

**YOUR GUIDE:**

# **BRIGHTER THINKING TAX PLANNER**

**2025/26**

**MENZIES**  
BRIGHTER THINKING



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# INTRODUCTION

The Chancellor of the Exchequer announced significant changes at the 2024 Autumn Budget on 30 October 2024 which confirmed the abolishment of the non-dom regime and confirmed the introduction of a new residence-based inheritance tax regime from 6 April 2025. There were numerous other changes including increases to the capital gains tax rates and the announcement that undrawn pensions would now come within the scope of inheritance tax. Lots of changes to digest and as is the case with all Budgets, the devil is in the detail.

We hope that a reminder of the current tax rates, future proposals and associated planning will be a helpful guide to you all.

Taking action now may give you the opportunity to take advantage of any remaining reliefs, allowances and exemptions. At the same time, you should be considering whether there are any planning opportunities that you need to consider either for this tax year or for your long-term future.

## HOW TO USE THE TAX PLANNER

Take a few moments to review this planner, in which we highlight some simple tax planning strategies which could help you structure your affairs in such a way to help reduce your exposure to tax.

Unless otherwise specified, the tax rates used are for the 2024/25 tax year to 5 April 2025. It has been announced that the personal allowance and tax bands for the basic and higher rate tax thresholds should remain unchanged until 5 April 2028.

It should also be noted that from 6 April 2018 different rates of income tax were applied in Scotland. These are not taken into account.

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## MENZIES PRIVATE CLIENT TEAM

Personal tax planning can be complex. We would always recommend that you seek professional advice when undertaking a review to ensure all changes are processed and managed effectively. Please do speak with your Menzies contact who will be delighted to meet with you to discuss ideas, opportunities and the appropriate action. Or, please do reach out to our email address below.

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[menzies.co.uk](https://menzies.co.uk)  
[advice@menzies.co.uk](mailto:advice@menzies.co.uk)



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# INCOME TAX





# INCOME TAX

The most common form of taxation for individuals is income tax, and the rates applied can be punitive. However, there are still strategies available which can eat away at the amount of income tax to which you would otherwise be liable.

## INCOME TAX RATE BANDS

For background, the amount of income tax you pay is determined by the quantum of your taxable income. The current rate bands for income tax are as follows:

INCOME	RATE
First £37,700	20%
£37,701 - £125,140	40%
Over £125,140	45%

The top rate of tax threshold was cut from £150,000, down to £125,140 from April 2023. Therefore, tax payers now start to pay the top rate of income tax sooner than was previously the case. Spouses are taxed independently (when any reference is made to spouses or married couples, this also includes civil partnerships).

## MARRIED COUPLES

Married couples should utilise each person's personal reliefs, as well as their starting and basic rate tax bands.

It may be beneficial to consider gifts of income producing assets (which must be outright and unconditional) to distribute income more evenly between spouses.

**For example:** a saving of up to £15,000 in income tax per tax year could be achieved by the transfer of assets (that produce £50,000 of income per year) from an additional rate (45%) taxpayer to their non-earning spouse.

Income from jointly owned assets is generally shared equally for tax purposes. This applies even where the asset is owned in unequal shares unless an election (that needs to be filed with HM Revenue and Customs), is made to split the income in proportion to the ownership of the asset. Without the election being filed, the income will automatically be split 50:50. When the circumstances fit, we can assist with the advice and an election.

## YOUR BRIGHTER THINKING NEXT STEPS...

*“Consider making use of lower rate tax bands, and review tax implications of transferring income producing assets, but taking note of anti-avoidance and settlements legislation. This is more important than ever with the highest rate of tax kicking in at a lower level of income.”*



**David Truman**  
Private Client Partner

PERSONAL ALLOWANCE

The first £12,570 of a taxpayer’s income is generally tax free by virtue of the personal allowance. It is important for individual taxpayers to make use of the personal allowance each tax year because it cannot be carried forward. In the 2024 Autumn Budget, the Chancellor confirmed that the personal allowance will be frozen at this rate until April 2028, and indicated that it would not remain frozen beyond that date, but would begin to rise with CPI.

Where you are a basic rate taxpayer and your spouse does not pay any tax, it should be possible to transfer an element of the personal allowance. To action this, it is necessary to complete a specific claim – something that Menzies can manage on your behalf.

For those with incomes in excess of £100,000, the personal allowance begins to be withdrawn at a rate of £1 for every £2 of income above £100,000. The impact is punitive with a 60% effective tax rate for income between £100,000 and £125,140. Additionally, those with incomes of over £125,140 will be subject to the additional rate of tax (45%).

In these instances, you may wish to consider if there are any income tax deductions which can be claimed to reduce your income. These could include donations under Gift Aid, transferring income to others or by making pension contributions.

YOUR BRIGHTER THINKING NEXT STEPS...

“Where a spouse does not use all of their personal allowance, consider electing to transfer an element to the other spouse to reduce the family’s tax burden. Review any restrictions of allowances with a view to adjusting taxable income for the next tax year, and preservation of the personal allowance. This will become increasingly important with the freezing of allowances and reduction in the additional rate threshold.

Individuals with income around the £100,000 mark may also consider making pension contributions to regain their personal allowance or ‘wrapping’ any income producing assets within a more tax efficient investment structure such as an ISA or investment bond.”



Helen Cuthbert  
Private Client Partner

DIVIDEND NIL RATE BAND

The first £500 of dividend income received in the tax year is FREE of income tax. Dividends received over and above the £500 tax free dividend allowance are subject to their own tax rate bands:

BASIC RATE	8.75%
HIGHER RATE	33.75%
ADDITIONAL RATE	39.35%

If you own shares in a family company, you may wish to consider who else in your family could have shares. It is possible to have different shares issued with different rights (e.g. dividend only shares or non-voting shares). Be warned as careful planning is required to ensure you do not fall foul of the HMRC anti avoidance regulations.

YOUR BRIGHTER THINKING NEXT STEPS...

“Try and make use of the dividend nil rate band and consider declaring a dividend where the taxpayer is a shareholder in a family company and not fully utilising their basic rate tax band for the current tax year.”



Andrew England  
Corporate Tax Partner

PERSONAL SAVINGS ALLOWANCE

For basic rate taxpayers, there is a savings nil rate band of £1,000, which means the first £1,000 of savings income is taxed at 0%.

For higher rate taxpayers, the savings rate band is £500, and for additional rate taxpayers (i.e. taxable income over £125,140) it is withdrawn altogether.

The savings nil rate band is not transferable between spouses, so it is important to ensure that bank accounts are held to maximise the nil rate band.

### YOUR BRIGHTER THINKING NEXT STEPS...

*“Don’t forget to make use of your spouse’s Personal Savings Allowance. You could do this by electing to transfer savings held in your own name to your spouse. Even though this has been reduced, it will still cover many family circumstances.”*



**David Truman**  
Private Client Partner

### THE STARTING RATE FOR SAVINGS

Where a taxpayer has relatively modest non-savings income (e.g. employment, pension or income from property), they may be entitled to the £5,000 starting rate for savings allowance making this income tax free.

The starting rate for savings income applies before the nil rate band. By careful planning - and where you have your own company - you could hypothetically extract £19,070 tax free, which can be broken down as follows:

PERSONAL ALLOWANCE	£12,570
STARTING RATE FOR SAVINGS	£5,000
SAVINGS NIL RATE BAND	£1,000
DIVIDEND ALLOWANCE	£500

When considering profit extraction, timing is critical as it can have significant consequences on what tax is payable and when. We would strongly recommend seeking professional advice as there could be merit in deferring income to a later year.

