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2021/22 Personal Tax Year End Planning Guide

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Pre 5 April 2022 tax planning check list

As the 2021/22 tax year draws to an end, we have considered what action you should be taking ahead of 5 April 2022 to take advantage of various tax reliefs and allowances to reduce your tax bill. The checklist below summarises the actions you should consider.

Tax advice should be sought prior to implementing any of the suggestions.

1	**2021/22 ISA Allowance** Have you and your family made your maximum ISA contribution of £20,000 per adult for 2021/22?	
2	**Pension contributions** Have you utilised your Annual Allowance for pension purposes, as well as using any brought forward unutilised amounts?	
3	**Tax efficient investments** Have you considered using your EIS / SEIS / VCT investment allowances?	
4	**Maintaining your personal allowance** If your income is just over £100,000, have you considered reducing your income with pension contributions or charitable donations?	
5	**Dividend allowance** Have you declared dividends of at least £2,000 to utilise all shareholders' dividend allowances?	
6	**Capital gains tax ('CGT') planning** Have you used your CGT annual allowance or generated capital losses to cover gains?	
7	**Inheritance tax ('IHT')** Have you made any annual gifts for IHT, or thought about creating trusts? Are your wills up to date?	

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Foreword by Laura Hutchinson

In an ideal world, we should all be thinking about tax planning throughout the course of the year. However, due to our busy lives, many people instead prefer to take stock towards the end of the tax year when looking to take advantage of relevant annual reliefs, allowances and exemptions. If you are one of these people, the aim of this document is to highlight what actions you should be considering, including those that need to be completed by 5 April 2022.

After a considerable number of years, we appear to be moving into a era of higher inflation and interest rates, although not to the scale of previous decades. The squeeze on income means we need to ensure our income and assets work as hard as possible.

The last few budgets have announced a series of tax rises which will shortly start to bite. From 6 April 2022 both dividend tax rates and national insurance rates will increase by 1.25%. In just over one year's time, on 1 April 2023, corporation tax rates will rise from 19% to 25%, with the 19% rate remaining for small trading and property companies.

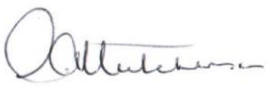
These increases in tax rates mean we should consider bringing forward dividend payments, payments of bonuses and review the structures of existing business interests. We talk about this more on page 9.

Whilst many companies have announced either a full or partial return to the office, the past two years have shown that many people can work effectively away from the office. We have seen a number of people take this one step further; if they can work effectively from home, could they also from another country? Moving yourself (and your family) to another country, especially one with lower rainfall, may seem desirable and more importantly, possible, in this technological driven world, however it can pose many tax concerns as well as opportunities. If you are considering this, please get in contact as we can help streamline the move, with no nasty tax surprises.

Now that normality seems to be returning (we hope) families can also plan for the future. There is a high demand for inter-generational tax advice and assistance with wealth passing down the generations. More and more younger families are appreciating the need for longer-term structures that benefit the wider family, rather than leaving inheritance tax planning until old-age. Also, it is important to review your existing wills to ensure these remain efficient and continue to reflect your current wishes.

If you would like to discuss any of the points raised in this document, please contact your regular Forbes Dawson contact.

Best wishes



Laura Hutchinson
Managing Partner

Tax efficient investments

Individual Investment Accounts ('ISAs')

Summary

- For 2021/22 the total ISA allowance is **£20,000 per adult**. This allowance does not roll over and is lost if it is not used.
- ISAs provide a tax-free savings plan which will be relevant when the ISA grows in value and produces significant income.
- ISAs are flexible and sometimes it is possible to extract the monies in the short-term and replace them by the end of the year.
- The 2021/22 limit for Junior ISAs is £9,000 and can be useful to make contributions for grandchildren.

ISA

The ISA has been around for over 20 years and is perhaps one of the best known tax-efficient saving vehicles in the UK. Whether you wish to invest in cash or shares, the ISA limit is £20,000 per adult individual. The limit can be split however you want, between cash and shares.

