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Caring Business Advisors

Year end tax strategies 2022 for NI | UK

Helping you make the most of tax-saving opportunities

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Key statistics

Capital gains exemption
£12,300 for 2021/22

ISA Allowance
£20,000 for 2021/22

Annual investment allowance
£1 million until 31st March 2023

Dividend allowance
Up to £2,000 tax free per year

Interest
Up to £1,000 tax free per year

Inheritance Tax
Review your wills and Lifetime Gifts for IHT

Company cars
Is your Company Car a tax efficient strategy?

Pension Contributions
Are you maximising your relief?

Tax planning is a year-round activity, but it takes on even more importance as the year end draws nearer.

Taking appropriate action ahead of 5 April will help to ensure that you are able to make the most of the tax saving opportunities available to you and your business.

About this guide

While most taxation changes take effect from the start of the financial year, or tax year, some may not take effect until later. Where relevant, details of these changes have been included in this guide. Throughout the guide, 'HMRC' refers to HM Revenue & Customs. References in this guide to 'spouses' include 'civil partners'.

In this guide...

Introduction

Even the best laid plans change, for better or for worse. You may have considered your tax position earlier in the year, but is your financial situation the same today as it was twelve months ago? Even small changes could give rise to significant tax costs or opportunities that you may not have considered.

We encourage you to keep your options flexible, be in a strong position to take advantage of any opportunities that may arise in the future, and mitigate against any shocks such as an unexpected global pandemic.

As your accountants and tax advisers, we can advise on how these changes will affect you, and suggest strategies to help boost your business's profitability, reduce your tax liabilities and maximise your personal wealth.

These may include:

- taking advantage of the tax breaks available to you and your business.
- planning to extract profits from your business tax-efficiently.
- utilising tax-advantaged savings options (including pensions).
- minimising the inheritance tax due on your estate.

Planning and careful timing are crucial. In some cases, the timing of a transaction or investment determines when any reliefs affect your tax payments or your tax code.

This guide contains some key points to consider ahead of the year end. The matters considered here will also be relevant throughout the following tax years unless we specify otherwise - or if the legislation changes - so keep referring to this guide throughout 2022.

Sending us your accounting and personal records in good time gives us more of an opportunity to help you manage your cash flow by giving you early warning of any tax payments due. And of course, advanced notice will help to ensure that you avoid any unnecessary penalties and interest levied by HM Revenue and Customs.

Talk to us now for advice on making the most of the opportunities available to you and your business this year.

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1.0 Your business

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It's your company – how to keep more of the profit

While there are many ways of extracting profit from your company, each has its own implications for the amount of tax you pay, and for the company itself. Below are some key planning strategies you might consider.

Dividend versus salary/bonus

The question of whether it is better to take a salary/bonus or a dividend requires careful consideration.

The rates applicable to dividend income are as follows:

	Effective Rate
Basic Rate band	7.5%
Higher Rate band	32.5%
Additional Rate band	38.1%

The proposed dividend rates for 2022/23 onwards are as follows:

	Effective Rate
Basic Rate band	8.75%
Higher Rate band	33.75%
Additional Rate band	39.35%

Every taxpayer receives a dividend tax allowance which will exempt the first £2,000 of dividend income. A dividend is paid free of NICs, whilst a salary or bonus can carry up to 25.8% in combined employer and employer contributions. However, a salary or bonus including the NIC cost, is generally tax deductible for the company, whereas dividends are not.

In many circumstances, extraction of profits from a company by way of dividend, rather than salary, is likely to be the preferred route. There may, however, be some circumstances where it may be beneficial to take some salary – for example if you have attained State retirement age and so do not pay employee's National Insurance, or if you want to make pension contributions.

Consider timing of income

If you are already in a higher rate income tax band for 2021/22 but anticipate that this will reduce in future years, you may wish to defer income, such as salary, bonus or dividends until after 5 April. Conversely, if your income is low this year and you anticipate moving into a higher tax band next year, you may wish to accelerate payments to the current year.

However the Chancellor announced in the October Budget that NIC rates & dividend rates will increase by 1.25%, with effect from April 2022.

Dividend income is taxable in the tax year in which it is legally declared in accordance with company law. Dividends paid are illegal to the extent that the company has insufficient distributable reserves. Backdated dividends are invalid. A dividend does not have to be cash-settled to be legally declared - it could be credited to a loan account for the shareholder to draw down; however, the accounting must correctly reflect this.

To be legally effective, any deferral of employment income should take into account any contractual rights that you might have, as an office holder or employee, as to the amount and timing of the payment and any reputational issues for you and the company where significant tax savings may arise.

Capitalisation

For those expecting to liquidate their companies in the next few years, profits might be left in the company to be drawn as capital.

Current rules normally allow retained profits distributed on liquidation to be subject to capital gains tax, with a potential tax rate as low as 10% if Business Asset Disposal Relief (previously Entrepreneurs' Relief) is available. However, caution is advised as high cash reserves held without a clear business purpose or substantial investments can jeopardise Business Asset Disposal Relief or IHT Business Property Relief.

Incorporation

Incorporation may give more scope for saving or deferring tax than operating as a self-employed person or partner.

Incorporation may not suit all circumstances, and the 'IR35' rules specifically counter the use of 'personal service companies' to reduce tax. Also, the rate of Corporation Tax will increase to 25% from 1 April 2023.

Contact us to find out how incorporation might apply to you and your business.

IR35 Rules

From April 2021, private sector companies are responsible for deciding if a “freelancer’s” employment status is correct, rather than the individual deciding for themselves.

