BDO

Personal tax planning 2023/24

Practical ideas for individuals, families and company owners

IDEAS | PEOPLE | TRUST

Personal tax planning 2023/24

This guide covers a variety of ideas that individuals, families and company owners may wish to consider in planning their affairs generally and tax efficiently.

Look through the index on the next page or click on the headings on the left-hand side to take to straight to that section.

The notes in this guide cover a number of points for your consideration.

Not all of the points will be relevant to you but, where a suggestion is of interest, please contact us for specific advice.

As a starting place, are you:

A business owner

We can assist you throughout the life cycle of your business; from starting out to growth, a sale or passing on to the next generation.

Making the most of R&D (see 30) and Capital Allowances (see 26) can help your business thrive.

Planning in advance for profit withdrawal (see 36), succession (see 44) or a sale (see 45) will make your business tax efficient.

A senior employee

When you are busy at work, we can be your trusted adviser.

We can help you make the most of your salary by advising on the tax benefits of making certain investments (see investments section), which may result in a repayment of PAYE, and making pension contributions (see pension section).

Thinking about succession

Providing personal, pragmatic and forward-looking advice to help you understand your priorities, plan for the future, and preserve your wealth across generations.

It is important to regularly review and update your Will for changes in the law and in your personal circumstances (see 72). Making gifts in your lifetime can be an effective way to limit your future exposure to IHT (see 49 and 74). For some families considering a trust or a family investment company (see 73 and 86) can work from a succession and tax perspective.

Coming to/leaving the UK

We can guide you through the complexities of the UK legislation in relation to residence and domicile and the tax implications arising.

You may plan to leave the UK or wish to spend time in the UK without being UK resident (see 13 and 14).

As a non-dom living in the UK it is vital to take regular domicile and remittance advice (see 12).

A landlord

The taxes on property purchase, rental income and sale proceeds have been increasing in recent years.

To help make your property portfolio profitable, we can assist with considering the best ownership structure (see 5 and 6) and ensuring the correct reporting is made when a property is sold (see 57).

Completing a tax return

There are many reasons to use BDO; from peace of mind to holistic planning advice. Have confidence you are claiming all reliefs and exemptions (e.g. see summary of key tax advantaged investments and 47 claim higher rate relief on pension contributions).

If your income fluctuates, we can advise you on claiming to reduce your payments on account (see 1). If you have invested in cryptoassets you may need specialist help in calculating the gains/losses (see 62). We are someone to talk to if your circumstances change e.g. if you sell a second property you only have 60 days to submit the land return to HMRC and pay any tax due (see 57).

Planning for retirement

We can help with advice on pensions to ensure you are benefiting from the tax incentives available to you.

We can guide you through the complex and ever-changing pension rules; from maximising your pension contributions (see 46) to whether/when to draw down your pension (see 51).

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1. Reduce your taxable income

The additional rate of 45% (47% for Scottish residents) and 39.35% for dividends applies to income above £125,140. The personal allowance is reduced by £1 for every £2 of net income over £100,000, meaning the effective top rate is 60% where the personal allowance is tapered away. The dividend allowance is now £1,000 (reducing to £500 from April 2024).

By managing your net income, you can limit your tax exposure. This can be achieved by changing investments into non-taxable forms, deferring income, making pension contributions, making some types of tax-advantaged investments, making payments to charity or giving income yielding assets to a spouse/civil partner with lower income.

If your income fluctuates, e.g. discretionary bonuses, payments on account made for the higher income year will not cover the tax liability and so a balancing payment will be due on 31 January after the end of the tax year.

Equally, the payments on account calculated for the following year may be too high where income is likely to be reduced and so you may wish to consider making a claim to reduce them to improve your cashflow.

For the 2023/24 tax year pension contributions made by 5 April 2024 (see 47), donations to charity made by 31 January 2025 (see 22) and tax-advantaged investments made by 5 April 2025 (see 17 and 18) can mitigate this and potentially result in a repayment of PAYE.

For director-shareholders paying the additional rate or higher rate of income tax, it may cost less in tax to have a bonus in 2023/24 than a dividend (see 36).

2. Exchange salary for benefits

Taking tax-free alternatives instead of a bonus or salary could be beneficial.

It is common for employers to offer arrangements allowing employees to exchange a cash payment for approved share options, benefits in kind or pension contributions in lieu of salary.

Individuals with incomes near the thresholds can reduce their tax liabilities by reducing their taxable income below £100,000 and £125,140.

So, employees who exchange income, to take them below the £100,000 threshold in return for a tax-free benefit from their employer, would save income tax and national insurance contributions (NIC). It is possible to exchange salary for additional employer pension contributions, a workplace nursery place or cycles used for commuting. However, when exchanging salary for pension contributions it is important to consider the restrictions for individuals with income over £200,000 (see 46).

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3. Utilise lower dividend tax rates

The dividend tax rates are lower than the main rates and there is a specific dividend nil-rate band that applies to the first £1,000 (£500 from 2024/25) of dividends received by an individual.

Where dividends exceed the dividend allowance, the rates applying are 8.75% on income up to the basic rate band limit, 33.75% on income above the basic rate limit up to the higher rate band limit, and 39.35% on income above the higher rate limit.

These dividend rates are significantly lower than tax rates applying to salary. Therefore, for company owners, careful consideration needs to be given to whether it is more tax efficient to take dividends rather than salary from the company (see 36). However, there are other ways to withdraw value from a company that are worth considering. For example, it might be possible to take capital repayments on loans that you have previously made to the company or increasing the pension contributions that the company makes on your behalf (see 38).

Investors who have not used up their full ISA allowance, should consider selling shares yielding dividends outside their ISA and buying them back within this tax-exempt wrapper, although take care where this could trigger capital gains (see 58).

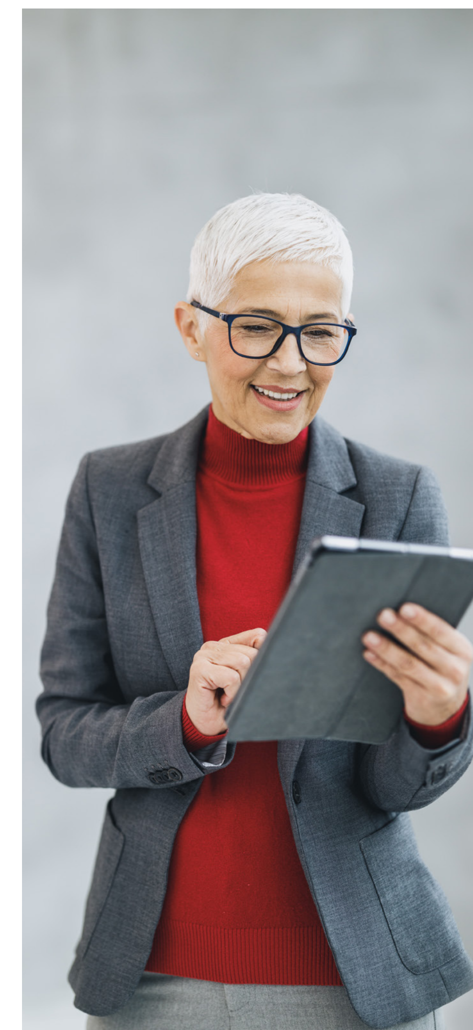
4. Go for gains

Income from investments outside an ISA and not exempted by the dividend and savings allowances is taxable at a maximum of 39.35% for dividends or 45% for interest (47% for Scottish residents).

Therefore, if you have substantial investments outside an ISA or other tax-efficient wrapper, consider rearranging them so that they produce either a tax-free return or a return of capital liable to capital gains tax (CGT) at a maximum of only 20% (or 28% on disposals of carried interest or residential property not qualifying for private residence relief).

