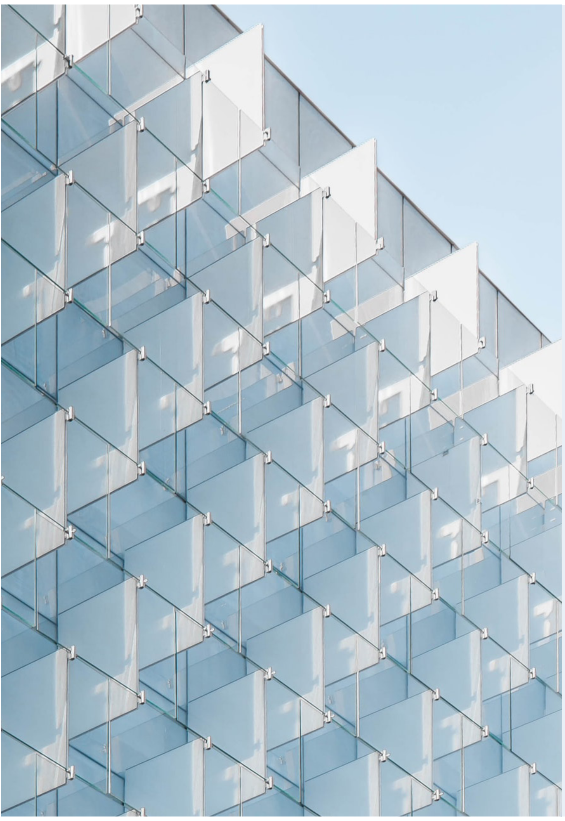
PKF SMITH COOPER

YEAR-END PERSONAL TAX PLANNING 2022

TAKE ADVANTAGE OF RELIEFS, ALLOWANCES AND EXEMPTIONS

LOCAL KNOWLEDGE, GLOBAL EXPERTISE



With the end of the tax year approaching, it's important to make sure that you have made the most of the reliefs, allowances and exemptions available to you.

Planning ahead now will help ensure you are in the best financial position to protect and grow your future wealth.

Our year-end tax planning guide provides you with details of the key allowances and reliefs available to you and includes tax planning tips to consider ahead of the tax year-end on 5 April 2022 and beyond.

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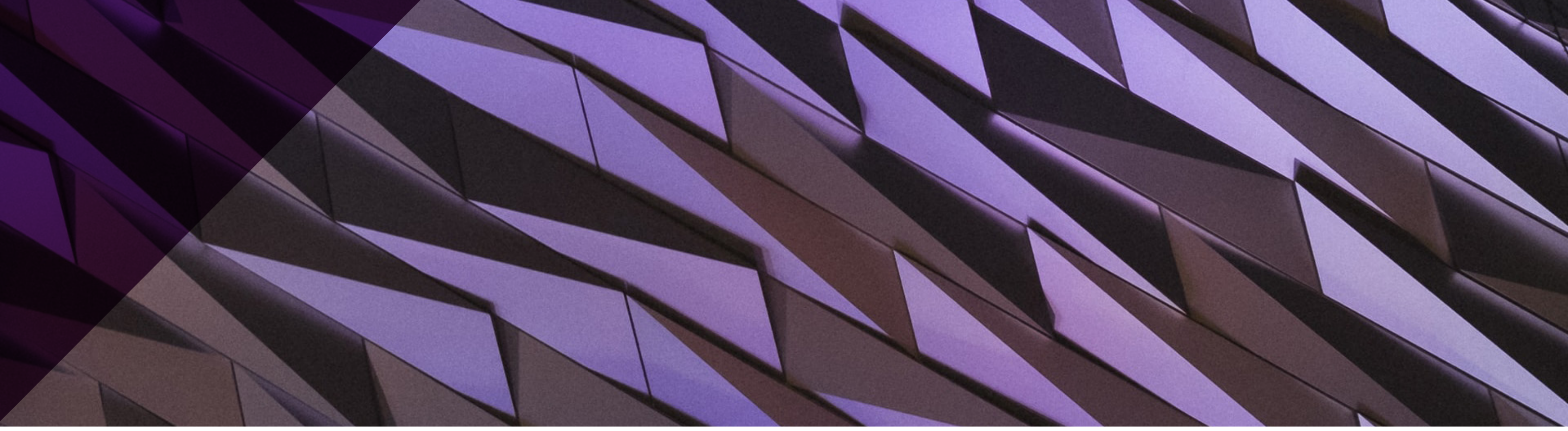

Income

Personal Allowance

Have you considered utilising your personal allowance to reduce your tax burden?

