# Tax Year End Planning Guide

## March 2022

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Chartered Accountants

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## Introduction

With the end of the tax year rapidly approaching, now is an ideal time to review your tax position and ensure that your finances are structured as efficiently as possible.

In this guide, we'll summarise the key areas to consider and offer tips to help you plan your next steps.

Following increased government spending during COVID-19, we have seen the first step to increase the tax take in response with increases in National Insurance Contribution ('NICs') and dividend tax rates from April 2022. As always, we recommend seeking advice to ensure that you are well placed for the future.

Please note: In this document, the term "spouse" also refers to a registered civil partner. 2021/22 rates and allowances have been used unless stated otherwise.

## Key changes from 6 April 2022

Recent tax changes have been primarily focused on relief measures for the COVID-19 pandemic, other than the following key changes that come into effect from 6 April 2022:

1. National Insurance rates for employers, employees and the self-employed will all rise by 1.25%, as a forerunner to the introduction of the Health and Social Care Levy from April 2023

2. Dividend tax rates are also set to rise by 1.25%. The dividend allowance of £2,000 remains unchanged

We look at the impact of these changes and other options that may be relevant for different groups below.

> **Tip**
>
> Given these changes, consideration should be given to accelerating income, salary/bonuses or dividend payments by 5 April 2022 to take advantage of the current lower rates.

## Planning areas for business owners

Shareholders of businesses operated as companies often have a fair amount of flexibility on how they extract funds for their personal use.

### Using the personal allowance

Making use of the Personal Allowance ('PA') is always prudent. It can be especially beneficial where an individual has no other taxable income and has perhaps routinely carried out work for the business on an informal basis in the past.

Salaries paid at a level realistically reflecting the duties carried out and made for the purposes of the business will also attract a corporation tax deduction. Care will be needed to set a salary at an optimal level with regard to National Insurance thresholds. National Minimum/Living Wage requirements and pensions auto-enrolment may also need consideration. Payment to a family member may be possible but should be formally recorded (so not through the Director's loan account), and be a fair reflection for the work undertaken.

The PA is reduced where total income is over £100,000 by £1 for every £2 of income above this limit. In other words, the PA will fall away completely if your income exceeds £125,140, making the income tax rate between £100,000 and £125,140 a staggering 60%.

### Using dividends

Dividend payment has traditionally been part of the profit extraction strategy for director-shareholders. Most family companies will pay directors a minimal salary, preserving state pension entitlement but below the threshold at which National Insurance Contributions (NICs) are due. The balance is then extracted as dividends. The saving in NICs here can be considerable.

Taken in conjunction with the Dividend Allowance (£2,000 for 2021/22) this can be very favourable. However remember that dividends are paid out of the company's post tax profit liable to corporation tax at a rate of 19%.

Dividends, of course, have their own tax treatment. In 2021/22, the tax rate on dividends is 7.5% for basic rate taxpayers; 32.5% for higher rate taxpayers; and 38.1% for additional rate taxpayers. From 6 April 2022, these rates increase to 8.75%, 33.75% and 39.35%.

Tip

Where possible, there will often be a clear benefit to accelerating salary or dividends to before 6 April 2022, when NIC (employee and employer) and dividend tax rates will all increase by 1.25%.

For example, you could pay a higher dividend before 5 April 2022 to benefit from the lower rates and only suffer the PA tapering in one year, then bring your income back down below £100,000 for future years.

### Company pension contributions

Where they form part of a justifiable total remuneration package, a company can obtain tax relief on employer contributions for the business owner or family members working in the business. Whether it is preferable to make such employer contributions or extract dividends to fund personal pensions will depend on an individual's complete circumstances.

Tip

It is always sensible to review your future plans for the company and consider the likely tax implications of a future sale or transfer to the next generation.

Don't forget to consider whether your shares could qualify for valuable reliefs (such as Entrepreneur's Relief - now called Business Asset Disposal Relief - or Business Relief from IHT) or whether other planning may be beneficial. We have the expertise to guide you through the options.

### Directors' loans

In many family companies, director shareholders have 'loan' advances from the company. Essentially a director's loan is any money received from the company that is not salary, dividend, repayment of expenses, or money you have previously paid into/lent to the company.

This can simply be personal expenses paid by the company, but such monies are accounted for via a 'director's loan account' with the company.

At the year end, the tax position for both company and director depends on whether the loan account is overdrawn (they owe the company money) or whether the account is in credit.

**Tax charge on the company**

A temporary tax charge on the company will arise where the overdrawn balance at the end of the accounting period is still outstanding nine months later. The charge is equal to 32.5% (rising to 33.75% for new loans from April 2022), the logic being this would be the typical rate payable by the individual had the director's loan been cleared by dividend.

