

Tax Planning Considerations

Introduction

The tax year end provides a great opportunity for you to review your clients' portfolios to make sure they're making the most of the tax allowances, reliefs and exemptions available to them. In this factsheet, we highlight tax planning points you need to be aware of in the approach to the tax year end 2024-25 as well as considerations moving forward.

If you only read one thing

- Married couples and civil partners should consider making outright unconditional gifts between them to make best aggregate use of all available tax allowances, rate bands and exemptions.
- The income tax personal allowance is reduced by £1 for every £2 of adjusted net income in excess of £100,000. It's possible to reduce adjusted net income by making pension contributions or gift aid charitable donations.
- Consider the impact of current year losses and losses brought forward when determining which investments should be sold before the end of the tax year.
- Consider scope for disposals and reinvestment in ISAs and SIPPs to maximise future tax free income and growth while not being caught by the 'bed and breakfast' CGT rules.
- Everybody has an IHT annual exemption of £3,000. Unused amounts can be carried forward for one tax year only.

Income tax

Spouses and civil partners

As far as possible, spouses and civil partners should maximise use of both their personal allowances, starting and basic rate tax bands, personal savings allowances and dividend allowances where possible. Equalising income producing assets between spouses and civil partners living together so long as the gift is unconditional and outright, could potentially increase the amount of household income where there is a disparity in the rates of income tax paid.

Spouses and civil partners are entitled to transfer up to 10% of their personal allowance of £1,260 for 2024-25, provided neither pays income tax at more than the basic rate after the transfer.

Married couples allowance (MCA) is only available where one of the spouses was born before 6 April 1935. This allowance could reduce your tax bill each year if you're married or in a civil partnership. It works by deducting 10% of the allowance from the tax due on your taxable income.

For 2024-25 the full allowance is £11,080. This means you get a maximum deduction of £1,108 from your income tax. You can only claim one MCA per married couple or civil partnership.

For marriages before 5 December 2005, the husband's income is used to work out MCA, although it can be transferred to the wife. For marriage and civil partnerships after this date, it's the income of the highest earner.

Where appropriate it might be worth considering employing the spouse, provided that such an arrangement can be justified commercially to increase household income and create further tax savings through the company through corporation tax savings such as auto enrollment pension contributions.

Personal allowance

The personal allowance (PA) is the amount of income on which an individual does not have to pay tax. The PA is £12,570 and will remain so until tax year 2027-28. The PA is reduced by £1 for every £2 that adjusted net income exceeds £100,000. This means that those with incomes in excess of £125,140 for 2024-25 and 2025-26 have no personal allowance and an effective rate of tax of 60% on income between £100,000 and £125,140. Those with incomes marginally above this level can reduce adjusted net income and restore all or part of their personal allowance by making pension contributions or charitable donations via gift aid before the tax year end. Donations made under gift aid may also be carried back to the previous year.

Those who have the ability to, may wish to reduce their taxable income and take natural income or withdrawals from ISAs or withdrawals from investment bonds within the deferred allowance to reduce their tax bill but keep their 'income' the same.

Personal savings allowance (PSA)

The PSA can be used to set against income which is sourced from savings. This includes savings, from deposit accounts, corporate bonds but also chargeable event gains from investment bonds. The PSA is a nil rate band for savings income and is £1,000 for a basic rate taxpayer and £500 for a higher rate taxpayer. Additional rate taxpayers and trustees have no PSA entitlement.

Clients may wish to maximise this allowance by assigning individual policies from an investment bond or the bond itself to a non or lower rate tax paying spouse or child to reduce the tax payable upon a chargeable event. However, this gift should be outright, not conditional or seen as deliberate tax avoidance.

For couples with substantial interest income, it's worth making sure that they both maximise the benefit of the PSA. Those who have taken advantage of the higher base rate and may have fixed term deposits or high interest accounts may want to review these to ensure they remain suitable for them. However all clients may wish to review their cash holdings to see whether they could earn a higher income with other investments.

Tax-free dividend allowance

The dividend allowance means that any individual can receive £500 of untaxed dividend income in a tax year, regardless of their marginal income tax rate. Trustees do not have a dividend allowance. This means, for example, an individual can hold £16,667 in an equity portfolio at assumed dividend yield of 3% without paying tax on their dividend income. Those with dividend income in excess of £500 may wish to consider one of the following:

- 'Bed and ISA' transfers of higher dividend yield investments. Clients can use any outstanding balance of their £20,000 ISA subscription amount this tax year, and £20,000 on the first day of the new tax year. By using both of a couple's ISA allowances they can invest up to £80,000 over two tax years. 'Bed and ISA' transactions may give rise to a capital gains tax (CGT) charge if gains exceed an individual's annual exempt amount.
- Maximise pension contributions so growth on the investment is free from income tax. Clients can invest up to £60,000 a year in a pension plus any carry forward (unless they are subject to the tapered annual allowance or have triggered the money purchase annual allowance).
- More sophisticated investors may wish to invest in venture capital trusts (VCT) to gain access to tax-free dividends.

