PKF FRANCIS CLARK
Shared Ambition

Personal Tax Year-end Planning

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As we approach the end of the 2022 tax year, we have put together our annual summary of tax saving tips, and areas of note to help you best manage your tax exposure.

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The 2022 Budget

At the time of writing, we know that the Spring Forecast will be presented on 23 March, and whilst the Treasury is referring to this as a Spring Forecast rather than a 'Budget', at this point we are not totally sure about what to expect. The spring is usually the Chancellor's preferred time to set the scene in terms of the fiscal and economic forecast, and to perhaps give a taste of what might be in store for a full Budget later in the year, although with current economic uncertainties, it's not inconceivable that we could end up with a mini Budget this month, perhaps even with more announcements than we have had in full Budgets of the past.

Clearly we are in a time of considerable economic uncertainty, with households already coming under pressure from the increased cost of living. This will be further compounded from April when the 1.25% National Insurance and dividend tax rise first kicks in, and the energy price cap is raised. Whilst interest rate rises will help savers, this is yet another squeeze on the finances of borrowers most likely already affected by the above changes. Add into this already volatile mix, the fallout from the appalling situation in the Ukraine, and the background of massive debt accrued during the covid pandemic, and it is very clear that something is going to have to give.

Exactly what will give is unknown, but it is hard to see how, with the 1.25% National Insurance/dividend tax rise and all of the other pressures, incomes can be squeezed any further. What may be more palatable are rises to capital taxes, and possibly the restriction of some tax reliefs.

For a number of years now we have been concerned about the long-term availability of higher rate tax relief for personal pension contributions, could 2022 finally be the year that this relief is, if not scrapped, curtailed to some degree? It does seem an extraordinarily generous relief yet having spent so much money on encouraging individuals to invest in pensions, to remove this relief seems counterproductive. However, perhaps restricting it to a maximum of 30% as has been touted in the past is the answer to this problem?

Capital gains tax (CGT) is another area which could be regarded as an 'easy win'. The perception being that only the wealthy make capital gains and are therefore an easier target when revenue raising measures are required. After all, politically it is so much more palatable to increase the rate of tax on the sale of a second home, than to increase the rate of income tax paid by all earners which inevitably includes those struggling to feed their families and heat their homes.
We have already seen second home ownership attacked in the form of the additional 3% rate of stamp duty land tax (SDLT) for those with more than one residential property, the additional 8% CGT on residential property gains, and the removal of lettings relief in most circumstances. Could these taxes on investments in residential property be pushed further, perhaps to align the tax rates with income tax rates? This has been mooted previously, and it is perhaps a last resort, but desperate times do call for desperate measures, and it is hard to see how the Treasury's coffers are currently anything but bare.

The other area discussed previously is changes to the inheritance tax (IHT) regime. Inheritance tax on its own isn't a huge source of funds for HMRC, accounting only around £5.3bn of the £584.5bn tax receipts for the 2021 tax year. To put this into context, income tax was the biggest component of this receipt at £193.7bn, national insurance was next at £143.5bn, then VAT £101.6bn, corporation tax £51bn, fuel duty £21 billion, and capital gains tax was the sixth largest entry from a list of 31 taxes at £11bn. That said however, the current interaction between IHT and CGT meaning assets are rebased for CGT purposes on death could be perceived as an overly generous relief.

Amongst the various consultations held every year, there have been two main consultations in recent years looking at IHT reforms, and in particular, it has been suggested that it seems overly generous that assets covered by IHT reliefs such as business property relief and agricultural property relief are also rebased for CGT purposes. It is easy to see that removing this rebasing could certainly increase tax receipts for a cash strapped government, and because the assets could still be inherited free of IHT at best, or substantially exempted from IHT at worst, and the CGT liability would only be triggered if the asset was sold, this may be perceived as a relatively easy win.