The ISA limit does not roll over each year and therefore, if you have the available funds you should generally use it.

Whilst the income on £20,000 may not make a huge tax impact now (particularly with the annual personal savings allowance, starting rate band and dividend allowance – see page 8), the main advantages arise with ISAs over the longer-term. A couple investing £20,000 each for 25 years, can expect a £1m pot for their retirement (without accounting for any investment growth) which will generate tax-free income.

Lifetime ISA

A Lifetime ISA can be opened for anyone aged between 18 and 39. You can contribute up to £4,000 per year (which counts towards the main £20,000 limit). The government will pay a 25% bonus on any money invested into your ISA at the end of the tax year. This gives an additional £1,000 on a £4,000 investment.

You can only withdraw the funds (and bonus) from a Lifetime ISA for your first home, or if you are over 60. In any other circumstances there is a penalty of 25%.

Innovative Finance ISA

An Innovative Finance ISA allows you to use your ISA limit to save with a peer-to-peer lender, or certain crowd-funding companies. Innovative Finance ISAs do not have their own ISA limit and therefore form part of your £20,000 annual limit. However, you can only invest into one IFISA per annum.

Tax efficient investments

Individual Investment Accounts ('ISAs') (continued)

Junior ISA ('JISA')

A JISA is an ISA for anyone under 18. They allow up to £9,000 to be contributed per year. The JISA can be opened by a parent or guardian, but once opened, anyone can contribute to it. This is the only way parents can allocate income to their minor children without it being taxed on the parents.

At the age of 18 the JISA turns into a regular ISA and the child takes full control of the monies. They could then use this money for university, or a deposit on their first home.

Flexible ISA

Many ISAs, other than the Junior ISA and Lifetime ISA may allow you to extract and put money back in at any time. You will need to check with your ISA provider to see if they allow this.

Inheritance ISAs

On the death of your spouse or civil partner, it is possible to take over their ISA savings allowance, without losing the ISA income and capital gains tax benefits.

The value transferred does not impact your ISA allowance or your existing personal ISA savings.

This must be done within three years of the date of death, or 180 days from the date of the completion of the administration of the estate (whichever is later).

Planning point
The JISA is an ideal vehicle allowing grandparents to make annual gifts for their grandchildren whilst reducing their estate for inheritance tax purposes. These gifts could even be exempt in certain circumstances.

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Tax efficient investments

Investment reliefs EIS/SEIS/VCT

The investment reliefs below provide some of the most attractive tax breaks in the UK and are designed to encourage investments (via the acquisition of new shares) into new and exciting, small and growing businesses.

Demand for these types of investments has increased over recent years due to various tax changes (and pension restrictions in particular continuing to affect high earners).

Enterprise Investment Scheme ('EIS')

EIS is the most common investment relief and provides the following tax benefits for qualifying investments:

- **Up to 30% income tax relief** either against this year's tax bill, or last year's, via carry back, up to a maximum investment of £1m per tax year.
- **Ability to defer capital gains** made elsewhere by investing these in an EIS qualifying investment.
- **Tax-free growth** – no capital gains tax liability on sale if the shares are held for more than three years and some income tax relief was obtained.
- **Loss relief** – if the investment doesn't work out, it is possible to offset these losses against income or capital gains tax.
- **Inheritance tax free**, provided the EIS investment has been held for more than two years.

Tax rules can change and tax benefits depend on individual circumstances. To retain the benefits of an EIS investment you must hold it for at least three years and the investment must remain a 'qualifying' investment.

Planning point

EIS investments may be suitable for investors who have:

- a large income tax bill, and/or,
- a capital gain from the disposal of any other asset that they want to defer.
- received a tax-free lump sum from a pension and want to reinvest the lump sum and get tax relief against their income.
- high income and are affected by pension contribution restrictions.

Seed Enterprise Investment Scheme ('SEIS')

SEIS is much newer than EIS and was introduced in 2012. It is very similar to EIS but is designed for investment into smaller start up companies.