A change of Government may result in an increase in CGT rates.

Even if rates of CGT do rise in the future, there may still be other advantages in realising gains rather than income: there are a number of deferral reliefs available for reinvesting gains.



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5. Buy to let portfolios ownership

For spouses or civil partners where one person is a basic rate taxpayer and the other is a higher rate taxpayer, it is sensible for the person who has the lowest income to be the recipient of the taxable rents. This is particularly cost-effective where there is a loan on the property as interest relief is now restricted.

This can be considered when a property is being purchased for the first time or where the higher earner currently owns the property, it can be partially transferred (e.g. 50%) to the lower earner without triggering a capital gains tax (CGT) charge. However, a stamp duty land tax (SDLT) charge will arise on the value of the outstanding borrowing taken on by the new owner if this is over the 0% threshold (£250,000 in England and Northern Ireland and £225,000 in Wales). The consent of the lender would also be required.

For properties jointly owned by spouses or civil partners the rental income is taxed equally on both so this would limit the impact of the loan interest restrictions where one person is a basic rate taxpayer and the other is a higher rate taxpayer.

Where property is owned in unequal shares by spouses or civil partners then the income and expenses are still reported equally to HMRC unless a 'Form 17' is completed and submitted to HMRC along with evidence of the property being held in unequal shares.

It is always important to take specific advice on all the tax implications of substantial asset transfers as the income tax savings sought may be wiped out by other taxes that are triggered by the transfer.

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6. Incorporate let properties

Restrictions on loan interest deductions for individuals mean that, in some circumstances, there may be tax advantages in forming a limited company to take over the running of a property letting business.

As long as the loan interest paid does not exceed £2 million a year, companies will still be able to deduct interest in full as an expense when calculating their letting profits. In addition, the company will only pay tax at 25% on the rental profits. Although further tax will be paid when dividends are paid out by the company to the shareholders (where each individual's dividend income for the year exceeds £1,000). However, retained profit can be reinvested by the company without a further tax charge.

If the lettings are accepted by HM Revenue & Customs (HMRC) as a genuine business activity (rather than a passive investment), there should be no CGT charge on transferring the properties into the company in exchange for an issue of shares. However, the paper gain on the properties is rolled over by reducing the base cost of the shares in the company, so tax will be paid when the company shares are eventually sold or the company wound up.

The company will acquire the properties at market value so may pay little tax if they are sold soon afterwards. However, if a property sale takes place years later, any gain (after indexation allowance up to December 2017) will be taxed on the company and, if the profit is paid out as a dividend, income tax may be paid as well.

Stamp duty land tax is a key consideration

In most cases, transferring the properties to a company on incorporation will trigger a charge on their market value. However, in certain circumstances where the required conditions are met, this may be reduced to nil if the property business has been run as a partnership (or LLP) of connected persons for a reasonable period before the transfer, provided the partnership was not formed to obtain this SDLT advantage.

A property letting company cannot qualify for business asset disposal relief (BADR) from CGT (see 61) unless the lettings qualify as furnished holiday lettings.

However, individuals with a high income from other sources may still benefit from taking a long term view. If the business grows and profits are reinvested, the company could eventually be sold or wound up with CGT paid at a maximum of 20% (at current rates).

This is much less than the maximum income tax on dividends (currently 39.35%) but if the company is wound up, the corporation tax on its capital gains on disposal of the properties must be factored in.

Aside from balancing the tax pros and cons, there are many practical and administrative issues to consider when running a property letting company so it is vital to get expert advice on all the implications.

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7. Let a room in your home tax free

Rent a room relief has been available for many years. The relief currently covers rents of up to £7,500 a year.

This is useful where children/grandchildren have been helped onto the property ladder for university and they are letting out a room in the property.

This means that individuals can rent out a room in their main residence for up to £144 a week without paying tax on the income. The allowance is split between couples and if income exceeds £7,500 the income is taxable at normal income tax rates (no expenses are deductible if the allowance is claimed).

A shared occupancy condition has been introduced for the main residence capital gains tax relief available for periods where your home is let (see 52). So where you have claimed rent a room relief your main residence exemption will not be impacted.

8. Furnished holiday lets

Furnished holiday lettings benefit from a number of tax breaks but there are tests to be met in order to qualify.

The property must be available for letting for 210 days in the relevant 12 month period (usually the tax year) and actually let for 105 days and each let must be less than 31 days.

If a property will not actually be let for periods totalling at least 105 days for a tax year, you can elect for a grace period to apply provided the letting tests were met in either of the two prior tax years. Making the election will allow the tax breaks (which effectively treat the letting as a trade) for the elected year.

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9. Keep child benefit

Child benefit is clawed back where annual taxable income (or the taxable income of a partner) exceeds £50,000.

The claw back (officially the high income child benefit charge) is at 1% of the benefit for every £100 of income over £50,000, so that when income reaches £60,000, the financial benefit of the claim is lost. Individuals will never pay more than the amount of Child Benefit they receive. It is individual income, rather than family income, that is the key factor. Therefore, if both partners can keep their annual taxable income below £50,000, Child Benefit will not be clawed back.

Making personal pension contributions or exchanging salary in return for employer pension contributions can reduce your taxable income to keep it below the £50,000 threshold. It may also be possible to reallocate assets or trading profits between you to keep both partners below the threshold.

If it is not practical to keep your income below the threshold, then there are three options:

- The highest earning partner can simply pay the claw back tax charge
- Claim Child Benefit but elect to receive no money now
- Don't claim Child Benefit in the first place.

Option 1 will mean that the tax code of the highest earning partner must be adjusted and the tax clawed back from salary payments – this can lead to errors and arrears. For option 2, it is necessary to contact the Child Benefit office to claim but 'stop' the Child Benefit payments: they can be restarted later if your joint financial circumstance change. Option 2 will ensure that National Insurance records are maintained for the child and can help protect the NIC contribution record of a non-working parent claiming Child Benefit for a child up to age 12.

10. Claim-tax free childcare

Working parents (where both earn less than £100,000 a year) can claim top-up payments from the Government to pay for approved childcare for children aged up to 11.

Parents must open an account into which they can transfer funds. The Government will add a 25% extra to the account, up to a maximum of £2,000 a year, tax-free. The funds in the account can then be paid across to the childcare provider.

Grandparents wishing to help their children pay for childcare, can gift funds to their children to pay into the childcare account so that the tax-free top-up payments can be claimed.

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11. Switch your company car

Choose a lower emissions car to save tax. Each year the taxable benefits on company cars are effectively increased by reducing the level of CO_2 emissions that trigger each 1% increase in taxable benefit.

It is beneficial to choose electric cars with higher electric range. For example, a new electric car with emissions of 1-50g/km with electric range of more than 130 miles will trigger a taxable benefit of 2%, whereas a similar car with an electric range of under 30 miles will trigger a taxable benefit of 14%.

Alternatively, if you are no-longer using the car simply send back the keys to your employer. Once a company car is agreed to be 'not available for use', the benefit in kind is proportionately reduced for the tax year.

As a longer term alternative to a company car, it may be more cost-effective to use your own car for business travel and claim a tax-free mileage allowance from your employer (currently 45p per business mile for the first 10,000, and 25p thereafter).

If fuel has been provided for private use, consider whether full reimbursement of the cost to the company would be a cheaper option than paying the fuel scale charge, which is based on the car's CO_2 emissions.

12. Non-UK domiciled individuals

If you are not domiciled in the UK it is vital to regularly review your domicile position and also your non-UK accounts and assets before bringing money or assets into the UK.

Once you have been resident in the UK for more than 15 out of the 20 prior tax years, you are deemed UK domiciled for tax purposes. However, it is important to continue to regularly review your domicile position as maintaining your non-UK domicile under general law is required for a number of tax benefits (particularly in relation to offshore trusts).