Of course, we don't have a crystal ball, and further insights may well be gained on 23 March, however in the meantime, our message must be to make use of your tax allowances whilst you have them, as there may come a point in the not too distant future when they are reduced or removed.

Trust registration requirements

For anyone who is a Trustee of a Trust that has been created by Deed, such as a Trust Deed or a Will, there is a requirement that that Trust must be registered with HMRC's Trust Registration Service by 1 September 2022. Most Trusts that have tax liabilities should have already been registered, but these rules have now been extended so that nearly all Trusts, with very few exceptions, will need to be added to the Trust Register, even where no tax liability exists. This also includes Trusts which were in existence on 6 October 2020 but were wound up prior to 1 September 2021. Where Trusts are not registered but should have been, a penalty can be charged.

It is the responsibility of the Trustees to ensure that the Trust is registered where it needs to be. However, we can certainly assist the Trustees to meet this obligation. Should you have any concerns about a Trust you are involved with needing to register, please contact us and we will be able to advise you on what actions need to be taken.

Income tax

If you are married or in a civil partnership, have you arranged your income tax affairs as efficiently as you can between yourself and your spouse/civil partner? Whilst you can't move things like salary to obtain a tax advantage, you can move income producing assets, and the easiest of these are investments paying interest or dividends.

Almost all transfers between spouses/civil partners are tax free, so it may be that with some careful planning, it's possible to move the income those assets produce from a higher or additional rate tax payer to a basic rate taxpayer, or to someone who pays no tax at all.

Working from home

By now most of us are quite used to working from home and unfortunately, we are all having to get used to higher bills too, but if working from home means that you are using more electricity and gas as a result of it, you should be able to claim some tax relief for this.

The default position is that your employer can pay you up to £6 per week to cover your increased homeworking costs, and this amount can be claimed provided you have been required to work at home at some point during the year. There is no requirement to have worked at home for the whole year, just a small amount of homeworking should mean that you qualify. Not all employers will pay this amount, and if yours doesn't you can instead claim tax relief on this amount, either on your tax return if you complete one, or by making a claim online with HMRC.

However, if this does not cover your increased usage then, providing you are able to substantiate the increased costs, you may be able to claim more. With ever increasing energy costs, the amount paid to heat and light your home may well be more than before you worked at home, but in times of fluctuating prices, it's important to look at things like unit usage rather than cost to give a true comparison, as only additional usage due to working from home will be considered for additional relief.

It is also possible to claim for other costs such as additional business telephone calls, however costs that would have been incurred anyway such as council tax, mortgage interest/rent, and standing charges for water, gas, electric and broadband etc cannot be claimed, neither can calls which fall within an 'included minutes' tariff on the basis that no additional costs are being incurred because of home working.

High income child benefit charge

This charge was introduced in 2013, and the thresholds for 2021/22 and 2022/23 remain as they were when first introduced. As a reminder, where the higher earning parent or their partner has income exceeding £50,000, £1 of benefit is clawed back for every £100 of 'adjusted net income' earned over £50,000. When the adjusted net income figure reaches £60,000, all the child benefit will be clawed back.

Where the benefit will be entirely reclaimed, it may seem easier to simply not claim the benefit in the first place, however this can have unintended consequences. Firstly, non-working parents won't receive national insurance credits for the period their child is under 12 and they are not paying class 1 or class 2 NIC. This could result in a gap in their national insurance record, resulting in a reduced state pension in future years if they fail to have sufficient qualifying years for the full state pension purposes which currently requires 35 full years of contributions or credits.

Not claiming child benefit at any point for a child will mean that the child will not automatically receive a national insurance number shortly before their 16th birthday. Instead, they will need to apply for an NI number with the DWP. Rather than not submitting a claim for the benefit, a better option might be to make a claim, but to opt to receive nil benefit as this should prevent these issues from occurring.

