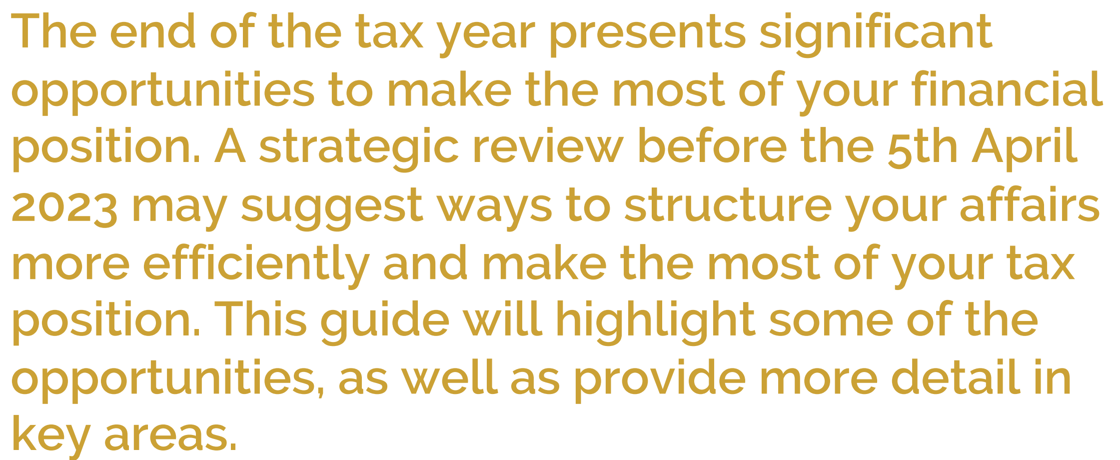
Financial Framework
wealth and estate planning

A guide to maximising

END OF YEAR TAX PLANNING OPPORTUNITIES



The end of the tax year presents significant opportunities to make the most of your financial position. A strategic review before the 5th April 2023 may suggest ways to structure your affairs more efficiently and make the most of your tax position. This guide will highlight some of the opportunities, as well as provide more detail in key areas.

At Financial Framework Wealth & Estate Planning Ltd we believe that personal, dedicated and regular service is the only approach to take with our clients. We offer a range of independent financial advice services, including investment advice, wealth management, retirement planning, tax planning and intergenerational financial planning. We offer advice to individuals and businesses. Our team has many years of experience providing personal and professional independent financial advice and our managing director, Simon Jones, is a Chartered Financial Planner.

If you'd like to explore your options, or simply check you are currently in the best possible position, then please do get in touch.

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Income Tax in 2023

Making the most of the opportunities

Rates and allowances

The tax-free personal allowance for the 2022/23 tax year is £12,570, the same as in 2021/22. The next £37,700 is taxed at the basic rate of 20% (8.75% for dividend income).

Higher rate tax of 40% (33.75% for dividends) is charged on income above £50,270 and additional rate tax (ART) of 45% (39.35% for dividends) is charged on income above £150,000. The ART will be lowered to £125,140 from 6 April 2023. It should be noted that dividends are treated as the top slice of income, so the basic and higher rates are first allocated against other income.

Under current guidance, the allowances remain at the above levels until the 2027/28 tax year.

The personal allowance is reduced by £1 for every £2 of income above £100,000. There is therefore no personal allowance at all where income exceeds £125,140. Therefore, the effective rate of tax on income between £100,000 and £125,140 is 60%. This means that the effective rate of tax relief on pension contributions and gift aid donations is 60% within this income band.

Gift aid and pensions

Sufficient gift aid donations and/or personal pension contributions can be made, where possible, to mitigate the impact of the tapering of the personal allowance.

Dividends

In order to maximise tax relief, sufficient income should be generated where possible to fully utilise the personal allowance and basic rate band. This may be done by careful planning of the timing of dividends from a private company or distributions from a family trust.

