BOND Chartered Accountants

KEY GUIDE

Year end tax planning

Personal tax

How can my partner and I make the most of our income tax reliefs?
Everyone should make sure they use their personal allowance (a maximum of £12,570 in 2024/25, and frozen at this level until 2027/28).

For couples, if either spouse or a civil partner will not be able to use their personal allowance for 2024/25, then claiming the marriage allowance will save the other spouse or 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 2025 is the inclusion of 2020/21. Also, try to minimise any higher- and additional- (top-) rate tax.

- Income over £125,140 is currently taxed at 45%, or 48% 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- The personal allowance is withdrawn where income (less certain deductions) is more than £100,000.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 £500 of dividends tax free in 2024/25 regardless of your tax status. Reorganising your shareholdings between you may make better use of this limit this year and in 2025/26. 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.

EXAMPLE

Toby, a higher-rate taxpayer, earns £2,000 in dividend income and £1,500 in savings interest. His wife, Kat, a basic-rate taxpayer, earns £400 in dividends and £500 in savings interest.

By transferring investments, Toby reduces his dividend income to £500 and his savings interest to £500, matching his allowances. Kat now receives an additional £1,500 in dividends and uses her £500 dividend allowance, paying just 8.75% tax on the remaining £1,400 – a significant saving compared to Toby's 33.75% rate.

Kat also takes on an additional £1,000 in savings interest, bringing her total to £1,500. The first £1,000 is tax free under her personal savings allowance, while the remaining £500 is taxed at 20% (compared to Toby's 40% 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.

What do I need to do if my family is liable for the high income child benefit charge?
Where either partner has income of £60,000 or more then child benefit is in effect withdrawn. The withdrawal is total

if income is over £80,000, and partial for income between £60,000 and £80,000. 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 2024/25, but you should plan ahead for 2025/26 to gain the maximum income tax saving.

PLANNING FOR DIRECTORS, EMPLOYEES AND THE SELF-EMPLOYED

My income varies considerably from year to year. How can I minimise my tax bills?

- If your income is less than £125,140 this year but you expect it to exceed that figure next year, you could bring forward income into 2024/25 to avoid the additional or top rate next year.

- Conversely, if your income will fall below £125,140 in 2025/26, you might be able to avoid the additional or top rate of income tax this year by delaying a bonus until after 6 April 2025.

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.

Other considerations

- If you have had to work from home this year, you can claim a tax-free amount of £312 for 2024/25 to cover the additional costs involved (provided your employer does not reimburse them). Relief is only available if you have to work from home, not if you merely choose to do so. For 2024/25, a claim must be made to HMRC by post, and evidence has to be submitted in support of the claim.

- 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 2025. There are complex rules around residency, so you should seek specific advice.

How can I manage dividends to minimise my tax liability?

Using the dividend tax-free allowance of £500 could save you up to £197 a year in tax. If you are the owner of a limited company, it would be wise to ensure you make use of this allowance for 2024/25. In addition, if you are a higher-rate taxpayer and may become an additional-rate taxpayer in 2025/26, you could bring forward a dividend to avoid the additional rate next year. This could also help if the income falls into the basic-rate band this year. But you should avoid bringing forward a dividend if it is more likely to fall into a higher band this year than next year.

Dividends are subject to the same tax rates and thresholds as the rest of the UK if received by a Scottish taxpayer.

Credit: AlisaRut\shutterstock.com

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.

I'm self-employed – what can I do to bring down my tax bill?

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

If you are self-employed, you might be able to affect the timing of your taxable profits to avoid paying tax at 45% (48% in Scotland), but this will depend on your accounting date.

From 2024/25, it is the business profits actually arising in the tax year that are taxed. If your accounting period is not 5 April or 31 March, your taxable profits for 2024/25 will be calculated by adding together your profits from 6 April 2024 up to your accounting date and your profits from the accounting date up to 5 April 2025. These figures are obtained by apportioning the profits of the two accounting periods. This makes it difficult to affect the timing of taxable profits, so it could be worth changing your accounting date to 31 March or 5 April. Apart from making it easier to determine the taxable profits of a tax year, it will also simplify the completion of tax returns.

As a business owner, could employing my partner help to minimise tax?

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 £533 a month in 2024/25. If, however, the salary is between £533 and £1,048 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 £758 a month.

This changes in 2025/26, when you will have to pay employer NICs at 15% on any salary payments over £417 a month. However, you may be able to offset the Employment Allowance of up to £10,500 a year against your total employer NICs bill.

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 2025/26. You both need to be genuinely involved as business partners, though not necessarily equally.

Planning point

With corporation tax charged at 25%/26.5% once company profits reach £50,000, there are now fewer tax advantages to running a business as a limited company than was previously the case. If you are considering incorporation, you need to carefully weigh up the tax, NIC and other advantages and disadvantages of taking this step.

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

CAPITAL GAINS TAX PLANNING

How can I manage asset disposals to help minimise my capital gains tax (CGT) bill?

Everyone has an annual CGT exempt amount, which in 2024/25 makes the first £3,000 of gains free of tax.

- Most gains above the exempt amount made on or after 30 October 2024 are taxed at 18%, where taxable gains and income are less than the non-Scottish basic-rate limit of £37,700 in 2024/25.

- The rate is 24% on gains that exceed this limit.

You should generally aim to use your annual exempt amount by making disposals before 6 April 2025. If you have already made gains of more than £3,000 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.

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 2025 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 18% rather than 24%.

EXAMPLE

Jamie and Sally are a married couple. Jamie is considering selling an investment shareholding that has made a gain of £10,000. Sally has £4,000 in capital losses.