Key thresholds, bands and allowances

The main tax thresholds have been frozen for 2022/23, with the personal allowance remaining at £12,570, the higher rate tax threshold at £50,270, the income limit for the personal allowance at £100,000, the additional rate income tax threshold at £150,000, and the CGT annual exemption remaining at £12,300.

The fiscal drag caused by freezing these thresholds means that millions of taxpayers will find themselves worse off in 2022/23, particularly with the increase of 1.25% in the national insurance and dividend tax rates to fund the social care crisis. It is therefore now more important than ever to make sure you are using all reliefs available to you to try and reduce the effect that a combination of the 1.25% tax rise, fiscal drag, and inflation will have on you.

As ever, we would encourage you to check your PAYE code to make sure it is correct. Whilst in many cases HMRC should have all the information they need to make sure your coding is correct, often it isn't, and we see many instances of attempts to recover tax paid under self-assessment, and therefore often reflected in payments on account, through PAYE. If you think your PAYE code is wrong, do talk to us as these can easily be changed.

If you are lucky enough to be able to control your own income, usually because you run your own company, then the timing of your income is key. If, for example, your remuneration package amounts to £125,000 a year, that equates to £250,000 over two years, but it is rather more efficient to take this remuneration as £150,000 in one year, followed by £100,000 the next as opposed to £125,000 each year. This way, in the year of earning £150,000 you are making maximum use of the fact you have lost your personal allowance without tipping into additional rate tax, and in the year of earning £100,000, your personal allowance is preserved.

Of course, any dividends paid prior to 6 April 2022 will escape the 1.25% tax increase, therefore if you are planning to take large dividends in the future, it may be worth accelerating them to take them this tax year before this increase is effective. Should you decide to do this however, it will accelerate any income tax due, which will be payable by 31 January 2023. This may also increase your 2023/24 payments on account, however we can always make a claim to reduce these if appropriate.

The dividend allowance remains at £2,000, and the savings allowance remains at £1,000 for non and basic rate taxpayers, and £500 for higher rate taxpayers (there is no savings allowance for additional rate taxpayers).

The transferrable marriage allowance is also unchanged, and this allows £1,250 of unused personal allowance to be transferred to a spouse or civil partner, providing that neither party is a higher or additional rate taxpayer.

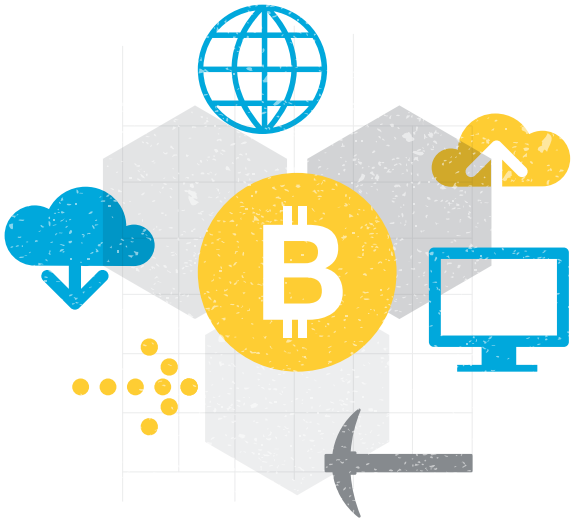
Cryptocurrency transactions

Investments in cryptocurrency and assets are rapidly gaining popularity. However, this is an area where the tax legislation if often misunderstood. There is a widely held misconception that cryptocurrency gains are not taxable as they are a currency gain, unfortunately this is not the case.

How cryptocurrency gains are charged to tax depends largely how they arise. Whilst they are widely referred to as 'gains' (and of course losses), they are not always charged to CGT, in some situations they are actually chargeable to income tax. Which tax applies depends on the nature of the transactions and whether the investor is deemed to be trading or not.

Whether or not an investor is trading is not always clear, however where the investor spends much of their time managing the portfolio and making trades, this is a good indication that the activities could be a trade, and any gains are therefore likely chargeable to income tax. Whilst this is not desirable for gains, where losses arise, they can be relieved against other income up to a maximum of £50,000, or 25% of the investor's income, whichever is higher.