The personal savings allowance entitles basic rate taxpayers to £1,000 of tax-free savings income and higher rate taxpayers £500. However, additional rate taxpayers receive no allowance. The dividend tax allowance of £2,000 is available for all taxpayers. Amounts falling within the dividend allowance are taxed at 0%. The allowance will, however, use any part of the lower rate bands that they would otherwise have fallen into.

Please note the dividend allowance will fall to £1,000 from 6 April 2023 and then to £500 from 6 April 2024. Dividends in ISAs will continue to be entirely tax-free. Dividends can be taken prior to 5 April 2023 to utilise the dividend allowance if not already done so.

Married couples

Married couples can effectively transfer 10% of their personal allowance to their spouses or civil partners by making an election. Tax relief is given via a tax reduction of 20% of the transferred amount, £1,260 for 2022/23. This transfer is only available if both parties are not higher rate or additional rate taxpayers. It should be remembered that children also have tax free allowances that may be utilised, subject to the *settlements legislation*.

Grandparents' income

There is potential to divert income from grandparents or other relations (not parents) to utilise a child's personal allowance. This can be achieved by creating a family trust as part of an Inheritance Tax planning exercise. Professional advice should be sought before undertaking this.

If you or your partner receive child benefit, it is important to remember that taxpayers with adjusted net income in excess of £50,000 are liable to the high-income child benefit charge.

The charge will be levied on the higher earning partner. 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. You can elect not to receive child benefit if you prefer not to pay the charge.

Capital Gains Tax in 2023

Making the most of the opportunities

Annual exemption

The annual exemption for 2022/23 is £12,300, however, as announced in the November budget it will reduce to £6,000 from April 2023. It is then set to further reduce to £3,000 with effect from April 2024.

This is a 'use it or lose it' exemption; it cannot be carried forward to future years. It, therefore, makes sense to crystalise gains each year to the extent of the annual allowance, if possible.

Note that under the '*bed and breakfasting*' rule, a gain or loss does not crystalise for tax purposes if you sell shares and repurchase the same shares within 30 days. The '*bed and breakfasting*' rule is where an individual sells shares and then buys the same shares back shortly afterwards to crystalise a gain or a loss.
We would recommend making the most of this year's £12,300 exemption by realising gains prior to 6 April 2023 where possible.

Rates of tax for shares

The rate of capital gains tax (CGT) is 10%, where the total taxable gains and income is less than £37,700.

Any excess gains are taxed at 20%. Where business asset disposal relief applies, the rate of tax on the whole gain is 10%, subject to a £1m lifetime allowance.

It is possible to repurchase the same shares through an ISA. Alternatively, a married couple can arrange for one partner to sell shares after their spouse has transferred some loss-making shares to them to reduce the overall gain.

Investment property

The 10% and 20% rates also apply to gains on commercial property but gains on residential properties are taxed at the higher rates of 18% and 28%. Taxable gains on the sale of UK residential property must be reported to HMRC within 60 days of completion of the sale. You may have to pay interest and a penalty if you do not report and pay the tax on time.

Crystallise and use capital loses

Capital losses must be offset against capital gains in the same year. Unused losses are carried forward indefinitely and can then be offset against future gains. A formal claim is required.

The claim must be submitted to HMRC within four years of the end of the tax year of the loss, otherwise, it will be time-barred. Hence, claims must be made by 5 April 2023 in respect of 2018/19 losses if claims have not already been filed. When an asset has become valueless or worth next to nothing, it may be possible to make a "negligible value claim" in order to crystallise a capital loss. The claim can be related back up to two tax years in certain circumstances, allowing the loss to be offset against gains made in earlier years.

Business asset disposal relief (BADR)

CGT is charged at 10% where BADR applies, subject to a lifetime limit of gains totalling £1m. BADR applies to the sale of a trading business carried on as a sole trader or partnership, or to the sale of shares in a trading company.

It can also apply to personally held assets that have been used in the trade of a partnership that you are a partner of or a company that you are a shareholder in. Business owners should consistently review their BADR position as it is easy to fall foul of the detailed rules.

