



Counting down to the tax year-end

**Making the most
of the closing year's
rates, thresholds
and allowances**

shipleys LLP



As we approach the end of the tax year on 5 April 2023, you may be able to choose the tax year in which your income, gains or tax reliefs fall. This can affect how much tax you need to pay and when you pay it.

End-of-year tax planning is especially complicated this year. In the Autumn we had three fiscal statements, multiple u-turns and two Chancellors. This means it can be confusing to know which rates and thresholds currently apply.

Jeremy Hunt's statement on 17 November is still (currently) in force and it is important to note that this froze and reduced a number of tax-free allowance thresholds for the coming years. It means that in the run up to the 2022/23 tax year-end, it is important to plan and be prepared.

Income tax

If your income falls just above one of the income tax thresholds below, you may want to reduce your taxable income, for example, by paying into your pension or giving money to charity. You may also want to make use of the personal allowance (still £12,570) for family members with no taxable income.

Taxable income	Income tax rate
Up to £37,700	20%
£37,701 to £150,000	40%
Over £150,000	45%

Particular care should be taken if your income is in the £100,000 to £125,140 range, as you gradually lose your personal allowance between these amounts – £1 for every £2 over the limit.

Also be aware that for the 2023/4 tax year the 45% additional rate threshold will be reduced from £150,000 to £125,140. It means increases and bonuses (given rising costs and inflation) may cause some people to move into a new taxable bracket.

You can get income tax relief in 2022/23 for gift aid donations made by 5 April 2023 or, by election, for cash gift aid made by 31 January 2024 before filing your 2022/23 tax return.

Income tax relief is also available on gifts of quoted shares and land to charity, but only for the year in which the gift is made. There is no capital gains tax liability or inheritance tax liability on such gifts.

The lifetime allowance for pension savings for 2022/3 is £1,073,100 and will remain frozen at this level until the 2025/6 tax year.

You are able to contribute up to £40,000 (gross) into a pension scheme. This allowance may be reduced for any individuals whose income is in excess of £200,000.

Personal pension contributions attract basic rate tax relief at source and therefore the £40,000 gross contribution only requires a £32,000 personal payment.

In addition the pension contribution increases your basic rate threshold and therefore, if you are a higher or additional rate taxpayer, you will receive additional tax relief on the contribution made via your tax return.

Furthermore, the pension contributions effectively increase the threshold at which the personal allowance is reduced, and Child Benefit is clawed back.

So, if your income is in excess of £100,000 and your personal allowance is reduced, pension contributions can preserve part or all of your personal allowance depending on your circumstances. For anyone with income between £100,000 and £125,140, pension contributions can provide tax relief at an effective rate of 60%.

If you have held a pension scheme in previous years and did not fully utilise your allowance in any of the previous 3 tax years, any unused allowance is available this year. Any contributions made by your employer, or your company also count towards your allowance.

Dividend income

The tax rate on dividend income in England, Wales and N Ireland increased in the 2022/23 tax year by 1.25% and will remain at that rate going forward.

In 2023/4 however the dividend tax-free allowance will be halved to £1,000 and halved again in 2024/25 to £500. You may want to factor this into your planning.

The tax position on dividend income will be as follows over the page:

Dividend allowance at 0%

	2022/23	2023/24
All individuals	£2,000	£1,000

Tax rates on dividend income above the threshold

	2022/23	2023/24
Basic rate taxpayers	8.75%	8.75%
Higher rate taxpayers	33.75%	33.75%
Additional rate taxpayers	39.35%	39.35%

You could save tax if your company pays you a dividend in the current tax year.

National Insurance Contributions and the Health and Social Care Levy

The proposed 1.25% increase to all 2022/23 class 1 and class 4 NIC rates and the subsequent 1.25% health and social care levy was scrapped on 6 November 2022.

Capital gains tax (CGT)

The annual exempt amount for individuals and personal representatives for 2022/23 is £12,300. The annual exempt amount for most trusts remains at £6,150 (minimum £1,230).

