YOUR GUIDE

BRIGHTER THINKING TAX PLANNER

2023-24

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CONTENTS

INTRODUCTION

It can be difficult to keep up with tax changes at the best of times, but with four chancellors in six months, a mini budget which was largely (but not fully) reversed and a recent Autumn Statement, we hope that a reminder of the current tax rates, future proposals and associated planning will be a helpful guide to you all.

The Chancellor of the Exchequer has delivered his Autumn Statement 2022 which sees the freezing of many tax allowances for individuals and the reduction to the capital gains tax annual exemption. Over time, this will see individuals' tax liabilities gradually increase and bring in more taxpayers into the Self-Assessment system. There are nonetheless still opportunities to review your tax and financial arrangements throughout the tax year.

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 2022/23 tax year to 5 April 2023. 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.

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.

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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	First £37,700	£37,701 - £150,000	Over £150,000
RATE	20%	40%	45%

The Chancellor announced in his Autumn Statement that the top rate of tax threshold will be cut from £150,000, down to £125,140 from April 2023. Therefore, you will start to pay the top rate of income tax sooner going forward. Spouses are taxed independently (when any reference is made to spouses or married couples, this also includes civil partnerships).

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

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.

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. The Chancellor has confirmed that the personal allowance will be frozen at this rate until April 2028.

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 (of £12,570) 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 £150,000 (£125,140 from 6 April 2023) 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. You may wish to consider accelerating the receipt of income in the current year, ahead of the change in thresholds.

YOUR BRIGHTER THINKING NEXT STEPS:

Helen Cuthbert
Private Client Director

"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."

DIVIDEND NIL RATE BAND

The first £2,000 (reducing to just £1,000 from April 2023 and further reduced to £500 from April 2024) of dividend income received in the tax year is FREE of income tax. Dividends received over and above the £2,000 (and reduced £1,000 and £500) tax free dividend allowance are subject to their own tax rate bands:

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

These rates were increased by 1.25% for 2022/2023 as part of the package of measures to fund social care and the NHS and the same rates will apply for 2023/24.

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 £150,000 (£125,140 from April 2023) 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 applies before the nil rate band. By careful planning - and where you have your own company - you could hypothetically extract £20,570 (£19,570 from April 2023 and £19,070 from April 2024) 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 - £2,000
  (reducing to £1,000 from April 2023 and down to £500 from April 2024)

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 Director

CHILD BENEFIT TAX CHARGE

For those with income over £50,000, or who are part of a couple where one of you earns over £50,000, then part or all of the Child Benefit claimed will be clawed back.

If your income is over £60,000 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:

"Does someone in your household receive Child Benefit, and you earn more than £50,000 per annum? If so, you may need to repay an element of the Child Benefit to HMRC. Should you earn over £60,000, 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.

Probably the most controversial was the introduction (from 6 April 2017) of the finance costs restriction. Where it was previously possible to claim 100% tax relief on the finance costs of any loan associated with the rental, this has now been replaced by a tax reducer. Items which are included under finance costs include mortgages, loans (including loans to buy furnishings) and overdrafts.

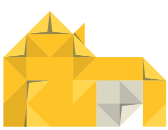
From the 2020/21 tax year onwards, the restriction has meant 100% of the total finance cost being claimed as a tax reducer rather than an expense. This reducer is given in the form of a 20% reduction based on the lower of: the finance cost; property profits or adjusted total income exceeding the personal allowance. Therefore, individuals with one or more buy-to-let properties may need to review their position and consider the initial and long-term impacts this may have on their property income and tax liability.

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 is, however, light at the end of the tunnel and some 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.

Finally, if you have a Furnished Holiday Letting (FHL), you may qualify 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. Specific conditions need to be satisfied to qualify as a FHL, and professional advice is strongly recommended. Should you wish to pursue one or all of these property tax breaks, an informal discussion with one of our specialist property team members is a great first step to understand what opportunities may be available and your immediate next steps.

