Your 2024/25 guide to maximising your personal and family wealth

AZETS

Foreword

"The UK Autumn Budget in October 2024 marked a significant shift in the UK tax landscape, with fundamental changes in relation to IHT announced. This change will significantly impact the tax positions of many individuals and business owners in the coming months and years.

This guide outlines key actions you should consider before the tax year ends on 5 April 2025, as planning now is essential to maximise tax efficiency for the future. Seeking comprehensive advice from both tax advisors and wealth management experts will be essential for those aiming to optimise their tax position and preserve wealth for the next generations."

Praveen Gupta

UK Head of Tax

Click here to contact Praveen

"Individuals' and family wealth could be impacted from next April, making current reliefs and rates more valuable than ever to utilise. Whether you want to be sure of a comfortable retirement at an age of your choosing, travel the world or make sure your family and children are financially secure, you should be planning now to optimise your wealth."

Mark Parkinson

CEO, Azets Wealth Management

Click here to contact Mark

In conjunction with the financial planning experts at our sister company, Azets Wealth Management, we have covered a lot of scenarios in this guide and not all will be relevant to you. However, where a suggestion we have given is relevant, please get in touch.

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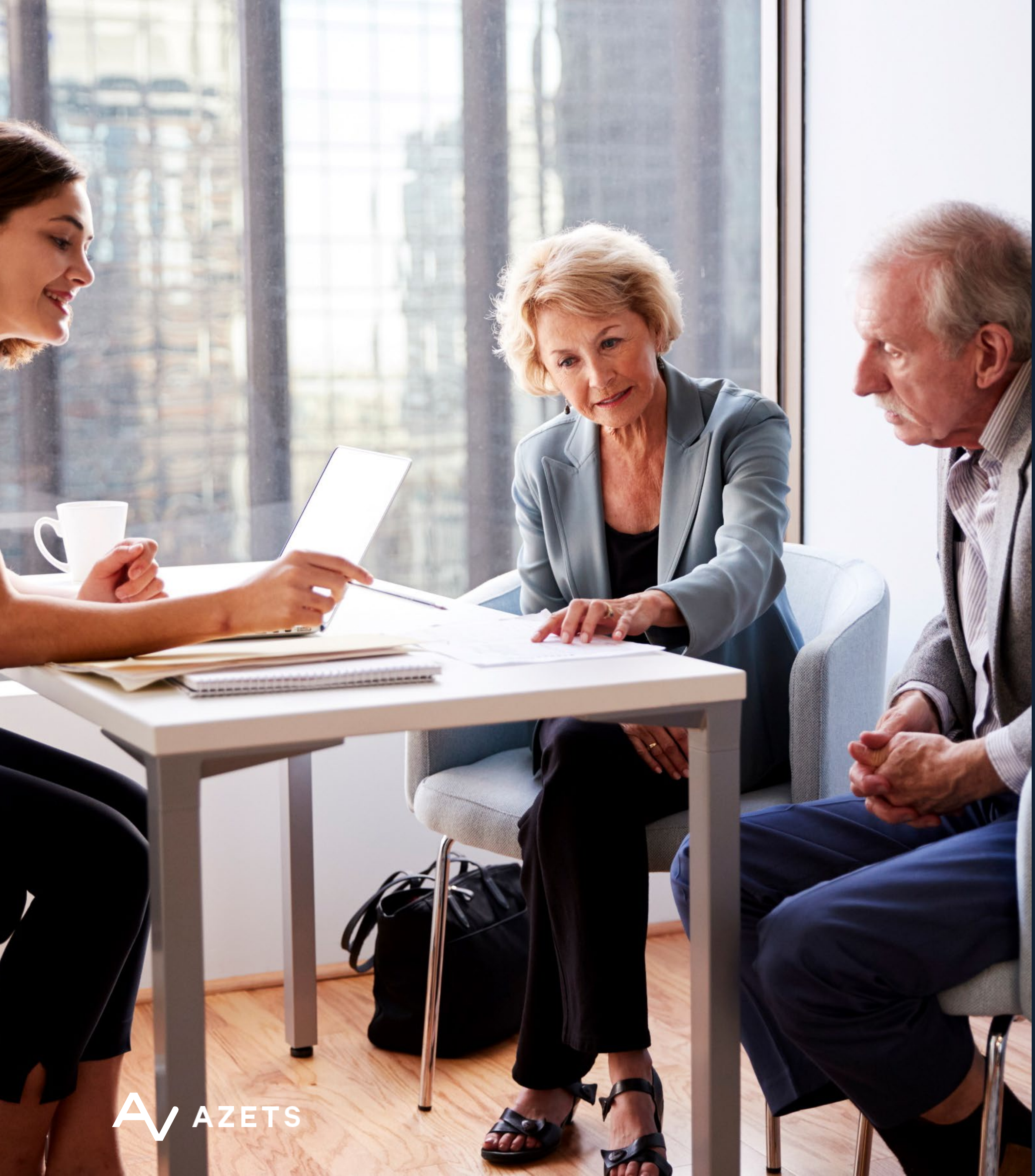


Inheritance tax

"When you've worked hard for your wealth, you want it to last for generations.

Robust estate planning can have a huge impact on a family's prosperity, security and peace of mind. And, at the heart of that planning, is a rigorous approach to Inheritance Tax."

Naomi Wells

Partner

Click here to contact Naomi

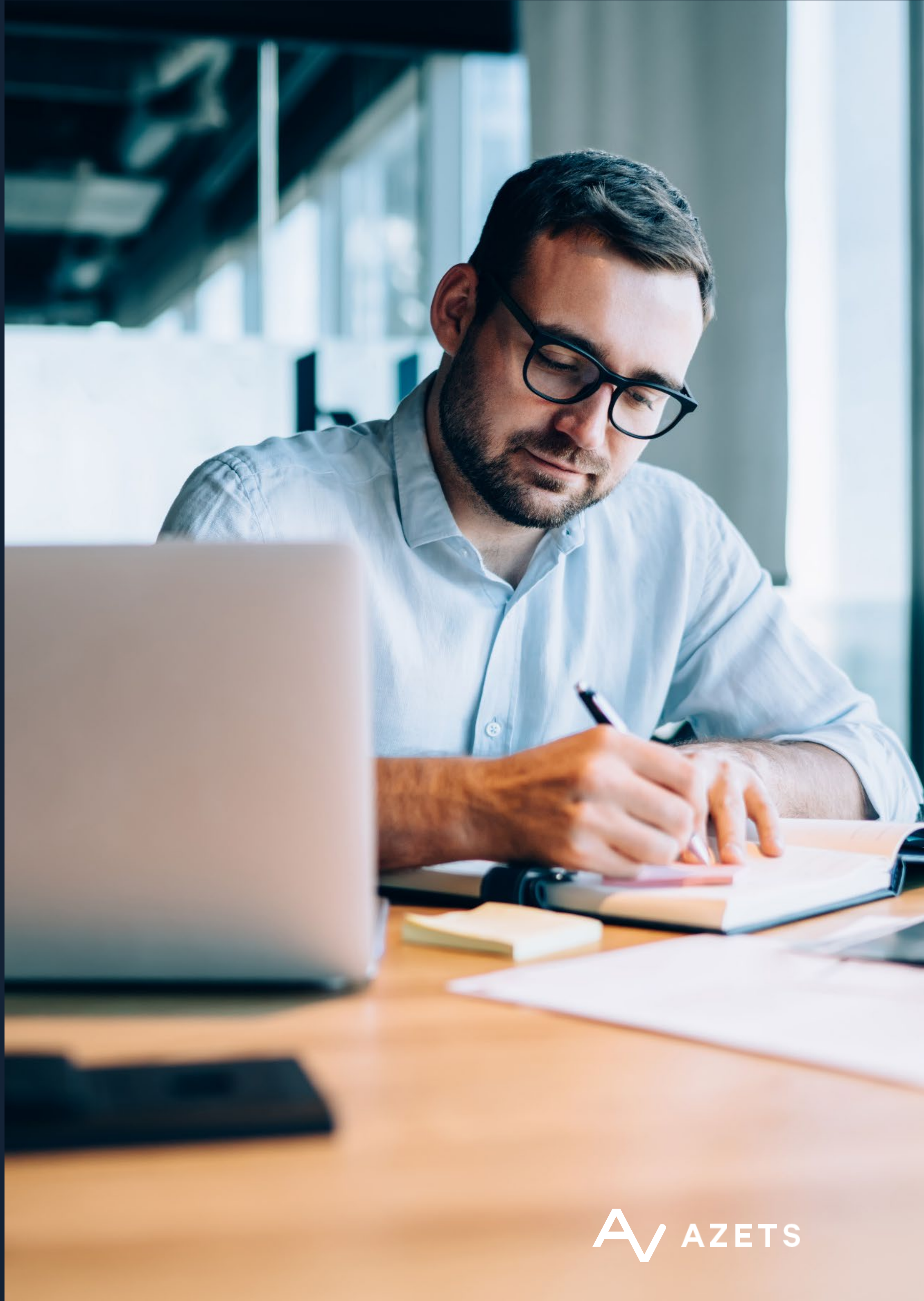
Recent changes

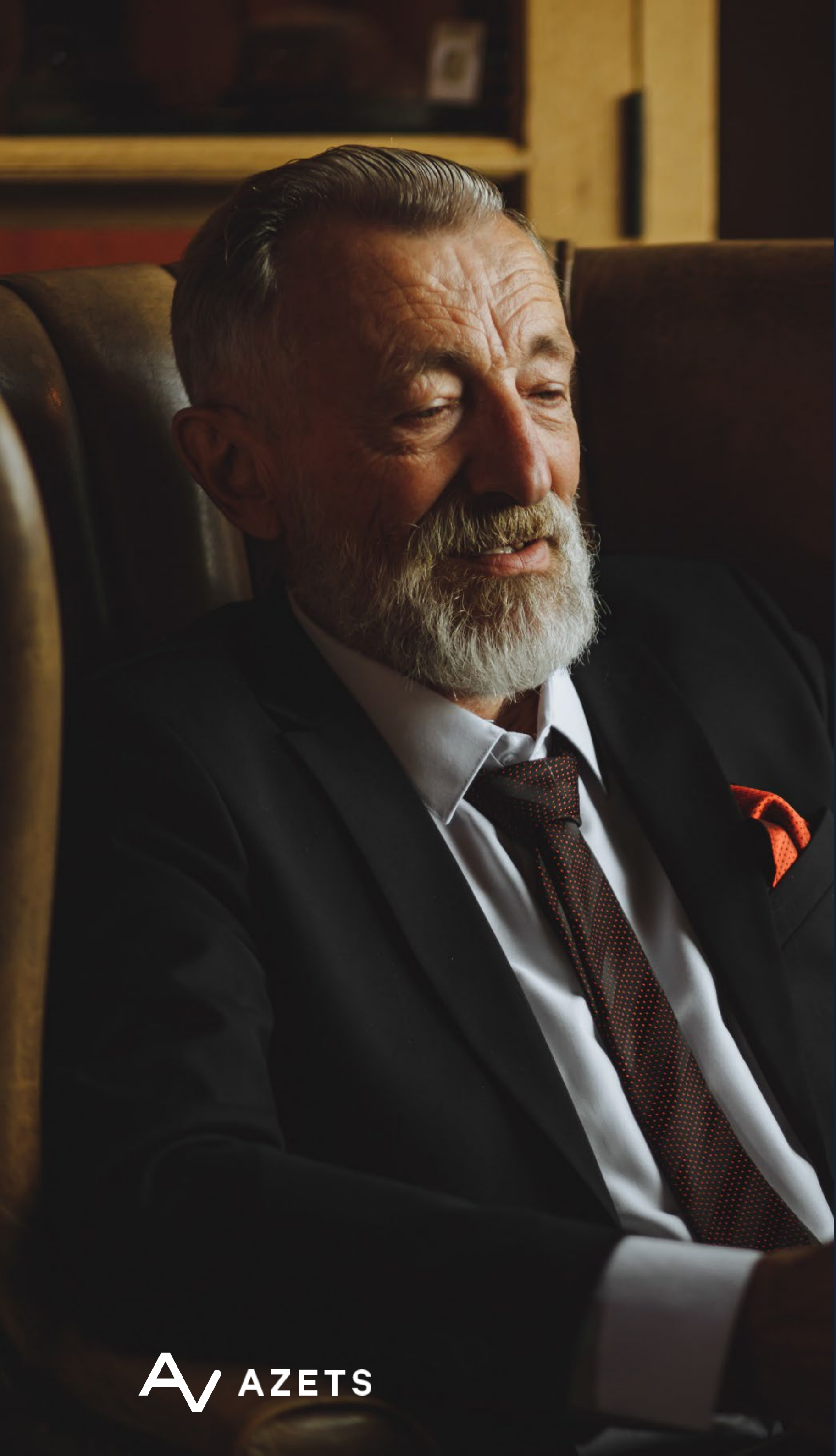
The Autumn Budget proposed significant changes to two of the key Inheritance Tax (IHT) reliefs with effect from 6 April 2026. Agricultural property relief (APR) and Business Property Relief (BPR) will change so that, rather than the current unlimited levels of relief on qualifying disposals, 100% relief will only be available on the first £1m of value, with anything beyond that only receiving 50% relief. Relief for Alternative Investment Market (AIM) shares will be restricted to 50%. One small improvement is that APR is being extended to environmentally managed land with effect from April 2026. While it will still be important to ensure that you can benefit from these important reliefs, those who had assumed that no IHT would be payable will have to take advice to consider how to mitigate the potential tax charge, particularly where their estate will not have sufficient liquidity to pay the tax.

Similarly, another announcement in the Budget was that, from 6 April 2027, pension funds, possibly including any unspent funds left in the scheme, will no longer be exempt from IHT when the scheme member dies.

For many people, these changes to assets, likely to be of a significant value, could mean that their estate exceeds their NRB for the first time. It is important to seek specialist advice on estate planning as soon as possible.

In addition to advice required in relation to the changes mentioned above, over the next few pages we highlight other IHT planning ideas that you can consider.





Gifting

While most gifts to individuals are free of IHT unless you do not survive seven years, certain gifts such as those into trust are (over and above the cumulative nil rate band (NRB) amount) immediately chargeable unless you can apply a relief.

If you can, reducing the value of your estate to below the NRB (£325,000 for 2024/25 and frozen at that level until 2028) will reduce the IHT payable on death to nil, assuming you have not made gifts in the seven years prior to death. NRBs are transferable between spouses, so if joint estates have a value of less than £650,000, the same basis will apply.

There is also the possibility of receiving additional allowance in the form of the residence nil rate band (RNRB - also transferrable between spouses) which is up to £175,000 per spouse (for 2024/25) provided the family home is left to direct descendants. It may also be available if you have sold a property to downsize. Beware though if your estate is large; where the gross value of an estate is £2m or more (ignoring certain reliefs), the RNRB amount is tapered until it is all exhausted.

The standard NRB is never tapered. This could be particularly important where all assets pass to the spouse on first death, meaning he or she may be left with a larger value estate. Note that it is not normally possible to gift away your home during your lifetime, as by continuing to occupy this makes it ineffective for IHT purposes. There are some ways to consider planning with the main home but they are by no means straightforward and this is an area that HMRC monitor closely.

When making gifts, remember that gifts to a spouse or civil partner to enable them to use their NRB are tax free, although note the effect on joint estates as detailed on the previous page. Gifts to other family members can, over time, also be tax efficient, as gifts to individuals that are not covered by one of the exemptions available, will generally be exempt provided you survive for seven years from the date of the gift. That said, it is normally better to gift assets before death even if you do not survive seven years, as after three years there may be some tapering of the IHT charged on lifetime gifts. Also, for the purposes of the £2m limit mentioned above for the RNRB, any gift prior to death can be effective in reducing the gross value of your estate.

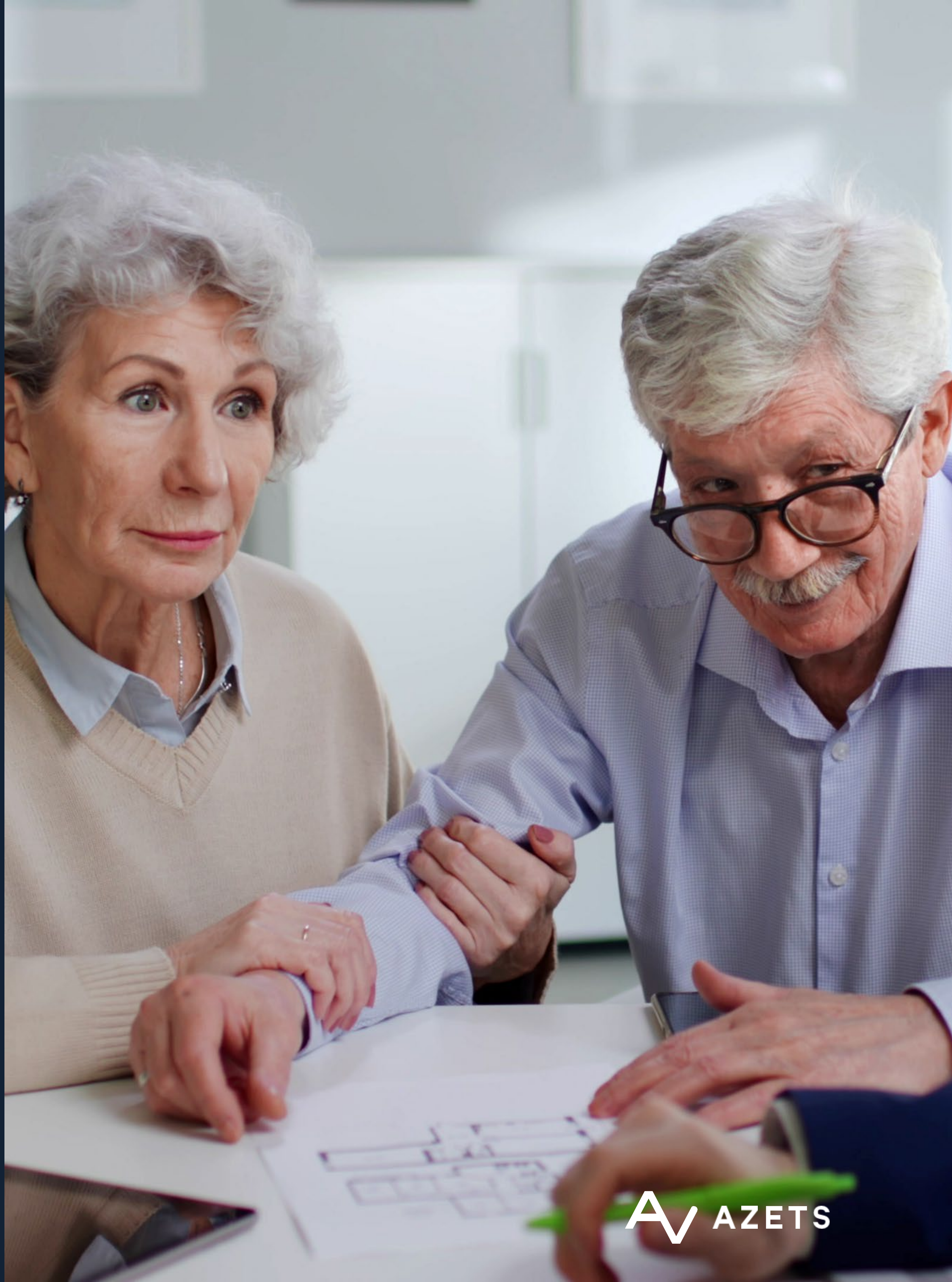
Make more, smaller gifts

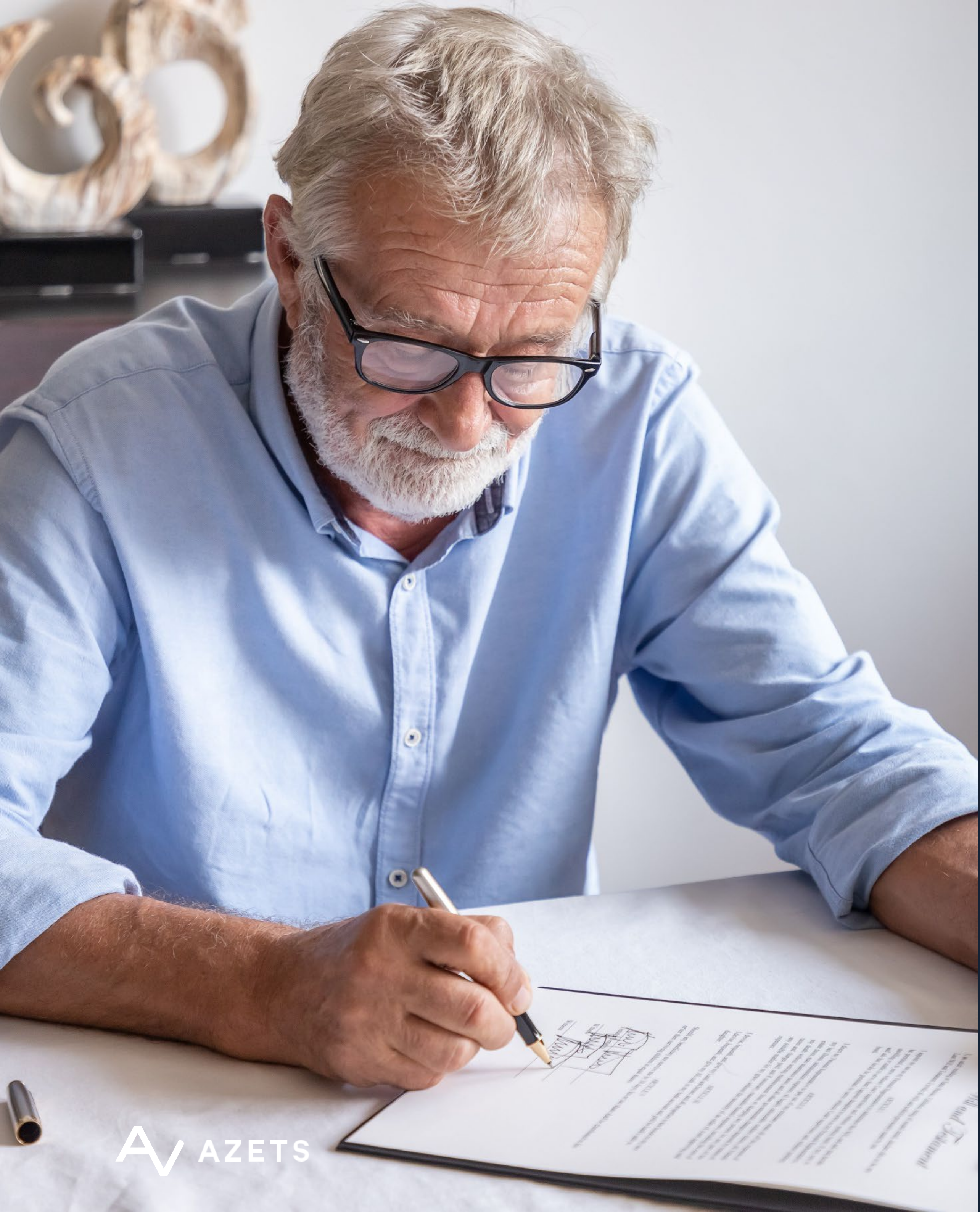
While people are normally aware of the personal allowance for Income Tax, and the annual exempt amount for Capital Gains Tax (CGT), did you know that there is a similar amount available for IHT gifts? Making the most of these small exemptions is a straightforward immediate planning option.

Each year you can gift £3,000 free of IHT, and if you have not used the previous year's amount, you can use that too. In addition, there is a small gifts exemption of up to £250 per person per year, although if the £250 is breached, the whole amount becomes chargeable. There are also specific exemptions for gifts made in consideration of marriage and other life events.

There is an unlimited exemption from IHT on gifts made that come out of your normal income. While there is no cap on this exemption, it is limited by the amount of your income, and HMRC will look to the amount of income per year and will certainly not accept income which is carried forward for more than two years. In addition, these must be regular payments; while this does not have to be on an annual basis as a minimum, longer intervals will make it more difficult to prove regularity of payment.

Finally, the amount of the payment must not reduce your normal standards of living. To evidence this, HMRC will ask for a list of your normal expenditure items and compare this with the income available to you. Particularly if started early, this can be a very effective way to shift considerable sums from your chargeable estate over time without an IHT charge. This exemption can also be used for gifts into trust.





The importance of an updated Will

It is understood that a large percentage of UK adults do not have a Will, which is inadvisable, not only to facilitate effective tax planning, but also to make sure desired passing on of goods for family members. The path of asset distribution under intestacy rules may not be as you think it is!

We would always advise you to regularly review and update your Will as your family and financial circumstances change, and as tax legislation changes, as a way of ensuring succession and to manage your family's IHT exposure. Consideration should also be given to setting up Lasting Powers of Attorney.

