Anderson Strathern

Anderson Strathern ASSET MANAGEMENT

Your personal tax review for the 2022/23 tax year

Anderson Strathern

Your Personal Tax review for the 2022/23 tax year

Alison Pryde, Tax Director, Anderson Strathern | |Graham Clark, Chief Executive, Anderson Strathern Asset Management

As we enter a new tax year we understand, in these challenging times for both family life and business life, reviewing tax and finances may be one of the things that becomes more important to all of us. We've partnered with our financial planning business Anderson Strathern Asset Management to produce this personal tax review. It gives you a useful round up of developments and helps identify the things you may need to know for the tax year ahead.

This report provides an overview of the main tax reliefs, exemptions, and allowances on offer, together with some planning tips that could help you protect your wealth by maximising the tax benefits available to you while minimising your tax exposure.

Budget and Spring Statement

Chancellor Rishi Sunak's 2021 Autumn Budget was preceded by the announcement of the introduction of the Health and Social Care Levy which introduced a 1.25% increase in National Insurance ("NIC") and dividends tax. The Budget itself delivered very little in the way of tax changes for private individuals with no announcements on Stamp Duty Land Tax (SDLT) inheritance tax ("IHT") and changes to capital gains tax ("CGT") being limited to the administration of the tax.

By the time the Chancellor revealed the contents of his Spring statement in March 2022 the cost of living crisis was at the front of the mind of UK taxpayers. The Chancellor chose to retain the 1.25% increase in NIC and dividends tax but sought to reduce the burden on earners by increasing the limit below which NIC is not paid from £9,880 to £12,570. A reduction in fuel duty by 5p per litre was also announced in an attempt to reduce prices at the petrol pump.

A reduction of the basic rate of UK income tax to 19% from 20% with effect from 6 April 2024 was proposed provided key economic targets were met.

The Chancellor restated his desire to consider reforms to tax allowances and reliefs over the next two years, noting that there are over a thousand reliefs and allowances which have a considerable fiscal impact and can create complexity, uncertainty, and inconsistency in how individuals are taxed.

Scottish taxpayers needed to pay attention not only to the changes announced by the Chancellor but also those announced by the Scottish Government in its Budget on 9 December 2021. Scottish income tax applies to earnings of Scottish taxpayers arising from employment, self-employment, pension income and property income and the rates and bands for personal income tax are devolved to the Scottish Parliament. Changes were however limited to an inflationary increase in the starter and basic rate bands of income tax. Higher and top rates of income tax remained frozen.

The rise in the cost of living and the continued freezing of many of the tax thresholds and allowances for personal tax, CGT and IHT until 5 April 2026 makes it particularly important to be reviewing your tax and financial affairs and plan for the new tax year to take advantage of current tax reliefs and those planning opportunities which continue to be available.

Anderson Strathern

Tax

Income tax

- It was announced at the UK Budget in March 2021 that the carry back of trading losses by sole traders and individuals trading in partnership was to be temporarily extended from one year to three years. Relief is available for up to £2 million of tax losses arising in both the 2020/21 and 2021/22 tax years. The measure was introduced to aid businesses which were previously profit making but have moved into a loss making position as a result of Covid.

- The reforms to the off-payroll working rules (IR35) that apply to people contracting their services to large or medium-sized organisations in the private sector come into force on 6 April 2021. Anyone who provides their services to such an organisation through a personal service company or another intermediary such as an agency may fall within the rules.

- Higher and additional higher rate taxpayers should consider reviewing their own personal tax position with that of their spouse/civil partner (for convenience, referred to throughout as 'spouse') and/or other family members.

- From 6 April 2022 Scottish resident taxpayers will have the following income tax thresholds and income tax bands:

Rates	Bands	Rates (%)
Personal allowance	First £12,570	0
Starter	£12,571 - £14,732	19
Basic	£14,668 - £25,688	20
Intermediate	£25,297 - £43,662	21
Higher	£43,662 - £150,000	41
Additional Higher	Over £150,000	46

- A Scottish taxpayer with earnings of £50,000 will pay £1,489 more income tax than their counterparts in the rest of the UK. This tax gap will only widen for Scottish higher rate taxpayers as their earnings increase.

- The Scottish rates set out above apply only to earnings from employment, pensions and rental income. The UK rates of income tax will apply to investment income, which is taxed as the top slice of income. Investment income will be taxed at the higher rate of UK income tax (40% for interest and 33.75% for dividends) where taxable income exceeds £50,270. Where income exceeds £150,000 the rates are 45% and 39.35% respectively.

- Everyone earning less than £100,000 currently receives a tax-free personal allowance of £12,570. Taxpayers should ensure that the personal allowance of a non-taxpaying spouse is fully utilised. The personal allowance is set by the UK Government and has been frozen at £12,570 until 5 April 2026.

