GERALD EDELMAN

Year-End Tax Planning

2021/22

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INTRODUCTION

The new tax year, 2022/23, brings the start of the 1.25% rise in dividend and National Insurance contribution (NIC) rates announced in September 2021 to help fund the NHS and social care.

In addition, rising inflation will put pressure on many people's finances. On the positive side, growing economic activity will provide some opportunities for increased earnings, although these may result in higher tax liabilities.

So far, the government has avoided raising taxes to pay for the huge sums it spent on Covid-19 measures but has relied mainly on stealth measures – freezing most tax allowances and income bands until 2025/26 – together with a 6% increase in corporation tax from April 2023. Whether that will be enough remains to be seen and future tax rises remain possible.

So, it is more important than ever to make the most of the reliefs and allowances while they are still available.

This guide offers some advice on the principal opportunities you should consider and forms the basis of a good financial plan to complete the tax year.

With ideas affecting income and investment, for couples, company directors and employees, and self-employed people, there will be something for everyone.

If you would like further advice on any of the topics, or to discuss how they affect your individual circumstances, please get in touch with any member of our tax team or email **tax@geraldedelman.com**.

This report is for general information only and is not intended to be advice to any specific person. You are recommended to seek competent professional advice before taking or refraining from taking any action on the basis of the contents of this publication. Tax rates may differ in Scotland. The report represents our understanding of law and HM Revenue & Customs practice.

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Income Tax Saving for Couples

Switching income from one spouse or partner to the other can help save tax.

Always aim to use both individuals' personal allowances (£12,570 in 2021/22, and frozen at this level until 2025/26). If one spouse or civil partner will not be able to use their personal allowance for 2021/22, then claiming the marriage allowance will save the other spouse/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 2022 is the inclusion of 2017/18.

Also try to minimise any higher and additional (top) rate tax.

- Income over £150,000 is currently taxed at 45%, or 46% 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 £2,000 of dividends tax free in 2021/22 regardless of your tax status. Reorganising your shareholdings between you may make better use of this limit. 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 out, so joint ownership could result in a modest tax saving.

Child benefit

Where either partner has income of £50,000 or more then child benefit is in effect withdrawn. The withdrawal is total if income is over £60,000, and partial for income between £50,000 and £60,000. 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.

Planning point

You may be able to reorganise your finances now to make use of some of these opportunities for 2021/22, but you should plan ahead for 2022/23 to gain the maximum income tax saving.

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Planning for Directors and Employees

You will save 1.25% in NICs on any income brought forward into this tax year. There might also be an income tax benefit.

- If your income is less than £150,000 this year but is expected to exceed that figure next year, you could bring forward income into 2021/22 to avoid the additional or top rate next year.

- Conversely, if your income will fall below £150,000 in 2022/23, you might be able to avoid the additional or top rate of income tax this year by delaying a bonus until after 6 April 2022. The saving would outweigh the extra NICs payable.

You could consider a similar strategy to keep your income below the level at which you would lose your personal allowance. Alternatively, you could sacrifice salary to bring your income below any of the thresholds in exchange for a tax-free employer's pension contribution or a low-emission company car.

If you have had to work from home this year, you can claim a tax-free amount of £312 for 2021/22 to cover the additional costs involved (provided your employer does not reimburse them) – it doesn't matter how many weeks you actually work from home. You can use HMRC's online portal before 6 April 2022 so that you receive the benefit via your PAYE code for 2021/22.

It is prudent to always check your PAYE coding notice to ensure that it is in line with your tax position. This is an area that we will be able to help advise on.

Key considerations

This is also a good time to review your company car situation, especially if you have been working from home and expect this to continue long term. If you are hardly using your company car, you can return it to your employer to remove the tax charge.

Alternatively, switching to a fully electric car or an ultra-low emission hybrid with a high electric motoring range will drastically lower your tax cost. Such a switch will also save tax and NICs for your company.

If you are going to work abroad for more than a year, it may help to leave the UK before 6 April 2022. There are complex rules around residency, so you should seek specific advice.