Your main residence

Ownership of two homes in the UK is becoming more commonplace as couples who both own houses marry, houses are inherited, parents buy houses for their children to live in, or people just buy a place in the country, either to let or to escape to at weekends. The gain on your principal private residence is normally free from CGT.

If you have more than one private residence, your 'main' residence will normally be, by default, the one in which you spend the greatest time. However, it is also possible to determine that matter by nominating one property as your main residence. This requires careful planning since the flip side of a gain on one residence being treated as exempt is that a gain on the other residence will become chargeable.

Written nominations must be submitted to HMRC within 24 months of any change in residences becoming available. Lettings relief of up to £40,000 (£80,000 per couple) is available for those landlords who are in shared occupancy with their tenant.

The final 9 months of ownership of a main residence are exempt from CGT, irrespective of how you use the property during that time.

If you own more than one home, consider whether a principal private residence election is needed.

Marital breakdown

Currently, assets can pass between separated spouses in the tax year of separation without triggering capital gains tax charges, e.g. if you have separated in the current tax year, assets can be transferred on or before 5 April 2023.

However, proposed changes to the rules that are due to come in on 6 April 2023 will allow separated spouses to transfer assets up to three years after the end of the tax year in which they separate, e.g. if you have separated in the current tax year, assets could be transferred on or before 5 April 2026, or without time limit if the assets are transferred as part of a formal divorce agreement.

This change will give greater flexibility to separating couples and, assuming the legislation is ultimately enacted, avoid the need to make quick decisions on assets so as to not trigger a tax charge.

Capital gains tax overhaul

With the cost-of-living crisis, COVID-19 debt, and recent political turmoil, the future direction of capital gains tax remains uncertain.

Previous suggestions have included aligning capital gains tax rates with income tax (currently 20%, 40% and 45%) and abolishing BADR.

No such changes have been announced so far, but this could change in a future Budget or be brought in by a new Government.

Individuals who anticipate realising capital gains in the short to medium term should consider whether it is appropriate to bring these gains forward, where possible.

Tax efficient investments

The options explained

Utilise individual savings accounts (ISAs)

Individual savings accounts (ISAs) may be an excellent investment for higher-rate taxpayers to consider. The maximum allowance is £20,000. You must save or invest by 5 April for it to count for that year and if you don't use the allowance it is lost.

The ISA family has grown considerably since its inauguration in 1999. We set out below further ISAs for consideration.

Help to buy ISA

First-time buyers get a 25% cash bonus from the Government on savings made into a help to buy ISA. The help to buy ISA closed to new accounts on 1 December 2019.

If you had already opened a help to buy ISA, you will be able to continue saving into your account until November 2029.

Lifetime ISA

UK residents aged between 18-39 can contribute up to £4,000 per tax year towards their first home or retirement and the Government will then add a 25% bonus at the end of each tax year in respect of the contributions paid.

Innovative finance ISA

This lets you put your savings with peer-to-peer lenders or invest in companies through crowdfunding websites.

Business Relief (BR) Solutions

Investments that qualify for BR can be passed on free from inheritance tax upon the death of the investor, provided the shares have been owned for at least two years at that time

Business Relief (BR) has come a long way since it was first introduced in the 1976 Finance Act. Then, its main aim was to ensure that after the death of the owner, a family-owned business could survive as a trading entity, without having to be sold or broken up to pay an inheritance tax liability. Over time, successive governments recognised the value of encouraging people to invest in trading businesses regardless of whether they run the business themselves.

BR is a well established relief dating back 40 years. However, investors should keep in mind that the value of an investment may go down as well as up and investors may not get back what they originally put in. Tax rules may change in the future, and the value of tax reliefs depends on your individual circumstances. Not every investment or interest in a business will qualify for BR. It is typically available on the following:

- Shares in an unquoted qualifying company, even a minority holding.
- Shares in a qualifying company listed on the Alternative Investment Market (AIM)
- An unincorporated qualifying trading business, or an interest in one (a partnership, for example).

