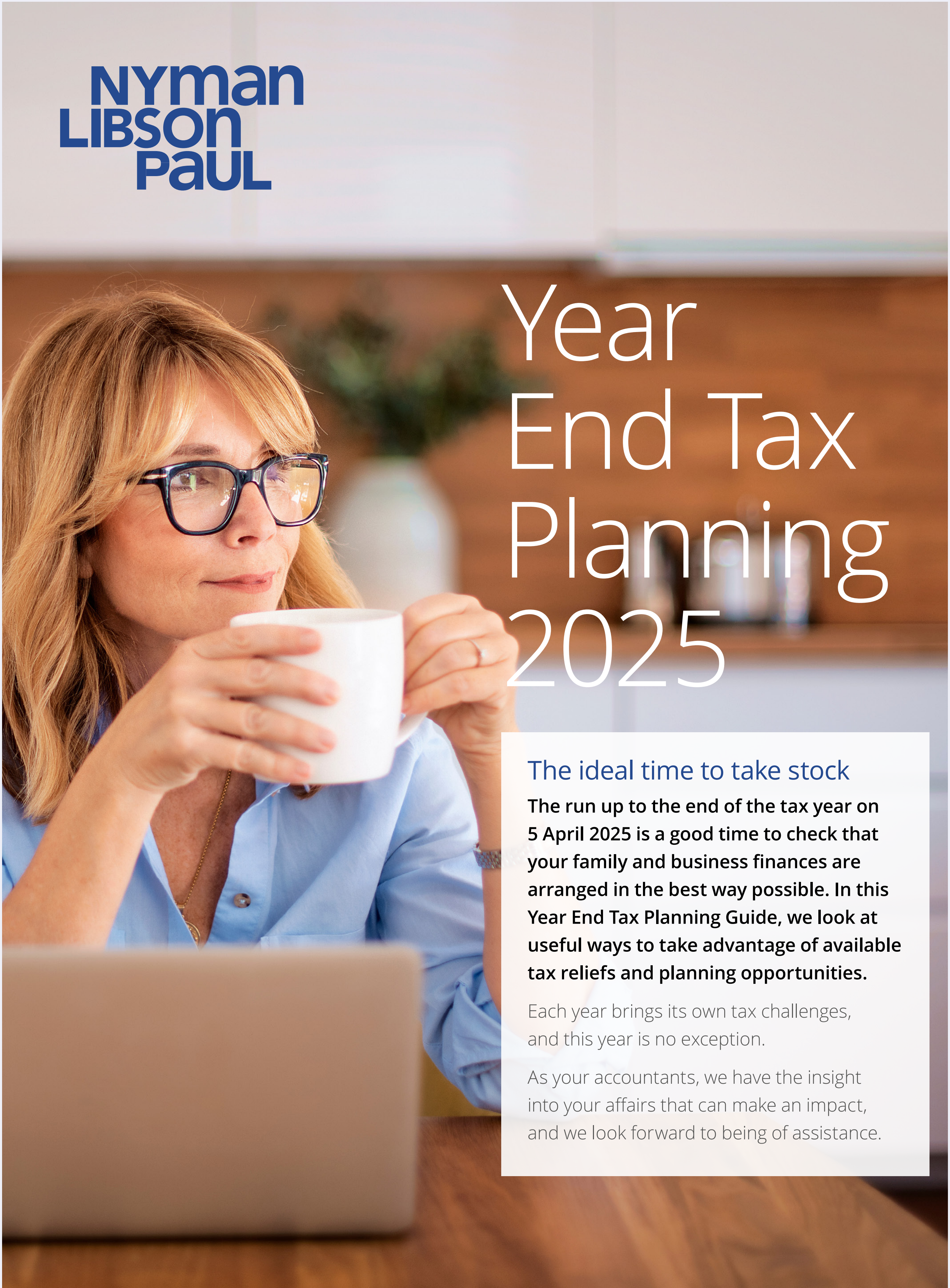

Year End Tax Planning 2025

The ideal time to take stock

The run up to the end of the tax year on 5 April 2025 is a good time to check that your family and business finances are arranged in the best way possible. In this Year End Tax Planning Guide, we look at useful ways to take advantage of available tax reliefs and planning opportunities.