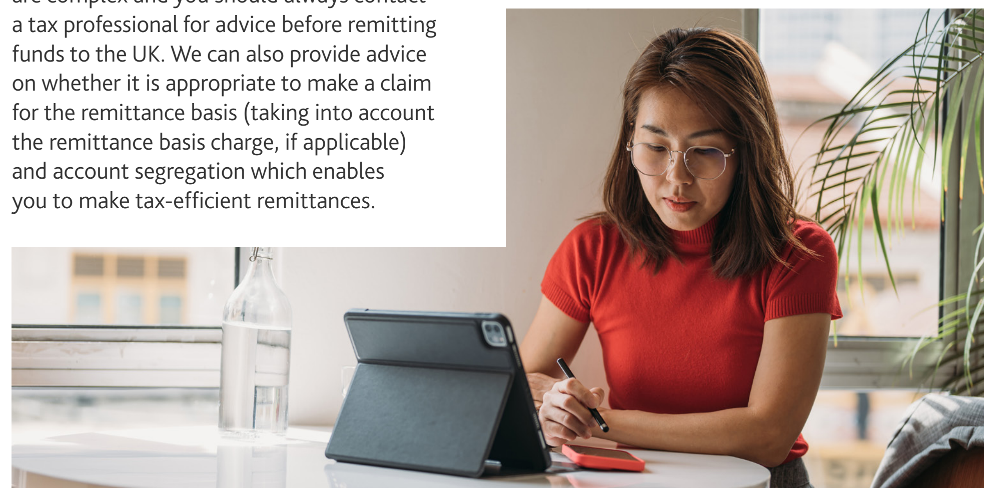
Whether a new Government will make further changes to the non-dom rules or abolish the regime entirely remains to be seen.

Rules identifying when bringing funds or assets in the UK constitutes a 'remittance' are complex and you should always contact a tax professional for advice before remitting funds to the UK. We can also provide advice on whether it is appropriate to make a claim for the remittance basis (taking into account the remittance basis charge, if applicable) and account segregation which enables you to make tax-efficient remittances.

Individuals who bring or transfer foreign funds to the UK to invest in certain qualifying companies are able to do so without incurring UK tax charges regardless of the source of the funds remitted. Investments can either be by way of loans to, or acquisition of shares in, the company.

If the company also meets the separate tests for the enterprise investment scheme (EIS), further tax breaks will be available (see 17).

When the investments are sold the funds must be sent offshore or reinvested in another qualifying company within 45 days.



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13. Leaving the UK

Emigrating can be an effective way to reduce your taxes in the right circumstances but it is vital to take expert advice well in advance.

If you intend to become non-UK resident in a future tax year, you should start planning well before 6 April in the year.

If you are not resident in the UK you should not normally have to pay UK income tax on your income that arises outside the UK, or CGT on most assets sold. However, to establish yourself as not resident in the UK, you will need to meet the various requirements of the UK's statutory residence test and may need to remain non-UK resident for more than five years.

The requirements of the test vary according to your circumstances, for example, it is relatively straight-forward to establish non-UK residence if you leave the UK to work full time overseas for more than a year.

If you wish to sell an asset without triggering CGT, you will need to make the disposal after you have left the UK for overseas residence.

If you later resume tax residence in the UK within five complete years, the gain will become taxable in your first taxable period back in the UK at the CGT rates prevailing at that time.

Non-UK resident investors are subject to CGT on gains arising from UK residential property. However, for non-UK residents, it is only the proportion of any gains arising after April 2015 that is taxable whereas UK residents are taxable on the gains over the whole period of ownership. Therefore, in some circumstances, it can be advantageous to wait until you have left the UK to dispose of a UK residential property.

It should also be remembered that some income arising in the UK while you are overseas, for example, rents from letting your UK property, will remain taxable in the UK.

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14. Staying non-UK resident

If you have been outside the UK for some time and have established yourself as not resident in the UK it is vital that you keep a close eye on your visits to the UK – staying here too many days in a tax year may make you UK resident.

HMRC counts the number of midnights that a visitor spends in the UK as days in the UK for these purposes. Under the statutory residence test, you can be UK resident because you have visited the UK for as little as 16 days depending on your circumstances: the rules for those who have recently left the UK are different to those who have arrived here for the first time.

The rules take into account the number of days you spend in the UK and the number of 'ties' you have with the UK in a complex matrix to establish your residence status. It is important to take advice on your position to establish how much time you can spend in the UK without breaching the rules.

If you have already spent a significant amount of time in the UK since last April, the sooner you take advice the better, so you can carefully plan your visits for the remainder of the tax year.

If you have been non-UK resident for less than five complete tax years then you need to pay particular attention to your days in the UK.

This is because if you become UK resident again within this period you may be liable to UK tax on certain income and gains that arose when you were non-UK resident. Specific advice should be sought before spending time in the UK.

15. Taxes in Scotland and Wales

Scotland has five rates of income tax which apply to the non-savings and non-dividend income of Scottish taxpayers, the top rate is 47%. The Welsh rates are currently the same as for English taxpayers.

You are liable to the Scottish rates of income tax if your main home is in Scotland – it is necessary to notify HMRC of this. The dividend and capital gains tax rates are the same in Scotland but for employees and individuals with rental or business profits they are liable to a higher rate of tax in Scotland. It is therefore key to ensure that you obtain full tax relief on pension contributions and charitable donations, for example.

There are also different tax rates for property purchases in Scotland and Wales.

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16. Basis period reform for sole traders and partnerships

From 2024/25 the tax year basis of assessment will apply when taxing your profits. In order for this to take effect, the 2023/24 tax year is the transitional year in the basis period reform.

This change aligns the treatment of trading income with non-trading income.

In the 2023/24 tax year all businesses will have their basis period moved to the end of the tax year and any overlap relief accrued will be given.

From 6 April 2024, business profits will be calculated for the tax year rather than for the period of account ending in the tax year (i.e. the accounting year). For businesses with an accounting date other than the tax year end (or 31 March) this could accelerate profits into an earlier tax year, increasing tax liabilities for the transition year. This may impact cashflow, particularly around 31 January 2025 when the balancing payment for 2023/24 is due.

To mitigate the cashflow impact, the excess profits can be spread over a period of five tax years or you can elect for the full amount to be taxed in the transition year.

Both options will result in higher tax liabilities in the affected years but there is some relief for the additional tax due on transitional profits to mitigate the entitlement to some tax reliefs e.g. to maintain the entitlement to the personal allowance.

What should you do now?

While you start thinking about how these changes will affect your business, we recommend the following key actions for you to consider:

- Modelling the cashflow impact of the change
- Should you be changing your account year end to 31 March in 2023/24?
- How your funding requirements and any banking covenants are affected
- Managing the communication to the partners and their personal impact
- What action is needed (if any) to ensure each partner is able to get relief for their overlap profits
- How this change impacts any secondary partnership arrangements (those partners with multiple interests)
- How your internal systems will need to be adapted.

Partnerships with international operations will also want to consider the impact on double tax relief claims and possibly aligning accounting dates with overseas businesses.

We can help you analyse the impact the reforms will have on your business for the above points and for all other areas, and prepare any financial projections that are needed. We have outlined the basics of these reforms on our website along with potential impacts and some worked examples.

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17. Invest in an enterprise investment scheme

It is possible to carry back up to 100% of investments into qualifying EIS companies to a previous tax year.

The annual maximum investment is £1 million (£2 million if amount over £1 million invested in one or more qualifying knowledge intensive companies) and tax relief at 30% can be claimed. For example, a carry back claim made for an investment made in 2023/24 would reduce tax liabilities for 2022/23, accelerating tax relief. It is important to note, a claim for relief can not be made until the valid EIS3 certificate is received.

