

## It is always vital to review your financial goals ahead of the end of the tax year.

As your accountants, we can work with you to make sure your business and personal finances are in the strongest possible position for whatever the future may hold. This includes planning to make the most of the tax-saving opportunities available to you, particularly ahead of the tax year end. There are many ways we can help you identify suitable tax planning measures to help mitigate personal tax liabilities, increase your business's profitability and maximise your personal wealth.

This guide considers some tax-efficient planning options you might wish to implement before 5 April 2022. These include:

- making the most of the tax-efficient investment opportunities available to you and your business
- saving for a comfortable retirement
- reducing your inheritance tax bill
- making use of all your allowances.

**It is essential to act now in order to minimise your tax bill and maximise tax reliefs – don't leave it until 5 April 2022.** Talking to us in good time will ensure that we can discuss the tax planning opportunities available to you and help you manage your cashflow by giving you early warnings of any tax payments due.

## Planning for the family

**Prudent use of the whole family's tax allowances in tax planning can help reduce the tax burden.**

### Use all your personal allowances

Every individual is entitled to their own personal allowance (PA), which is £12,570 for the 2021/22 tax year. A key element in tax planning is to make the best use of the PA. If your spouse or civil partner has little or no income, you might want to consider the ownership of income-producing assets. This may involve redistributing income-producing assets to minimise the couple's tax liability – but be mindful of the settlements legislation governing 'income shifting'. Any transfer must be an outright gift, with 'no strings attached'.

Certain couples may also be eligible to transfer 10% of their PA to their spouse. The Marriage Allowance is available to married couples and civil partners where one spouse has income below the PA and neither

spouse pays tax at the higher or additional rate. It means £1,260 can be transferred in 2021/22, reducing a couple's tax liability by up to £252 in the current year. The claim must be made within a specified timeframe; please ask us for help if you think this allowance may apply to your circumstances.

For tax purposes, children are treated independently. They have their own PA, and their own savings and basic rate tax band. They also have their own capital gains tax (CGT) annual exemption. In some cases, a tax saving can be made by transferring income-producing assets to a child. However, when moving assets from a parent to a child who is a minor, any income generated in excess of £100 will still be taxed on the parent. It is therefore not always possible to use a child's PA by means of a parent transferring income-producing assets.

### Reducing taxable income

It is possible to reduce your taxable income through various means (for example, increasing contributions into a pension scheme or making charitable donations via Gift Aid). This may be beneficial if you or your spouse or partner are receiving Child Benefit and either of your incomes are expected to be between £50,000 and £60,000. Reducing income to below this level may help to eliminate the High Income Child Benefit Tax Charge, which applies at a rate of 1% of the full Child Benefit award for each £100 of income between £50,000 and £60,000. You might also want to consider adopting a similar option if your income is just above £100,000, as the PA is reduced by £1 for every £2 of income over this figure.

### Give to charity

If you make a charitable donation under the Gift Aid scheme, the charity can claim back 20% basic rate tax on any donations. Using Gift Aid can also generate a refund for higher rate and additional rate taxpayers. Higher rate taxpayers can claim back the tax difference between the higher rate and basic rate on that donation.

A cash gift of £100 could result in a £25 tax refund for a higher rate (40%) taxpayer under the Gift Aid scheme, in addition to a £25 payment to the charity generated by the taxman. Donations by Scottish taxpayers paying at the starter rate of 19% will be treated in the same way as 20% taxpayers in the rest of the UK. Scottish taxpayers using Gift Aid who pay tax at a rate higher than 20% can claim the difference between this and the basic rate.

It is important that all donors check that they have paid enough tax to cover the Gift Aid claim.

**For further advice on tax planning across the family, please get in touch.**

## Planning for savings

The Savings Allowance means a certain amount of savings income, such as bank and building society interest, can be earned tax-free. In 2021/22, this is up to £1,000 for basic rate taxpayers; up to £500 for those paying at higher rate; but nil for additional rate taxpayers.

### 2021/22 ISA limits

There are now several different types of ISA on the market, including the Lifetime ISA for adults under the age of 40 and Junior ISAs for those aged under 18. Individuals can invest in any combination of ISA investments up to the overall annual subscription limit of £20,000. The table below outlines the current ISA limits.

ISA	2021/22 limit
Cash, Stocks and Shares, Innovative Finance ISA	£20,000 a year
Junior ISA	£9,000 a year
Help to Buy ISA	£200 a month for existing accounts
Lifetime ISA	£4,000 a year with no monthly maximum amount

## Planning for your business

Running a business requires hard work and dedication, so it's important to reap the financial rewards of your endeavours. Here we consider how to extract profit in a tax-efficient manner.