Tax-free allowances

Tax-free allowances, such as mileage payments, apply when you drive your own car or van on business journeys.

The statutory rates are 45p a mile for the first 10,000 miles and 25p a mile above this. If you use your motorbike the rate is 24p a mile, and you can even claim 20p a mile for using your bicycle.

Pensions

Employer pension contributions can be a tax-efficient means of extracting profit from a company, as long as the overall remuneration package remains commercially justifiable.

The costs are usually deductible for the employer and free of tax and NICs for the employee.

Property

Where property that is owned by you is used by the company for business purposes (such as an office building or car park), you are entitled to receive rent, which can be anything up to the market value.

The rent is usually deductible for the employer. You must declare this on your Tax Return and pay income tax, but a range of costs connected with the property can be offset. Receiving rent may mean a bigger Capital Gains Tax (CGT) bill when you come to sell the property, so care needs to be taken to weigh up the advantages and disadvantages.

Taking advantage of capital allowances

Depreciation is not tax-deductible but capital allowances permit the costs of capital assets to be written off against taxable profits. The Government sets the rates, often with the stated goal of encouraging greener investment and helping smaller businesses.

An Annual Investment Allowance (AIA) – in effect, a year-one write off – is allowed for most businesses on expenditure on most types of plant and machinery (but not cars, to which different rules apply). A limit of £1,000,000 applies from 1 January 2019 to 31 March 2023.

Between 1 April 2021 and 31 March 2023, companies investing in qualifying new plant & machinery will benefit from first year Capital Allowances. A company will be able to claim:

- a super-deduction, providing allowances of 130% on most new plant and machinery that would usually qualify for 18% main writing down allowances.
- a first-year allowance of 50% on most new plant & machinery that usually qualify for 6% special writing down allowances.

Typically, a purchase made just before the end of the current accounting year will mean the allowances will usually be available almost a year earlier than if the purchase was made just after the year end. In the same way, the disposal of an asset may trigger an earlier claim for relief or even an additional charge to tax. As the level of AIA is not aligned to the accounting period of a business, or to statutory tax years, there are complex rules to determine how much relief is available in each given tax or accounting year. Therefore it is sensible to discuss any significant capital expenditure, Losses generated by capital allowances in businesses subject to Income Tax may also be subject to capping rules. Where this is in point, it may be beneficial to disclaim capital allowances depending on the circumstances.

Cash basis for small businesses

Small unincorporated businesses can now use the cash basis of accounting for calculating taxable income. This applies to sole traders and partnerships where turnover does not exceed twice the VAT threshold (currently £85,000) but does not apply to limited liability partnerships or partnerships with a corporate member.

Those opting for the cash basis should consider whether it is possible to defer income receipts until after 5 April and accelerate expenditure so that it is incurred before the end of the tax year. However, you should take into account that NIC rates will increase by 1.25% with effect from April 2022.

A further simplification for all unincorporated businesses allows them to use flat rate deductions for particular items of business expenditure, which will include business mileage and home office use. Businesses adopting the cash basis must use flat rate deductions for business mileage but can choose whether they adopt other flat rate deductions.

Barristers have special rules allowing them to choose to use either the accruals basis or cash basis.

Is there a tax-efficient alternative to company cars?

Substantial tax costs aside, the company car remains an important part of the remuneration package for many employees – and an essential business tool for many employers. However, the amount on which the employee is charged income tax is set to continue to rise steeply in the years ahead.

With our help, you can determine whether the company car is still a tax-efficient option; whether a qualifying 'van' might be an alternative; and ultimately decide on what is the best course of action for you and your business.

The car benefit and car fuel benefit (where any fuel for private use is provided with the car), on which the employee pays income tax at up to 45% (or even 60%) and the employer pays 13.8% Class 1A National Insurance Contributions (NICs), are calculated at up to 37% of the list price in respect of the car and up to 37% of a notional £24,600 in respect of the fuel for 2021/22. Diesel cars receive an additional 4% charge compared to Petrol cars with the same CO2 emissions up to 37%.

These tax and national insurance costs could mean that a company car may not be the most tax-efficient option for either the employer or the employee. Company cars are usually retained for three or four years. Changes in the scale rates already announced for future years may mean that cars provided now could be subject to even larger tax charges before the term expires.

For some, an employer provided 'van' may be a viable alternative to a company car: the imputed taxable benefit is £3,500 for the van and up to £669 for fuel. In 2021/22, if a van emits no CO2 emissions, no benefit is assessed in 2021/22.

The company car or van benefit is currently subject to a Class 1A NIC charge of 13.8%, payable by the employer.

> 'Substantial tax costs aside, the company car remains an important part of the remuneration package for many employees'.

2.0 Your income

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60% is still the hidden top tax rate

Whilst the headline 'top rate' of income tax is 45%, the fact remains that for some taxpayers the current top marginal rate is actually 60%.

This effective rate of 60% applies to those with a taxable income for 2021/22 of between £100,001 and £125,140, who lose £1 of personal allowance for every £2 by which their Adjusted net income exceeds £100,000 – giving an effective 60% tax rate on up to £25,140 of their income, which is well below the £150,000 threshold at which the official top rate begins to bite.

If you find yourself in this position, you should talk to us, as there are two key routes to avoid this 60% tax charge: reducing your taxable income or increasing allowances. We can discuss your options, which may include delaying income to the next tax year, transferring assets to your spouse, or increasing your pension contributions or Gift Aid donations, in order to take your 2021/22 income out of the 'invisible' 60% tax band. It is also possible to make Gift Aid donations next year and carry them back one year.