Dividends

Tax rates on dividends will increase by 1.25% from 6 April 2022 – to 8.75% for basic rate taxpayers, 33.75% at the higher rate and 39.35% at the additional rate.

If you are the owner of a limited company, you could bring forward a dividend to avoid the new rates. This could also help if the income falls into the basic rate band this year (or Scottish starter, basic or intermediate rate bands), or if you expect to pay tax at the additional or top rate next year but only at the higher rates this year.

But you should avoid bringing forward a dividend if it is likely to fall into a higher band this year than next year.

You should also consider paying a dividend before 6 April 2022 if you have not already made full use of the £2,000 tax-free allowance. You could even give shares to your spouse or civil partner shortly before paying a dividend if they pay tax at a lower rate than you, provided you genuinely transfer ownership. It is advisable to leave as much time as possible between the gift and the subsequent dividend payment.

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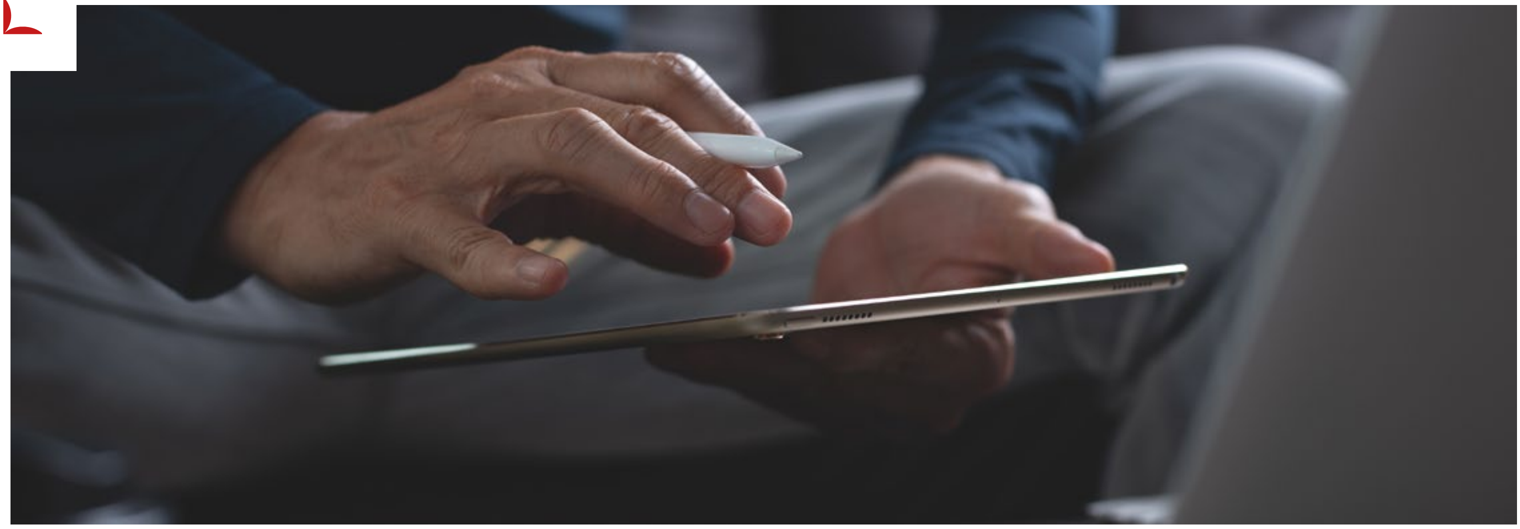

Self-Employment

The director/employee tax planning approach around income levels applies equally to those who are self-employed.

Remember that when calculating your trading profit for 2021/22, you must include any fourth and fifth Covid-19 support payments.

If you are self-employed, you might be able to affect the timing of your taxable profits to avoid paying tax at 45%, or 46% in Scotland, but this will depend on your accounting date.