### Have you considered a dividend over a salary or a bonus?

Some may choose to take a dividend over a salary or bonus. Dividends are paid from the profits available after Corporation Tax is paid. A salary or a bonus generally creates tax charges for the company, carrying up to 25.8% in combined employer and employee national insurance contributions (NICs). Dividends, however, are paid free of NICs.

The Dividend Allowance (DA) currently sits at £2,000 per year. The DA charges £2,000 of the dividend

income at 0% tax: this is called the dividend nil-rate. The rates of tax on dividend income above the allowance are 7.5% for basic rate taxpayers; 32.5% for higher rate taxpayers; and 38.1% for additional rate taxpayers.

In September 2021 the government announced an increase to the rates of tax paid on dividends by 1.25% from 6 April 2022 to help fund the new planned investment in health and social care. The new rates will therefore be 8.75% for basic rate taxpayers, 33.75% for higher rate taxpayers and 39.35% for additional rate taxpayers.

### Other ideas for profit extraction

There are a handful of alternative profit extraction ideas for individuals to consider. These include:

- making pension contributions – employer pension contributions often prove to be very tax-efficient when it comes to extracting profit from a company
- taking incorporation into account – self-employed individuals or those with partner status may want to consider incorporating. This may provide more scope for saving or deferring tax
- utilising tax-free allowances such as mileage payments, which apply when you drive your own car or van on business journeys
- making the most of property – you are entitled to receive rent up to the market value on property that is owned by you and used for business purposes.

**However, there may be other tax implications to consider, so care needs to be taken. Please be sure to talk to us before acting.**

## Capital allowances

The majority of businesses are able to claim a 100% Annual Investment Allowance (AIA) on the first portion of expenditure on most types of plant and machinery (except cars). The AIA applies to businesses of any size and most business structures, but there are provisions to prevent multiple claims.

The AIA will remain at £1,000,000 until 1 April 2023, when it reduces to £200,000 for expenditure incurred after this date. Complex calculations may apply to accounting periods which straddle this date. It is therefore important to time the purchase of plant and machinery carefully in order to make the most of the allowances available in light of the decrease.

Expenditure not covered by the AIA enters either the main rate pool or special rate pool, attracting writing

down allowance (WDA) at a rate of 18% or 6% respectively. The special rate 6% pool includes cars with CO<sub>2</sub> emissions exceeding 50 g/km, long life assets and certain specified integral features of buildings.

Typically, a purchase made just before the end of the current accounting year will mean the allowances will usually be available 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.

In addition, a capital allowances regime has been introduced for structures and buildings. The Structures and Buildings Allowance applies to non-residential structures and buildings. Relief is available on eligible construction costs, at an annual rate of 3% on a straight-line basis.

Between 1 April 2021 and 31 March 2023, companies investing in qualifying new plant and machinery may benefit from a new first year allowance (FYA). A company will be allowed to claim a super-deduction of 130% on certain new plant and machinery investments that ordinarily qualify for the 18% WDA and a special rate (SR) FYA of 50% on most new plant and machinery investments that ordinarily qualify for the 6% WDA.

**Contact us for advice on how to optimise capital allowances for your business.**

## Considering the company car

Company cars are often seen as an attractive perk – however, they are not always the most tax-efficient option.

If you have a company car, it is considered a benefit-in-kind, and you have to pay Income Tax on the car benefit and car fuel benefit, assuming you are provided with fuel by your employer for private journeys.

The car benefit is calculated by using the car's list price, multiplied by a percentage based on the car's carbon dioxide (CO<sub>2</sub>) emissions. Similarly, the car fuel benefit is calculated using the same percentage but on a notional £24,600 for 2021/22. Additionally, employers will also have to pay Class 1A national insurance contributions (NICs) at 13.8% on these benefits.

The appropriate percentages within the bands of CO<sub>2</sub> emissions (and therefore the taxable benefits) increase year on year. In the light of these trends, it would be advisable to review your company car policy.

There are a range of bands with appropriate percentages ranging from 1%-19% for low emission vehicles emitting less than 75g/km of CO<sub>2</sub>. Cars with emissions above this will have their percentage rate set at 20% plus 1% for every 5g/km increase, up to a maximum of 37%.

Additionally, to accelerate the shift to zero emission cars, all zero emission models are subject to a 1% rate.

From 6 April 2022 Class 1A NICs payable on company car benefits will increase by 1.25%, making the employer's contribution 15.5%. This temporary increase will be replaced by the Health and Social Care Levy of 1.25% for contributions after 6 April 2023. In view of these increases, you may wish to undertake a review of your company car policy.

It may prove more financially sound to pay employees for business mileage in their own vehicles at the statutory mileage rates, especially if their business mileage is high. In some cases, a company van might also be appropriate. The taxable benefit for the unrestricted use of company vans is £3,500 in 2021/22, plus a further £669 of taxable benefit if fuel is provided by the employer for private travel.

