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TAX PLANNING ROADMAP *FOR INDIVIDUALS*

Tax Planning for Individuals 2024-25

Fiscal drag – freezing tax allowances

As announced in the Autumn Statement 2022, most of the personal tax and NIC rates and allowances are to be frozen at current levels for a further two years until April 2028.

Note: The Chancellor did not change this strategy in the Spring Budget 2024 or the Autumn Statement 2024.

This does mean that most pay increases in the next six years will be taxable. If these pay increases are less than inflation, then take home pay is going to suffer on two counts. Any pay rise at less than the rate of inflation will result in less household spending power, as will the impact of any extra tax paid on the pay increase received.

If you can afford to manage on existing take-home pay you could direct any pay increases into additional pension contributions, which would be tax-free if kept within the increased annual allowance of £60,000 (previously £40,000).

Income Tax – Avoiding Marginal Rates

WHAT ARE THESE MARGINAL RATES?
Most of us know that income tax is charged at three main rates: 20%, 40% and 45%.

Unfortunately, there are certain levels of income that trigger a loss of benefits or allowances as well as a charge to income tax. Because of this, the percentage rate of tax charged can be higher than the underlying rate of income tax.

For example:
Joe's taxable earnings have always been under

£100,000, however, for 2024-25 Joe estimates that his income will be £125,140. Bad news…

As soon as income for tax purposes exceeds £100,000 Joe loses part of his tax personal allowance (£12,570 for 2024-25). In fact, for every £2 that his income exceeds £100,000 he will lose £1 of this allowance. This means that as soon as income is equal to or higher than £125,140 the personal tax allowance is no longer available. Taking this into account, Joe's tax bill on the top £25,140 of his income is 40% (£10,056) plus, 40% of the lost allowance - a further £5,028. In total, Joe retains just £10,056 of his £25,140 income (£25,140 - £10,056 - £5,028). His percentage tax charge is therefore 60% on this marginal band of income between £100,000 and £125,140.

Similar marginal rates apply if:

- your income moves above the threshold where working tax or child tax credits cease to be available,
- a higher paid parent's income tops £60,000 at which point child benefits would be under threat, or
- those with incomes in excess of £125,140, paying income tax at 45%, will find the tax relief they can claim for pension contributions will be reduced.

To avoid or lessen the impact of these marginal rate charges you will need to discuss the possibility of reducing your income below the trigger points. There are various strategies that can be employed to achieve this including the sacrifice of salary for non-tax benefits such as increased employer pension contributions or longer holidays.

However, since April 2017, HMRC have used new legislation to counter these salary sacrifice arrangements and so it is doubly important to consider options with care.

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Income Tax – Check List 2024-25

- To lower the impact of higher rate tax (or marginal rates), consider sharing ownership of income producing assets with your spouse, especially if your spouse pays no income tax, or tax at lower rates.
- Similarly, consider sharing ownership of income producing assets with your adult children (over 18 years). Your children, whatever age, can earn up to £12,570 this tax year without paying income tax. Transfers of certain assets may create a CGT liability, and so planning is key.
- If you have a pension scheme, take advice from your pension's advisor on the level of contribution you should make this year. The maximum you can pay in is £60,000 unless you pay tax at 45% in which case the annual limit could be as low as £10,000.
- And now that the pensions' Lifetime Allowance has been abolished (the allowance was £1,073,100 prior to April 2023) pensions' savings can be accumulated in excess of £1,073,100 without a punitive tax charge. However, tax free lump sums will be pegged at a maximum of £268,275 (25% of £1,073,100) even if your pension pot exceeds £1,073,100.
- There are no limits to the amount of gift aid donations you can make. These contributions extend your basic rate income tax band and are an effective strategy for avoiding the higher and marginal rates of income tax. Charitable donations are also one of the few remaining reliefs that you can carry back, in certain circumstances, to the previous tax year.
- You can transfer up to £1,260 of your personal allowance to your spouse if you don't earn enough to fully utilise this allowance against your own earnings. You can only do this if their income is between £12,571 and £50,270.
- If you are provided with a company car and your employer pays for your private fuel, you should consider repaying this private fuel cost to your employer in order to avoid the punitive car fuel benefit charge. This will also save your employer National Insurance charges.
- A further consideration for company car drivers is to discuss changing your vehicle for a lower CO_2 emissions model. The car benefits charge increases in direct proportion to these CO_2 ratings.
- Don't forget to use your ISA allowance. In this way you can invest up to £20,000 in the current tax year and any interest earned will be tax free.
- There are a number of specialist investments you can make that are qualifying deductions for income tax purposes. They include: the Enterprise Investment Scheme, investments in certain Social Enterprises, Seed Enterprise Investment Schemes and Venture Capital Trusts. Income tax relief varies between 30% and 50% of the qualifying investments. You will need to consider the commercial risks as well as the tax advantages.
- Don't forget that the State Pension is treated as taxable income for tax purposes. You are paid without deduction of tax. If your total income (including your State Pension) exceeds £12,570, this may produce unwelcome bills from the tax office at the end of the tax year.
- Although not strictly a tax planning matter, if you have an outstanding mortgage on your home, the current upward pressure on interest rates will be causing concern. The funds you use to repay your mortgage come from your after-tax income. If you can afford to increase loan repayments by paying-off part of the loan or converting from an interest only mortgage to a repayment variety this may drastically reduce the interest cost over the term of your loan. Discuss these ideas with your mortgage advisor.