Partner's salary

You could pay an otherwise non-earning partner a salary, on which you will get tax relief. You normally must keep PAYE records even if the salary is below the NICs limit, which is £520 a month in 2021/22. If, however, the salary is between £520 and £797 a month, your partner will avoid paying any employee NICs, but will still qualify for state benefits. A small amount of employer NICs will be payable if the salary exceeds £737 a month.

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, and it should be an allowable business expense. However, the total value of your partner's salary, benefits and pension contributions must be justifiable in relation to the work performed.

Alternatively, you could plan ahead to share the profits of your business by operating as a partnership in 2022/23. You both need to be genuinely involved as business partners, though not necessarily equally.

Planning point

If you are thinking about incorporating your business, you need to take into account the rise in corporation tax from April 2023 for company profits over £50,000.

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

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Get Ahead on Capital Gains Tax Planning

Some careful forethought can help minimise your CGT bill this year.

Everyone has an annual CGT exempt amount, which in 2021/22 and 2022/23 makes the first £12,300 of gains free of tax.

- Most gains above the exempt amount are taxed at 10%, where taxable gains and income are less than the non-Scottish basic rate limit of £37,700 in 2021/22.
- The rate is 20% on gains that exceed this limit. Residential property gains are taxed at 18% and 28%.

You should generally aim to use your annual exempt amount by making disposals before 6 April 2022. If you have already made gains of more than £12,300 in this tax year, you might be able to dispose of loss-making investments to create a tax loss. This could reduce the net gains to the exempt amount.

Cryptocurrency trading and investments have tax implications even when not exchanged for cash. This could give rise to losses that could be offset against other capital gains in the year.

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 6 April 2022 will depend on the amounts involved. Depending on your level of income, timing your disposals either before or after the end of the tax year could result in more of your gains being taxed at 10% rather than 20% (or 18% instead of 28%).

With the Treasury shelving potentially radical recommendations from the Office for Tax Simplification at the end of November on reforming CGT, planning for the year ahead is now simpler.

Transferring assets between married couples or civil partners before disposal might save CGT, particularly where one partner has an unused 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.

CGT is normally payable on 31 January after the end of the tax year in which you make the disposal. You could therefore delay a major sale until after 5 April 2022 to give yourself an extra 12 months before you have to pay the tax. However, a payment on account of CGT must be made within 60 days of a residential property disposal (other than of an exempt principal private residence). There is therefore no timing advantage to delaying such a disposal.

Planning point

Timing your disposals is particularly important if disposals in this tax year have already resulted in a net loss. Depending on the level of your income, making a further disposal either side of the tax year end could save or cost you tax.

A shareholding or another chargeable asset might have lost virtually all value. If so, you can 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 year and it was already of negligible value. The deadline for backdating a claim to 2019/20 is 5 April 2022.

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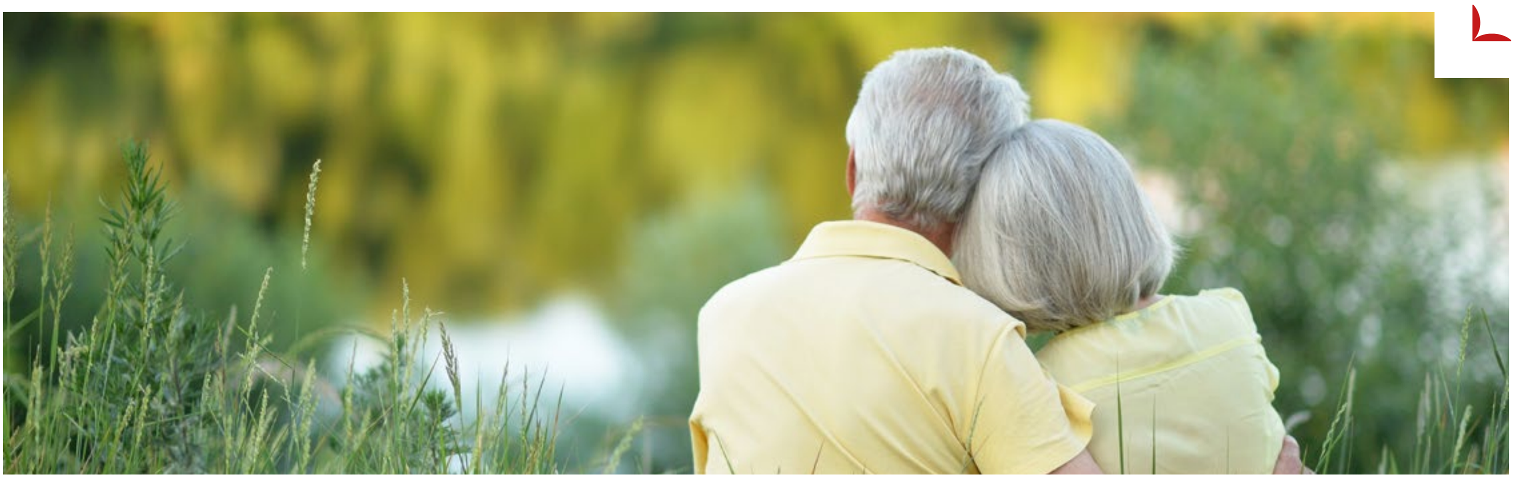