Where the activity is not in the nature of a trade, this brings added complications as the same rules which apply to matching gains on shares apply to these trades. Whether you are trading or investing, it is important to take advice from professionals who understand the practicalities of how crypto assets are taxed and have access to the necessary tools to allow the correct calculation of crypto gains and losses. We have a specialised team who understand how crypto assets are taxed, and more importantly, how they work, as many of our team are experienced crypto asset investors themselves.



Tax mitigation

For anyone unable to change when their income arises (such as employees, and the self-employed), and who is about to breach one of the tax threshold 'cliff edges' such as the child benefit threshold at £50,000, higher rate tax threshold at £50,270, income limit for personal allowance at £100,000, or additional rate threshold at £150,000 there are still actions you can take to reduce the impact this might have. Probably the most common way to address this issue is with pension contributions.

Personal pension contributions effectively extend your basic rate tax band by the amount of the contribution grossed up for basic rate tax at 20%. An £80 pension contribution therefore increases your basic rate tax band by £100, the effect being that £100 of income is moved from your top rate tax band into the basic rate band. If you make contributions directly from your salary, consider making them by salary sacrifice as the tax relief will be given every month at source, and this will have national insurance benefits for both you and your employer. Some employers even pass on part or all of their NI saving to further increase the amount that goes into your pension.

Another alternative is gift aid which is a tax relief on charitable donations. The tax relief on gift aid works in the same way to pension relief, however if you are making charitable donations under gift aid, do make sure you have paid sufficient tax to allow the charity to reclaim the 20% tax, otherwise you may find that you receive an unexpected tax bill.

For those with high incomes, and possibly also CGT and/or IHT issues to consider, enterprise investment scheme (EIS) investments may well be worth a look. These are a very specialised type of investment which will require advice from a suitably qualified Independent Financial Adviser, however they do come with significant tax benefits in that they give 30% income tax relief in the year of investment or the previous year. They can defer capital gains, and after two years, they qualify for 100% relief from IHT. Whilst from an investment perspective they would be classed as high risk, much of the risk is underwritten by tax relief.

For example, if a higher rate taxpayer invested £10,000 in an EIS, and the investment failed, the investor would have received income tax relief of £3,000, and the net capital loss (i.e. the £10,000 invested, less the £3,000 tax relief already received) could be relieved against income, so for a higher rate taxpayer, this could generate a further £2,800 tax repayment. £5,800 of the investment i.e. 58% is therefore underwritten by income tax relief for a 40% taxpayer.

This increases to 61.5% for an additional rate taxpayer who pays income tax at 45%

As you can see, for additional and higher and rate taxpayers, only 38.5% - 42% of the capital is truly at risk providing the investor has sufficient income to maximise the income tax reliefs available, and this is before the CGT and IHT benefits have been considered.

A further extension of the EIS scheme is Seed EIS - or SEIS - investments (not to be confused with the self-employed income support scheme which unhelpfully has nearly the same initials - SEISS). These work in a very similar way to EIS, however the investments would generally be deemed to be a higher risk class than EIS, as the companies are typically very early stage. With enhanced risk however, comes enhanced reward. SEIS investments give 50% income tax relief in the year of investment or the previous year, and investments in SEIS can exempt gains of up to £100,000 from CGT, whereas EIS defers gains to a later date rather than removing them from the charge to tax - providing the holding period and other, not terribly onerous, conditions for the relief are met.

Both EIS and SEIS have conditions relating to the amount of time the investment is held for, and the types of investments available, but in the right circumstances they can be very useful.

Should you be interested in tax mitigation using pensions, or EIS investments, our Independent Financial Adviser colleagues at PKF Francis Clark Financial Planning will be very happy to advise you on the best solution for your situation in conjunction with our tax teams to give you a joined-up solution to your tax problems.

