning opportunities that are available cannot be implemented once you have become UK tax resident.

Under the SRT, an individual is treated as being a UK tax resident for the whole of the tax year even if they arrive or leave part way through. In many cases the 'split year treatment', as it is known, will apply to ensure that you are not subject to UK taxes for the period prior to or after having lived in the UK.

In cases where the split year treatment does not apply, it is generally advisable for those leaving the UK to do so just before the start of the new tax year. In contrast those arriving in the UK without the benefit of the split year treatment, should consider relocating to the UK just after the start of the tax year.

For internationally mobile employees who are awarded share options, the regulations have changed. Where options are exercised, they will be liable to UK tax to the extent that the employee has been working in the UK; the earnings will be time apportioned to periods pre and post arrival in the UK.

Similarly, employees who have already exercised options that still contain restrictions will be liable to a tax charge if the restrictions are lifted (or deemed to lift).

INHERITANCE TAX

If the value of your estate exceeds £325,000 at the time of your death, your executors could have tax to pay. The Inheritance Tax (IHT) rate is currently frozen at £325,000 until at least 5 April 2025/2026.

While the annual exemptions available are relatively small, over time the savings can become substantial.

ANNUAL EXEMPTION

Up to £3,000 can be given away as a gift each tax year. If unused, it can be carried forward for one year, allowing £6,000 to be gifted. There is also a small gifts exemption, permitting gifts of £250 per person per year to as many people as you like.

GIFTS OUT OF INCOME

If your post-tax income regularly exceeds your expenditure, you can give away the excess but the gifts must be part of a settled pattern of giving.

BUSINESS RELIEF

You could opt to place some funds into investments that qualify for Business Relief (BR). These can be passed on at a reduced rate of 50% or free from inheritance tax upon your death, provided the relevant business property has been owned for at least two years. BR-qualifying assets can also be settled into relevant property trusts, potentially mitigating entry, exit and periodic charges.

However appropriate consideration must be given, as you will need to be willing to accept the additional potential risk of investing into these types of businesses.

RESIDENCE NIL RATE

The Residence Nil Rate Band (RNRB) was introduced in April 2017. It is in addition to an individual's own nil rate band of £325,000, and conditional on the main residence being passed down to direct descendants (e.g. children, grandchildren).

For the 2020/21 to 2025/26 tax years the RNRB that may be available will be £175,000. However, in instances where the deceased's net estate exceeds £2m, the residence nil rate band will be reduced by £1 for every £2 over £2m.

CHARITABLE GIVING

Donations made under the GiftAid scheme can result in further tax relief for the donor if they are a higher rate or additional rate UK taxpayer. You must keep a record of Gift Aid donations made each year, as HMRC may request evidence.

In addition, if you are in a position to leave at least 10% of your estate on death to charity, the rate of inheritance tax charged on the balance of your estate is reduced from 40% to 36%.

Care needs to be taken in claiming gift aid if you are a low earner and can create an unexpected tax charge if you gift funds which fall within your personal income tax allowance.

In addition, tax relief against 2022/23 income is possible for charitable donations made between 6 April 2023 and 31 January 2024. This is provided that the payment is made before filing the 2022/23 tax return.

PASSING ON YOUR PENSION

Following changes introduced in 2015, if death occurs before the age of 75, a pension fund can be passed on tax-free to a beneficiary. If death occurs post age 75, the fund can be drawn by a beneficiary at their own marginal rate of tax - they can be taken as either lump sum, drawdown or annuity.

IMPORTANCE OF HAVING A WILL

Having a Will is the best way of securing what happens to your estate when you die. If you die without a Will, you are said to have died 'intestate'. In this instance, an administrator is elected to deal with the distribution of the estate however it is the law that will determine who inherits your assets. If you make a Will you can also make sure you don't pay more inheritance tax than you need to.

CAPITAL GAINS TAX

Each spouse has their own annual exemption of £12,300, as do children. However exemptions cannot be carried forward and will be lost if not used.

