

Beginning of the year tax planning 2023/24 (Lecture P1377 – 20.19 minutes)

There is often a concentration on tax planning at the end of the tax year but not at the beginning, despite there being significant advantages to starting tax planning early. This article highlights tax planning opportunities at the beginning of the tax year.

Charitable contributions

Charitable contributions through Gift Aid can be carried back to 2022/23. This is the taxpayer's choice. Gift Aid covers contributions to registered charities. The advantage of making charitable contributions early in the tax year is that one then has the flexibility of whether to carry them back to the 2022/23 tax year or use them in the 2023/24 tax year.

ISAs/ Junior ISAs

Many taxpayers leave it to the end of the tax year to make their ISA investments. Making them early in the year increases the opportunity to earn more dividends tax free and enjoy tax free appreciation.

Pension Contributions

The same consideration applies to pension contributions. The longer that the funds are in the pension schemes, the more they benefit from tax-free growth. The annual allowance has gone up to £60,000 which is deductible against the taxpayer's highest rate of tax.

Higher Earners

Persons with income and pension contributions over £260,000, (Adjusted Gross Income) will want to make a projection regarding their earnings and therefore the amount of annual allowance left to them. Remember the phase-down works that for every £2 of income above £260,000 one loses £1 of annual allowance until it reaches £360,000. At that point it reaches the floor of £10,000 contributions. For example, if an individual has adjusted gross income of £280,000 the AGI is therefore £20,000 beyond the threshold and therefore the annual allowance will go down to £50,000.

The income threshold, without pension contributions went up to £220,000, which means that an individual could make large pension contributions including unused relief carried forward which is higher than the AGI threshold as long as their earnings do not exceed £220,000.

Remember the 3 years unused relief of £40,000 maximum per year. There is however no provision to carry back contributions and treat them as if they were made in an earlier year.

The abolition of the lifetime allowance charge and the prospective abolition of the lifetime allowance (currently £1,073,100) altogether gives a window of opportunity for individuals to consider how to maximise their pension and when to take it. The window of opportunity may close after the next General Election if there is a change of administration.

Caution is required in terms of any predictions of either the General Election result or subsequent policies that might be adopted.

EIS and SEIS investments

The start of the tax year is a good time to consider them without feeling pressurised by the imminent end of the tax year. Remember that both EIS and SEIS investments can be carried back 1 year and set against the 2022/23 tax liabilities (not against taxable income). The current limit for EIS is £2million which includes knowledge intensive companies. The SEIS amount has also increased to £200,000 per person.

There have also been some interesting relaxations in the SEIS rules starting 6 April 2023

The faster that investments are made, the quicker that the two-year period is reached under which Business Property Relief is then available on those investments. The date of the investment also starts the three-year clock for CGT relief.

The VCT (venture capital trust) does not have the carry back provision, nor does it have the CGT relief given by SEIS or the CGT deferral given by EIS. Generally, VCTs are seen as more secure investments than SEIS or EIS.

Capital Gains

The start of the tax year also gives greater opportunity for planning in terms of making disposals of assets particularly ones which are less liquid. Also, consideration needs to be given to the applicability of business asset disposal relief and whether the proceeds are going to be reinvested in a tax efficient format. The annual exemption is this year at £6,000 per person and is due to fall to £3,000 for the 2024/25 tax year.

Corporation Tax

100% expensing has come into play for the next three years. The plan is to extend it but large companies which spend more than £1m on capital expenditure per annum should be thinking of planning how to use this window in the most effective way.

Sales of Residence

Spring is here and there is normally an uptick in residential property sales. Clients need to be aware of the 60-day deadline from completion of a sale of a property to file a return and pay the relevant tax on a gain. Given the number of details that one may require in terms of:

- Acquisition cost
- Acquisition expenditure
- Improvement expenditure
- March 1982 valuations
- 2015 valuation for residential property owned by non-residents
- 2019 valuation for non-residential property owned by non-residents
- Other valuations for connected party disposals
- Connected party disposals
- Completion costs

It is important that there is some planning regarding the compilation of this information.

Separation and divorce

The new rules for separating couples which effectively give them three years after the year of separation to make transfers on a nil-gain, nil-loss basis. This effectively defers any CGT and is likely to mean that the donor will pay less, and the donee will eventually pick up the CGT as and when the residence or other chargeable assets are sold. This means that those advising separating couples need to adapt their CGT advice accordingly.

Inheritance Tax

This is a good time to consider gifts out of regular income. The tax return should have indicated the levels of income and tax. This makes an excellent starting point for calculations of surplus income that can be given away. One should note that a successful gift is neither a potentially exempt transfer nor a chargeable transfer of value making it a particularly valuable element of IHT planning.

Tax Returns

There are significant advantages to filing tax returns early:

- 1) A lot of third-party information is produced shortly after the tax year giving clients less time to lose it;
- 2) The tax return is the best document for starting personal financial planning and tax planning. It is more valuable the earlier it is done;
- 3) It allows for valuable “what-if” calculations which software providers often offer;
- 4) If you get the tax return in before the end of July, you may be able to reduce the on-account payments;
- 5) Smaller liabilities can be collected through the tax code;
- 6) Early filers of tax returns do have the opportunities to complete a paper return without penalty;
- 7) Preparing the tax return early gives more time to consider complex issues.

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