Pension Tax Planning

The tax privileges of investing in pension plans generally make them a key focus in tax planning.

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

Most people aged 55 (rising to 57 in 2028) and over 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 and they will generally have a long-term effect on your financial position.

Although pensions should always be considered in the longer term, the Covid-19 crisis might have affected your pension savings and retirement decisions. A future reduction in tax relief for pension contributions remains a possibility, so you might want to maximise your pension contributions for 2021/22 by making further contributions by 5 April 2022.

Contributions

There is an annual limit of £40,000 on pension contributions that qualify for tax relief, although this limit is tapered down to a minimum of £4,000 if your income exceeds £240,000. You can, however, carry forward unused annual allowances for up to three years to offset against a contribution of more than the annual limit. For people already drawing a flexible income from a pension, the annual allowance is also £4,000.

- You can pay up to the whole of your earnings into a pension scheme, but the tax relief is capped by the annual allowance plus any unused allowances brought forward.
- Tax relief on pension contributions is normally at least 20%, and higher or additional rate taxpayers receive relief at 40% or 45%. In Scotland, intermediate, higher and top rate taxpayers receive relief at 21%, 41% or 46%. Limiting your contributions to amounts that qualify for at least 40% tax relief will give you the most benefit.
- Effective relief can be as high as 60%, or 61.5% in Scotland, where the personal allowance is being withdrawn, and can be even higher if Universal Credit payments or tax credits are being withdrawn.
- You could set up a pension for your partner or children since they don't need earnings to build up to £3,600 in a personal pension. Even if they do not pay any tax, they can still benefit from 20% tax relief.

Although pensions should always be considered in the longer term, the Covid-19 crisis might have affected your pension savings and retirement decisions.

Lifetime allowance

The maximum you can hold in a tax-favoured pension scheme without triggering an extra tax charge is £1,073,100 in 2021/22. The allowance will be frozen at this level until 2025/26.

Planning point

Save into a pension for your children or grandchildren

Consider saving up to £3,600 into a pension for your spouse, civil partner or a child, even if they have no earnings of their own, to obtain basic rate tax relief on the contributions.

The real value of the lifetime allowance is falling, so a pension plan may not provide enough for your retirement needs. Therefore, consider other forms of saving.

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

The real value of the lifetime allowance is falling, so a pension plan may not provide enough for your retirement needs. Therefore, consider other forms of saving.

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Tax Efficient Investment

Savings & Tax Efficient Investments

Tax efficient investment offers an investor relief from one or more taxes, which may include relief from income tax, capital gains tax and inheritance tax. Each type of investment has its own set of qualifying conditions, which must be satisfied by an investor and the company seeking investment for a certain period of time.

Individual Savings Accounts (ISA)

The ISA wrapper is a useful tool for a higher rate taxpayer, since any growth will be free of income tax and capital gains tax. The ISA limit for the 2021/22 tax year is £20,000. This limit cannot be carried forward therefore, if a taxpayer fails to utilise the annual limit it will be lost.