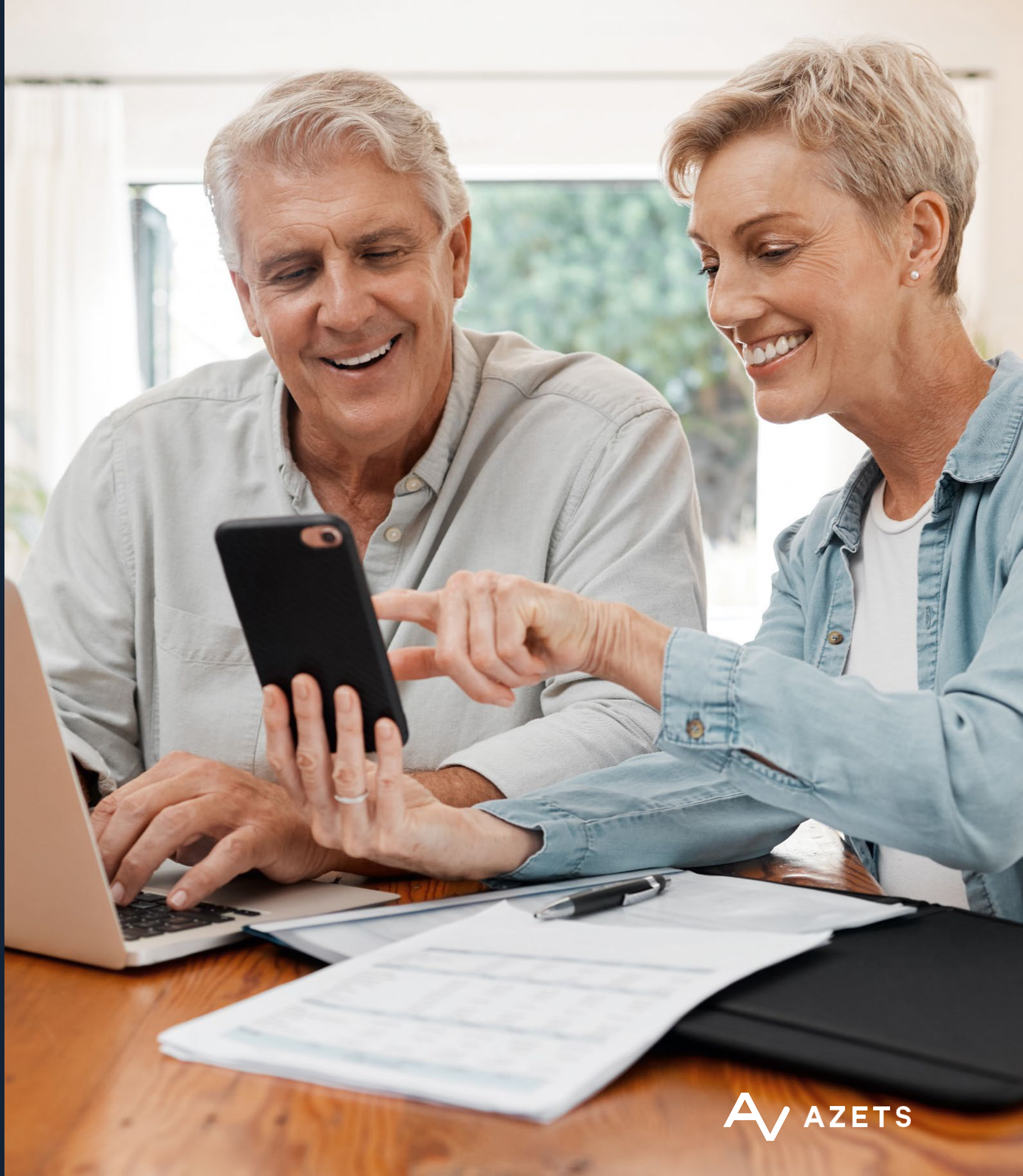
Pensions

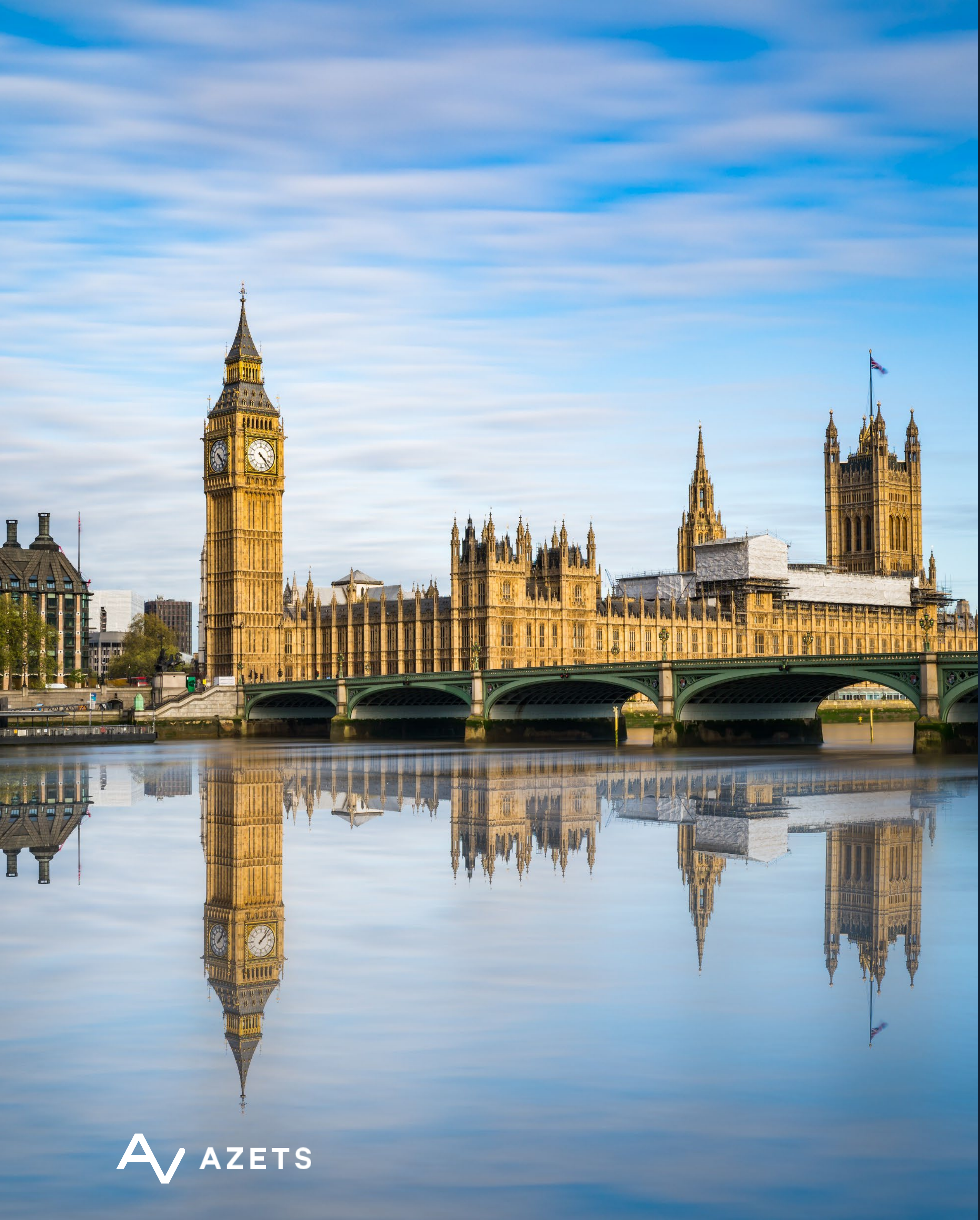
"Effective and early pension planning is key to a financially secure retirement. At the heart of this planning is being aware of and taking full advantage of the available pension tax allowances for all the family."

Graeme Dreghorn

Director, Azets Wealth Management

Click here to contact Graeme

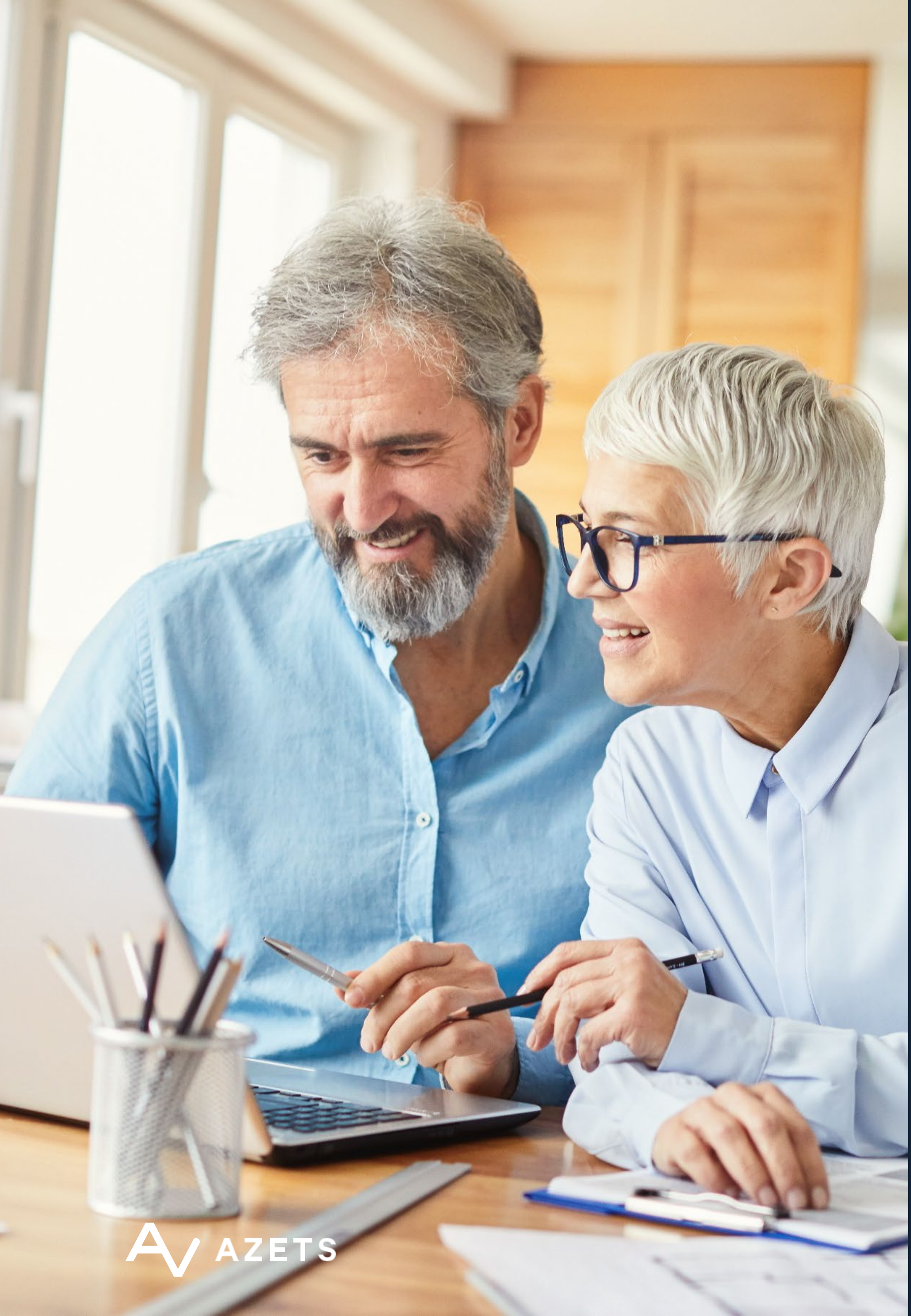




Recent changes

As mentioned earlier, from 6 April 2027, pension funds, possibly including any unspent funds left in the scheme, will no longer be exempt from IHT when the scheme member dies.

The detailed rules on the pension changes are yet to be confirmed, however, in the meantime, the following planning ideas could be considered.



Consider making big pension contributions…

The limit on which an individual can claim income tax relief on pension contributions (the total of personal and employer contributions) is currently £60,000. An individual must also have taxable earnings at least equal to the amount of their personal contributions. While you can claim relief at your marginal rate of tax, basic rate 20% tax relief is normally given automatically on personal pension contributions, meaning this amount will also pass automatically into your pension. The further relief available to higher and additional rate taxpayers should be claimed on your tax return, (unless a salary sacrifice pension is in place, as relief is given at source). Note that the annual allowance is restricted for certain high-earning individuals, explained below.

Provided your earnings are large enough to absorb it, it is possible to make contributions in excess of the annual £60,000 allowance, by making use of unused pension allowances from the previous three tax years using pension carry forward rules (assuming you had a pension scheme in those years). Under these rules, by using the current year's allowance and that of the previous three years, it is possible to contribute up to £200,000 to your pension scheme and receive tax relief on the whole amount so long as you earn at least this amount.

If you don't have earnings of £60,000, the maximum will be limited to those earnings. If you have no earnings, contributions of up to £2,880 can still be made, receiving basic rate tax relief at 20% making a total annual contribution into a pension scheme of £3,600 possible.

As ever, when considering an investment strategy in relation to pension funds, independent financial advice should be taken. Those without earnings could also consider making voluntary Class 3 National Insurance contributions to top up your State Pension entitlement.

...but don't make contributions that are too big

Although there are no limits on the benefits an individual can receive - or crystallise - from registered pension schemes, subject to paying the appropriate taxes, there was an overall limit on the value of tax privileged pensions funds a member could accrue during their lifetime, the Lifetime Allowance (LTA). The LTA was first introduced in tax year 2006/07 starting at £1.5M, increasing up to £1.8M by 2011/12, although as big pensions for the wealthy fell out of favour, it was then reduced, so for the tax year 2022/23 it was £1,073,100.

However, since 2023/24 the LTA has been abolished (although it will remain important for calculation of the maximum tax-free withdrawal amount), which is a significant change in pension planning, particularly for those individuals who had reached the previous limits. However, there is nothing to prevent a new Government reinstating an LTA in the future.

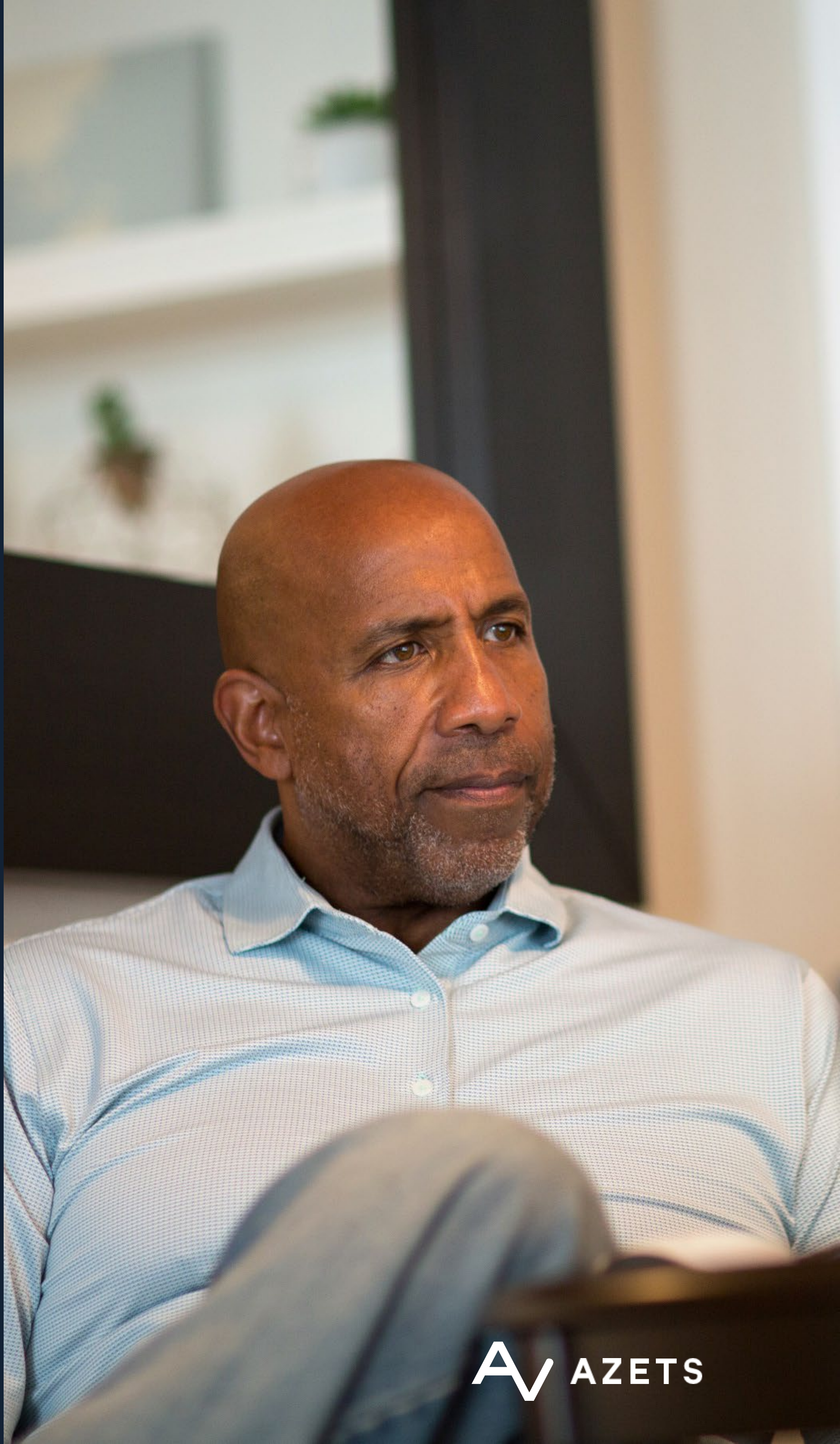
You should seek expert financial advice regarding your pension provision, if you are affected by the removal of the LTA for 2024/25.

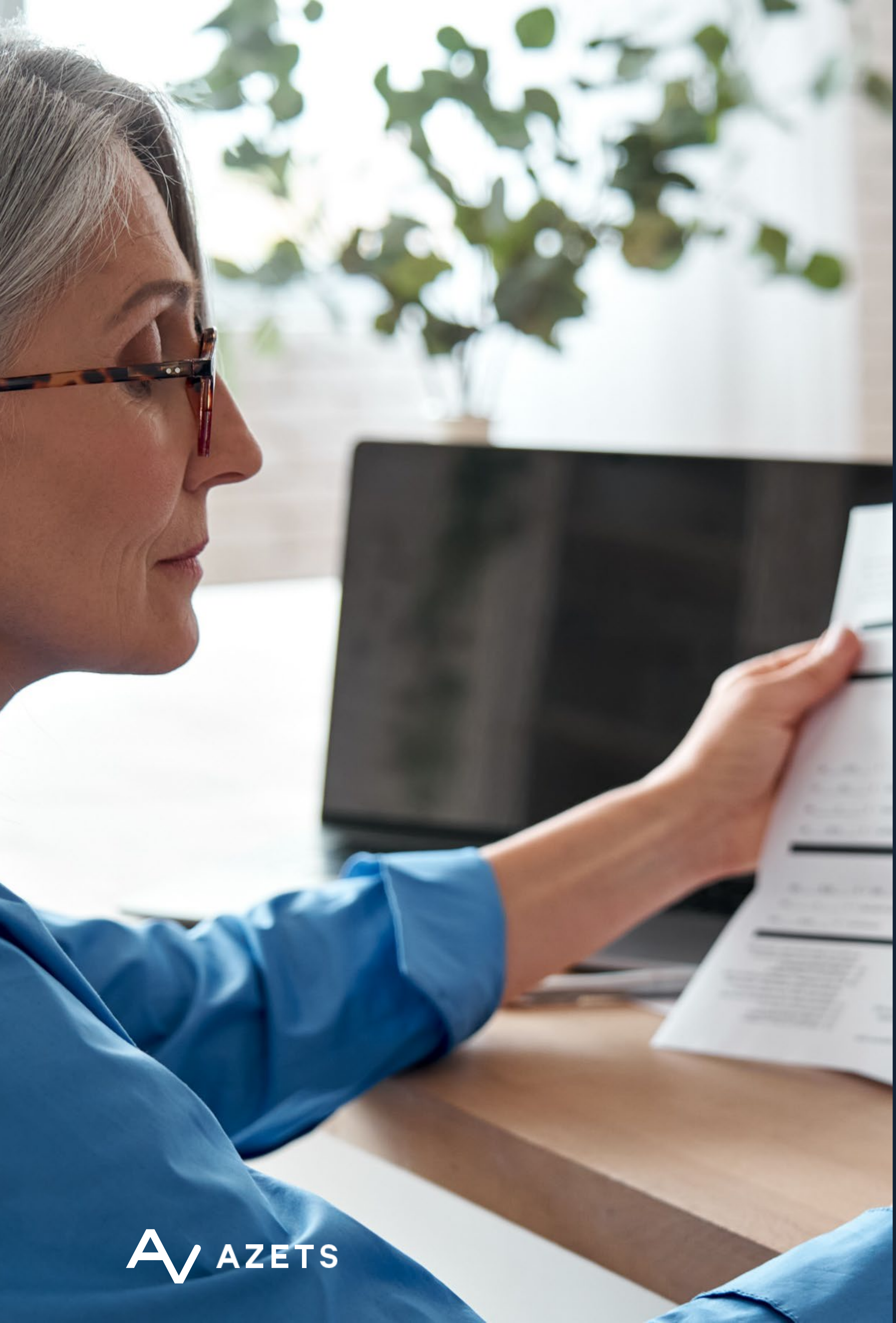
We still have the annual allowance to consider.

Since 6 April 2023, if you earn more than £260,000 (adjusted for employer pension contributions), you will start to lose your annual allowance, and once your adjusted income is £360,000 or more, your tapered annual pension allowance will be only £10,000.

You can still pay into your pension above that amount, but you will have a tax clawback at your marginal rate, giving no relief on further contributions. You can either pay this clawback via your Tax Return, or by asking your pension scheme to pay the charge from your benefits, subject to strict time limits.

There is also a £10,000 annual limit on money purchase pension schemes, which can apply where you have drawn a lump sum or an income from an existing pension, and then continue to contribute to a different pension.





You don't have to buy an annuity in retirement

Changes introduced in April 2015 allow much greater choice and freedom on the pension options available to you, which mean you no longer have to take an annuity at any age, allowing you to instead access your pension savings in a more flexible way.

From age 55 there is the ability for you to start drawing pension benefits, regardless of your employment status. It may not even be necessary to start taking a full pension income immediately. For example, depending on your existing pension plan, it may be possible to just take your tax-free cash entitlement (entirely or in part) and designate the remaining funds into pension drawdown.

Pension drawdown allows you to access up to 25% of your pension fund tax free, with the remainder staying within the tax efficient pension wrapper. Any funds subsequently accessed from the drawdown element of the pension, i.e. the other 75%, are then taxable when you draw them at your marginal rate of tax at the time of drawing. This means it may be unlikely to be beneficial to access larger sums until you have stopped working completely, as this could trigger an income tax liability at higher rates.

If considering accessing pension benefits, it is prudent to seek independent financial advice and potentially phase the approach to maximise tax efficiency. If you are lucky enough to have a final salary pension scheme, the benefits you are entitled to receive may be higher, although this is at a cost of far less flexibility, and the inability for loved ones to inherit any unused pension. While it is possible to transfer benefits into a more flexible money purchase scheme, the financial loss of benefits surrendered as part of the process can be significant and, in most cases, not beneficial. Anyone considering this issue must seek expert financial advice from a qualified specialist.

Ask someone else to pay into your pension

Although no-one has started a crowd-funder for pensions contributions (yet), and neither is this a call on the bank of Mum and Dad, there are two sources through which your pension funds can be increased at no, or lower cost to you.

If you own your own company, ask the business to consider making a contribution to your pension as a very tax efficient method of remuneration planning. With a pension contribution there is no immediate tax to pay for the individual, (but you do need to watch the pension annual allowance) compared with up to 45% income tax if money is withdrawn as salary (national insurance costs not included) or 39.35% on dividends. Furthermore, pension contributions should be an allowable expense for the business, so the company can save up to 26.5% in corporation tax against the gross pension contribution.

For employees, sacrificing salary or even negotiating additional pension contributions as part of your package is similarly tax efficient.

Any private pension contribution you make out of net income will also benefit from immediate basic rate tax relief, resulting in an automatic boost of 25% to the pension saving. If you are a higher or additional rate taxpayer, HMRC will contribute more to your pension fund. By way of example, someone who makes a £10,000 net pension contribution will immediately benefit from their pension provider grossing this up to £12,500, the difference being funded by HMRC. In addition to this basic rate tax relief, they will be eligible to claim a further £2,500 in higher rate tax relief, resulting in this £12,500 gross pension contribution only having an effective net cost of £7,500. The other £5,000 has been paid by HMRC.

Set your grandchildren up for retirement

While most people appreciate that pensions are a tax-efficient way to save for retirement, most of us do not get around to thinking about pensions until we are in our 30s, 40s, or even later. There is no minimum age requirement, meaning all UK residents can hold, and contribute to a pension scheme - even children.

Add this knowledge to the fact that anyone can contribute £2,880 net (£3,600 gross) per year into a pension even where they do not have any earnings, and you can see how this would be an easy way to start your grandchildren (or children) off on the right foot, even if they are still in nappies.

You can also pay into your children or grandchildren's pension as well as making contributions into your own pension. Payments into another persons' pension may become a Potentially Exempt Transfer (PET) depending upon the value of the payment.