Each year brings its own tax challenges, and this year is no exception.

As your accountants, we have the insight into your affairs that can make an impact, and we look forward to being of assistance.

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Planning window: furnished holiday lets

The tax incentives for furnished holiday lettings (FHLs) are abolished from April 2025.

The rules have treated FHLs as a trade, giving access to favourable tax treatment for capital allowances, finance costs and on disposal. It has also been possible to count income from FHLs as relevant UK earnings for pension contributions.

Options now

The change takes effect on or after 6 April 2025 for Income Tax and Capital Gains Tax (CGT). Overall, there is a significant impact for FHL owners, and it will be necessary to decide on future plans for the business. Moving to long-term residential letting, disposal or gifting the property to family are all options to consider.

Action point: consider last-chance planning window before April 2025

For disposals and gifts, there is a last-chance planning window before April 2025 to access some important tax reliefs.

Disposing of an FHL business

It is assumed here that a property qualifies as an FHL: please talk to us if you are in any doubt as to the criteria.

Under the FHL rules, if you dispose of an FHL business, you may be eligible for CGT Business Asset Disposal Relief (BADR); or to roll the gain on sale over into the purchase of new qualifying assets, using rollover relief. The abolition of the FHL rules means this will no longer be possible from April 2025.

Please talk to us to ensure your plans for the property enable you to take advantage of BADR or Business Asset Rollover if required.

Giving away an FHL

It may be possible to use gift holdover relief to defer CGT where an FHL is gifted to a 'connected relative', or sold at less than market value. It should be noted that if the recipient later sells the property, a CGT liability accrues.

The timeframe to use gift holdover relief is short, with action needed by 5 April 2025. A gift after this date will usually attract CGT. The gift may have Inheritance Tax consequences in either event, and we are happy to advise here.

Note also that to access rollover relief, gift relief, or BADR, an anti-forestalling rule requires you to make a statement confirming that specific conditions in the legislation are met.

Tax rates and allowances

The Personal Allowance

The Personal Allowance is frozen until 5 April 2028. This means that as incomes rise, a larger proportion falls to be taxed. The freeze is expected to end from 6 April 2028, with personal tax thresholds uprated in line with inflation after this date.

Manage hidden top rates of tax

Watch where income exceeds £100,000. Although the additional rate of 45% only applies to taxable income in excess of £125,140, you may still be subject to a higher effective rate of tax, as the Personal Allowance is reduced if adjusted net income (ANI) is more than £100,000. The Personal Allowance is reduced by £1 for every £2 of ANI above £100,000, and where total ANI is £125,140 or more, all Personal Allowance is lost.

The effective 'hidden' rate of tax on this income, therefore, is 60%, and more if you are a Scottish taxpayer. Timely planning can help here.

Action point: act to minimise loss of Personal Allowance

It may be possible to reduce taxable income and keep the Personal Allowance, by making personal pension contributions, or donations under Gift Aid. We can help you review your position.

The Savings and Dividend Allowances

Some people may be entitled to the Savings Allowance, which means savings income within the Savings Allowance is taxed at 0%. The amount of Savings Allowance depends on the marginal rate of tax: that is, the highest rate of tax to which you are liable. Basic rate taxpayers have a Savings Allowance of £1,000. Higher rate taxpayers have a Savings Allowance of £500. Additional rate taxpayers do not receive the allowance at all.

The Dividend Allowance is available to all taxpayers, whatever their marginal rate of tax. This charges the first £500 of dividends to tax at 0%.

Savings and dividends received above these allowances are taxed in the rates shown in the table above. Savings and dividends within the Savings Allowance or Dividend Allowance still count towards the basic or higher rate band and can thus impact the rate of tax payable on income above the allowances.

Some taxpayers may be entitled to the starting rate for savings. This taxes £5,000 of interest income at 0%. This rate however is not available if you have taxable non-savings income more than £5,000.

