Voyage Financial Planning

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# Pre-year-end tax planning

## Tax-saving actions to take before the deadline

As we approach the end of the current tax year on 5 April 2024, it's an opportune moment to examine both your personal and business finances to ensure they are structured to optimise your tax efficiency. Despite the ongoing freeze on many tax rates and thresholds, numerous strategies remain for organising your financial matters tax-efficiently.

### BALANCING INCOME FOR TAX EFFICIENCY

When it comes to managing your finances, one aspect that often goes overlooked is the balance of income between partners. Individuals and their spouses or registered civil partners may have differing income levels. This disparity can sometimes result in a higher tax rate being applied unnecessarily. For instance, if the person earning more and taxed at a higher rate holds the investment income instead of their spouse or registered civil partner.

In such scenarios, and if appropriate, it can be more beneficial for the lower-earning spouse to receive the investment income. This way, it's taxed at a lower rate, thereby maximising the couple's net income. Therefore, it's important to review who owns what and consider balancing assets between each other. It should be possible to equalise income-producing assets between spouses and registered civil partners tax efficiently. However, careful structuring is required to ensure no unexpected tax liabilities arise from this.

### LEVERAGING INDIVIDUAL SAVINGS ACCOUNTS (ISAS)

Another key aspect of financial management is making the most of your Individual Savings Account (ISA) allowance. ISAs offer both income and gains growth in a tax-efficient manner. Moreover, withdrawing funds from an ISA is also tax-efficient, making it an attractive option, particularly when used alongside pensions for retirement planning.

### MAXIMISING YOUR ISA ALLOWANCE

Each adult can invest up to £20,000 in the current tax year into an ISA. This means a couple could double up to put £40,000 into ISAs each tax year, sheltering the growth in these funds from Income/Capital Gains Tax. This allowance is a 'use it, or lose it' scheme, as it's not possible to roll over any unused amounts to another tax year.

### UNDERSTANDING DIFFERENT TYPES OF ISAS

ISAs come in four different types, each catering to different types of investments: Cash ISAs, Stocks & Shares ISAs, Innovative Finance ISAs, and Lifetime or Help to Buy ISAs. The latter comes with a 25% tax-free bonus of up to £1,000 per year. You can distribute your £20,000 ISA allowance across these four types of accounts as you see fit. You can also make multiple subscriptions to the same type of ISA account with one provider of each type. However, a limit of £4,000 per year can be invested in a Lifetime ISA.

### CONSIDERING ISAS FOR CHILDREN

If you have minor children, you or a relative can invest up to £9,000 per child in the current tax year into a Junior ISA. This allows the funds/investments to grow tax efficiently, which could help with their further education or house deposit, as they will gain access and control of the funds when they turn 18 years old. Adult children could use gifts you make to them to invest in a Lifetime ISA and maximise the tax-efficient bonus available to them.

### CAPITALISING ON DIVIDEND INCOME

When it comes to diversifying your investment income, have you considered the potential of dividends? This type of income can be particularly appealing as it's taxed at a lower rate compared to other sources. Reviewing your anticipated tax exposure is essential to understand whether holding these investments within an Individual Savings Account (ISA), equalising your holdings with your spouse or registered civil partner, or opting for an alternative investment would be more beneficial.

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For those who own companies, evaluating if the low-salary/high-dividends strategy still offers the most tax-efficient approach is imperative. This strategy may not always be the most beneficial, and regular reviews are necessary to determine if there are more effective ways to draw funds from the company.

## MITIGATING THE IMPACT OF INCOME TAX THRESHOLDS

Income Tax thresholds can significantly impact you, especially if your income level is just above the basic or higher rate Income Tax band thresholds. In such cases, mitigating the impact by claiming Income Tax relief on Gift Aid donations, pension contributions or tax-efficient investments could be wise.