It provides even more generous tax reliefs to reflect the increased risk in these smaller companies, including:

- **Up to 50% income tax relief** either against this year's tax bill, or last year's, via carry back up to a maximum investment of £100K per tax year.
- **Tax-free growth** – no capital gains tax to pay on a sale of the SEIS shares, if held for three years.

Tax efficient investments

Investment reliefs EIS/SEIS/VCT (continued)

- **Capital gains tax reinvestment relief** – reclaim up to 50% of a capital gains tax liability incurred in the tax year in which an investment is made into SEIS (up to a maximum gain of £50k). Carry back is available if the income tax relief is claimed in the earlier year.
- **Loss relief** – if the investment doesn't work out, it is possible to offset the losses against income or capital gains tax.
- **Inheritance tax free**, provided the SEIS investment has been held for more than two years and it is held on death.

Venture Capital Trusts ('VCTs')

A VCT is a publicly listed company which aims to invest into small, unquoted, entrepreneurial companies.

VCT investments provide the following tax benefits, provided the shares are held for five years:

- **Up to 30% income tax relief** – save up to £60,000 (on maximum investment of £200K) on your income tax bill when you invest in newly issued VCT shares.
- **Tax-free dividends** – dividends received are not taxable.
- **Tax-free growth** – no capital gains tax on disposal.

The tax advantages above are significant but you should take investment advice before making any investments. Always consider investments based on the merits of the investment itself and not the tax benefits.

Summary table

Relief	EIS	SEIS	VCT
Income tax relief	30%	50%	30%
Carry back income tax relief?	1 year	1 Year	no
Minimum holding period	3 years	3 years	5 years
Maximum Investment	£1m *	£100,000	£200,000
Dividends	Taxable	Taxable	Exempt
Capital gains tax on sale	Tax-free	Tax-free	Tax-free
Capital gains tax deferral on investment	Yes	No – 50% exemption	Yes

Income tax

Utilising all available allowances

Retain your personal allowance

If your taxable income exceeds £100,000 then you lose £1 of your personal allowance for every £2 of income over this threshold. This means your personal allowance is lost when your taxable income exceeds £125,140.

As a result, income between £100,001 and £125,140 is taxed at an effective rate of 60%. The following should be considered to reduce your tax bill:

i. Make a pension contribution – subject to Annual Allowance restrictions (see overleaf);
ii. Make charitable donations;
iii. Consider the merits of making tax efficient investments.
iv. Avoid paying dividends which will fall within this band.

Personal savings allowance ('PSA')

Since 6 April 2016, the majority of savings interest has been paid gross.

The PSA allows the first £1,000 of interest on savings income to be received tax-free (£500 for higher rate payers). Additional rate tax payers do not benefit from any tax-free allowance.
In addition, if the interest forms the next tranche of income over and above the personal allowance, up to £5,000 of interest can be received tax-free (the starting rate band). This relief can apply to higher rate taxpayers, e.g. where your only other income is a small salary/pension of less than £12,570, plus dividend income of whatever amount.

Planning point
Business owners may consider charging interest on loans to their companies to utilise this allowance. Alternatively, look to balance investment portfolios, or interest-bearing investments, such as National Savings Bonds between spouses, to utilise this relief next year.

Income tax

Utilising all available allowances (continued)

Dividend allowance

The tax-free allowance on dividend income for the current tax year is £2,000. If the timing of dividends can be controlled, for example in Family Investment Companies, dividends should be declared to utilise the allowance before 5 April 2022.

For higher or additional rate taxpayers, this allowance offers a tax saving at rates of 32.5% or 38.1% respectively (more post 6 April 2022 – see page 9).

Married couples should consider reorganising their investments to utilise both spouses' allowances.

The dividend allowance for 2022/23 remains the same, but see page 9 about potentially bringing forward dividend income.

Planning point
Where an individual has no other income, it is possible to declare a dividend of up to £14,570 to them without any tax being payable. On a similar vein, it is possible to declare a dividend of up to £50,270 without any higher rate tax being payable.