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



The starting nil rate band for SDLT will remain at £250,000 and it was announced in the Autumn Statement that this temporary change to the SDLT band will end on 31 March 2025. First time buyer’s relief from SDLT covers the first £425,000 of purchase price and it is not clear if this increase to the relief for first time buyers will remain in place permanently.

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 applies at all times.

YOUR BRIGHTER THINKING NEXT STEPS:

David Truman
Private Client Partner

"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. Should you have a Furnished Holiday Let, check you are happy all the appropriate conditions have been satisfied to ensure it qualifies for the appropriate tax breaks."

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 and can create an unexpected tax charge if you gift funds which fall within your personal income tax allowance.

In addition, tax relief against 2022/23 income is possible for charitable donations made between 6 April 2023 and 31 January 2024. This is provided that the payment is made before filing the 2022/23 tax return. That said, you may wish to defer making significant charitable donations until the 2023/24 tax year where you will now be an additional rate taxpayer due to the threshold changes.

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.

YOUR BRIGHTER THINKING NEXT STEPS:

David Truman
Private Client Partner

"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 2022, but before filing your 2021/22 tax return with HMRC, consider whether to treat the payment in the earlier tax year to accelerate any further tax relief."

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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 £12,300 of gains made in 2022/23 are generally CGT-free. From 6 April 2023 this exemption reduces down to £6,000 and then to £3,000 from 6 April 2024.
- 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 are 18% and 28% for 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 2022/23 tax year. This may be helpful from a cash flow perspective as any tax arising will not then be due until 31 January 2024, 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:

Craig Hughes
Private Client Partner

"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."

TAXATION OF GAINS ON PROPERTY - MAIN RESIDENCE

One of the most generous capital gains tax reliefs remains that for main residence, or home. 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 are 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

From 6 April 2020, where CGT is due on the disposal of UK residential property by a UK resident individual or trustees, a new standalone online return will need to be filed, together with payment on account of the CGT due. From 27 October 2021, 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 the new 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:

"Where you have more than one property, consider whether a main residence election should be filed with HMRC.
If you are not UK resident, but have a UK property, consider whether you can claim for this to be treated as your main residence for tax purposes. All election forms need to be filed with HMRC."

Sehjal Gupta - Private Client Director

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 properties not previously within the rules, to the 6 April 2015 value so that only the growth in value after this date is taxable. 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 10%.

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.

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

INVESTORS' RELIEF

Investors' Relief provides a further separate lifetime limit of £10m with a 10% rate of tax on qualifying investments.

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.

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.

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

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.

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. 2021/22, 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.

SOCIAL INVESTMENT TAX RELIEF (SITR)

The SITR is designed to support social enterprises seeking external finance by offering income tax reliefs to investors who invest new shares or qualifying debt investments.
Making a qualifying investment may deliver a 30% income tax deduction of the value of the investment, up to a ceiling of £1 million.

CGT on chargeable gains may be deferred to the extent which you reinvest the profits in social enterprises, such as charities or community interest companies.

It is possible to treat all, or part of the investment, as made in the previous tax year. It is intended that these reliefs will cease to be available from April 2023.

YOUR BRIGHTER THINKING NEXT STEPS:

Sehjal Gupta
Private Client Director

"Whilst there are tax incentivised investments available, it is important that any investment decision is made with a view to all relevant circumstances – each case will be different. Investment advice is a regulated activity, so you should speak directly to an Independent Financial Advisor. If you do not already have an IFA, we would be pleased to introduce you to Menzies Wealth Management."

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SELF-EMPLOYED & UNINCORPORATED BUSINESSES

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

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

This change in basis period results in a significant impact for the **tax year to 5 April 2024** as businesses without a 31 March (or 5 April) year end will be 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 be exposed to tax on 23 months of profit.

For profitable businesses this will result in additional taxable income for 2023/24 and there are two ways that this can be managed:

1. Where an individual has unused overlap relief available from the start of their trade (or a previous year end change) this can be offset against the profits of the additional period; and

2. Businesses can elect to spread the additional profits over 5 years.

Most individuals and unincorporated businesses will elect to spread the profits to manage the cashflow impact but current and future levels of profitability should be considered before this to manage the effective tax rate.

