2022-23

YEAR END TAX
REVIEW

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Stealth tax rises and allowances cut

This year we have had four different Chancellors of the Exchequer and three Prime Ministers. There have been three Government fiscal statements this autumn alone and we expect another series of Budget announcements next spring.

In this newsletter we set out what you need to know about the tax landscape over the next 12 months, but please check with us before finalising any big financial decisions just in case the tax treatment has changed after publication.

In the first of those Autumn fiscal statements the rates of all classes of National Insurance Contributions (NICs) were cut by 1.25 percentage points, from 6 November 2022. This reversed the increase in NICs rates that came into effect on 6 April 2022. Those rates have not been changed again by the current Chancellor.

However, almost all the thresholds for both NICs and income tax have been frozen until April 2028. With inflation running at over 10%, this freeze will pull a lot of earners into the higher tax bands as their salaries or business profits rise; this also has a knock-on effect on the amount of personal savings allowance (PSA) available to set against income such as interest. Income within the PSA is taxed at a nil rate.

Once into the 40% band, the PSA is cut from £1,000 to £500 per year; it disappears completely for anyone who pays income tax at 45%. In fact, the 45% threshold will be cut to £125,140 from 6 April 2023, which means many more people will lose their PSA.

Individuals who are resident in Scotland pay income tax on earnings and profits at different rates.

The dividend allowance will be cut to £1,000 in April 2023, having been £2,000 for several years, and cut again to £500 from April 2024. This means more dividend income will be taxable each year, although the tax rates applicable to dividends are not changing in 2023/24.

The personal allowance has been frozen at £12,570 until April 2028; that allowance is tapered away by £1 for every £2 of income over £100,000 per year.

The annual exemption for capital gains tax will be slashed from £12,300 to £6,000 in 2023/24 and then halved to £3,000 in 2024/25.

The combination of the allowance cuts and threshold freezes will affect the tax and NICs payable by directors and shareholders of family companies.

Those with money to invest will be given greater tax incentive to subscribe for shares in certain start-up companies, as the annual investment cap for the Seed Enterprise Investment Scheme (SEIS) will be raised from 6 April 2023, when there will also be a relaxation of qualifying conditions for those companies.

From 1 January 2023, HMRC is introducing a new system of penalties to encourage taxpayers to file their VAT returns on time using MTD-compatible software, together with new penalties to encourage prompt payment of VAT liabilities.

All employers need to budget for increases in the rates of National Living Wage and National Minimum Wage from 1 April 2023.

We recommend you undertake an annual review of your financial affairs, in order to check that you are not paying more tax than you need to and to see whether any structures you set up in the past are still appropriate. Between now and the end of the tax year (5 April 2023) is a good time to assess whether you have claimed all the relevant allowances and are as well defended against high tax charges as you can be.

Of course, the personal circumstances of each individual must be taken into account in deciding whether any particular plan is suitable or advantageous, but these suggestions may give you some ideas. We are happy to discuss them with you in more detail.

Benefits-in-kind

Where employees are required to work at home, their employer may provide office equipment or pay to boost the employee's home internet service. Generally, these costs are not taxable on the employee if there is no significant private use of the asset or service.

In some cases, an employee can avoid being taxed on a benefit if they 'make good' the value of the benefit by reimbursing their employer. There are strict time limits for doing this.

All reimbursements of taxable non-payrolled benefits for 2022/23 must be made by 6 July 2023, which aligns with the date for submitting the P11D forms.

The dates for making good on payrolled benefits provided in 2022/23 are:

- 1 June 2023 for the value of road fuel used
- 5 April 2023 for all other benefits

The deadlines for making good do not apply to interest payable on beneficial loans and overdrawn directors' loan accounts. Where such loans exceed £10,000 at any point in the tax year there is a taxable benefit if insufficient interest is paid.

This taxable benefit can be avoided if interest at least equal to the Official Rate is reimbursed, where the borrower is contractually obliged to pay it. The Official Rate for 2022/23 is 2% p.a.

Despite this exclusion for beneficial loans, most people should try to pay any interest due on a loan by the 6 July following the tax year, to avoid any doubt as to whether a benefit arises at the time the P11D form is being prepared.

Don't miss the deadline for 'making good' any benefits you have received, if you want to avoid a tax charge.

ACTION POINT!

Check which benefits are tax-free for 2022/23 and, to avoid P11D issues on other benefits, meet the deadline for making good the benefit.