Furthermore, spouses and civil partners each have individual investment entitlements and CGT reliefs are also available (see 79 and the summary table at the end of this planner). EIS investments are frequently high risk and advice from a qualified Independent Financial Adviser is recommended.

Read more on EIS investment.

18. Invest in a seed enterprise investment scheme

You can invest up to £200,000 in start-up companies (see 77) and claim income tax relief at 50%.

To the extent that you did not use up the investment limit for the previous tax year, an investment made in the current year can be carried back and relieved as if it was made in the earlier year. There is also a potential CGT advantage. Qualifying SEIS investments that are relieved for income tax purposes in the previous tax year can be matched with capital gains made in that year, but only 50% of the matched gain can be exempted. For SEIS investments giving income tax relief in the current tax year, the same capital gain matching exemption applies so that the same 50% of the matched gain can be exempted for the current year.

Such investments are not regulated by the Financial Conduct Authority, so should only be considered by experienced business owners and investors practiced at making direct investments.

19. Trading losses

If you have self-employment income, any trading losses you make can be set against your other income in the same tax year or the previous tax year to generate tax relief.

You should review your projected losses and seek advice on the steps you can take to access early tax repayments.

A separate relief applies for trade losses arising in the first four tax years of your business's trade. These losses can be carried back for up to three tax years but are also subject to limits on loss set-off.

So if you have had a career change and started up a new business, make sure you make the right loss claims to get tax relief and help your cash flow (see 29).

Loss claims can also be made against non-trading income but are limited to the current year and immediate prior year and subject to a cap which restricts certain income tax reliefs to £50,000 (or 25% of your income if higher) per year.

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20. Claim losses on unquoted shares

Losses on unquoted shares that you subscribed for when they were first issued can be claimed in the year of loss to set against your other income in that tax year to generate tax relief.

If you have no other income in that year, the loss can be carried back to the previous tax year for set-off.

However, these claims are subject to the cap referred to above (see 19), unless they relate to companies that have undergone a formal process and whose shares are certified as qualifying for EIS or SEIS.

Negligible value claims for assets that became worthless in the current tax year or an earlier year, can be made now. The loss on such assets will then be treated as occurring in the current year so that it can be set against taxable gains in the year.

21. Defer capital gains

If you sell an asset that has been used in your business and you realise a capital gain, the gain can be rolled over if you buy another qualifying business asset within three years.

Alternatively, if a qualifying investment was made in 2022/23, you can match this with a gain on disposal of another qualifying business asset within 12 months to roll over the gain that would otherwise be taxed in 2023/24.

A similar relief from CGT is available where proceeds from the disposal of any asset are reinvested in a company qualifying for EIS deferral relief. Again, the reinvestment must be made within a period starting one year before and ending three years after the disposal.

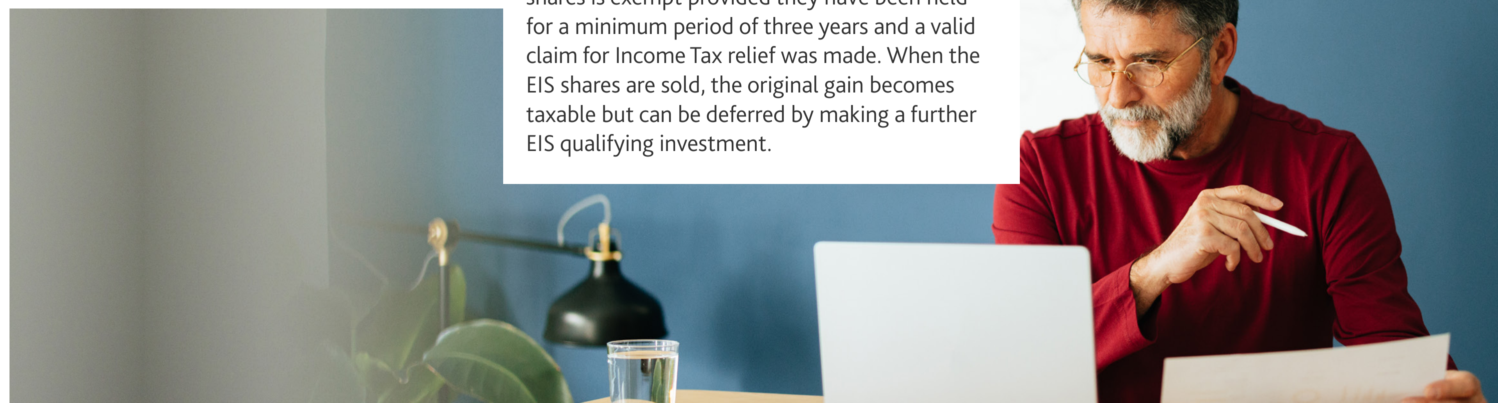
The original gain is frozen until the EIS shares are sold provided the investor remains in the UK. Any further gain made on the qualifying EIS shares is exempt provided they have been held for a minimum period of three years and a valid claim for Income Tax relief was made. When the EIS shares are sold, the original gain becomes taxable but can be deferred by making a further EIS qualifying investment.

22. Give to charity

If you have a favourite charity, consider making Gift Aid donations before 31 January to provide an early benefit to the charity and elect for the donation to be treated as made in the prior tax year to accelerate tax relief.

Instead of giving cash, giving stock market listed shares to a charity will generate income tax relief rather than triggering a CGT liability.

However, if the asset is standing at a paper loss, it may be better to sell it first to crystallise the loss (which you can set against later gains) and simply claim tax relief on the gift of the sale proceeds to the charity (see 55).



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23. CJRS – Have your reported correctly?

It will be important to remember that your last Coronavirus job retention scheme (CJRS) claim is far from the end of the matter. At the very least you must ensure that the CJRS payments you have received are declared accurately on your organisation's tax return – the payments are taxable business income.

Due to the complexity of CJRS claims, we have identified that errors in claims are extremely common – it is particularly important to identify and correct these as quickly as possible. In addition, any errors that result in over claims (which must be repaid to HMRC) should be identified and disclosed to HMRC.

If you have not corrected any CJRS errors by the time you come to submit your tax returns, it means that you may end up compounding the error by submitting an incorrect return.

An incorrect tax return could later cost you dearly, particularly if HMRC takes the view that your errors were 'deliberate behaviour': HMRC can name and shame businesses for such issues.

To avoid this potential cost and damage to your business, we recommend that all employers that have made frequent CJRS claims have an independent review of their processes and claims to help identify claim errors and get them put right. Read more on our CJRS Claims Review Service.

24. Repay loans to a close company

If you have received funds by way of a loan from a close company of which you are a director or shareholder, the company will face a 33.75% tax charge if the loan is not repaid within nine months of the end of the company's accounting period.

Repaying the loan within the nine-month period is simplest, but if it is repaid later, the tax charge that the company will have had to pay can be reclaimed.

Funding the repayment by way of a dividend from the company is a common solution as is repaying one loan but taking out a new one for a similar amount.

However, 'bed and breakfast' loans are not permitted and any loan made by the company to a borrower within 30 days is effectively treated as a continuation of the original loan. If the loan is larger than £10,000 and is interest free, then a taxable benefit in kind will arise if the shareholder is also a director.

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25. Salary exchange for pension contributions

It may sound counter intuitive to suggest that employees should voluntarily give up some of their salary (reducing their pay) to protect their net take-home pay.

However, employees who have not opted out of auto-enrolment pension schemes must now pay a 5% of their salary into a pension (employers must pay 3%).

Putting in place a salary exchange for pensions arrangement will help to mitigate the net reduction in your employee's take home pay by reducing the NIC they pay on their earnings. In return, you will make the extra pension contributions on their behalf. As the employer you will also save NIC.