After the loan is repaid to the company, the company can reclaim the temporary tax charge from HMRC. The timing here is essential as potentially the company could have to wait up to 21 months to get this repaid after the loan is refunded.

Anti-avoidance provisions exist to prevent loans being manipulated by, for example, being repaid just before the company year end (or just before the 9 month date), only for a new loan to be advanced shortly afterwards. This would not apply where there is a genuine repayment through the award of a valid bonus or dividend.

HMRC is taking an increasingly firm line in this area so if you are concerned about whether the tax charge could apply to your company, we can advise you.

### Beneficial loans

Whilst the company has nine months from the end of its accounting period to clear overdrawn loan accounts to avoid the above charge, the window to avoid a beneficial loan charge is not so favourable.

Under the benefits-in-kind regime, a tax charge is applied on the director if a “cheap or interest-free loan” is provided to them. The charge arises at HMRC's 'official rate of interest' (currently 2%) and is reported on a form P11D where the loan is more than £10,000 and is outstanding for more than a month.

A company can avoid such a charge if interest is charged by the company on the overdrawn loan balance at a rate equal or higher than the official rate of interest. The interest must, however, be actually paid by the director.

### Interest on shareholder loans to the company

Conversely, where a director or shareholder has a “credit” loan balance – i.e. has injected cash into the company, it might be tax efficient to charge a suitable rate of interest on these funds and ensure that this interest is paid each year.

Normally this would be a deductible expense for the company and so can be more tax efficient than declaring a dividend or bonus. Further tax efficiency may be available where the savings allowance or starting rate bands are unused. However, the company would need to withhold basic rate income tax at source which would be paid over to HMRC via the CT61 procedure.

## Sole traders and partnerships

With the increase in NIC rates from April 2022, unincorporated business may usefully be able to accelerate the recognition of profits by changing their year-end to 5 April or 31 March 2022 (for instance where profits have grown so that the ‘overlap relief’ carried forward from the early years of trading is relatively small).

This would, however, remove the possibility of taking advantage of transitional rules planned to coincide with the introduction of Making Tax Digital for income tax from April 2024. Under these rules taxable profits for 2023/24 will include all profits realised up to 5 April 2024, with the tax on any increased profits recognised compared to the normal year-end being spread over five years. For instance, for a sole trader with a 30 April year end, this ‘transitional profit’ will represent the profits realised from 1 May 2023 to 5 April 2024, less any overlap relief available.

## Planning areas for property owners

Residential property landlords are continuing to feel the impact of the legislation introduced in 2017. The interest relief restrictions for individual landlords of residential property are now completely phased in. This means that the deductibility of finance costs such as mortgage interest, interest on loans to buy furnishings, or fees incurred taking out or repaying loans/ mortgages is now limited to tax relief at the basic rate of income tax, even if you are a higher rate or an additional rate taxpayer.

Tip

If the restrictions have affected you, you could consider transferring your property to a lower income spouse and taking advantage of their basic rate band or transferring ownership into a Limited Company.

There are, however, a number of factors to take into account if you want to do this, such as whether the property is mortgaged, and potential Stamp Duty Land Tax (SDLT) and Capital Gains Tax (CGT) implications. We can help you with this.

Care needs to be taken since these restrictions have had significant impact on the way landlords are taxed including pushing landlords into the higher rates of tax.

### Tax on sale of residential property

When a residential property is disposed, a Capital Gains Tax (CGT) return is required to be filed with HMRC and the CGT liability is to be paid over to HMRC. It was previously a requirement to file the return and pay the tax within 30 days of completion until this was extended to 60 days from completion for all disposals taking place after 27 October 2021.

A 60-day CGT return is not required if the disposal has not resulted in a capital gains tax liability, for example if:

- The disposal has resulted in a capital loss
- The gain (including other residential property gains occurring in the same tax year) is within the annual capital gains tax exemption (£12,300 for 2022/23)
- Reliefs are applicable to the disposal which reduces the taxable gain to nil
- Capital losses are available to be used against the gain to reduce it to nil, either from previous tax years or from disposals in the current tax year, before the completion date

There are slightly different rules for non-residents. Any non-resident disposing of a direct or indirect interest in UK residential property would similarly be required to complete the 60-day CGT return, even if no tax is payable.

For both UK and non-UK residents, the disposals will still be declarable on an annual self-assessment tax return, but credit will be given for the CGT already paid.

If you have recently disposed of residential property or are planning to do so in the near future, please contact us as immediately so the relatively short reporting window can be adhered to.