0% tax rate for many

In contrast, the Personal Savings Allowance allows basic rate taxpayers to have up to £1,000 of savings income taxed at 0% (£500 for higher rate taxpayers), providing scope to shelter some savings income from tax.

The first £2,000 of dividend income for individuals is taxed at 0% too. There are also exemptions from tax for those who have up to £1,000 of gross business or rental income.

Escaping the Child Benefit trap

Families receiving Child Benefit where at least one parent has 'adjusted net income' of more than £50,000 are liable for a claw-back of benefit. Where the adjusted net income is more than £60,000, all of the Child Benefit will be withdrawn. Where income is between £50,000 and £60,000, a portion will be lost.

Although Child Benefit is normally paid to the mother, it could be the father or step-father who suffers the claw-back through the tax system. The claw-back will normally occur by including it in a Self-Assessment Return or through the PAYE code.

Alternatively, the family can elect not to receive Child Benefit. Opting out may not be the best choice for those with incomes between £50,000 and £60,000 because they would lose out on the portion they are entitled to. Those who choose to opt out should still complete claims for any new children, so that parents who stay at home to look after their children can receive credits to their national insurance contribution record, which count towards their state pension.

For some there may be opportunities to share income differently between partners so as to reduce the higher income below one of the threshold amounts. The 'adjusted net income' can be reduced by making Gift Aid donations to charity or paying money into a pension. Those who are employed may be able to agree a salary sacrifice arrangement with their employer, through contributions to their pension, thereby making further savings on National Insurance for both employer and employee.

Notify a change of circumstances for Benefits

Entitlement to tax credits and other means tested benefits may depend on your income for a tax year.

Other benefits may be subject to conditions that may change over time. Benefit entitlement carries with it the responsibility to notify the relevant authorities if circumstances change. Failure to do so could make you liable for a £50 penalty or invite investigation for benefit fraud. Relevant changes may include:

Getting married, entering into a civil partnership or moving in with a partner.

Getting a new job, a pay rise or a bonus.

Receiving an inheritance.

Taking in a lodger.

Travelling or moving abroad.

Recovery from a qualifying illness or injury.

Make sure you know what changes of circumstances you need to notify. Where entitlement depends on income for a tax year, it is better to notify the change before the end of the tax year to avoid building up an overpayment or incurring penalty charges.

Avoiding the 45% tax rate for trustees

Trustees of discretionary and accumulation trusts are liable for the 45% trust rate of income tax (38.1% on dividends).

Trustees liable to income tax at 45%/38.1% can take steps to reduce this. Changes in investment strategy may have to be implemented over an extended time frame but, in some cases, a simple change to the terms of the trust may be appropriate.

Cap on income tax reliefs

There is a limit on the amount of tax relief that can be obtained against income tax for certain deductions.

The limit is the greater of £50,000 or 25% of your adjusted net income. Adjusted income for this purpose is the amount after deducting pension contributions. Pension contributions are not included because they are already subject to different limits. The following reliefs – among others – are capped:

- Trading losses relieved against general income, including the carry back reliefs for the early years of trading and post-cessation expenses. However, there is no capping of losses attributable to overlap relief.
- Property losses relieved against general income (i.e. arising from capital allowances or agricultural expenses). Post cessation property expenses are also capped.
- Employment Loss Relief against general income, including deductions available for former employees.
- Share loss relief against income tax on non Enterprise Investment Scheme or Seed Enterprise Investment Scheme shares. (This does not affect capital gains relief for losses).

You need to be aware of these restrictions if you are seeking to reduce your income tax liability for the year by claiming one of these deductions, and your claim exceeds £50,000 or 25% of your adjusted net income.

Charitable donations

When you make a donation to charity, you are very likely to be asked to make your gift under the Gift Aid scheme. If you choose to do so, and you are a higher rate taxpayer, then you are entitled to tax relief.

The charity can reclaim the basic rate tax which is deemed to have been deducted before your gift is made. The effect of this is that the charity can currently reclaim just over 25% of the amount you give.

If you pay tax at the higher or additional rates, you can claim tax relief for the gross value of your donation. The relief is the difference between your top rate of tax and the basic rate. Thus, if you are a 40% taxpayer and donate £1,200 to charities over the year, you are entitled to £300 of additional personal tax relief. This is worth £375 if you are paying tax at 45%. Gift Aid relief is not subject to the cap on income tax reliefs.

Donations can be made regularly - by direct debit, for example - or as a one-off. They do not even need to be made in cash; talk to us about gifts by businesses and gifts of non-cash assets.

It is also possible to carry back the tax relief for one year, which can be useful in avoiding some of the tax-traps highlighted above.

> If you pay tax at the higher or additional rates, you can claim tax relief for the gross value of your donation. The relief is the difference between your top rate of tax and the basic rate.

Non-domiciles who were resident for 15 out of the previous 20 years are deemed domiciled here for all tax purposes. Consequently, they cannot access the remittance basis.

Residence and domicile

We now have one of the most complicated residence tests in the world and internationally mobile individuals should check their residence status every year. The familiar 90-day rule is no longer the main factor.

The test is in three parts. Two parts determine whether someone is either conclusively resident or non-resident. The third part applies if neither of these tests can be satisfied.

In this part, various connecting factors - such as retaining a home here, having a resident family or working in the UK - are taken into account alongside the number of days spent in the UK. It is harder to lose UK residence status than to acquire it. Those who consider themselves to be non-UK resident will need to reconsider their status under the new rules to see if they still qualify.