Property income

In recent years it has become increasingly apparent that property investment has become more expensive in terms of the associated tax charges. It is more expensive to acquire a second or subsequent residential property due to the additional 3% SDLT charge, if you rent that property and have a mortgage on it, you will only receive tax relief at a maximum of 20% as a tax reducer, and when you sell it at a gain, there is an additional 8% CGT charge. For these reasons, it is important to maximise the available reliefs as far as possible.

Whilst it has certainly become less attractive to let a residential property on an assured shorthold tenancy (AST), there are still definite benefits of letting a property as a furnished holiday let (FHL). A furnished holiday let is largely what it says on the tin, a furnished property let out for short term holiday lets. Broadly speaking, to qualify as such, the property needs to be available for letting for 210 days of the tax year, and actually let for 105 days. This relief is aimed at short term lettings therefore it may not apply if longer term lets (of 31 days or more) total more than 155 days in the year.

The benefits of letting a property as an FHL rather than on an AST are many, largely because it counts as a trade for income tax and CGT purposes. This equates to no restriction on interest payments (meaning full relief is given for mortgage interest payments as a deduction from profits). and where the property is owned jointly, the ability to change the split of profits on an annual basis to achieve the most beneficial tax position for the owners.

Further benefits come in the form of CGT reliefs. When the property is sold, providing it qualified as an FHL at the point of sale, and for the two previous years, business asset disposal relief (previously known as entrepreneur's relief) can apply, meaning any gain after available annual exemptions is taxed at a rate of 10% rather than 18% or 28% for other residential property gains depending on whether they fall into the basic rate tax band or not.

Furthermore, if the property is sold with the intention of investing the proceeds in a new FHL or other business asset, the gain can be rolled over into the new asset and deferred until that asset is sold.

If you have a residential property which would trigger a large CGT liability on sale, running it as a qualifying FHL for the two years prior to and up to the point of sale would mean that the entire gain could be taxed at a rate of just 10%.

Should changing the property into an FHL not be an option, then moving the income and potentially any future capital gains to other family members may be worth considering, particularly if they are basic rate taxpayers. For example, if you have a rental property and children at university, it is possible to give them just a small amount of the capital, say just 5%, and to elect for a larger share of the income, say 95% to be paid on that capital share.

There are steps to take to formalise this arrangement, and it is unlikely to be possible where the property is subject to a mortgage, however it is a good way to divert income to where it is needed, so in this case the income goes directly to a child who has little, if any, income and it is therefore likely to fall within their personal allowance and be tax free. This will give a rather better result than where the income arises on the parent, who may pay tax at 20%, 40%, or even 45% before gifting the income to the child to pay for university costs.

A similar arrangement can be put in place between spouses or civil partners, however in these cases, the income split must follow the capital share, but that capital share can be anything the two owners decide, providing the process to formalise this decision is properly followed.

Capital gains tax

The CGT annual exemption for 2022/23 is unchanged from the current tax year at £12,300. Unused CGT annual exemptions can't be carried forward, therefore if they aren't used, they are lost. Investors with portfolios might want to ensure that gains equivalent to the CGT annual exemption are crystallised every year so that the exemption is 'banked'. If you do instruct an investment adviser to use your annual exemption in this way, it's worth bearing in mind that it won't be available to use against other gains which may arise on an ad hoc basis.

If you know that a capital gain is likely to arise, it's worth considering whether any planning can be undertaken to reduce your exposure to CGT. Capital losses can only be used against capital gains of the current or future years, they can't be carried back, therefore if a capital gain is likely to arise, it's worth undertaking a review of assets to identify any accrued losses which might be crystallised to set against the gain. Should the losses be on shares, if the original investor disposes of a holding and then re-acquires them within 30 days, the transaction is not effective in triggering the gain, however if there is a desire to retain the holding, the original investor's spouse or civil partner could reacquire shares in the same company during this 30 day period, and providing that individual makes that decision of their own free will, then the loss will crystallise.