If Jamie transfers 70% of the holding to Sally, Sally will have a gain of £7,000 on disposal. Sally can use her £4,000 capital losses to reduce the gain to £3,000. She can then use her £3,000 annual exempt amount to make the entire £7,000 gain tax-free.

Jamie keeps the remaining £3,000 of the gain. Since her £3,000 annual exempt amount covers this portion of the gain, no CGT will be due on Jamie's share either.

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 2025 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.

If you are selling all or part of a business, or shares in your trading company, you might qualify for business asset disposal relief (BADR), subject to several conditions. Gains that qualify for BADR are taxed at 10% in 2024/25. The rate goes up to 14% in 2025/26 and to 18% in 2026/27, so it's worth considering the timing of any planned sales. The same rates apply to investor's relief.

Planning point

Timing your disposals is particularly important if disposals in this tax year have resulted in a net loss. Depending on your income level making a 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 2022/23 is 5 April 2025.

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 from 6 April 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.

Credit: AlisaRut\shutterstock.com

The annual allowance was left untouched in the Budget on 30 October 2024, but a future reduction in tax relief for pension contributions remains a possibility. You might want to maximise your pension contributions for 2024/25 by making further contributions before 5 April 2025. The Budget also announced that unused pension funds and death benefits will form part of a person's estate for inheritance tax purposes from 6 April 2027 so you might want to start planning for this change.

What do I need to consider if making pension contributions for 2024/25?

There is an annual limit of £60,000 on pension contributions that qualify for tax relief, although it is tapered down to a minimum of £10,000 if your income exceeds £260,000. 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 individuals already drawing a flexible income from a pension, the annual allowance is also £10,000.

- 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-, advanced- and top-rate taxpayers receive relief at 21%, 42%, 45% or 48% respectively. 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 63% in Scotland, where the personal allowance is being withdrawn, and can be even higher if Universal Credit payments 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.

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

EXAMPLE

Amit earns £200,000 a year. His annual contributions and carry forward position over the last three years is as follows:

Tax Year	Annual Allownce £	Contributions Paid £	Amount Carried Forward £
2021/22	40,000	30,000	10,000
2022/23	40,000	32,000	8,000
2023/24	60,000	25,000	35,000
TOTAL			**53,000**

Before 5 April 2025, Amit can contribute £60,000 (the 2024/25 annual allowance) plus £53,000 brought forward, making a total contribution of £113,000, all within his £200,000 earnings.

Planning point

The combination of tax relief on contributions, tax-free growth within the fund and the ability to take a tax-free lump sum on retirement of up to £1,073,100 makes a pension plan an attractive savings vehicle, although the inclusion of unused pension savings as part of a person's estate for IHT purposes from 6 April 2027 will temper the benefit.

INDIVIDUAL SAVINGS ACCOUNTS

How can I make the most of my individual savings accounts for 2024/25?

Individual saving accounts (ISAs) have income tax and CGT advantages.

ISAs are free of UK tax on investment income and capital gains. Anybody aged 18 or over can invest in any number of cash ISAs, stocks and shares ISAs or innovative finance ISAs. If you are aged 18 to 39, you can also invest up to £4,000 in a lifetime ISA. However, the maximum investment limit of £20,000 (for 2024/25) applies across all four types of ISA.

Lifetime ISAs

The government adds a 25% bonus to investments of up to £4,000 a year in a lifetime ISA. You can use these savings to help buy a first home or keep the funds for retirement. A lifetime ISA will be a more attractive approach to retirement saving than a traditional pension for some, or you can, of course, opt for both forms of pension saving.

The decisions can be complex so taking advice is essential. You will incur a 25% withdrawal charge if you transfer the funds to a different type of ISA or withdraw the funds before age 60 and you may therefore get back less than you paid into a lifetime ISA.

Junior ISAs

Parents and others can contribute to a Junior ISA for children up to 18 who do not have a child trust fund. The contribution limit is £9,000 in 2024/25.

Planning point

Information about ISAs does not have to be reported on your tax return and ISAs are effectively inheritable by a surviving husband/wife or civil partner.

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

INHERITANCE TAX PLANNING

Are there any key issues around estate and inheritance tax planning I should consider before the 2024/25 year end?

It's always a good idea to review your will and ensure your stated wishes are up to date. There are also 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 2023/24, you can make IHT-free gifts of up to £6,000 before 6 April 2025. If you have already used your exemption for 2024/25, you could delay your next gift until after 5 April 2025 to take advantage of the 2025/26 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.

EXAMPLE

Joan made a gift of £2,000 to her granddaughter, Hannah, in July 2023. She can now make a gift of up to £4,000 using her current and unused carried forward exemption. However, if Joan gives Hannah £3,000 in 2024/25, there will be nothing to carry forward to 2025/26.

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

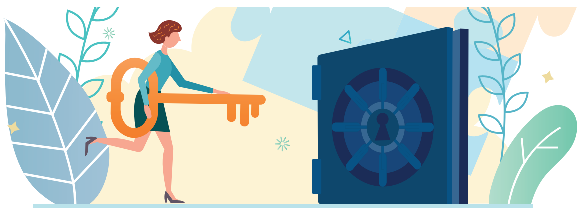
CHARITABLE GIVING

What are the tax implications if I contribute more to charities that are important to me?

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-, advanced- and top-rate taxpayers in Scotland can claim an extra 1%, 22%, 25% or 28% 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 at least 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.



Credit: AlisaRut\shutterstock.com

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 2025?
- Have you used this **year's ISA allowance** before 6 April 2025?
- 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?

BOND Chartered Accountants

Edinburgh Office
PO Box 23200
17 - 19 East London Street
Edinburgh EH7 4ZD
T: 0131 557 5500

Partners
Caroline Bond caroline@bondca.co.uk
Derek Bond derek@bondca.co.uk