The starting rate savings band (SRSB)

The starting rate band for savings income enables some taxpayers access to a further nil rate band for up to £5,000 of savings income in addition to the PA and PSA. This band is only available if non-savings income, non-dividend income (broadly earnings, pensions and property income) is less than £17,570. The SRSB is lost on a £1 for £1 basis above the personal allowance. Only investment income that is considered savings rather than dividends qualifies for this band.

Charitable donations (gift aid)

If an individual makes a charitable donation under the gift aid scheme, this enables the charity to claim back the income tax the individual has paid. For example, when a charity receives £80 under gift aid, it reclaims £20 and the donor is treated as having donated £100.

Higher or additional rate taxpayers can claim back the difference between their tax liability on the value donated and the amount reclaimed by the charity. In the example above, this tax relief might be worth an additional £20 to a higher rate taxpayer and an additional £25 to an additional rate taxpayer.

Gift Aid donations can be carried back to a previous tax year, provided they are paid before that previous year's tax return is submitted and a carry back claim is made on that tax return.

Individuals can also get tax relief on donations deducted from their wages or pension through payroll giving.

Scottish rates of income tax

Listed below are the income tax tiers and rates for Scottish residents for the 2024-25 and 2025-26 tax year. These rates and bands only apply to earned, pension and property income. The UK rates and bands apply for other income including savings and dividend income.

Income tax rates 2024 to 2025

Taxable income	Tax rate	Band
up to £12,570	0%	Personal allowance
£12,571 to £14,876	19%	Starter rate
£14,877 to £26,561	20%	Scottish basic rate
£26,562 to £43,662	21%	Intermediate rate
£43,663 to £75,000	42%	Higher rate
£75,001 to £125,140	45%	Advanced rate
over £125,140	48%	Top rate

Rest of the UK (rUK)

Taxable income	Tax rate	Band
£0 - £12,570	0%	Personal allowance
£12,571 to £50,270	20%	Basic
£50,271 to £125,140*	40%	Higher
More than £125,140	45%	Additional

* Personal allowance is reduced by £2 for every £1 earned over £100,000

The order in which additional funds are accessed from investments and tax-efficient wrappers to supplement earned income is especially relevant for these Scottish taxpayers.

Those still earning and paying into a pension may want to use pension salary sacrifice to reduce their earnings, and so their marginal rate, in exchange for a higher employer pension contribution.

Capital gains tax

Rates of tax

The rate of capital gains tax (CGT) was changed post Autumn Budget in October 2024. From 30 October 2024, CGT rates moved to 18% for up to basic rate taxpayers and 24% for higher and additional rate taxpayers and trustees.

Some people realising a taxable capital gain may have an amount of taxable income equal to or around the basic rate limit. This means that a significant part of the gain is likely to suffer CGT at a rate of 24%. By taking action to increase the basic rate limit, it's possible for such a person to save CGT. One method of achieving this is to pay a contribution to a registered pension scheme whereby the basic rate tax band is increased by the gross pension contribution.

Annual exempt amount

For individuals, the annual exempt amount is £3,000 in the 2024-25 and 2025-26 tax years.

Clients may want to crystallise any unrealised gains before the end of the tax year, to utilise this exemption as it can't be carried forward.

Married couples and civil partners living together may also want to consider making use of the "no gain, no loss" disposals between them so they can make best use of both annual exempt amounts. This may also have an additional benefit where the gain is over the annual exempt amount and one spouse is a lower rate taxpayer and pay the CGT at 18% rather than 24%.

Unfortunately, in using the annual exempt amount, a gain cannot simply be crystallised by selling and then repurchasing an investment. For the purposes of calculating the gain for tax purposes, the cost of subsequent acquisitions of the same asset on the same day then within the next 30 days are matched with the disposal in preference to the original acquisition (the so-called 'bed and breakfast' anti-avoidance rules). If crystallising an unrealised gain while retaining the same investment in some form is desirable, the following may be considered:

- Bed and ISA – the investment can be sold and bought back immediately within an ISA without the bed and breakfast rules applying.
- Bed and Sipp – here the cash realised on sale of the investment is used to make a pension contribution and the pension then invests the original investment. This approach has the added benefit of income tax relief on the contribution and may also offer a higher reinvestment ceiling than an ISA, depending on a person's earned income and other pension contributions.
- Bed and similar asset – many funds have similar investment objectives or, in the case of tracker funds, identical objectives. So, for example, if somebody sells the ABC UK Tracker fund and buys the XYZ UK Index fund, the nature of the investment and the underlying shareholdings may not change at all but, because the fund providers are different, the transactions will not be caught by the bed and breakfast rules.