For the 2021/22 tax year, the personal allowance is set at £12,570 and is available to all individuals whose income is less than £100,000 in the tax year. Above this income level, the amount available decreases by £1 for every £2 of income received; for income exceeding £125,140, the personal allowance is nil.

As the allowance cannot be carried forward, it is important to utilise wherever possible.

- You should consider making use of lower rate tax bands and review the tax implications of transferring income-producing assets to your spouse or children.
- Spouses may be able to transfer £1,260 of their personal allowance, providing a saving of £252. To benefit as a couple, the lower earner must have an income of £12,570 or less, and the higher earner must be a basic rate taxpayer.
- If your income is around the £100k mark, it would be prudent to consider making pension contributions or gift aid donations to retain your personal allowance, or utilising an ISA to reduce your taxable investment income.

Future tax planning

At the Spring Budget 2021, the Chancellor announced that the personal allowance will be frozen at £12,570 between the tax years 2022/23 to 2025/26.

Dividend Allowance

Have you made the most of your annual £2,000 tax-free dividend allowance?

When you own stocks and shares, any income you receive is classed as a dividend and, if these are not held in an ISA or are above £2,000 per year, are subject to dividend tax according to your Income Tax band:

Income Tax band	Dividend tax rate 2021-2022
Basic rate band	7.5%
Higher rate band	32.5%
Additional rate band	38.1%

From 6 April 2022, dividend tax will increase 1.25%, so you must make use of your allowance prior to this date. If you can, transferring your stocks and shares into an ISA before 5 April 2022 would be worthwhile.

Limited company directors who pay themselves in the form of business dividends could benefit from taking a bigger dividend before the end of the tax year, when the rate increases.

National Insurance Contributions

Are you paying enough National Insurance contributions (NIC) to be entitled to your state pension? In the 2021/22 tax year you can pay a salary of up £8,840 without incurring any employer or employee Class 1 NIC charges. The rate at which a salary can be paid without incurring employer or employee Class 1 NIC charges will increase to £9,100 in 2022/23.

If you are both employed and self-employed or have more than one place of employment, it is worthwhile checking your contributions to see whether you are paying too much National Insurance.

From 6 April 2022 to 5 April 2023 National Insurance contributions will increase by 1.25%. This will be spent on the NHS and social care in the UK. The increase will apply to Class 1 (paid by employees), Class 4 (paid by self-employed), secondary Class 1, 1A and 1B (paid by employers).

Trading and Property Allowance

Do you have rental income or a profitable pastime with minimal expenses, or are you self-employed?

If your annual gross trading or property income, from one or more trades or businesses is more than £1,000 you can use the tax-free allowances, instead of deducting any expenses or other allowances.

Modest, self-employment income with minimal expenses - including selling on sites such as eBay or Etsy, or the provision of casual services like babysitting - entitles you to use the £1,000 trading allowance to reduce your potential tax liability.

If you have rental income from land or property with minimal expenses, you can use the £1,000 property allowance to reduce your potential tax liability.

Child Benefit

The High Income Child Benefit Tax Charge is at 1% of the benefit for every £100 of income over £50,000, so where the adjusted net income of at least one parent is more than £60,000, all of the financial benefit is lost. As it is based on individual income, rather than family income, if both partners can keep their annual taxable income below £50,000, child benefit will not be clawed back.

Making personal pension contributions or exchanging salary in return for employer pension contributions can reduce your taxable income to keep it below the £50,000 threshold.

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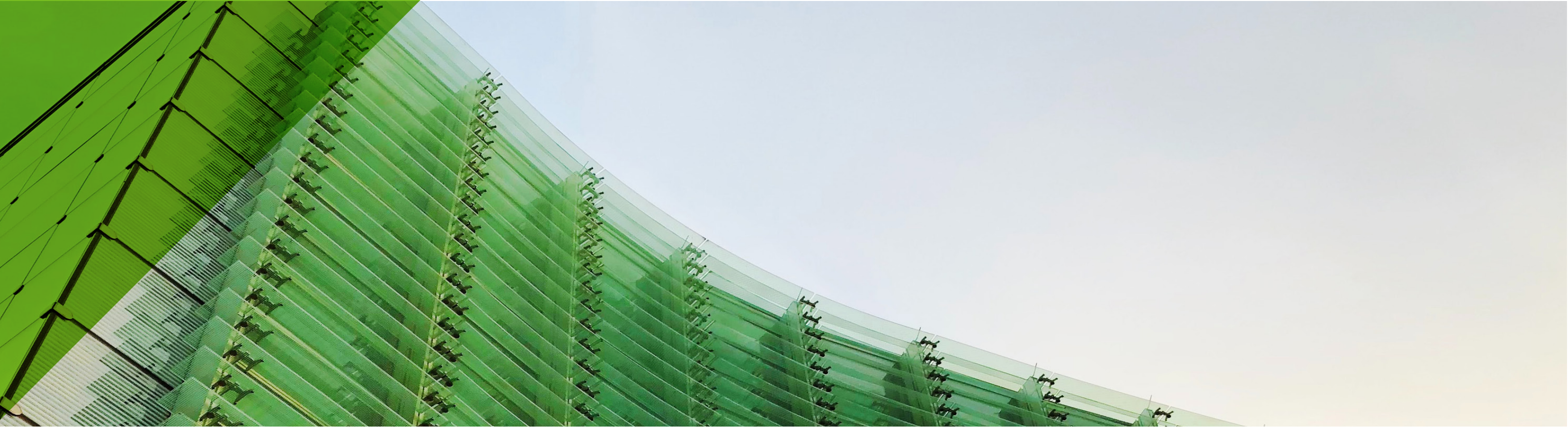