Prepare for higher dividend tax

The tax you pay on dividends increased by 1.25 percentage points from 6 April 2022; these higher rates will remain in place for 2023/24.

The dividend allowance will be cut from £2,000 to £1,000 on 6 April 2023 and cut again to £500 in April 2024. You pay zero tax on dividends which fall within that allowance. Any additional dividends are charged to tax at a rate dependent on which tax band they fall into (see table below).

Where different shareholders in your company hold slightly different classes of shares, the dividends paid out can be tailored to the shareholder's needs.

The company needs to have sufficient retained profits to extract as dividends and you should first check that the cash is not needed for other purposes, such as paying tax bills or investment in plant.

We can calculate how much you can extract from your company as dividends in 2022/23, without pushing you into higher tax bands.

ACTION POINT!

Have you used all your basic rate band and dividend allowance for 2022/23?.

Dividends falling within:	Rate charged
Basic rate band	8.75%
Higher rate band	33.75%
Top rate band	39.35%

Electric vehicles are still tax-efficient

The taxable benefit for using an electric company car for private journeys is currently calculated at 2% of its list price. If you chose a hybrid company car, models that can drive at least 130 miles on electric power also currently carry a taxable benefit of just 2% of list price.

However, these benefit levels will rise by one percentage point each year from April 2025 until they reach 5% of list price in 2027/28.

Even at this level an electric or hybrid company car is a bargain, as the company will cover the capital cost of the vehicle, the insurance and any repairs or servicing. Electric cars currently pay zero road tax (VED), but this will change from April 2025.

Driving an electric van can be beneficial, as there is currently zero taxable benefit for the driver! It has not yet been announced if this will remain the case from 2023/24.

Where a business buys a new electric car or van, it can claim 100% of the cost as a capital allowance in the year of purchase. For an electric car to qualify for this 100% First Year Allowance it must be acquired brand new (not second-hand) before 1 April 2025.

Companies that acquire brand new vans can claim a super-deduction of 130% of the price, if the van is acquired before 1 April 2023 (although the 30% increment will be reduced where the accounting period straddles 1 April 2023).

Where the business installs electric vehicle charging points before 31 March 2025, it can claim 100% of the cost in the year of purchase.

Where employees are permitted to freely charge up electric vehicles at work, there is no taxable benefit for the use of that electricity. Drivers of electric company cars who pay for their own charging can claim a tax-free allowance from their employer of 8p per business mile driven from 1 December 2022.

Drivers who use their own electric cars for business journeys can claim the normal mileage rates of 45p per mile for the first 10,000 miles and 25p for any additional business miles driven in the tax year.

We can advise you on the personal and business tax issues associated with all vehicles, whether electric or not.

ACTION POINT!

Consider the tax incentives for electric or hybrid company cars.

Give and save

Giving to charity under Gift Aid can result in a lower tax bill for the donor.

Making a Gift Aid donation will reduce your tax bill for the year in which the donation is made if your total income is above the 40% threshold (£50,270 for 2022/23).

Taxpayers who are resident in Scotland can save tax with Gift Aid donations if their total income, including earnings, is above the 21% threshold (£25,688 for 2022/23). Alternatively, you can shift the tax benefit back one year by telling HMRC on your tax return. This can be useful if your marginal tax rate was higher last year.

To carry back the Gift Aid donation, it must be made before you file your tax return for the earlier tax year. Say you make a Gift Aid donation of £2,000 on 21 December 2022. If you submit your 2021/22 tax return after that date (it's due by 31 January 2023) you can include a claim in that return to carry back the £2,000 donation; this will reduce your 2021/22 tax liability.

Gift Aid can reduce your income used to calculate the clawback of Child Benefit (income over £50,000) and the reduction in personal allowance (income over £100,000). It can also increase your higher rate or additional rate threshold, which determine whether you receive a Personal Savings Allowance of £1,000, £500 or nil.

To make a valid Gift Aid donation, you must declare that you will pay sufficient income tax and/or CGT to cover 25% of the value of your gift in the year the gift is made (or in the previous year if a carry back claim is being made). This is the amount of tax that the charity reclaims from HMRC.

Please contact us if you need to discuss the tax relief available on your charitable donations

ACTION POINT!

Consider carrying back charitable donations when completing your next tax return.

