

MTD FOR INCOME TAX DELAYED

The start date for Making Tax Digital (MTD) for Income Tax has been delayed. It was due to have come into effect for unincorporated businesses and landlords with business and/or rental income of at least £10,000 from April 2024.

Under the revised timetable, MTD for Income Tax will now apply from 6 April 2026 to unincorporated businesses and landlords with business and/or rental income of at least £50,000. It will be extended to unincorporated businesses and landlords with business and/or rental income of at least £30,000 from 6 April 2027.

No date has yet been announced as to when it will apply to unincorporated businesses and landlords with business and/or rental income of less than £30,000.

Talk to us to find out how the revised timetable will affect you.

BASIS PERIOD REFORM

Despite the delay to MTD for Income Tax, the reform of the basis period rules will go ahead as planned.

From 2024/25, unincorporated businesses will be taxed on the profits for the tax year, rather than as now on the profits for the accounting period ending in the tax year. The 2023/24 tax year will be a transitional year to move from the current year basis to the tax year basis.

Talk to us to find out what the change in the rules will mean for your business.

YEAR END TAX PLANNING

Income tax planning

As the tax year draws to a close, it is important to take stock and see whether any action can be taken to reduce your 2022/23 tax bill.

In the first instance, check whether you have used your available allowances for 2022/23. Allowances that are not used will be lost.

The personal allowance for 2022/23 is set at £12,570. Where it has not been used, consider whether you can advance income from 2023/24 to prevent the allowance being wasted, for example, by paying a bonus or dividend from a personal or family company. Where the allowance cannot be used, consider whether you can take advantage of the marriage allowance to transfer £1,260 of your 2022/23 personal allowance to

your spouse or civil partner. This is open to you as long as neither of you pay tax at the higher or additional rate.

If you are a high earner and your income exceeds £100,000, you may want to consider whether you can reduce your income to preserve some or all of your personal allowance. If your income exceeds £125,140, your personal allowance is lost. You may wish to consider deferring income until 2023/24 or making pension contributions or charitable donations before 6 April 2023.

All taxpayers have a dividend allowance. This is set at £2,000 for 2022/23. To avoid wasting the allowance, consider paying a dividend before 6 April 2023. In a family company, if you have an alphabet share structure, you can tailor dividends to mop up the unused dividend allowances of family members who are shareholders.

Basic and higher rate taxpayers also have a personal savings allowance. For basic rate taxpayers this is £1,000 for 2022/23 and for higher rate taxpayers it is £500. Review how your savings are held to ensure best use is made of the allowance and consider also making use of your ISA allowance (set at £20,000 for 2022/23) to hold savings tax-free.

When undertaking income tax planning it should be remembered that the additional rate threshold falls from £150,000 to £125,140 from 6 April 2023. Consequently, consideration should be given to advancing income to 2022/23 where it will be taxed at 40% in that tax year but at 45% if received in 2023/24. This may impact on the timing of bonuses.

Contact us to arrange a year-end review.

Capital gains tax planning

If you are planning on making disposals that will give rise to a capital gain, consider the timing of those disposals. The annual exempt amount is set at £12,300 for 2022/23, and where this remains available, consideration should be given to making the disposal before 6 April 2023 so as to benefit from the exempt amount. Remember, the annual exempt amount falls to £6,000 for 2023/24, meaning a couple can realise gains of £24,600 tax free in 2022/23 but only £12,000 in 2023/24. Married couples and civil partners can take advantage of the ability to transfer assets between them on a no gain/no loss basis before disposal to a third party to make best use of available annual exempt amounts.

Contact us prior to making planned disposals to find out what tax saving options are available.

Inheritance tax planning

Consideration should be given to whether it is beneficial to make gifts before 6 April 2023. The inheritance tax annual exemption is set at £3,000 for 2022/23, and where it is not used, it can be carried forward one year. If you did not use the allowance last year, you can make gifts of up to £6,000 free of inheritance tax in 2022/23. However, you must use up this year's annual exemption before using that from 2021/22.

Gifts made seven years before death fall out of account for inheritance tax purposes. However, remember anti-avoidance rules apply where assets are given away but the donor continues to benefit from them. You can also make regular gifts from income without them counting for inheritance tax purposes.

Talk to us to find out what steps you can take to reduce the inheritance tax payable by your estate.