RATES OF TAX

The rate of Capital Gains Tax (CGT) is 10%, where the total of taxable gains and taxable income is less than £37,500. Any excess gains are taxed at 20%. Where Entrepreneurs Relief (ER) applies, the rate on the whole gain is 10%.

Commercial property is also subject to the above 10% and 20% tax rates however residential property is subject to higher rates of 18% and 28% respectively.

Married couples and civil partners can arrange for one partner to transfer assets to a lower earning spouse at a no gain and no loss basis to ensure the respective annual exemptions are fully used.

SALE AND RE-PURCHASE

Investors can consider this option if they wish to realise a gain or loss on shares by selling, but still retain ownership. There are a couple of options available.

If you have unused ISA allowance, you can move assets from an unwrapped environment into an ISA. This can be achieved by disposing of the assets and then buying back the same assets inside the safety of an ISA. While the disposal of assets may attract CGT, once they are inside the ISA they are sheltered from CGT in the future.

Another way to crystallise a loss or gain is for one spouse to sell their assets on the open market and the other spouse to immediately buy them back. They can then be transferred back to the original spouse if required.

NB: Under the 'bed and breakfasting' rule (selling some shares and then buying the same shares back yourself shortly after), a gain or loss does not crystallise for tax purposes if you sell shares and repurchase the same shares within 30 days.

MAIN RESIDENCE

The gain on your principal private residence is exempt from CGT. If you have more than one private residence, your 'main' residence will normally be, by default, the one in which you spend the greatest time. However, it is possible to nominate one specifically as your main residence as long as the individual is a tax resident in the same country as the property OR the individual spends at least 90 nights in the property (or if they own more than one property in the same country, 90 nights between all the properties).

UK RESIDENTIAL PROPERTY

From the 6 April 2020, where CGT is due on the disposal of UK residential property by a UK resident individual or trustees, a new standalone online return will need to be filed, together with payment on account of CGT, within 30 days of the date of completion of the transaction.

NON-UK RESIDENTS

Gains made by non-residents on the disposal of all types of UK immovable property are taxable in the UK. This includes:

- All non-resident persons' gains on disposals of interests in UK land and;
- Indirect disposals of UK land will be chargeable. This refers to the disposal of businesses that derive at least 75% of their asset value from UK land

However non-residents can rebase their properties not previously within the rules to the 6th April 2015 so that only the growth in value after this date is taxable. HMRC must be notified within 60 days of the sale or disposal of a UK property and a non-resident CGT return completed.

MARITAL BREAKDOWN

If you have permanently separated from your spouse during this tax year, you may want to consider dealing with transferring assets between you before 6 April 2023. This is because assets can pass between separated spouses without capital gains tax in the year of permanent separation. Transfers taking place on or after this deadline may attract capital gains tax.

ENTREPRENEURS' RELIEF

In certain circumstances, individuals choosing to dispose of a business, either by sale, gift or liquidation, can benefit from a reduced capital gains tax bill. Although there is a stringent criterion that must be met in order to benefit from this relief, entrepreneurs' relief generally applies to:

- The sale of all, or part of a trading business
- The sale of shares in a qualifying company where you hold more than 5% of the nominal share capital and voting rights. From 29 October 2018 this has been extended to also require 5% of the distributable profits
- You are an officer/employee of the company

ALTERNATIVE INVESTMENTS

There are several tax-efficient investment vehicles available that can provide CGT relief when certain conditions are met. These include the Enterprise Investment Scheme (EIS), Seed Enterprise Investment Scheme (SEIS), Venture Capital Trusts (VCTs), Business Relief (BR) AND Social Investment Tax Relief (SITR). More information can be found in our [Alternative Investment Guide](#).

Note: Alternative investments are not suitable for all investors. Potential investors are strongly recommended to seek expert independent financial and expert tax advice before investing. As with all investments, there are risks associated with investing.

MAKE USE OF ANNUAL TAX ALLOWANCES

It is important to ensure that you are using, on an annual basis, all possible allowances.