### YOUR BRIGHTER THINKING NEXT STEPS...

*“Utilise the 0% Starting Rate for Savings on the first £5,000 of income where appropriate. For those who have a family company, carefully consider the profit extraction techniques, with a view to tax efficiency.”*



**Craig Hughes**  
Private Client Partner

### ALLOWANCES - CHILDREN

Children have their own allowances and tax bands. It may be possible for tax savings to be achieved by the transfer of income producing assets to a child.

Generally, this is ineffective if the parent puts aside funds for their minor child (as the income remains taxable on the parent unless the income arising amounts to no more than £100 gross per annum). However, it may be relevant to parents with adult children or for grandparents who wish to make gifts to their grandchildren (even if minors). Bare Trusts could be established to provide for grandchildren’s childcare and schooling costs, making use of the grandchildren’s own income tax and capital gains tax allowances.

### YOUR BRIGHTER THINKING NEXT STEPS...

*“In any family structure, consider how to make use of children’s allowances, both for income tax and capital gains tax purposes.”*



**Helen Cuthbert**  
Private Client Partner



## CHILD BENEFIT TAX CHARGE

The High Income Child Benefit Charge threshold (which used to be £50,000) has increased to £60,000 from 6 April 2024. This means that for those with income over £60,000, or who are part of a couple where one of you earns over £60,000, then part or all of the Child Benefit claimed will be clawed back. For those earning between £60,000 and £80,000 this is good news and for those earning £70,000 they will now be able to keep half of the child benefit, whereas previously it would have all been clawed back.

If your income is over £80,000 you may therefore consider disclaiming Child Benefit to avoid a claw back tax charge. However, if the claimant of child benefit is not themselves working, then disclaiming it will mean the year does not qualify for State Pension purposes. In this scenario you should just ask for payment to be stopped rather than disclaiming it altogether.

### YOUR BRIGHTER THINKING NEXT STEPS...

*“Looking beyond 2023/24 you should consider if someone in your household receives Child Benefit, and you earn more than £60,000 per annum. If so, you may need to repay an element of the Child Benefit to HMRC. Should you earn over £80,000, consider the merits of pausing Child Benefit payments.”*



**Mike Ward**  
Private Client Director

## PAYE NOTICES OF CODING

Where you are employed, or have a pension, it is worth checking your PAYE Notice of Coding to ensure your allowances are correctly stated. This includes relief for pension contributions, charitable donations and any other tax reliefs.

HMRC's coding system has, in our experience, led to many incorrect coding notices. If the coding is wrong, many taxpayers could end up with an unwanted, and unexpected, tax bill after the end of the tax year. If you're in any doubt then Menzies can review your PAYE Notice of Coding to ensure it is reasonable and in line with your income.

### YOUR BRIGHTER THINKING NEXT STEPS...

*“Where you are issued with a new PAYE Notice of Coding ensure you check it to ensure it includes the correct allowances and restrictions. Notify HMRC of any changes required.”*



**David Truman**  
Private Client Partner

## PROPERTY

In recent years, the Chancellor of the Exchequer has targeted individuals with second properties, and specifically buy-to-let landlords. This has included the introduction of increased Stamp Duty Land Tax (SDLT), the restriction on expenses which can be set against rental profits and a hike in Capital Gains Tax rates.

For those who have significant rental property businesses which are not currently structured as a company, there may be merit in considering incorporation. We can quantify the advantages and disadvantages and implement the appropriate structure.

There are a number of tax breaks still available. For example, if you rent a room in your main residence, the first £7,500 in rental income is tax free. This is called the “rent a room” allowance, and where you own a property jointly, the allowance is split.

It was confirmed in the Autumn Budget that the Furnished Holiday Letting (FHL) regime would be abolished from 6 April 2025. The FHL regime as we knew it allowed for some generous tax breaks, including obtaining full tax relief for interest on loans attached to the property, and a capital gains tax rate of 10% on eventual sale, which will no longer apply. This means that the deduction of interest will be restricted as per the treatment of residential properties and the disposal of the property will be subject to the higher CGT rates that apply to the sale of residential properties (maximum rate of 24%). If you are affected by this, please reach out to your contact at Menzies who will be able to advise what this may mean for you.

Those looking to sell UK residential property should take advice on the reporting requirements “in year” as Capital Gains Tax Property Returns must be filed within 60 days of completion. For UK residents there is a get out where the disposal does not give rise to a capital gain, but all non-UK resident owners making a residential property disposal will need to file.



## STAMP DUTY LAND TAX

It was announced in the 2024 Autumn Budget that the starting nil rate band for SDLT would revert back to £125,000. First time buyer's relief from SDLT reduced to £300,000 with a maximum purchase price of £500,000.

A 2% SDLT surcharge was introduced for non-resident buyers of UK residential property, from 1 April 2021. The 3% surcharge on the purchase of additional properties increased to 5% with an effective date of 31 October 2024, unless the contract was entered into before 31 October 2024 (although some exceptions will apply).

Multiple Dwellings Relief (MDR) was abolished as of 1 June 2024. This came as a move to simplify the Stamp Duty legislation. MDR was a relief that allowed for a buyer to make significant savings when purchasing more than one dwelling by calculating the SDLT based on the average of all the properties purchased rather than their collective value.

### YOUR BRIGHTER THINKING NEXT STEPS...

*“Where you have loans attached to rental properties, check whether restructuring is appropriate to maximise tax reliefs. Establish a tax reserve or buffer to account for the additional income tax for buy-to-let property as a result of the rule changes. If you have a buy-to-let property, or properties, consider through which vehicle you should hold them. For example, in your own name, as a couple, a partnership or a company.”*



**David Truman**  
Private Client Partner

## GIFTS TO CHARITY

Charitable donations made under the Gift Aid scheme can result in significant benefits for both the donor and the charity. It is important to keep a record of any charitable payments on which you wish to claim tax relief, as HMRC may request evidence.

A cash gift of £80 will generate a tax refund of £20 for the charity so that it ends up with £100. The donor will get higher rate tax relief of £20 so that the net cost of the gift is only £60. Where the 45%

additional rate of tax applies, the net cost of the gift in this example would be only £55.

Care needs to be taken in claiming gift aid if you are a low earner as this can create an unexpected tax charge if you gift funds which fall within your personal income tax allowance.

In addition, tax relief against 2025/26 income is possible for charitable donations made between 6 April 2026 and 31 January 2027. This is provided that the payment is made before filing the 2025/26 tax return.

For larger charitable donations, it may also be possible to make gifts of quoted shares and securities or land and buildings to charities and claim income tax relief on the value of the gift. It is worth noting that, although previously available, from 6 April 2024 there has been no UK tax relief on gifts to EU or EEA charities.

### YOUR BRIGHTER THINKING NEXT STEPS...

*“Keep a record of any gift aid payments to ensure you claim the tax relief to which you are entitled. If any gift aid payments are to be made post 6 April 2025, but before filing your 2024/25 tax return with HMRC, consider whether to treat the payment in the earlier tax year to accelerate any further tax relief.”*



**David Truman**  
Private Client Partner

## NATIONAL INSURANCE

From 6 January 2024, the main rate of Class 1 National Insurance contributions (NIC) deducted from employees' wages was reduced from 12% to 10%. A further reduction was then announced, taking the rate to 8% from 6 April 2024 for the self-employed.

From 6 April 2024 Class 4 NIC rates have been cut from the previous 9% down to 6%.