Sharing, or passing all of this saving on to your employees (ideally as a further enhancement to their pension contributions) will be the most tax-efficient option. Alternatively, you could use the saving to enhance their take home pay.

For example, basic rate taxpayers who are already topping up their employer pension contributions by paying in £1,000 from their net pay each year agree to exchange £1,000 of their gross pay for a mirroring pension contribution from their employer.

Each individual's gross pay will be reduced by £1,000 but they will also pay up to £120 less in NIC. The employer will save £138 in NIC but can still claim a full deduction on the £1,000 payment for each employee.

For employees who receive bonuses, specific exchange arrangements in respect of their bonuses may be possible, but extra care is needed over the documentation, particularly when directors are involved.

Calculating the benefits of such an arrangement can be complex and it is vital to get expert advice on the implementation of salary exchange plans to ensure they are effective for tax purposes.

Read more on smart pensions.

Offering employees a salary sacrifice arrangement for a zero emissions cars (including leased cars) can be highly tax-efficient for both parties (see 31).

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26. Make the most of capital allowances

If your business uses significant items of equipment, fixtures etc., ensure you utilise in full both the annual investment allowance (AIA) to get a 100% tax deduction on purchases of up to £1 million a year as well as full expensing, where 100% First Year Allowances (FYA) can be claimed (now made a permanent relief as part of the 2023 Autumn Statement).

Any plant and machinery expenditure that does not qualify for relief under the AIA or FYA rules may only obtain relief at the much lower writing down allowance rates of 18% for general pool assets and 6% for special rate pool assets. Groups of companies are only entitled to one AIA between them and so it may be necessary to review the expenditure of the whole group to determine how much allowance is left.

27. Expenditure on short-life assets

Assets you buy that do not qualify for 100% FYAs (e.g. because they are second-hand) may nevertheless have an expected useful life of less than eight years. These could benefit from a short-life asset election.

Capital allowances are available on these assets as normal, but if the asset is disposed of within eight years of acquisition then a balancing allowance (or charge) can arise, potentially accelerating tax relief compared to claiming writing down allowances at 18% per annum.

In absence of an election, a balancing allowance will not arise in the main pool unless the qualifying activity were to cease simultaneously. A review of expenditure should be undertaken to elect for short life asset treatment where relevant.

28. Sell a subsidiary tax-free

If you are planning to sell a company out of a corporate group in the next 12 months or so, the disposal can be made tax-free if the investee company and any subgroup meets the trading test for the purposes of the substantial shareholding exemption.

The former requirement for the investor company to meet the trading test has been abolished, making it easier to qualify for this relief. A minimum 10% interest in the company must be held by the group for a 12-month period within the six years leading up to the disposal. The company must meet the trading test for those 12 months, but is not required to do so after the disposal, unless the purchaser is connected.

Substantial (more than 20%) non-trading activities will cause the tests to be failed, so it is important to consider disposing of non-trading activities and using the proceeds for trading purposes.

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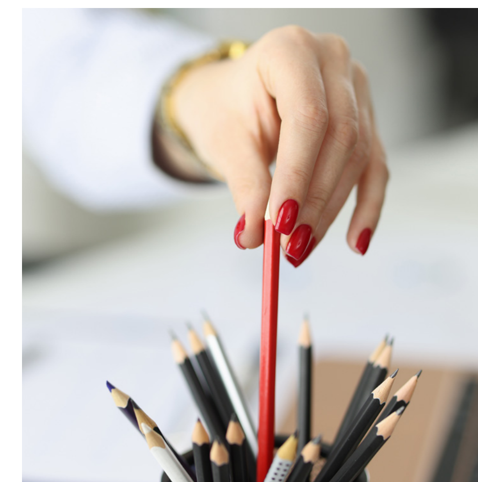
29. Ensure losses are used to the best advantage

Companies that have made losses in the past and/or expect to make losses for the current year should carefully consider the implications and their options for utilising them to reduce tax.

Losses can be claimed as set out in this table and there are also options to carry back losses up to three years where a company ceases to trade. Carrying back a trading loss to set against trading profits in the preceding year often triggers a tax repayment.

Therefore, where there are no banking (or other creditor) related issues triggered by trading losses, it can be advantageous to advance expenditure to increase an expected loss (up to a maximum of the profit made last year) and carry it back to that prior year.

The repayment generated will give tax relief on your expenses at an earlier date. For larger trading losses or where losses cannot be used in this way, it is possible to set trading losses against capital gains made in the same year. Therefore, it could be advantageous to sell an asset so that the gain you make is matched with the loss and does not trigger a tax liability. Companies that have realised capital gains that do not qualify for the substantial shareholding exemption may be able to sell other assets standing at a paper loss to offset the gain.



Losses	Current year offset against	Carry back to offset against	Carry forward to offset against
Pre-1 April 2017 trade losses, and post-1 April 2017 trading losses that can only be set against trading income (e.g. if trade has become small or negligible)	All profits	All profits	Profits of the same trade, but overall relievable amount restricted to £5 million plus 50% of remaining trading profit.
Post-1 April 2017 trade losses	All profits	All profits	All profits of the company/group, but overall relievable amount restricted to £5 million plus 50% of remaining total profit.
Pre-1 April 2017 property losses	All profits	N/A	All profits of the company, but overall relievable amount restricted to £5 million plus 50% of remaining total profit.
Post-1 April 2017 property losses	All profits	N/A	All profits of the company/group, but overall relievable amount restricted to £5 million plus 50% of remaining total profit.
Pre-1 April 2017 management expenses	All profits	N/A	All profits of the company, but overall relievable amount restricted to £5 million plus 50% of remaining total profit.

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Losses	Current year offset against	Carry back to offset against	Carry forward to offset against
Post-1 April 2017 management expenses	All profits	All profits	All profits of the company/group, but overall relievable amount restricted to £5 million plus 50% of remaining total profit.
Pre-1 April 2017 non-trading loan relationship debits, and post-1 April 2017 non-trading loan relationship debits of an investment business that has become small or negligible, or of a charity	All profits	All profits	Non-trade profits of the company, but overall relievable amount restricted to £5 million plus 50% of remaining non-trade profit.
Post-1 April 2017 non-trading loan relationship debits	All profits	N/A	All profits of the company/group, but overall relievable amount restricted to £5 million plus 50% of remaining total profit.
Pre-1 April 2017 non-trading losses on intangible fixed assets	All profits	N/A	All profits of the company, but overall relievable amount restricted to £5 million plus 50% of remaining total profit.
Post-1 April 2017 non-trading losses on intangible fixed assets	All profits	N/A	All profits of the company/group, but overall relievable amount restricted to £5 million plus 50% of remaining total profit.
Capital losses	Chargeable gains	N/A	Chargeable gains.

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30. Claim R&D relief

Generous tax reliefs are available for UK companies undertaking research and development (R&D) activities.

Current Rules

A large company, generally one with more than 500 employees, can claim a 20% (giving a subsidy of 15% after tax) credit in respect of qualifying R&D expenditure.

SME companies can claim an enhanced deduction of 186% of qualifying R&D expenditure. If the company is loss making, a tax credit worth up to 10% of the surrenderable loss can be claimed. R&D 'intensive' SMEs can claim a higher credit.

In some cases, this tax credit will be subject to a limit of three times the company's total PAYE and NIC liability for accounting periods.

Rules from 1 April 2024

The Autumn Statement has confirmed the introduction of the new merged R&D scheme for accounting periods beginning on or after 1 April 2024.

This will establish an above the line credit with relief at the current RDEC rate of 20%. The merged scheme will run alongside the SME intensive scheme.