Review your mix of income

All interest you receive is taxable, unless it is from an ISA, but banks and building societies don't deduct tax from interest paid to individuals. For most taxpayers the rate of tax payable on that interest is 0%, so no tax is in fact due.

This nil tax rate applies where your savings income falls within your Savings Rate Band (SRB), which is worth up to £5,000, or within your personal savings allowance (PSA), which is worth £1,000 for basic rate taxpayers or £500 for higher rate taxpayers. Any savings income that falls outside the SRB or PSA is taxed at your marginal income tax rate (20%, 40% or 45%).

The available SRB depends on how much taxable income you receive, other than interest and dividends. Examples include salary, pensions, trading profits or rent. If you can control the type of income you receive, you can reduce the total tax you pay for the year, just like Harry in the example below.

ACTION POINT!

Can your mix of income be made more tax-efficient?

Example

Harry has £80,000 of capital deposited in a bank at 3%, so he receives £2,400 of interest per year. After deducting his personal allowance (£12,570) from his salary of £18,000 he has £5,430 of taxable income, which is deemed to use up his SRB. He is a basic rate taxpayer, so has a PSA of £1,000.

2022/2023	**Non savings**	**Savings**	**Tax payable**
Salary/Interest	£18,000	£2,400	
Personal Allowance	(12,570)		
Taxed @ 20%	5,430		£1,086
PSA (max £1,000)		(1,000)	
Taxed @ 20%		1,400	280
Total tax payable			1,366

Suppose instead that Harry lends the £80,000 (on which he has been earning interest) to his company, which pays him interest at a commercial rate of 6% (i.e. £4,800) under a written agreement. The company uses the money for developing a business property. Harry reduces his salary to £15,600, so that his total income is still £20,400. Reducing his salary frees up some starting rate band to set against his interest income – see below.

2022/2023	**Non savings**	**Savings**	**Tax payable**
Salary	£15,600		
Interest		£4,800	
Personal Allowance	(12,570)		
Taxable @ 20%	3,030		£606
		4,800	
SRB (5,000-3,030)		(1,970)	
PSA		(1,000)	
Taxable @ 20%		1,830	366
			972

Harry's tax bill has been reduced from £1,366 to £972 on the same level of income. The company must deduct tax at 20% from the interest it pays him but this can be reclaimed by Harry.

Working at home allowance

Where you are required to work at home, your employer can pay you a tax-free allowance of £6 per week (or £26 per month). This allowance is to cover the additional costs incurred by using your home as a workplace, such as heat, light, metered water, insurance and broadband fees.

If your employer doesn't pay this allowance, but you are required to work at home for at least some of your working time, you can claim the same amounts as a tax deduction from HMRC.

You don't need to provide evidence of the additional home expenses incurred if you claim up to £6 per week. Where the additional costs exceed this value, you can claim for the actual expenses incurred, but you will be required to have proof in the form of receipts, bills or contracts.

A claim for home working expenses for 2022/23 can be submitted online, or as part of your self-assessment tax return, or using form P87. Claims for earlier years may be submitted on tax returns or form P87 and they must reach HMRC within four years of the end of the tax year to which they apply.

HMRC is tightening its rules on expense claims. It announced on 29 November that more boxes of the P87 must be completed and that, from 21 December 2022, any P87 forms that don't include the required information will be rejected.

ACTION POINT!

We can help you make any claims for expenses related to working from home.

Accelerate tax relief!

The end of the accounting period for your business is a key point for tax planning.

You can save or delay tax by advancing the acquisition of assets to before the end of your accounting period. This permits you to claim the capital allowances associated with those assets earlier.

If you trade through a company, you can claim a super-deduction of 130% of the cost of most new plant and machinery purchased before 1 April 2023. This super-deduction only applies to the cost of qualifying new equipment, which includes vans and trucks but not cars.

Expenditure on new equipment fixed to buildings, e.g. lifts, air-conditioning and solar panels, can qualify for a special 50% deduction if purchased before 1 April 2023. These assets would normally only qualify for a deduction of 6% per year.

If your accounting period straddles 1 April 2023 the super-deduction is pro-rated for that period, which can be complicated. Please ask us to check the level of deduction for which your company will qualify.