It is worth noting that regardless of earnings, you can still make payments into a pension scheme. Most pension schemes provide immediate tax relief on contributions - known as Relief at Source - which means that this payment is then grossed up to the £3,600, therefore the £2,880 payment is within the individual £3,000 gift allowance so it can be a useful way of utilising this particular allowance.

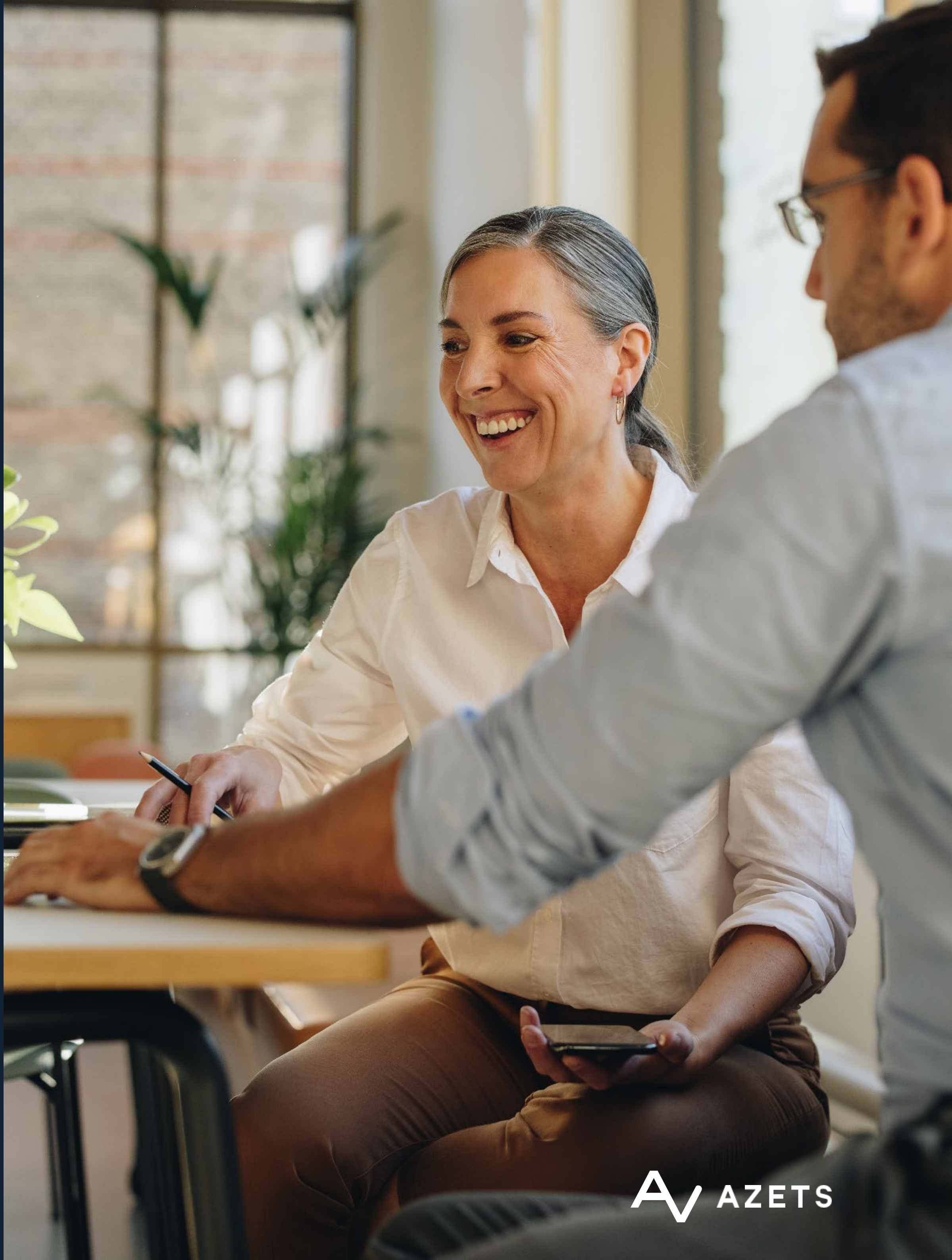
You don’t have to draw on your pension

There are special tax rules for pension funds that remain in a defined contribution pension scheme when the member dies.

If you are unfortunate enough to die before the age of 75, there is some good news for your nominated beneficiary(ies) who can receive your pension funds as a lump sum, or as an income free of any income tax.

If you die after the age of 75, then the beneficiaries would pay tax on the income or capital at their highest marginal rate of income tax as they draw benefits from the fund. Should the recipient of a taxable inherited pension then die before the age of 75, then the plan would revert to being tax-free. (As noted above, from 6 April 2027, IHT is expected to be charged on pension funds that can be inherited).

These rules do not generally apply to Defined Benefit (final salary) pension schemes as there is not a specified fund associated with them, and it is therefore recommended that advice is sought on this point, and indeed on any other aspect of your retirement planning.



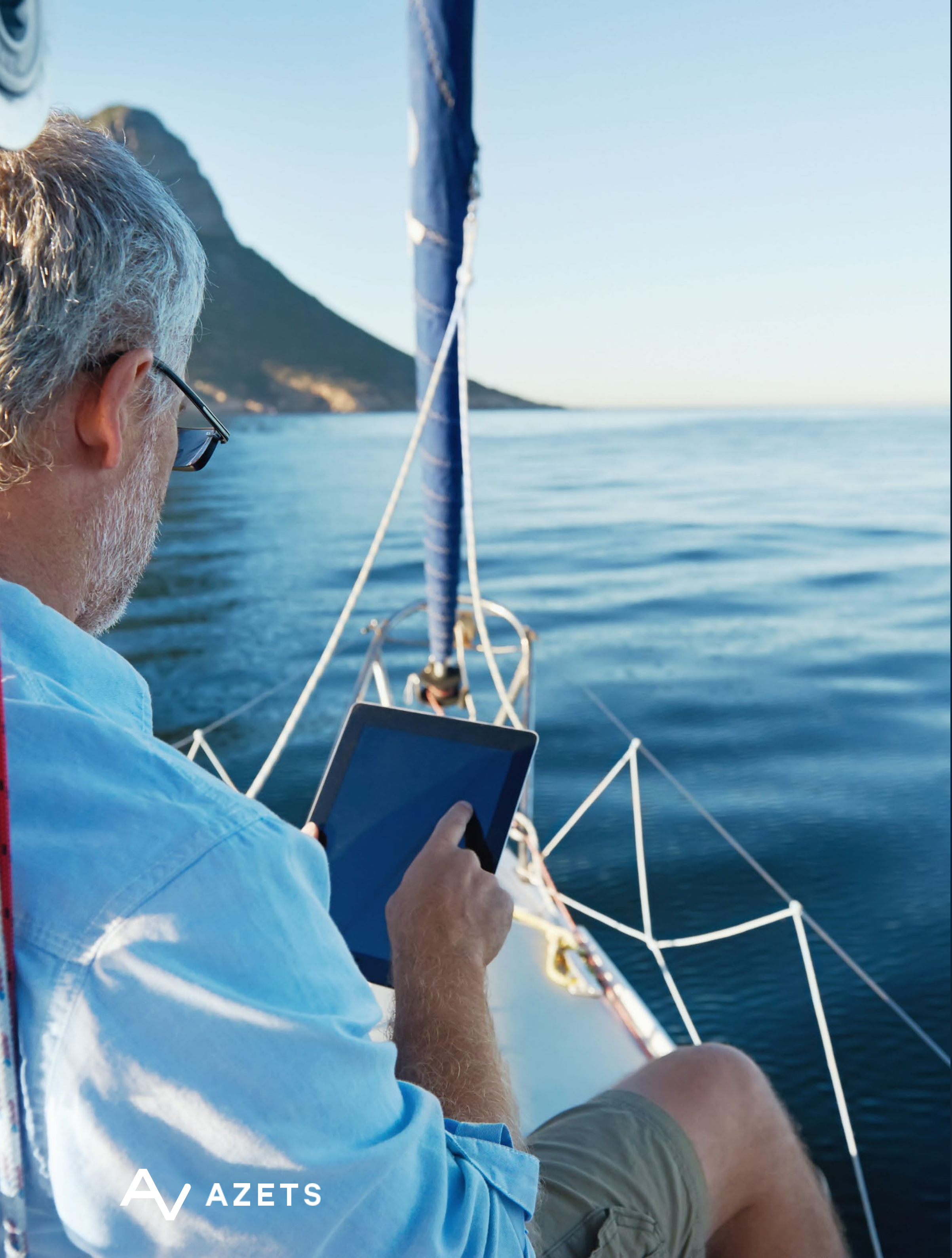
Non-domiciled changes

"The new Labour government committed to the majority of the non-dom changes announced by the previous government and set out the new rules coming into effect from 6 April 2025 in the 2024 Autumn Budget."

Naomi Wells

Partner

Click here to contact Naomi



Impending tax changes for both non-UK and UK domiciled individuals

In the 2024 Spring Budget, the Conservative government announced some sweeping changes to the UK's tax regime for non-UK domiciled individuals (non-doms). Following the UK general election on 4 July 2024, the new Labour government committed to the majority of the changes announced by the previous government and set out the new rules coming into effect from 6 April 2025 in the 2024 Autumn Budget, including the remittance basis regime for non-doms being abolished and replaced by a residence-based system.

In a policy paper published after the Budget speech on 30 October 2024, the Labour government included the following explanatory note:

'The government is committed to addressing unfairness in the tax system, so that everyone who is long-term resident in the UK pays their taxes here. The government will therefore remove the outdated concept of domicile status from the tax system and implement a new residence-based regime which is internationally competitive and focused on attracting the best talent and investment to the UK.'

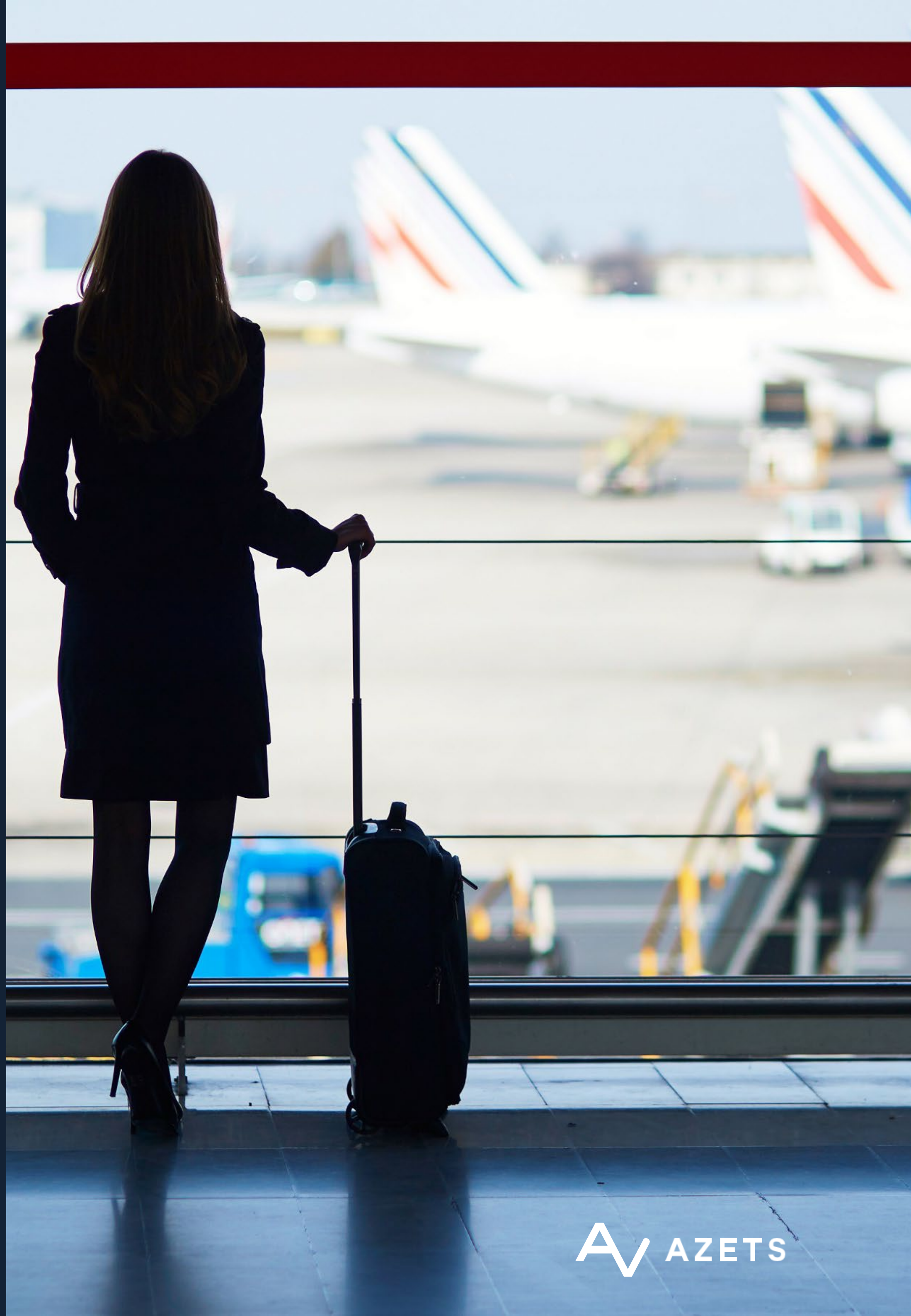
The move from a domicile-based regime to a residence-based regime does open up some tax planning possibilities for UK domiciled individuals who are not considered long-term UK resident.

A summary of the new rules to apply from 6 April 2025

The government has confirmed that legislation will be brought in for the following changes, effective from 6 April 2025:

- Implement a four year foreign income and gains (FIG) regime. On the making of a claim, the FIG regime will provide 100% tax relief on eligible FIG for new arrivals to the UK in their first four years of tax residence, provided they have not been UK tax resident in any of the ten tax years immediately prior to their arrival. As the FIG regime will be residence-based and no longer domicile-based, this does also open the door to possible tax advantages for UK domiciled individuals who return to the UK after more than ten years of absence. Residence status will be determined by the existing Statutory Residence Test (SRT). A tax year which is split or one in which an individual is UK resident under domestic law but resides elsewhere under the terms of a tax treaty between the UK and another country will be treated as a year of UK residence for this test.

- Replace the domiciled-based system for UK Inheritance Tax (IHT) with a residence-based system. From 6 April 2025, the test for whether non-UK assets are in scope for IHT will be whether an individual has been resident in the UK for at least ten out of the last twenty tax years immediately preceding the tax year in which the chargeable event arises. This therefore also opens a door to possible tax advantages for UK domiciled individuals who have not been UK resident within the same timeframe. Residence status will be determined by the existing SRT for tax years 2013/14 onwards and its predecessor rules for tax years 2012/13 and earlier. There is a tail period under which individuals leaving the UK will remain within scope of UK IHT on their non-UK assets for between three and ten years after leaving, depending on how many years they have been UK resident for prior to that.



A summary of the new rules to apply from 6 April 2025

- Introduce a new Temporary Repatriation Facility (TRF). This will allow individuals previously taxed on the remittance basis to designate amounts derived from pre-6 April 2025 FIG and pay a reduced tax rate on these amounts for a period of three years, starting from 2025/26. The reduced tax rate will be 12% for 2025/26 and 2026/27, increasing to 15% for 2027/28. This is a significant reduction from the current tax rates (of up to 45%) and is designed to encourage inward investment of previously unremitted FIG to the UK. This facility will be extended to beneficiaries and settlors receiving certain distributions from qualifying overseas structures, provided they have previously claimed the remittance basis of taxation. The TRF will be subject to conditions and a set mechanism to successfully claim the reduced tax rate. You should contact a member of our team or your usual Azets advisor for further advice before implementation.

- Reform Overseas Workday Relief (OWR) by removing the need to keep the income offshore, extend the period that employees can benefit from OWR to four years (currently three years) and introduce an annual financial limit on the amount claimed. From 6 April 2025, eligibility for OWR will be based on an employee's residence and not their domicile and will be available for a maximum of four years. OWR will be subject to an annual financial limit for each qualifying year equal to the lower of 30% of the qualifying employment income or £300,000 per tax year.

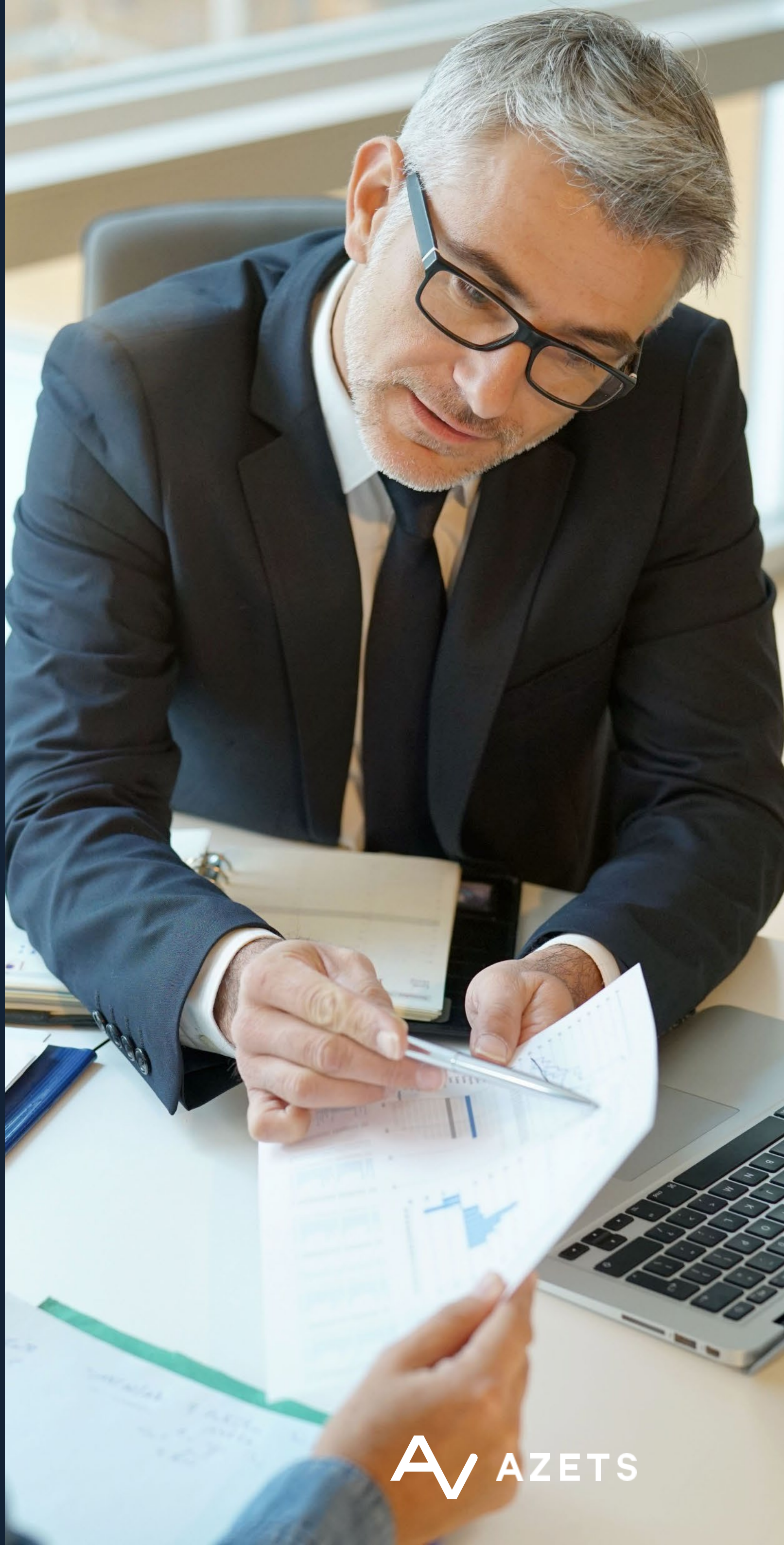
- For Capital Gains Tax (CGT) - current and past remittance basis users can rebase their personally held foreign assets to 5 April 2017 on a disposal where certain conditions are met.

Planning considerations

Non-UK domiciled individuals and UK domiciled individuals who are currently non-UK resident or are returning to the UK after a period of non-UK residence need to be aware of the new rules that will operate from 6 April 2025.

The following provide some of the more immediate planning points to consider (although this is not an exhaustive list):

- Non-UK domiciled individuals who are UK tax resident – thought needs to be given to delaying any remittances to the UK of pre-6 April 2025 FIG until after the 6 April 2025, ten-year potentially take advantage of the new TRF.
- Long-term UK resident but non-UK domiciled individuals – A general review of how the IHT changes applicable from 6 April 2025 will affect an individual's overall IHT exposure, particularly on non-UK situs assets, that will now be brought into the scope of IHT.
- Individuals who are planning to return to the UK – UK or non-UK domiciled individuals who are looking to return to the UK following a period of non-residence need to carefully consider the new rules before arrival. It may be better to delay a return to take advantage of the new FIG regime.
- Current and past remittance basis users – For disposals on or after 6 April 2025, it may be possible to claim to rebase the acquisition value of personally held assets to the market value as at 6 April 2017. Individuals for whom this may be a possibility should carefully consider their options before making any disposals of assets that are currently showing inherent capital gains.
- Current UK resident and domiciled individuals considering moving abroad may be able to benefit from some of the provisions set out above as the proposed new rules are residence and not domicile based.
- Individuals who are or will be in their first four years of UK residence after a ten-year non-resident period – consider making claims under the FIG regime to exempt FIG from UK tax.



Furnished holiday lettings

"The Autumn Budget confirmed that the special tax treatment for furnished holiday lettings (FHL) will be withdrawn with effect from 6 April 2025."

Lara Howard

Associate Director

[Click here to contact Lara]

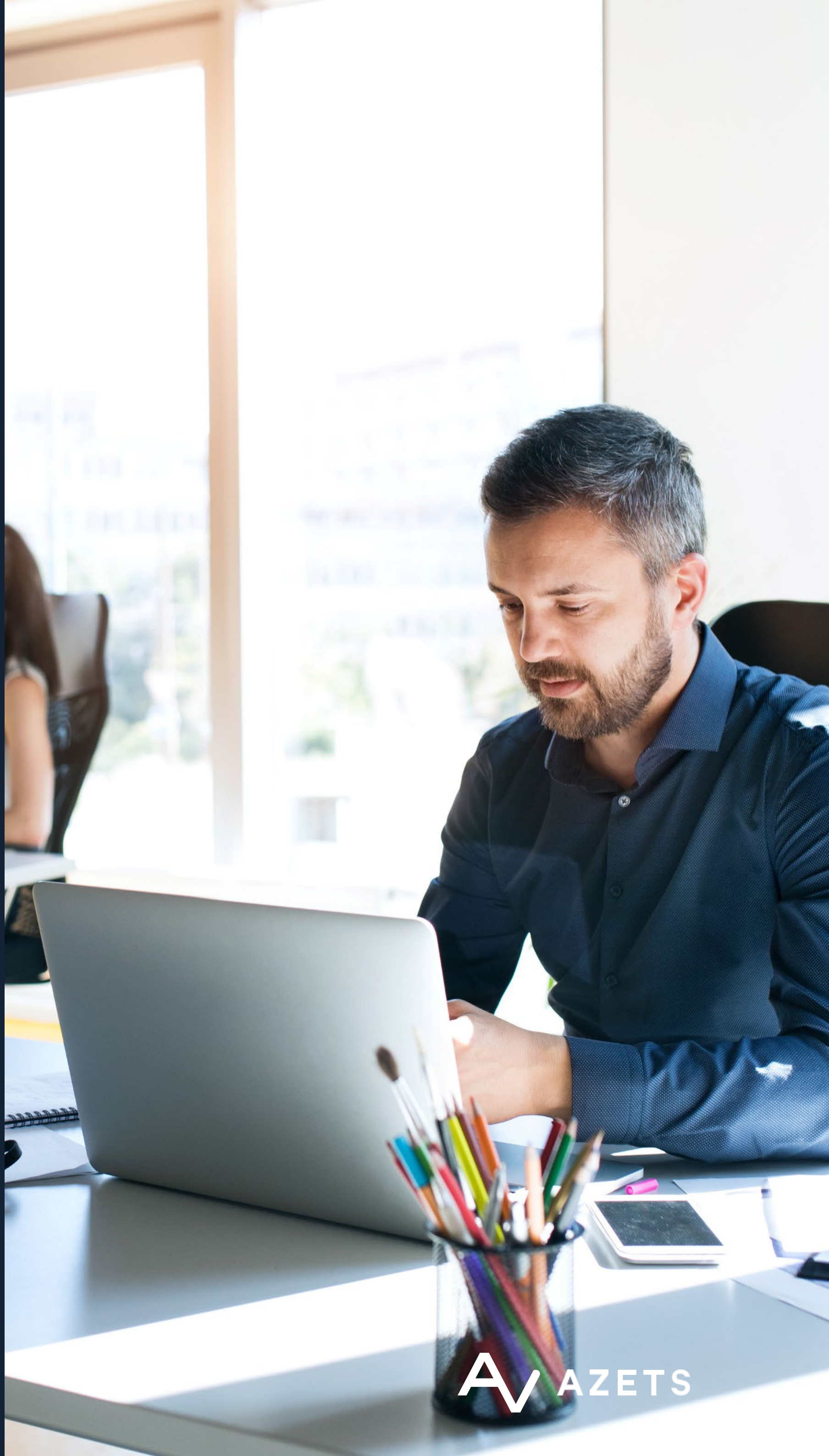
Income tax implications of the abolition of furnished holiday lettings

The reclassification of FHL income as general property income is a key change, aligning it with other rental income streams and ending certain perceived preferential treatments.