The notional tax rate applied to the RDEC for loss-making companies will be set at the small profits rate of 19% rather than the main rate of 25%. The R&D relief available to loss-making companies will therefore become 16.2p for every £1 of qualifying spend.

R&D relief for profitable companies continues to be 15p for every £1 of qualifying spend where the main rate of corporation tax applies.

Other detail

In all cases, the expenditure must be on work that is intended to resolve scientific or technological uncertainty to achieve an advancement in science or technology.

'Advancement' may be the creation of a new device or process that can be patented, or the improvement of an existing one, but it can take many other forms.

Likewise, 'uncertainty' may include many different problems where the solution is not easily identifiable – attempting to resolve such uncertainty may be classed as R&D.

When making a claim it is also now necessary to fill in an Additional Information Form when submitting claims. See here for further information.

R&D does not necessarily have to be successful in order to qualify for relief. In addition, you can qualify for relief if you are an SME and you outsource the work to someone else under a 'contract R&D' arrangement.

The legislation introducing a limit on R&D tax credits claimed by loss-making SMEs is explained in full here.

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31. Switch to greener company vehicles

As employers pay class 1A NIC on the benefit in kind calculated on cars and vans provided to employees, reducing the benefit value will help save NIC.

The higher the CO_2 emissions for a car, the higher the percentage of the car's list price that is used to calculate the benefit in kind: and the percentages increase every year, thereby increasing the taxable benefit.

So it makes sense for companies to restrict the cars offered to staff to low emission models to save NIC: switching now will help to reduce your company's NIC costs for next year.

Offering employees a salary sacrifice arrangement for a zero emissions cars (including leased cars) can be highly tax-efficient for both parties – read more here.

However, while this may be tax-efficient in the short term, the longer-term impact on individuals in defined benefit (final salary) pension schemes may be negative so needs careful consideration. For example, if pension entitlement is based on the last three years earnings, reducing these in return for an electric car may damage retirement income significantly. There is also the complexity of the pensions 'annual allowance' to consider (see 47).

Should an employee exit a salary sacrifice arrangement and revert to their pre-sacrifice salary level, their pensionable earnings will increase by an equivalent amount, potentially leading to a large increase in their pension growth which, in turn, can potentially create an annual allowance tax charge.

There are several incentives aimed at encouraging the purchase of more environmentally friendly cars. These should not be ignored when buying cars as they can make a significant difference to the cash flow of the business.

Enhanced capital allowances of 100% are available for new electric cars with zero CO2 emissions. Cars emitting no more than 50 g/km are included in the main plant and machinery pool, attracting a WDA of 18%. Lastly, cars emitting more than 50 g/km are included in the special rate pool, with a rate of WDA of 6%.

In addition, HMRC have confirmed that where an employer reimburses the cost of electricity charged at an employee's home, for an EV company car, it is not taxable.

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32. 'Making good' benefits in kind

Making good involves the employee or director who received the benefit paying their employer an amount equal to the cost of providing it.

Additionally, for other types of benefit, e.g. a company car, the employee's payment must equal the amount they would be taxed on without making good.

The time limit for making good benefits is generally 6 July. If you want to avoid paying tax and stop your company being liable for Class 1A NI contributions, you must make good by then.

Remember that where one of your employees or directors makes good a benefit in kind, the corresponding Class 1A NIC bill (equal to 13.8% of the taxable amount ignoring any making good) is no longer payable by you as their employer.

If you're a non-shareholding employee, it is generally not tax-efficient to make good a benefit. However, if you own a significant percentage of your company's shares making good can be tax-efficient. It depends on the type of benefit, the amount and type of income you receive and other factors. Expert advice should be sought in order to take advantage of the potential tax savings by 'making good'.

33. Claim allowances on structures and buildings

A capital allowance is available for expenditure on certain new commercial structures and buildings.

The Structures and Buildings Allowance (SBA) is available when business pay for non-residential structures and buildings.

The allowance is 3% of eligible costs on a straight-line basis for 33 1/3 years. The relief will be limited to the original construction or renovation cost of the property, regardless of ownership changes, periods of disuse or periods where the building is being used for non-qualifying purposes. The benefit will simply pass between owners at the written-down value. Qualifying structures and buildings include offices, retail and wholesale premises, walls, bridges, tunnels, factories and warehouses.

Expenditure on residential property and other buildings that function as dwellings will not qualify for the SBA neither will expenditure on land or rights over land and the associated legal and stamp duty costs. SBA expenditure will not qualify for the AIA (see 26), so businesses seeking to maximise tax relief are still encouraged to identify separately the construction costs of such structures and buildings that will qualify for capital allowances. It is important to note that the SBA is only available when the building or structure has been brought into qualifying use.

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34. Exemptions for staff benefits

Look at staff remuneration as a whole package, to keep down overall costs. It may not be necessary to provide significant pay rises if you offer other benefits, as many have tax and NIC advantages.

Examples of tax and NIC-free benefits:

- Work mobile phone (one per person)
- 0% loans of up to £10,000
- Payments up to £6 a week to employees required to work from home
- Long service awards
- Up to £150 a year per person on staff entertaining at events
- Up to £50 on occasional trivial benefits that are not regular rewards in kind
- Car and motorcycle parking facilities at or near place of work
- Electricity for charging an employee's electric or plug-in hybrid vehicle
- Workplace nurseries and childcare vouchers within weekly limits
- Work-related training
- Protective clothing and uniforms
- Relocation costs of up to £8,000
- Relief for expenses related to a temporary workplace.

The specific tax and NIC exemption conditions should be checked for each item. Note that the optional remuneration rules mean that most benefits (apart from pension contributions) will trigger a tax charge if provided through salary exchange arrangements.

35. Taking on trainees, apprentices and job seekers

As well as long established NICs reliefs, the Government is providing employer funding for England to support high quality traineeships for young people and apprentices.

Taking on apprentices can be tax-efficient as the rate of employer's NIC on their pay is nil for apprentices aged under 25 (unless you pay them more than the Lower Earnings Limit).

If your business is not large enough to pay the Apprenticeship Levy, it is also possible to apply for 'co-investment' Government funding for the cost of qualifying apprentice training: you pay 5% and the Government pays 95% of the cost (up to certain 'maximum bands').

The rate of employer's NIC is also effectively reduced to Nil for employees aged under 21 – regardless of whether or not they are employed under a formal apprenticeship contract.

The Government also offers a £1,000 payment for employers engaging new 16-18 year old apprentices (or those with an Education, Health and Care Plan aged under 25).

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36. Review profit withdrawal options

Withdrawing profits from your company by way of dividends may be tax-efficient compared to remuneration, but the balance is shifting.

The position depends on a number of factors for company owner-managers. Dividends may alter the value of the company's shares up or down and this may not be desirable. Also dividends do not allow the recipient to pay tax-deductible pension contributions.

Depending on your circumstances, it may be more tax-efficient to withdraw profits in other ways (see table, which takes into account corporation tax on the profit withdrawn), and you should always review profit extraction options before the company year end. Bonus payments may be appropriate, for example if the company does not have sufficient retained profits to create the distributable reserves needed to make the desired payment as a dividend. A bonus payment is tax-deductible for the company but when paid (though with employees NIC reducing from 12% to 10% from 6 January 2024 the cost of a bonus will reduce, note the annual average rate will apply for the whole of the tax year for statutory directors of 11.5%).

A bonus payment can be voted to a director but need not be paid in the same accounting period. Shareholders will start to pay tax on dividend income in excess of £1,000 in 2023/24, and where it exceeds £500 in 2024/25.

The current tax-free Personal Allowance of £12,570 has been frozen until 2028 and the basic rate of income tax will remain 20%. The threshold for the highest rate of 45% applies from £125,140.