Most recently, the UK Government's decision in 2013 to allow AIM-listed shares to be held within Individual Savings Accounts (ISAs) means that investors can now hold BR-qualifying shares within a tax-efficient ISA wrapper. Investment into a BR-Qualifying asset can shorten the timeframe for assets to be free from IHT. Under current rules this takes 7 years for making gifts or settling assets into Trust, whereas an investment in a BR-qualifying company can be passed down to beneficiaries free of inheritance tax on the death of the shareholder provided it has been held for at least two years at that time.

Owning BR-Qualifying shares allows a client's wealth to stay in their own name as well as allowing investors to plan for efficient use of their IHT nil-rate band on less liquid assets, such as their home, which are otherwise difficult to place outside of the estate for tax purposes. However, it should be noted that the share price could be more volatile and less liquid than those that are listed on a main market stock exchange, and may be harder to sell.

Consider investing in Enterprise Investment Scheme and Seed EIS Shares

Tax relief is available where you subscribe for shares qualifying for relief under the Enterprise Investment Scheme (EIS) or Seed EIS (SEIS). Under the EIS, your Income Tax liability for the tax year in which you make your investment, or the previous tax year, may be reduced by up to 30% of the sum invested. You can invest up to £1m under the EIS in a tax year or up to £2m if you invest in knowledge-intensive companies (broadly these are early-stage businesses engaged in scientific or technological innovation).

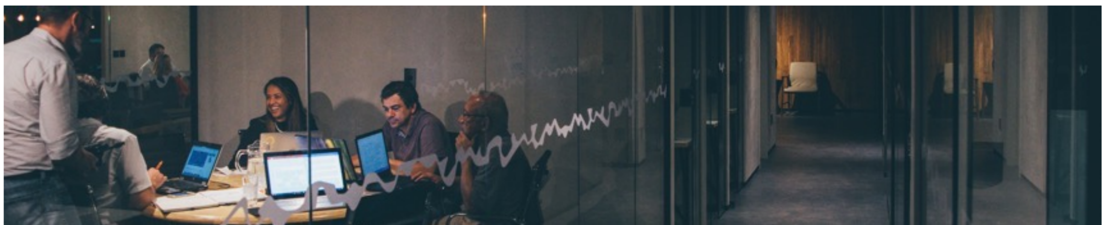
If you sell your EIS shares at a profit after three years and the Income Tax relief claimed when they were acquired is not withdrawn, there is a Capital Gains Tax (CGT) exemption on the disposal of the EIS shares. Losses on EIS shares (restricted by Income Tax relief given and not withdrawn) can be offset against gains or, alternatively, against general income in the tax year of disposal or the preceding year.

Inheritance Tax relief (via Business Property Relief) should be available for EIS shares provided they are held for two years. In addition, capital gains arising on disposals of other assets may be deferred by reinvesting those gains in a subscription for qualifying EIS shares. The investment in EIS shares must be made in the period beginning one year before and ending three years after the disposal.

The Seed EIS offers relief for investors who subscribe for shares in small start-up companies. Currently, the maximum qualifying investment is £100,000 per tax year (£200,000 from 6 April 2023). Income tax relief is given at the rate of 50% of the sum invested, and relief may be given against tax in the tax year the investment is made or the prior tax year.

SEIS shares are exempt from CGT if they are held for three years and the Income Tax relief claimed when they were acquired is not withdrawn. They can also benefit from Inheritance Tax relief if held for two years. A loss on disposal of SEIS shares can be set against other gains. If you dispose of another asset at a gain and re-invest all or part of that gain in shares which qualify for SEIS relief, half of the gain re-invested may be exempted from CGT.

A number of professionally managed EIS and SEIS investment funds exist, which invest in a broad range of EIS and SEIS companies on behalf of investors. Whilst such funds should allow for risk management through the spreading of your investment between different companies, it must be remembered that EIS and SEIS investments will, more likely than not, be viewed as carrying with them a high degree of risk.