Where dividends are declared in private family companies they can be retained on a loan account in the company until funds are needed by the shareholder. If allowances are not used they are lost.

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Changes to tax rates

In last year's Budget the Chancellor announced that income tax, capital gains tax and inheritance tax allowances would remain the same until 2025/26.

However over the past 12 months we have seen a number of changes to tax rates announced.

Dividends

From 6 April 2022 dividend rates will increase to:

	2021/22	2022/23
Basic	7.5%	8.75%
Higher	32.5%	33.75%
Additional	38.1%	39.35%

Planning point
Consider taking dividends or bonuses early to take advantage of lower rates. However, care should be taken to not move income into a higher tax bracket.

National Insurance ('NIC')

From 6 April 2022 NIC rates will increase to:

	2021/22	2022/23
Class 1 Employees	12% / 2%	13.25% / 3.25%
Class 1 Employers	13.8%	15.05%
Class 4	9% / 2%	10.25% / 3.25%

*From 6 April 2023 the additional 1.25% will be replaced by a health and social care levy but the overall tax burden will remain the same.

Corporation tax

From 6 April 2023 the headline corporation tax rate will increase to 25%. For profits falling between £50,000 and £250,000 the rate will effectively be 26.5%, to give rise to a overall tax liability of between 19% and 25%. The 19% rate will remain for small trading and property companies with profits under £50,000.

Planning point
Look to take income from family businesses in the form of interest or rent, which generally offer the lowest tax rates overall.

Pensions

Despite many changes to pensions over the years, they continue to be extremely tax-efficient vehicles to be used as part of your wider tax planning strategy and the maximum annual contribution should be made into the pension, where possible.

Annual pension allowance

For 2021/22, most people have an annual pension allowance of £40,000. This is the amount you can contribute to your pension and attract tax relief.

In addition to the allowance for 2021/22, there are special carry forward rules which allow you to contribute more. It is possible to use up any unused annual allowances from the previous three tax years, tax-free. These limits must take into account personal and employer contributions.

To take advantage of the carry forward rules, you must have been a member of a pension scheme during the tax year from which you wish to use the unused allowance.

The maximum allowances from the following years could be carried forward if not utilised:

- 2019/19 - £40,000
- 2019/20 - £40,000
- 2020/21 - £40,000

Where personal contributions are being made, these are limited further to the greater of £3,600 (gross) or 100% of your relevant UK earnings. Relevant earnings include employment income, self-employment income and profits from trading partnerships but not rental income.

If you are unable to save a lot of money now, you should consider setting up a pension scheme, even with a minimal amount of money. This will enable you to access the carry forward rules in a later year.

Restriction for higher earners

The restriction to contributions made by high earners (that receive net income of more than £200,000) continue to apply.

The annual allowance of £40,000 is reduced by £1 for every additional £2 that an individual's 'adjusted income' exceeds £240,000. Adjusted income includes employer pension contributions but the restrictions will not apply if your net income is less than £200,000 . This is subject to a minimum allowance of £4,000 if your adjusted income is over £312,000.

Also, consider making pension contributions for children and grandchildren of £2,880 net (£3,600 gross) each.

Planning point
Ensure you are maximising your pension contributions each year, including any brought forward allowances where possible before 5 April 2022.

Lifetime Allowance

If you are approaching 75 years of age and your pension funds are over the Lifetime Allowance (currently £1,073,100, unless you have enhanced protection) then you should consider taking income from the pension to bring it under the Lifetime Allowance. Specialist advice is required in these cases.

Inheritance tax

Pensions are not assessable to inheritance tax.

If the member of the pension scheme dies under age 75, the funds can be passed to their beneficiaries tax-free.

If they die aged over 75, the individuals inheriting the pension pot are liable to income tax at their marginal rates when taking money out. This could be as low as 20% if they are basic rate tax payers.

