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End of Tax Year

2023 - 2024

With the 2023/2024 tax year ending on April 5th, now is a suitable time to complete a health check on your finances and ensure that you are making best use of available tax breaks. In most cases, these breaks will close with the window. Here we explain some areas, where we feel, our clients may look to make some added savings.

When deciding which options are right for you, it is important to know that all these areas may be suitable. Your savings objectives, tax status, investment timescale and personal goals may not necessarily align with each area.

It is also worth remembering that the value of investments may rise and fall and that you may not always get back what you have invested.

At FD Wealth, our planners are on hand to discuss these options should you wish to explore any of the areas that may or may not be relevant.

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Tax free investing with your annual Individual Savings Account (ISA) allowance

There are two variations of an ISA: Cash ISA and the Stocks & Shares ISA. Individuals can currently save up to £20,000 per annum. This is a wrapper that will carry tax free encashment with an unrestrictive level of growth. Investments out with an ISA wrapper, could be exposed to capital gains tax (CGT), dividend tax or even income tax if the investment grows.

Maximising your ISA allowance will be the first port of call when looking to build longer term savings. Use of the ISA for short term savings is to be avoided, as withdrawals from the pot are not added back into your annual allowance in most cases. However, there are a few providers that may offer a 'flexible' approach that may allow you to reinvest anything taken from the same tax year – you should check the terms & conditions of your ISA provider if this is something you wish to consider.

Effective tax management, usually towards the end of the tax year but by no means a pre-requisite, is the use of 'Bed and ISA.' This is the process of drawing on other, potentially tax exposed investments, and using them to bring them under the more favourable tax-free environment.

If you have a General Investment Account (GIA) or money sitting out with an ISA, please do not hesitate to contact one of our planners and allow us to assess the potential opportunities available for you.

Junior ISA (JISA)

If you would like to make an investment for a child, or a grandchild, a junior ISA provides you scope to put money aside for children. With the option to invest in the markets or simply place in cash, a junior ISA has a generous allowance of £9,000 (23/24) per annum to allow for this. As parents/guardians, you would have full control until the child reaches sixteen, and they can start to withdraw from eighteen.

Lifetime ISA (LISA)

You must be aged between 18 and 40 to open a Lifetime ISA. The Government will provide a 25% bonus on the money you invest, up to a maximum of £1,000 per annum. You can save up to £4,000 (2023/24) per annum and use this to pay towards your first home or retirement savings. You can continue to pay into it until you reach age 50 but if used for retirement, the funds cannot be accessed until age 60. Any unauthorised withdrawals from the LISA will incur withdrawal charges.

Using your UK Capital Gains Tax (CGT) allowance

Tax residents are liable to the tax on the disposal of assets they own worldwide. How much you will need to pay is dependent on whether the asset is exempt, and the amount of gain made on the asset.

In the UK, tax residents have an annual CGT allowance of £6,000 (tax year 2023/24) meaning you can sell asset(s) in a single tax year with gains of up to this level without incurring any tax liability. Unused losses from previous years can be 'brought forward' to reduce any gains in the current tax year, provided they are reported to HMRC within four years from the end of the tax year, in which the asset was disposed.

Important:

The CGT annual exempt amount is to be reduced to £3,000 from April 2024. With the tax benefit of this approach set to reduce over the next tax years, it means taking advantage of the £6,000 on offer this year is even more important.

Using your pension allowance

Each tax year the government set an annual allowance for putting money into a pension plan. 2023/24 has offered a higher allowance than in previous tax years. This tax year, you are allowed to invest £60,000 gross to your chosen pension scheme. There are some key restrictions to consider when assessing the suitability and these are:

1. Your allowance is the lesser of your gross annual income or £60,0000.
2. You can use unused allowances of the previous three tax years providing you had a pension scheme in place. This, however, is further limited to your gross income in the current tax year.
   a. Example – an individual with earnings of £80,000 in 2023/24 that has £120,000 of unused allowances in the preceding 3 years, would remain limited to £80,000.
3. Company contributions may offer slightly different opportunities. These are beyond the scope of this document, and we would encourage contacting your FD Wealth planner if this may be a consideration for you.

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Higher earners and personal allowance

Pension contributions may become particularly attractive if your earnings for the year are more than £100,000. For those earners, the personal allowance (£12,570) is reduced by £1 for every £2 of earnings above this limit.

Pension contributions are deducted from your gross income and so therefore it is possible to bring your earnings below the limit and fully reinstate your personal allowance. In doing so, your contribution benefits from an effective 60% relief on income tax.

Parents may take particular interest here as this offers a considerable relief on tax free childcare. If you should you wish to learn more, please contact your FD Wealth planner to discuss.

Reclaiming higher rate tax

When you make any personal contributions into a pension scheme, you are eligible to reclaim tax relief at your marginal rate. For those set up in a salary sacrifice scheme, you would reclaim this automatically, as the contribution will be deducted from pre-tax salary. However, if you receive relief at source, you will be eligible to reclaim any tax that you pay above 20% either through self- assessment or contacting HMRC direct.

For example, you live in Scotland and earn £60k pa. You choose to make a pension contribution amounting to £15,000. You automatically get tax relief at source on the full £15,000 – this happens as the pension providers will increase your pension contribution to £18,750. You can then claim an extra 20% tax relief on approx. £10,000 (the same amount you paid higher rate tax on) through your Self-Assessment tax return or by calling/ writing to HMRC.

Important:

A claim needs to be made within four years of the end of the tax year that you are claiming for, so if you have not done so already, make sure to reclaim the higher rate relief back before the tax year end. It is worth noting that the high-rate tax relief is different in Scotland, and you should speak with your planner if this affects you.

Venture Capital Trust (VCT) & Enterprise Investment Schemes (EIS)

These vehicles are listed companies that invest in smaller businesses, with the potential to grow much faster than their larger counterparts. As there is a higher risk than investing in normal listed companies, UK government provide tax incentives to investors which makes VCTs a powerful planning tool. Each investment into a VCT receives up to 30% income tax relief (min holding period of 5 years). There is also no capital gains or dividend tax to pay. Individuals can invest up to £200,000 (2023/24) into a VCT each year.

Like VCTs, EIS also invest in small unquoted companies which can generate investors a significant return on their investment. EIS receive up to 30% income tax relief (and can be 'carried back' to previous tax years), and there are no capital gains payable. An added benefit to EIS is that the shares are eligible for business relief.

Investing in a VCT or EIS carries a potentially higher risk level than investing in companies listed on the Stock Exchange. There is no guarantee that your investment will keep its original value. Further information and characteristics of a VCT and EIS is available from your FD Wealth planner.

Inheritance Tax Planning (IHT)

Make gifts of up to £3,000 each year, free from IHT. You may also use any unused allowance from the previous year. (£6,000 max total). You can make as many gifts as you like up to £250 each to other recipients, as well as gifts for marriage. Regular gifts that are from 'normal expenditure out of income,' may be made free of IHT. Make sure to plan and document that you are making regular gifts that will not reduce your normal standard of living, and do not depend on you depleting your capital. There are also a range of actions you can take with regards to inheritance tax planning prior to the end of the tax year. Some of the more common and straightforward actions can include:

- Make gifts of up to £3,000 each year, free from IHT. You may also use any unused allowance from the previous year. (£6,000 max total)

- You can make as many gifts as you like of up to £250 each to other recipients as well as gifts for marriage.

- Regular gifts that are "normal expenditure out of income" may be made IHT free. Make sure to plan and document that you are making regular gifts that will not reduce your normal standard of living and do not depend on you depleting your capital.

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