There are various types of ISAs (such as junior ISA, help to buy ISA, lifetime ISA).

Junior ISAs are available for all UK resident children under 18 years of age. Up to £9,000 can be invested in 2021-22 on behalf of a child (by parents, grandparents, relatives or friends). No withdrawals are permitted until the child reaches 18. Generally, if you give money to your own children, the interest earned must not exceed £100 per tax year, if it does you will be subject to tax on the income at your marginal tax rate. However, Junior ISAs are excluded from this rule.

Planning point

Consider making full use of your ISA allowances before the end of the tax year. Always seek professional advice before making investment decisions so that you are clear on the implications.

Seed Enterprise Investment Scheme

The SEIS is designed to encourage individuals to invest in shares issued by qualifying unquoted companies established in the United Kingdom. The scheme is specifically designed for small start-up trading companies.

There are various conditions that a company and investors must satisfy for a certain period of time. There are no particular tax reliefs available to a qualifying company that is seeking investment. A company can raise a maximum of £150,000 through SEIS investment.

The tax reliefs are given to investors. An investor can invest up to £100,000 per tax year. The investor receives income tax relief of up to 50% of the amount invested.

The ISA limit for the 2021/22 tax year is £20,000. This limit cannot be carried forward therefore, if a taxpayer fails to utilise the annual limit it will be lost.

The relief can be claimed against the current year and/or previous year's income tax liability. Where SEIS shares are sold after three years any gains should be exempt from capital gains tax.

The SEIS also offers a form of reinvestment relief for investors who subscribe for shares in a qualifying company. If a taxpayer disposes of an asset which results in a chargeable gain and he/she re-invests all or part of the amount of the gain in shares which qualify for SEIS relief, then 50% of the amount invested up to £50,000 of the original capital gain may be exempt from CGT.

The value of SEIS shares would be exempt from Inheritance Tax after being owned for two years.

Enterprise Investment Scheme

The EIS is designed to help small UK trading companies to raise funds by offering tax favoured equity investment to investors. There are various conditions of the scheme that a company and investors must satisfy. A company can raise up to £12m, and a Knowledge Intensive Company can raise up to £20m, under the EIS scheme.

An investor can invest up to £1m in a tax year or £2m if the company is a 'Knowledge Intensive Company'. An investor's tax liability for the year of subscription will be reduced by 30% of the sum invested. Relief can be claimed against the current year and/or previous year's income tax liability. EIS shares are normally exempt from capital gains tax and inheritance tax, subject to certain conditions being met.

The EIS offers capital gains tax relief, where a capital gains tax liability can be deferred where the gain is invested in the shares of an EIS qualifying company in the twelve months before or three years after the disposal. The capital gain deferred can arise from the disposal of any kind of asset.

Social Enterprise Tax Relief

An investor who subscribes for equity or a debt instrument issued by a 'Social Enterprise' is entitled to income tax relief of 30% of the amount subscribed. A Social Enterprise means a 'Community Interest Company', 'Community Benefit Society that is not a charity', or 'a charity'.

The maximum subscription by an investor is £1m in a tax year. An investor can make a claim to carry back relief to the tax year preceding the year of investment. If the investment is by subscribing for shares then any gain realised on the disposal will not be subject to tax provided conditions are met.

A type of reinvestment relief is available for capital gains arising from disposals made between 6th April 2014 and 5th April 2021, where an investor elects for the gain to be rolled into a qualifying Social Enterprise. The gain deferred could become chargeable to CGT if the investor or the Social Enterprise fails to meet the qualifying conditions.

The above provides a brief summary of SEIS, EIS and SETR reliefs, and should not be relied upon without seeking further advice.

The EIS offers CGT relief, where a CGT liability can be deferred where the gain is invested in the shares of an EIS qualifying company in the twelve months before or three years after the disposal. The capital gain deferred can arise from the disposal of any kind of asset.