Planning point
It is possible to make pension contributions for other family members such as grandchildren if there is a family pension pot. Contributions of up to £3,600 (gross) can be made on behalf of each grandchild. These gifts could possibly be treated as normal expenditure out of income for inheritance tax purposes.

Property taxes

Interest restriction

Finance costs in relation to residential property lettings are now only relievable at the basic rate of 20%, regardless of your personal rates of tax.

It is therefore worth reviewing your assets and borrowings, if you have not already done so.

Planning point
If you are a higher or additional rate tax payer you should consider whether it is possible to transfer any residential rental property to a spouse with a lower tax rate or consider the benefits of incorporation.

The interest restrictions do not apply against Furnished Holiday Lettings but be aware that there are strict criteria for your residential property to qualify for this regime of taxation.

Incorporation

If the interest restriction applies to you, then it is potentially worthwhile considering incorporating your residential property portfolio. A company can usually attract full relief for interest paid against its profits.

This is a complex area as there are capital gains tax ('CGT') and stamp duty land tax ('SDLT') factors to consider and, therefore, advice should be taken if you are thinking of doing this. It is also not suitable for individuals that need to live off all the rental income.

60 day CGT reporting

UK resident individuals selling a UK residential property after 5 April 2020 need to report and pay tax on the sale to HMRC within 60 days of completion (30 days if completion was before 27 October 2021).

There are certain exemptions if the property is not taxable, for example, if it is fully covered by principal private residence relief or the gain is below your annual exemption.

This new reporting requirement is in addition to reporting the gain on your self assessment return.

Principal Private Residence Relief ('PPR')

This offers relief against the gain arising on the disposal of your main residence.

If you have more than one residence you should consider the benefits of making an election so the residence with the greatest potential gain is your main residence for PPR purposes.

The rules were amended from 6 April 2020 so that only the last nine months of occupation now qualify and lettings relief only applies in very limited circumstances.

Capital gains tax ('CGT')

Annual exemptions

As the end of the tax year approaches, you should review your investment portfolio and look to realise gains to utilise your capital gains tax ('CGT') exemption of £12,300. You cannot carry forward this exemption, so you should make use of it to reduce your future liabilities.

Married couples can take advantage of two CGT exemptions. You could consider transferring assets between spouses before a sale to fully utilise both partners' reliefs.

If you have assets that are standing at a loss, you could consider selling those assets to offset against any capital gains realised in the year.

However, you may wish to reacquire certain loss-making shareholdings due to their long-term potential. Unfortunately the CGT rules do not allow you to crystallise the loss if you sell the shares and buy them back within 30 days.

Instead you could look to sell it on the market and then buy it back in your spouse's name (known as 'Bed and Spouse'). You will need to actually sell the shares on the market and buy them back, as a simple transfer to your spouse will be ineffective. Alternatively, you could buy them back though your SIPP ('Bed and SIPP') or through your ISA ('Bed and ISA').

Investor's Relief

Investor's Relief is a useful but underused relief for those investments which do not qualify for EIS or SEIS status.

Once the relief is obtained, upon a sale of the shares, the gain attracts a 10% rate of CGT (up to a lifetime limit of £10m of gains)

The main conditions are:

- The shares must be in an unlisted trading company.
- Shares must be subscribed for by the investor (or their spouse). Therefore, shares purchased from another party will not count.
- Neither the investor, nor anyone connected with the investor, can be an officer or employee of the company (although being an unpaid director is possible).
- The shares must be ordinary shares, subscribed for and fully paid in cash, and held for at least three years.

Future Budgets

Many people predict that CGT rates could increase in the very near future in order to help balance the budget.

Inheritance tax ('IHT')

Most couples with children and a family home can now attract up to a £1m allowance against their joint estate. Those without children can only attract a £650,000 allowance (two nil rate bands)

Income that is not spent each year will accumulate in your estate and may be subject to 40% IHT on death.

Absolute lifetime gifts

Any gifts you make more than seven years before your date of death are outside the scope of IHT. Once you survive three years then any tax that becomes payable on failed gifts is tapered. Also, it is only the value at the time the gift is made that is brought back into charge; any growth falls outside the charge to IHT. All these factors point towards there being no downside to making gifts from an IHT perspective.