Action point: review dividend planning

The Dividend Allowance has become much less generous than previously, falling to £500 from 2024/25. The timing of dividends should be considered to ensure the Dividend Allowance is fully maximised. We should be happy to help review dividend planning to make sure it is still tax efficient.

Tax and the family

Marriage Allowance

The transfer is sometimes called the Marriage Allowance, and it can be available where one spouse has not used all their Personal Allowance, and the other does not pay tax at higher rates. If eligible, one spouse can transfer 10% (£1,260 in 2024/25) of the Personal Allowance, reducing the other's tax by up to £252 (20% of £1,260).

Planning for income tax efficiency

Tax bills can be minimised where spouses aim to distribute income between them; use their Personal Allowances, Savings Allowances and Dividend Allowances fully; and manage exposure to higher rates of tax. Where each spouse is in a different tax band, distributing income optimally is particularly important.

Example: impact of income distribution on household tax liability

Rajiv and Stella have savings income of £50,000, dividend income of £50,000 and no other income. If all income is in Rajiv's name, and none in Stella's, the total tax bill is £23,092. If income is split equally between them, the total tax bill as a couple is £6,860.

Planning for jointly owned assets

Where assets are owned in joint names, any income is assumed to be shared equally between spouses for tax purposes, even if the asset is not owned in a 50:50 ratio.

This treatment can be changed to reflect the actual share of ownership. It is done by making a declaration of beneficial interests in joint property and income to HMRC on Form 17. Evidence will be needed in support of the election.

Capital Gains Tax

Make use of the annual exemption

Spouses are taxed independently for CGT purposes. Each spouse has an annual exemption, which can be used before any CGT has to be paid. The exemption is £3,000 for 2024/25. It is of benefit where assets are held jointly and then sold, as each spouse can use their annual exemption to save tax.

The annual exemption cannot be transferred between spouses. Neither can you set a loss made by one party against a gain of the other. The annual exemption cannot be carried forward to future years: it must be used or lost.

Transfer assets between spouses

The transfer of assets between spouses is neutral for CGT. Such transfer is sometimes carried out shortly before an asset is sold to minimise tax. This makes particular sense if one spouse pays tax at higher rates, and the other has not used the basic rate band in full. For disposals on or after 30 October 2024, it also potentially makes the difference between paying tax at 18%, rather than 24%.

Particular care is needed with such transfers. Any transfer must be an outright gift, and the donor should no longer exert control over, or derive any benefit from it.

Note that the transfer of assets or interests in a business between spouses can prompt questions from HMRC, especially if it seems that tax saving is the main reason for the transfer. Please do talk to us in advance of any action to make sure that arrangements are effective and do not inadvertently fall foul of any anti-avoidance rules.

Planning for unmarried couples

Unmarried couples will find it beneficial to equalise income as much as possible, to minimise Income Tax. CGT neutral transfers do not apply to unmarried couples, however, and the transfer of assets may be liable to CGT. If such transfers are substantial, an Inheritance Tax liability could also arise.

Will planning is vital for unmarried couples. Both partners must make a will if the intention is that they each benefit from the other's estate at death.

Children

Children are treated independently for tax purposes. If they have sufficient income to be liable to tax, they are taxed as an adult would be, with their own Personal Allowance, basic rate tax band, and savings band, as well as their own Capital Gains Tax annual exemption.

Use Junior Individual Savings Accounts (Junior ISAs)

Action point: make ISA investments for children before 6 April 2025

ISA limits apply per tax year and can't be carried forward. The current maximum of £9,000 must be used before 6 April or lost.

Lifetime ISA

Parents or grandparents may want to consider gifting funds to adult children to invest in a Lifetime ISA (LISA). LISAs can be used to buy a first home or save for later life, and can be opened between the ages of 18 and 40. Up to a maximum of £4,000 can be contributed each year, with the government providing a top-up of 25%, capped at £1,000 per year. Be aware that if the first home costs more than £450,000 there will potentially be a claw-back of the government top-up.

Where Gift Aid fits in

Gifts made under Gift Aid to charities or Community Amateur Sports Clubs have surprisingly tax efficient consequences.

They can be used as a planning tool, reducing taxable income for the High Income Child Benefit Charge; the Personal Allowance taper; and generally as a buffer against being pushed into higher tax bands.