Pension planning

If you do not have a workplace pension, you may wish to consider adding to your personal pension scheme before the end of the tax year. Contributions can be made up to 100% of earnings (or £3,600 if higher) as long as you have sufficient annual allowances available to shelter the contributions. The annual allowance is set at £40,000 for 2022/23. You can also use any unused allowances for the previous three years once you have used up this year's allowance. If you do not use your annual allowance for 2019/20 by 5 April 2023 it will be lost.

High earners have a reduced annual allowance. You will also have a lower annual allowance of £4,000 if you have reached age 55 and flexibly accessed a money purchase pension pot.

Contact us to find out whether it is beneficial to make pension contributions before 6 April 2023.

TAX RATES AND ALLOWANCES FOR 2023/24

Income tax

The 2023/24 tax year starts on 6 April 2023. The personal allowance remains at £12,570 and is frozen at this level until 5 April 2028.

The basic rate of tax remains at 20%, the higher rate remains at 40% and the additional rate at 45%. The basic rate band remains at £37,700, meaning that for someone with a personal allowance of £12,570 higher rate tax is payable once income reaches £50,270.

However, from 6 April 2023, the additional rate threshold is reduced from £150,000 to £125,140. This is the point at which the personal allowance is fully abated.

Contact us to find out what the 2023/24 changes mean for you.

Capital gains tax

The capital gains tax annual exempt amount is reduced to £6,000 for 2023/24 and to £3,000 for 2024/25, reducing the opportunity to realise gains free of capital gains tax.

The rates remain unchanged – at 10% where income and gains do not exceed £37,700 and 20% thereafter, with higher rates of, respectively, 18% and 28% applying to gains on residential property and carried interest.

Talk to us to about what the reduction in the annual exempt amount will mean for you.

Taxation of dividends

Despite the cancellation of the Health and Social Care Levy, the dividend tax rates are to remain at their 2022/23 levels, and for 2023/24 dividends will be taxed at 8.75% where they fall in the basic rate band, at 33.75% where they fall in the higher rate band and at 39.35% where they fall in the additional rate band.

The dividend allowance is to fall to £1,000 for 2023/24 and to £500 for 2024/25. This will impact on your profit extraction strategy if you run a personal or family company and extract profits as dividends.

Speak to us about what the reduction in the dividend allowance means for you.

NATIONAL INSURANCE CONTRIBUTIONS

Consider making voluntary contributions

To qualify for a full state pension, you need 35 qualifying years if you reach state pension age on or after 6 April 2016. If you have less than 35 qualifying years but at least ten qualifying years, you will receive a reduced state pension. Individuals who reached state pension age before 6 April 2016 needed only 30 qualifying years to secure a full state pension.

As a result of the increase in the number of qualifying years needed for a full single-tier state pension, a longer window applies in which to make voluntary Class 3 contributions for the tax years for 2006/07 to 2015/16 inclusive. Contributions for these years can be made until 5 April 2023. They must be made at the 2022/23 rate of £15.85 per week. The normal window is six years.

If you have earnings from self-employment for these years below the small profits threshold, you can pay voluntary Class 2 contributions instead. These must be paid by 5 April 2023 at the 2022/23 rate of £3.15 per week.

Speak to us to find out whether it is worth making voluntary contributions for some or all of these years.

CORPORATION TAX

New regime from 1 April 2023

The corporation tax reforms come into effect from 1 April 2023. For the financial year 2023, companies with profits below the lower limit (set at £50,000 for a standalone company) will continue to pay corporation tax at the rate of 19%. Where profits exceed the upper limit (set at £250,000 for a standalone company) corporation tax is payable at a rate of 25%. Between these limits, corporation tax is paid at 25% less marginal relief, giving an effective rate of between 19% and 25%.

The lower and upper limits are reduced where the company has one or more associated companies, or where the accounting period is less than 12 months.

Speak to us to find out how the reforms will affect the amount of corporation tax that you pay.

CAPITAL ALLOWANCES

Super deduction

Companies wishing to take advantage of the super deduction, which provides relief at the rate of 130% of qualifying expenditure for expenditure that would otherwise be eligible for main rate capital allowances (with the exception of expenditure on cars) have until 31 March 2023 to incur the expenditure. The same deadline applies for the 50% first-year allowance available to companies for qualifying expenditure that would otherwise be eligible for special rate writing down allowances.

Talk to us to find out how to maximise the relief for your capital expenditure.

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.