For two persons, you have the opportunity to draw £58,740 per annum before paying any tax. Structuring your affairs now and in the future to use these allowances should be your first priority.

TYPE OF ALLOWANCE	HOW TO USE THEM	AMOUNT
Personal Allowance	For 2021/22 this stands at £12,570. This allows a couple to earn £25,000 jointly before paying any tax. To utilise the allowance fully, spouses should put money in the name of the lower or non-earner.	£25,140
Savings Nil Rate Band	For 2021/22 if your earned income or pensions are below £17,500 you will not have to pay any tax on the first £5,000 interest on savings.	£5,000
Dividend Allowance	For 2021/22 the first £2,000 of dividends earned from investments held outside an ISA are tax-free. If you exceed this threshold, you will be taxed at a rate of 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers.	£4,000
Capital Gains Allowance	For 2021/22 the capital gains tax allowance is £12,300. This is amount in capital gains you can make this tax year before any tax is due. If your assets are owned jointly with your spouse or civil partner, you can use both of your allowances.	£24,600
TOTAL		£58,740

*The table assumes we use allowances for a couple with one non-income earning spouse.

PROPERTY RELIEF

The introduction of the finance costs restriction in April 2017 has meant residential buy-to-let investors are no longer able to claim 100% tax relief on any loan associated with the rental property.

TAX RELIEF ON LOAN/MORTGAGE INTEREST

Since 6 April 2020, a higher or additional rate taxpayer will only be able to claim relief for any residential buy-to-let (RBTL) interest at the basic rate.

Individuals with one or more properties may need to review their position if these restrictions mean that rental income exceed certain thresholds, as this may reduce the availability of child benefit, the personal allowance or the pension savings annual allowance. Structuring as a company may have benefits in certain cases, so it is wise to seek advice from your financial adviser.

If you own a Furnished Holiday Letting (FHL) you may qualify for some tax breaks, including the opportunity to claim full tax relief for interest on loans linked to the property and a CGT rate of 10% on the eventual sale.

RENT A ROOM ALLOWANCE

If you rent a room out in your own home, the first £7,500 in rental income is tax free. Where you own a property jointly, this allowance is split.

ANNUAL TAX ON ENVELOPED DWELLINGS

If you hold one or more properties with a value exceeding £500,000 as part of a limited company, an LLP with a corporate partner or a collective investment scheme, then you may be liable for the Annual Tax on Enveloped Dwellings (ATED). The amount you will need to pay is worked out using a banding system based on the value of your property.

For any properties owned at 6 April in a tax year, unless the 'envelope' is a charity, a return will need to be filed by 30 April of the same year and any tax accounted for. In the case of a mid-year acquisition, a separate return must be filed within 30 days of purchase. The ATED charge is based on the property valuation as of 1 April 2017. Properties must be revalued every 5 years or on certain other interim events.

STAMP DUTY

Between 8 July 2020 and 30 September 2021, an SDLT holiday was introduced in response to the Pandemic. The initial exempt amount was £500,000, later reducing to £250,000 (from July 2021). From 1 October 2021 the previous rates below have now come back into force.

ON SLICE OF VALUE	RATE
£125,000 or less	Nil
£125,001 to £250,000	2%
£250,001 to £925,000*	5%
£925,001 to £1,500,000*	10%
Over £1,500,000	12%

*15% for purchases over £500,000 by certain non-natural persons.

For first-time buyers of property up to £500,000, there is no SDLT on the first £300,000 and 5% SDLT on the portion from £300,001 to £500,000.

A 2% SDLT surcharge has been introduced for non-resident buyers of UK residential property. This took effect from 1 April 2021. All rates increase by 3% for purchase of additional residential property.

STRUCTURE AND BUILDINGS ALLOWANCES

It was announced in the 2018 Budget that a new tax relief will be available for businesses (including property rental businesses) that incur capital expenditure on the construction or improvement of non-residential buildings and structures. The relief known as Structure and Buildings Allowances (SBA) will apply at an annual rate of 2% on a straight-line basis once the property has been brought into use. The guidance issued in the 2018 Budget states that the relief will generally not be given for construction projects which began before 29 October 2018 and, in contrast to the tax relief which applies for fixtures in buildings (which will continue unchanged), there will be no balancing allowance or charge when the property is transferred (the new owner will claim the remaining relief) and the relief will reduce the base cost of the property for capital gains purposes.