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# CAPITAL GAINS TAX



## CAPITAL GAINS TAX (CGT)

The decision to sell capital assets should first of all be driven by investment considerations rather than tax. As such we'd recommend a chat with a Menzies Wealth Management (MWM) Independent Financial Adviser.

Provided it makes investment sense, you may wish to consider the following points before the tax year end:

- The first £3,000 of gains are generally CGT-free.
- Each spouse has their own annual exemption, as indeed do children. As the annual exemption cannot be carried forward, it will be lost if not used.
- Similar to the above, transferring assets to a lower earning spouse may create an opportunity to utilise their basic rate band so that CGT applies at 10% rather than up to 20%.
- These rates increased to 18% and 24% for disposals on or after 30 October 2024, (which is in line with the rate of tax which applies to residential property). From this date the CGT rates for residential property will be the same as non-residential property.
- A Bed & ISA will allow you to utilise the current years ISA Allowance by moving investments from an unwrapped environment to the ISA Tax Wrapper. This is achieved by disposing of the unwrapped investment and repurchasing it via an ISA. The disposal of the unwrapped investments may be liable to CGT but once inside the ISA, the investments are sheltered from CGT in the future.
- You could also "straddle" a disposal across tax year end to make use of two annual exemptions. Alternatively, where you are planning on selling an asset, you may simply wish to consider delaying the disposal until after the end of the 2025/26 tax year. This may be helpful from a cash flow perspective as any tax arising will not then be due until 31 January 2027, unless you are selling a residential property, the tax on which is due within 60 days of completion.
- Sale by one spouse and repurchase by the other (Bed & Spouse). This technique may also be used to establish a loss that can be set against any gains.

### YOUR BRIGHTER THINKING NEXT STEPS...

*"Try and use your annual capital gains tax exemption. Use it or lose it."*

*Consider "Bed and Spouse" or else "Bed and ISA". Consider delaying any further disposal into the next tax year, to use the future annual exemption, utilisation of lower rate tax bands, or simply delaying payment by a year. Claim any capital losses, even if an asset has not necessarily been sold (i.e. it has become of negligible value).*

*Consider whether the loss can be carried back. Ensure any losses that are carried forward are correctly recorded."*



**Craig Hughes**  
Private Client Partner

### TAXATION OF GAINS ON PROPERTY - MAIN RESIDENCE

One of the most generous capital gains tax reliefs remains that for the main residence. In broad terms, when you buy a house and live in it as your main home and then sell it, any gain is generally exempt from capital gains tax.

When selling a property that has been your main residence at some point, the final nine months of ownership are deemed to be CGT exempt whether you were living there or not. If you have more than one home, you should consider the timing of a sale or making a main residence election. As there are time restrictions on making the main residence election, we strongly recommend you speak to us should you think this could be an issue or if your circumstances change.

### UK RESIDENTIAL PROPERTY

The top rate of CGT on the disposal of residential property is 24%. The lower CGT tax rate for residential property is 18%. In the Autumn Budget the rates of CGT for assets (excluding residential property) were aligned with the rates for residential property.

Where CGT is due on the disposal of UK residential property by a UK resident individual or trustees, an online return will need to be filed, together with payment on account of the CGT due. This needs to be done within 60 days (previously 30 days) of the date of completion of the transaction.

## TAXATION OF GAINS MADE BY NON-RESIDENTS - RESIDENTIAL

From 6 April 2015, the CGT legislation changed so that non-residents are liable to tax on disposals of UK residential property. As part of the regime, non-residents will have the option to rebase their properties to 6 April 2015 value so that only the growth in value after this date is taxable.

Under these regulations, the criteria for when a main residence election can be made will be possible ONLY if one of the following conditions is met:

- The individual is a tax resident in the same country as the property they wish to make the main residence election; or
- The individual spends at least 90 nights in the property (or if he or she owns more than one property in that country, 90 nights between all the properties).

This was originally introduced to prevent non-residents simply electing for their UK properties to be their main residence. However, the regulations have knock-on implications for UK residents since a UK resident individual who owns a property overseas will be able to elect for that property to be their main residence, only if they spend at least 90 midnights there.

If you are already a non-UK resident or are considering moving abroad, you should consider your CGT position in advance of either selling or relocating overseas. HMRC must be notified within 60 days of the sale or disposal of a UK property and a CGT return completed.

### YOUR BRIGHTER THINKING NEXT STEPS...

*“It may be time to consider a main residence election if you have more than one property. If however you have a UK property but are not a UK resident it may be time to consider whether you can claim for this to be treated as your main residence for tax purposes. All elections forms are required to be filed with HMRC”*



**Amanda Revell**  
Trust & Estates Senior Manager

## TAXATION OF GAINS MADE BY NON-RESIDENTS - ALL TYPES OF PROPERTY

Gains made by non-residents on the disposal of all types of UK immovable property are taxable in the UK. This includes:

- 1 All non-resident persons' gains on disposals of interests in UK land will be chargeable and;
- 2 Indirect disposals of UK land will be chargeable. This refers to the disposal of businesses that derive at least 75% of their asset value from UK land.

As part of these changes, non-residents are able to rebase residential properties not previously within the rules, to the 6 April 2015 value so that only the growth in value after this date is taxable. Non-residents are also able to rebase non-residential land or property or shares in property-rich companies to the 6 April 2019 value. HMRC must be notified within 60 days of the sale or disposal of a UK property and a CGT return completed.





## BUSINESS ASSET DISPOSAL RELIEF

Where an individual disposes of an asset that qualifies for Business Asset Disposal Relief (BADR) - formerly Entrepreneurs' Relief - the capital gain arising will be taxable at a lower rate. In the Autumn Budget, the Chancellor announced that the rate for BADR will increase from 10% to 14% for disposals on or after 6 April 2025 and to 18% for disposals on or after 6 April 2026.

The lifetime limit decreased from £10m to £1m of capital gains with effect from disposals on or after 11 March 2020.

There are a number of important conditions, but generally BADR applies to:

- ✔ The sale of all, or part of a trading business
- ✔ The sale of shares in a qualifying company where you hold more than 5% of the nominal share capital and voting rights. From 29 October 2018 this was extended to also require you to be entitled to 5% of the distributable profits and assets, or alternatively, to receive 5% of the proceeds if the company's ordinary shares were to be sold
- ✔ You are an officer/employee of the company

Planning may be necessary in order to adjust shareholdings so that the 5% requirement is held or so that other family members may also qualify for BADR. There is a two year ownership and trading requirement in all cases so early planning, ahead of an exit, is important.

If you do hold shares in a company, or have any property which you think may be affected, a regular review to ensure that BADR will be available on ultimate disposal is recommended.

## INVESTORS' RELIEF

Investors' Relief (IR) provides a further separate lifetime limit of £10m, which is reduced to £1m for disposals made on or after 30 October 2024. The relief has historically provided a reduced tax rate of 10% on qualifying investments. Following the announcements in the Autumn Budget, the rates of tax charged where IR is claimed will also go up in line with the rates for BADR, on the same dates.

There are a number of important conditions with regards to the relief:

- ✔ It can apply to disposals of shares in unquoted trading companies or the holding company of a trading group
- ✔ The shares must be ordinary shares, subscribed for and fully paid in cash
- ✔ The shares must be issued on or after 17 March 2016 and disposed of on or after 6 April 2019
- ✔ There are restrictions on investors being employees or directors of the company
- ✔ The shares must have been issued and subscribed for at arm's length

Unlike BADR, there is no minimum qualifying percentage.