Claim higher rate relief

If you pay tax at higher rates, you can get a refund of the difference between the basic rate tax paid on the donation and the higher rate actually paid. Many people paying tax at higher rates fail to claim the additional relief to which they are entitled.

If one spouse pays tax at higher rates and the other at basic rate, it makes sense for the higher rate taxpayer to make the Gift Aid declaration in order to benefit from the enhanced tax relief.

Always make sure you have recorded Gift Aid donations, with the date, amount of the gift and name of the recipient charity. A valid Gift Aid declaration must also be in place.

We should be pleased to discuss the options available including considering carry back election if this is of relevance to you.

Pension planning

Pensions are one of the most tax efficient ways to save, and strategic planning around contributions remains one of the most important tax planning tools available.

In overview, taxpayers benefit from tax relief on contributions at their marginal rate. Tax relief is available on contributions in any given tax year up to the higher of 100% of net relevant earnings, or £3,600 (gross).

Action point: use pension contributions to reduce adjusted net income

Making pension contributions can help to reduce adjusted net income for the High Income Child Benefit Charge; access to Tax-Free Childcare; and the Personal Allowance taper.

The annual allowance

Complex rules limit tax relief on high levels of contribution. The annual allowance limits the amount of tax-relieved pension savings that can be made each year. It is £60,000 for 2024/25, and a tax charge can arise if annual pension contributions exceed this limit. The threshold is reduced for those with high income. Generally, for adjusted income more than £260,000, the annual allowance is restricted (the tapered annual allowance) by £1 for every £2 of the excess income, down to a minimum of £10,000. This minimum applies if adjusted income is £360,000 or more.

Use annual allowance from earlier years

Unused annual allowance (broadly, where pension savings were less than the annual allowance applying at the time) can be carried forward from the previous three tax years, giving scope for significant pension contributions without incurring an annual allowance charge. Where there are unused annual allowances from more than one year, the earliest year must be used first. Please talk to us for further advice.

High Income Child Benefit Charge and Tax-Free Childcare

High Income Child Benefit Charge

Income thresholds for the High Income Child Benefit Charge (HICBC) went up from 6 April 2024. This opened the possibility of receiving Child Benefit payment in many more households.

How the Charge works

The HICBC applies where an individual gets Child Benefit, and either they, or their partner, have what's called adjusted net income above a certain threshold. Adjusted net income is broadly taxable income after you have deducted personal pension contributions and Gift Aid payments.

For income earned above this threshold, the HICBC claws back Child Benefit payment, until an upper threshold is reached. At this point, all financial benefit of receiving payment is lost.

New thresholds

From 6 April 2024, the HICBC applies where adjusted net income is over £60,000. It was previously £50,000. It then claws back Child Benefit payment at a rate of 1% for every £200 of income above £60,000, to the upper threshold of £80,000.

Knowing who is liable

For the HICBC, partner means someone you live with as if you were married, as well as spouse or civil partner. If both parties are over the income threshold, the charge is the responsibility of the higher earner: this means, in effect, that either partner can be liable to the HICBC, irrespective of whether they receive the Child Benefit. Where couples run their finances independently, and one party doesn't know the other claims Child Benefit, this can cause particular problems.

Action point: plan before 5 April to minimise the HICBC

If both partners can keep income below £60,000, it's possible to keep Child Benefit payment in full. It is important to get the detail and timing right, but broadly, strategies to consider include:

- making personal pension contributions
- making payments under Gift Aid
- reallocation of profits between spouses in business.

Plan for Tax-Free Childcare

Tax-Free Childcare (TFC) helps with the cost of approved childcare for children up to age 11, on a per child basis. For disabled children, the age limit is 16. Eligible parents register with the government and open an online account. The government then tops up payments into the account, at a rate of 20p for every 80p paid in, with a maximum top-up of £2,000 per child. For disabled children, the maximum is £4,000.

Who qualifies?

