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TAX PLANNING FOR INDIVIDUALS 2022-23

Income Tax – Marginal Rates, Tax Benefits & Allowances

What are 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 change to income tax. Because of this, the percentage rate of tax charged can be higher than the underlying rate of income tax.

Marginal rates apply if:

- when your income exceeds £100,000 you lose part of your personal tax allowance, for every £2 you exceed it, you lose £1 of your allowance until the full allowance is gone.
- your income moves above the threshold where working tax or child tax credits cease to be available,
- a higher paid parent's income tops £50,000 for the first time: at which point child benefits would be under threat, or those with incomes in excess of £150,000, paying income tax at 45%, will find the tax relief they can claim for pension contributions will be reduced. Note the £150,000 threshold is reducing to £125,140 from April 2023.

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 is using new legislation to counter these salary sacrifice arrangements and so it is doubly important to consider options with care.

Income Tax – Planning Checklist 2022-23

- 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, so planning is key.
- §If you have a pension scheme, take advice from your pension advisor on the level of contribution you should make this year. The maximum you can pay in is £40,000 unless you pay tax at 45% in which case the annual limit could be as low as £10,000.
- There are no limits to the amount of gift aid donations you can make. These contributions extend your basic rate 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 £50,000.
- 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 - 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. Discuss ways to pay off part of the loan with your mortgage adviser and if you can convert an interest-only mortgage to a repayment variety this will drastically reduce the interest cost of your loan.

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Capital Gains Tax (CGT) - Tax Free Gains 2022-23

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 £12,300 (2022-23).
- 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 the 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 2022-23 are:

If you pay income tax at higher rates (40% or above) you will pay CGT at:

- 28% on gains from the sale of chargeable residential property, and
- 20% on gains from the sale of other property.

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

- 18% on gains from the sale of chargeable residential property, and
- 10% on gains from the 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 at the lower and higher rates.

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Capital Gains Tax Planning Checklist 2022-23

- Make sure you utilise your annual tax-free allowance of £12,300. Consider selling assets, shares for example, which can be sold within the tax-free allowance.
- As announced in the Autumn Statement 2022, the CGT tax-free allowance is being reduced to £6,000 from April 2023 and to £3,000 from April 2024. Therefore taxpayers contemplating disposals of chargeable assets may be advised to crystalise gains before 6 April 2023 to ensure the higher tax-free allowance for 2022-23 is fully utilised. Planning disposals is key during this period to obtain the best tax result.
- If your chargeable gains are likely to exceed £12,300, 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.
- 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 £12,300. 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 CGT liability. These could include rollover and hold-over gains reliefs. If you are likely to make significant capital gains during 2022-23, please contact us for advice as soon as possible so that we can explore available strategies for minimising your CGT.
- Although the sale of your main home is generally free of CGT, if you have let the property at any time during your ownership, or if you have made significant use of it 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 2022 and before 6 April 2023 will be due for payment 31 January 2024. If you delay the disposal until after 5 April 2023, any CGT due will be payable a year later, 31 January 2025. Theoretically, you could delay a disposal by one day (from 5 April to the 6 April 2023) and this would extend the amount of time you would have to pay the tax to 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).

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Inheritance Tax (IHT) – Tax Free Gifts 2022-23

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., an 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 their £325,000 threshold, you can add this to your exempt threshold. Effectively, in these circumstances, your estate would pay no IHT if valued at less than £650,000.
- 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.

Inheritance Tax (IHT) Planning Checklist 2022-23

- 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 affect 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 to 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.

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Seek advice

We have used reasonable care and skill in assembling the information in this document. Information or advice implied cannot be tailored to all personal circumstances or particular situations. There may also be factors relevant to your particular circumstances which fall outside the scope of some, or all of the information disclosed. Accordingly, this material does not constitute personal advice. You should not rely solely on this material to make (or refrain from making) any decision or to take (or refrain from taking) any action. Legislation changes frequently and any material in this guide covers all known changes to the date of publication January 2023.

We advise that you contact us or another professional to discuss your circumstances.

GET IN TOUCH

Email victoria@mouldsandco.com to book a 15 minute call so we can find out more about you and let you know if we can help

Call us on 01937 584188 to arrange your first 15 min fact find call with one of our team

Send us a message via our website and we will call you back

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