Non-domiciles who were resident for 15 out of the previous 20 years are deemed domiciled here for all tax purposes. Consequently, they cannot access the remittance basis. In addition, those living abroad who were born in the UK with a UK domicile of origin are treated as deemed domiciled in the UK if they become resident in the UK in any year. They may wish to accelerate income and gains where possible if they intend to keep the income or proceeds abroad.

Those who became deemed domiciled from 6 April 2017; have paid the remittance basis charge for at least one year; and subsequently make capital gains on foreign assets can calculate the gain based on the market value of those assets at 6 April 2017.

Business Investment Relief

This relief is available to foreign domiciliaries who claim the remittance basis. It allows a non-domiciled individual to remit foreign income or gains to the UK and invest in a qualifying business without the remittance being taxed in the UK.

Various conditions need to be met to ensure that the relief is available so you should seek further advice if this is of interest.

Share Options

Internationally mobile employees should seek advice on the UK tax implications of the vesting, exercise and/ or sale of share options.

The rules in the UK are complex and tax may be payable through PAYE with a possible National Insurance charge or through Self Assessment and full relief may not be received for any foreign tax paid.

3.0 Your property

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High value residential property

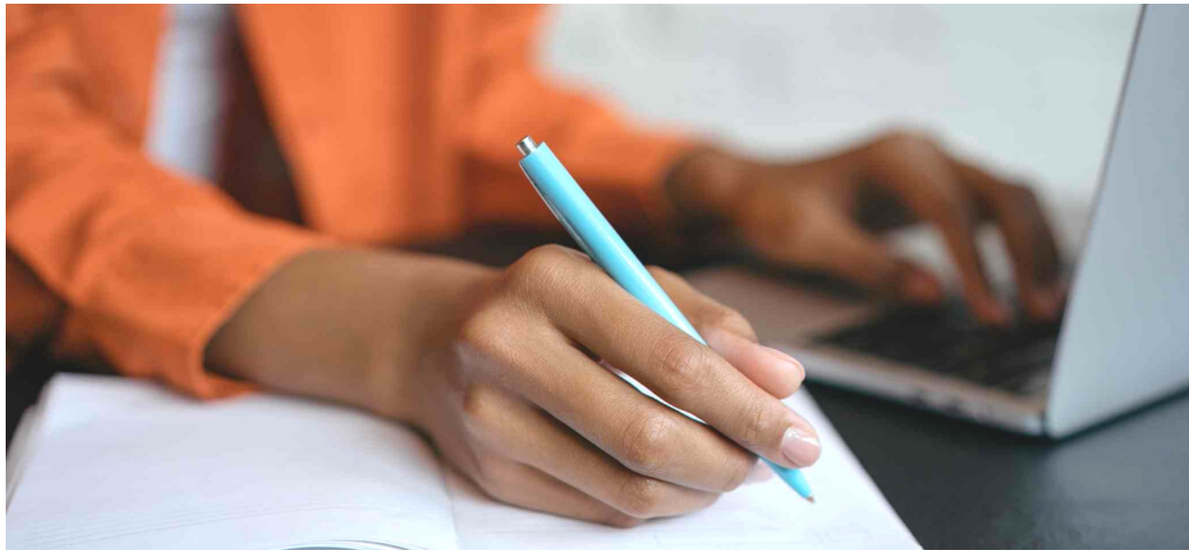
The Annual Tax on Enveloped Dwellings (ATED) applies where enveloped residential property valued above £500,000 is held by certain non-natural persons (NNPs).

These include companies, partnerships with corporate partners and certain collective investment schemes. Enveloped Dwellings must be revalued every 5 years and the next valuation date will be 1 April 2022. This will apply to all properties owned at that date even if acquired within the previous five years. Properties purchased after the last valuation date (1 April 2017) are valued at the purchase date until the revaluation date in April 2022.

The due date for both filing returns and paying the ATED charge for 2022/23 is 30 April 2022.

Property value	2022 Charges
Over £500,000 to £1 million	£3,700
Over £1 million to £2 million	£7,500
Over £2 million to £5 million	£25,300
Over £5 million to £10 million	£59,100
Over £10 million to £20	£118,660
million Over £20 million	£237,400

There are a number of reliefs from the charges to exclude genuine business activity and property run as a business or provided to employees. Typically, the structuring of a UK property purchase through a company (known as 'enveloping') would have been done for anonymity or for inheritance tax planning. Nevertheless, many who are now caught by the new charges, particularly those with properties in the £0.5 million to £2 million bands, may wish to consider whether to de-envelope their property. The decision is not an easy one since tax liabilities could be generated in the de-enveloping process.



Furnished holiday lettings

Certain tax benefits are afforded to those who let furnished holiday accommodation either in the UK or the EEA, which include:

- Income treated as pensionable earnings.
- Capital allowances for new expenditure.
- Capital gains tax Business Asset Disposal relief.
- Business assets roll-over relief.
- Relief for gifts of business assets.
- Exemptions for disposals of shares by companies with a substantial shareholding.

Full tax relief is available for loans attached to the property. Losses made in a qualifying UK or EEA furnished holiday lettings business may only be set against income from the same furnished holiday lettings business.

The minimum period over which a qualifying property must be available for letting to the public in the relevant 12-month period is 210 days and the minimum period over which a qualifying property is actually let to the public in the relevant period is 105 days. For individuals with a continuing furnished holiday let business, the relevant 12-month period will be the tax year to 5 April. If multiple properties are let as furnished holiday accommodation, the occupancy rules can be applied on an averaged basis.