YOUR BRIGHTER THINKING NEXT STEPS:

"Businesses should consider whether it is appropriate to change year end to align with the year end but should only do this in the 2023/24 tax year as the entitlement to spread the profits over 5 years will only apply for the 2023/24 tax year."

Andrew England - Corporate Tax Partner

A summary of the impacts is set out below:

TRANSITIONAL RULES WILL	TRANSITIONAL RULES WILL NOT RESULT IN
Result in a restriction of personal allowance where adjusted income exceeds £100,000	An individual being exposed to the high income child benefit charge where profits to normal accounting date are below £50,000
Count as relevant net earnings for pension contribution purposes	A tapering of the pension annual allowances where this results in taxable income exceeding £240,000
Allow transitional losses to be carried back up to 3 years	
Allow super profits generated by the recognition of an additional period to be spread over 5 years	

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INHERITANCE TAX

INHERITANCE TAX (IHT)

Essentially, where your estate is worth more than £325,000 at death, there could 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.

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 totalling £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.

PASSING ON YOUR PENSION

Key changes to the taxation of pension death benefits were introduced in 2015. These changes can allow an individual to pass on their pension pot from generation to generation in a tax efficient manner.

Since then, 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.

It is important that death benefit nomination forms are reviewed as individuals who you want to have the option to benefit from dependents drawdown will need to be included on these. In our opinion, pensions should be considered in the context of IHT and alongside any Will planning. It is also important to review whether your pension scheme provides for those flexibilities.

YOUR BRIGHTER THINKING NEXT STEPS:

David Truman
Private Client
Partner

"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."

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 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 Director

ADDITIONAL RESIDENCE NIL RATE BAND

As of 6 April 2017, 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. For the 2020/21 to 2025/26 tax years the RNRB that may be available will be £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.

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 inheritance tax 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 centred 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 (even given the upcoming raise to 25%), 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 recently agreed 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 inheritance tax 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

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MAKING TAX DIGITAL FOR BUSINESS: VAT & INCOME TAX

MAKING TAX DIGITAL FOR BUSINESSES AND INDIVIDUALS

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 £85,000).

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, will commence in April 2024. This will be for individuals with self-employment income and/or gross rental income from property greater than £10,000. They will need to report their business income quarterly with a final declaration at the end of the year. This is intended to replace the current self-assessment system.

If you are in the position where you have a rental business with rental income of more than £10,000 or a small self employment with income of more than £10,000 it is important that you consider how you are going to undertake the quarterly filing requirements and the requirement to maintain digital records.

General Partnerships are to be included from April 2025, whilst Corporation Tax is not expected until at least April 2026.

YOUR BRIGHTER THINKING NEXT STEPS:

Oliver Finch
Outsourcing Partner

"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."

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PENSIONS

PENSIONS

The combination of generous tax reliefs on contributions; tax-efficient growth within the pension fund; flexible access from the age of 55 (rising to 57); and tax efficient death benefits can make your pension particularly useful for both retirement and estate planning.

There are many opportunities for pension planning, but as this is a complex area, 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.

LIFETIME ALLOWANCE (LTA)

The Lifetime Allowance (LTA) is a cap that was introduced by the government to restrict the amount you could save into your pension before paying additional tax. In the March 2023 budget, the government announced it would be scrapping the LTA, in the hope of encouraging individuals to save more and to save for longer. In practice, there will be a transition period during the 2023/24 tax year, with the full changes coming into effect in the 2024/25 tax year.

This means that from the 5th April 2023 the LTA cap will no longer apply and individuals who access their pensions after this date, whose value is in excess of the LTA, will no longer suffer an LTA tax charge. However, pension providers will still need to carry out the usual LTA calculations and administration as per the old rules.

From the 2024/25 tax year onwards, the full change will come into effect and there will be no LTA limit, no LTA tax charges, and no LTA calculations or administration required by the pension providers.

