

End of Year Tax & Estate Planning

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As part of our fortnightly Private Wealth Planning series **Benedict Jennings** looks at steps you could consider before the end of the 2021/22 tax year.

All UK residents

Income Tax

From 6 April, the rates of tax applicable to **dividend income** will increase by 1.25% and **National Insurance** (as a result of the Health and Social Care Levy) will increase by 1.25%. Whilst the personal allowance and higher rate threshold will remain frozen for most taxpayers, this will feel like a hike, given inflation.

If you are a taxpayer who has just fallen into the higher or additional rate thresholds then making **Gift Aid** donations or investing in qualifying **Enterprise Investment Scheme / Seed Enterprise Investment Scheme / Venture Capital Trust (EIS/SEIS/VCT)** companies could help to reduce the tax liability.

Capital Gains Tax (CGT)

As with the personal allowance, the CGT annual exemption has been frozen for 2022-23. As the **annual exemption** cannot be carried forward, utilising this before 5 April is recommended.

Transfers of assets between spouses (or civil partners) can be made on a no gain no loss basis, so a couple can potentially have £24,600 of CGT tax-free allowance between them annually.

ISAs

An ISA is still one of the most tax efficient ways of investing, as gains and income are received tax free within the ISA. The ISA allowance for adults (over 18 and UK resident) is £20,000 for 2021-22 and the Junior ISA allowance is £9,000.

Pensions

Contributions to pension schemes also help to reduce the current year tax liability, as relief is available at 40% for higher rate taxpayers and 45% for additional rate tax payers.

Taxpayers may also benefit from reviewing unused allowances from previous years and should be aware that if they wish to take advantage of unused allowances from 2018-19, 5 April 2022 is their last chance. Professional advice from a regulated pension adviser is, however, recommended.

UK Resident Non Domiciliaries

And for those who are long term UK resident, non domiciliaries there are other steps which could be considered. The UK is a very attractive place for non UK domiciliaries to be resident from a tax perspective, as outlined in our briefing note: ***"Pre-Arrival" Tax Planning for those seeking to become UK resident.***

However, once an individual has been UK resident for 15 out of the past 20 tax years they will become domiciled in the UK for all UK tax purposes ('deemed domiciled'). This means that they can no longer take advantage of the remittance basis and it also means that their worldwide estate is brought within the UK inheritance tax (IHT) net (and potentially subjected to tax at up to 40% on death).

Fortunately steps can be taken prior to becoming 'deemed domiciled' to minimise the adverse tax implications of this:

- The most commonly used structure is an 'offshore' trust. This can protect against both future IHT and income tax / CGT going forward.
- Another step which might be considered is making material disposals offshore and claiming the remittance basis (thereby rebasing). Whilst the proceeds would remain outside the UK, it does at least avoid a potentially significant, arising basis CGT charge on the gain for a deemed domiciliary in future years.
- Many individuals consider making material gifts prior to becoming deemed domiciled, so that these are not subjected to the normal UK gifting rules - which require the donor to survive 7 years from the date of gift. In some cases this can be effectively done using unremitted funds.



Benedict Jennings

Trust and Tax Team

bjennings@phb.co.uk

+44 (0)20 7465 4386

Payne Hicks Beach LLP

10 New Square Lincoln's Inn London WC2A 3QG

Tel: 020 7465 4300 Fax: 020 7465 4400 www.phb.co.uk

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