### Tax when you sell your home

When you sell your home, Principal Private Residence Relief (PPRR) means that any gain is usually exempt from CGT. However, this is a complicated area and problems can arise.

It is not uncommon for someone to own more than one property, perhaps because they regularly have to work away from 'home', or perhaps because they have a house in town and another in the country. PPRR only applies to one residence. So, if you have more than one property being used as a residence, an election can be made where you nominate one of your properties as the main residence. But note that strict time limits apply to when such an election can be made.

Periods of absence can cause problems. You may still qualify for PPRR even if you spend periods of time away from your main residence, but this depends on how long you are away and your reason for this absence. Additionally, there are special provisions for people who work elsewhere in the UK or abroad. We can offer guidance in this area.

If there has been a time in which the property has been your only or main residence, special rules will apply to the final period of ownership. The final nine months of ownership will automatically qualify for CGT exemption, even if the taxpayer was living elsewhere. If the property owner is disabled or in long term care, this period is extended so that the final 36 months qualify.

## Tax and the family

Individuals and families should review their finances in the run up to the tax year end.

### Tax efficiency

As each spouse is taxed separately, tax planning can involve making best use of the Personal Allowance (PA); the starting and basic rate tax band; Savings Allowance (SA) and Dividend Allowance. The aim is to distribute income within the family to take maximum advantage of these rules. There is also the possibility of making outright and unconditional gifts of assets to distribute income more evenly. Sometimes a small alteration in timing can be very critical and make it possible for you to balance fluctuations of income between one year and the next.

### Tax rates and bands—a reminder

In the tax year 2021/22:

- The Personal Allowance (PA) is £12,570.
- The basic rate band is £37,700 for 2021/22.
- With the PA, the threshold at which taxpayers start paying higher rate tax is therefore at £50,270 for 2021/22.
- Additional rate tax is payable on taxable income above £150,000.
- Different rates apply to taxpayers who are resident in Scotland or Wales

**Tip**

Transferring just £1,000 of savings income from a higher rate (40%) tax-paying spouse, who has used their PA in full, to a basic rate spouse with no other savings income, may save up to £400 a year.

### Pension contributions

Pension contributions made by 5 April 2022 can help reinstate your PA or bring you back within lower tax thresholds.

It is important, however, to have regard to the annual allowance and lifetime allowances, which are discussed further below.

In particular, you can utilise any unused annual allowance carried forward from the previous three years. You may therefore want to consider utilising any allowance carried forward from 2018/19 as it will be lost after 5 April 2022.

### Children's savings

A Junior ISA or Child Trust Fund (CTF) account offers tax free savings opportunities for children. UK resident children under the age of 18 who do not have a CTF can take advantage of the Junior ISA. In 2021/22, both CTF and Junior ISAs allow parents, other family members or friends to invest a total of £9,000 yearly in a tax-free fund. There are no government contributions and no access to the funds until the child reaches 18.

### High Income Child Benefit Charge

If you or your partner receive Child Benefit, it is important to remember that taxpayers with adjusted net income in excess of £50,000 during the tax year are liable to High Income Benefit Charge. If both partners have income above this level, the charge applies to the partner with the higher income.

The charge is 1% of the full Child Benefit award for every £100 of income between £50,000 and £60,000. Where income is more than £60,000, effectively all Child Benefit is lost. Of course, if you or your partner prefer not to pay the charge, you can elect not to receive Child Benefit at all.

If you become liable to the High Income Benefit Charge, it is up to you to notify HMRC - it is not something that HMRC will automatically set up. Since the partner liable to the charge is not necessarily the partner in receipt of the Child Benefit, potential problems can arise. For example, it is not uncommon for partners to be unaware of the exact level of each other's income and may be unaware of their duty to notify HMRC. There can also be problems if a marriage is breaking up, with ex-partners reluctant to share financial details.

Appropriate strategies to keep each parent's income below £50,000 can be considered here. If two parents have a combined income of £90,000 shared equally, the household can receive full Child Benefit. However, if one parent receives £60,000 of income and the other none, all Child Benefit is lost.

### Children—using allowances and rate bands

For tax purposes, children are treated independently. They have their own Personal Allowance and their own savings and basic rate tax band. They also have their own Capital Gains Tax (CGT) annual exemption. In some cases, there can be a tax saving by transferring income producing assets to a child. But note that when income is shifted from a parent to a minor child, any income in excess of £100 will still be taxed on the parent. So, it is not always possible to use a child's PA by means of a parent transferring income producing assets.

> Tip
>
> There may be potential to divert income from grandparents or other relations, to take advantage of a child's PA. We can guide you through this.