Where the equipment is not brand new, or your business is a sole tradership or partnership, the cost of new equipment is likely to fall within the Annual Investment Allowance (AIA). This gives a deduction of 100% of the cost as a capital allowance in the year of purchase. The maximum amount that can be claimed under the AIA per year is £1 million, which will be more beneficial for companies that claiming the 50% allowance referred to above

The cost of constructing, renovating or converting a commercial building to be used by your business qualifies for a 3% pa Structures and Buildings Allowance (SBA). Costs connected with residential accommodation don't qualify for the SBA, nor do the costs of acquiring land or obtaining planning permission.

We can advise you about the type of capital allowance or tax relief for which your proposed expenditure will qualify.

ACTION POINT!

Review the timing of asset acquisitions to maximise capital allowances.

Tax-free rent

When you let rooms in your own home as residential accommodation, you can receive the rent tax-free if it falls within the limits for rent-a-room relief. This relief is currently capped at gross rents of £7,500 per year.

Where more than one person receives the rent from the property, each person has a tax-free exemption for rent of £3,750.

The conditions include that you must occupy the property as your main home at some point in the tax year. This relief can't cover income from a holiday home or buy-to-let property. Also, the accommodation must be used by the tenant for residential purposes, not as an office or storeroom.

If you let out land or buildings that don't qualify for rent-a-room relief, the income could be covered by the £1,000 property income allowance. You can't use this allowance against rent paid by your own company, a company you work for, or one with which your spouse is associated.

If either type of rental income exceeds the relevant allowance, it must be declared on your tax return, along with any related expenses. If the allowance exceeds the actual expenses, you can deduct that allowance in place of those expenses.

Where you receive a 'thank you' payment for hosting Ukrainian refugees under the Homes for Ukraine scheme, that payment does not count towards the rent-a-room allowance or property income allowance, but it is tax-free.

We can help you make sure that you declare the correct amounts of rental income and expenses.

ACTION POINT!

Can you claim rent-a-room relief or the property allowance?

R&D tax breaks

Companies that invent new production methods or products can claim enhanced tax relief for the Research and Development (R&D) costs. The enhanced expenditure scheme for small and medium-sized enterprises (SMEs) increases qualifying expenditure by 130%, so that for every £100 spent, the company enjoys a deduction of £230 from taxable profits.

This may create or increase a tax loss. Where there are no other profits against which a loss generated by R&D expenditure can be set, the loss may be surrendered to HMRC, in exchange for a payable tax credit at 14.5%.

This scheme is particularly useful to start-up companies and those struggling to make profits in their early years. However, it is being amended so that, for expenditure on or after 1 April 2023, the additional deduction will decrease from 130% to 86% and the payable credit rate will decrease from 14.5% to 10%.

It will remain a very attractive tax relief, despite the claims process and conditions being tightened for accounting periods beginning on and after 1 April 2023 as follows:

- The company will need to inform HMRC of its intention to make an R&D claim within six months of the end of the accounting period to which the claim will relate.
- The claim must include details of the advances that the company is seeking to achieve and what uncertainties have been overcome in the R&D project.
- Costs of overseas workers or subcontractors based outside the UK must be excluded from the claim, with limited exceptions
- A senior officer of the company must endorse the claim.
- Any agent that advised the company on the R&D claim must also be named within the claim.

You can ask HMRC for an advance assurance that your company, and its R&D projects, will meet the requirements. We can help you do this.

The main benefit of advance assurance is that HMRC won't raise further questions about your initial R&D claim or for R&D claims submitted in respect of the next two accounting periods.

You need to apply for the R&D tax relief within two years from the end of the accounting period in which the R&D costs were incurred. So, if your company has been innovative in the recent past, don't delay your application for R&D tax relief! We can help you with this.

ACTION POINT!

Can you incur qualifying R&D expenditure by 31 March 2023, before the tax relief is reduced?

Selling your business

If you are wondering whether, or when, you should dispose of your business, a sensible first step is to form an outline plan.

The sale of a successful trading company will generate a capital gain. This would normally be taxed at 20% after deduction of your annual exemption, which is £12,300 for 2022/23, but only £6,000 for 2023/24.

Business Asset Disposal Relief can reduce your tax rate to 10% on gains of up to £1m. However, this is a lifetime limit, so if you have already taken advantage of this relief in the past (it was formerly called Entrepreneurs' Relief) you may not be able to make a further claim on the disposal of your business.

If you want to be sure of benefiting from capital gains reliefs, speak to us.

ACTION POINT!

Be prepared for selling your business by planning early!