TAX FREE CASH

Individuals can withdraw a portion of their pension tax free. This is known as a ‘Pension Commencement Lump Sum’ or more colloquially as ‘Tax-Free Cash’ (TFC). For most pensions the TFC limit is set at 25% of the value of your pension.

In the recent March 2023 budget, with the scrapping of the Lifetime Allowance, the government introduced a cap on the amount of TFC an individual can receive. This has been set at 25% of the LTA limit for the 2022/23 tax year, which is £1,073,100. This means if the value of your pension is in excess of £1,073,100, the maximum amount of TFC that you can receive is £268,275.

However, this does not apply to pensions where the individual has valid ‘Fixed Protection’ in place or the pension is subject to enhanced TFC.

AUTUMN STATEMENT 2023 UPDATE:
PROPOSED CHANGES FROM THE 2024/25 TAX YEAR ONWARDS

From April 2024, the LTA regime is being replaced with a regime that limits tax free lump sums only. Two new allowances have been proposed that will determine whether lump sums taken from pensions, either during lifetime or on death, are tax-free or subject to income tax.

1 A Lump Sum Allowance (LSA) - set at £268,275

- As long as an individual has a sufficient LSA, they can receive a tax-free pension commencement lump sum (PCLS) of up to 25% of their pension fund, or a higher amount if they have transitional protection. However, if they withdraw a lump sum that exceeds their allowance, they will be liable to pay income tax.

2 A Lump Sum and Death Benefit Allowance (LS&DBA) - set at £1,073,100

- The LS&DBA sets a limit on the tax-free lump sum that can be paid out during an individual's lifetime and after their death. It aligns with the current LTA of £1,073,100 and covers both tax-free lump sums and tax-free death benefits. Any excess lump sums over the allowance will be taxed at the recipients marginal rate.
- It's important to note that any tax-free cash sums received during one's lifetime will reduce the amount that can be paid out tax-free as a lump sum death benefit.

Individuals with Lifetime Allowance Protections will maintain entitlements to higher levels of tax-free cash lump sums and tax-free lump sum death benefits.

PENSION CARRY FORWARD

The pension annual allowance can be carried forward for three tax years providing you were a member of a registered pension scheme during that period. Any unused annual allowance for the three previous tax years (2020/21, 2021/22 and 2022/23) can be added to your 2023/24 allowance.

The allowance for the three previous tax years was £40,000. This has been increased to £60,000 from the 2023/24 tax year, meaning the maximum carry forward contribution that could be made in the 2023/24 tax year is £180,000.

The amount you can carry forward will be subject to your net relevant earnings within the tax year and any tapering that may apply depending on the level of your income.

The last opportunity to utilise any available carry forward allowance from the 2020/21 tax year will be 5 April 2024.

If you run your own company, there may be an opportunity to extract profits tax efficiently by making this contribution through your company.

PENSION FREEDOM REFORMS

The pension freedom reforms introduced in recent years currently allow an individual aged over 55 to withdraw their entire pension fund as a lump sum or as regular income. On the 6th April 2028 the minimum pension age will rise from 55 to 57.

If you are considering accessing your pension you should be aware that pension funds withdrawn as 'income' are taxable at your marginal income tax rate. A lump sum withdrawal can, therefore, result in a significantly higher tax bill than would be the case if the same income was withdrawn over multiple tax years, utilising each year's respective allowances and income thresholds.

Individuals should also note our earlier comments regarding the IHT efficient nature of pension death benefits as the withdrawal of lump sums will add to your 'taxable estate' when accumulated rather than spent. Again, each situation should be considered on its own merits and advice taken where needed.

PENSION TAPERED TAX RELIEF

Individuals with adjusted net income exceeding £260,000 will have their annual pension contribution allowance restricted. This means the standard allowance of £60,000 will be reduced by £1 for every £2 of income in excess of £260,000 until the allowance has been reduced to £10,000.

Individuals with adjusted net income in excess of £360,000 will suffer the full reduction of their annual allowance, reducing the amount they can contribute to a pension to £10,000. No tax relief will be available for contributions in excess of this amount.

