



Year end tax planning guide

2021/22



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Carr, Jenkins & Hood is the trading name of Redwood Wales Limited, a Company registered in England and Wales Number: 05137675. Registered office: Oystermouth House, Charter Court, Phoenix Way, Swansea Enterprise Park, Swansea, SA7 9FS.

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Income Tax

As we approach the end of the 2021/22 tax year there is still an opportunity to review your tax affairs for the year and take advantage of all the reliefs available to you to help reduce your tax liability. We have outlined some planning opportunities below should you wish to discuss further with us.

PLANNING POINTS

- *Gift Aid/Pension Contributions*

Sufficient gift aid donations and/or personal pension contributions should be made to mitigate the impact of the tapering of the personal allowance.

An amount of £40,000 can be contributed towards your fund in the year which can be increased if you did not use your allowances in the previous 3 years and were a member of a qualifying pension scheme without you becoming liable to a pensions savings tax charge.

If you plan to make sufficient pension contributions in the year remember to discuss this with an Independent Financial Advisor (IFA) to ensure you do not become liable to a pensions savings tax charge.

- *Dividends*

As a result of the scheduled dividend rate increase by 1.25% from 6 April 2022, dividends should be taken from your private company prior to 5 April 2022 to be taxed at the lower rates.

If you use cloud accounting software it would be worth reviewing your accounts up to 5 April 2022 to plan dividend timing to ensure you are taxed at the lower rates.

- *Family Trusts*

There is potential to divert income from grandparents or other relations (not parents) in order to utilise a child's personal allowance. This can be achieved by creating a family trust as part of an Inheritance Tax planning exercise. Professional advice should be sought before undertaking this.

- *Basis Period Transitioning*

The Government announced a reform of the basis period rules for sole traders and partners in the Autumn Budget 2021.

From 2024/25 the profits of the tax year will be the profits arising in that tax year. The transitional year of 2023/24 will be the current year basis period profits plus the transitional period profits from the accounting year end to 5 April 2024.

Full relief will be given for any overlap relief and no further overlap can be created. Any additional profits arising for the business under the new rules will be spread over five tax years starting in 2023/24 with an option to elect to accelerate the tax charge.

YEAR END TAX PLANNING

This differs from the current year basis rules where a basis period for a tax year is the 12 months ending with the accounting date in that year, together with additional rules for the opening and closing years of a business or when there is a change in accounting period.

- *Sole Traders/Partnerships*

If large profits are expected for the accounting year consider making use of the Annual Investment Allowance (AIA) of £1million for capital items which entitles 100% tax relief on plant and machinery purchased in the year.

If you have a family member working in the business without taking a salary make sure they are enrolled on your payroll as they could receive a salary and this expense would also be treated as tax deductible against your profits, reducing your tax burden.

Also remember that any Self-Employment Income Support (SEISS) grants claimed in the 2021/22 tax year will need to be declared on your tax return.

The existing and incoming tax rates are detailed in the appendix.

Capital Gains Tax

The annual exemption for 2021/22 is **£12,300** which is a 'use it or lose it' exemption which cannot be carried forward to future years. It is expected the annual exemption will remain at this level up to and including the 2025/26 year.

RATES OF CAPITAL GAINS TAX

	2022/23	2021/22
	Rate %	Rate %
Individuals		
Standard rate	10	10
Higher rate	20	20
Gains on residential properties		
Standard rate	18	18
Higher rate	28	28
Gains to which Business Asset Disposal Relief applies	10	10

PLANNING POINTS

- *Making Use of the Annual Exemption*

If you are able to crystallise gains each year to the extent of the annual allowance (£12,300) it would be more tax efficient to do so rather than crystallising gains all at once.

- *Nil gain/Nil loss Transfers*

If you are married or in a civil partnership you are able to transfer an asset, or a share in an asset to your spouse without crystallising a capital gain.

This is beneficial in situations like if an investment property is held wholly by one spouse who plans on selling the property. The spouse can transfer half the share in the property to his/her spouse to then make use of their annual exemption and/or capital losses to save on capital gains tax payable.

- *Principal Private Residence Election*

If you own more than one home, consider whether a principal private residence (PPR) election is needed. You have two years to make an election and any PPR relief available over the course of ownership is deductible against any capital gain made on the property. If you wish to discuss this in further detail please contact us to advise if an election would be beneficial.

Inheritance Tax

The right Inheritance Tax (IHT) planning for many individuals can take them out of IHT completely and for others there are significant savings to be made. Estate planning involves making use of exemptions, lifetime giving and structuring assets to ensure all available reliefs are secured on assets held.

ANNUAL GIFTS

- *Annual Exemption*

An amount of **£3,000** can be given away each tax year and, if one year you do not use the amount this can be carried forward for one year and utilised in the following year.

- *Small Gifts Exemption*

An amount of £250 can be given to as many people as you wish each tax year.

- *Wedding Gifts*

Amounts of £5,000 can be given to your child, £2,500 to your grandchild and £1,000 to any other person.

- *Gifts out of income*

If your income is regularly in excess of your expenditure you can give away the excess as an exempt gift. An example of this can be a grandparent helping a grandchild pay for University fees. To gain this relief there must be a set pattern of the gifts and there must be evidence of intent to make these gifts.

- *Gifts to charities or registered clubs*

Any gifts to the above obtain a full exemption from IHT.

The above annual gifts should be considered as part of your annual tax planning if IHT is an issue, however it is also important to consider your own position and sufficient income is kept for your own needs.

LONG TERM PLANNING

If your estate requires further long term planning please contact us and we can look at your overall position to check if any Potentially Exempt Transfers (PETs) would be beneficial to your estate and to evaluate if your assets are eligible for reliefs such as Business Property Relief (BPR) or Agricultural Property Relief (APR).

Appendix

INCOME TAX RATES AND ALLOWANCES

	2022/23	2021/22
	£	£
Personal allowance	12,570	12,570
Income limit	100,000	100,000
Transferable marriage allowance	1,260	1,260
Dividend allowance	2,000	2,000
Personal savings allowance		
Basic rate taxpayers	1,000	1,000
Higher rate taxpayers	500	500

Taxable income £		Rate %
2022/23	2021/22	
0 – 37,700	0 – 37,700	20
37,701 – 150,000	37,701 – 150,000	40
Over 150,000	Over 150,000	45

Dividend income	2022/23	2021/22
	Rate %	Rate %
Basic rate band	8.75	7.5
Higher rate band	33.75	32.5
Additional rate	39.35	38.1

2022/23

Class 1 (Earnings related)

Employees

Weekly earnings

First £190	Nil
£190.01 - £967	13.25%
Over £967	3.25%

Employers

Weekly earnings

First £175	Nil
Over £175	15.05%

Class 1A and Class 1B

Class 2 (Self-employed over profits of £6,725)	£3.15 a week
Class 3 (Voluntary contributions)	£15.85 a week
Class 4 (Self-employed)	
Profits between £9,880 - £50,270	10.25%
Over £50,270	3.25%

Contact Us

If you wish to discuss any of the above in further detail please contact your regular point of contact or contact us on cjh@carrjenkinshood.co.uk or tax@cjhuk.com.

www.carrjenkinshood.co.uk

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