Claimants must generally be in work, either on an employed or self-employed basis. They and their partner must generally have adjusted net income less than £100,000 a year, but expect to earn at least the equivalent of 16 hours at the minimum wage per week for the three months following application. This is generally, £183 a week for those over 21 in 2024/25. Some types of income, such as dividends and interest do not count towards this minimum earnings requirement.

Action point: plan for eligibility

TFC can be claimed until adjusted net income is over £100,000. If income exceeds £100,000, all entitlement to TFC is lost. Strategies reducing adjusted net income for HICBC purposes can also be used to reduce income for TFC.

Invest tax efficiently

Tax efficient investment comes with varying risk profiles, from high to low.

Venture Capital Schemes offer generous tax incentives to individuals investing in young, higher risk companies which are not listed on a recognised stock exchange, and would otherwise struggle to access finance.

Very specific conditions need to be met to qualify for tax relief under the schemes, including how long the shares must be held for. Do please contact us if you would like to discuss your investment strategy.

The Enterprise Investment Scheme

The main tax advantages of the Enterprise Investment Scheme (EIS) are Income Tax relief on the investment (at 30% on investments of up to £1 million per year; with a £2 million yearly limit for knowledge-intensive companies); and a Capital Gains Tax (CGT) exemption on gains made when the EIS shares are disposed of. In addition, you may be able to defer capital gains on the disposal of other assets when you purchase EIS shares.

Seed Enterprise Investment Scheme

This also provides generous tax relief for individuals investing in new, unquoted, growing companies. Qualifying investors can invest up to £200,000 per tax year in qualifying companies, receiving Income Tax relief of up to 50% of the sum invested. Unused relief in one tax year can also be carried back to the preceding tax year. There is also favourable CGT treatment.

Venture Capital Trusts

Venture Capital Trusts (VCTs) complement the EIS and Seed Investment Scheme; but whereas the EIS requires investment directly into the shares of a company, VCTs work via indirect investment through a mediated fund. VCTs are quoted companies required to hold at least 70% of their investments in shares or securities in qualifying unquoted companies.

Income Tax relief of 30% is available on subscriptions for VCT shares, up to a limit of £200,000 per tax year. Dividends on the first £200,000 are also tax free.

This is a high-level overview designed to give an indication of some of the potential tax advantages of these schemes. For personalised, in-depth advice, do please get in touch.

Individual Savings Accounts

Individual Savings Accounts (ISAs) are free of Income Tax and CGT and do not impact the availability of the Savings or Dividend Allowances. The tax benefits of ISAs continue to be attractive, especially in view of the reduction in the CGT annual exemption over recent years.

Action point: review ISA position each year

We recommend taking stock of your position before 5 April each year. ISA limits can't be carried forward into future years. They are lost if not used by the end of the tax year.

Capital taxes

Taking stock of business assets, protecting family wealth and planning for the future are always important.

Forthcoming changes to Inheritance Tax (IHT) and Capital Gains Tax (CGT), give new significance to this area.

Inheritance Tax Planning

Routine IHT planning looks to make best use of all available IHT reliefs and exemptions, and to take advantage of the lower rate of tax on chargeable lifetime transfers.

Clearly there are many factors other than tax to consider when divesting yourself of any significant wealth, such as the retention of capital and income required for your own financial security. However, using the opportunity to make gifts up to the available limits can be a useful tool to reduce the chargeable value of your estate on the amount exceeding the IHT threshold of £325,000.

Make lifetime gifts

Lifetime gifts fall into three categories:

- what are known as potentially exempt transfers, on which IHT is only due if the donor dies within seven years of making the gift. Taper relief, reducing the rate of IHT, may be available for gifts made three to seven years before death
- transfers to a company or trusts
- exempt gifts. Maximise us of exempt gifts including the annual exemption and gifts between spouses.

Announcements in the Autumn Budget 2024

Major changes to capital taxes, which will impact many families and businesses, were announced in the Autumn Budget 2024. The changes are complex, and we give an overview here.

Increase in Capital Gains Tax rates

For disposals made on or after 30 October 2024, the rates of CGT applicable to non-residential property disposals are now:

- 18% (rather than 10%) for UK basic rate taxpayers
- 24% (rather than 20%) for UK higher and additional rate taxpayers.