Whilst we often go out of our way to avoid triggering capital gains, in some situations it may be worth triggering the gain and accepting the tax liability. This is often done to rebase an asset where CGT rates are expected to rise, or perhaps to bank CGT reliefs. If you have assets likely to trigger a capital gain, it's worth speaking to us so that we can plan to help you best manage the situation and reduce your exposure to CGT.

For residential property gains where tax is payable, there is a requirement to report the gain and pay any tax due within 60 (previously 30) days of the date of completion. The 30 day period was extended to 60 days for property disposals completing on or after 27 October 2021, however when calculating the gain, only crystallised losses can be set against the gain for the purposes of calculating the CGT due on the disposal. If you are therefore counting on using losses to reduce a residential property gain, it is important to ensure they are crystallised before the residential property gain is realised, otherwise a higher amount of CGT will be payable with the 60 day CGT return, although a loss arising afterwards, but in the same tax year can be set against the gain when the tax return is completed, and the additional tax paid can be reclaimed at that point. This could however present a cashflow challenge, particularly where a property has been re-mortgaged and the mortgage needs to be repaid from the sale proceeds.

Investments

Individual savings accounts

Using as much of your ISA allowance as you can each year can be an important part of wealth planning for many clients. The ISA allowance for 2022/23 remains at £20,000, the sixth year it has remained at this level. The junior ISA (JISA) limit is also unchanged at £9,000, as is the Lifetime ISA (LISA) at £4,000.

The JISA and LISA are for very specific purposes; the JISA to allow savings for UK resident under 18s, and the LISA to help 18-40 year olds save to buy a property or towards retirement. The main benefit of the LISA is that it provides a bonus of 25% of the amount invested at the end of the tax year the investment is made. Contributions must stop at age 50, but withdrawals can be made after the first 12 months to purchase a house up to the value of £450,000, or to help towards retirement after age 60. They may also be withdrawn where the investor is terminally ill with less than 12 months to live. Should the funds be withdrawn for any other purpose, then they are subject to a 25% withdrawal charge to compensate for the bonus given.

Contributions to a LISA form part of an individual's total ISA allowance of £20,000.

Whilst there are differing reports on the number of ISA millionaires in the UK, it is certainly possible to amass a considerable amount of funds in an ISA, and they are often funded in addition to pensions. Because funds in a pension are outside of your estate for IHT, a common strategy is to deplete other investments which are exposed to IHT before drawing on pensions, and the tax free environment an ISA provides helps these funds to increase in value with no nasty tax surprises when funds are extracted. Furthermore, the ability to inherit a spouse or civil partner's ISA on death, and for it to remain withing the ISA environment only serves to make these investments more attractive.

Pension contributions

The maximum pension annual allowance is £40,000 gross contributions, and for defined contribution schemes, such as personal pensions and SIPPs, this includes employer contributions. For particularly high earners with net taxable income of over £200,000 the allowance can be tapered so that highest earners could be faced with a maximum annual allowance of only £4,000.

For those with defined benefit pension schemes (also known as final salary schemes), the same annual allowances apply, but it's not just the annual contributions which are relevant in this case, instead the overall annual increase in value of the fund is considered. Whilst it is not always easy to determine this amount, your pension fund provider should be able to provide you with the information needed to allow us to ascertain whether the annual allowance has been breached. Sometimes it can take a while to get this information, therefore it is advisable to request it as soon after the tax year end as possible, as in many circumstances, where unexpected annual allowance charges do arise, it is possible to ask the pension scheme to pay the charge, however in some cases time limits for this election could apply.

Whilst there are definitely incentives for funding pensions, there are some restrictions, in addition to the annual allowance, which restrict an individual's ability to contribute. Everyone is able to fund a pension up to a maximum of £3,600 gross contributions. However, should you wish to exceed this amount, personal contributions can't exceed your pensionable income for the year.