**We can review your business motoring requirements to help keep your tax and NIC liability to a minimum.**

## Planning for the long term

### Review your retirement plans

Planning is vital for those aiming to enjoy a comfortable retirement, and pensions provide a significant opportunity.

The annual allowance (AA) – the maximum you can contribute to a pension and still get tax relief – is £40,000. Exceeding this can result in an AA clawback charge.

The threshold income calculation helps to provide certainty for individuals with lower salaries who may have one off spikes in the value of their employer pension contributions and is broadly defined as an individual's net income for the year.

Those with both threshold income over £110,000 and adjusted annual income (their income plus their own pension contributions and their employer's pension contributions) over £200,000 will see their AA tapered down. For every £2 of adjusted income over £200,000, a taxpayer's AA is reduced by £1, down to a minimum of £4,000.

'Unused relief' is brought forward where pension

savings in any of the last three years' pension input periods were less than the AA. This can be used in 2021/22, providing the means of making a significant contribution without incurring a charge.

Meanwhile, the lifetime allowance for tax-advantaged pension savings is £1,073,000 in 2021/22. A tax charge arises where total pension savings exceed the lifetime allowance at retirement, provided that fixed, primary or enhanced protection is not available.

**From advising you on the tax implications of the contributions you make to your pension scheme to exploring other ways of boosting your pension savings, we can help you to secure the comfortable retirement you deserve. Please get in touch with us for more information.**

### **Make use of IHT exemptions**

Inheritance tax (IHT) is payable where an individual's wealth is in excess of £325,000 (the nil-rate band). Those who own property and have savings, business assets or life assurance policies could be liable to IHT.

It is vital that people plan ahead to minimise their exposure to IHT. Here, we consider ways in which individuals can reduce their IHT liability.

### **Outlining IHT**

IHT is charged at 40% on the proportion of an individual's taxable estate exceeding the nil-rate band. An estate includes both the value of chargeable assets held at death, plus the value of any chargeable lifetime gifts made within seven years of death.

The residence nil-rate band (RNRB) applies where a residence is passed on death to one or more direct descendants (including a child, stepchild, adopted child or foster child). The RNRB is set at £175,000 for 2021/22.

The additional band may only be used in respect of one residential property, which must have been, at some point, a residence of the deceased. In regard to estates with a net value above £2 million, the RNRB may be tapered at a withdrawal rate of £1 for every £2 over this threshold. Additionally, the RNRB is available when a person downsizes or ceases to own a home on or after 8 July 2015.

### **Making lifetime gifts**

You can give away a total of £3,000 as gifts each tax year without them being added to the value of your estate. This is known as your annual exemption (AE). You can give gifts or money up to £3,000 to one person or split the £3,000 between several people.

You can give as many small gifts of up to £250 per person as you want each tax year, as long as you have not used another allowance on the same person. Birthday or Christmas gifts you give from your regular income are also exempt from IHT.

Each tax year, you can also use an exemption for gifts made for weddings or the forming of a civil partnership.

You can give up to:

- £5,000 to your child
- £2,500 to your grandchild or great-grandchild
- £1,000 to any other person.

If you're giving gifts to the same person, you can combine a wedding gift allowance with any other allowance, except for the small gift allowance.

For example, you can give your child a wedding gift of £5,000 as well as £3,000 using your annual exemption in the same tax year.

You may also significantly reduce your estate's IHT liability by making a series of lifetime gifts. As long as you survive the gift by seven years and do not benefit from the gift yourself, it escapes IHT. Gifts allow your family to benefit during your lifetime.

Taper relief can also apply where lifetime gifts were made between three and seven years before death. Note, however, that the discount applies to the tax on the gift, as opposed to the gift itself.

### **Utilising IHT reliefs**

A number of IHT reliefs are available, including relief on business and agricultural property. These effectively take such property outside the IHT net (although please note that detailed conditions apply).

### **Trusts and Wills**

Trusts give individuals a degree of control over the assets being gifted. Life assurance policies can be written into trust, meaning that the proceeds will not form part of the estate on your death.

In regard to Wills, it is particularly important to review your own Will following changes to your personal or family circumstances, or the introduction of new tax rules.

**As your accountants, we can assist you in minimising your IHT liability. Please contact us for more information.**

## My Year End Checklist

- Make full use of my 2021/22 ISA allowance
- Maximise available allowances across the family
- Ensure that I am extracting profits from my business tax-efficiently
- Find out how the timing of dividends and bonuses could reduce my tax bill
- Put in place a tax-efficient gifting strategy
- Review and update my pension arrangements
- Re-examine my estate plan and Will
- Send my business and personal records to my accountant in plenty of time

### We are here to help...

**So please make good use of us. This guide is designed to help you identify some of the areas that could have a significant impact on your tax planning. Please consult us early for help in taking advantage of tax-saving opportunities. We will be delighted to assist you.**

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