Assets

Capital Gains Tax exemption

Is your 2021/22 income above the tax-free £12,300 annual allowance and therefore liable for Capital Gains Tax (CGT)?

When you sell an asset at a profit, any income you receive is liable for CGT, with the sale of a second home, valuable assets, or stocks and shares all potentially qualifying if the income exceeds the tax-free allowance of £12,300.

If you are considering selling a residential property, CGT returns will need submitting and the CGT liability paying within 60 days of the date of completion, so it is vital to ensure that you gather information ahead of time ready to be able to comply with this deadline.

To reduce your CGT bill, you can: look into 'allowable expenses', such as house repairs, utilise tax-free transfers to your spouse, or hold your shares in an ISA, exempting them from CGT.

Inheritance Tax savings

Lifetime gifting

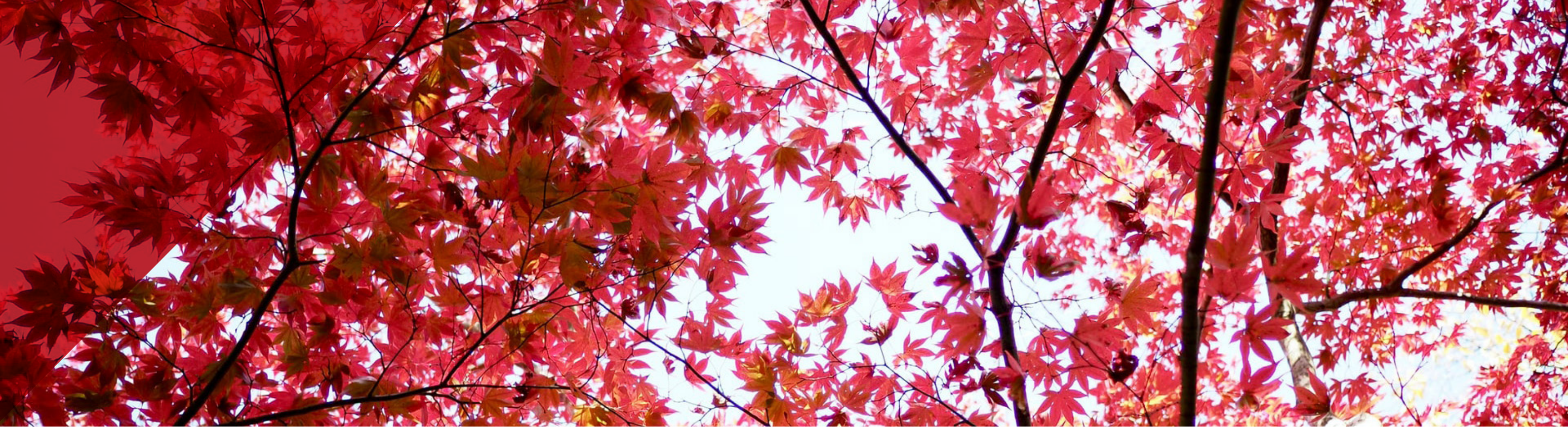
To remain tax-efficient, you should consider making gifts to utilise the annual allowances ahead of the end of the tax year.

Gifts of up to £3,000 per year can be made on an IHT-free basis, with the limit increasing to £6,000 when the previous year's annual exemption has not been used. In such a situation, a married couple can therefore gift up to £12,000 and this remain IHT-exempt.

In addition, there is a small gifts allowance of £250, which allows gifts of up to £250 to be made without IHT consequences. The £250 limit is per recipient, per tax year.