Pensionable income includes earned income such as salary and benefits, and income from furnished holiday lets, however it doesn't include investment income such as interest, dividends and rental income from non FHL lettings. Funding retirement saving for those with no pensionable income can therefore be a challenge.

The key to pension funding is to start as early as possible, and for grandparents with surplus income, paying £2,880 net (£3,600 gross) into a pension for grandchildren can be the most valuable gift they will ever give.

Inheritance tax

Inheritance tax (IHT) is a very emotive tax because in many cases, it is a tax on taxed income, and as such can seem very unfair. The good news however, is that there is so much we can do to reduce exposure to IHT. The first step is always to quantify the liability, as until you know what it is, it is difficult to know whether you have the appetite to do anything about it.

The second step is to make sure that your Will reflects what you want to happen with your assets when you die. Families, relationships, and legislation all regularly change, therefore it is important to review your Will regularly to ensure it is a true reflection of your wishes, and that it remains effective from a tax perspective.

In addition to a Will, it is also important to have Powers of Attorney in place, both for your financial affairs, and for your health and welfare. If you also happen to own a business, having a business Power of Attorney in place is also a really good idea, particularly if others are dependent on that business to provide them with a source of income.

You may have made provision for your spouse to inherit your company shares on your death, but would that same spouse be able to step in and run that business immediately if you were unable to, bearing in mind that this could be at a time of loss or real distress? A business Power of Attorney can give you peace of mind that the business can be taken care of by the right people if the need arises, and this can provide important comfort at the worst possible time for those who may dependent on it for their income.

There are still a number of available IHT reliefs and allowances, and a summary of these can be found below:

- *The transferrable nil rate band - £325,000*
- *The transferrable residence nil rate band - £175,000 (tapered by £1 for every £2 the Estate exceeds £2m)*
- *The annual exemption - £3,000 per donor per year (If last year's allowance is unused, this can be used too)*
- *Gifts between spouses are exempt transfers (though the exemption is limited to £325,000 when the donee spouse is non-UK domiciled)*
- *Small gifts - up to £250 per tax year per recipient*
- *Gifts on marriage - £5,000 to children, £2,500 to grandchildren, £1,000 to anyone else*
- *Gifts to charity are exempt*
- *If 10% of your net Estate after allowances and reliefs is left to charity, your IHT rate can be reduced to 36%*
- *Gifts for family maintenance may be exempt*
- *A gift to an individual is exempt from IHT if the donor survives for seven years from the date of the gift*
- *Regular gifts out of surplus income are exempt if certain conditions are met*
- *Specific exemptions exist for members of the armed forces and emergency services who die in e course of, or as a result of injury occurred in the line of duty.*

Inheritance tax planning is always a balancing act between IHT and CGT liabilities, whilst ensuring that sufficient assets are retained to produce the required level of income. Put very simply, there are two main ways to avoid exposure to IHT, giving assets away or moving assets away from classes which attract IHT and placing them into investments or asset classes that don't. Within these two areas however, a multitude of options exist.

Where IHT reliefs are to be relied on to reduce an Estate for IHT purposes, advice ought to be taken, as the rules around a number of these reliefs can be complex. One particular area worthy of mention in this context is furnished holiday lets, as whilst they qualify as trading assets for income tax and CGT purposes, unless the level of service provided with them is akin to those that would be found in a hotel, they are unlikely to qualify as a trade for IHT purposes and would therefore attract IHT unless covered by the nil rate band or residence nil rate band if the property has been lived in by the deceased at some point.

Business owners

Basis period reform

Perhaps the biggest change on the horizon for many unincorporated businesses is basis period reform which comes into effect from 2024/25, although the effect of the change will be felt prior to this.

We are unique in the UK in that we have a tax year end of 5 April, however unincorporated business owners can choose the date to which they make up their accounts, and the choice of date can make a significant difference to how much income tax and national insurance is paid in the opening and closing years of trade.