Please note there are also CGT issues to consider where gifts of assets are made. However, cash gifts are not liable to CGT. There are also various gift exemptions that can be utilised to defer the CGT.

Annual gifts

You can make annual gifts of up to £3,000 which are free from IHT. You can also make smaller gifts of £250 per year to as many people as you like. Special circumstances gifts, like £5,000 to a child getting married should also be considered.

Regular gifts out of income

You may also consider establishing a pattern of making regular gifts out of your excess income; such gifts are outside the IHT net and are a simple way of reducing your estate.

Family home

From 6 April 2017, a second nil rate band was introduced, known as the residence nil rate band. In 2021/22 this provides an additional tax-free band of £175,000 per person when a UK residential property passes on death to a linear descendant.

The allowance is tapered for estates worth over £2m and is lost entirely when an estate exceeds £2.35m or joint estate exceeds £2.7m.

This allowance can be transferred to the spouse on the first death. This allows up to £1m of assets to transfer free of inheritance tax on second death, in certain circumstances.

Trusts

Trusts are popular vehicles to use as they allow you to pass wealth on, retain control and transfer assets standing at a capital gain without incurring CGT.

Each person can contribute their nil rate band (£325,000 for 2021/22) into a trust every seven years without any IHT implications.

If you own shares in an unlisted trading company, or a company listed on AIM, then you can contribute more due to an IHT relief known as Business Property Relief being available.

Planning point
New trusts should be set up every seven years as they provide an easy solution to mitigate your IHT exposure on death.

Family Investment Companies

A Family Investment Company may be suitable if you are looking to create a tax-efficient, long-term, family investment vehicle where you maintain control.

A Family Investment Company can be structured in many different ways to suit your circumstances. It can enable you to pass some of your current wealth on, or it can just allow the growth to drop out of your estate, whilst enabling you to access to the original capital invested to fund your retirement.

This is really only suitable for those happy to let the majority of the income generated, grow within the company.

Wills

A significant number of adults do not have wills in place, or have old wills that are out of date. A good will should give your family flexibility and protection for their needs. If you have recently married then your previous will is automatically revoked.

Separation and divorce

For tax purposes, it is possible to transfer assets between spouses on a no-gain / no-loss basis for CGT purposes. The ability to do this lasts until the end of the tax year in which the spouses separate. After that, they remain 'connected' and any asset transfers are treated as taking place at market value, which can give rise to capital gains tax issues.

Capital gains tax ('CGT')

The main tax issue to consider where assets are being transferred on divorce, is CGT.

Where assets are transferred between spouses that are living together at some time in the same tax year, this is done on a no-gain / no-loss basis i.e., no CGT arises. In years up to and including the tax year of permanent separation, these rules continue to apply.

For tax years after the year of separation, up to the point at which Decree Absolute is pronounced, the connected party rules apply and the transactions are treated for tax purposes, as taking place at current market value.

Many couples are not ready to transfer assets in the year of separation and hence, a later transfer can cause unwanted CGT issues.

Capital losses

Where assets are transferred after the year of separation but before the Decree Absolute and a capital loss arises, this loss is a 'clogged loss' for CGT purposes.

These losses can only be offset against capital gains arising from transfers to the recipient spouse whilst they are still connected for CGT purposes i.e., before the Decree Absolute.

Main Residence Relief or 'PPR'

A husband and wife can only have one main residence between them which can be an issue on divorce, or where there is a separation.

If the property has been the main residence throughout the period of ownership, a disposal of the property must take place within nine months of the party moving out of the home if full PPR relief is to be available.

If the period is longer than this, part of the gain will be chargeable and this may give rise to a CGT liability. However, if the disposal of the property (by the party that has left the property) is to the occupying spouse who continues to live in the property, the CGT charge can be avoided by using a specific extension to PPR relief for divorce.

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