Venture Capital Trusts

Venture Capital Trusts (VCT) are specialist tax-incentivised investments that enable individuals to invest indirectly in a range of small higher-risk trading companies and securities. VCTs are companies in their own right and, like investment trusts, their shares trade on the London Stock Exchange.

Shares in qualifying VCTs offer the following tax incentives:

- Upfront income tax relief at 30% of the amount subscribed, subject to a maximum investment of £200,000 per tax year. The investment must be held for a minimum of five years in order to retain the income tax relief. Note that income tax relief on the purchase of VCTs is available only where new shares are subscribed, and not for shares acquired from another shareholder.
- Dividends received on VCT shares are exempt from income tax in respect of shares acquired within the 'permitted maximum' (including shares acquired from another holder).
- CGT exemption applies to the VCT shares (including shares acquired from another holder).

Family Investment Companies (FICs)

FICs can be a useful way to protect family wealth. The most appropriate structure will depend on the family's circumstances and objectives. An FIC enables parents and grandparents to retain control over assets whilst protecting and enhancing wealth in a tax-efficient manner, as well as facilitating future succession planning.

By subscribing for shares in the company and appropriately funding it, the directors can use the structure to invest tax efficiently and for future growth. Where the company makes profits and gains these will be subject to corporation tax. It should be noted that corporation tax is rising from 19% to 25% in April 2023, where company profits exceed £250,000. A lower rate of 19% will continue to apply where company profits are not more than £50,000.

Even with the upcoming corporation tax rate rise, in most cases, this will still be lower than if the investments had been held directly or via trust, and suffered income tax at 40%/45%, and capital gains tax at a maximum of 28%.

If the company receives UK dividend income from investments in shares, it will be exempt from tax. However, interest (from saving accounts), rents (from investment properties) and other income will be taxable. Losses from rental income can be offset against other income in the company.

An FIC should be considered for long-term asset protection planning, as well as for planning for the income needs of the family. Shareholders only pay tax personally when the FIC distributes income, or if it is wound up. There is merit in using an FIC to allow profits to be retained in the company until required, when the individual's personal tax rate may be lower.

Any investment gains and income could be paid into a pension plan for the benefit of the shareholders, therefore it is recommended that parties to an FIC receive independent financial advice.

If you are seeking to preserve family wealth within a controlled family environment and/or wish to consider introducing the next generation into the decision-making about investments, please speak to us about how an FIC could benefit you.

IMPORTANT INFORMATION

Prudent utilisation of the reliefs associated with tax-favoured investments as part of a balanced portfolio can make a big difference to future investment returns, but it is important to consider the risks associated with them and it is essential that professional advice is sought.

Pensions

Maximising the opportunities in 2023

Annual allowance

Since April 2014, you have been able to contribute £40,000 to your pension annually, this can be increased if you did not use up your allowances in the preceding 3 years and were a member of a qualifying pension scheme.

From 6 April 2020, the standard annual allowance of £40,000 for pension contributions (the total of personal and employer contributions) was reduced by £1 for every additional £2 of an individual's '*adjusted income*' over £240,000 and can still affect you if your income from all sources is over £200,000.

Unused allowances from 2018/19, 2019/20 and 2020/21 can be brought forward and used in 2021/22.

This can affect you unexpectedly if you are a member of a final salary e.g. defined benefit (DB) or career average scheme. Should you breach the rules and pay too much, you will be subject to an annual allowance charge. Payment of this charge is the individual member's responsibility and will be charged at your marginal rate of tax.

If the total of all your pension funds is likely to be at or near £1m by the time you retire, you should seek urgent advice.

Lifetime allowance consideration

Although funds invested within a pension can grow tax free, there is a limit, the Lifetime Allowance (LTA) on the total amount you can hold in a pension pot. Funds in excess of the limit will suffer penalty tax charges of up to 55% when you start to take pension benefits.