Invest in Venture Capital Trusts (VCTs)

Buying units in venture capital trusts (VCT) is also higher risk than many other investment choices as they are required to invest in smaller companies that are not fully listed, however, they also offer generous tax benefits.

Income tax relief at 30% is available on qualifying investments of up to £200,000 for 2021/22 and dividends received from the units are tax free. In addition there is no CGT payable on any gain made when you sell the VCT.

Useful link: https://uk.reuters.com – financial and market analysis.

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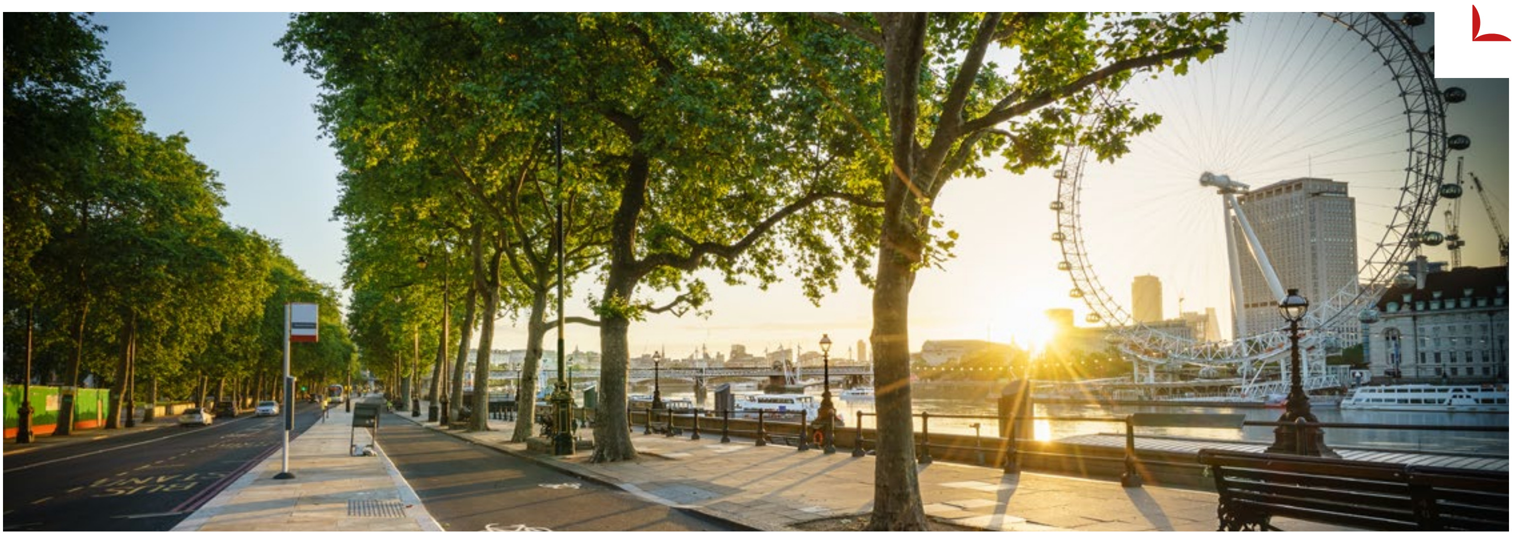

Use Your Inheritance Tax Exemptions

Inheritance tax (IHT) planning is generally not related to the tax year end, although this is as good a time as any to review your will and ensure your stated wishes are up to date.

There are, however, certain IHT exemptions that are related to the tax year.

- Gifts totalling up to £3,000 in a tax year are exempt from IHT. If you didn't use this exemption in 2020/21, you can make IHT-free gifts of up to £6,000 before 6 April 2022. If you have already used your exemption for 2021/22, you could delay your next gift until after 5 April 2022 to take advantage of the 2022/23 exemption.
- Gifts of up to £250 to any person in any one tax year are exempt. You can use this exemption for any number of different recipients.
- Regular gifts out of excess income can also be exempt, with the amount of excess income determined each tax year. You need careful documentation to prove that you make the gifts from income rather than capital.