### Income from jointly-owned assets

Any income arising from assets jointly owned by spouses is usually assumed to be shared equally for tax purposes. This is the case even if an asset is owned in unequal shares – unless an election is made to split the income in proportion to ownership. Dividend income from jointly-owned shares in 'close' companies (broadly speaking, companies owned by the directors or five or fewer people) is an exception. This is split according to actual ownership of the shares. This means that if, say, one spouse is entitled to 95% of the income from jointly owned shares, they pay tax on 95% of the dividends from the shares.

### Working together

If you work for yourself, you might consider employing your spouse or taking them into partnership with you. This can redistribute income tax efficiently, and can be just as relevant for a property investment business producing rental income, as for a trade or profession. You must, however, take care in this area. HMRC is likely to scrutinise payments made to family members to check that they are commercially justifiable. It is also important that wages are actually paid, not just bookkeeping entries.

### Marriage breakdown

Significant tax consequences can arise where there is a separation or divorce. The availability of tax allowances and transfers of assets between spouses are key areas for consideration.

Transferring assets between spouses can have CGT consequences unless the timing of transfers is carefully planned, which is not always possible. Where an asset is transferred between spouses who are living together, it is deemed to be transferred at a price giving rise to neither a gain nor a loss. This applies up to the end of the tax year in which marital separation occurs. Where a transfer takes place after the end of the tax year of separation, transactions are treated as taking place at market value. This potentially creates capital gains which may not qualify for deferral relief.

> Tip
>
> If practical, couples separating during the tax year should consider transferring assets before 5 April 2022.

## Giving 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 the donation. A cash gift of £80 thus generates a refund of £20 for the charity, which receives £100. The donor claims back tax of £20, making the net cost of the gift only £60 (or £55 for an additional rate taxpayer).

Donors may need to check that they have paid enough tax (including CGT) to cover the Gift Aid claim, as otherwise the difference will need to be paid back to HMRC on their tax return.

> **Tip**
>
> Making a charitable donation under Gift Aid reduces income when it comes to possible restriction of the personal allowance. It is thus most beneficial for such gifts to be made by the higher rate spouse.
>
> Tax relief against 2021/22 income is possible for charitable donations made between 6 April 2022 and 31 January 2023, providing payment is made before filing the 2021/22 tax return.

## Inheritance Tax

Inheritance Tax (IHT) is a tax on assets that you leave behind when you die and on some gifts that you make during your lifetime. Everyone has an IHT free Nil Rate Band (NRB) allowance of £325,000 and a Residence Nil Rate Band (RNRB) of up to £175,000.

However, legacies above this are subject to IHT at 40%. Transfers between UK domiciled spouses are exempt and the survivor will also inherit any unused NRB and RNRB.

The RNRB only applies if the main residence is left to a direct descendant (i.e. children, grandchildren, adopted children, foster children etc.) and may be tapered away if the total estate is valued over £2 million at the time of death. It is tapered at a rate of £1 for every £2 your estate is valued over £2 million.

There are also some other very important mitigating factors. Pension assets will nearly always avoid IHT. Qualifying business assets and AIM stocks are exempt from IHT. In addition, if at least 10% of the estate is left to a registered charity, the charitable bequest will be IHT-free, and the remainder of the estate will attract a discounted IHT rate of 36% (instead of 40%).

### Annual gift allowance

Everyone can gift £3,000 per year and this gift will be outside the estate for IHT purposes immediately. If you have not used your 2020/21 annual gift allowance, you can carry that forward one year and make gifts totalling £6,000 in the 2021/22 tax year. It is also possible to gift up to £250 to anyone without being liable to IHT.

### Gifts out of surplus income

A valuable exemption from IHT applies to gifts out of surplus income. The exemption applies to both outright gifts and gifts into trust where a 'normal' pattern has been established. We can assist in reviewing whether a suitable pattern has been established as well as quantifying the relief available.

> **Tip**
>
> Rather than make an outright gift to your family now, you can gift capital to a Trust for their future benefit without an immediate charge to IHT if the gift is within the available NRB.
>
> A Trust is a legal arrangement to protect assets that can also be used as a means of potentially reducing your IHT liability. We are happy to discuss different types of Trusts, their tax treatment and their features.

## Pensions, savings and investments

### Pensions

Pensions provide significant planning opportunities. The Annual Allowance (AA) is the maximum you can contribute to a pension and still obtain tax relief and is normally £40,000. This AA however, starts getting reduced if 'adjusted income' is above £240,000. For every £2 Adjusted Income that exceeds £240,000, £1 of pension annual allowance is lost, down to a minimum tapered annual allowance of £4,000 where adjusted income is £312,000 or more.