Previously, FHL owners could fully deduct finance costs, such as mortgage interest, against rental income, but this will now be capped at the basic rate of Income Tax. This shift could significantly increase tax liabilities for those with substantial financing costs.

The ability to allocate FHL profits between spouses or civil partners for tax purposes is being removed. Currently, FHL profits generated from a jointly owned property can be allocated based on which spouse operates the holiday letting business, this can be tax efficient overall. With the abolition of the FHL regime, this flexibility will no longer be available, potentially leading to higher income tax bills for many couples. For example, if a couple jointly owned an FHL and one spouse was an additional-rate taxpayer while the other spouse operated the holiday let and had no other income source, historically there would have been no tax liability for the couple on profits up to £12,570. From April, and assuming no changes are made, it is likely that the profits will be assessed 50:50 and the joint tax liability on £12,570 of profits could be nearly £3,000.

Profits from FHL are currently considered relevant earnings for pension contribution purposes. Profits from residential lettings are not considered relevant earnings, therefore if an individual's income is solely from residential lettings, they may only be able to contribute £3,600 gross to their pension to benefit from tax relief. This could limit the ability to make tax-efficient pension contributions, impacting long-term retirement planning and reducing the potential for building up pension funds.



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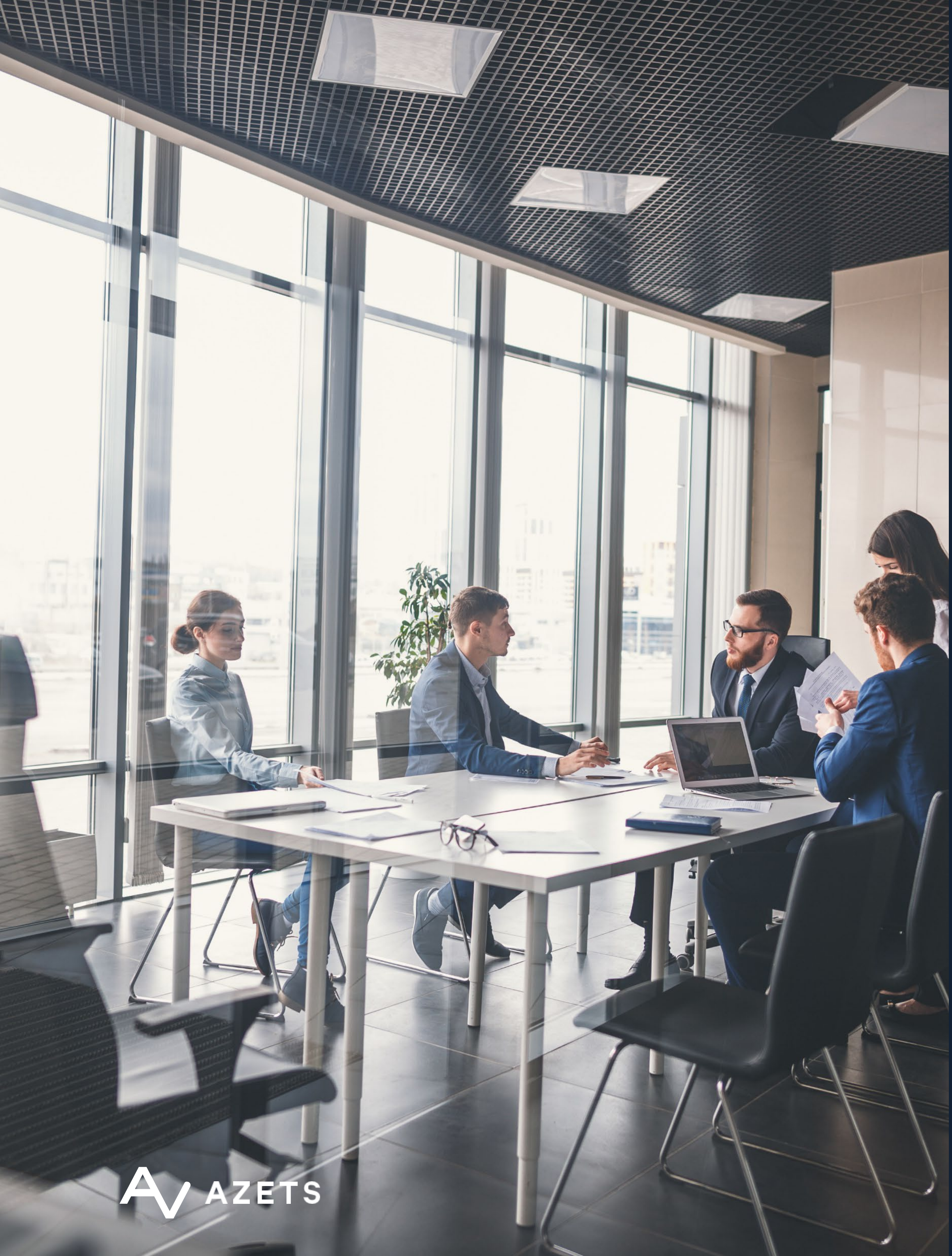


CGT will also be affected

The abolition of the FHL regime also affects the CGT position on disposal of a holiday let property either by way of a gift or on sale. The following CGT reliefs are currently available on disposal of a qualifying FHL property:

1. Business Asset Disposal Relief (BADR), which may offer a reduced CGT rate on the sale of FHL properties.

2. Holdover relief may allow a deferral of CGT where a property is gifted to an individual or a company.

3. Rollover Relief may be available to defer gains following the sale of a qualifying FHL property where the proceeds are reinvested into another qualifying business asset.

4. An irrecoverable loan in relation to an FHL business may generate an allowable capital loss.

The above reliefs will be removed completely from April 2025, subject to BADR continuing to be available on a disposal within two years of a pre-April 2025 cessation of that business. This makes strategic planning around property gifts and sales more critical than ever.

The UK government has put in place anti-forestalling provisions to counteract some planning ahead of the CGT changes coming into force. These provisions are intended to catch transactions where an unconditional contract is made between March 2024 and 5 April 2025, but where the transfer doesn't complete until after 6 April 2025. The effect is that the CGT reliefs will not be available unless the contract was entered into wholly for commercial reasons or between connected persons, and a statement is made that there was no tax avoidance motive.

Risks and planning opportunities arising from the abolition of FHL

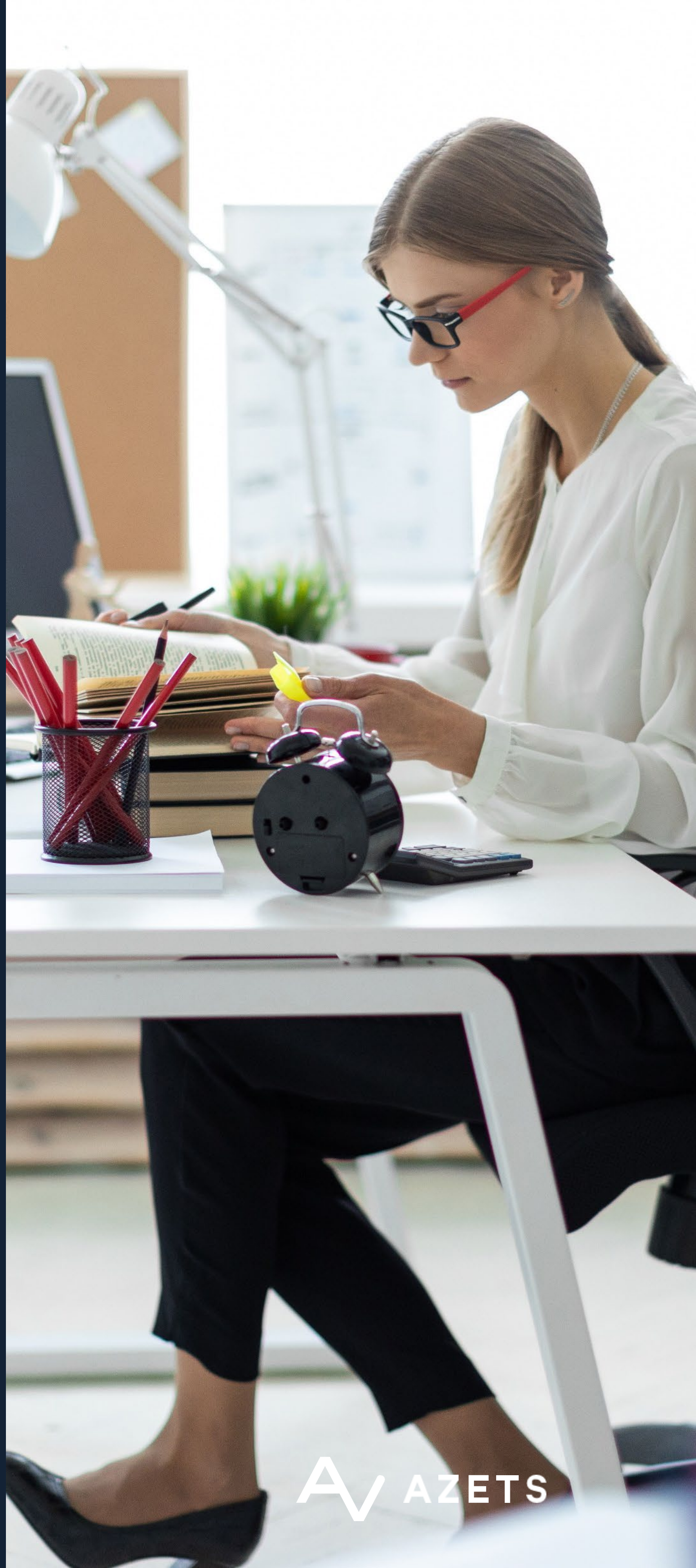
The abolition of the FHL tax regime introduces several risks, primarily an increase in tax liabilities due to the loss of various reliefs and deductions from 6 April 2025. Looking at the position in a different light, the uniform treatment of property income could also simplify tax planning and compliance, particularly for those with diverse property portfolios. Historically, losses incurred on FHLs could not be set against profits from residential lettings. With the abolition of the FHL regime, this will now be possible and the position for historic losses should be carefully considered.

Planning opportunities are likely to remain to accelerate succession and sale decisions for FHL properties and businesses before April 2025. That said, navigating succession planning combined with the transition away from the FHL tax regime requires a proactive approach and careful consideration of both the planning itself and related legal, commercial and tax consequences. FHL owners are advised to consult with their advisor before making any decision on how to effectively manage these changes and optimise their tax position.

Depending on specific circumstances and business aims, possible opportunities pre-April 2025 include:

- Gifting the FHL property to the next generation and claiming holdover relief on any underlying gain.
- Selling the FHL property and banking BADR on any underlying gain.
- Selling the FHL property and claiming Rollover Relief on the acquisition of a new business asset.
- Claiming loss relief for any irrecoverable loans in relation to the FHL business.
- Married couples may be able to take advantage of the spousal exemption to transfer jointly owned property into a sole name to prevent holiday letting income being taxed at higher income tax rates.

It's important to underline that these planning points will depend on your specific circumstances and are solely general ideas on how to optimise your position with the FHL changes in mind. Any future clarity on anti-forestalling rules may impact on planning done now, so it's crucial that you keep in contact with your advisor.



The impact on capital allowances claims

Another point to be aware of is the impact on capital allowances tax relief claims. The ability to claim capital allowances on furnishings and fixtures in FHLs, which allowed for more generous deductions compared to standard rental properties, will be discontinued. Instead, owners will need to rely on the more restrictive replacement of domestic items relief which does not allow any tax relief for initial purchases of furnishings or fixtures.

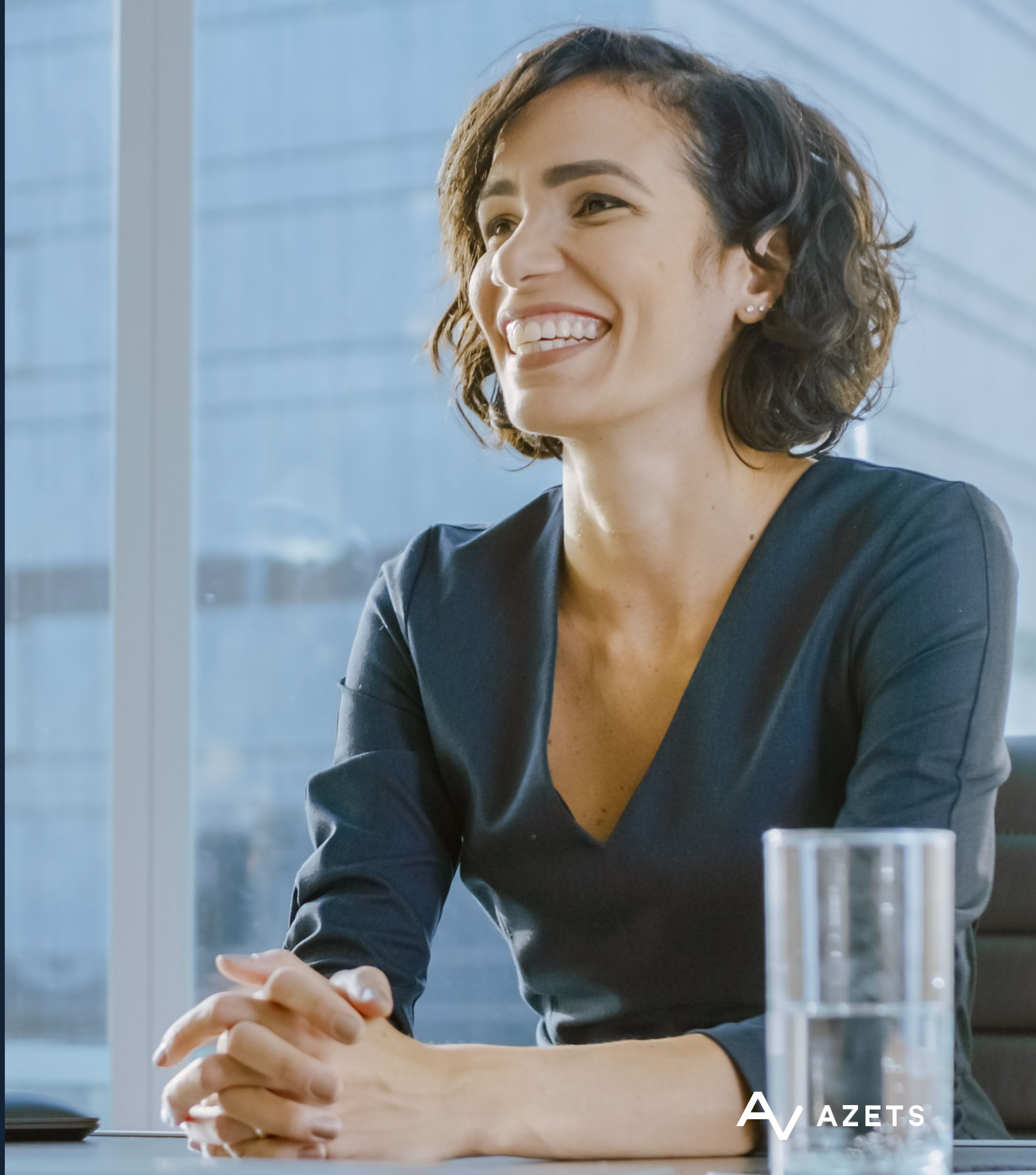
Employment tax

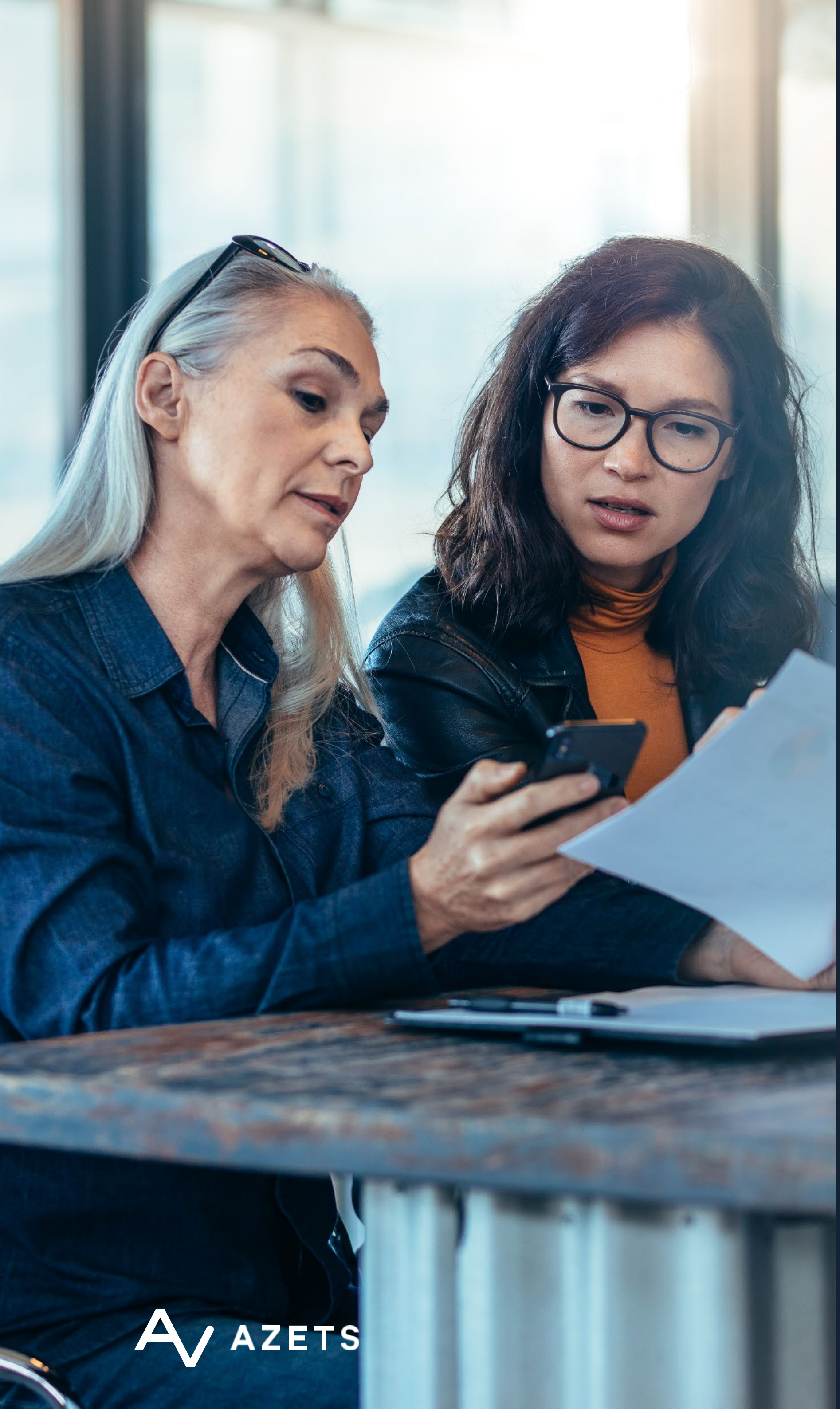
"Changes to the Employer National Insurance contribution (NIC) threshold and rates mean that most employers will pay at least £615 extra NIC for every employee earning over £9,100 per year therefore business owners need to understand and plan for the impact on their workforce, on their business and on their own personal wealth position!"

Clair Williams

Partner

[Click here to contact Clair]





Recent changes

Another key change in the Budget was changes to employers National Insurance rates. All business owners need to understand the impact of the upcoming National Insurance contribution (NIC) and National Minimum Wage (NMW) changes which will affect businesses from April 2025.

There will be additional costs associated with employing people which you will need to understand. As there will be additional costs for the business, this is likely to impact on business operations, profitability and the ultimate value of your business.

We recommend that you prepare scenario modelling to determine and plan for the anticipated impact. The amount of income that you receive from your business may also be impacted as profits available for distribution as dividends may reduce as a result of these changes.

There are a number of measures that you should consider to help manage the additional employment tax costs as follows:

1. Have you considered implementing salary sacrifice arrangements?

   Salary sacrifice arrangements can be used to provide things like workplace pension contributions, company cars, cycle to work schemes and enabling employees to buy additional annual leave.

   Salary sacrifice arrangements work by employees giving up their entitlement to some salary in return for a non-cash benefit. Income tax and NIC (both employer and employee) is reduced as the employee is entitled to a lower salary and the salary sacrifice arrangement provides tax benefits when the non-cash benefit provided to the employee is either tax exempt, or the associated income tax and NIC on the benefit in kind is reduced compared to what would have been paid on the salary given up.

   In particular, due to most employees being automatically enrolled into workplace pension schemes, salary sacrifice arrangements for workplace pensions can significantly reduce the impact of the upcoming NIC increases.

Recent changes

2. Do your employees use vehicles for their work?

   If so, when was the last time you reviewed your policies? Changes to benefit in kind rates for company vehicles mean that you can plan for the next five years and you can ensure that your business vehicle policy is as tax efficient as possible. Over the lifetime of the vehicle, the full tax inclusive cost of electric vehicles is much less than hybrid, petrol and diesel models. Ensuring your business vehicle policy is tax efficient saves on income tax for the employee and NIC for the employer, especially where electric vehicles are provided under salary sacrifice arrangements. For reference, the typical three-year employer NIC cost of a vehicle with a list price of £48k will be £2k if electric compared to £4k or £8.5k if petrol or diesel respectively.

3. Are you maximising tax reliefs available to your business?

   Making sure that you know what tax reliefs may be available to your business will also help to reduce the impact of the upcoming NIC and NMW changes. Speak to your usual Azets advisor to consider areas such as:

   - Reviewing your company HR, expenses and benefits policies
   - Reliefs and incentives that may be available to your business (e.g. Research & Development, maximising capital allowance claims, tax-free gifts, industry specific considerations, etc.)