If a previously qualifying property fails to meet the letting condition of 105 days, there is a facility to make a 'period of grace' election so that the property may still qualify for furnished holiday letting reliefs for up to two years.

The furnished holiday letting season might typically need to span the period 1 April to 31 October in order to meet the 210-day test and the property would have to be let for 50% of that time (15 weeks out of 30) to meet the 105 day test.

Property businesses are excluded from the new rules, allowing some unincorporated businesses to use the cash basis of accounting, but they are able to use the simplified arrangements for certain business expenses, such as business mileage and use of home as an office.

If you are contemplating capital expenditure on your properties, now is the time to consider investing: the Annual Investment Allowance for new qualifying capital expenditure has been increased to £1 million per annum until 31 March 2023.

Profits from furnished holiday letting count as earnings for pension contributions. In order to obtain relief for pension contributions against 2021/22 income, the contributions must be paid by 5 April 2022 so you will need to estimate your income in advance of the year end.

Finance costs

Relief for landlords' finance costs, including mortgage interest, have been reduced to the basic rate of tax (currently 20%) from April 2020. For those paying higher rates of tax, this could have a major impact. Some may find they are paying tax when there is no actual profit.

Corporate landlords are not affected by these changes, but for very large companies, with interest expense in excess of £2 million, separate rules may restrict the level of available deduction, regardless of the purpose of the borrowing.

Rent-a-room relief

The threshold for rent a room relief is £7,500 for 2021/22.

Non-resident companies with a UK property business

From 6 April 2020, such non-resident companies are chargeable to Corporation Tax and not Income Tax.

The UK property income is calculated in accordance with Corporation Tax principles.

Capital Gains on UK residential property

Since 6 April 2020, anyone making a taxable gain from selling a UK residential property must submit a residential property capital gains return within 60 days of completion and pay any Capital Gains Tax due (30 days of completion before 27 October 2021).

Also, since 6 April 2020, the calculation of the gain on the disposal of a property which has at some stage been the individual's main residence is affected by two changes. Letting relief of up to £40,000 will only be available if the owner lived in the property when it was let and the last 9 months will be treated as owner occupied.

4.0 Your assets

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Capital gains tax

The annual capital gains tax exemption is £12,300 for individuals and £6,150 for most trusts for 2021/22. Gains up to this amount are not liable to tax. The allowance cannot be carried forward.

For individuals whose total taxable income and gains are less than the upper limit of the income tax basic rate, the rate of tax is generally 10%. For gains (including parts of gains) above that limit, the rate is 20%. The rate for trustees is also 20%. However, higher rates of tax apply where the gain arises from the disposal of residential property or carried interest. These gains attract a supplementary charge of 8% in all cases (thereby increasing the overall rates to 18% or 28%).

Individuals and trustees should review their capital gains position before 5 April with their investment advisors. For some, good tax advice will also be essential if you are, for example:

- Leaving the UK.
- Returning to live in the UK.
- A temporary non-resident.
- A US citizen or Green Card holder.
- Dual resident.
- A remittance basis user.
- A settlor or beneficiary of an offshore trust.

Business Asset Disposal Relief (BADR) previously known as Entrepreneurs' Relief

The effective rate of CGT for gains qualifying for BADR remains at 10% and the lifetime limit is £1 million for disposals on or after 11 March 2020. Nevertheless, disposals of business assets qualifying for BADR may give rise to complications and care should be taken.

The minimum period throughout which the qualifying conditions must be met to qualify for BADR is two years.

In relation to unquoted trading company shares, the rights attaching to those shares must include a 5% interest in the distributable profits and net assets (as well as 5% of the voting power and nominal value).

On a company re-organisation or sale involving the acquisition of loan notes that are Qualifying Corporate Bonds, it is possible to elect to disapply the normal deferral rules, so that a claim for BADR can be made. This option is not available for loan notes that are not Qualifying Corporate Bonds, so BADR could be lost if the new loan notes do not qualify for the relief. Legislation now prevents BADR from being claimed on gains arising from the disposal of goodwill on incorporation of a business. In addition, gains arising on assets that are used in a business (such as a property used by a trade carried on by an individual) will generally only qualify for BADR where the disposal of the assets arises at the same time as (or is connected with) the disposal of the business concerned.

Recent changes, however, permit gains deferred by Enterprise Investment Scheme (EIS) relief to qualify for BADR when the gain is released (generally on the ultimate disposal of the EIS shares)

Individuals who are taxed on the gains of an offshore trust under the beneficiary provisions cannot obtain the benefit of BADR for gains attributed to them. Relief is still available for qualifying disposals where the gain is taxed on the settlor Remember that BADR can also apply to property let as furnished holiday accommodation. Once the qualifying period of furnished holiday letting has been established, any previous use of the property is irrelevant. Thus, other property could be brought within the furnished holiday letting regime for two years before sale in order to claim the relief.

Investors' Relief

A 10% rate of Capital Gains Tax applies for investors disposing of shares in trading companies where the shares were acquired by way of a fresh issue from an unlisted company.

The shares must have been issued on or after 17 March 2016 and held for at least three full years prior to disposal. In addition, the investor must not at any point have a connection with the company as a working employee or director. However, if you plan to make such investments, it would be a valuable exercise for the future to confirm that these will qualify for the relief.

The lower rate is only available on the first £10 million of lifetime qualifying gains, but is an additional relief, and unaffected by any BADR gains enjoyed in the future or historically.

Relief for trading losses

In certain circumstances, losses of a business may be offset against capital gains where they cannot be offset against income.

Income losses claimed against capital gains are not subject to the cap on income tax reliefs.