Note that Scottish taxpayers pay CGT based on UK rates and bands.

The rates of CGT for the disposal of residential property are 18% and 24% throughout 2024/25.

Change to Business Asset Disposal Relief

For those looking to exit a business, or plan for succession, Business Asset Disposal Relief (BADR) has for years been a very valuable relief. Its value is now set to be considerably reduced.

BADR is available for certain business disposals, and for 2024/25 has the effect of charging the first £1 million of gains qualifying for the relief at an effective rate of 10%. The forthcoming change means:

- the rate of CGT for BADR rises from 10% to 1 4% for disposals made on or after 6 April 2025
- for disposals made on or after 6 April 2026 it rises again, from 14% to 18%.

Action point: access BADR at current 10% rate

Where eligibility conditions are already met, it may be beneficial to consider making any qualifying disposals before April 2025 to take advantage of the current 10% rate of relief. This is a very short window for action. Please talk to us as a matter of urgency if this is important to you.

Change to Investors' Relief

The lifetime limit for Investors' Relief (IR), a 10% CGT rate available for external investors in unlisted trading companies, is reduced from £10 million to £1 million for qualifying disposals on or after 30 October 2024.

As with BADR, the 10% CGT rate available for IR is set to rise in stages, to 14% and 18%, respectively.

Inheritance Tax changes

In addition to the announcement that current thresholds for NRB and RNRB are frozen until 5 April 2030, something which will bring more estates within scope of IHT by 2030, the Budget will bring two main changes:

- a significant restriction to two key IHT reliefs: Business Property Relief (BPR) and Agricultural Property Relief (APR), applying from 6 April 2026
- the inclusion of unused pension funds and death benefits payable from a pension in the estate at death from 6 April 2027.

Business Property Relief and Agricultural Property Relief

There are two rates of BPR and APR: 50% and 100%, depending broadly on the assets involved. The reliefs have proved valuable for many businesses, families and estates, enabling them to pass smoothly to the next generation. In many cases, they have provided 100% relief on qualifying assets, preventing asset-rich but cash-poor businesses being sold or split up to settle an IHT bill. The Budget announcements change the outlook significantly.

New restricted allowance

From 6 April 2026, only the first £1 million of assets qualifying for BPR and/or APR obtain 100% relief. The £1 million limit applies to the combined value of business and agricultural assets, and all additional assets will only attract relief at 50%. Assets to which the existing 50% relief applies do not count towards the £1 million limit, and this 50% rate will continue to apply unchanged to these.

The £1 million limit could be used to cover, for example:

- £1 million of property qualifying for BPR **or**
- £400,000 of property qualifying for APR, and £600,000 of property qualifying for BPR.

In the context of family arrangements, it is important to note that this is a per person limit, and any unused allowance will be lost. It will not be transferable between spouses or civil partners. The maximum £3 million relief theoretically available to a couple represents full use of the NRB and RNRB, and would also require each spouse to own £1 million in qualifying assets.

Trusts: The new £1 million limit also applies to trusts, and for new trusts, the £1 million limit is expected to apply per settlor. Detailed confirmation of how exactly this will operate is still awaited.

Qualifying Alternative Investment Market (AIM) shares: These shares currently qualify for 100% BPR, but from 6 April 2026 will only attract 50% relief.

Lifetime transfers before 6 April 2026

Anti-forestalling measures are expected, applying the new rules to transfers made on or after 30 October 2024, where the donor dies on or after 6 April 2026.

Impact: new exposure to IHT

The changes are likely to mean that many businesses that would previously have passed to the next generation without a tax charge, will in future need to plan for an IHT liability. This potentially has implications for cash flow, liquidity, and in some cases, the future viability of the business.

Reassessing the future

Legislation is yet to come. There could be changes in the small print, and this will be important. But clearly this is a new era for business and family succession. Existing planning will need revisiting in the light of the changes, and where plans have yet to be made, the sooner this is done, the better.

Action point: start the conversation now

In a recent survey, 69% of family businesses had no succession plan for their business, and only 32% of family business owners had an up to date will. More than a quarter of business owners even avoid talking about business and finances with family members.

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