Other exempt transfers include:

- Gifts of any value between spouses or registered civil partners
- Regular payments out of your income with no set limit, provided you have enough income left to fund your normal lifestyle
- Wedding gifts or civil partnership ceremony gifts (you can give £5,000 to your children, £2,500 to grandchildren or £1,000 to anyone else)
- Gifts to charities, political parties or national organisations



Savings and investments

ISA allowance

ISAs are popular tax-free savings accounts. Individuals can invest in any combination of cash or stocks and shares up to the total annual savings limit of £20,000 in 2021/22.

However, you may only pay into a maximum of one Cash ISA and one Stocks and Shares ISA each year (or a combination of both). You have until 5 April 2022 to make your 2021/22 ISA investment.

Lifetime ISA

The Lifetime ISA (LISA) is available to any UK resident aged between 18 and 39 and eligible savers can contribute up to £4,000 per tax year. The government will add a 25% bonus to your savings, up to a maximum of £1,000 per year.

The maximum bonus that could be achieved if opened at age 18 and with maximum contributions could be as much as £23,000. When you turn 50, you will not be able to pay into your Lifetime ISA or earn the 25% bonus. Your account will stay open and your savings will still earn interest or investment returns.

If you withdraw your cash from the LISA before you are 60, other than to buy a first home or because you're terminally ill, you will lose the Government bonus.

Junior ISA

Junior Individual Savings Accounts (JISAs) are long-term, tax-free savings accounts for UK resident children under the age of 18, and can be a cash or stocks and shares product or both. Total annual contributions are capped at £9,000.

Parents or guardians with parental responsibility can manage the account, but the funds will be owned by the child. The child can take control of the account when they're 16, and are able to withdraw the money once they turn 18.

£20,000

Annual ISA limit for the 2021/2022 tax year

£4,000

Maximum annual Lifetime ISA contribution, until age 50

25%

Government bonus, up to a maximum of £1,000 per year

£9,000

Annual savings limit in a JISA for the 2021/2022 tax year

The Personal Savings Allowance (PSA)

For basic rate taxpayers, the first £1,000 of savings income (other than dividends) is tax free. Higher rate taxpayers have a £500 savings nil rate band.

The savings nil rate band is not transferable between spouses, so it is important to ensure that bank accounts are held to maximise the nil rate band.

Additional rate (45%) taxpayers do not benefit from this tax-free allowance. Any interest you earn from bank accounts, savings accounts, credit union accounts, building societies, corporate bonds, government bonds and gifts is covered. This includes interest earned on other currencies held in UK based savings accounts.

This is extremely beneficial as a basic rate taxpayer could have almost £80,000 of savings in an account paying 1.3% per annum and pay no tax at all on the interest received. A higher rate taxpayer could have savings of almost £40,000.

Invest in your employer

If your employer offers company shares, you could get tax advantages like not paying Income Tax or National Insurance on their value. Tax advantages only apply if the shares are offered through these schemes:

- Share Incentive Plans
- Save As You Earn (SAYE)
- Company Share Option Plans
- Enterprise Management Incentives (EMIs)

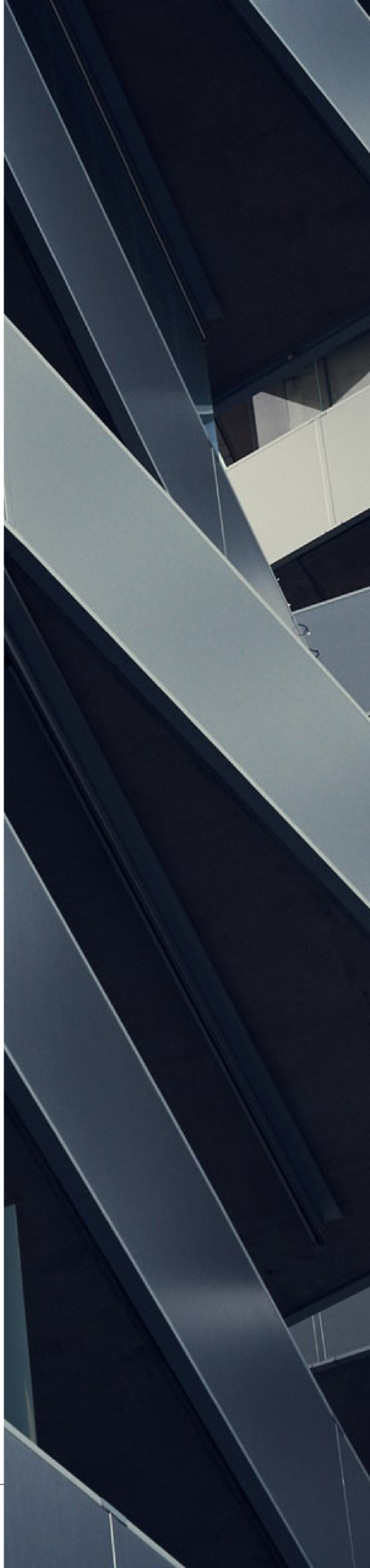
Where you can participate each year, plan carefully to use annual contribution limits and manage share purchases so that there is a steady flow of potential share sales in future tax years allowing you to maximise use of your annual capital gains exemption.