Enterprise Investment Scheme (EIS)

Gains made in the current or earlier years can be sheltered by reinvestment in qualifying EIS shares.

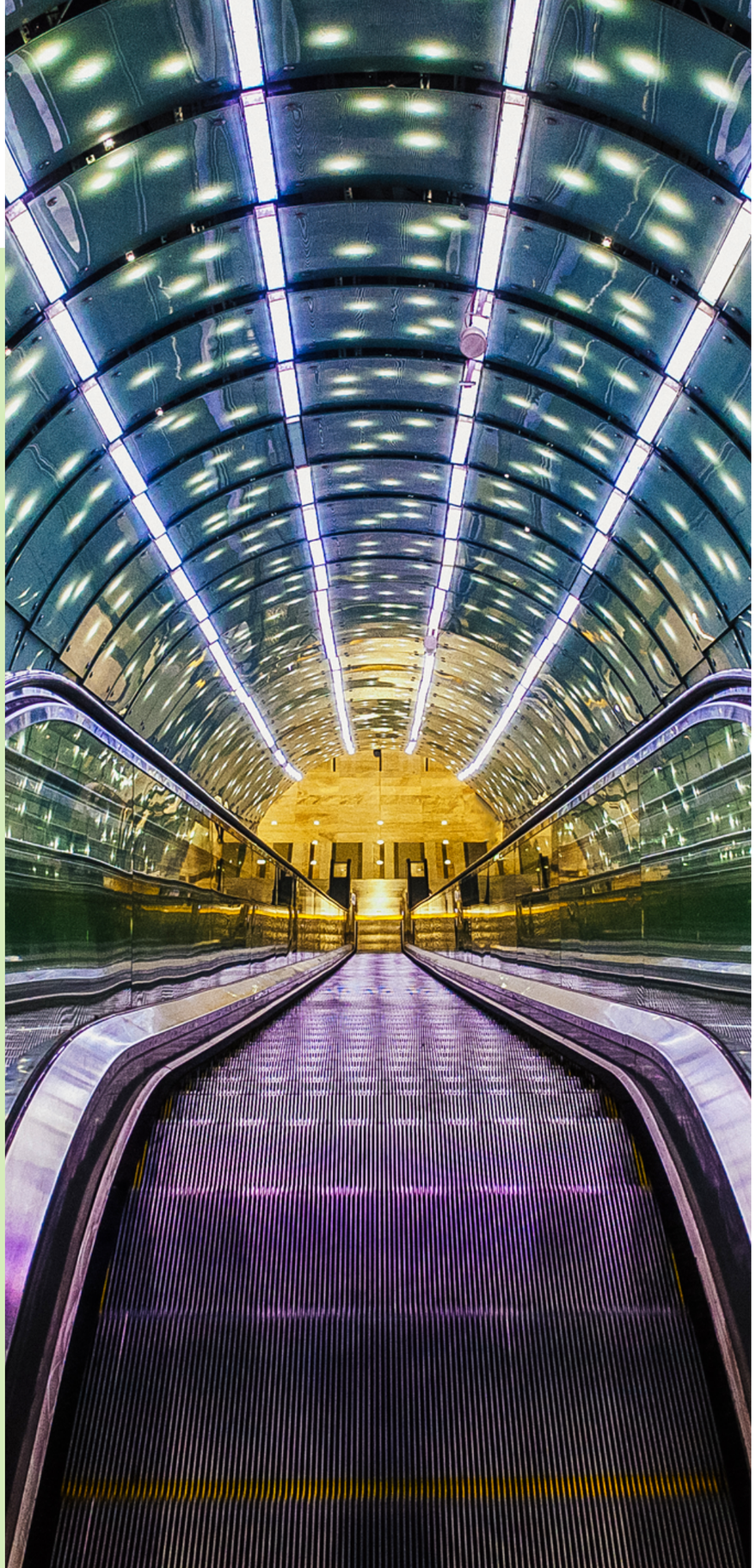
Purchases of EIS shares can be used to shelter gains made up to three years earlier. Gains deferred under the EIS are taxable at the CGT rates applicable at the time the deferral ends. Income tax relief is also available at 30% of the amount invested. The limit is £2 million with up to £1 million being invested into "knowledge-intensive" companies.

Seed Enterprise Investment Scheme (SEIS)

Running alongside the EIS, the SEIS applies to investments made in small, early stage companies carrying on, or preparing to carry on, a new business in a qualifying trade. Income tax relief is available up to 50% of the amount subscribed but the maximum subscription is only £100,000. Gains realised on the disposal of assets that are reinvested through SEIS in the same year will obtain a 50% exemption from capital gains tax. The income tax and capital gains tax reliefs may be carried back one year only and both must be carried back together.

Social Investment Tax Relief

Income tax relief of 30% of the cost of an individual's investment may be claimed and gains may be deferred where they have been invested in a qualifying social investment.



Assets of negligible value

Where an asset became of negligible value in the year ended 5 April 2020, a claim for capital gains tax relief must be made by 5 April 2022.

Losses on certain shares in unquoted trading companies can be claimed against income tax, but this is now subject to a cap limiting the deduction to the higher of £50,000 or 25% of adjusted net income.

Main residence relief

Your main residence qualifies for a degree of exemption from capital gains tax, depending upon its use during the period of ownership and the size of its garden or grounds.

Where you have more than one residence, you may elect to nominate one of them as your main residence. Those who are living together as a married couple or civil partners may have only one main residence between them at any time and must elect jointly. In the absence of a valid election, the question as to which is your main residence is determined on the basis of fact. Once a valid election is in place, it can be varied at any time.