For companies, the main rate of corporation tax is 25% for companies with profits over £250,000. The corporation tax rate of 19% will remain for companies with profits below £50,000. Tapered marginal rates will apply for profits in between these two limits.

These changes will all affect the effective rates of tax paid on the different ways of withdrawing funds from your business. Of course, it should always be remembered that arranging for the company to pay pension contributions on your behalf is the most tax-efficient way to withdraw funds from the business (see 46).

Effective rates shown are for England, Wales and Northern Ireland, although effective rates show the same trend in Scotland.

Percentages shown in the table assume that:

- Company is not large enough to pay the Apprenticeship Levy
- The individual is not over state retirement age
- Recipient is a 'statutory' director (recorded at Companies House)
- The company will pay tax at 25%
- Self-employed individuals will no longer need to pay Class 2 NIC from 6 April 2024, this is not reflected in the table.

Basic rate statutory director	2022/23* %	2023/24* %	2024/25* %
Dividends	26.09	31.56	31.56
Salary/bonus	41.26	39.81	38.49
Rent/interest	20.00	20.00	20.00
Self-employed	29.00	29.00	28.00
Higher rate taxpayer			
Dividends	46.34	50.31	50.31
Salary/bonus	50.00	49.03	49.03
Rent/interest	40.00	40.00	40.00
Self-employed	42.00	42.00	42.00
Additional rate taxpayer			
Dividends	50.87	54.51	54.51
Salary/bonus	54.36	53.43	53.43
Rent/interest	45.00	45.00	45.00
Self-employed	47.00	47.00	47.00
All taxpayers			
Pension contributions	0.00	0.00	0.00

*The rates shown are based on a statutory director.

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37. Employ family members

For most family businesses, the more family members that are directly involved in it, the more tax-efficient options there are for profit extraction as well as CGT benefits (see 43).

A family of four who all work in the business can extract four times the level of profit that a single owner can before higher rates of tax are paid on salaries or dividend entitlements.

However, each family member should take an active part in the running of the company as any compliance review by HMRC will seek to establish exactly what work each family member carries out.

This is particularly important where profits are extracted by dividends as HMRC may argue that 'profit shifting' has occurred and seek to tax the original owners on the shifted profit.

38. Put profits into your tax-free pension pot

Withdrawing value from your company by way of a pension contribution is highly tax-efficient, as the payment is not taxable on you (provided the annual allowance is not exceeded) but the company still gets tax relief on the contributions and there is no NIC to pay.

Once in the pension, future growth on the funds is tax-free and there is no longer a lifetime allowance charge to consider. However, in most situations the funds will remain tied up in the pension fund until pension benefits can be drawn.

Individuals in defined contribution schemes (i.e. money purchase and personal pensions) have considerable flexibility over how they take pension benefits after age 55 (57 after 5 April 2028). All benefits taken in excess of the 25% tax-free cash entitlement are to be taxed at the individual's marginal rate of tax in the relevant tax year.

Business owners aged 55 or more may be able to start taking pension benefits as soon as the contribution is made, for example, as part of their 25% tax-free cash entitlement.

However, this must be considered carefully as it may damage long term retirement plans and will limit your scope for making pension contributions at a later date.

This flexibility will mean that maximising contributions into your own scheme is now much more attractive.

Individuals in private sector defined benefits schemes may not be affected directly but may have the right to transfer to a defined contribution scheme, subject to transfer charges. Expert advice should be taken as this will not always be the best long term option. Individuals in public sector defined benefits schemes do not have this option.

If your taxable earnings are more than £260,000, income tax relief on your pension contributions may be restricted (see 47).

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39. Review property ownership

Where valuable business property is owned, there can be tax advantages to owning it outside the company, but there may also be disadvantages if it is to be retained for the long term.

Therefore, reviewing plans each year before the end of the accounting period is sensible to ensure that unexpected tax charges are avoided.

Where withdrawing profit is a key consideration, an owner who holds the property personally can be paid rent to withdraw funds from the company without an NIC charge or the need for the company to have distributable reserves. If the property is to be sold, holding it personally limits the tax charge on the sale – whereas if it is held through the company, the company would pay tax on the sale and the owner would pay further tax when the funds are withdrawn via a dividend or other payment.

Certain tax reliefs such as business asset disposal relief (BADR) and Business Relief (BR) are available on the sale or transfer of business assets which are used for the purposes of a trading business. By generating rental income a business may disqualify itself from meeting the trading business requirement in order to take advantage of these valuable tax reliefs.

A change of Government may result in an change to these reliefs.

40. Retain profits in the company

Where profits do not need to be withdrawn to meet current spending requirements, retaining profits in the company is a useful option.

Retaining profits is likely to be more tax-efficient than withdrawing them as corporate tax rates are still lower than income tax rates. Retained profits are clearly helpful to fund future business investment without expensive borrowing.

Where funds retained become significant and represent 20% or more of the total value of the company this can affect the future availability of BADR (formerly entrepreneurs' relief) (see 43) on sale of the company or BR (see 44) on lifetime gifts of the shares or on death transfers.

Company owners should consider their options over the medium term and may need to take advice on their best overall strategy.

41. Use pension loans for tax-efficient business expansion

A more flexible solution than retaining funds in the company is to make substantial pension contributions on behalf of family employees to a small self-administered scheme (SSAS) or through self-invested personal pensions (SIPPs).

Not only is tax relief obtained on the original pension contributions, such pension funds can invest in a wide range of assets and it is possible for an owner to retain control as a co-trustee of the fund.

A SSAS can either loan money back to the company or buy shares in the company to finance future business investment. Borrowing this way is highly tax-efficient, as interest paid on the loan is tax-deductible for the company but not taxed in the hands of the pension trustees.

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42. Don't become an investment company

As your company expands and prospers, cash surpluses can accumulate, and investing in the company's name in unrelated assets such as land, property or quoted shares can seem tempting to achieve a good return.

However, there can be risks where the value of those investments forms a significant part of the company's value so it is important to check your company's position each year.

Where non-trading investments represent 20% or more of the company's value, HMRC regards this as having a 'significant' impact on the company and it can lose the benefits of qualifying for:

- Enterprise investment shares (EIS)
- The enterprise management incentive (EMI) share scheme
- CGT Business asset disposal relief (BADR)
- The corporate substantial shareholding exemption.

Non-trading assets do not attract IHT Business Relief (BR) and where these exceed 50% of a company's total value, that company is treated as an investment company and will not qualify for BR at all.

From 2023/24 onwards, smaller companies (i.e. those with profits under £250,000) will pay corporation tax at less than 25% if they are trading companies. Companies classed as 'Close investment holding companies' will pay 25% on their profits, no matter how small.

43. Tax efficient family shareholdings

For disposals of businesses or an interest in a business, Business Asset Disposal Relief (BADR) may be available on the first £1 million of an individual's lifetime qualifying gains, meaning that CGT is suffered at a rate of only 10%.

Of any excess, part is taxed at 10% (if your income tax basic rate band is not used up in that year) and the rest at 20%. The relief can be given on the sale of a qualifying business or shares in a qualifying business provided the qualifying conditions are met.

It is vital to check that the asset qualifies for the relief before any disposal is made. For at least two years prior to the sale the shareholder must be entitled to all of the following to qualify for BADR:

- 5% of the ordinary share capital and votes of the company
- 5% of it distributable profits (dividends)
- 5% of the assets available on a winding up of the company.

As an alternative to conditions 2 and 3, if the person making the disposal was beneficially entitled to at least 5% of the assumed proceeds of the sale of the whole business this part of the rule will be met.

Companies with a complex share and financing structure should seek expert advice on whether or not shareholdings meet the tests.

Ensuring that each family member working in the business owns at least 5% of its economic value is sensible so that the BADR available on eventual sale of the business is multiplied.