Claim and use capital losses

A capital loss can be offset against a gain, but it must be claimed first by the taxpayer formally giving notice to HMRC. The time limit for claiming losses is generally four years after the end of the tax year in which the asset was disposed of.

As well as selling an asset which realises a capital loss, some shares may simply become worthless or of negligible value and a claim may be made as if the shares had been sold. This allows the shares to be written off as a capital loss and relief given even though no actual disposal has taken place.

When calculating capital gains for a tax year, losses of the same tax year must be set off against gains to the fullest extent possible, even if that takes gains down to nil and the annual exempt amount is completely wasted. This must be borne in mind when determining which investments should be sold before the end of the tax year.

To the extent that losses for the tax year exceed gains, they will be carried forward to future tax years. Generally, losses can't be carried back to an earlier tax year. Carried forward losses only need be used until gains are reduced to the level of the annual exempt amount.

Tax reliefs

Some clients might be able to reduce or defer CGT using certain tax relief subject to them meeting certain qualifying conditions.

When a business owner gifts or sells some or all of their business, or if the business sells assets used in the business and replaces them with other business assets, they may be able to claim, gift hold over relief, business asset disposal relief (BADR) or business asset roll over relief.

BADR, formerly Entrepreneur's relief, is available on the disposal or part disposal of a trading business carried on by an individual either alone or in partnership. If the disposal meets the qualifying criteria, a special rate of CGT of 10%, on disposals up to a cumulative lifetime limit of £1M for 2024-25. However from tax year 2025-26 these rates are increasing to 14% and then 18% in 2026. This increase in the tax means companies will have less available for expansion, growth and pay increases potentially.

Inheritance tax

Nil rate band (NRB)

The NRB, that is the value on which no inheritance tax (IHT) is payable, is frozen at £325,000 until tax year 2029-30. For spouses and civil partners, any nil rate band which is unused on first death can be claimed by the personal representatives on death of the second spouse, meaning the nil rate band can be worth up to £650,000 for a couple.

The residence nil rate band (RNRB) might also be able to be claimed if the clients meet the following criteria:

1. Having a qualifying residential interest in the property
2. The property or its value being left to a direct descendant.
3. The net estate is less than £2million

This is currently worth £175,000 and will also remain unchanged until tax year 2029-30. The unused RNRB, like the NRB can also be transferred on death of the second spouse, meaning that careful tax planning could result in up to £1 million of their estates being free of IHT.

Exemptions and exempt gifts

There are certain gifts given during lifetime and on death which are exempt for IHT. Conversely, there are certain gifts that you would need to bring in the IHT calculation if they were made in the previous seven years before death. As tax year end approaches, clients may therefore wish to ensure they have maximised availability of IHT exemptions for various lifetime gifts:

- Spousal exemption- gifts between spouses and registered civil partners are exempt from IHT.
- £3,000 annual exemption – any unused part can be carried forward to the following tax year but no further. If annual exemptions for both years are fully unutilised, a couple could give away up to £12,000. Clients should consider making the most of their annual exemptions before they are lost.
- Small gifts exemption – clients can make as many outright gifts of up to £250 as they wish and these will be free of IHT, so long as it's not given to the same individuals who have benefited from the annual exemption.
- Gifts in consideration of marriage means, each parent can gift £5,000, each Grandparent £2,500 and anyone else, £1,000.
- Normal expenditure from income means gifts made from excess income will be exempt subject to meeting all the conditions. These gifts should be made from taxable or non taxable income, normal for that person (considering the nature of the gift, frequency, value of the gift) and that it should not negatively impact the person's standard of living.
- Section 11 Inheritance Tax Act 1984 states that when certain gifts are made for the education or maintenance of children or children within their care, maintenance of a spouse or previous spouse or dependents, these have no value for IHT purposes.
- Gifts to charities and political parties.

IHT reliefs

Currently, 100% relief from IHT is given under business and agricultural relief in respect of trading assets (including shares in unquoted companies, inheritance tax solutions and EIS) and agricultural property, subject to meeting the requirements.

From April 2026, these reliefs will be limited to 100% relief on a combined and apportioned value of the first £1 million and then a reduced 50% relief applied to qualifying assets above £1 million. The £1 million allowance will apply individually, so spouses and registered civil partners should have £1 million each, (subject to final legislation) however, any unused allowance can't be transferred between them.

Charitable donations

If an individual is in the position to leave at least 10% of their estate on death to charity then the rate of IHT paid on the remaining estate is reduced from 40% to 36%. This can mean significant savings. For example, if £1m of the estate is subject to IHT, then after a 40% tax charge, £600,000 is remaining. If £100,000 is donated to charity, this reduces the IHT charge to 36% of £900,000, leaving a net amount of £576,000. So a £100,000 donation has 'cost' the family £24,000.

This information is based on our understanding of current legislation, including (but not limited to) FCA, PRA and HMRC regulation. It does not constitute any form of advice. Nucleus will take no responsibility for any loss which may occur as a result of reliance on this information.

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