PENSION PLANNING

With various tax reliefs, flexi-access drawdown options and tax efficient death benefits, pensions are a complex area of financial planning.

LIFETIME ALLOWANCE

The LTA has been fixed at £1.07 million until April 2026. The government has provided transitional protections but, unlike previous instances, the government has not set a deadline for applications. This means that, in certain circumstances, some individuals may still be able to apply for protection. This may be relevant for individuals who have already accumulated substantial money purchase pension funds (e.g. Personal Pension) or those who are high earners (or have been high earners) in relation to membership of a Defined Benefit Scheme.

ANNUAL ALLOWANCE

You can contribute £40,000 (gross) a year into a pension scheme and get tax relief on your contributions. This can be increased if you did not use up your allowances in the preceding 3 years and were a registered member of a qualifying pension scheme (providing a maximum contribution of £160,000). The last opportunity to utilise any available carry forward allowance available from the 2019/20 tax year will be 5 April 2023.

However, it is important to note that anyone taking income from a flexi-access drawdown (FAD) plan or using an uncrystallised funds pension lump sum (UFPLS) will trigger the money purchase annual allowance (MPAA), which is currently set at £4,000. The MPAA only applies to contributions to defined contribution pensions and not defined benefit pension schemes.

Individuals with adjusted net income exceeding £240,000 will have their annual pension contribution allowance restricted. Their standard allowance of £40,000 will be reduced by £1 for every £2 of income in excess of £240,000.

Individuals with an adjusted net income in excess of £312,000 will suffer the full reduction of their annual allowance to £4,000.

PENSION FREEDOMS

Reforms in recent years have enabled anyone over the age of 55 to access their entire pension fund to spend, save or invest as they wish. The first 25% is tax free and the rest is treated as taxable income and subject to income tax at your marginal income tax rate.

One option allows you to withdraw the entire amount in one go, however this can incur a substantial tax bill, as it may push you up into a higher tax bracket when combined with any other taxable income you may be receiving.

STAKEHOLDER PENSIONS

Stakeholder pensions allow contributions to be made by, or for, all UK residents, including children and grandchildren from birth. You can make a net contribution of up to £2,880 each year for members of your family including those who do not work (i.e. have no relevant earnings) or cannot afford them.

If you make contributions to your children's pension schemes on their behalf, they get the tax relief and the payments are treated as reducing their taxable income. The earlier that pension contributions are started, the more they have of benefiting from compounded tax free returns.

MAKING TAX DIGITAL (MTD)

For VAT return periods commencing on or after 1 April 2019, affected businesses will no longer be able to submit their VAT returns through the government gateway.

MTD FOR VAT REGISTERED BUSINESSES

Since 2019, businesses with a turnover above the VAT threshold (currently £85,000) have been required to keep digital records for VAT purposes and provide their VAT return information to HMRC using MTD functional compatible software.

VAT registered businesses with turnover below the threshold have been exempt from MTD to date, but are now required to be compliant for VAT filings from April 2022.

MTD FOR INCOME TAX AND CORPORATION TAX

MTD for Income Tax & Self-Assessment has been delayed by 12 months and will now commence in April 2024. This will be for individuals with self-employment income and/or gross rental income from property greater than £10,000. They will need to report their business income quarterly with a final declaration at the end of the year. This is intended to replace the current self-assessment system. General Partnerships are to be included from April 2025 whilst Corporation Tax is not expected until at least April 2026.

If you are self-employed or a landlord start to consider what necessary steps you may want to take now to aid with the transition to MTD in April 2024.

GET IN TOUCH

We are delighted to take questions and enquiries and any initial conversations or meetings are on us. Reach out and start a conversation today.

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