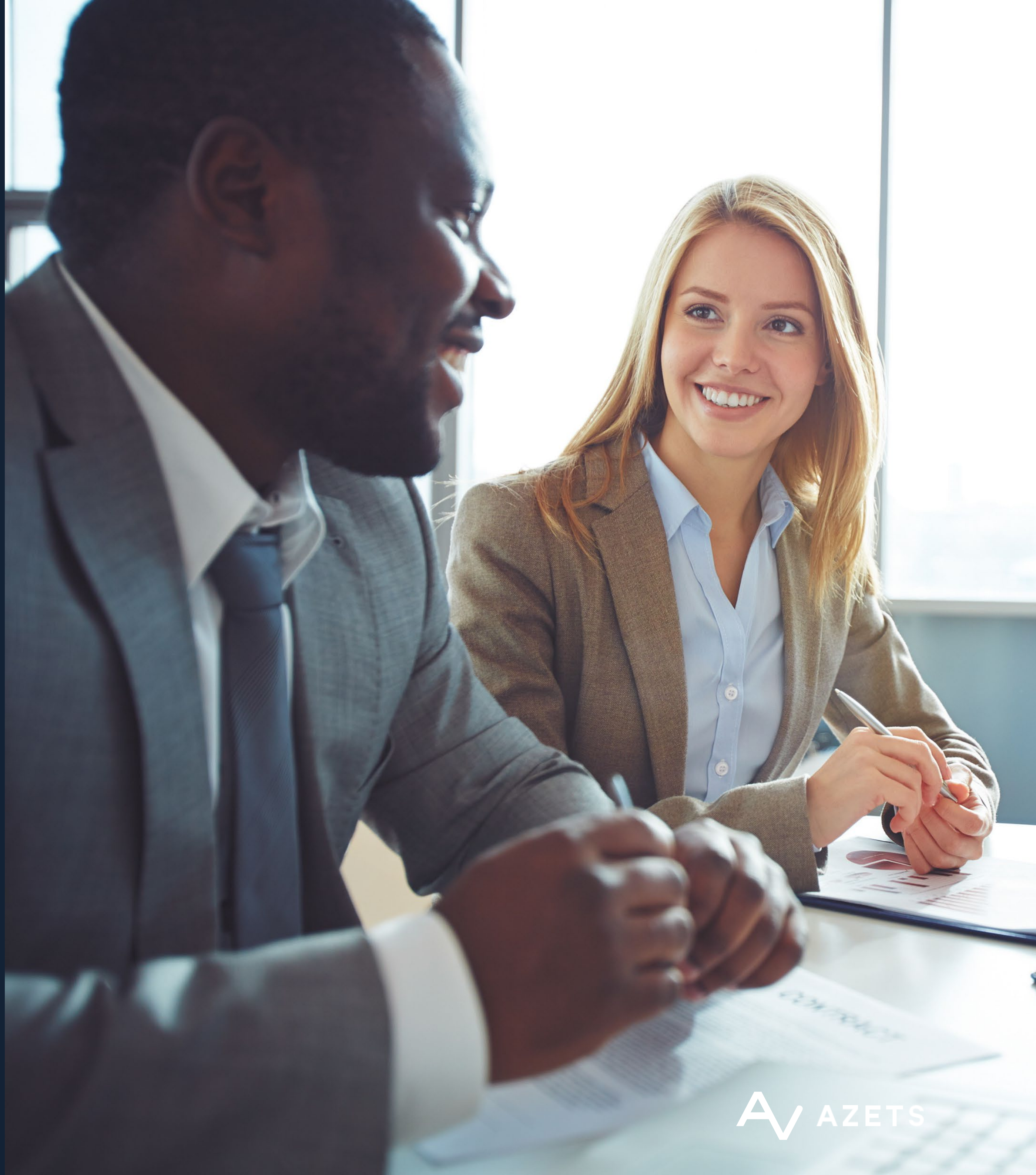
Income tax

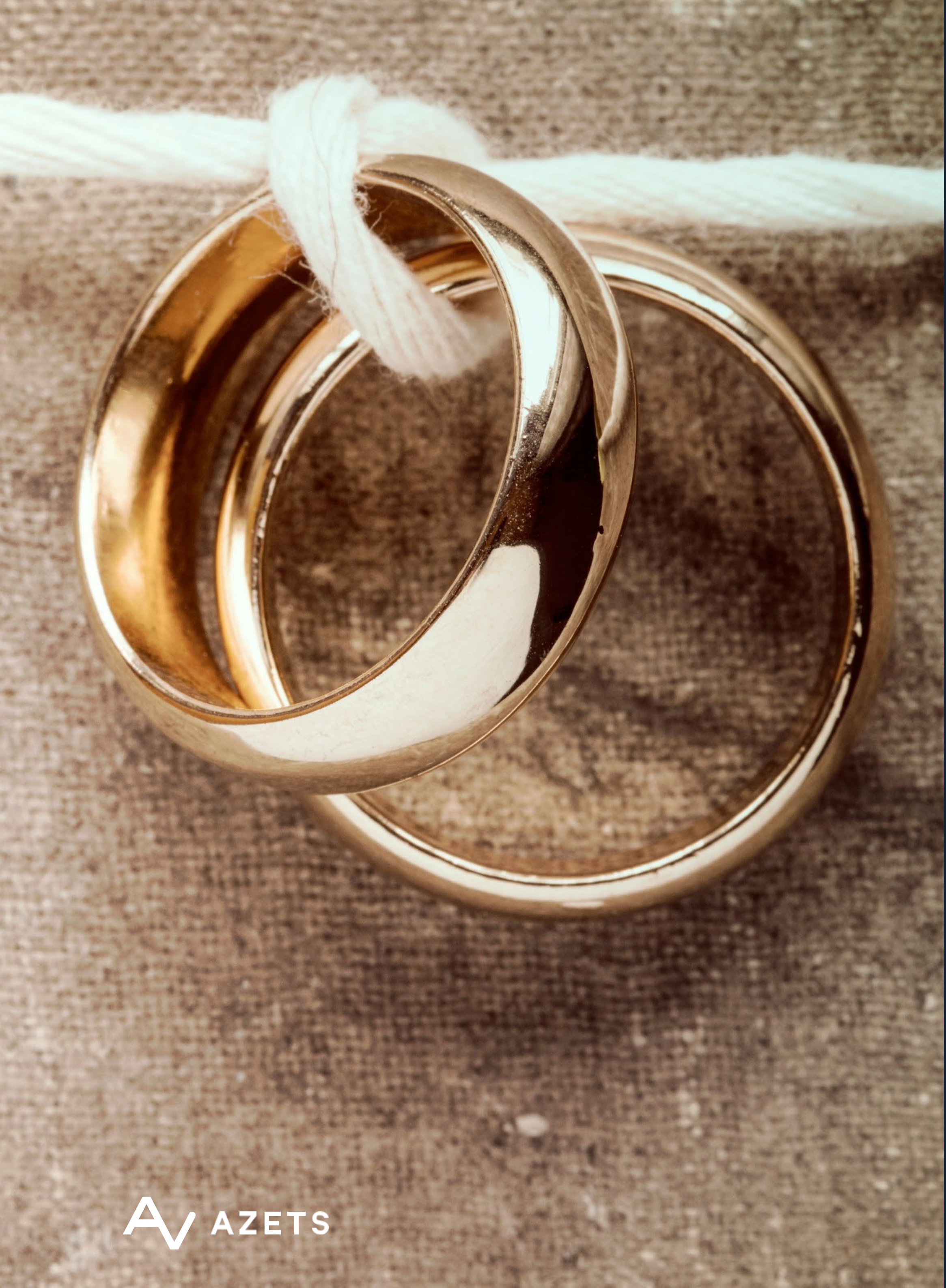
"A key strategy to minimise the amount of income tax paid is to take full advantage of allowances and reliefs available through the legislation. This includes planning ahead and a review each year."

Vanessa Clark

Partner

Click here to contact Vanessa





Capitalise on the tax advantages of marriage

Consider the extra tax benefits you can get if you are married to (or in a civil partnership with) your significant other. Alongside tax-free or tax-neutral transfers between partners for Inheritance Tax (IHT) and Capital Gains Tax (CGT) purposes, you could, in certain circumstances, get extra cash from HMRC as a consequence of being married.

Where the lowest earning spouse earns less than the Personal Allowance (£12,570 for 2024/25) and the highest earning spouse does not earn more than the basic rate band, you can claim Marriage Allowance. This allows the lowest earning spouse to transfer £1,260 of their Personal Allowance for 2024/25 to the highest earning spouse, which can result in a tax reduction of up to £252 in the tax year.

Even better, a claim for Marriage Allowance can be backdated to include any tax year since 2020/21 providing you were already married and met the qualifying conditions in those tax years.

Sharing assets with your spouse

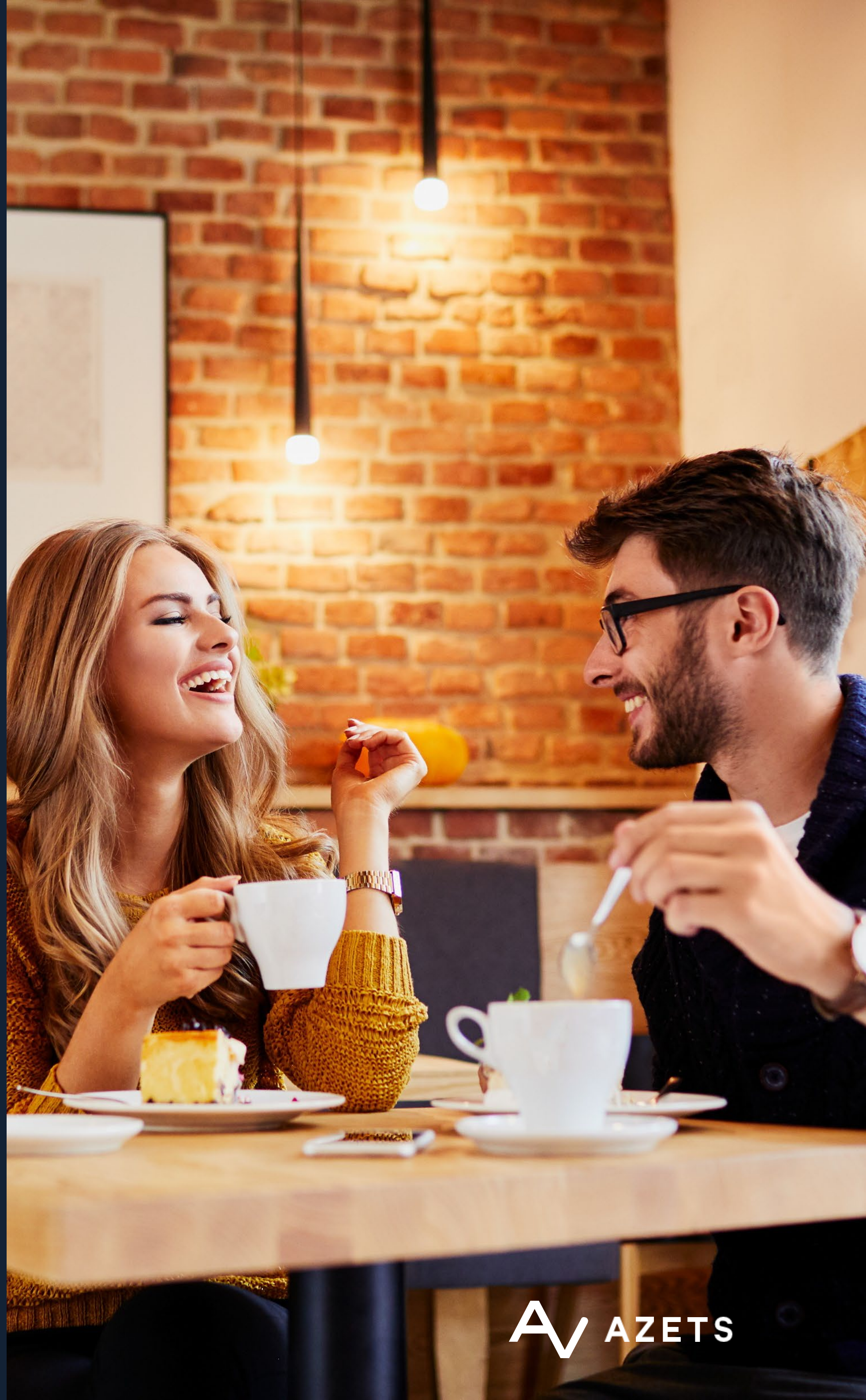
While giving assets away is not necessarily your first call in tax planning, sharing income-producing assets between spouses is a legitimate way of reducing overall income tax liabilities.

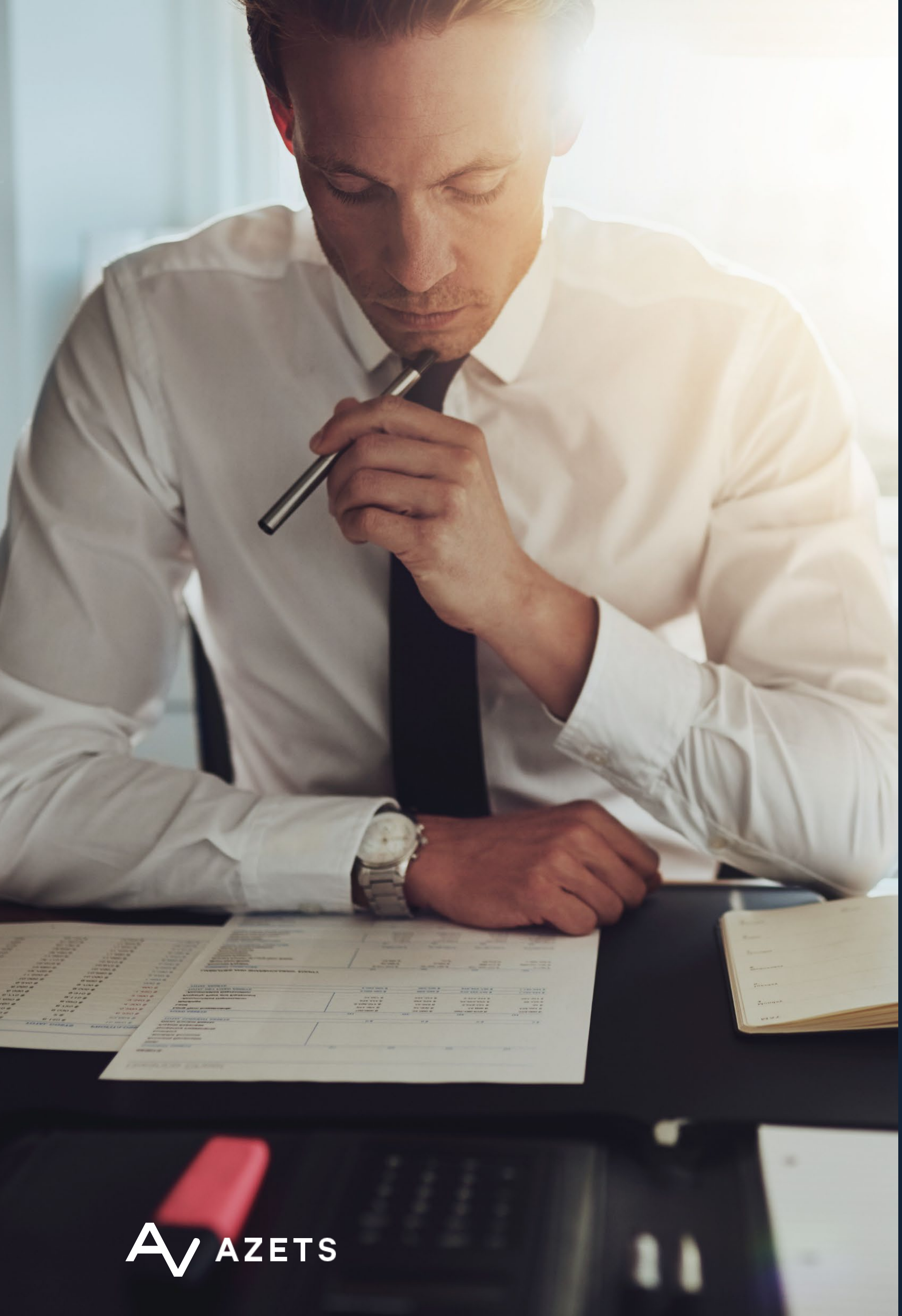
One of the benefits of being married is that spouses can generally transfer assets between themselves free of IHT or CGT (albeit there are exceptions, if the recipient spouse is non-domiciled or in certain circumstances relating to a divorce or separation). While this is not generally suitable for the family home, as this does not create an income, it could work with investment properties and any other income-producing assets such as shares, although beware if transferring properties subject to a mortgage, in case of a stamp duty land tax aftershock. Also be aware of anti-avoidance rules called the settlements legislation. Ensuring a split of shares between spouses also gives the opportunity for each to take advantage of the tax-free dividend allowance (which is £500 for 2024/25 and 2025/26).

At the more dramatic end of income tax, the additional rate of tax (45% in England, Northern Ireland and Wales, 48% in Scotland) kicks in for 2024/25 where income exceeds £125,140. This means that if assets could be gifted to a basic rate tax-paying spouse, a tax saving of 25% can be earned (and even more in Scotland, with the saving of 28%).

Furthermore, because the Personal Allowance is reduced by £1 for every £2 of net income over £100,000, any income between £100,001 and £125,140 has an effective top rate of 60% (again this figure is slightly higher in Scotland).

If an individual with income near these thresholds can reduce their tax liabilities by reducing their taxable income below £100,000 or £125,140, more tax can be saved. Even if one spouse is a higher rate taxpayer and the other a basic rate taxpayer, savings of around 20% tax are not to be ignored.





The downside of rising income...

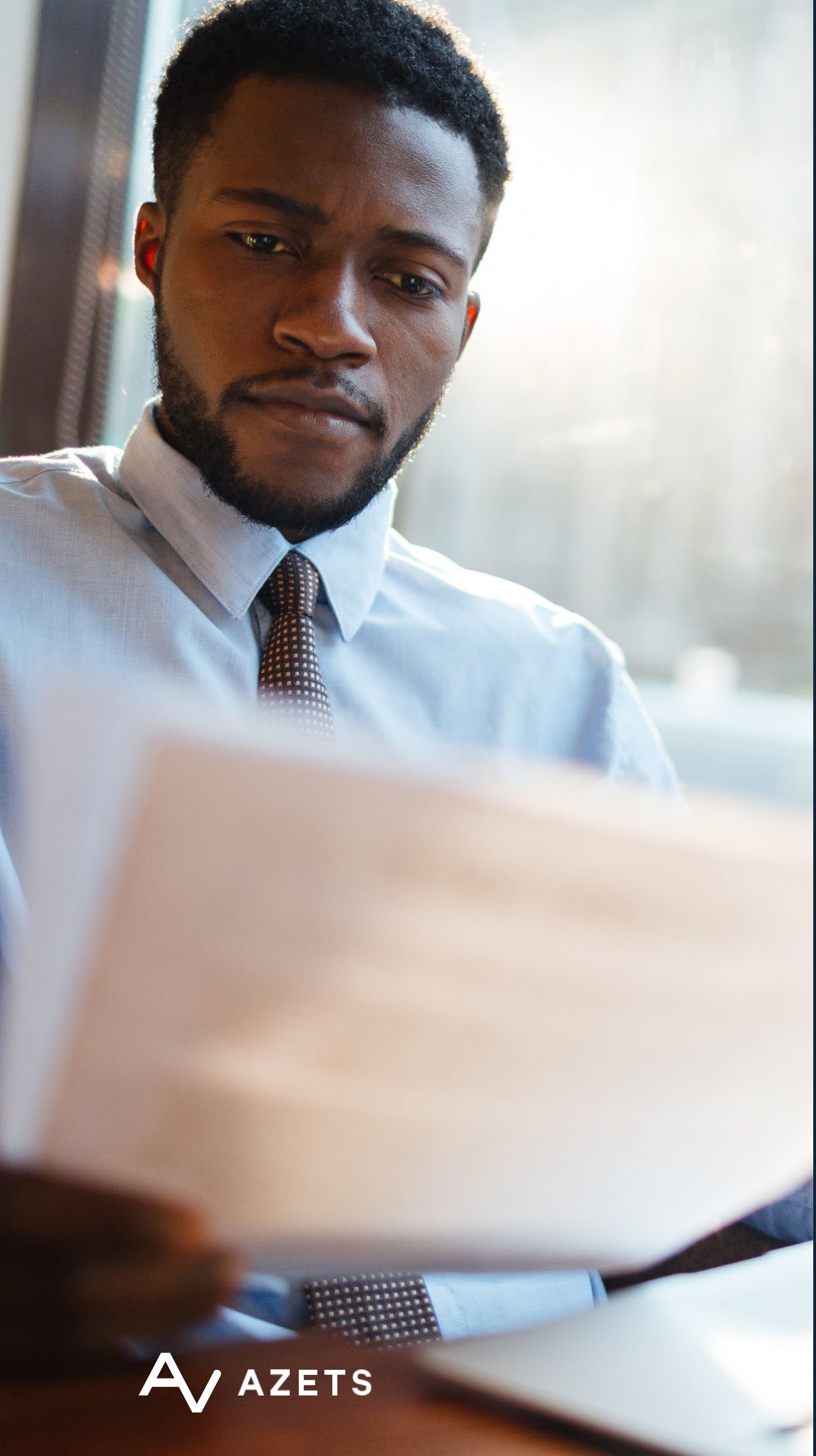
Even if for many it has not kept pace with inflation, wage growth continued for many in 2024, and together with other tax changes, such as the reduction in dividend allowance and freezing of the personal allowances (see below), individuals could find themselves with a considerably higher level of taxable income than in previous years, with the added sting of cost of living increases reducing disposable income.

The personal allowance (£12,570 for 2024/25) and basic rate band above which 40% income tax is paid (£50,270 including personal allowance for 2024/25) continue to be frozen at their 2022/23 levels. Because of inflation, this means more people will pay income tax and more will pay a proportion at 40%. The benefit of the surprise Budget announcement that the freeze on thresholds will be lifted in 2028/29 is a long way off.

Increases in income also impact other benefits and allowances. The savings income allowance, for example, is £1,000 for those paying tax at basic rate, but is halved to £500 for higher rate taxpayers (and reduced to nil for additional rate taxpayers). Similarly, the dividend allowance, which was £2,000 just a few years ago, is now only £500 for 2024/25.

As shown above, by earning the exact same amount in income in real terms, you could end up with a higher tax liability and lower allowances due to these changes.

Another aspect to watch out for is the high-income child benefit charge (HICBC), which is clawed back at a rate of 1% of the benefit for every £200 of income earned over £60,000 per individual. Again, a slight rise in wages could mean you face a larger tax bill at the year end when you are required to pay back excess child benefit. From 2025/26 you will be able to report child benefit payments through your tax code which will at least spread the cost, however, this is charged on the higher earner in the household, not necessarily the person receiving the benefit.



Convert capital losses to income losses

Profits chargeable to income tax are normally taxed at higher rates than capital sums and, even after the October 2024 rate changes, the difference between the highest rates of income tax and Capital Gains Tax (CGT) (on chargeable assets other than carried interest) is as much as 21%. It would therefore be beneficial if losses that can only be used against capital at up to 24% could instead be used against income relieved at up to 45% (47% in Scotland).

In most cases, capital losses are normally ringfenced for exclusive use against future capital gains. However, where losses are generated on unquoted shares in qualifying trading companies that were subscribed for when they were first issued, these losses can be claimed to set against your other income in the tax year of the loss, providing certain conditions are met.

If there is no income for the loss to be offset against in the current tax year, or it is not beneficial, the loss can be carried back and offset against the income for the previous tax year. Again, these claims will be subject to the cap which restricts certain income tax reliefs to £50,000 (or 25% of an individual's adjusted total income if higher) per tax year. However, that restriction does not apply to losses on the disposal of shares to which income tax relief under the enterprise investment scheme (EIS) or seed enterprise investment scheme (SEIS) is attributable or to which social investment relief is attributable.

This gives two planning points. First, when investing in unquoted companies, make sure (where it is sensible to do so) that shares are subscribed for, rather than purchased, to ensure you can benefit from this treatment. If the worst has happened, and the company fails, it is possible to make a negligible value claim for shares that became worthless in 2024/25 or earlier.

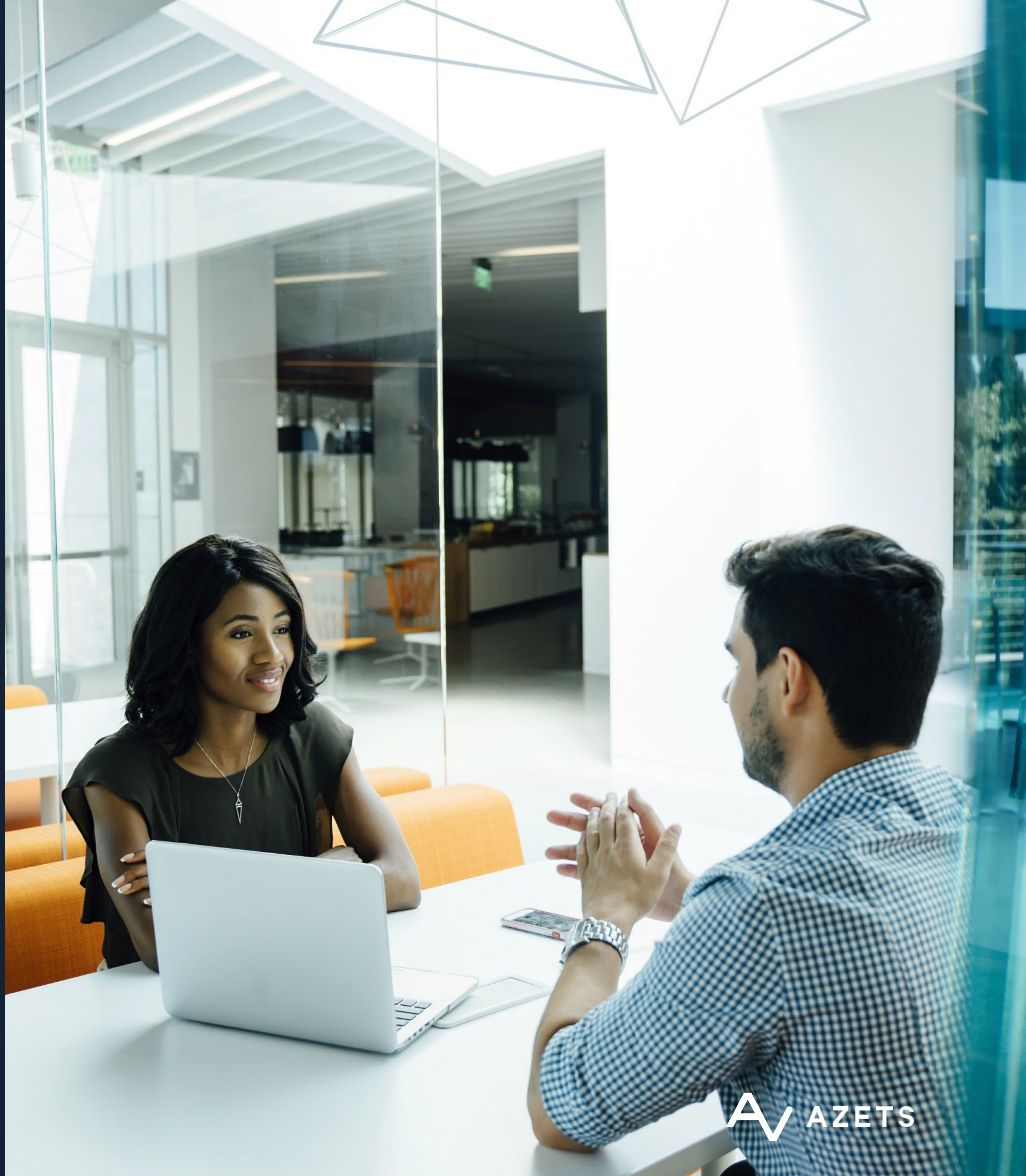
The loss on such assets will then be treated as occurring at the time of the claim or at an earlier time specified in the claim. An earlier time can be specified in the claim if the claimant owned the asset at that time, the asset had become of negligible value at that time and that time is not more than two years before the beginning of the tax year in which the claim is made.