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

Gifts of up to £250 to any person in any one tax year are exempt. You can use this exemption for any number of different recipients.

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Charitable Giving

Charities make a difference to millions of lives in the UK and around the world. Whatever cause you care about there will be a charity working on it. Remember you can get tax relief for any charitable gifts if you make a gift aid declaration.

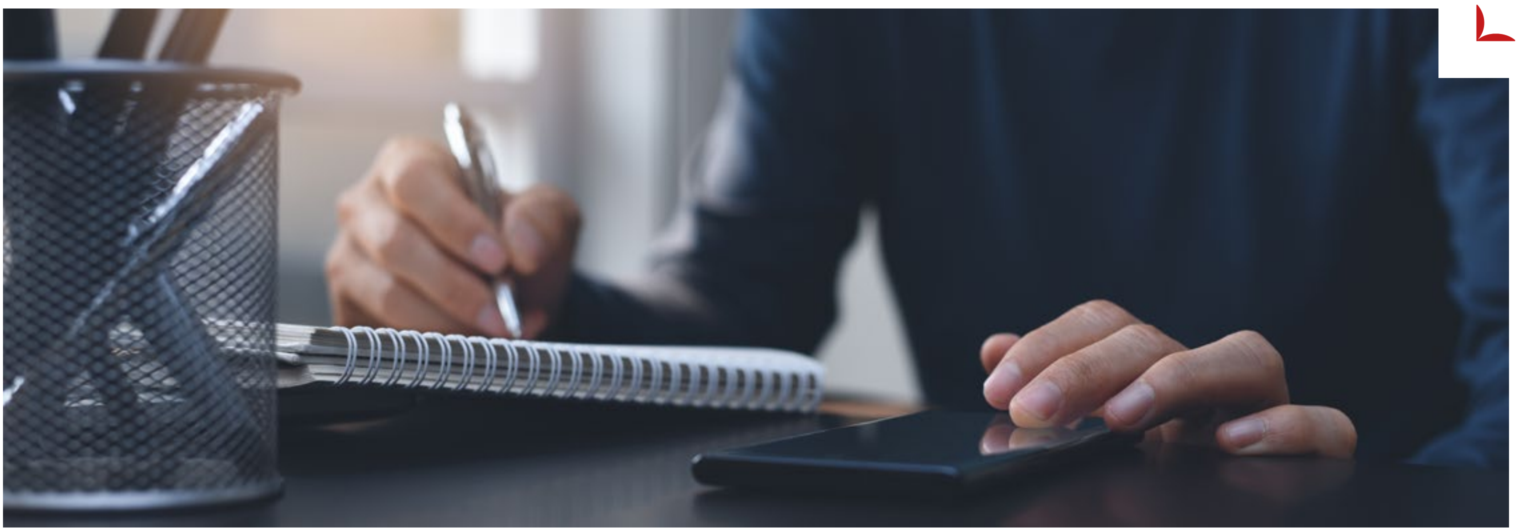
You make the gift out of your taxed income and the charity can claim back basic rate tax on the value of the gift. Higher and additional rate taxpayers can claim an extra 20% or 25% in relief. Intermediate, higher and top rate taxpayers in Scotland can claim an extra 1%, 21% or 26% in relief.

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 10% of your net estate is left to charity, then the rate of IHT payable on the remainder of your estate will be reduced from 40% to 36%.

Useful link: www.gov.uk/donating-to-charity – information about tax relief when donating to a charity.

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



Tax Planning Checklist

- [ ] Could you transfer income to your partner to minimise higher and top rate taxation next year, to maximise the tax-free savings and dividend income limits, or to avoid losing child benefit?
- [ ] Have you considered the timing of dividends and bonuses to minimise tax rates?
- [ ] Have you used your annual CGT exempt amount by making any available disposals before 6 April 2022?
- [ ] Have you used this year's ISA allowance before 6 April 2022?
- [ ] 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 made gifts to use your annual IHT allowances?
- [ ] Are you considering any charitable gifts now or in your will?

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