- Individuals earning more than £100,000 per year should be aware that their personal allowance is reduced by £1 for every £2 that their taxable income is above £100,000. Where this reduction applies, the effective rate of income tax is 60%. Steps can be taken by careful use of, for example, tax relievable pension contributions or gift aid donations to charity to reduce the effective rate of tax.

- The transfer of certain income-producing assets to other family members may be attractive if they are non-taxpayers, are subject to lower rates of income tax or have available personal savings allowance or dividend allowance (see below). This strategy could result in an income tax saving of up to 46%. If, for example, a spouse has a lower rate of income tax, savings accounts could be placed in joint names to share the income tax liability on the interest. Parents will still, however, be subject to income tax on income arising from assets gifted by them to their children under the age of 18 (subject to a de minimis limit of £100). Income arising from assets gifted by grandparents to grandchildren, however, would be subject to income tax in the grandchildren's hands.

- The transfer of income-producing assets from one spouse to the other may also enable both spouses' taxable income to stay below the High Income Child Benefit Charge taper threshold of £50,000.

- Family businesses provide several opportunities to control the income tax exposure of both owners and employees. Family members could be introduced to the family business as co-owners and/or employees and be provided with income in some form. Salary, profit share or dividends may then be taxable at lower rates of tax. It is important that any remuneration is justifiable and genuine.

- Owners of family companies can consider declaring a dividend rather than taking additional salary to minimise their income tax and NIC exposure.

- The effective rate of tax for dividends for a basic rate taxpayer is 8.75% and for higher rate taxpayers 33.75%. Those paying tax at the highest rate and trustees pay income tax on dividends at 39.35%. The dividend allowance is currently £2,000.

- Salary sacrifice schemes may enable employees to make tax-efficient pension contributions (see Pensions section below) and potentially protect their personal allowance.

- Income tax relief for residential landlords on all allowable finance costs (e.g. mortgage loan interest, arrangement fees, repayment fees, etc.) relating to buy-to-let residential property is restricted to the basic rate of income tax (currently 20%). The restriction applies to individuals, partnerships, and trusts.

- It is important to consider the other tax implications on any proposed transfer of assets (e.g. capital gains tax, inheritance tax and land and buildings transaction tax) and also the fact that you no

longer have ownership or control of those assets in the future.

- Donations to charity can be used to reduce a higher or additional rate taxpayer's income tax bill by allowing the income tax paid above the basic rate to be reclaimed.

- Beneficiaries of discretionary trusts can recover income tax on distributions of income by trustees, by virtue of their individual personal allowances and basic and higher tax bands.

Capital gains tax (CGT)

- The annual CGT exemption available to set-off against chargeable gains is frozen at £12,300 (trustees £6,150) until 5 April 2026. This is a 'use it or lose it' exemption.

- Gains realised by higher rate taxpayers in excess of their annual exemption are currently subject to CGT at a rate of 20% (28% for capital gains on residential property).

- Gains realised by basic rate taxpayers are subject to CGT at a rate of 10% (18% for residential property gains) if the gains fall within their available basic rate band once their taxable income has been considered. Gains in excess of the basic rate band limit (being the UK limit of £50,270) are taxed at 20% (28% for residential property gains).

- Splitting disposals over two tax years or delaying triggering gains until the next tax year may enable you to benefit from two CGT annual exemptions and/or delay the payment of CGT by another 12 months to 31 January 2024 for non-residential property disposals. (See below).

- Transfers between spouses are CGT-free. Spouses should therefore consider making transfers between each other prior to any planned disposals to take full advantage of available CGT exemptions, capital losses and/or a lower rate of CGT.

- If you are a higher or additional rate income taxpayer, it may be advantageous to invest in assets which produce capital growth, rather than income. This could result in gains taxed at 20%, rather than at materially higher rates of income tax.

- Losses can be set off against an individual's chargeable gains. Taxpayers with a considerable CGT liability for this tax year could consider if they would wish to dispose of any loss-making assets which have decreased in value enough to produce a loss to set off against capital gains for the year.

- Business Asset Disposal Relief (formerly Entrepreneur's Relief) reduces the effective rate of CGT from 20% to 10% on the disposal of business assets if the qualifying conditions are satisfied. The lifetime limit was reduced from £10 million to £1 million for qualifying disposals taking place on or after 11 March 2020.

Inheritance tax (IHT)

- An individual can make annual IHT-exempt gifts of up to £3,000 with any unused relief being carried forward for one year (e.g. up to £6,000 may be available in the 2022/23 tax year if no gifts were made in the 2021/22 tax year).