## TAX EFFICIENT INVESTMENTS

It is possible to obtain additional tax reliefs by acquiring tax efficient investments. For some high income individuals who are restricted in their ability to make pension contributions, they may find that such investments are the only realistic options to reduce income tax.

However, such investments carry risk to capital and may not, therefore, be suitable, even if they are tax efficient. Particular care should be taken when investing in EIS, Seed EIS or VCTs. A Menzies Wealth Management Independent Financial Adviser will be invaluable when considering this.

### YOUR BRIGHTER THINKING NEXT STEPS...

*"If you have any gains which you think qualify for BADR, ensure you review the rules and conditions for the relief so that you are in a position to take advantage of them particularly if there may be any share options in existence."*



**Andrew England**  
Corporate Tax Partner

## INDIVIDUAL SAVINGS ACCOUNT (ISAs)

Based on the current rates, a maximum of £20,000 can be saved in an ISA. The ISA wrapper ensures that any growth is both free of income tax and capital gains tax.

This is a useful technique for converting taxable interest and dividends into non-taxable income. To further increase the flexibility of an ISA, it is possible to withdraw funds from your ISA and replace them, later, without the replacement funds counting towards your ISA investment limit for the year.

The ISA deadline is 5 April and, as unused reliefs are not transferrable to future tax years, we recommend you take advantage of the full ISA allowance where possible. A number of clients now have significant tax-free funds which they can draw upon as a result of these ISA allowances.

Since 6 April 2024 you are no longer restricted to contributing to one of each type of ISA in a tax year. This means that you are no longer restricted to one cash ISA when the interest rate changes in the year.

The government confirmed that the annual subscription limits for an ISA, including Lifetime ISAs, Junior ISAs and Child Trust Funds, will remain frozen at their respective amounts until April 2030.

There are many types of ISAs, each with the same, and sometimes more, tax benefits, including:



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### LIFETIME ISAs

Introduced on 6 April 2017 to encourage young people to save. Where an individual between 18 and 40 saves up to £4,000 each year, the Government will contribute a bonus of 25%. Funds may be withdrawn for use to purchase a first home or for retirement.



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### JUNIOR INDIVIDUAL SAVINGS ACCOUNT (JUNIOR ISA)

Introduced to replace Child Trust Funds (CTF), can be used to fund higher education by allowing parents, other family members or friends to invest up to £9,000 annually in a tax-free fund for a child. There are no Government contributions and no access to the funds until the child reaches 18.

Changes were made for 2020/21 onwards to permit savings in maturing Child Trust Funds (CTFs) to retain their tax advantaged status and to be transferred into an ISA without impacting the annual ISA limit.

## ENTERPRISE INVESTMENT SCHEME (EIS)

EIS allows income tax relief at 30% on new equity investment (in qualifying unquoted trading companies). A maximum investment of up to £1 million in any one tax year can be made and this can be increased to £2 million provided at least £1 million is invested in Knowledge Intensive Companies. As such, it can reduce your income tax bill by up to £600,000 for the tax year.

It is also possible to carry back relief to the previous tax year, i.e. 2023/24, if the £1 million limit was not utilised in the previous year. Where the £1m investment has not been reached in the current or previous tax year, investors can choose the tax year to claim the relief to maximise the tax relief due (this will depend on their income position in the current and previous tax year).

There are additional tax benefits for qualifying EIS shares including:

- If held for at least three years, EIS gains are exempt from capital gains tax.
- EIS losses could be set against your taxable income (rather than capital gains).
- Other capital gains can be deferred to the extent that you invest in EIS investments. You could have sold an asset up to 3 years before the EIS share issue, and look to defer that gain, and claw back any capital gains tax previously paid.
- Where you hold the shares for two years, they are effectively free from inheritance tax.

Given the tax benefits on offer to investors, we have assisted many companies looking to attract investment in completing and obtaining HMRC approval for an EIS application.

## SEED EIS (SEIS)

The SEIS is essentially the little brother to EIS and is aimed at smaller companies. The additional risks associated with such investments are reflected in the more generous tax breaks.

The maximum which can be invested under the SEIS in one year is £100,000. However, it is possible to carry back the income tax relief to the previous tax year.

Tax breaks include:

- Income tax – 50% tax reducer
- Capital gains tax – free from CGT if held for three years
- Losses – In the event of a capital loss, this can be set against your general income
- Reinvesting gains from other non-SEIS investments into an SEIS investment can result in 50% capital gains tax relief on the original gain
- Inheritance tax – The shares are not liable to inheritance tax on death if owned for more than two years

## VENTURE CAPITAL TRUST (VCT)

A VCT is a collective investment fund which invests in unquoted trading company shares. VCT dividends and capital gains can be tax free.

Income tax relief (currently at 30%) is available on subscriptions into VCT shares up to £200,000 per tax year so long as the shares are held for at least five years.

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# SELF-EMPLOYED & UNINCORPORATED BUSINESS





## CHANGE OF TAX RULES FOR SELF-EMPLOYED INDIVIDUALS AND UNINCORPORATED BUSINESSES

A major change in taxation was introduced from 6 April 2024 whereby self-employed and unincorporated businesses are taxed on the profits made within the tax year irrespective of when their accounting year ends. This impacted businesses who did not have a 31 March or 5 April year end who, previously, had only been taxed on the profits of the accounting year which ended within the tax year.

This change in basis period resulted in a significant impact for the tax year to 5 April 2024 as businesses without a 31 March (or 5 April) year end were taxed on more than 12 months profit being the profits to their current accounting year end plus the profit between that date and 5 April. To illustrate this, an unincorporated business with a 30 April year end would have been exposed to tax on 23 months of profit.

For profitable businesses this resulted in additional taxable income for 2023/24 and there were two ways that this was managed, which continue to have an impact for current years:

- 1 Where an individual had unused overlap relief available from the start of their trade (or a previous year end change) this was able to be offset against the profits of the additional period; and
- 2 Businesses were able to elect to spread the additional profits over 5 years.

Most individuals and unincorporated businesses that elected to spread the profits, did so in order to manage the cashflow impact, but after considering the levels of profitability at the time (and going forward) to manage the effective tax rate.



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# INHERITANCE TAX



# INHERITANCE TAX (IHT)

Essentially, where your estate is worth more than £325,000 at death, there may be IHT to pay by your executors. IHT is a complex area and regular advice in this area is strongly recommended as a person's IHT exposure is likely to change from year to year.

As a general guide, it is key to make sure that you have a tax efficient Will in place and that you consider taking appropriate life assurance cover to help protect your family financially. The Office of Tax Simplification undertook a review of IHT suggesting that it should be fundamentally changed.

The government have responded to the suggestions by saying that at this point they do not intend to reform IHT and intend to maintain the nil rate band at £325,000 until at least April 2028.

Following the October Budget it was confirmed that the scope of UK IHT would significantly change from a domicile-based regime to a residence-based regime. As a result from 6 April 2025, your domicile status is no longer relevant to your IHT position.

From 6 April 2025, the test for whether non-UK assets owned by individuals are within the scope of UK IHT will be whether the individual is a 'long-term resident', and where the assets are situated. The changes will not affect the taxation of UK situs assets (including indirectly owned UK residential property), which will remain within the scope of IHT, regardless of the individual's residence status.

Residence will be determined using the Statutory Residence Test (SRT). In summary, an individual will become liable to IHT on non-UK assets when they have been resident for at least 10 out of the last 20 tax years. The government have provided detailed guidance on "Long-Term Residents" and have also provided detail on the IHT "tail" which is the amount of time an individual will remain within the scope of UK IHT once they become non-UK resident.