Elect in good time

Events don't always turn out as expected. For example, you may need to wait for a later profit or loss to arise before you can judge whether it's right to elect to use losses in an earlier year. This is why the law allows you extra time, after you have submitted your tax return, to submit a tax election or claim. The elections you may need to make by 31 January 2023 for the 2020/21 tax year include:

- to set trading losses against your other income (see below regarding pandemic losses)
- to average the profits made from farming, or as an author or artist
- to treat a property as continuing to qualify as Furnished Holiday Letting if it qualified as such in 2019/20, but otherwise would not in 2020/21

You need to wait for a certificate to arrive before making a claim for your investment under the venture capital schemes (EIS or Seed EIS), so the claim period for those schemes is five years after the tax return submission date.

Corporate tax claims generally need to be made within two years of the end of the accounting period in which the transaction occurred.

We can help you check what claims or elections you need to make.

ACTION POINT!

Have you made all the necessary tax claims?

Tax breaks on savings

You can save for retirement in a number of ways. The traditional route is via a pension scheme, but you could also use an ISA.

Savers aged under 40 can open a Lifetime ISA (LISA) and contribute up to £4,000 per year, which attracts a 25% bonus from the Government. This bonus is withdrawn if the savings are accessed other than for use as a deposit for the saver's first home, on diagnosis of a terminal illness, or from age 60 onwards.

The Lifetime ISA savings are counted as part of the annual ISA allowance of £20,000 per tax year. This allowance can't be carried over to a future tax year, so you need to use it or lose it.

ISA savings are not taxed when they are withdrawn, but they don't attract tax relief on the way into the account.

Pension scheme savings are taxed when they are withdrawn, with an exception for the first 25% cash lump sum taken. However, contributions into a registered pension fund will attract tax relief at your highest tax rate, subject to the cap imposed by your annual allowance.

This annual allowance is normally set at £40,000, which covers pension contributions made by you and by your employer on your behalf. Any annual allowance not used can be carried forward for up to three years.

If your income is over £200,000 and adding the pension contributions made by your employer takes that total to over £240,000, your annual allowance is reduced by £1 for every £2 over the latter threshold, down to a minimum of £4,000.

ACTION POINT!

If you are not sure about the tax rules on pensions, please contact us for help.

Where there's a Will...

When you die, your executors or relatives need to sort out your affairs. This stressful task can be made easier if you leave a clear and up-to-date Will that has been drafted with tax in mind.

Your executors may need to pay inheritance tax (IHT) if the net value of your assets, including your home and any insurance policies that pay out to your estate on death, exceeds the nil rate band (NRB) of £325,000. This threshold has been frozen since 2009 and will remain at that level until at least April 2028.

IHT will be charged on the value of your estate above this threshold at 40%, or 36% if at least 10% of your estate (net of NRB) has been left to charity.

The NRB can be expanded by up to £175,000 if you leave the value of your home to one or more of your direct descendants. If that is your wish, your Will must be clear about who receives the value of your home.

There are other ways to reduce the IHT payable on death, such as:

- use your annual IHT allowance of £3,000 to make gifts from your capital or savings; if you didn't use this allowance in 2021/22 you can give away up to £6,000 in 2022/23
- make other gifts to individuals as early as possible, as they will fall out of the IHT calculation if you survive seven years after the date of the gift (but be careful not to trigger CGT charges on the gifts)
- make regular gifts out of your surplus income rather than out of accumulated income or capital – those lifetime gifts may escape IHT
- ensure that proceeds from your life assurance policies are written in trust for a beneficiary – if the money lands in your estate on your death, this could trigger an IHT charge
- inform your pension fund managers of whom you wish to receive any undrawn funds by way of a wishes letter – such funds can be free of IHT if you die aged under 75

ACTION POINT!

Check that you have an up-to-date Will, particularly if your family circumstances have changed.

Scottish Taxes

The Scottish Government has the power to vary the Income Tax rates for people who live in Scotland, but not in respect of income from savings or dividends, which are taxed at rates applicable to the rest of the UK (as are capital gains).

If you are resident in Scotland in 2022/23, you may pay Income Tax at up to five different rates: 19%, 20%, 21%, 41%, and 46%. The latter two rates are due to increase on 6 April 2023 to 42% and 47% respectively.

These Scottish tax bands are not aligned with the NICs thresholds, which leads to some very high marginal rates for Scottish residents, as shown in the table.

