



Time to get ready

Getting
prepared for
the end of
the tax year



As we approach the end of the tax year on 5 April 2022, you may be able to choose the tax year in which your income, gains or tax reliefs fall. This can affect how much tax you need to pay and when you pay it.

Income tax

If your income falls just above one of the income tax thresholds below, you may want to reduce your taxable income, for example, by paying into your pension or giving money to charity. You may also want to make use of the personal allowance (currently £12,570) for family members with no taxable income.

Taxable income	Income tax rate
Up to £37,700	20%
£37,701 to £150,000	40%
Over £150,000	45%

Particular care should be taken if your income is in the £100,000 to £125,140 range, as you gradually lose your personal allowance between these amounts – £1 for every £2 over the limit.

These rates and thresholds will remain static for 2022/23 but salary increases and bonuses (given rising costs and inflation) may cause some people to move into a new taxable bracket.

You can get income tax relief in 2021/22 for gift aid donations made by 5 April 2022 or, by election, for cash gift aid made by 31 January 2023 before filing your 2021/22 tax return.

Income tax relief is also available on gifts of quoted shares and land to charity, but only for the year in which the gift is made. There is no capital gains tax liability or inheritance tax liability on such gifts.

Dividend income

Bear in mind that the tax rate on dividend income in England, Wales and N Ireland increases in the 2022/23 tax year and you may want to factor this into your planning. The 0% rate annual allowance remains at £2,000 for both 2021/22 and 2022/23, however the tax rates on dividend income will be as follows:

Tax rates on dividend income	2021/22	2022/23
Basic rate taxpayers	7.5%	8.75%
Higher rate taxpayers	32.5%	33.75%
Additional rate taxpayers	38.1%	39.35%

You could save tax if your company pays you a dividend in the current tax year.

National Insurance Contributions and the Health and Social Care Levy

Don't forget in your budgeting that there will be a new 1.25% Health and Social Care Levy (HSCL) in 2022/23. This will be operated as an increase in Class 1 (employer and employee) and Class 4 main and higher NIC rates. All the main in-work NIC rates will rise, although Class 2 (self-employed) flat-rate payments will be unaffected.

**Under the Employment Allowance employers do not have to pay the first £4,000 of Class 1 NICs unless the sole employee is a director OR total NICs for the previous tax year are £100,000 or more.*

Tax Year	Employer* %	Employee %		Self-employed %	
		Main	Higher	Main	Higher
2021/22: NICs	13.80	12.00	2.00	9.00	2.00
2022/23: NICs	15.05	13.25	3.25	10.25	3.25

Capital gains tax (CGT)

The annual exempt amount for individuals and personal representatives for both 2021/22 and 2022/23 remains at £12,300. The annual exempt amount for most trusts remains at £6,150 (minimum £1,230) for both years.

If any of your assets have become of negligible value, such as shares in companies that have gone into administration, you should consider a loss claim. In the case of shares you have subscribed for in unlisted trading companies, income tax relief may be available.

Remember that from 27 October 2021, the deadline for UK residents to report and pay CGT after selling UK residential property increased from 30 days to 60 days after completion.

For non-UK residents disposing of property in the UK, this deadline also increased from 30 days to 60 days.

Further legislation will clarify that when UK residents dispose of mixed-use property, the 60-day payment window will only apply to the residential element of the property gain.

'Bed and breakfasting', i.e. selling shares or securities to realise a gain covered by losses or the annual exemption and then buying them back, is not allowed if the purchase takes place within 30 days. These rules don't apply however to shares 'reacquired' by your spouse or ISA.

Disposals of qualifying shares that result in a controlling interest in a company being held by an employee ownership trust are exempt from CGT.

Inheritance tax (IHT)

The IHT nil rate band for both this current tax year and the next will remain at £325,000. The residence nil rate band (RNRB) also stays at £175,000 and the RNRB taper will continue to apply where the value of the deceased's estate is greater than £2 million.

Exemption from IHT on lifetime gifts normally depends on surviving at least seven years, but there are exceptions. You can give up to £3,000 in total each tax year to anyone, plus the amount of any unused allowance from the preceding year.

In addition, you can give up to £250 each to any number of people each year (but they cannot be the same people who received gifts from the £3,000 annual gift allowance). Gifts of assets

that grow in value can save IHT – even if you die within seven years – because the growth in value is in the recipient's estate, not yours.

Regular gifts out of income are exempt from IHT with no limit, provided your remaining after-tax income is sufficient to maintain your usual standard of living. However, gifts can result in a capital gains tax liability.

Individual Savings Accounts (ISAs)

No tax is payable on income or gains on investments within an ISA. You can invest up to £20,000 in total each year. This will remain the case in the 2022/23 tax year too. The corresponding limit for junior ISAs (JISAs) and child trust funds (CTFs) is £9,000 and this too will remain frozen next year.

A surviving spouse or civil partner may claim an extra ISA allowance equal to the value of ISA holdings of a deceased partner if they live together at the time of death.

The Lifetime ISA is available for those saving to buy their first home. If you are aged between 18 and 40, you can save up to £4,000 a year until you reach the age of 50 and receive a government bonus of 25% on your savings used towards the cost of a first home worth up to £450,000. The money can be invested as cash or in stocks and shares, as with other ISAs, and may be taken out tax-free after the investor is 60.

National Savings & Investment (NS&I) Green Savings Bonds

Green Savings Bonds, which were announced in the March 2021 Budget, were launched by NS&I on 22 October 2021. The NS&I Green Savings Bonds are a three-year fixed-term savings product with an interest rate of 0.65% and investment limits between £100 and £100,000.

Pensions

The lifetime allowance for pension savings is £1,073,100 and will remain frozen at this level for the 2022/23 tax year.

End-of-year tax planning is especially complicated this year. Many changes will result from the Finance Act 2022, draft clauses of which have already been published. Further changes may come in the Chancellor's Spring Forecast, scheduled for 23 March 2022. In most cases it pays to plan and be prepared.

Enterprise Investment Scheme (EIS) and other investments

Provided you are not 'connected' with the company, you can get income tax relief at 30% on up to £1m subscribed for shares in qualifying EIS companies each tax year and up to a further £1m for shares in 'knowledge intensive EIS companies'.

Any gain on the sale of the shares is exempt from capital gains tax (CGT) if they are held for at least three years. It is possible to 'carry back' all or part of the investment to the preceding tax year, if the limit for relief is not exceeded for that year.

Income tax relief at 50% is available on up to £100,000 each tax year subscribed for shares issued by smaller companies qualifying for Seed Enterprise Investment Scheme (SEIS) relief, provided the shares are held for at least three years, with any gain on sale exempt from CGT.

Subject to timing, CGT can generally be deferred by making EIS or SEIS investments, even if you are connected with the company.

Income tax relief at 30% is available on up to £200,000 each tax year subscribed for shares in Venture Capital Trusts (VCTs), provided the shares are held for at least five years.

Dividends and gains relating to shares in VCTs are exempt, subject to limits on the size of your holding. Income tax relief at 30% is available on an investment of up to £1m in 'social enterprises'.

Specific advice should be obtained before taking action, or refraining from taking action, in relation to the topics covered here.

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