The initial election can be made within two years of any change in the combination of residences available to you or when your domestic circumstances change, such that a joint election becomes necessary or ceases to be required. You should consider your position if you have bought, sold or rented a residence in the last two years or if your marital circumstances have changed in that time.

You may only nominate a house as your main residence if it is located in the country in which you are resident for tax purposes, or you spend at least 90 nights there in the course of a tax year.

A property that has been your main residence at any time after 31 March 1982 also qualifies for exemption during the last nine months of ownership.

This period is three years for a disabled person or someone moving into a care home. A variation of an existing election could be used to maximise relief by 'flipping' between properties (and possibly back again). This is often done within two years of acquiring a new residence or within two years of a sale.

You should review your position if you have bought a residence in the last two years or if you have recently sold one or are contemplating a sale.

Since 6 April 2020, anyone making a taxable gain from selling a UK residential property must submit a residential property capital gains return within 30 days of completion and pay any Capital Gains Tax due (60 days of completion on or after 27 October 2021).

Also, since 6 April 2020, the calculation of the gain on the disposal of a property which has at some stage been the individual's main residence will be affected by two changes. Letting relief of up to £40,000 will only be available if the owner lived in the property when it was let and the last 9 months will be treated as owner occupied.

UK property and Land and non- residents

Non-residents are liable to tax on capital gains arising on disposal of UK property and to other assets, such as shares that derive their value from UK land.

Non-residents other than companies must submit a Capital Gains Tax Return within 30 days of the disposal of UK taxable property (60 days of completion on or after 27 October 2021). The tax on the gain is also due within 60 days (30 days of completion before 27 October 2021). Non-resident companies will include it in their normal Tax Return.

The charge only bites in relation to the increase in value after 5 April 2015 for residential property or 5 April 2019 for non residential property or an indirect disposal of UK land. The application of the charge is complicated where it clashes with the anti-avoidance provisions relating to offshore trusts.

From 1st April 2021, a Stamp Duty Land Tax surcharge of 2% applies to non-resident buyers of UK residential property.

Lifetime planning for big inheritance tax savings

Formulating an estate plan that minimises your tax liability is essential. The more you have, the less you should leave to chance.

If your estate is large, it is likely to be subject to inheritance tax (IHT), which is currently payable where a person's taxable estate is in excess of £325,000 (the 'nil-rate band'). The nil-rate band will be frozen until at least 2026. An additional nil-rate band is available where a residence is passed on death to descendants such as a child or a grandchild. This is currently £175,000 and is only available in full if the net estate is £2million or less.

IHT is currently payable at 40% on the value of taxable assets exceeding the relevant nil-rate threshold, and in some cases the value of assets given away up to seven years before your death can be brought back into account. So if you own your own home and have some savings and other assets such as shares and securities, your estate could well be liable. It is essential to start planning early if you want to minimise your exposure to IHT.

We can help you, but here are some of the key areas to consider:

Reliefs can reduce the IHT value of gifts

There are a number of IHT reliefs available. Perhaps the most important is relief on business and agricultural property, which effectively takes most of such property outside of the IHT net. As always, there are detailed conditions (including a two-year minimum holding period) but business and agricultural property will generally attract 100% or 50% relief.

Difficulties can arise with business property relief in the context of companies with cash reserves and partnerships that hold shares in trading companies. There are a number of instances where business property relief will be denied or restricted, even though the structure as a whole may be trading. You may need to seek professional advice to maximise the reliefs due.

If you have made a gift of assets qualifying for business or agricultural property relief, the relief can be denied if you die within seven years and the property no longer qualifies as business or agricultural. This will apply particularly if the original property has been sold by the recipient. You might consider taking out term assurance, written in trust, to cover the remainder of the seven-year period if the original gift no longer qualifies for the relief.

Relief for liabilities

Deductions may be disallowed for liabilities in certain circumstances. These include tax planning steps that may have been taken in the past to borrow against taxable assets and invest in non-taxable assets, such as business or agricultural property or excluded property for non-domiciles. You should review any borrowings in your estate to see if they are affected and whether the position can be remedied.

Restrictions to 'excluded property' rule

Foreign assets owned or settled by a non-domiciled individual qualify as 'excluded property' and are outside of the scope of IHT. Non-domiciled individuals should consider settling excluded property before they become deemed domiciled in the UK. However, foreign company shares are liable to IHT to the extent that their value
derives from UK residential property. A chargeable transfer by an individual or trustees in relation to such shares is liable to IHT. The company is also liable in relation to a chargeable transfer of the property

You can claim exemption for some transfers

Transfers of assets between spouses or civil partners are generally exempt from IHT, regardless of whether they are made during a person's lifetime or on their death. In addition, the nil-rate band and/or the residence nil rate band may be transferable between spouses and civil partners. This means that if the bulk of one spouse's estate passes on their death to the survivor, the proportion of the nil-rate band and/or the residence nil rate band unused on the first death goes to increase the total nil-rate band on the second death. Where the recipient spouse is not UK domiciled or deemed domiciled but the donor spouse is, the spouse exemption is limited to a cumulative lifetime total of £325,000.

Other exempt transfers include:

- Small gifts (not exceeding £250 per tax year, per person) to any number of individuals.
- Annual transfers not exceeding £3,000 (any unused amount may be carried forward to enhance the following year's exemption).
- Certain gifts in consideration of marriage or civil partnership
- Normal expenditure out of income.
- Gifts to charities.