For a more detailed discussion, we would recommend that you speak to your Menzies contact.

In addition to a regular consideration of your IHT exposure, you may wish to use the year-end to consider the following:



### UTILISE YOUR IHT ANNUAL EXEMPTION

Gifts of up to £3,000 per year can be made on an IHT free basis. The limit increases to £6,000 if the previous year's annual exemption was not used. A married couple can therefore make IHT exempt gifts totaling £12,000 in one tax year, where no gifts were made in the prior tax year. This simple technique could save a possible IHT bill of £4,800 in the event of your untimely death.

You should also consider using other annual gifts such as gifts in consideration of marriage or £250 small gifts.



### NORMAL EXPENDITURE OUT OF INCOME

There is an exemption for making regular gifts out of income of any size where certain conditions are met. This exemption means that sizable gifts can potentially be made but in a way that the gifted amounts instantly fall outside of your taxable estate upon death (rather than waiting for a seven year period).

Take care where living costs increase and result in a reduction of excess income available for gifting.



### BUSINESS RELIEF (BR)

This is a valuable IHT relief which may apply to exempt or partially exempt business property on death. BR is an important part of succession planning but, due to the complexity of the BR rules, the relief may not be due even though you expect to meet the conditions.

It is important to regularly review your BR position to ensure that it continues to apply and that your business activities do not jeopardise your BR position.

Effective from 6 April 2026, significant reforms to agricultural property relief (APR) and business property relief (BPR) will limit 100% relief to the first £1 million of qualifying assets, with a 50% relief rate for assets above this threshold. These changes will apply to transfers on death and within seven years before death and an individual's £1 million allowance will not be transferable to spouses.

BPR on shares quoted on recognised stock exchanges but treated as unquoted (e.g., AIM) will be reduced to 50%. It has been confirmed that AIM shares will not use up the £1million BPR/APR allowance.

Anti-forestalling provisions will enforce the new rules for lifetime transfers made on or after 30 October 2024 if the donor dies on or after 6 April 2026, limiting pre-implementation planning. If the donor dies before 5 April 2026 their estate will be subject to the existing rules.

We recommend a detailed review of agricultural and business assets for those whom this is relevant.





## PASSING ON YOUR PENSION

Individuals can currently pass on their pension pot from generation to generation in a tax efficient manner.

The current position is as follows:

If death occurs before the age of 75, the pension fund can be passed on tax-free to a beneficiary. If death occurs after 75, the fund can be drawn by a beneficiary at their own marginal rate of tax. A beneficiary will have the option to receive the death benefits either as a lump sum, drawdown or an annuity. The definition of a beneficiary is much wider than that of a dependent, allowing considerable freedom in choosing who you want to benefit from your pension fund.

If death benefits are paid as a lump sum, those benefits would form part of a beneficiary's estate. Therefore, an efficient way to pass on death benefits is to consider 'dependents drawdown'. This would allow the beneficiary to continue to enjoy the tax advantages associated with investing in a pension, whilst allowing them to draw income as and when required. The fund could then be used as a further legacy for them to pass on to their own beneficiaries.

From 6 April 2027, unused pension funds and death benefits payable from a pension will be included in the estate of the pension holder for IHT purposes. Pension scheme administrators will be responsible for reporting and paying any IHT due.

This change means that beneficiaries of these pension funds could face a higher tax burden. Previously, pensions were exempt from IHT, allowing beneficiaries to receive the full amount without additional tax. However, with the new rules, the value of the unused pension funds will be added to the estate, potentially increasing the overall IHT liability. This could significantly reduce the amount

beneficiaries receive, as the estate may be subject to the 40% IHT rate.

It is important that death benefit nomination forms are reviewed in light of the upcoming changes. Pensions should be considered in the context of IHT and alongside any Will planning.

### YOUR BRIGHTER THINKING NEXT STEPS...

*“Consider your Inheritance Tax position and possible exposure in the event of your untimely death.*

*Do you have a note of your worldwide assets, including access codes for investments held online?*

*It is useful to create a single document containing details of all your assets which is available to your Executors in the event of your death.*

*Make use of the IHT exemptions each year, where possible, to reduce your exposure. Consider how you can use any pension pot for IHT planning.*

*Do not dilute your estate to the extent you make insufficient provision for your own position and possible support you need to make in the future.”*



**David Truman**  
Private Client Partner

## IHT AND WILLS

The cornerstone of any effective IHT planning is your Will. It is important that your current Will is up to date and in line with your future wishes.

A review of your Will can help to ensure that all details are correct and there are no misstatements which may lead to parts of your estate not being administered as you intended. Failure to do so can also have an adverse effect on your inheritance tax position and the amounts chargeable to inheritance tax.

If you do not have a Will in place, we would advise taking the time to create one and therefore minimising the risk that the State will determine how the assets are distributed on death under the intestacy rules (a form of heirship).

Menzies are able to assist you with tax advice on the preparation and review of your Will as well as answering any questions you may have in this important and complex area.

### YOUR BRIGHTER THINKING NEXT STEPS...

*“In the event you do not already have a Will, we would recommend you arrange to have one put in place. If you have not reviewed your Will for two years, we recommend you revisit.”*



**Helen Cuthbert**  
Private Client Partner

## ADDITIONAL RESIDENCE NIL RATE BAND

If an individual passes on their home to a direct descendant on the individuals' death, an additional Residence Nil Rate Band (RNRB) is available for an estate.

Any unused RNRB can be transferred to a surviving spouse or civil partner. Until the 2027/28 tax year the RNRB that may be available is £175,000.

This additional allowance when reviewed in conjunction with a review of your Will could be beneficial to many individuals and should be taken into consideration with regards to any future tax and estate planning.

### YOUR BRIGHTER THINKING NEXT STEPS...

*“Ensure your Will does not prevent you making use of the Additional Residence Nil Rate Band.”*



**Craig Hughes**  
Private Client Partner

## PLANNING FOR THE FUTURE

It is never too early to get started on planning ahead for the future. Having a plan in place will not only ensure your affairs are structured in the most tax efficient manner, but also allow you to optimise and consider your estate position and possible investment options.

There are many different aspects to consider when looking to plan ahead for the future, including the possibility of moving to or departing the UK, current domicile position and the inheritance tax implications associated with domicile, retaining your profits and tax efficient savings for financially secure retirement. In light of the government's latest announcement of the intention to move IHT from being a domicile based regime to a residence based regime it may be worth considering this as part of your future planning. This change is subject to consultation but we are happy to assist with any early planning.

### YOUR BRIGHTER THINKING NEXT STEPS...

*“Ensure your Will says what you want it to say. Ensure you understand your Will and make time to consider your IHT position both for yourself, and as a family.”*



**David Truman**  
Private Client Partner

## FAMILY INVESTMENT COMPANIES (FICs)

Several options are available to protect against an outright gift of wealth for those seeking to pass assets to the next generation while considering IHT efficiencies. The key routes being to either create a family trust or to establish a family company. The transfer of assets into a family trust is a tried and tested mechanism for ensuring the benefit of the family wealth is gifted to the younger family members, without giving unfettered access to the underlying assets. Control is centered with the Trustees who protect and administer the assets (and in certain instances, the income from those assets) for the benefit of the ultimate beneficiaries, being the children and grandchildren.