The LTA was reduced from £1.25m to £1m from 6 April 2016. You can elect for *Individual Protection 2016*' (IP16) to preserve your individual LTA at the lower of £1.25m or the actual value of your pension funds on 5 April 2016 (if they were above £1m on 5 April 2016).

As with previous reductions, individuals can also preserve the earlier £1.25m LTA by opting for '*fixed protection 2016*' (FP16). Although all contributions must have stopped from 6th April 2016 if fixed protection is chosen.

The Government initially announced that the LTA would increase in line with the consumer price index each year from 6 April 2018. This was then changed and will remain at the current level of £1,073,100 until at least April 2028.

Pensions freedom

The popular pension freedom reforms that launched in April 2015 mean that people can now access their whole pension pot at age 55 and spend, save or invest the money as they wish.

Savers can withdraw the whole pot in one go, although you might mistakenly run up a huge tax bill, especially if you were only used to being taxed at the basic rate through an employer. By withdrawing large portions of your retirement pot, the outcome may mean you move into a higher rate tax bracket.

Flexible access from age 55

Pension investors aged at least 55 (rising to 57 from 2028) will be able to access their pension fund as a lump sum. From 2028 onwards, the Government's intention is that the minimum pension age for private pensions should be ten years below the State Pension age. Although, they are not automatically linking normal minimum pension age (NMPA) increases to State Pension age increases at this time.

The increase to age 57 will not apply to members of the various firefighters, police and armed forces public service pension schemes (commonly referred to as uniformed services pension schemes). The Government intends to introduce a protection regime to apply to all types of UK registered pension schemes (occupational and non-occupational schemes) that will allow benefits to be taken before age 57 (but not earlier than age 55) after 5 April 2028.

The protection regime will work by allowing anyone who is a member of a pension scheme by 5 April 2023 that had an '*unqualified right*' in the scheme rules on 11 February 2021 to take benefits from their arrangement at an age below 57, to be able to take benefits at that younger age even after 6 April 2028. If protection does apply, this right will apply to all money paid into the arrangement.

The first 25% of a lump sum will be tax free and the rest will be treated as taxable income. This will be subject to income tax at the marginal income tax rate. Basic rate taxpayers need to be aware that any income drawn from their pension will be added to any other income received, which could result in them paying tax at 40% or even 45%.

You can also choose to take your pension in smaller lump sums, spread over time, to help manage your tax liability. Since April 2015, some restrictions have been removed. Fully flexible drawdown will offer considerable freedom but highlights the need for expert planning advice.

Reviewing your retirement plans

The new rules give considerable freedom of choice. Under the new rules, whilst nobody will be forced to buy an annuity at any age, those who wish to do so may find it the most appropriate solution for them.

Clearly, it has never been more important to make the right choices about your pension fund, both about how you should carry on saving and how you should take the benefits.

These decisions will affect you for the rest of your life. It is essential, especially for those nearing retirement, to seek professional advice. Not only will an expert look at your pension fund, but they will consider your wider financial goals. They will also consider another aspect of the new freedoms outlined below.

Your pension pot: A tax efficient way of keeping it in the family

Important changes are also taking place with regard to how pensions are treated in the event of your death.

Retaining pension wealth within the pension fund and passing it to future generations is now an extremely tax efficient estate planning solution, as it combines tax free inheritance with tax free investment returns and potential tax free withdrawals. Indeed, it may even change the way we utilise our capital in retirement, possibly leading us to spend other funds before our pensions.

From April 2015, you can nominate who inherits your pension fund. It can be anyone of any age and is no longer restricted to your 'dependents'. If death occurs before age 75, the nominated beneficiary can access the funds at any time, tax free. If the original policyholder dies after age 75, defined contribution pension funds can be taken in instalments or a lump sum and will be taxed at the beneficiary's marginal rate as they draw income from it.

Additionally, the nominated beneficiary can appoint their own successor, allowing the accumulated pension wealth to cascade down generations, whilst continuing to enjoy the tax freedoms that the pension wrapper will provide. Each time a pension fund is inherited, the new owner has control over the eventual destination of those funds.

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