- There are also several other forms of IHT-exempt gifts including small gifts of up to £250 to any one person and gifts to charities.
- Gifts out of your surplus income will also qualify for IHT-exemption if you satisfy certain conditions.
- Gifts above the annual exemption can be made to family members and other persons. No IHT is chargeable if the donor survives at least seven years after the gift.
- Transfers to a spouse are exempt from IHT. This allows assets to be transferred free from IHT between spouses to take advantage of each spouse's income tax and CGT position.
- The IHT nil rate band is frozen at £325,000 until the end of the 2025/26 tax year.
- The residence IHT nil rate band is available for deaths on or after 6 April 2017 where the deceased leaves an interest in property which at some point has been their main residence. This top-up relief is frozen at £175,000 until 5 April 2026. Restrictions to the relief will apply where the net value of the deceased's estate is over £2 million.
- The start of the tax year can be a good time to review an individual's will to ensure that it allows assets to be passed on in the most tax-efficient manner.
- The Government has confirmed that none of the recommendations contained with The Office of Tax Simplification (OFT) (an independent office of HM Treasury) second report on IHT are to be implemented.

Anderson Strathern

Property taxes

CGT

- From 6 April 2020 onwards UK residents were required to file a return and settle any CGT arising on the disposal of UK residential property within 30 days of completion of sale if a CGT liability is triggered. The 30 day deadline has been extended to 60 days for disposals that complete on or after 27 October 2021. Whereas non-UK residents are required to file a return regardless of whether there a liability to tax the regime applies to UK residents only if there is tax to pay on the disposal.

- Non-UK residents are subject to UK CGT on the disposal of all other UK land and property with effect for disposals taking place from 6 April 2019 onwards.

- Where a property has been an individual's only or main residence throughout their period of ownership the gain on disposal will be exempt from tax. Periods of absence may count as deemed occupation if certain conditions are met. A tightening of the rules for CGT principal private residence relief for capital gains arising on the disposal of a taxpayer's main residence came into effect from 6 April 2020. From this date (i) lettings relief is available only where the owner 'shares occupancy' with the tenant; and (ii) the final period 'deemed occupancy' exemption has been reduced to 9 months from 18 months.

Stamp taxes

- Land and buildings transaction tax (LBTT) replaced Stamp duty land tax (SDLT) for property transactions in Scotland with effect from 1 April 2015.

- The supplementary LBTT additional dwellings supplement (ADS) charge applied on the acquisition of 'additional' residential properties (e.g. second homes, buy-to-lets, etc.) in Scotland is set at 4%.

- An SDLT surcharge of 2% applies to non-UK residents purchasing residential property in England and Northern Ireland from 1 April 2021. This is in addition to any ADS charge.

Other property taxes

- The 10% wear and tear allowance previously available to reduce taxable rental income for furnished property was abolished from 6 April 2016. Taxpayers are now only able to claim the actual cost of replacing furnishings.

- Individuals with gross income arising from property of under £1,000 in a tax year are not subject to income tax or any requirement to report the income to HMRC.

- There is an income tax 'rent a room relief' of up to £7,500 available for taxpayers letting out rooms in their own home.

- Residential property worth more than £0.5 million and owned by a 'non-natural person' (e.g. a company) is subject to an Annual Tax on Enveloped Dwellings (ATED). Relief from the charge is available in certain situations.

- The Government introduced new tax rules from 6 April 2017 to bring the value of foreign owned UK residential property held indirectly (e.g. through a company or trust) into the UK IHT regime.
- Non-UK companies letting-out UK residential property became subject to corporation tax from 6 April 2020. Previously non-UK companies were subject to UK income tax on rent arising from UK residential property.

Pensions

- The Government provides income tax relief on pension contributions within an individual's annual contributions limit.

- The annual pension contributions limit of £40,000 is reduced by £1 for every £2 of qualifying income in excess of £240,000 subject to you having 'threshold income' of £200,000. As with other tax allowances the lifetime allowance for pension savings has been frozen at £1,073,100 until the end of the 2025/26 tax year.

- Pension contributions can be made on behalf of anyone of any age, including children and grandchildren. Contributions of up to £3,600 (gross) per year can be paid on behalf of non-earners. This would require a contribution of £2,880 net of income tax relief, with a 20% contribution from HMRC.

- If you earn more than £3,600, you can pay up to the whole of your earnings into a pension scheme, but the relief is capped by the annual allowance of £40,000 and subject to being reduced if they go above the relevant income limits (please see above).

- Any unused annual allowance in the previous three tax years can also be brought forward to obtain tax relief on contributions provided you have the required level of qualifying income in the year you make the payment.

- Non, starter and basic rate Scottish taxpayers should receive 20% income tax relief on their pension contributions. Scottish higher or additional rate taxpayers may be able to claim tax relief of at least 41% or 46%.