Where the year-end chosen is something other than 31 March or 5 April, 'overlap profits' arise. These are essentially profits which have been taxed twice because of the way our tax system works where the aim is always to tax as close to 12 months of profit each year as possible. The aim of basis period reform is to simplify these rules and rather than taxing the profits which arise in the accounting year, to tax profits that arise in the tax year.

It is important to note that businesses which already have a 31 March or 5 April year end will not be affected by these changes, but businesses with year ends other than this will.

For businesses affected by this change, 2023/24 will be a 'transitional year' where the business profits charged to tax will comprise of two elements: the standard part and the transitional part, but the key point is that these changes can effectively accelerate future profits into an earlier year, and whilst existing overlap profits will be released, where a business has grown and profits have increased since it commenced, the released overlap profits may well be insufficient to neutralise the transitional profits.

Whilst the rules do provide for spreading the tax liability on the transitional element over a period of 5 years, these changes could have a significant impact on the January 2025 tax payment, and also affect plans for retiring partners in partnerships.

2024/25 may seem like a long way off now, however where the business profits are likely to increase, it may be worth considering changing the business year-end prior to the introduction of these changes as this may provide cashflow advantages in the longer term. Should this be an area of concern for you, do speak to us as we can estimate the effect these rule changes might have on your tax position going forward.

Business asset disposal relief

Previously known as entrepreneur's relief, business asset disposal relief (BADR) is an important relief which reduces the rate of tax paid on the disposal of interests in a business and qualifying associated disposals to just 10%. This rate is available on gains up to a lifetime limit of £1m.

In order to qualify for the relief, there are conditions to be met by the business and the individual, however these conditions are not onerous, and BADR remains an important weapon in the tax relief arsenal for many traders and investors. As with all reliefs however, there are traps for the unwary which could mean that this beneficial 10% rate of tax may not apply. Careful planning and consideration at least 2 years in advance of any planned disposal on which a BADR claim is anticipated is therefore advised to ensure that these traps are avoided.

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Capital allowances

Capital expenditure is often a big expense for businesses, and whilst capital assets are depreciated in the business accounts to effectively spread the accounting cost of the asset over its useful economic life, this depreciation isn't tax allowable. Instead, tax relief is given in the form of capital allowances, which give relief at different rates depending on the asset concerned.

The vast majority of assets such as computer and office equipment, plant and machinery etc fall within the annual investment allowance which provides income tax relief of 100% of the cost of the asset in year one up to the annual limit. For the 2021/22 tax year, this is £1m per annum, and the limit will stay at this level until it reduces to £200,000 from 1 April 2023.

These limits are usually not too troubling for most unincorporated businesses, however where significant expenditure is planned around the point at which the limit changes, and the business does not have a 31 March or 5 April year end, then some planning may be required as the timing of that expenditure may significantly impact the amount of capital allowances available due to the way in which the allowances are calculated.

Whilst most plant and machinery is covered by the annual investment allowance, cars and building structures are not.

Capital allowances on cars are given depending on the vehicle's CO2 emissions, with cars with 0 g/km of CO2 emission attracting tax relief at 100%, those with 1 – 50 g/km of CO2 attracting relief at 18% per annum, and those with emissions over 50 g/km of CO2 attracting relief at 18% until 5 April 2022, after which the relief drops to just 6% per annum.

The new structures and buildings allowance introduced in April 2020 gives tax relief on structures and buildings for non-residential purposes purchased or constructed after 29 October 2018 and relief is given at a rate of 3% per annum, the aim being to provide full tax relief for the property over just over 33 years. As with all tax reliefs however, the ability to claim this allowance can depend on individual circumstances, and we would therefore strongly recommend that advice is sought prior to a claim for any relief being relied upon.

If you have any queries about any of the information given in this guide, please do not hesitate to contact your tax adviser of financial planner at PKF Francis Clark.