An alternative is to consider a family company which may provide a more tax efficient landscape with similar flexibility. In addition, one advantage is that the corporate structure is a framework which is familiar to many. The aim being to provide the children with the shares that hold the growth value, while retaining control mechanisms for the older generation by way of directorships, voting rights and preferential share classes. The structure is best utilised where funds are retained within the corporate, minimising the double taxation charge where profits are extracted annually. The attractive tax rate for corporates, the possible availability of a dividend exemption and the ability to deduct reliefs such as full mortgage interest for rental property, assist in the tax efficient environment.

HMRC have agreed in recent years that there is no correlation between those setting up a Family Investment Company and non-compliant behaviour and their dedicated unit set up to investigate the tax risks associated with FICs has been disbanded. Although future changes in tax legislation cannot be discounted, FICs firmly remain a key planning tool for families wishing to protect their assets across the generations. Given the possibility of a rise in capital gains tax rates due to the current climate, it may now be the moment to transfer assets into a corporate and capture gains at current rates of up to 20%, while considering the IHT implications for the family.

## PROBATE

Having supported you throughout your working life and then into your retirement, we are also experienced in dealing with and providing probate advice and estate advice.

Although probate matters are not traditionally viewed as a “year-end” matter, taking the time to consider the provisions you want to make for the future should be at least an annual assessment. As the trusted advisor, we aim to support your family and beneficiaries at the times we are needed. We have specially qualified partners and staff who can assist with a wide range of services. We also have partners who are able to act as Executors and Trustees, if required, along with members of your family.

We feel that we are well placed to provide probate services, having worked with you throughout your life to create a plan for your wealth. As accountants, we believe that we are well suited to the provision of probate services, as we specialise in accounting, taxation and administration. We also have a number of STEP qualified members within our team.

### YOUR BRIGHTER THINKING NEXT STEPS...

*“Undertake an annual assessment of your own wishes. Assess whether you would like Menzies to assist with probate matters in the future; consider updating your Wills accordingly such that your family members do not have to decide on this in the future.”*



**Craig Hughes**  
Private Client Partner

**MENZIES**  
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# **MAKING TAX DIGITAL FOR BUSINESSES & INDIVIDUALS**





# MAKING TAX DIGITAL FOR BUSINESS: VAT AND INCOME

HMRC's Making Tax Digital (MTD) regime, which ultimately requires taxpayers to move to a fully digital tax system, now includes all VAT registered businesses, including those registered businesses under the threshold (currently £90,000).

All applicable businesses should be compliant now and HMRC are being more active in chasing up those that are not.

The next stage, MTD for Income Tax & Self-Assessment (ITSA), will commence in April 2026. This means if you are subject to income tax on profits of a trade, profession, vocation or property business, you will be required to keep electronic accounting records and file quarterly returns to HMRC with details of your income and expenditure. In addition, a final declaration will need to be submitted after the tax year. This will replace the current self-assessment requirement.

The mandating of MTD for ITSA will be phased. From April 2026, self-employed individuals and landlords with income greater than £50,000 will be mandated into MTD for ITSA, and from April 2027, those with an income between £30,000 and £50,000 will be mandated.

If you are in the position where you have a rental business with rental income of more than £30,000 or a self-employment with income of more than £30,000 it is important that you consider how you are going to undertake the quarterly filing requirements and the requirement to maintain digital records.

## YOUR BRIGHTER THINKING NEXT STEPS...

*“This is mandatory now for those businesses mentioned and over the coming years for the individuals mentioned. MTD compliance is now commonplace for most businesses and our advice for individuals would be to look at the available options to digitise sooner, so you are ready for when your enrolment date arrives.”*

*The benefits of cloud accounting and software can be huge, saving lots of time and costs and you will be ready and compliant for when your time comes. Your advisor at Menzies can have visibility too for more proactive advice to help you and your business.”*



**Oliver Finch**  
**Outsourcing Partner**

**MENZIES**  
BRIGHTER THINKING

# PENSIONS



# PENSIONS

Pensions continue to offer generous tax benefits, making them a key part of financial planning. Understanding how the rules apply can help you reduce tax, grow your wealth efficiently, and plan for the next generation.

Below, we outline key pension rules and provide some planning strategies to help you maximise the benefits. Pensions should always be considered in the wider context of your financial planning, and as such we recommend you speak to an independent Financial Adviser before taking any action. If you do not already have an adviser, we would be pleased to introduce you to one of our colleagues from Menzies Wealth Management.

## PERSONAL PENSION CONTRIBUTIONS

You can contribute the lower of 100% of your net relevant UK earnings or £60,000 (the Annual Allowance) into your pension in the current tax year, provided your earnings do not exceed £260,000. Contributions benefit from tax relief: basic rate is added automatically, and higher/additional rate relief can be claimed via your tax return. Non-earners can contribute up to £2,880 net (£3,600 gross) each tax year.

### Your Brighter Thinking next steps

- ✔ Maximise contributions to reduce your tax bill. This is especially valuable for higher earners.
- ✔ If your income falls between £100,000–£125,140, pension contributions can restore your Personal Allowance, giving effective tax relief of up to 60%.
- ✔ Contribute for a non-earning spouse or child to use their annual allowance and benefit from long-term, tax-free growth.

## EMPLOYER CONTRIBUTIONS

Employers may also contribute to your pension up to the Annual Allowance. These contributions are usually free of income tax and national insurance. Contributions may be deductible for corporation tax if made “wholly and exclusively” for business purposes.

### Your Brighter Thinking next steps

- ✔ Use employer contributions to extract profit from your company tax-efficiently.
- ✔ If you’re a director, consider replacing part of your salary or bonus with a pension contribution to avoid both income tax and NI.
- ✔ This can also help manage tapered Annual Allowance exposure.

## CARRY FORWARD OF UNUSED ALLOWANCE

Carry forward allows you to make pension contributions above the current tax year’s Annual Allowance (£60,000 in 2025–26) by using any unused allowance from the previous three tax years, provided you were a member of a UK-registered pension scheme during those years. It’s a valuable way to maximise tax relief, especially for those with fluctuating earnings, large bonuses, or who are catching up on missed contributions. You must use the current year’s allowance first, and total contributions cannot exceed your earnings for the year (unless made by an employer).

### Your Brighter Thinking Next Steps

- ✔ Make large, one-off contributions without triggering an Annual Allowance charge – for example, following a business sale, receiving a large bonus or high-earning year.
- ✔ Use this approach to catch up on missed pension saving and boost retirement provision while securing immediate tax relief.

## TAPERED ANNUAL ALLOWANCE

The Tapered Annual Allowance reduces the standard £60,000 pension Annual Allowance for high earners. If your adjusted income (total income plus pension contributions) exceeds £260,000, your Annual Allowance tapers down by £1 for every £2 over that threshold, to a minimum of £10,000 once adjusted income reaches £360,000. This means higher earners may face pension tax charges if they contribute too much, so it's important to monitor income and pension inputs carefully to avoid breaching the reduced limit.

### Your Brighter Thinking next steps

- Monitor total income and pension contributions to avoid unintended tapering.
- Consider salary sacrifice or charitable donations to reduce adjusted income and preserve your Annual Allowance.
- If tapering applies, plan pension contributions precisely to avoid tax charges.

## MONEY PURCHASE ANNUAL ALLOWANCE (MPAA)

The Money Purchase Annual Allowance (MPAA) is triggered when you start taking taxable income from a defined contribution pension (e.g. via flexi-access drawdown). Once triggered, it permanently reduces the amount you can contribute to defined contribution pensions each tax year to £10,000, with no option to carry forward unused allowances. This restriction is designed to prevent people recycling pension withdrawals back into pensions to gain further tax relief. Taking only your 25% tax-free lump sum (without income) does not trigger the MPAA.