The NICs rates are different for self-employed individuals and don't apply for those over state pension age. The high marginal rate between £100,001 and £125,140 arises because the Personal Allowance is withdrawn by £1 for every £2 of additional income in that band. The threshold for the highest rate is also reducing to £125,140 on 6 April 2023.

ACTION POINT!

If you live in Scotland and plan to take taxable income from your pensions or pay yourself a bonus, you may want to take that income before 6 April 2023 to reduce your tax bill. However, you must be careful not to push your income into a band where it is taxed at 54% or 65%.

Employee in Scotland in 2023/24

Income in band	Scottish tax	NICs	Total rate on band
£	%	%	%
0 – 12,570	0	0	0
12,571 – 14,732	19	12	31
14,733 – 25,688	20	12	32
25,689 – 43,662	21	12	33
43,663 – 50,270	42	12	54
50,271 – 100,000	42	2	44
100,001 – 125,140	63	2	65
Over 125,140	47	2	49

Crossing the threshold

When your total income reaches certain levels, it tips any extra income into a higher tax band. This can also mean you lose part or all of your personal savings allowance (PSA), personal allowance (PA) or pensions annual allowance.

Taxpayers who live in Scotland have slightly different tax thresholds but the principle is the same.

Although the rates of income tax on earnings and dividends are not changing on 6 April 2023 and most tax thresholds are frozen, you may be able to save tax by moving income from 2022/23 to 2023/24. You could also save by making certain payments in 2022/23 rather than in 2023/24.

Say you are a 20% taxpayer in 2022/23 but expect that a lump sum termination payment due in March 2023 will tip you into the 40% band (over £50,270). If you ask your employer to delay paying the termination payment until after 5 April 2023, you'll pay the tax on that income later. You will also retain all of your 2022/23 £1,000 PSA and may still stay out of the 40% band for 2023/24. The main thresholds for 2022/23 are:

- PA: £12,570 – basic rate tax (20%) starts
- Higher rate threshold: £50,270 – 20% rate increases to 40% and PSA reduces from £1,000 to £500
- Married couples: transfer of £1,260 of PA is possible where the higher earner has income up to £50,270
- Child Benefit clawback: income between £50,000 and £60,000
- Withdrawal of PA: income between £100,000 and £125,140
- Additional rate threshold: £150,000 (£125,140 for 2023/24) – 40% rate increases to 45%, PSA removed
- Pension annual allowance reduced where income (including employer pension inputs) above £240,000

Income that can easily be moved from year to year includes:

- bonus from your own company
- dividends from your company
- encashments of life assurance bonds
- withdrawal of taxable income from pension schemes in 'drawdown'.

ACTION POINT!

Please speak to us so that we can plan to minimise your tax charges.

A family view

In the UK, everyone is taxed as an individual, but social security benefits, including tax credits and Universal Credit, are awarded on the basis of the family's total income. Child Benefit is clawed back based on the income of the higher earner in a couple, irrespective of who receives it.

Families with an unequal distribution of income will often pay more tax than couples who each earn just enough to cover their personal allowance (PA) and the basic rate band. The thresholds for restricting Child Benefit (£50,000), PA (£100,000) and pension annual allowance (£240,000) all operate for the individual, so disadvantage families where the income is concentrated in one person's hands.

Consider the Browns – they have two children and claim Child Benefit. In 2022/23 George Brown earns £90,000 and pays higher rate tax, but Sally Brown has no income. As George's income is over £60,000, the family's total Child Benefit is clawed back from him as a tax charge.

In contrast, John and Joy Green each earn £45,000, so they keep their Child Benefit and pay less Income Tax, as their highest marginal tax rate is 20%. Both Greens make use of their full PA and most of their basic rate band.

Roger and Rose White are in a worse tax position. Rose's total income is £210,000 and her employer contributes £40,000 into her pension scheme every year. Roger and Rose have no effective PA, as Roger has no income to set his allowance against and Rose's PA is entirely withdrawn, because her income exceeds £125,140.

Rose is treated as having income of £250,000 (£210,000 + 40,000) for pension relief purposes. Her pension annual allowance is therefore reduced to £35,000, so she suffers an annual allowance charge at 45% on £5,000 of the pension contribution made by her employer.