Be aware that from 2023/24, the annual exempt amount for individuals and personal representatives will be reduced to £6,000 and then halved to £3,000 in 2024/25. The annual exempt amount for most trusts will be cut to £3,000 (minimum £600) in 2023/24 and then halved in the following year.

If any of your assets have become of negligible value, such as shares in companies that have gone into administration, you should consider a loss claim. In the case of shares you have subscribed for in unlisted trading companies, income tax relief may be available.

For individuals who are non-UK domicile and are remitting an arbitrary annual exemption amount each year, it is now advisable to conduct a review of how much you are remitting.

Remember, the deadline to report and pay CGT after selling UK residential property is 60 days after completion.

'Bed and breakfasting', i.e. selling shares or securities to realise a gain covered by losses or the annual exemption and then buying them back, is not allowed if the purchase takes place within 30 days. These rules don't apply however to shares 'reacquired' by your spouse or ISA.

Disposals of qualifying shares that result in a controlling interest in a company being held by an employee ownership trust are exempt from CGT.

Inheritance tax (IHT)

The IHT nil rate band will remain at £325,000 until 2027/28. The residence nil rate band (RNRB) also stays at £175,000 and the RNRB taper will continue to apply where the value of the deceased's estate is greater than £2 million.

Exemption from IHT on lifetime gifts normally depends on surviving at least seven years, but there are exceptions. You can give up to £3,000 in total each tax year to anyone, plus the amount of any unused allowance from the preceding year.

In addition, you can give up to £250 each to any number of people each year (but they cannot be the same people who received gifts from the £3,000 annual gift allowance). Gifts of assets that grow in value can save IHT – even if you die within seven years – because the growth in value is in the recipient's estate, not yours.

Regular gifts out of income are exempt from IHT with no limit, provided your remaining after-tax income is sufficient to maintain your usual standard of living. However, gifts can result in a capital gains tax liability.

Individual Savings Accounts (ISAs)

No tax is payable on income or gains on investments within an ISA. You can invest up to £20,000 in total each year. This will remain the case in the 2023/24 tax year too.

The corresponding limit for junior ISAs (JISAs) and child trust funds (CTFs) is £9,000 and this too will remain frozen at this level next year.

A surviving spouse or civil partner may claim an extra ISA allowance equal to the value of ISA holdings of a deceased partner if they live together at the time of death.

The Lifetime ISA is available for those saving to buy their first home. If you are aged between 18 and 40, you can save up to £4,000 a year until you reach the age of 50 and receive a government bonus of 25% on your savings used towards the cost of a first home worth up to £450,000. The money can be invested as cash or in stocks and shares, as with other ISAs, and may be taken out tax-free after the investor is 60.

Enterprise Investment Scheme (EIS) and other investments

Provided you are not 'connected' with the company, you can get income tax relief at 30% on up to £1m subscribed for shares in qualifying EIS companies each tax year and up to a further £1m for shares in 'knowledge intensive EIS companies'.

Any gain on the sale of the shares is exempt from capital gains tax CGT if they are held for at least three years. It is possible to 'carry back' all or part of the investment to the preceding tax year, if the limit for relief is not exceeded for that year.

Income tax relief at 50% is available on up to £100,000 each tax year subscribed for shares issued by smaller companies qualifying for Seed Enterprise Investment Scheme (SEIS) relief, provided the shares are held for at least three years, with any gain on sale exempt from CGT.

Subject to timing, CGT can generally be deferred by making EIS or SEIS investments, even if you are connected with the company.

Income tax relief at 30% is available on up to £200,000 each tax year subscribed for shares in Venture Capital Trusts (VCTs), provided the shares are held for at least five years.

Dividends and gains relating to shares in VCTs are exempt, subject to limits on the size of your holding. Income tax relief at 30% is available on an investment of up to £1m in 'social enterprises'.

Specific advice should be obtained before taking action, or refraining from taking action, in relation to the topics covered here.

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