Capital Gains Tax (CGT) – Tax Free Gains 2024-25

There are certain assets that you can sell without paying CGT. They include:

- The sale of any chargeable asset, like shares or a second home, if the overall gains in the current tax year do not exceed £3,000 (2023-24 - £6,000).

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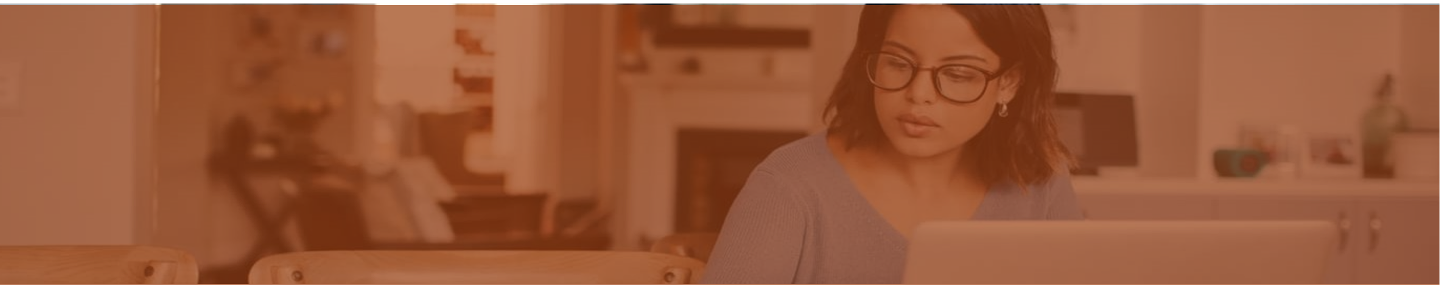

- Any gains on assets you gift to your spouse, as long as you were not separated and didn't live together during the tax year.
- Qualifying gifts to a charity.
- Gains from ISAs or PEPs.
- Gains on disposal of certain UK Government gilts and Premium Bonds.
- Betting, lottery or pools winnings.
- In most instances, the disposal of your main home.
- The disposal of your own car unless you have used it for business purposes.
- Any personal possession (jewellery, paintings, antiques and other collectibles) unless sold for more than £6,000.

CGT RATES FOR 2024-25 ARE:

Gains on disposals up to 30 October 2024

If you pay income tax at higher rates on your income plus capital gains (40% or above) you will pay CGT at:

- 24% on gains from sale of chargeable residential property, This reduced rate from 6 April 2024 applies to individuals, trustees and personal representatives.
- 20% on gains from sale of other property.

If you pay income tax at basic rates on income and gains (20%) you will pay CGT at:

- 18% on gains from sale of chargeable residential property, and
- 10% on gains from sale of other property.

Gains on disposals after 30 October 2024

The Autumn Budget presented 30 October 2024, changed the rates of CGT payable on assets other than residential property.

If you pay income tax at higher rates on your income plus capital gains (40% higher rate income tax, or above) you will pay CGT at :

- 24% on gains from sale of other property.

If you pay income tax at basic rates on income and gains (20% income tax) you will pay CGT at:

- 18% on gains from sale of other property.

To qualify for the lower rates your taxable income plus the chargeable gain must be within the basic rate income tax band. If the gain is part under and part over this limit, you will pay CGT one part at the lower and part at the higher rates.

Capital Gains Tax (CGT) – Planning Check List 2024-25

- Make sure you utilise your annual tax-free allowance of £3,000. Consider selling assets, shares for example, which can be sold within the tax-free allowance.
- If your chargeable gains are likely to exceed the £3,000 limit, are there any assets you can sell at a loss to reduce the total gains below the tax-free limit? It is no longer possible to sell and buy-back shares to facilitate this planning option: the so-called "bed and breakfast" arrangement.
- If you are contemplating the sale of your business, make sure you have arranged your affairs such that you can claim Business Asset Disposal Relief. This will potentially allow you to make qualifying gains of up to £1m and only pay CGT at 10%.
- As the level of your taxable income, for income tax purposes, will affect the rate of CGT you will pay, investigating ways to reduce your income tax earnings may save you CGT as well as income tax.
- A gift of chargeable assets to your spouse does not create a CGT charge.
- Your spouse and children also qualify for a separate tax-free allowance of £3,000. Transferring assets between family members can reduce overall CGT liabilities if considered before a sale.