Exceeding the AA can result in a clawback charge. However, in many circumstances you may have unused AA from the three previous years which can be used in 2021/22 and give you the ability to make a significant contribution without incurring a charge. Please contact us for advice specific to your circumstances.

> Tip
>
> It is now possible to pass pension benefits down generations whilst retaining tax benefits. To be able to do this, your pension needs to be in the right contract. Ask us more about this.

### Money Purchase Annual Allowance (MPAA)

If you trigger the MPAA, you will be restricted to the £4,000 annual allowance and will not be able to carry forward any unused allowances from previous years. There are various triggers for the MPAA but a couple of the more common ones are taking your entire pension pot as a lump sum or taking income from flexi access drawdown.

> Tip
>
> Care should be taken when drawing pension benefits if there is a possibility that you may want to fund a pension later.

### Savings and investments

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

Useful tax relief can be produced by investing in smaller companies that have the potential to grow much faster than their listed counterparts through the Seed Enterprise Investment Scheme (SEIS), Enterprise Investment Scheme (EIS), Venture Capital Trusts (VCTs), or via Social Investment Tax Relief.

EIS and SEIS provide income tax relief (at 30% or 50% respectively) on new equity investment in qualifying unquoted trading companies. This can also provide a valuable deferral or exemption of CGT due on other disposals. EIS contributions can be carried back one year to reduce the previous year's tax liabilities but care should be taken with the timing of a contribution if this is the intention as not all EIS products will invest the contribution in time.

Venture Capital Trusts invest in shares of unquoted trading companies. If you invest in a VCT you are exempt from tax on dividends and on any capital gains arising from disposal of the shares. Income tax relief at 30% can be available on subscriptions for VCT shares, subject to certain conditions.

> Tip
>
> If you are interested in making tax-efficient investments such as EIS or SEIS, you will need to ensure the investments are made before 5 April 2022 to carry back the relief to 2020/21. There is no carry back facility with VCT investments.

Individual Savings Accounts ('ISAs') remain a popular investment. Savings held within an ISA are free of income tax and capital gains tax. Investment must of course be made before 5 April 2022 to take advantage of the limits set for 2021/22. The maximum you can save is £20,000 in 2021/22 or £9,000 for a Junior ISA.

## Planning areas for Non-UK domiciled taxpayers

The end of the tax year can trigger a number of key decision points for taxpayers who are not domiciled in the UK under general principles, due to personal and family ties to another country ('non-doms').

> Tip
>
> As ISA investment limits cannot be carried into future tax years, check that family members make maximum use of the limits available for this year

This includes:

- Non-doms who first became UK-resident in the 2007/08 tax year (and have been here ever since) will become deemed domiciled for all tax purposes from 6 April 2022. Many planning opportunities to mitigate income tax, CGT or IHT will be lost after this date, so a full review of income and assets would be recommended as soon as possible. Non-doms who will become deemed domiciled in April 2023 should also start reviewing their position in the coming months to maximise the scope for any planning.
- Those who have been claiming the remittance basis of taxation since arriving in either the 2015/16 or 2010/11 tax years will need to consider whether to pay a remittance basis charge ('RBC') of £30,000 or £60,000 going forward, or whether restructuring can minimise the impact of opting for the arising basis to avoid paying the RBC.
- Non-doms who first claimed the remittance basis in 2017/18 should consider whether to make a capital loss election before 5 April 2022 if they have not already done so.

Trustees of offshore trusts with UK resident beneficiaries may wish to review the 'relevant income' or 'stockpiled gains' status of the Trust and any underlying holding structures in case action can be taken before 5 April to maximise tax efficiency.

Where the settlor or a beneficiary will become deemed domiciled on 6 April 2022, offshore trustees should consider potential planning such as:

- Making capital payments to beneficiaries while they can still access the remittance basis of taxation.
- Accelerating the realisation of trust capital gains and/or trust non-reporting fund gains before 6 April 2022.
- Restructuring any loans to ensure they are on an 'arm's length basis', in order to avoid the trust becoming 'tainted', whereby all future trust income and gains (including in underlying companies) could be assessed on the settlor on the arising basis.

> Tip
>
> Offshore trusts created by non-doms can be valuable structures to maintain family wealth for future generations, but the tax implications of distributions can require careful management.
>
> It can be beneficial to monitor this regularly even if no distributions are expected for some time. Our specialist team are happy to help.

## Get in touch

If you require further assistance with any of the topics mentioned in this guide, or want to discuss your options in more detail, we're here to help.

### Current clients

Please speak to your usual Lubbock Fine or Lubbock Fine Wealth Management contact, who will be happy to assist you further

### New enquiries

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