Client Bulletin

February 2022

USE YOUR 2021-22 ALLOWANCES

Limited window for using your 2021/22 tax allowances

Individuals are entitled to a number of allowances each year. However, many of them are lost if they are not used in the tax year to which they relate – it is not possible to carry most unused allowances forward. The 2021/22 tax year comes to an end on 5 April 2022. With the end of the tax year approaching, now is the time to review your allowances and consider whether there is anything that can be done to prevent those allowances being wasted. Remember, any Covid-19 grants that you have received this year are taxable and will need to be taken into account when assessing your income.

Personal allowance

The personal allowance for 2021/22 is set at £12,570. It is reduced by £1 for every £2 by which adjusted net income exceeds £100,000. This means that individuals whose income exceeds £125,140 will not receive a personal allowance for 2021/22.

Where possible, steps can be taken to preserve the personal allowance, such as making pension contributions or charitable donations to take income to below the abatement limit. Consideration can also be given to deferring income to 2022/23 and to transferring income or income-earnings asset to a spouse or civil partner to preserve the allowance.

Where the personal allowance has not been fully utilised, consider whether it is possible to increase income for 2021/22. If you have a family company, you may be able to pay a bonus or a dividend, for example, to mop up unused allowances.

If you, or your spouse or civil partner, are unable to use their full allowance for 2021/22, consider whether you can claim the marriage allowance. This allows one spouse or civil partner to transfer 10% of their personal allowance – equivalent to £1,260 for 2021/22 – to their partner, as long as the recipient does not pay tax at the higher or additional rate. Where the marriage allowance is claimed, the partner making the transfer has a reduced personal allowance of £11,310 for this year, whereas the recipient has a higher personal allowance of £13,830. Claiming the marriage allowance will save a couple £252 in tax for 2021/22.

The married couple's allowance is set at £9,125 for 2021/22. It is available where at least one spouse or civil partner was born before 6 April 1935. However, the allowance is reduced by £1 for every £2 of income over £30,400 until the allowance is reduced to the minimum amount of £3,530. The married couple's allowance reduces the tax payable by 10% of the allowance, meaning it is worth between £353 and £912.50 for 2021/22. If one partner's income exceeds the income limit, couples should look to equalise income where possible to minimise the reduction in the allowance.

Contact us to discuss action you can take to ensure that your personal allowances for 2021/22 are not wasted.

Dividend allowance

All taxpayers, regardless of the highest rate at which they pay tax, are entitled to the dividend allowance. The dividend allowance is actually a nil rate band; dividends falling within the band are taxed at a zero rate. Dividends are taxed as the top slice of income.

Review your dividend strategy prior to 6 April 2022 and, if you have sufficient retained profits, consider paying additional dividends to utilise any unused dividend allowances.

Discuss your dividend strategy with us to ensure dividend allowances for 2020/21 are not wasted.

Savings allowance

A separate allowance is available for savings. However the savings allowance is available to basic and higher rate taxpayers only – there is no savings allowance for additional rate taxpayers. The allowance is set at £1,000 for basic rate taxpayers and at £500 for higher rate taxpayers. It is available in addition to the savings zero rate. Interest earned on tax-free savings, such as ISAs, does not count towards the limit.

Couples should look at how their savings are held to ensure that allowances are not wasted. For example, if one partner is an additional rate taxpayer and the other is a basic rate taxpayer, ensuring any savings income accrues to the partner paying tax at the basic rate will ensure that the first £1,000 is tax-free rather than taxable at the additional rate.

Capital gains tax annual exempt amount

For capital gains tax purposes, individuals are allowed to realise net gains (after deducting any capital losses) of £12,300 for 2021/22 tax-free. Where capital disposals are on the cards, if the annual exempt amount remains available, consider making the disposal prior to 6 April 2022 to utilise the 2021/22 annual exempt amount, paving the way to realise gains free of capital gains tax in 2022/23.

Spouses and civil partners can take advantage of the no gain/no loss rules to transfer assets between them prior to sale to benefit from any available annual exempt amounts.

Remember, the annual exempt amount is lost if it is not used in the tax year – it cannot be carried forward.

Contact us to discuss how to minimise your capital gains tax bill by making best use of your annual exempt amount.

Pension annual allowance

Individuals are able to make tax-relieved pension contributions up to the higher of 100% of earnings and £3,600, subject to having sufficient annual allowance available. The annual allowance is set at £40,000 for 2021/22.

Where the allowance is not fully utilised, it can be carried forward for up to three years. Thus, for 2021/22, the available annual allowance is that for 2021/22, plus any unused allowances for 2018/19, 2019/20 and 2020/21. However, the current year's allowance must be used fully before using up brought forward allowances, with earlier years being used first. Any brought forward allowances from 2018/19 will be lost if not used by 5 April 2022.