- It may be possible to claim other reliefs to reduce your potential liability to CGT. These could include rollover and hold-over gains reliefs. If you are likely to make significant capital gains during 2024-25, please contact us for advice as soon as possible so that we can explore available strategies for minimizing your CGT bill.
- Although the sale of your main home is generally free of CGT, if you have let the property at any time during your period of ownership, or if you have made significant use of the property for business purposes, then there may be a CGT liability when you sell. If you are affected, make sure you take advice on this issue.
- CGT payable on chargeable disposals after 5 April 2024 and before 6 April 2025 will be due for payment 31 January 2026. If you delay the disposal until after 5 April 2025, any CGT due will be payable a year later, 31 January 2027. Theoretically, you could delay a disposal by one day (from the 5 April to the 6 April 2025) and this would extend the amount of time you would have to pay the tax by 12-months.
- The only exception to the above payment dates is if you are selling a residential property that is not covered by Private Residence Relief. For example, a personally owned let property or a holiday home. Gains on these property disposals have to be filed with HMRC – and any CGT paid – within 60-days of the property disposal (the completion date not the exchange of contracts date)
- Review all the assets you own that are currently worth less than you paid for them. Should you dispose of them and make use of the capital losses? Which would be the best tax year to register the loss? This could include a claim to treat shares as having no value (a negligible value claim).

Inheritance Tax (IHT) – Tax Free Gifts 2024-25

IHT is payable when a person dies, and their estate exceeds certain limits. It is also potentially payable on gifts made by an individual during their lifetime if the gift was made in the seven-year period prior to their death.

Small lifetime gifts can be exempt. These include:

- Gifts made out of your disposable income, Christmas or birthday presents for example.
- Other gifts up to £3,000 per tax year are exempt from IHT. An unused allowance can be carried forward for just one year.
- Wedding or civil ceremony gifts of up to £1,000 per person (£2,500 for a grandchild or great grandchild, £5,000 for a child).
- Payments to help with another person's living costs, e.g., elderly relative or a child under 18.
- Gifts to charities and political parties.

Larger lifetime gifts are potentially chargeable to IHT. The potential liabilities are:

- IHT is payable at 40% on gifts you make within 3 years of your death.
- Gifts made between 3 to 7 years of your death are tapered. The effective rate of IHT charged reduces from 40% down to 0%.
- Accordingly, these gifts are not included in the valuation of your estate after seven years.

Other situations that will affect your estate's liability to IHT include:

- Any assets left to your spouse are free of IHT.
- If the value of your estate is below £325,000, no IHT is payable.
- If your previously, deceased spouse did not use all of their £325,000 threshold, you can add any surplus to your exempt threshold. Effectively, in these circumstances, your estate could pay no IHT if valued at less than £650,000 (assuming all your deceased spouse's £325,000 threshold was unused).
- Since April 2017, an additional main residence nil-rate band applies when a residence is passed on death to a direct descendant. This additional relief will make it easier for families to pass on the family home without a tax charge. The relief amounts to £175,000.

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Inheritance Tax (IHT) – Planning Check List 2024-25

- Revalue your estate each year and take steps to minimise any future IHT liabilities if your estate valuation has increased.
- Make sure you have an up-to-date Will. Dying without a Will can cause all sorts of problems for your surviving family as well as affecting your IHT liabilities.
- If you own assets in excess of your available IHT exempt threshold, consider transferring assets into trusts or make lifetime gifts in order to reduce your family's exposure to IHT. Timing the creation of a trust can be critical and can have significant tax implications. Professional advice on these matters should be taken sooner rather than later.
- Make the most of the annual gift exemptions. You can only carry forward the £3,000 unused annual allowance for one year.
- If you make regular gifts, say a contribution to grandchildren's school fees, in excess of the £3,000 gifts allowance, you may still avoid any IHT charge on the excess if you can demonstrate that the gifts were made out of your disposable income. i.e., you do not have to dig into your saving to make the payments. Keeping accurate records of your gifts and disposable income is a key factor in claiming this relief.
- If you own a business, take advice on the potential IHT risks and the availability of Business Property Relief. This planning should probably be combined with consideration of the continuing ownership and control of your business after your death.
- You can reduce the rate of IHT on some assets from 40% to 36% if you leave more than 10% of your estate to charities.
- If your estate includes significant property holdings this may mean that your executors have to sell property in order meet IHT payable. It may be prudent to leave instructions on which property(ies) to sell.
- If your circumstances change, for example, if you divorce or re-marry, make sure you make a new Will and reconsider your IHT planning to make sure it is still relevant to your changed circumstances.
- If possible, reduce your exposure to IHT by transferring assets out of your estate. Bear in mind that these transfers, lifetime gifts, may not fully reduce your IHT liability until the 7-year period after that gift is made has expired.
- It may be possible to transfer the ownership of your interest in a business without losing control. You will need to take specialist advice.

Please contact us if you want more information on any of the issues raised in this update.