These examples show that families can save tax if they transfer some income from the higher earner to the lower earner, in order to take advantage of the PA or lower tax bands and to avoid the reduction of PA or the clawback of Child Benefit. This is not always easy to do, but the following methods are permissible:

- make an outright gift of investments that produce taxable income
- put savings and investments into joint names and share the income
- employ the spouse or partner in the other person's business
- take the spouse or partner into partnership in that business

HMRC can challenge some of these methods if they think the transfer is not genuine – always take tax advice to be sure that your plan will work.

ACTION POINT!

Can you transfer an income source to reduce your family's total tax bill?

Risk with tax breaks as a reward

The Government wants to encourage individuals to make high-risk investments in small trading companies by providing income tax relief for investors. In 2022/23 the main schemes available are:

- Enterprise Investment Scheme (EIS): 30% relief on up to £2 million
- Seed Enterprise Investment Scheme (SEIS): 50% relief on up to £100,000
- Venture Capital Trust (VCT): 30% relief on up to £200,000

The amounts invested under EIS and SEIS can be treated as made in the previous tax year if the investment limit for the earlier year has not been reached.

The investment limit for the SEIS will double to £200,000 per person for investments made from 6 April 2023. Each company will also be able to raise up to £250,000 using this scheme, rather than £150,000 at present.

When you dispose of shares acquired under these schemes, any capital gains you realise will be free of Capital Gains Tax (CGT) if you've held the investment for at least three years (except VCTs, where there is no minimum period).

Any CGT that arises from selling other assets can be deferred by reinvesting under the EIS within three years of making the gain.

Reinvesting any gain in SEIS shares will halve the tax on that gain if the investment limits and conditions are not breached.

These tax reliefs won't turn a bad investment into a good one, but they will make a good one better and will reduce the risk involved in investing. You should, however, always take advice from a qualified financial adviser on where to put your money.

If you are thinking of investing in one of these schemes, you may want to do so before 6 April 2023 to maximise the benefit, but please discuss this with us in advance.

ACTION POINT!

Are tax-favoured investments worth discussing with your advisers, despite the risk?

Don't miss tax deadlines

If you miss the deadline for filing your self-assessment tax return (31 January for online filing) you will be charged a £100 penalty.

If the return is filed more than three months late, an additional £10 per day is charged and, after six months, another penalty is incurred (the higher of £300 or 5% of the tax due). The flat-rate penalties will stand even if the tax return shows no tax.

Your company's corporation tax return is due a year after the end of the accounting period. The penalty for being even one day late is £100 and another £100 is imposed after three months, then 10% of the tax due if the return is six months late. If you make a habit of submitting late company returns, the fixed penalties rise to £500 each time.

If you have a 'reasonable excuse', HMRC may agree to cancel the penalty. However, what you think is a reasonable excuse may well be found not to be so by HMRC or a tax tribunal.

Tax compliance is very important: don't take it lightly!

ACTION POINT!

If you can't pay the tax due, contact HMRC for a payment plan.

Reducing CGT bills

Everyone has a CGT annual exemption of £12,300 for 2022/23. This is wasted if you don't make capital gains in the tax year, as it can't be carried forward. In 2023/24 the annual exemption will be £6,000 and in 2024/25 it will be cut to £3,000.

If you are planning to dispose of assets that will create capital gains, you can save tax if the disposals are spread over several tax years, but you need to consider the reducing amounts of the annual exemption that will be available.

If the asset must be sold in one go, you could reinvest part or all of the gain in Enterprise Investment Scheme (EIS) shares, but you must be prepared to take a risk. This will defer the gain until the EIS shares are sold. You can sell sufficient EIS shares in later years, so the that the gains chargeable are covered by your annual exemptions.

Gifts to your spouse or civil partner don't create immediate taxable gains, as the recipient takes over the transferor's CGT cost. You can use this transfer between spouses to share the ownership of a property, and hence the gain, and thus use two annual exemptions in one tax year on eventual disposal of the asset.

When you give a valuable asset to any other close relative, the disposal is treated like a sale at market value and the deemed gain is taxable. However, where certain assets (e.g. family trading company shares or agricultural property) are given to other family members, a capital gain may be avoided if an appropriate 'gift relief' claim is jointly made. This will lead to the recipient having a bigger capital gain on eventual disposal of the asset than would otherwise have been the case.

You should always take specific legal advice when giving away land or buildings, or a share in such property. Stamp Duty Land Tax (or equivalent land taxes in Scotland or Wales) may be payable if the property is mortgaged.

ACTION POINT!

Are you taking full advantage of the CGT exemption?

