Smart tax planning: *Key tips* for the end of the financial year

As the end of the tax year approaches on 5 April, it's important to stay ahead of the latest UK budget changes and optimise your financial strategies. Here are some top tax tips to help you reduce liabilities and enhance your financial position.

Key tips for the end of the financial year

Maximising tax-efficient savings

1. **Maximise ISA contributions:** Make the most of your individual savings account (ISA) by using the full £20,000 allowance. If you have existing investments, consider transferring them into an ISA to benefit from tax-free growth and income. Think of it as giving your savings a tax-free home.

2. **Make pension contributions and carry forward unused allowances:** Take advantage of the increased annual allowance of up to £60,000 for pension contributions. You can also use the carry-forward rule, which allows you to use any unused allowances from the previous three years, potentially boosting your contributions significantly. It's like uncovering hidden space in your financial toolkit and can be used even if your annual allowance is tapered.

Retaining benefits

3. **Retention of the personal allowance:** Personal pension contributions can help reclaim an individual's personal allowance by reducing taxable income. The personal allowance is reduced by £1 for every £2 of earnings over £100,000 and is lost entirely for those earning over £125,140. Contributions that bring income between £125,140 and £100,000 can effectively provide a 60% tax relief rate.

4. **Retention of child benefit:** If your annual salary is close to £60,000, making pension contributions can help reduce your income below this threshold and reclaim child benefit. Claiming national insurance credits can also contribute to your state pension, ensuring future financial security, particularly if one partner in a couple is not currently working.

Strategic investments

5. **Consider EIS investments:** The enterprise investment scheme (EIS) is a government initiative designed to help smaller, high-growth companies raise capital by offering tax relief to investors. EIS investments can provide 30% income tax relief and allow for capital gains tax deferral. Additionally, if held for at least three years, any gains are free from capital gains tax. This scheme helps reduce tax liabilities while supporting innovative businesses.

6. **Venture capital trust (VCT) investments:** A venture capital trust (VCT) is a type of publicly listed investment vehicle in the UK designed to encourage individual investors to invest in early-stage, high-growth companies. VCTs can offer substantial tax benefits, including 30% income tax relief on investments up to £200,000 per tax year. They also provide tax-free dividends and capital gains, making them an attractive option for diversifying your portfolio.

Managing gains and donations

7. Review capital gains: With the capital gains tax (CGT) allowance reduced to £3,000, it's essential to manage your investment portfolio carefully. Consider realising gains or losses strategically to make the most of this reduced allowance and minimise your tax bill. Additionally, the rate of capital gains tax you pay is linked to your rate of income tax. You could potentially pay more into your pension to reduce the CGT rate you pay on gains. Some planning can make a big difference.

8. Plan charitable donations: Charitable donations can provide significant tax relief, especially when using the gift aid scheme. This allows charities to claim an extra 25p for every £1 donated, and higher-rate taxpayers can claim additional relief on their tax returns. Don't forget to use your annual £3,000 gifting allowance to make tax-efficient gifts to family and friends. Giving back can be very rewarding.

Tax-efficient planning for couples

9. Optimise tax relief for both partners: Couples should aim to maximise tax relief at higher rates. If one partner has no relevant earnings, they can contribute £3,600, but if they do have relevant earnings, they can actually contribute up to 100% of their relevant earnings. This strategy ensures both partners benefit from the highest possible tax relief, making the most of your combined allowances.

10. Third-party pension contributions: The opportunity to fund someone else's pension doesn't stop at spouses and partners. Those looking to make gifts to their children and grandchildren could make third-party contributions to a pension for them, with the recipient able to benefit from tax relief on that gift. Regular gifting in this way from surplus income could be very inheritance tax effective, as the gifts may be immediately outside the estate if the conditions for the exemption are met.

Bonus and business profit strategies

11. Bonus sacrifice: The tax year end often coincides with a business' year end and, for some employees, this could mean a bonus payment. 'Exchanging' a bonus for an employer pension contribution before the tax year end can bring several benefits. The employer and employee national insurance savings made could be used to boost pension funding.

12. Business profit planning for owners: Directors often take a significant amount of their profits as dividends, which are paid from profits after corporation tax. Using some of those profits to make an employer pension contribution with full corporation tax relief can be economically advantageous, especially if the director can access their pension in the near future.

Final thoughts

We hope these 12 tips have provided you with valuable insights. How many of these strategies could apply to your situation? By consulting with an adviser and implementing some of these tips, you could potentially save thousands of pounds. Tailoring these strategies to your specific circumstances can help you make the most of the available opportunities.

Don't wait until the last minute—reach out to your financial adviser today to discuss how you can benefit from these tips before the tax year ends on 5 April. Stay proactive and informed to navigate the complexities of the UK tax system and help maximise your investments. Happy planning!

Important information

More information about the Brooks Macdonald Group can be found at **brooksmacdonald.com**

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