Use trading losses before you made the loss

If you run your own business outside of a company structure, you can normally use trading losses against other income in the tax year of the loss, or you can carry back the loss to the previous tax year to generate tax relief.

Any such claim will be subject to the cap which restricts certain income tax reliefs to £50,000 (or 25% of an individual's adjusted total income if higher) per tax year.

If your business is new, any losses made in the first four tax years of a trade can be carried back against your total income of the three tax years immediately before the year in which the loss is made. The loss will be allocated in order starting with the earliest year first and this can be useful to help cashflow in the early years of a business.



Charity begins at home

Giving to charity is even better when you get extra tax relief.

While charities can reclaim basic rate tax from HMRC, such that the amount you actually donate is grossed up by 20%, if you are a higher rate taxpayer, you get additional benefits as more of your income is taxed at the basic rate instead of at the higher rate.

With this in mind, it is worth considering accelerating any Gift Aid donations you are planning to make during 2025/26 to ensure they are made before 31 January 2026, rather than 5 April 2026. This is because donations made prior to completing your 2024/25 tax return (due 31 January 2026) can be treated as if they were made in 2024/25 to accelerate claiming of the relief and/or maximise tax relief if, for example, you paid tax at a higher rate in that earlier year.

Alternatively, rather than selling shares to give the cash to charity, it is possible to give listed shares to a charity. The result is that you can claim income tax relief based on the value of gifted shares in the year of the donation without triggering a CGT liability if the shares were to be disposed of at a gain. Conversely, if the asset is standing at a paper loss, it may be better to sell it first to crystallise the loss (which you can set against later gains) and simply claim Gift Aid tax relief on the gift of the sale proceeds to the charity.

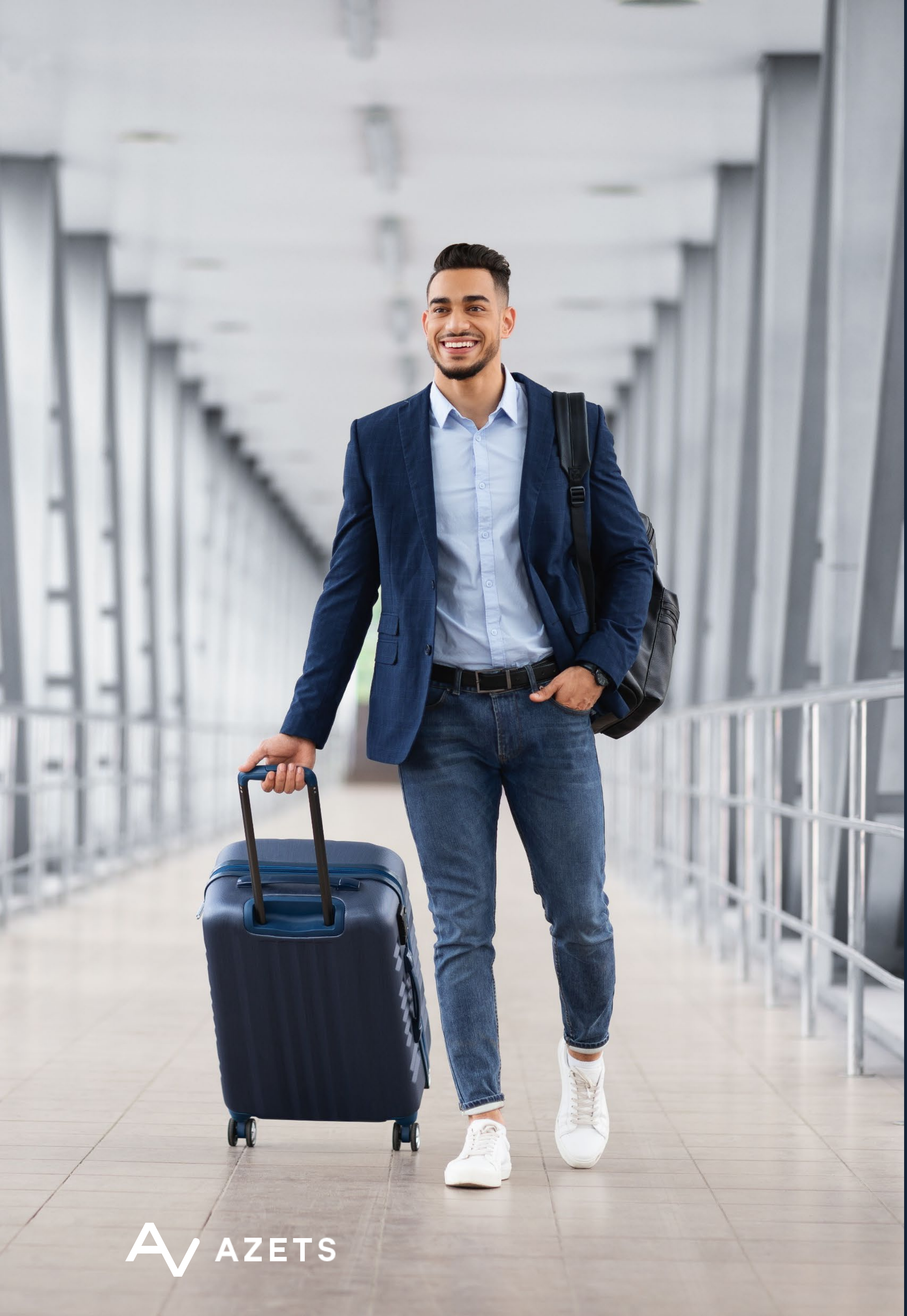
Other overseas aspects

"In certain cases, leaving the UK can be an effective way to save tax, but it is important that expert advice is obtained well in advance, and you also need to be aware whether you are saving UK tax but paying more tax in your destination jurisdiction."

Naomi Wells

Partner

Click here to contact Naomi



Leaving your UK home

If you are planning to be non-UK resident for the whole of the 2025/26 tax year you should be putting plans in place now so that you are aware of the consequences of your departure from the UK, including any tax planning opportunities.

Non-UK residents do not normally have to pay UK income tax on any income that arises outside of the UK. In some cases, there is no need to pay Capital Gains Tax (CGT) on assets sold whilst you are non-UK resident, subject to the conditions below.

In order to be considered as non-UK resident you will need to meet the requirements of the UK's Statutory Residence Test (SRT) by either meeting one of the automatic overseas tests or if not, you will need to be considered as non-UK resident via the sufficient ties test.

For example, if you leave the UK to work full time overseas for more than one year you are likely to become non-UK resident subject to meeting the various conditions.

For CGT purposes you may need to remain non-UK resident for at least five full tax years. The disposal of the asset must also take place whilst you are non-UK resident unless the asset was acquired after you left the UK.

If you return to the UK before spending five complete tax years outside of the UK, gains in the interim will be taxable in the tax year of return. In addition, certain types of income, such as dividends from close companies can become taxable if you return to the UK after less than five full tax years.

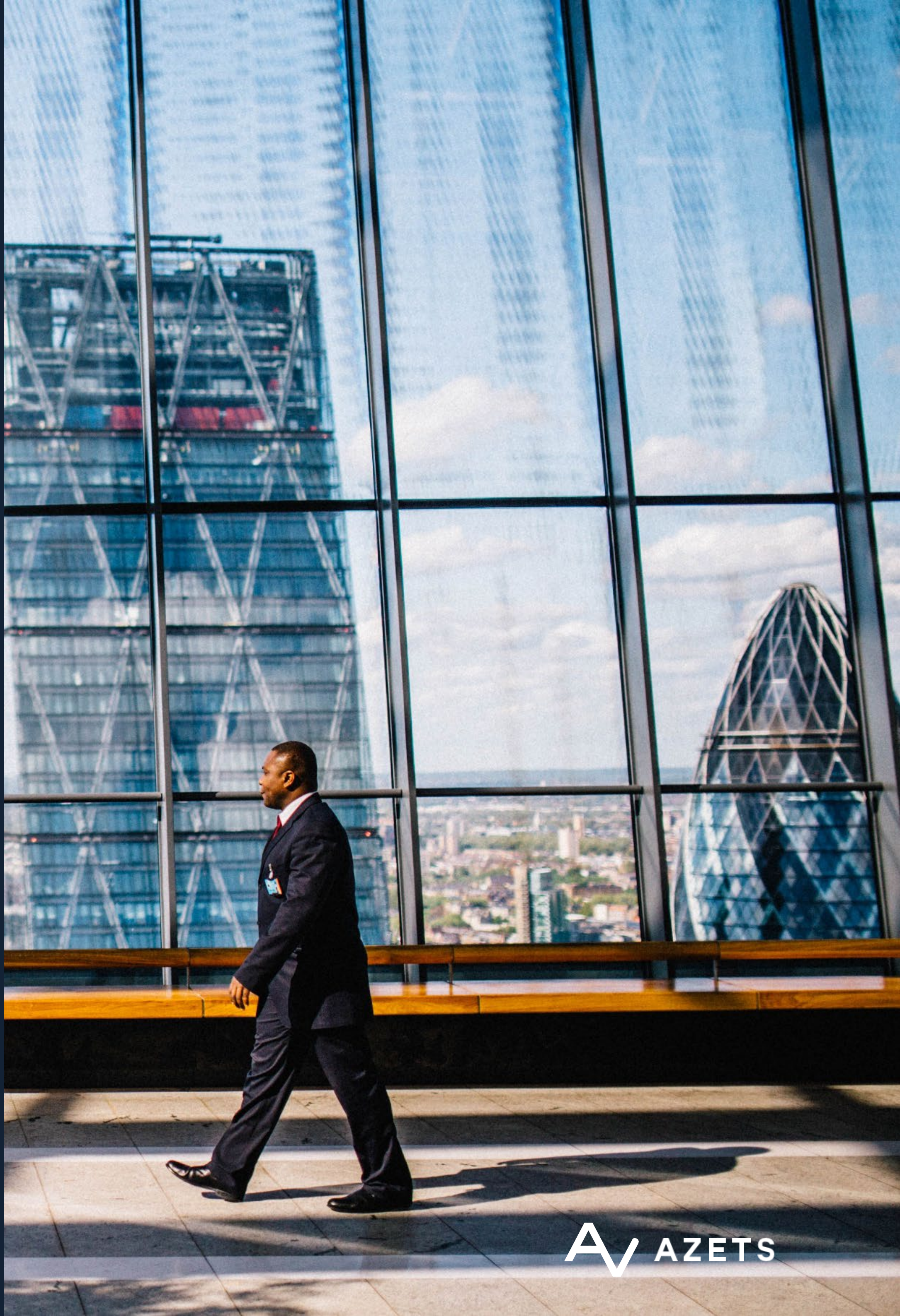
Leaving your UK home

Since 6 April 2015, all non-UK resident individuals are subject to CGT on gains arising on the sale or disposal of UK residential property (after that date you are allowed to replace the value at 5 April 2015, instead of your original purchase costs), irrespective of their non-UK resident status.

Since 6 April 2019, all non-UK resident persons (individuals, or any entity, such as companies and trusts) disposing of any UK immovable property will need to submit a non-resident capital gains tax return and be liable to tax in the UK on any chargeable gain from UK immoveable property. This includes residential and commercial property. Special returns will need to be filed, normally within 60 days of sale to avoid penalties.

Even if you are not a UK resident and never intend to be, certain types of UK source income will be taxed in the UK regardless of your residence status.

This would include rental income from UK property arising in the UK, and in some cases may be taxed at basic rate at source. However, if you qualify for a UK personal allowance, which is possible while non-UK resident, some or all of this income may escape a liability to UK tax. It is always worth considering the non-resident landlord scheme in such cases.



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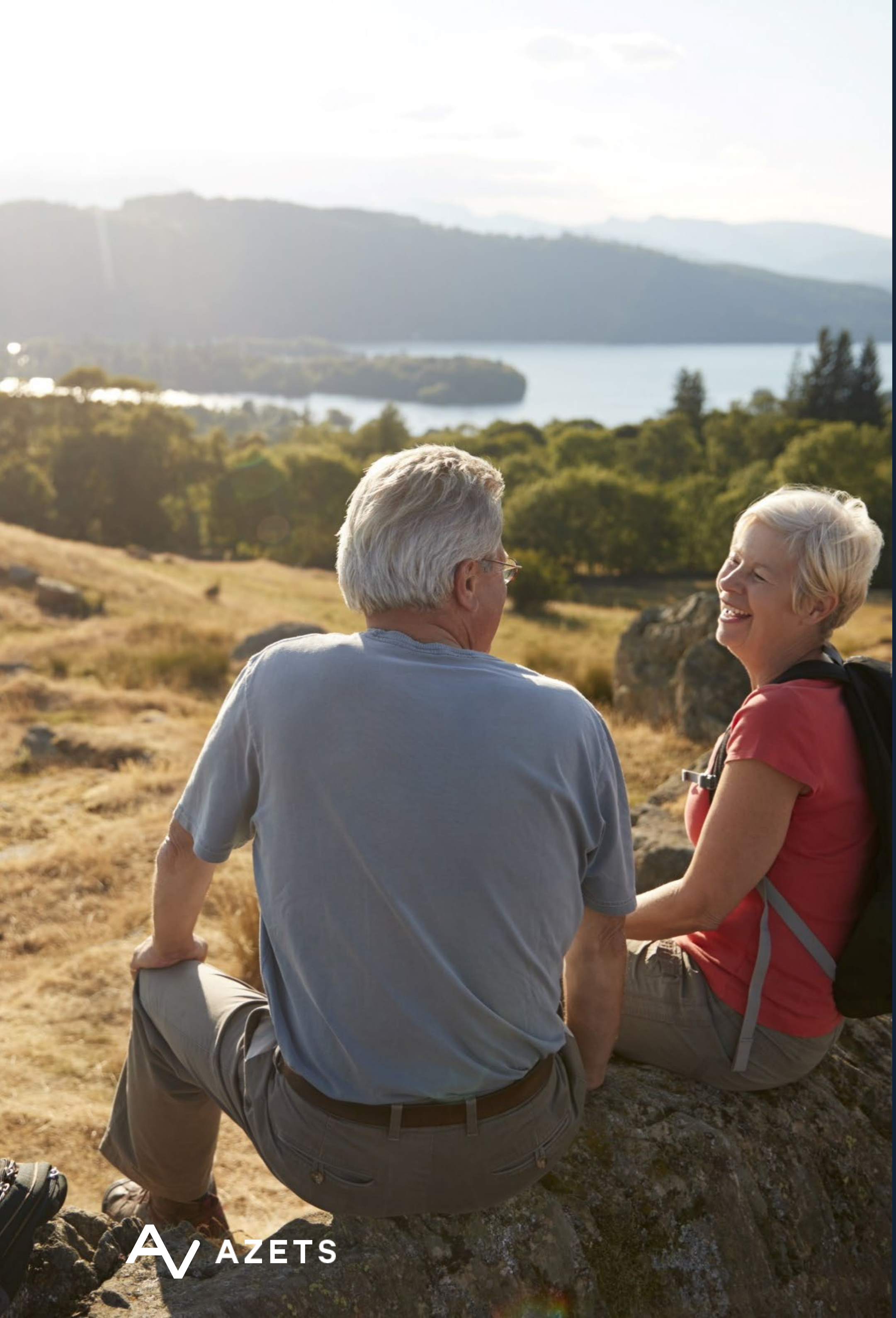


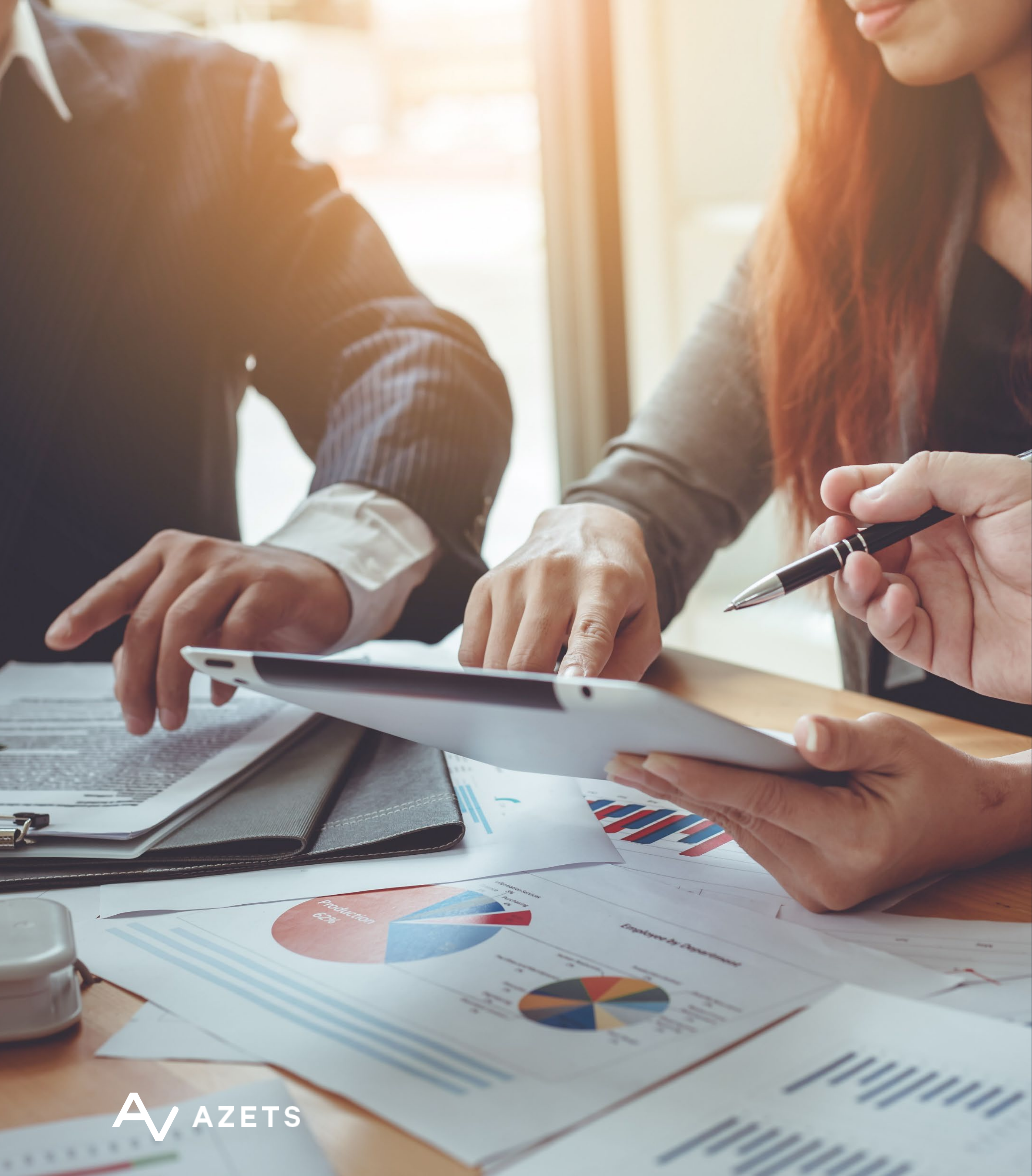
Staying away

If you are already established in foreign climes and are currently treated as non-UK resident, it is vital that you keep a record of your visits to the UK. This is because the UK SRT is largely based on days physically present in the UK, so visiting family too many times in a tax year could jeopardise that non-resident status. While this might have positive results for your family, inadvertently becoming a UK resident could trigger significant tax liabilities for you.

HMRC counts the number of midnights a visitor spends in the UK as a day spent in the UK, meaning genuine transits through the UK are ignored. In a worst-case scenario, visiting the UK for as little as sixteen days could result in an individual being deemed UK resident depending on UK ties, although the rules are different if an individual has not previously visited the UK.

In all tax years, it is possible to disregard certain days (up to a maximum of 60) spent in the UK, due to exceptional circumstances beyond their control. This will usually only apply to events that occur while the individual is in the UK and which prevent them from leaving the UK. Normally these are restricted to illness or injury of you, your spouse/partner or minor children.

The "Sufficient Ties" sections of the SRT takes account of the number of days spent in the UK along with the number of ties an individual has with the UK to establish an individual's residence status. The more ties an individual has to the UK, the lower the number of days required to be a UK resident. Ties include factors like accommodation, family, UK work and days present in earlier years, so it is crucial to take advice every year to ensure you know exactly how many days you can set foot in the UK.



Capital gains

"The introduction of higher Capital Gains Tax (CGT) rates with effect from Budget Day on 30 October 2024 does at least remove the pressure to dispose of assets before 5 April 2025."

Richard Major

Partner

Click here to contact Richard

Make the most of your annual exemptions

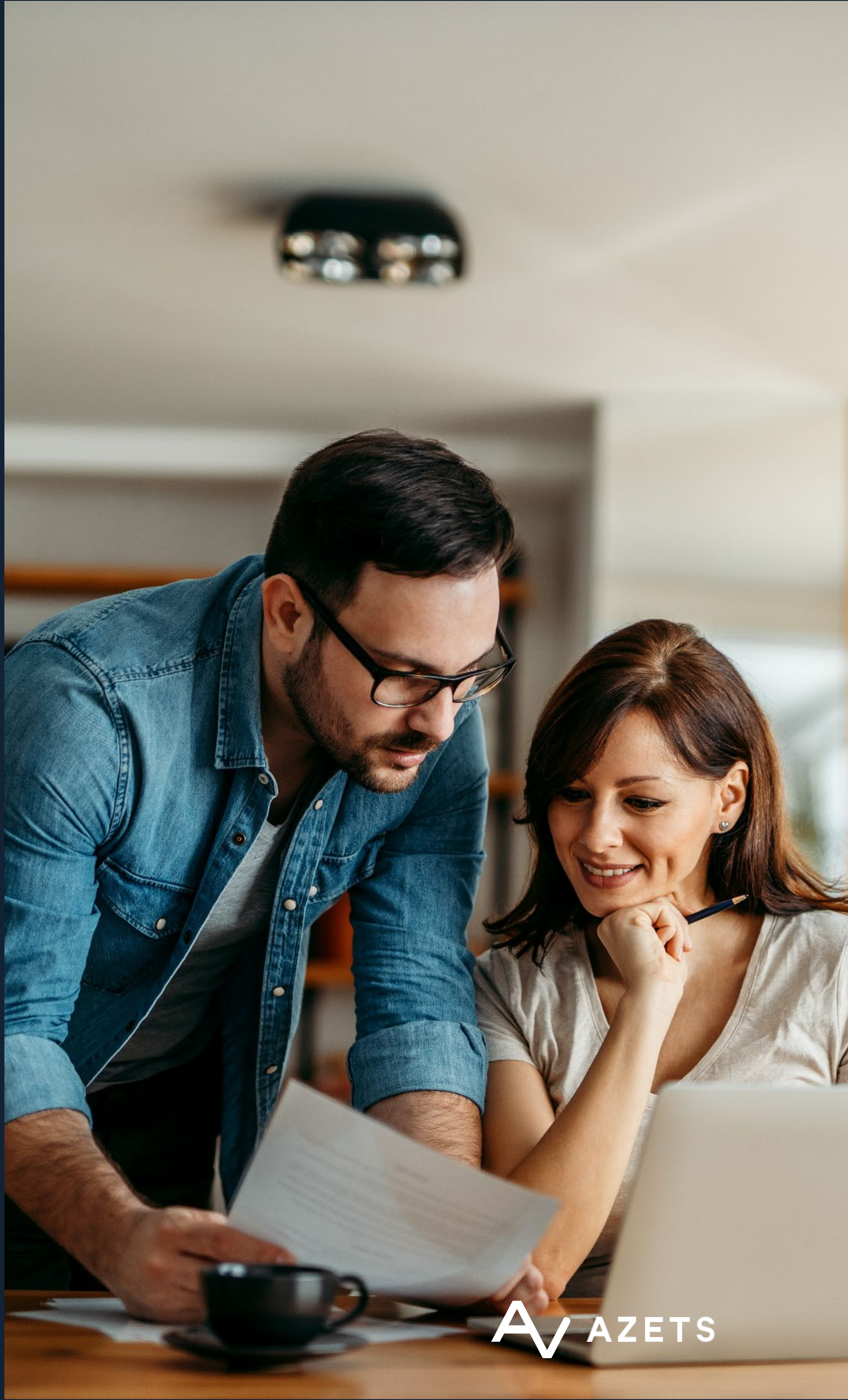
The annual exempt amount has fallen to only £3,000 for 2024/25 and subsequent years (having been £12,300 as recently as 2022/23).