Squeeze value out of your losses

If your unincorporated business made a loss during the COVID pandemic in 2020/21 or in 2021/22, you will want to set off those losses against profits and receive a tax refund as soon as possible. Fortunately, the rules for pandemic losses allow you to do this.

A trading loss from 2020/21 or 2021/22 can be carried back to set against the profits of the same trade for up to three years. Losses from letting property don't qualify for carry back, as they are treated as investment losses rather than from a trade.

When calculating the trading loss from the pandemic periods, you must include as business income any covid-related grants received, such as SEISS, furlough or business support grants. The SEISS grants are treated as business income of the tax year in which they are received, irrespective of the accounting period of the business.

Trading losses arising in 2021/22 will be set off in the following order:

1. Total income of 2021/22 and/or 2020/21
2. Trading profits of 2019/20
3. Trading profits of 2018/19

For steps 2 and 3 the maximum amount of loss that can be set off against profits in those two years together is £2 million. There is no cap on the amount of loss that can be set off in step 1.

For a 2020/21 loss, the same principles apply but the years of set-off are all one year earlier.

Any losses not used by this extended carry-back are carried forward to set against profits of the same trade in future years.

We can help you make a claim to utilise your losses in the most efficient way.

ACTION POINT!

Make a claim to carry back your trading losses and receive a refund of tax paid in earlier years.

New VAT penalties

All VAT-registered businesses must now comply with the MTD for VAT regulations, which means keeping VAT records in a digital format and using MTD-compatible software to submit VAT returns. The previous portal used for submitting VAT returns online closed on 1 November 2022, or shortly afterwards for certain businesses.

For VAT periods beginning on and after 1 January 2023, HMRC will levy one penalty point for each VAT return submitted late. The point is levied whether there is VAT to pay or a repayment is claimed on the return.

Collecting four points will result in a £200 penalty for quarterly VAT returns. Those who submit monthly VAT returns will receive a £200 penalty on receiving their fifth penalty point.

Every subsequent late filing incurs another £200 penalty until you have filed four successive quarterly VAT returns on time, or six monthly VAT returns promptly.

You will be able to appeal against each penalty point and monetary penalty, something we can help you with.

ACTION POINT!

Contact us if you have any concerns about all the new VAT compliance requirements.

Tight CGT reporting deadline for residences

Contrary to popular belief, the profit you make when you sell your home, or a former home, is not automatically exempt from CGT.

This tax exemption applies to gains that relate to periods in which you lived in the property as your main home. However, it can be extended to certain periods when you were not living in that property.

For example, the last nine months of ownership are exempt from tax where you have previously occupied the property as your home. This is extended to 36 months where the owner or their spouse is disabled or has moved into residential care.

Where you sell or transfer any UK residential property, any capital gain producing a CGT liability needs to be reported, and the CGT paid to HMRC, within 60 days of completion of the disposal.

The gain must be reported through your online UK Property Account and also on your Self-Assessment Tax Return (SATR) for the year, unless you would otherwise not need to file a SATR. We can help you with this reporting.

ACTION POINT!

Make sure you have all the information to report the gain and pay any CGT on your property sale within 60 days. We can help you be prepared.

Will you get a full state pension?

If you are looking forward to retirement, it's a good idea to check out how much state pension you will get. You can do this by logging on to your personal tax account on gov.uk, which contains lots of useful information about how much tax you owe and about your National Insurance Contributions (NICs) record, among other things.

To receive the full amount of the state pension, your NICs record needs to contain 35 completed years. You need at least ten complete NICs years to receive any amount of the UK state retirement pension.

You can plug gaps in your NICs record by paying voluntary Class 3 NICs. This payment generally needs to be made within six years of the gap year. Self-employed traders who don't have to pay Class 2 NICs because their profits are below £6,725 can choose to pay Class 2 voluntarily instead of Class 3; paying Class 2 NICs will be cheaper. For 2022/23, where profits are between £6,725 and £11,908, no Class 2 NICs are payable, but the trader still gets a NICs credit.

You may also qualify for NICs credits for some years if you were claiming state benefits, Child Benefit or were a foster carer. The NICs credits were not always applied automatically, so it's worth checking your own NICs record in your personal tax account.

If you have already paid enough NICs to get the full state pension, you may consider taking any further funds from your company as dividends, rent, or as contributions to a private pension.

ACTION POINT!

Consider topping up your NICs record by claiming NICs credits or paying voluntary contributions.