The pension annual allowance is reduced where both threshold income (broadly income excluding pension contributions) is more than £200,000 and adjusted net income (broadly income including pension contributions) is more than £240,000. The allowance is reduced by £1 for every £2 by which adjusted net income exceeds £240,000 until the minimum annual allowance of £4,000 is reached. This will be the case where adjusted net income is more than £312,000 (and threshold income is more than £200,000), and should be taken into account when planning pension contributions.

A separate allowance – the money purchase annual allowance (MPAA) – is available where a money purchase pension pot has been flexibly accessed after age 55. For 2021/22, it is set at £4,000.

Speak to us about whether it is worthwhile making pension contributions prior to 6 April 2022.

Inheritance tax annual gift allowance

All individuals have an annual gift allowance of £3,000 a year for inheritance tax purposes. This allows them to make gifts of up to £3,000 a year without the gifts being added to the value of their estate for inheritance tax purposes. The allowance can be carried forward to the following tax year if it has not been used. Thus, if you have not yet used your allowance for 2020/21 or 2021/22 you can make £6,000 of gifts IHT-free by 5 April 2022.

Speak to your professional adviser to ascertain how you can use the annual allowance and other exemptions to make gifts free of inheritance tax.

NATIONAL INSURANCE CONTRIBUTIONS

National Insurance rises

Pending the introduction of the Health and Social Care Levy from 6 April 2023, Class 1 (employers and employees), Class 1A, Class 1B and Class 4 National Insurance contributions will all rise by 1.25% for 2022/23 only.

This means that if you are an employee, you will pay National Insurance at the rate of 13.25% on earnings between £190 and £967 per week and at the rate of 3.25% on earnings in excess of £967 per week. Employers will pay Class 1 contributions on earnings in excess of the relevant secondary threshold at the rate of 15.05%. The rate of Class 1A and Class 1B National Insurance contributions will also rise to 15.05%.

If you are self-employed, you will pay Class 4 National Insurance contributions at the rate of 10.25% on profits between £9,880 and £50,270 and at the rate of 3.25% on profits in excess of £50,270. Where possible, advancing work so that profits fall in 2021/22 rather than 2022/23 will save National Insurance contributions.

Talk to us about what the increase in National Insurance contributions means for you.

DIVIDENDS

Dividend tax rate increased from April 2022

Alongside the increases in National Insurance contributions and the introduction of the Health and Social Care Levy, dividend tax rates are increased from 6 April 2022 by 1.25% to provide funding for health and adult social care.

For 2022/23, dividends are taxed at the rate of 8.75% to the extent that they fall within the basic rate band, at 33.75% to the extent that they fall within the higher rate band and at 39.35% to the extent that they fall within the additional rate band. The dividend allowance remains at £2,000.

It is advisable to review your dividend policy prior to 6 April 2022. If you have sufficient retained profits, it may be advisable to pay a dividend prior to 6 April 2022 where doing so will mean that it is taxed at a lower rate than if the dividend is paid on or after that date.

We can advise on how to pay dividends in a tax-efficient manner.

LOSSES

Extended carry back

If your business has been adversely affected by the Covid-19 pandemic resulting in a loss, you may be able to benefit from the extended carry-back provisions to generate a tax repayment.

For income tax purposes, losses for 2020/21 and 2021/22 can be carried back for up to three years (to the extent that the loss has not been relieved against other income of the same or the previous accounting period).

For corporation tax purposes, a loss for accounting periods ending between 1 April 2020 and 31 March 2022 can be carried back three years, rather than the usual one.

We can help ensure that you obtain the best possible relief for any losses that you have incurred.

CAPITAL ALLOWANCES

AIA transitional limit

The annual investment allowance (AIA) transitional limit will remain at £1 million until 31 March 2023, providing immediate relief for qualifying capital expenditure.

Talk to us about your capital expenditure plans to ensure that you don’t miss out on valuable reliefs.

Super-deduction

If you are a company and you incur capital expenditure in the period from 1 April 2021 to 31 March 2023, you may be able to benefit from a super-deduction of 130% of the expenditure where the expenditure would otherwise qualify for main rate capital allowances at the rate of 18%, or a 50% first year allowance where the expenditure would otherwise qualify for special rate capital allowances at the rate of 6%.

We can help ensure that you optimise your capital allowance claims.

MTD

MTD for VAT

VAT-registered businesses with turnover below the VAT registration threshold will be required to comply with MTD for VAT from the start of their first VAT accounting period on or after 1 April 2022 if they have not already joined voluntarily.

Speak to us about what you need to do to prepare and what this will mean for you.

This newsletter deals with a number of topics which, it is hoped, will be of general interest to clients. However, in the space available it is impossible to mention all the points which may be relevant in individual cases, so please contact us for personal advice on your own affairs.