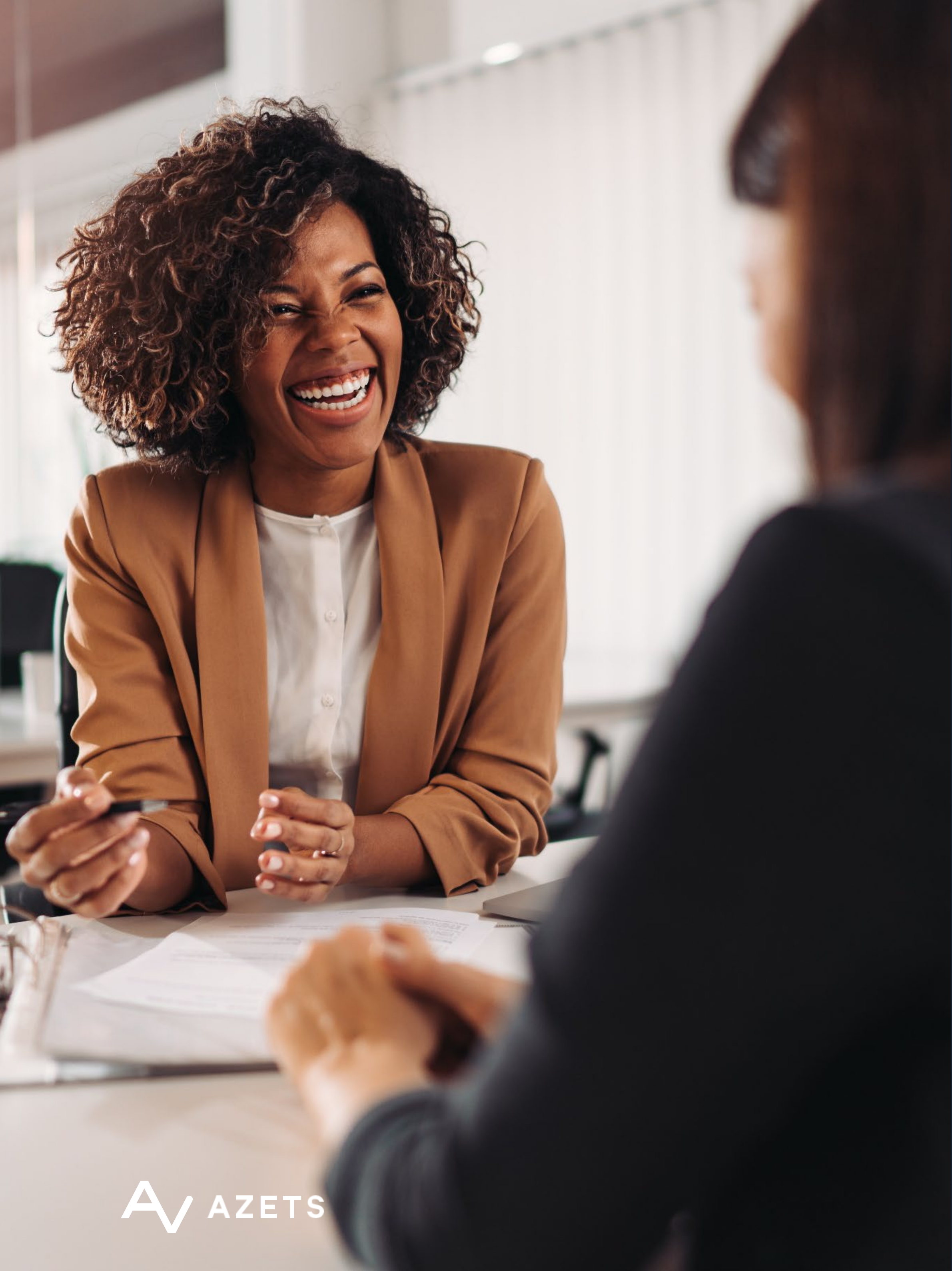
At the same time, the rate of CGT on capital gains in excess of the CGT annual exempt amount has increased from 10% and 20% (for disposals before 30 October 2024), to 18% and 24% (for disposals on or after 30 October 2024) depending on your taxable income level. This has effectively increased the CGT rate on all assets to that previously applied to residential property.

Normally, assets are sold when either you want to release the cash for a purpose, or when your investment strategy suggests you have reached peak return, so why might you consider selling liquid assets such as shares without such good reasons?

One way of maximising CGT rates and allowances used to be the practice of bed and breakfasting shares, where you would sell sufficient shares to generate a gain equal to the annual exempt amount of £3,000. That practice was effectively quashed some years ago, as purchases made within 30 days after a sale are now matched to that earlier sale. This means modified bed and breakfasting can only be done where:

- You sell shares and your spouse repurchases them (you can both do this, but not with the same shareholding).
- You sell shares and repurchase them in your ISA (subject to the annual contribution limits, currently £20,000 for 2024/25), or your Self Invested Pension Plan (SIPP).
- You sell shares in Pharmaceutical A Plc and repurchase shares in Pharmaceutical B Plc, assuming that companies in the same sectors will perform in a similar way.
- You sell shares and you repurchase them after more than 30 days, accepting the market may have moved in the intervening period.





Make the most of your annual exemptions

You may also consider using one of these methods to crystallise gains if you have capacity at basic rate, meaning gains would only be taxed at 18% instead of 24%, particularly if you know your income is likely to rise.

Where considering the gains that you have made in the tax year, do not forget that gains on the disposal of cryptoassets (such as buying and selling Bitcoin) are generally charged to CGT. Gains will also be made where cryptoassets are used to buy goods and services. Swapping one crypto token for another will also usually amount to a disposal for CGT purposes.

Remember that deciding where and how to invest or sell is an investment decision so specialist independent financial advice should always be taken.

Changes to the taxation of carried interest

Carried interest is a performance-related reward received by fund managers which is currently subject to CGT, rather than income tax. This treatment will continue for 2024/25, with CGT chargeable at the higher rates of 18% and 28%. However, interest arising on or after 6 April 2025 will be taxed at a consolidated rate of 32%.

From 6 April 2026, the carried interest regime will be changed altogether so that it is treated as trading profits subject to income tax and Class 4 NICs, with a 72.5% multiplier applied to the income tax rate.

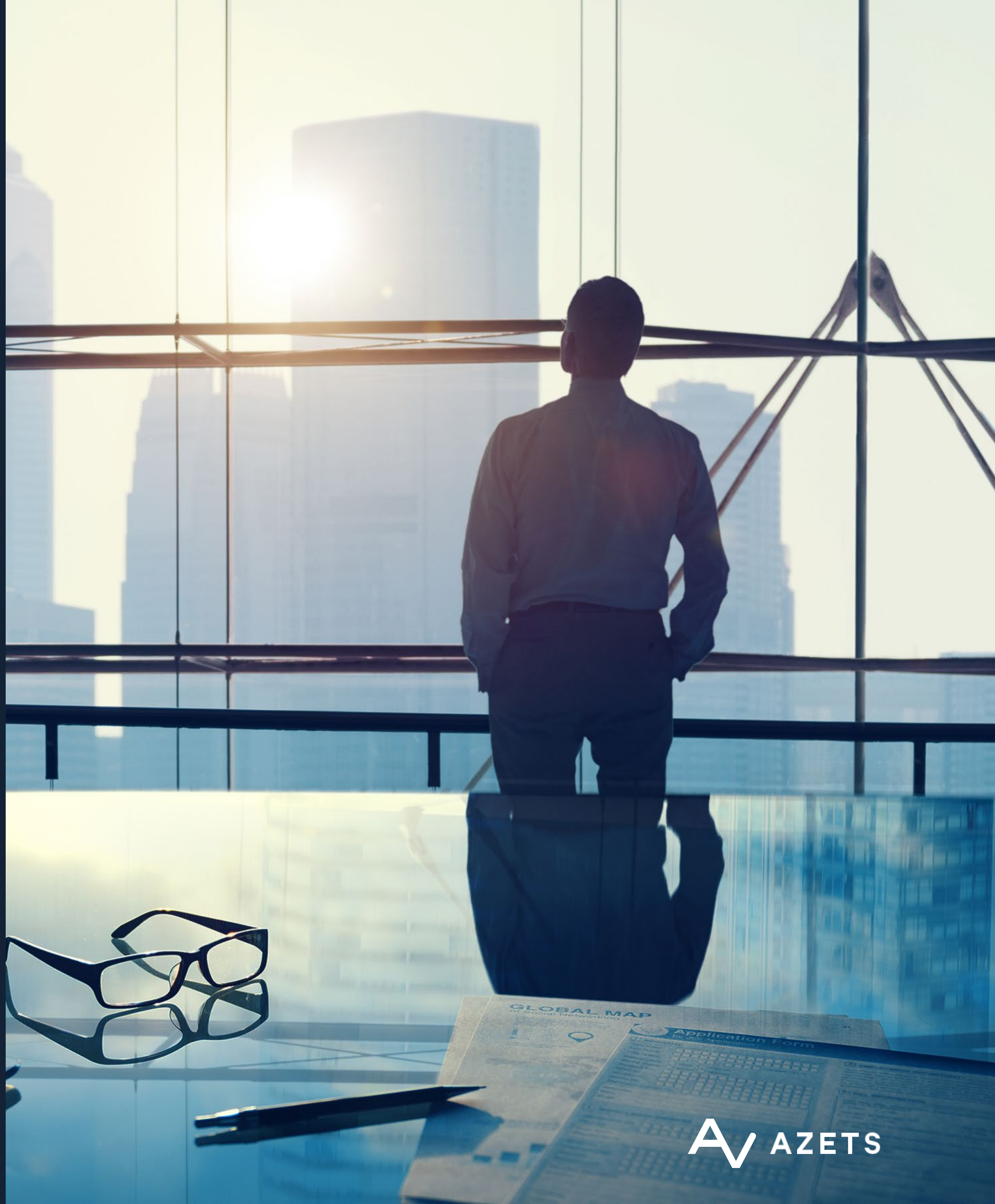
Thinking of selling an asset?

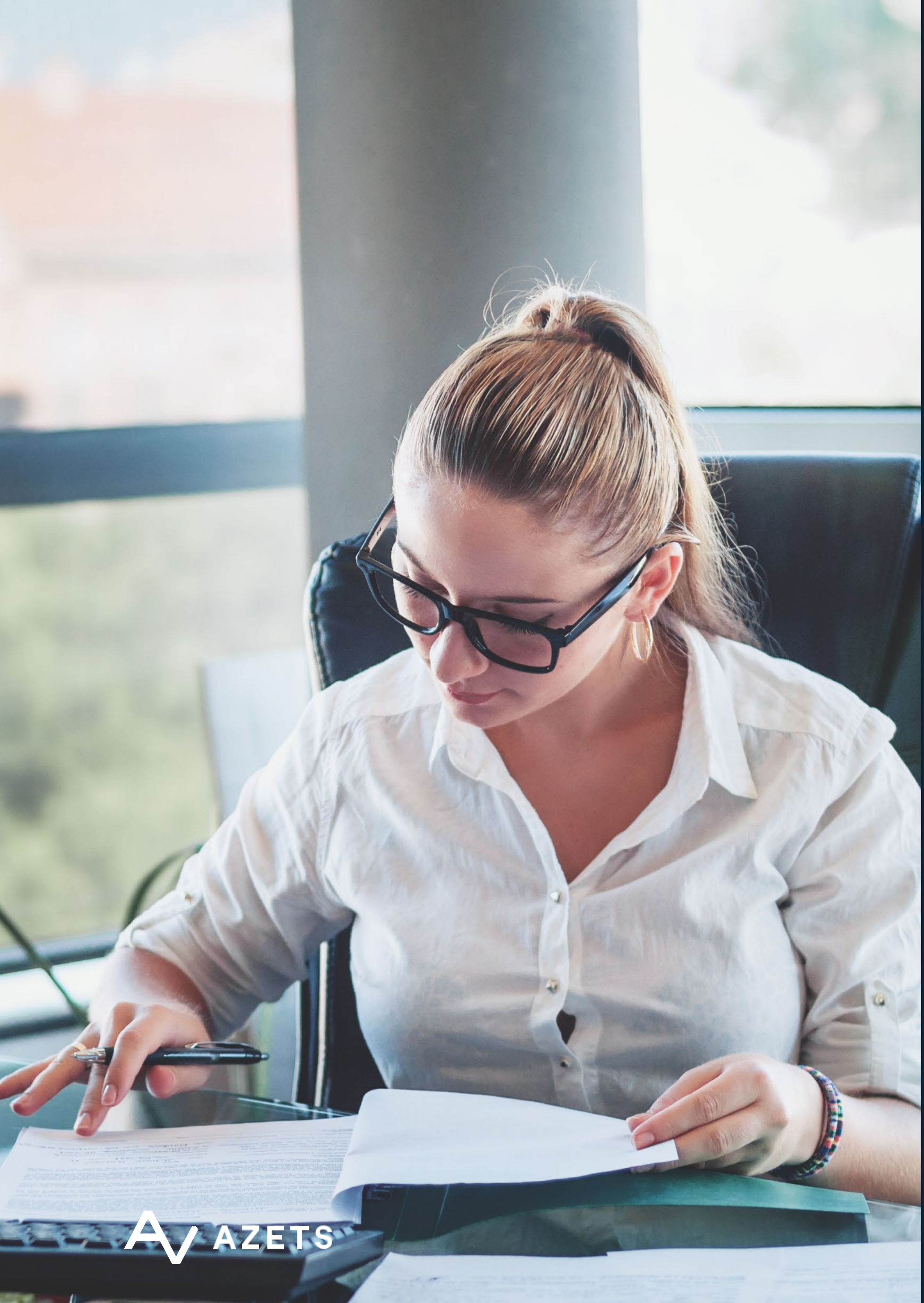
Since 6 April 2020, whenever a UK residential property is disposed of, not only does a return need to be made within 60 days of the date of sale, but any tax due also needs to be paid within the same 60-day period. There are exemptions where there is no tax to pay, owing to reliefs or losses, but for many, this was a significant and likely unwelcome change.

Since 6 April 2020, the final period of ownership that always qualified for Principal Private Residence (PPR) relief was shortened in most cases to just nine months.

In addition, where a PPR had been rented out, in many cases any gain arising for the period the property was rented was normally covered by lettings relief for PPR. Again, since 6 April 2020, lettings relief is only available where the lessee lives in the property with the owner which is arguably an unlikely scenario.

As anticipated, the Autumn Budget reduced the rate of relief of both Business Asset Disposal Relief (BADR) (formerly known as Entrepreneurs' Relief), and Investor's Relief. This means that the effective CGT rate where these reliefs apply increases to 14% (from 10%) for disposals on or after 6 April 2025 and then increases again to 18% for disposals on or after 6 April 2026. The lifetime limit for Investors Relief will also fall to £1m (the same level as BADR) with effect from 30 October 2024.





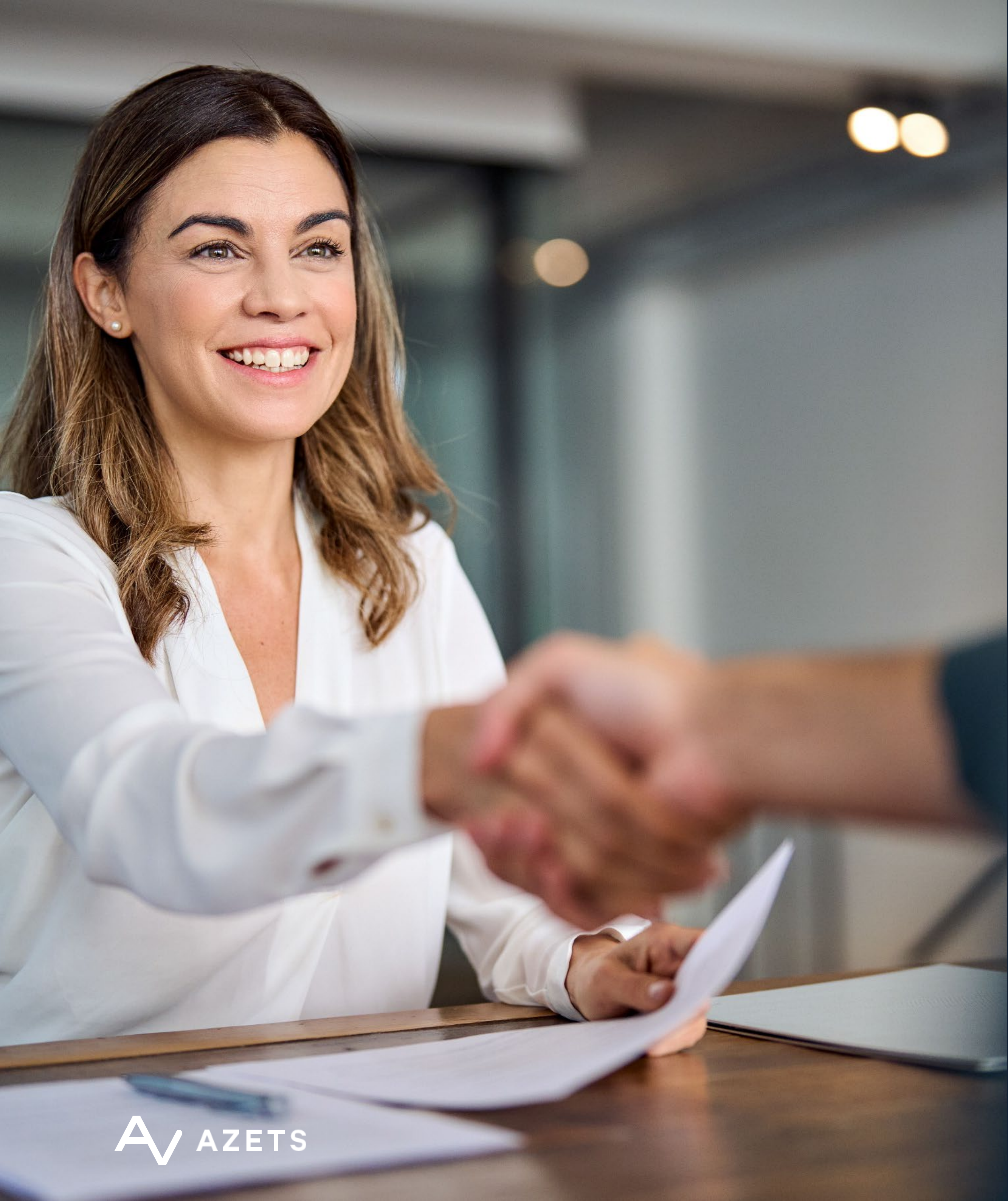
Don’t pay your Capital Gains Tax

While conscientious objection to paying tax is not an advisable move, if you sell a qualifying type of asset during 2024/25 that has been used in your business and you realise a capital gain, it is possible to delay payment of the tax by reinvesting the proceeds in another qualifying asset. In simple terms, a gain can be rolled over if you buy another qualifying business asset within three years and will only become payable on the subsequent disposal of the replacement asset.

Alternatively, if a qualifying investment was made in 2023/24 or 2024/25, you can still match this with a gain on the later disposal of another qualifying business asset, provided it is within the 12 months preceding the disposal and roll over the gain that would otherwise be taxed.

Another way to delay paying tax, or to even remove gains from a charge to CGT is through an investment in EIS where proceeds from disposal of any asset are reinvested into a company qualifying for EIS deferral relief.

Again, the reinvestment must be made within a period starting one year before and ending three years after the disposal. The original gain is frozen until the EIS shares are sold provided the investor remains in the UK. Even better, any further gain made by the qualifying EIS shares is exempt provided they have been held for a minimum period of three years and income tax relief was obtained on the subscription.



Investments

"Investing in tax favoured investments may be very beneficial in building your wealth over time. With current tax relief at rates of 30% and 50%, such investments may be very tax beneficial for you.

However, as with all investments, don't forget that you should always seek advice from an Independent Financial Adviser in advance of making such investments, based on your circumstances."

Graeme Dreghorn

Director, Azets Wealth Management

Click here to contact Graeme

AZETS

Using different tax wrappers

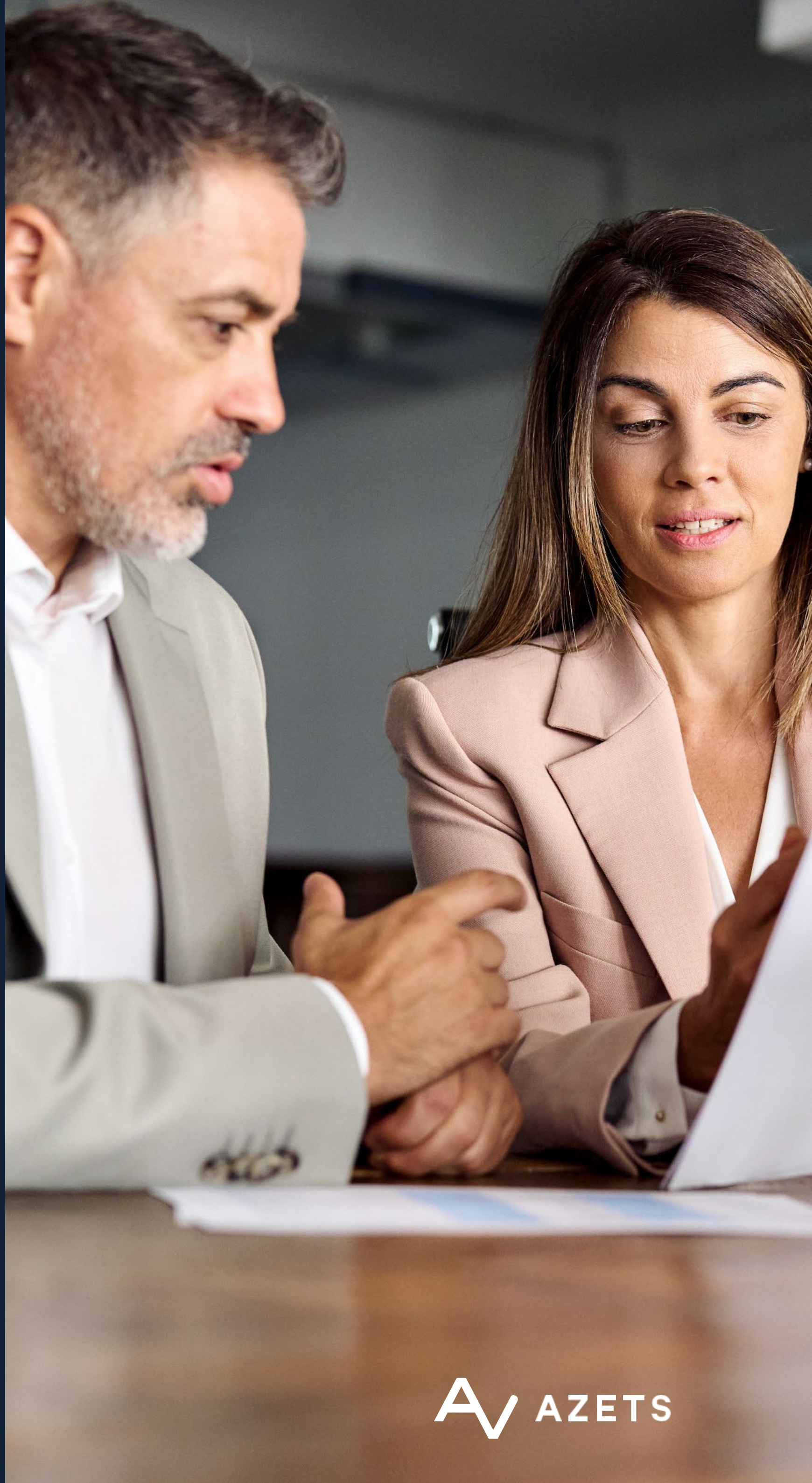
Traditionally, for investors who had fully used their ISA allowance the next port of call would be a General Investment Account (GIA). Unlike an ISA, these accounts are liable to tax, but until fairly recently the chances of a tax liability arising for most clients was actually quite small.

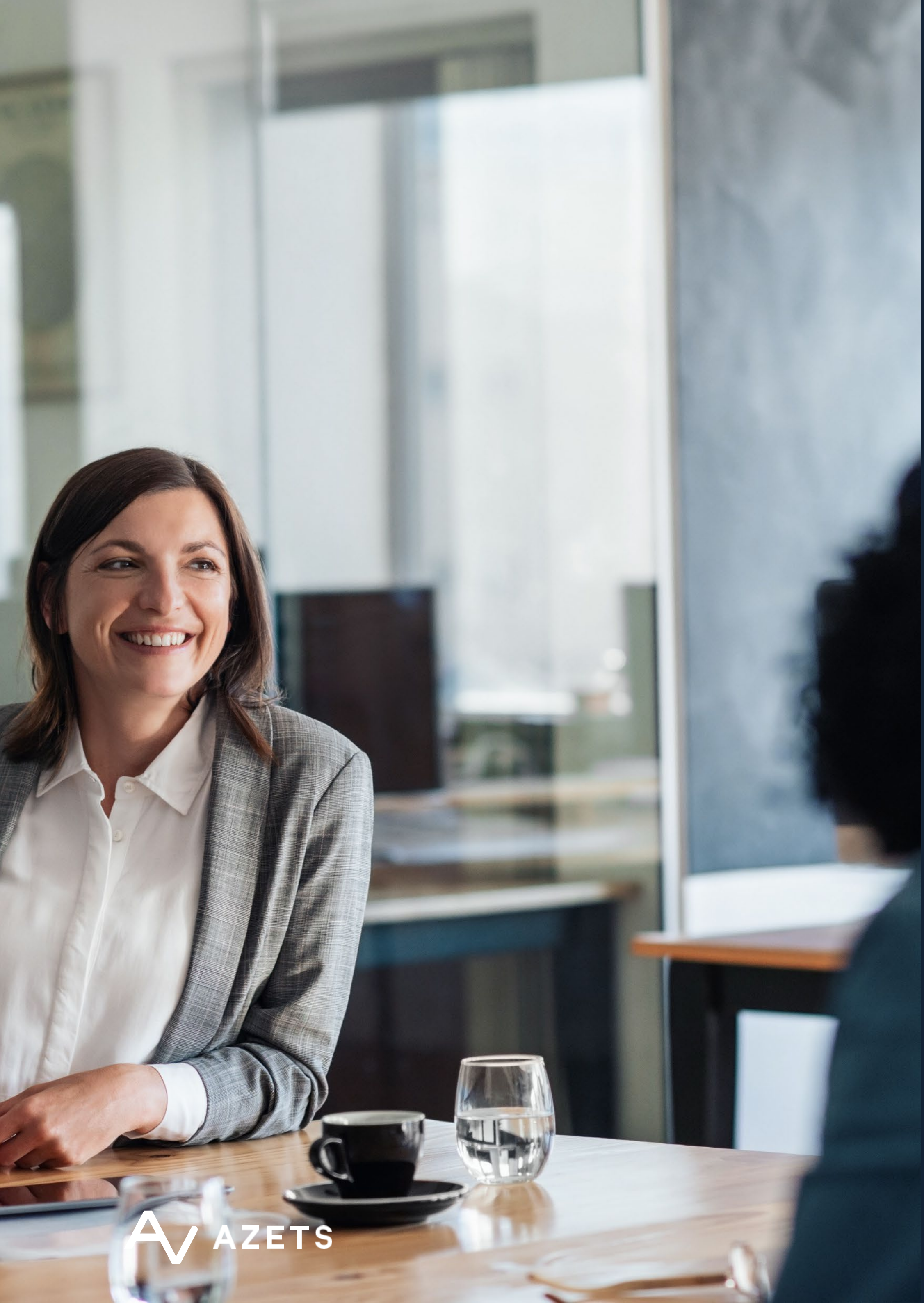
However, a combination of different tax changes have significantly impacted upon how helpful these accounts can be. Capital Gains Tax (CGT) is due on any profit within a GIA, in excess of the annual exempt amount of £3,000. For many clients who have investments which rebalance or who use a GIA account to self-trade, the reduced allowance and increased rate of CGT now make this an expensive wrapper to hold investments in.