## EXAMINING TAPERING THRESHOLDS

The value of Income Tax relief becomes even more apparent if you find yourself within the tapering thresholds. These include the High Income Child Benefit Charge (£50,000 – £60,000), where Child Benefit is clawed back; the tax-free childcare threshold of £100,000 a year (where you lose the 25% government top-up if at least one parent earns more than £100,000); or the Personal Allowance threshold (£100,000 – £125,140), where the Personal Allowance is reduced by £1 for every £2 over that threshold. If you exceed these thresholds, you could be subject to an effective tax rate of 60% or more.

## BOOSTING YOUR INCOME WITH PERSONAL PENSION CONTRIBUTIONS

Adding to your personal pension contributions can significantly boost your Income Tax relief. The gross contribution is what benefits your pension policy. However, it's essential to tread carefully and avoid breaching the annual allowance, as this could invalidate the Income Tax relief on your excess pension contribution. As a reminder, reviewing any unused annual allowance for the 2020/21 tax year by 5 April 2024 is crucial, as any unutilised allowance will be lost after three tax years.

## CAPITALISING ON YOUR CAPITAL GAINS ANNUAL EXEMPTION

The annual exempt amount for Capital Gains Tax (CGT) will significantly reduce from £6,000 to £3,000 from 6 April 2024. If you're contemplating selling any assets in the near term, expediting the sale before 6 April 2024 may be worthwhile. This action could potentially save up to £840 of CGT per person. Remember, the annual Capital Gains exemption cannot be carried forward if it's unused, so ensure you utilise it each tax year.

Now is an opportune time to understand your current potential exposure to CGT on your assets. This understanding can help you gauge the impact of selling or gifting them to a family member, especially if you're considering succession planning. It's also crucial to review if you are utilising or maximising all available reliefs, such as the Business Asset Disposal Relief (formerly Entrepreneurs' Relief).

## LEVERAGING YOUR INHERITANCE TAX (IHT) ALLOWANCES

As part of your review of assets, projected income levels and needs, it's important to consider whether gifting funds or assets to your children or grandchildren is appropriate. This could serve several purposes, such as supporting their education, helping them get on the property ladder or even reducing your own IHT exposure. Currently, IHT is payable at 40%, where a person's assets on death and any gifts made during the seven preceding years total more than the nil rate band (NRB) and the residence nil rate band (RNRB).

The NRB is currently £325,000, and the RNRB is up to £175,000; these are fixed at this level until April 2028. Ensure you use the allowances available each year, such as the small gifts allowance of £250 or the annual IHT allowance of £3,000. Don't forget about gifts on consideration of marriage (£5,000 to children, £2,500 to grandchildren and £1,000 to anyone else).

## REVIEW YOUR WILLS

Lastly, reviewing your Wills to ensure they are still valid and provide the protection and benefits you want for your loved ones is crucial. ■

THIS ARTICLE DOES NOT CONSTITUTE TAX OR LEGAL ADVICE AND SHOULD NOT BE RELIED UPON AS SUCH. TAX TREATMENT DEPENDS ON THE INDIVIDUAL CIRCUMSTANCES OF EACH CLIENT AND MAY BE SUBJECT TO CHANGE IN THE FUTURE. FOR GUIDANCE, SEEK PROFESSIONAL ADVICE.

THE FINANCIAL CONDUCT AUTHORITY DOESN'T REGULATE TRUST PLANNING AND MOST FORMS OF INHERITANCE TAX (IHT) PLANNING. SOME IHT PLANNING SOLUTIONS PUT YOUR MONEY AT RISK, AND YOU MAY GET BACK LESS THAN YOU INVESTED. IHT THRESHOLDS DEPEND ON INDIVIDUAL CIRCUMSTANCES AND THE LAW. TAX AND IHT RULES MAY CHANGE IN THE FUTURE.

## READY TO DISCUSS HOW TO MAKE THE MOST OF THESE PLANNING OPPORTUNITIES?

Don't hesitate to contact us for further information or assistance navigating these complex financial matters. We're here to help guide you through these decisions and to ensure you're making the most of your financial opportunities before 5 April.