### Your Brighter Thinking next steps

- Delay flexible access if you plan to continue contributing significant amounts to your pension.
- Draw only your 25% tax-free lump sum (no income) to avoid triggering the MPAA.
- Coordinate retirement income from other sources first (e.g. ISAs or cash) to preserve contribution flexibility.

## ABOLITION OF THE LIFETIME ALLOWANCE (LTA)

From 6 April 2024, the Lifetime Allowance (LTA), previously the cap on how much you could build up in pensions without facing extra tax charges, has been abolished. In its place, two new limits have been introduced: the Lump Sum Allowance (LSA), which caps the amount you can take tax-free from your pension at £268,275, and the Lump Sum and Death Benefit Allowance (LSDBA), which limits the total tax-free lump sums you can receive during your lifetime and pass on death, set at £1,073,100. These changes allow unlimited pension growth without LTA tax charges, but tax-free withdrawals and death benefits remain subject to these new thresholds.

### Your Brighter Thinking next steps

- Continue building pension wealth without worrying about LTA tax charges. This is especially valuable for high earners or business owners.
- Focus on managing tax-efficient withdrawals and tax-free lump sums.
- Retain or review any LTA protection (e.g. Fixed or Individual) as these may provide a higher tax-free cash entitlement.

## SALARY SACRIFICE

Salary sacrifice for pensions is an arrangement where you agree to reduce your gross salary in exchange for your employer making an equivalent pension contribution on your behalf. This reduces your taxable income and National Insurance (NI) liability, while your employer also saves on NI contributions, some of which they may choose to pass on as an additional pension top-up. It's a tax-efficient way to boost retirement savings and can help employees avoid higher tax bands or the loss of their Personal Allowance.

### Your Brighter Thinking next steps

- Use salary sacrifice to increase pension savings without reducing take-home pay significantly.
- Particularly effective if you are near key thresholds:
  - £100,000 (losing personal allowance)
  - £60,000 (child benefit tax charge)
- For business owners, it's a tax-efficient way to reward staff or directors.



## PENSIONS AND INHERITANCE TAX

From 6 April 2027, the UK government plans to include most unused pension funds and death benefits within an individual's estate for Inheritance Tax (IHT) purposes. This marks a significant shift from the current exemption that allows pensions to be passed on tax-free in many cases. Under the proposed changes, pension scheme administrators will be responsible for reporting and paying any IHT due on these funds to HMRC.

### Your Brighter Thinking next steps

- ✔ Review your existing pension beneficiaries to ensure they are structured appropriately from a potential inheritance tax perspective.
- ✔ Keep abreast of the proposed changes.
- ✔ Consider seeking professional advice to understand how these changes may impact your estate planning strategies.

### YOUR BRIGHTER THINKING NEXT STEPS...

*“Pensions remain an efficient planning tool for tax and as an investment tool, but specialist advice is essential. An innocent oversight can cause a raft of unwanted tax, and other issues.*

*Talk to us about an introduction to a Menzies Wealth Management Financial Adviser.”*



**Jodie Watling**  
Wealth Management Director



**MENZIES**  
BRIGHTER THINKING

# **NON-UK DOMICILIARIES & UK TRUSTS**



# NON-UK DOMICILIARIES

The previous government announced in the 2024 Spring Budget that a new approach towards the taxation of those that have a non-domiciled tax status will be introduced. Labour in their Autumn Budget confirmed the changes which would come into effect from 6 April 2025 (with a few tweaks made to the proposals put forward by the Conservatives).

The former regime for non-doms allowed for taxation on the “remittance basis” for those resident in the UK, but domiciled overseas, for the first 15 years of UK residence. The remittance basis allowed you to be taxed in the UK on your UK sourced income and gains but with tax on overseas income and gains limited to the value brought in to, or enjoyed in the UK.

The old regime has been replaced with a new 4 year regime.

## THE NEW REGIME

From 6 April 2025 the remittance basis of taxation was abolished and replaced with a residency-based Foreign Income and Gains (FIG) regime.

The new 4-year regime applies to those individuals who became UK tax resident after a period of 10 years of non-UK residence. The regime results in those individuals not having to pay UK tax on their foreign income and gains arising in the first 4 tax years after becoming UK resident and being able to bring foreign income and gains to the UK tax free.

Individuals who were previously UK resident and who, on 6 April 2025, would have been tax resident for fewer than 4 years, will be able to utilise the FIG regime in any year of UK residence which falls within the remainder of their first 4 tax years of UK residence.

UK doms and former residents are eligible to use this regime. Therefore if you have been UK resident for less than 4 years after a period of 10 years of non-UK residence, then you are able to use this regime for the remainder of the 4 years.

If you are currently non-domiciled and claiming the remittance basis, a few transitional arrangements

have been announced to help with the change over to the new regime:

- ✦ Where you dispose of foreign assets after 6 April 2025, you can choose to re-base your capital assets to their value as at 5 April 2019.
- ✦ For the tax years 2025/26, 2026/27 and 2027/28 there will be a temporary repatriation facility (TRF) which will allow you to remit foreign income and gains that arose before 6 April 2025 (i.e. previously unremitted foreign income or gains) to the UK at a flat rate of 12%. This increases to 15% for 2027/28.

FIG relief must be claimed on SATR each year. Overseas income and gains need to be quantified and disclosed in order to benefit from the relief (otherwise they are taxable). Therefore it will be necessary to quantify overseas income and gains even if ultimately not taxed under the 4-year FIG relief regime.

If a claim is made, foreign income and gains are exempt from UK tax and can be remitted without a UK tax charge (and foreign losses in the year of the claim will not be allowable).

Any overseas income and gains that arose prior to 5 April 2025 will continue to be taxed as and when remitted to the UK.





Overseas Workday Relief (OWR) will continue to be available after the implementation of the new regime, however, the eligibility for this will be based on your residency and whether you opt to use the new 4 year regime, rather than your domicile status.

From 6th April 2025, the protection from tax on income and gains arising within settlor-interested trust structures will no longer be available for non-UK domiciled individuals who do not qualify for the 4-year regime. Any foreign income and gains arising post 6th April 2025, will be taxable on the settlor on the same basis as UK domiciled settlors.

Menzies have a team who specialise in providing bespoke tax advice to foreign domiciliaries and answering offshore queries, therefore if the new rules affect you please get in touch.

## YOUR BRIGHTER THINKING NEXT STEPS...

*“The abolition and reform of the non-dom tax scheme seems to have been a largely political decision. The non-dom rules were complicated previously and so arguably reform was needed. However, while this might provide a short-term boost to the Treasury, we also need to consider the long-term impact: these changes may backfire with a sizeable impact to the UK economy as people may choose to relocate elsewhere.*

*Firms, especially in the City, are already facing intense competition in the race for global top talent, and the non-dom tax status has thus far been a powerful incentive to work in the UK. The Chancellor said himself in 2022 that these individuals could just as easily choose to live in other countries and contribute to their businesses and economies – and now they may well do so. It also largely remains to be seen how rules around Inheritance Tax (expected to apply after 10 years of UK residency) will shift to accommodate non-dom rule changes – this will be significant to many.*

*For non-doms affected by these changes we would suggest taking some time to digest these announced changes. It is expected that there will be the opportunity to plan in advance of the scrapping of the regime; some of these opportunities appear relatively generous and should form part of their long-term plans in consultation and as advised by their private client tax advisors.”*



**Craig Hughes**  
Private Client Partner

## BUSINESS INVESTMENT RELIEF (BIR)

BIR allows UK tax resident foreign domiciliaries to invest untaxed foreign income and gains in qualifying UK businesses without triggering a UK tax charge. Investment can be made by subscribing for shares in, or lending money to a UK company.