Other tax efficient investments

There are various other tax efficient investment opportunities that can help minimise your tax liabilities, including:

- Self-Invested Personal Pensions (SIPPs)
- Venture Capital Trusts (VCTs)
- Business Property Relief (BPR)
- Enterprise Investment Schemes (EISs)
- Seed Enterprise Investment Schemes (SEISs)

Some tax efficient investments have a higher risk than others, so it is important that any investments match your personal circumstances.



Planning for retirement

Annual Pension Allowance

A pension is an ideal way to save for retirement. In the 2021/22 tax year, you can pay pension contributions that equate to 100% of your income or up to £40,000 maximum - whichever is lower.

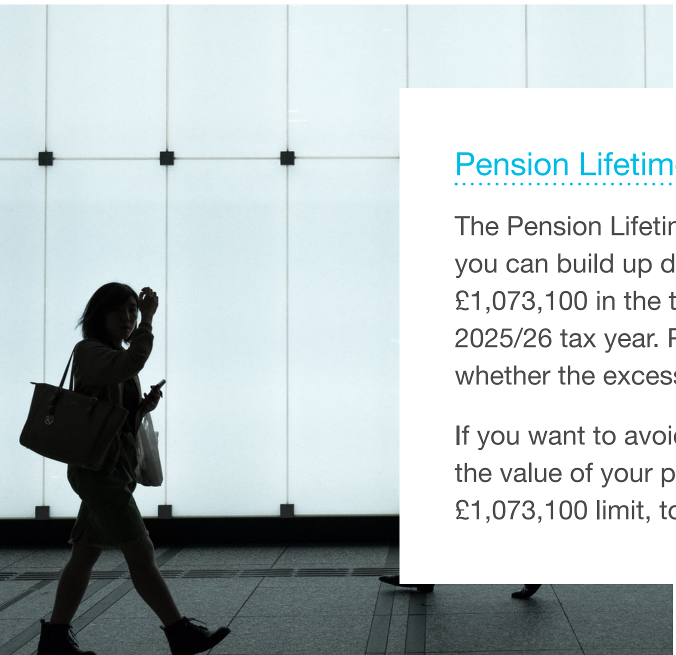
Personal contributions extend your tax rate bands by the gross amount of your pension contribution, but this is only effective if you're a higher rate taxpayer. Pension contributions through salary sacrifice may be more tax effective for basic rate taxpayers and for employers.

Personal pension contributions can be an effective option for preserving your tax free personal allowance, if your income exceeds the £100,000 threshold at which the personal allowance starts to be tapered. For example, if an individual is likely to receive income that would take them over this threshold, such as a bonus, pension contribution planning could be worth considering for significant tax savings.

> Your annual allowance is the most you can save in your pension pots in a tax year before you have to pay tax.

Individuals with an adjusted income of over £240,000 are at risk of their annual allowance being tapered down by £1 per every £2 of income, with a minimum allowance of £4,000. This could result in potential tax charges for excess pension contributions. Personal, employee and employer contributions count towards the annual allowance, not just personal and employee contributions.

There may be scope to carry forward and utilise any unused annual allowances from the previous 3 tax years before the end of the current year, if considering a lump sum pension contribution, however this must be completed prior to the end of the tax year on 5 April 2022.



Pension Lifetime Allowance

The Pension Lifetime Allowance (LTA) is the amount of tax relieved pension savings you can build up during your lifetime. The lifetime allowance for most people is £1,073,100 in the tax year 2021/22, and has been frozen at this level until the 2025/26 tax year. Pensions above this value will incurr a charge, depending on whether the excess is taken as a lump sum or as income.

If you want to avoid the lifetime allowance charge, it's important to monitor the value of your pensions and seek professional advice if you are nearing the £1,073,100 limit, to see if there are other savings options that you can make.

Get in touch

Our tax team help a multitude of clients navigate the complexities of personal tax, and work to establish an effective strategy that minimises tax liability. If you would like to seek more advice, please get in touch with your usual PKF Smith Cooper contact or one of our personal tax experts using the details below.

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