Adding to this, most investments yield a return either as a dividend or as interest. As noted previously, the amount of tax-free dividends you can earn before paying tax at your marginal rate of income has halved from £2,000 to £1,000 per year. The Personal Savings Allowance on interest is £1,000 for a basic rate taxpayer, and £500 for a higher rate taxpayer.

When you look at the combination of the factors above, now is a very good time to look at whether a GIA account remains the best home over the longer term.

Investment bonds have come back into the mainstream for many clients as a result of these changes. These are quite complex products which require the input of an Independent Financial Adviser, but the key benefit is that the taxation in the bonds is very different. Transactions within the portfolio are not liable to either CGT or interest or dividend tax. Particularly for wealthier clients this change alone can make an investment bond a more tax efficient vehicle because of the reduction in the tax due each year. Furthermore, investment bonds allow access of up to 5% each year of the initial premium as a tax-deferred sum. This is a cumulative allowance, and it allows a regular sum to be paid to a client, with no immediate tax bill. Whilst there will still be tax to be paid, with planning this can be managed so that the tax bill falls into a more favourable rate. For example, higher rate taxpayers who have partially retired but are still working, can take capital now, and face the proceeds of the gains in retirement once work has ended and there is no salary using up income tax bands.





Using different tax wrappers

There are also favourable rules around gifting with bonds, which is in essence to allow assets to be passed through families with no immediate tax charge. This can be extremely useful when looking at paying for school or university fees. Rather than selling shares and facing a tax charge before using the proceeds to pay for education, sections of a bond can be gifted from parents to children, meaning the proceeds, and the associated tax for any profits fall upon the children, rather than the parents.

As suggested above, this is a very complex, but potentially rewarding strategy that requires the insight of an Independent Financial Adviser to manage.

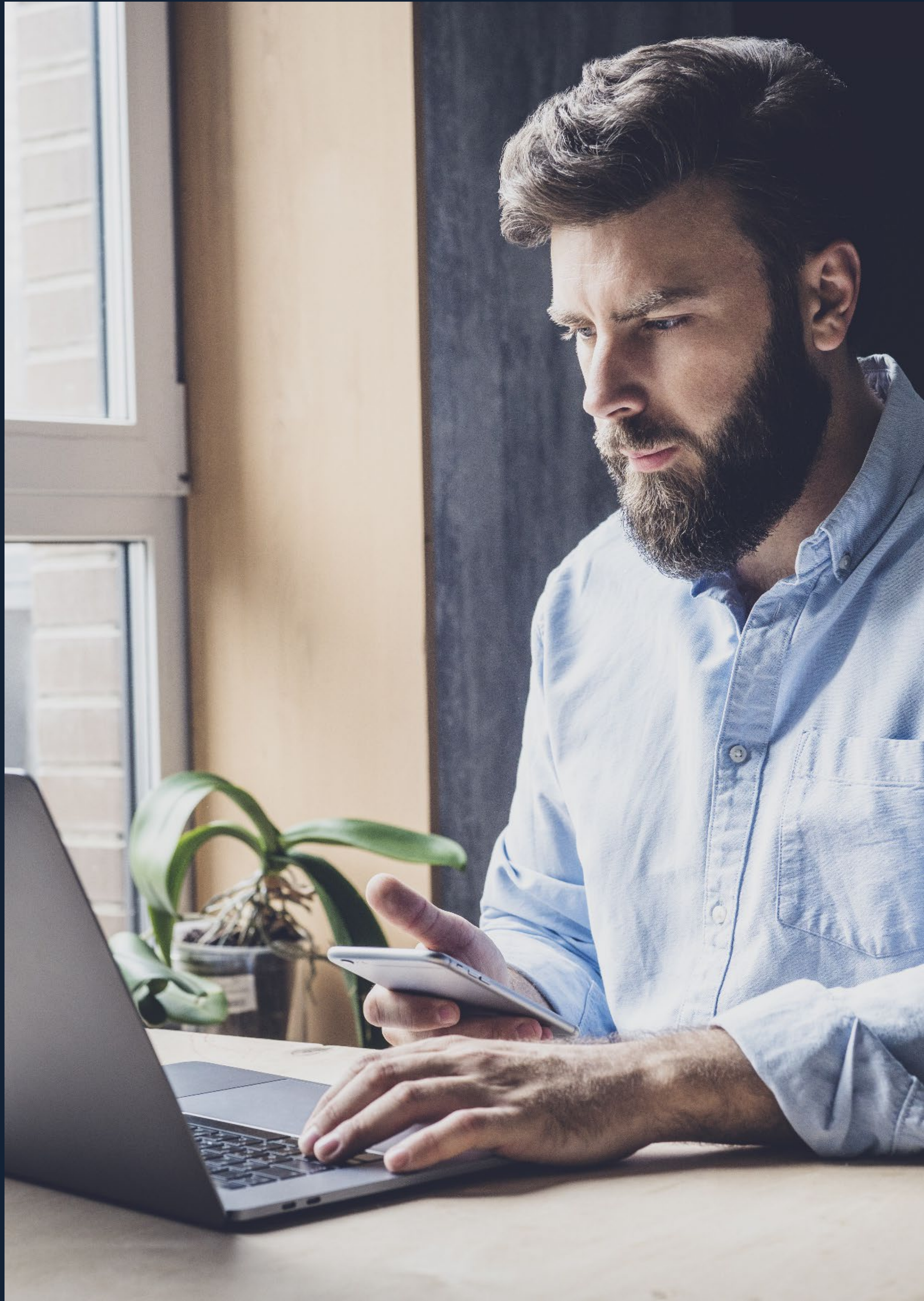
Consider alternative investments

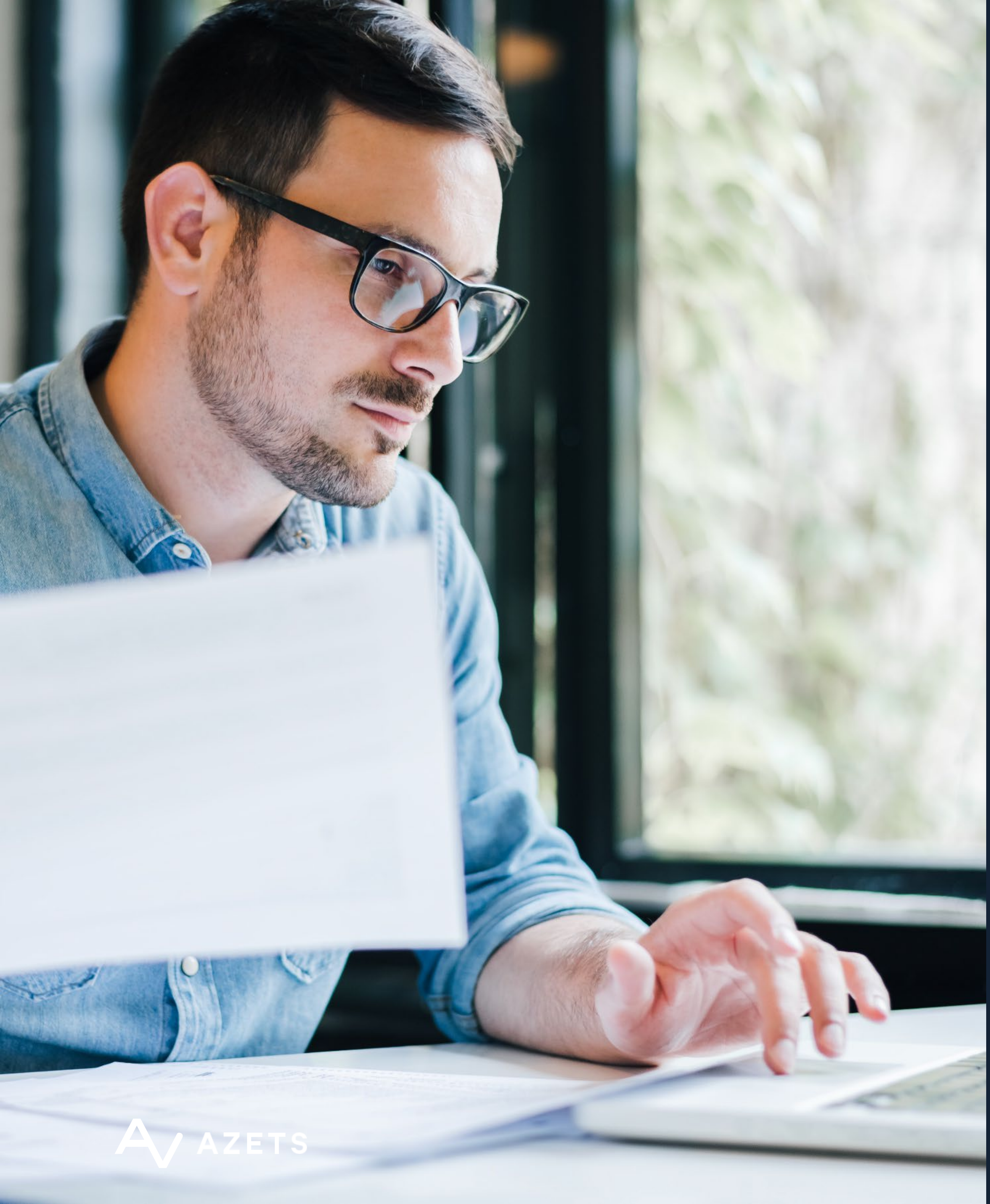
All companies have to start from somewhere, and chances are that blue chip companies of the future may be less secure start-ups today. While we cannot predict which ones will make it and which ones will not, the Enterprise Investment Scheme (EIS) is designed to ensure that these smaller companies at least get a shot at success, with the benefit of investors' money behind them.

To compensate for the higher risk profile, investors in EIS companies get a bonus of income tax relief at 30% on a maximum annual investment of up to £1m, rising to £2m provided £1m of this is invested in knowledge-intensive companies.

The EIS allowance is per individual, so spouses and civil partners can also use each of their own entitlements. The relief is given as a tax credit against tax liability, so to be able to benefit in full, investors need to pay at least the same amount in income tax as the EIS credit. That said, it is possible to treat EIS investments as having been made in the previous tax year, so an investment made in 2024/25 could be utilised in either 2024/25 or 2023/24 depending on which is more advantageous.

Provided the EIS company continues to qualify for the qualifying period, currently three years, and some trading income tax relief has been received, any gain the EIS investment makes will be exempt from Capital Gains Tax (CGT).





Consider alternative investments

Separately, EIS also allows for relief from CGT liabilities from other investments, e.g. residential buy to let sales liable to tax at 24% on the gain. Full deferral relief is available where all the disposal proceeds are reinvested into a qualifying EIS. The original gain is then frozen until the EIS shares are sold but can then be rolled over into a new EIS qualifying investment if required. The time limit for reinvestment for deferral is one year before the CGT disposal to three years afterwards.

And if you weren't already tempted to invest, owing to the risky and unlisted nature of EIS shares, a further advantage of EIS is that they can usually qualify for (currently) 100% business property relief from Inheritance Tax (IHT). Although the value of the EIS will be treated as part of an individual's estate when calculating entitlement to IHT allowances, such as the Residence Nil Rate Band, the value of the EIS is exempt from IHT provided that the EIS has been held for at least two years.

Note that deciding to invest in an EIS is an investment decision (did we mention they can be higher risk?) and is a complex investment. We recommend that you seek advice from your financial adviser before investing.

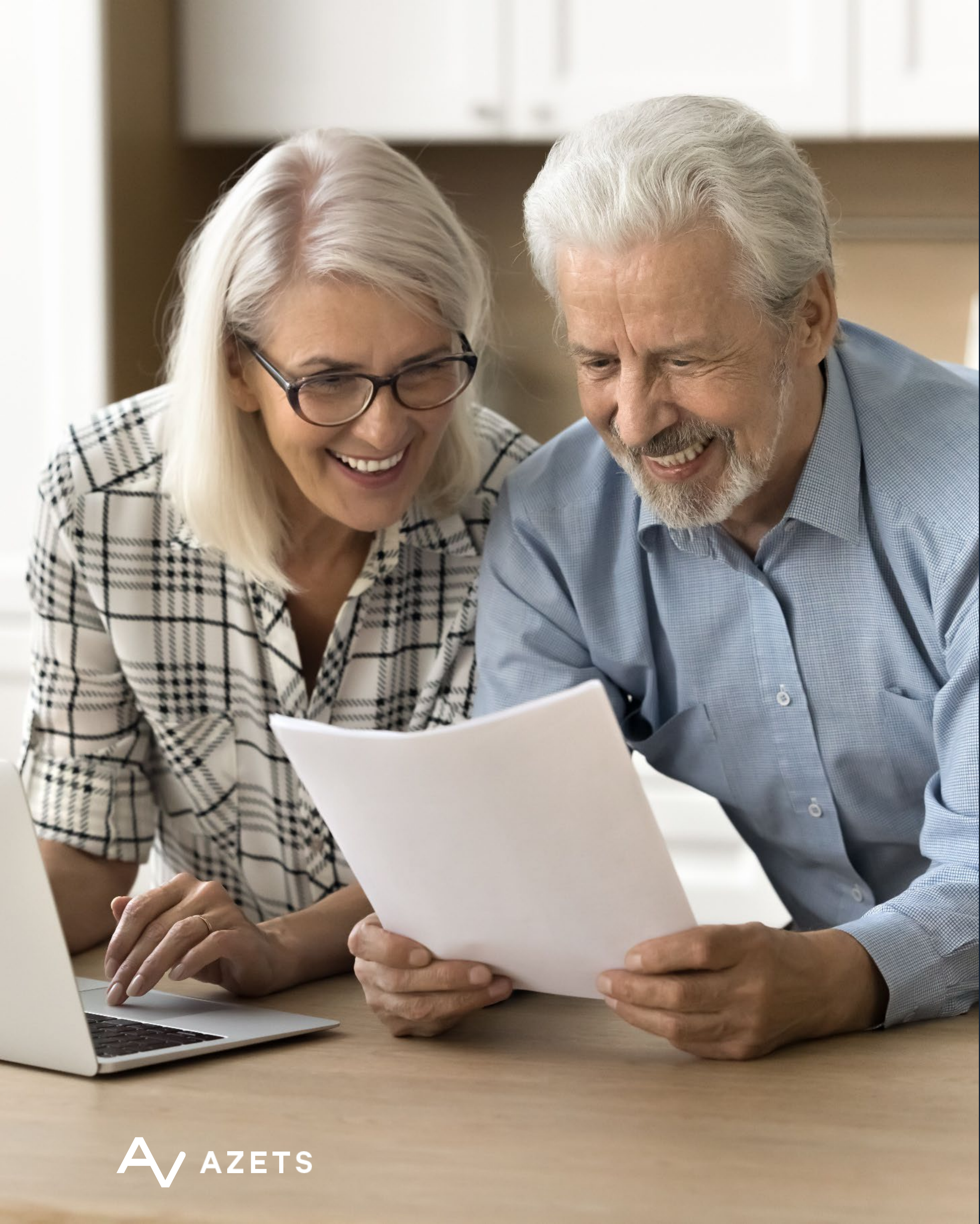
Invest seed capital in small business

If investing in EIS companies is something that fits with your risk profile, be aware that individuals can also invest up to £200,000 each tax year (from 6 April 2023) in qualifying Seed Enterprise Investment Schemes (SEIS).

Operating in a very similar way to EIS, the compensation for the higher risk profile is even bigger, with 50% income tax relief on subscription.

The CGT benefits are also enhanced for the smaller SEIS company investments. In addition to any gains on the SEIS shares themselves being exempt, under SEIS up to 50% of a chargeable gain arising can be treated as exempt from CGT where a qualifying SEIS investment is made. This is an exemption, i.e. not liable to CGT at all rather than the deferral available under the main EIS scheme. Again, investments can be carried back to the previous tax year to claim relief in that year instead.

SEIS investments are not regulated by the Financial Conduct Authority, so should only be considered by experienced business owners and investors practiced at making direct investments and that independent financial advice should be taken.



Invest in venture capital trusts

If your risk profile can stand a higher element of uncertainty, in addition to EIS and SEIS choices mentioned above, there is a third option known as Venture Capital Trusts (VCTs).

While there is some diversification of risk, in a similar way to how unit trusts invest in a number of individual shareholdings, VCT investment is still at the higher risk end of the spectrum compared with many other investment choices as they are required to invest into smaller companies that are not fully listed.

There are income tax benefits to be had for VCT investors. Income Tax relief is available at 30% on qualifying investments up to £200,000, and dividends received from the shares, so long as they qualified on investment, are tax free.

The VCT can also buy and sell investments without incurring CGT within the trust, and there is no CGT payable on any gains made on sale of the VCT shares.

As ever with investment decisions, and particularly with high-risk packaged investment products such as VCTs, always ensure you receive specialist investment advice.

ISAs are an easy way to save taxes

If you were told that you could invest in a reasonably wide range of investment assets and you would be exempt from income tax and CGT on the income/gains arising, you'd be mad not to, wouldn't you?

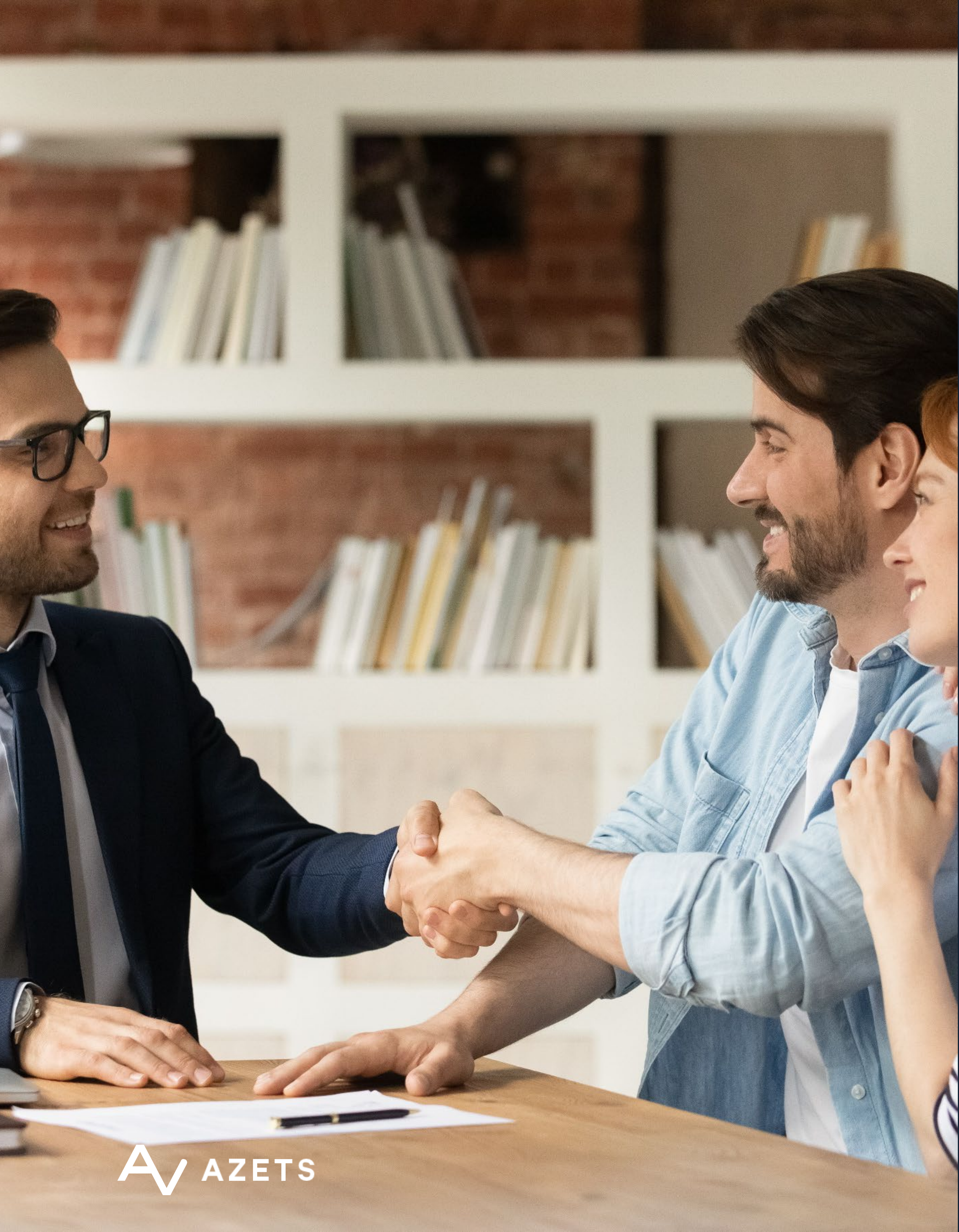
UK residents who are over the age of 18 can invest up to £20,000 per tax year into an ISA, and parents can also pay £9,000 per year into a Junior ISA (for children under the age of 18).

All income and capital gains from transactions held in an ISA are tax free, and there is no tax liability when you take the cash out of your ISA to spend it.

Many people view ISAs as a complementary alternative to pensions, with fewer restrictions on access, although main ISA contributions do not attract tax relief, and will be liable to Inheritance Tax (IHT) if still held at death.

If you are between the ages of 18 and 40, you can invest in a Lifetime ISA (LISA) to save for your first home or for later life. £4,000 can be paid into a LISA each tax year until age 50, but this counts as part of your annual £20,000 ISA allowance. The government adds a 25% bonus, up to a maximum of £1,000 per year. LISA funds can be invested in cash or stocks and shares with income/gains arising being exempt from tax.

Funds in a LISA can be withdrawn to buy your first home, but you have to buy with a mortgage and the maximum price of the property is only £450,000. Alternatively, funds can be withdrawn at age 60 or over, or if you are terminally ill with less than 12 months to live. If funds in the LISA are withdrawn outside of these rules there is a withdrawal penalty of 25%.



Consider a family investment company

A Family Investment Company (FIC) is a normal UK company, which can be used by families who are looking to preserve family wealth, or to pass on to future generations. The company holds investments, that may or may not generate income, and family members hold shares in the company, in the proportions and with varied rights as suits the family situation.

A FIC may be more tax efficient than a traditional discretionary trust for investing for the longer term, particularly if investing in other company shares. With careful implementation, a FIC will be able to invest into equities and roll up the resulting dividend income tax free within the company until it is required at a later stage. Even if alternative investments are made, profits generated within the FIC would be taxed at Corporation Tax rates which are generally less than personal rates of tax, or the rates applicable to trusts.

Dividends paid out by the FIC to family members would be taxed on the recipients, so this vehicle may not be suitable if the family would want to draw all the income. Alternatively, depending on how the FIC was set up, it may be more tax-efficient to receive loan repayments from the FIC rather than income payments via dividends.

In addition, with careful planning in relation to the use of share structure and gifting shares to future generations, it can ensure that when a child reaches 18 and needs an income, for example to fund education or a property purchase, this can be paid in the form of a dividend which may be able to use the beneficiaries dividend allowance and personal allowance which may otherwise go unused, thereby effectively providing a tax-free income.

We are here to help

Some of the suggestions in this guide are time sensitive, therefore please seek advice as soon as possible.

For further information on any of the areas we have covered, please get in touch with your local Azets tax advisor or a member of our specialist Tax team.

Independent Financial Advice is available through our sister company Azets Wealth Management, please get in touch.

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