The definition of adjusted net income is complex but notably includes employer pension contributions, as well as other sources of income such as rental income.

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 Independent Financial Adviser."

Jodie Watling - Wealth Management Director

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NON-UK DOMICILIARIES & UK TRUSTS

NON-UK DOMICILIARIES

Foreign domiciliaries, sometimes referred to as Non-UK domiciliaries or more colloquially "non-doms", will be burdened with having to consider a number of statutory changes.

There have been a number of changes to the rules applying to non-doms in recent years. Although the detail falls outside the scope of this planner, it is important to seek advice and clarity even if the changes are unlikely to affect you or you have already acted in anticipation of the changes. Menzies have a team who specialise in providing bespoke tax advice to foreign domiciliaries and answering offshore queries.

THE CHANGES

UK deemed domicile for all tax purposes
Foreign domiciliaries will be deemed UK domiciled for Income Tax, CGT and IHT purposes once they have been a UK tax resident for at least 15 out of the past 20 tax years.

Since 6 April 2017, such individuals have been taxed on their worldwide income and capital gains on an arising basis. Unless suitable planning is undertaken, they will also be subject to UK IHT (currently set at 40%) on their worldwide assets. IHT protection will be available for trusts created by an individual before they become deemed UK domiciled.

Those who became deemed UK domiciled on or after 6 April 2017 should speak with their Menzies contact to ensure that the necessary planning is put in place. This ranges from simple bank arrangements to complex offshore structures.

The Returning Foreign Domiciliary (RFD)
Any individual who has a UK domicile of origin and was born in the UK and subsequently acquired a foreign domicile of choice, will immediately be treated as being UK domiciled for tax purposes if they return to be a tax resident in the UK at any point.

Foreign residents who originally had ties with the UK who wish to relocate to the UK, should carefully consider how these new rules will affect them as with arrangements that were established whilst they were not a UK tax resident. The risk is that one might accidentally become a UK tax resident and immediately fall within the scope of UK income tax, CGT and IHT.

Rebasing of capital assets
Capital gains realised after 6 April 2017 will enjoy freedom from CGT to the extent that the gain accrued before that date. This is achieved by the application of a rebasing election which will apply on an asset by asset basis.

The relief will only be available to individuals personally owned assets which were held outside of the UK as at 16 March 2016 by those individuals who became deemed UK domiciled on 6 April 2017. The individual concerned will need to have been UK resident for the 2017/18 tax year and had in the past paid the remittance basis charge.

UK residential property
Legislative changes now provide that UK IHT will apply in relation to UK residential property in cases where it would previously have been protected. Examples include cases where the property is held through a non-UK corporate structure directly or as part of a structure headed by a trust. If you own UK residential property through a structure or not, you should seek advice in connection with the exposure to UK IHT options which could be available to reduce the burden. This also applies to the finance costs attributable to purchasing UK property.

YOUR BRIGHTER THINKING NEXT STEPS:

"If you consider yourself a non-dom, ensure you have discussed your position fully with your tax advisor. It is crucial that you have as much ammunition as possible, to defend your non-dom status in the event of a query from HMRC. Non-doms remain under the spotlight at HMRC, and specialist tax advice is essential."

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 BIR remains a little known, but extremely tax efficient investment, for non-doms who want to remit untaxed funds to the UK without suffering an immediate tax charge. Specialist advice is essential as the timeline for investment is key."

Helen Cuthbert - Private Client Director

OFFSHORE TRUSTS

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

Protected Trusts
The capping of the period for which an individual can claim the remittance basis could have led the income of settlor interested trusts to be taxable on the settlor as they will no longer have the ability to protect it by claiming the remittance basis. New legislation brought in with the above changes has meant that such trusts can have a "protected trust" status as long as certain conditions are met.

Where the conditions are met, income that would otherwise be taxable on the settlor is treated as "protected foreign source income" and remains outside of the scope of UK tax.