## YOUR BRIGHTER THINKING NEXT STEPS...

*“The changes announced will have a considerable impact on the position of Non Doms resident in the UK, particularly for those who are in the first 4 to 15 years of UK residence. Whilst the legislation has not been published yet it is clear that there are significant opportunities for impacted individuals to review their worldwide position, including how to fund their UK lifestyle. The ability for international individuals to bring funds to the UK for investment in UK business may improve under the new regime.”*



**Helen Cuthbert**  
Private Client Partner

## OFFSHORE TRUSTS

The changes to the legislation impacting non-UK domiciliaries also impacted offshore trusts.

### Protected Trusts – status removed

In the 2024 Autumn budget it was confirmed that Trust protections are to be abolished as of 6 April 2025, where a settlor is a Long-Term Resident and can benefit from the trust, all income and gains belonging to the Trust will be attributed on an arising basis. However, if the rules of the new four-year FIG regime apply the first 4 years of residence will be tax free.

In another drastic change an offshore trust will be subject to the relevant property regime from 6 April 2025 if it has a settlor who is a Long-Term Resident. Subjecting the trust to tax liabilities in regard to entry charges, Ten-Year periodic charges, and exit charges of up to 6% inheritance tax depending on the individual circumstances of the Trust.

If a settlor has been in the UK for at least ten years in April 2025 the trust will immediately cease to be excluded property and be liable for the above inheritance tax charges.



## Property Disposals

Non-resident CGT, discussed above, also applies to trustees, both in respect of direct holdings in UK property, and in respect of disposals of “property rich companies”. The tight reporting requirements remain the same as for individuals and we would therefore encourage engaging with your advisor before any disposal is made.

Since 5 April 2019, where the disposals are made by an offshore company, whether or not the property is held by a trust, these gains are now subject to corporation tax rather than capital gains tax and, in the typical situation where the company is not otherwise subject to corporation tax, registration will be due within three months of the disposal with tax payable within three months and 14 days.

## UK TRUSTS

UK Trusts have certainly not been as affected by the 2024 Budget as offshore Trusts have. Trust income rates remain unchanged.

Trusts remain a valuable structuring tool and can be used for a number of purposes including succession planning, tax mitigation and asset protection. The income tax treatment of UK trusts varies depending on what type of trust you have.

## Discretionary Trusts

For the 2025 tax year, trusts with income up to £500 will not be liable for income tax, however where income exceeds the £500 limit tax will be calculated on the full amount received.

Discretionary Trusts are taxed and the highest rates of tax available being 39.35% for dividends and 45% for other income.

Distributions of this income to the beneficiaries are treated as having a tax credit in respect of this tax paid at a rate of 45% which can be offset against their personal tax liability. The tax credit will be at a rate of 45% irrespective of the rate of tax paid on the income, but the overall credit cannot exceed the tax paid by the individual.

## Life Interest/Interest in Possession Trusts

In these trusts the income is subject to tax at the basic rates of tax described above, regardless of how much income there is. When this income is paid out to the beneficiary/(ies) it retains its nature and is treated as having had the tax paid at the basic rate with the rate of tax matching with the income it was paid on.

## Capital Gains Tax

From 30 October 2024 an increase from 20% to 24% is imposed in respect of capital gains tax for trustee bringing in line with the rate for residential property which remains at 24% also.

The trust continues to benefit from an annual exempt amount which is at a maximum of 50% of an individual's allowance at £1,500.

Although less than the benefit to individuals, it is still prudent to try to make use of this each tax year.

## Inheritance Tax

The inheritance tax position is complex and varies depending on the age of the trust as well as the type of trust that you have. If you have a trust and are unsure of the IHT position, you should speak to your adviser.

### YOUR BRIGHTER THINKING NEXT STEPS...

*“If you hold a position within a UK or foreign trust such as settlor, trustee or beneficiary, we recommend speaking to your Menzies contact.”*



**Amanda Revell**  
Trust & Estates Senior Manager

**MENZIES**  
BRIGHTER THINKING

# **INTERNATIONAL & OFFSHORE RESIDENCY**



# INTERNATIONAL & OFFSHORE RESIDENCY

As a consequence of the Statutory Residency Test (SRT) you can enjoy certainty as regards your residency status for UK tax purposes. That said, the rules still require careful thought and planning especially for those who believe that they are non-UK tax resident but continue to visit the UK frequently.

For those relocating to the UK, it is key that UK tax advice is taken beforehand. This is because a great deal of the planning opportunities that are available cannot be implemented once you have become UK tax resident.

Under the SRT, an individual is treated as being a UK tax resident for the whole of the tax year even if they arrive or leave part way through. In many cases the 'split year treatment', as it is known, will apply to ensure that you are not subject to UK taxes for the period prior to or after having lived in the UK.

In cases where the split year treatment does not apply, it is generally advisable for those leaving the UK to do so just before the start of the new tax year. In contrast those arriving in the UK without the benefit of the split year treatment, should consider relocating to the UK just after the start of the tax year.

For internationally mobile employees who are awarded share options, where options are exercised, they will be liable to UK tax to the extent that the employee has been working in the UK; the earnings will be time apportioned to periods pre and post arrival in the UK.

Similarly, employees who have already exercised options that still contain restrictions will be liable to a tax charge if the restrictions are lifted (or deemed to lift). Care and advice should be taken for such individuals, and Menzies would be delighted to offer tailored support.

## YOUR BRIGHTER THINKING NEXT STEPS...

*“If you consider yourself non-UK resident for tax purposes, we would recommend you consider the Statutory Residence Test (SRT). Your ties to the UK could bring you within the UK tax net, and careful consideration and planning is recommended. This needs to be kept under continuous review. In the event you are to leave the UK, or else come to the UK, speak to an adviser. For the internationally mobile, who have been awarded share options, give as much consideration to UK tax implications on vesting, exercise or sale.”*



**Craig Hughes**  
Private Client Partner

## MEET THE EXPERTS



**Craig Hughes**  
**Private Client Partner**  
*chughes@menzies.co.uk*  
+44 (0) 1784 497 149

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**David Truman**  
**Private Client Partner**  
*dtruman@menzies.co.uk*  
+44 (0) 20 7465 1933

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**Andrew England**  
**Corporate Tax Partner**  
*aengland@menzies.co.uk*  
+44 (0) 1372 366 168

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**Oliver Finch**  
**Outsourcing Partner**  
*ofinch@menzies.co.uk*  
+44 (0) 1784 497 167

---



**Jodie Watling**  
**Wealth Management Director**  
*jwatling@menzies.co.uk*  
+44 (0) 20 7465 1951

---



**Helen Cuthbert**  
**Private Client Partner**  
*hcuthbert@menzies.co.uk*  
+44 (0) 3309 129078

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**Amanda Revell**  
**Trust & Estates Senior Manager**  
*arevell@menzies.co.uk*  
+44 (0) 330 912 9232

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**Mike Ward**  
**Private Client Director**  
*mward@menzies.co.uk*  
+44 (0) 3309 129217

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# MENZIES

## BRIGHTER THINKING

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