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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?

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

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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.