In particular, it is important to avoid "tainting" such trusts which could cause them to lose the protected status. This can occur when any value is added to the trust and the ways that this can occur is very broadly defined within the legislation.

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

YOUR BRIGHTER THINKING NEXT STEPS:

"If you have an interest in a foreign trust, be it as a settlor, trustee or beneficiary, we would recommend you speak to your Menzies contact."

Kiki Moss, Trust Manager

UK TRUSTS

The taxation of UK trusts has remained relatively stable for a few years now, although we know that the government has been considering changes as a result consultations that they have run in respect of the simplification of trust taxation, as well as recommendations made by cross party committees in respect of inheritance tax and capital gains tax.

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
Discretionary Trusts are taxed and the highest rates of tax available being 39.35% (38.1% from 6 April 2023) for dividends and 45% for other income, subject to an allowance of up to £1,000 which is subject to tax at the basic rate of 8.75% (7.5% from 6 April 2023) for dividends and 20% 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% and this can be offset against their overall 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.

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 has 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
Both types of trust are subject to capital gains tax at the higher rate of 20% with the higher rate of 28% payable in respect of residential property. They also benefit from an annual exempt amount which is at a maximum of 50% of an individual's allowance at £6,150.

Although smaller than the benefit to individuals, it is still a good idea to try to make use of this each year. From 6 April 2023 this allowance will reduce to £3,000 and then further to £1,500 from 6 April 2024.

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.

INTERNATIONAL & OFFSHORE RESIDENCY RULES

INTERNATIONAL & OFFSHORE RESIDENCY RULES

As a consequence of the Statutory Residency Test (SRT) you can enjoy more 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.

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, the regulations have changed. 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:

Craig Hughes
Private Client Partner

"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 advisor. For the internationally mobile, who have been awarded share options, give as much consideration to UK tax implications on vesting, exercise or sale."

MEET THE EXPERTS

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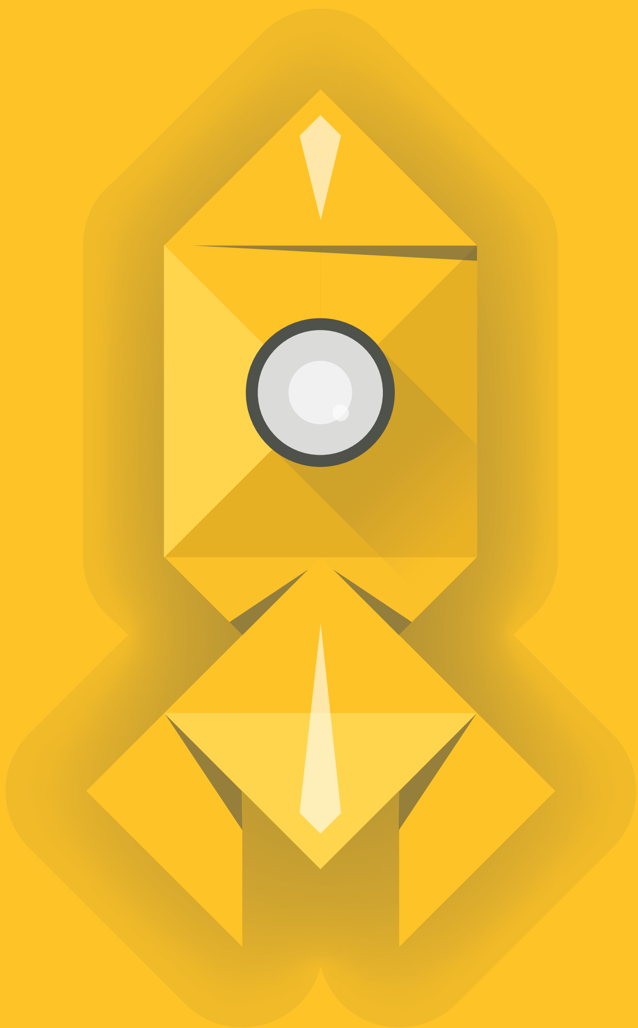

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