Using lifetime gifts to reduce the IHT bill

Introducing a programme of lifetime gifts can significantly reduce the IHT liability on your estate. This has the advantage of allowing you to witness the benefits they bring to your family members, while also escaping IHT as long as you survive the gift by seven years and no longer continue to benefit from the gift yourself.

A reduction in the rate of tax applies where lifetime gifts were made between three and seven years before death (note that the discount applies not to the gift but to the tax on the gift).

Trusts can make a difference

Trusts can be used to help maintain a degree of control over the assets being gifted, for example in the case of younger recipients. Life assurance policies can be written into trust in order that the proceeds will not form part of the estate on your death. Talk to us about using trusts to suit your planning needs.

Using a trust in your Will can create a tax planning vehicle for your children that they would find more difficult to set up for themselves, because of the IHT charge that would apply to them on creation. IHT planning now begins one generation earlier.

An up-to-date Will is essential

Your Will is your ultimate opportunity to get money matters right. You should review your Will at regular intervals to ensure that it reflects changes in your family and finances, is tax-efficient, and includes any specific legacies you would like to give, including tax- free donations to charity. Your inheritance tax rate can be reduced to 36% if you leave at least 10% of your estate to qualifying charities but the rules are complex, particularly when your estate includes trust assets.

Your Will should be reviewed to check that it does not prevent the possibility of a claim for the residence nil rate band.

Have a clear plan

Through lifetime IHT and estate planning you can reduce the liability to IHT, protect family wealth and ensure that you leave clear and complete instructions as to how your estate is to be distributed on your death.

We can help you plan to minimise the tax due on your estate, ensuring that more of your wealth passes to your loved ones rather than into the hands of the taxman.

5.0 Your savings & investments

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Carleton Financial Planning Ltd is authorised and regulated by the Financial Conduct Authority.

Make the most of your ISA allowance

ISAs have undergone significant changes in recent years, and the rules are now much simpler when it comes to investing in these popular 'tax-free' savings vehicles.

Individuals can invest in any combination of cash or stocks and shares up to the overall annual subscription limit of £20,000 in 2021/22. However, a saver may only pay into a maximum of one Cash ISA and one Stocks and Shares ISA each year (or a combination of both). You have until 5 April 2022 to make your 2021/22 ISA investment.

Meanwhile, a tax-free Junior ISA (JISA) is available to all UK resident children under the age of 18 as a Cash or Stocks and Shares product or both. Total annual contributions are capped at £9,000. Funds placed in a JISA will be owned by the child but investments will be locked in until the child reaches adulthood. If a child has a Child Trust Fund account this can now be transferred into a JISA.

The Lifetime ISA

The Lifetime ISA is for those under the age of 40. Contributions of up to £4,000 per year will be met with a 25% bonus provided by the Government until the account holder reaches the age of 50.

However, if withdrawals are made prior to the account holder's 60th birthday, a 25% penalty will apply to the withdrawal, which effectively takes away the bonus accrued unless the withdrawal is to fund the purchase of a first home. Therefore, unless used for a first home deposit, the Lifetime ISA is more similar to a pension savings vehicle. There are a limited number of Lifetime ISA products available at the moment whilst providers come to terms with the new rules.

ISAs have undergone significant changes in recent years, and the rules are now much simpler when it comes to investing in these popular 'tax-free' savings vehicles.

Planning for your retirement

The pension tax relief system has undergone significant changes in recent years for those with large pension pots and high levels of income.

Large Pension Pots

For those lucky enough to have large pension pots, the Lifetime Allowance for 2021/22 is £1,073,100. The Lifetime Allowance is the maximum you are allowed to have in pension savings on retirement without punitive tax rates applying to the excess. Fixed protection and individual protection are available, subject to certain conditions.

General rules on pension contributions

For pension contributions to be applied against 2021/22 income, they must be paid by 5 April 2022. Tax relief is available on annual contributions limited to the greater of £3,600 (gross) or the amount of the UK relevant earnings, but subject also to the annual allowance. Where pension savings in any of the last three years' pension input periods (PIPs) were less than the annual allowance, the 'unused relief' is brought forward, but you must have been a pension scheme member during a tax year to bring forward unused relief from that year. The unused relief for any particular year must be used within three years.

> When you consider your retirement income, don't forget to also assess your expenditure – many people underestimate the amount they will need to live comfortably when they stop working.

For example:

	Gross pension savings	Annual Allowance	Carry Forward
2018/19	10,000	40,000	30,000
2019/20	20,000	40,000	20,000
2020/21	30,000	40,000	10,000

With the £40,000 cap for 2021/22, this client can make tax- efficient contributions up to £100,000 gross, making full use of their carried forward 'unused relief'.

There is a taper to the annual allowance for those with adjusted annual incomes (including their own and their employer's pension contributions) over £240,000. For every £2 of adjusted annual income over £240,000 an individual's annual allowance will be reduced by £1, down to a minimum of £4,000.

Your scheme managers can provide pension forecasts to help you estimate whether you are saving enough and, if not, what additional savings you might have to make in order to generate the income you will need in retirement. When you consider your retirement income, don't forget to also assess your expenditure – many people underestimate the amount they will need to live comfortably when they stop working.

Those who fully fund their pensions may have entered into salary sacrifice arrangements under which the employer funds pension payments for other family members. These payments are taxable on the employee.

The rules are complicated, but we can calculate your personal pension savings cap, as well as advising on all aspects of financial planning, including a discussion of your spending needs, post-retirement.

Our expert team can help you ensure that you are able to make the most of the tax saving opportunities available to you and your business before 5th April.

To find out more please contact us.

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