- An employee will automatically receive tax relief at their highest rate of income tax if their pension contributions are deducted from their pay by the employer before income tax is applied. However, many employees contribute to a Group Pension Scheme under the 'relief at source' system. Contributions are deducted after income tax with basic rate tax relief given by way of the pension provider claiming basic rate tax from HMRC and add it to the pension fund. For example, if the employee puts £80 into their pension the provider would claim £20 and put it into the employee's pension bringing the total contribution to £100. If the employee is a Scottish higher rate or additional rate taxpayer, they must make a claim to HMRC for the additional tax relief. A claim for relief must be made within four years of the end of the relevant tax year.

- Income and capital gains arising within pension funds are generally tax-free.

Anderson Strathern

Tax-favoured investments

Individual Savings Accounts (ISAs)

- An ISA as an investment vehicle offers a range of benefits including tax-free income and capital gains, easy access, and encashment.
- An individual can invest up to a total amount of £20,000 in an ISA in the 2022/23 tax year (unchanged from 2021/22). Any unused annual allowance cannot be carried forward and should be used within the tax year.
- The ISA allowance can be split between stocks and shares, and/or cash, according to the preference of the taxpayer.
- Junior ISAs (JISA) are available to those under age 18 who do not already have Child Trust Funds ('CTF'). The JISA and CTF limits for the 2021/22 tax year is £9,000 (unchanged from the 2021/22 tax year).
- A new Lifetime ISA ('LISA') was introduced from 6 April 2017 into which individuals aged between 18 and 40 are able to pay up to £4,000 every tax year. The Government pays a 25% bonus (e.g. £1 for every £4 invested) into the LISA at the end of each tax year. The LISA can be used as deposit by a first-time buyer.

Enterprise Investment Scheme (EIS)

- The EIS offers attractive tax breaks for investment in new shares of qualifying unquoted trading companies.
- Income tax relief is given at 30% on qualifying investments of up to £1 million in the 2022/23 tax year (e.g. a potential tax saving of up to £300,000). The annual limit is increased to £2 million where at least over £1 million is invested in 'knowledge-intensive companies'.
- The income tax relief on the cost of shares acquired in 2022/23 can be carried back to the 2021/22 tax year to provide relief against the income tax liability for that year.
- CGT on gains arising on the disposal of any asset can be deferred through investing in shares that qualify under the EIS.
- There should be no CGT on gains arising from the disposal of qualifying EIS shares after 3 years of ownership.

Seed Enterprise Investment Scheme (SEIS)

- The SEIS operates in a similar manner to the EIS, but instead applies to small, early-stage companies which satisfy certain qualifying criteria.
- Taxpayers can invest in the SEIS and claim income tax relief on 50% of the cost of a qualifying investment up to £100,000 in the 2022/23 tax year (giving a potential maximum tax saving of

£50,000).

- There should be no CGT on gains arising from the disposal of qualifying SEIS shares after 3 years of ownership.

- A CGT exemption is available for chargeable gains which have arisen on the disposal of assets during the 2022/23 tax year, but which are then reinvested into shares which qualify for SEIS income tax relief. Capital gains of up to £50,000 (e.g. 50% of the annual investment limit) can qualify for this re-investment relief resulting in a CGT saving of up to £14,000 (£50,000 @ 28%).

Venture Capital Trusts (VCT)

- VCTs are a form of investment trust that invests in a range of relatively small trading companies.

- Income tax relief is given at up to 30% on qualifying investments of up to £200,000 in the 2022/23 tax year in a VCT (e.g. a potential saving of up to £60,000).

- Dividends on VCT investments are tax-free.

- There is no CGT deferral relief available into VCTs for gains arising on other assets, but capital gains arising on the disposal of VCT shares themselves should be CGT-free if the shares have been held for a minimum period of 5 years.

- It is important that potential investors in EIS, SEIS, and VCTs are aware that these investments are generally favoured by higher risk investors, who are prepared to tie their money up for several years in exchange for attractive tax reliefs.

Social Investment Tax Relief (SITR)

- Similar in income tax relief is given at 30% on the acquisition of shares or qualifying debt instruments in social enterprise activities of up to £1 million per tax year through to 5 April 2023.

- CGT on gains arising on the disposal of any asset in the period to 5 April 2023 can be deferred through investments that qualify under the SITR rules.

- There are no tax reliefs for income arising from SITR investments. Dividends and interest are taxed in the normal manner.

- Capital gains arising on the disposal of the SITR investments themselves are CGT-free if the investments have been held for a minimum period of 3 years.

Contact Us

Our Private Client Services offers a full portfolio of advisory services in tax planning, asset protection and family advice. It is a full-service solution that is always tailored to meet individual and family needs.

For further tax planning advice, please contact **Alison Pryde**, **Martin Campbell**, or speak to your usual Anderson Strathern contact. We would strongly recommend that you seek specialist advice tailored to your own circumstances before taking any action.

For financial planning and investment advice, please contact **Graham Clark** or speak to one of our Financial Planners at **Anderson Strathern Asset Management**.

Private Client | Tax | Family Law | Financial Planning