It may be possible to structure holdings so that all the gains on selling the company are only taxed at 10%.

Where passing a 5% share to a family member is not desirable, it is worth considering the use of a qualifying EMI scheme to put shares in the hands of family members. EMI shares can also qualify for ER but there is no need to have a 5% share of the company's value.

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44. Protect your business for the next generation

If you are in good health, it may seem unnecessary to make annual checks to ensure that your company will still qualify for IHT Business Relief (BR).

However, it is always sensible to be prepared and BR is also important when lifetime gifts of business assets are made, especially if you want to put shares into a trust for the next generation.

Fortunately, even if your company shares do not currently qualify for BR, remedial action can be taken and as long as they qualify at the date of transfer or on death (and meet the length of ownership conditions), up to 100% of the company's value can be kept outside the IHT net.

If the shares don't qualify, surviving family members may have to pay 40% tax on the value of the shares they inherit: potentially meaning that the company has to be sold to generate the funds to pay the IHT.

Checking that the company's assets qualify for BR means reviewing what the company owns, comparing the values of its business and non-trading assets and considering any agreements or plans you and the other owners have put in place.

Where there is a group of companies, extra care needs to be taken but, where necessary, a restructuring can both protect future BR and give you flexibility.

45. Plan now to get out at the right time

When you are working hard to grow your business, selling up may be the last thing on your mind.

However,the current economic conditions may drive more corporate acquisitions, and experience shows that entrepreneurs with an exit plan usually get a better return than those who only start to think about a sale when a prospective purchaser appears.

When you are preparing for the company's year-end and assessing its current position, it makes sense to take a step back and check whether or not it is in the best position to be sold quickly at the best possible price if an offer was made tomorrow.

Are there any lurking tax problems or business structure issues that could deter a potential purchaser? What would you be prepared to sell and what do you want to keep? Could an immediate sale take place tax-efficiently?

If you own a trading company, it may be worth considering selling some, or all, of your shares to an Employee Ownership Trust (subject to satisfying certain conditions). This can achieve a sale at full market value, without incurring any capital gains tax liability, in a way which also benefits your employees.

Read more about selling your business to an Employee Ownership Trust.

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46. Tax free pension contributions

For employees, particularly those paying basic rate tax, pension contributions made by your employer are tax-efficient as there is no tax to pay on this benefit (provided the annual allowance is not exceeded) and the employer can claim a business tax deduction. If you own the company, this can be a tax-efficient way to extract value.

It is often worth setting up arrangements where employees exchange some of their salary in return for a larger pension contribution made by the employer. This saves on NIC that would have been paid by both employer and employee and the savings can be passed on as higher pension contributions. However, this may not always be tax-efficient for high earners.

For individuals with a net income of £200,000 or more, pension contributions made on their behalf by employers will be added back to establish whether or not tax relief on contributions should be restricted because their gross income exceeds £260,000. Care should be taken to avoid incurring an annual allowance charge.

47. Higher rate tax relief on pension contributions

The rules for tax relief on pension contributions limit the tax relief available to high earners. Unfortunately, how this is achieved is complex and involves reducing high earner's pension annual allowances and clawing back tax relief.

The standard annual allowance, the tax-deductible amount an individual can set aside each year for a pension is £60,000 plus and any unused relief in the prior three tax years can be brought forward.

To calculate whether an individual's annual allowance must be reduced there are two tests.

Firstly, if 'threshold income' (total gross taxable income from all sources, less any pension contributions made) is £200,000 or less, there is no reduction to the £60,000 allowance. If threshold income exceeds £200,000, a second 'adjusted income' test is applied.

Adjusted income is the total gross taxable income from all sources, plus employer pension contributions, and before any deductions.

Where adjusted income exceeds £260,000, the individual's annual allowance is reduced by £1 for every £2 – although the minimum allowance is £10,000.

The position is more complex for Scottish income tax payers. However, they will continue to be entitled to tax relief at their marginal/top rate of tax and may need to claim this through their tax return. The higher rates of tax in Scotland will therefore make pension saving slightly more attractive.

It is important to take advice on contribution levels because if the total contributions you make, or that are made on your behalf, exceed your available annual allowance (including any unused relief brought forward), a tax charge will arise effectively withdrawing tax relief on the excess contribution.

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48. Pensions for all

Stakeholder pensions allow contributions to be made by, or for, all UK residents, including children. You can also make pension contributions in respect of family members who do not work (i.e. have no relevant earnings) or cannot afford them.

For example, if you have children who have lost child benefit in respect of your grandchildren you may be able to help.

If you make contributions to your children's pension schemes on their behalf, they get the tax relief and the payments are treated as reducing their taxable income – so it could help keep them below the £50,000 income threshold at which they can retain the child benefit (see 9).

The earlier that pension contributions are started the more they benefit from compounded tax-free returns.

For example, provided the pension investments grow at a net rate of 9% every year, investing £2,880 a year for your 10-year-old child could build a pension pot of £1 million by the time he or she reaches age 68.

49. Large pension pots

Funds invested within a pension grow tax-free and there is no longer a limit on the total amount you can hold in your pension pot.

You may wish to make more pension contributions now for this reason (see 46 and 47). A pension can be retained and passed on to the next generation, currently free of IHT.

However, if you are concerned that the IHT relief may change, you may wish to consider withdrawing funds from a pension pot now to use for a cash gift, should you survive seven years then there would be no IHT.

Although the lifetime allowance (LTA) has been abolished, it would be remiss to not mention the Labour party have committed to reintroducing the LTA charge if they were to win the next election.

Consequently, we are conscious that some individuals with pension pots valued significantly higher than £1.07 million are taking action to crystalise their benefits in the short term.

Read more in relation to this here.

50. Take your tax-free cash from a pension if over 55

If you are aged 55 or over, you may be able to start drawing pension benefits now from a personal pension (e.g. a SIPP), even if you are still working. Members of defined benefit schemes are likely to face more restrictions and charges if a pension is taken early.

It is not usually necessary or tax-efficient to start taking a full pension income immediately – especially if you are still working. For example, it may be possible just to take your tax-free cash entitlement (entirely or in part) and designate funds for income draw down. Once all your tax-free cash is taken, further drawings are liable to tax at your marginal rate. Therefore, saving some of your tax-free cash until you finally retire, may be more tax-efficient in the long run (see 51).

For most people, their maximum tax-free cash is frozen at £268,250, but where an individual has previously obtained one of the historically available 'protections' for their LTA, they may be entitled to a higher sum.

Alternatively, you can take an 'uncrystallised fund pension lump sum' (25% of which is tax-free with the rest taxed at your marginal rate). However, this may not be the best option if you or an employer may make contributions to your pension fund at a later date as your annual allowance for subsequent pension contributions will be limited to just £10,000.

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51. Draw down your pension tax efficiently

Most individuals with a defined contribution pension can now take their whole pension fund via flexi-access draw down (in one lump sum if appropriate). Funds taken this way above the usual 25% tax-free cash entitlement will be taxed at the individual's marginal rate of tax for the year.

Therefore, taking the whole amount in one tax year may mean you end up paying higher rate or even additional rate tax in that year. In general, a phased approach to taking your pension is likely to be most tax-efficient.

If you have no other income, you can withdraw up to the amount of the personal allowance (£12,570) without triggering a tax liability so take this from a designated draw down fund – not your tax-free cash. If you want further funds in the tax year, take top-ups from your tax-free cash. This will spread the use of your tax-free cash over a number of years to save tax.

However, watch out for tax deductions when you take money from a designated draw down fund. The pension company is required to apply your tax code to deduct tax from pension payments (in the same way that employers deduct tax from salaries). For example, if you draw down say £10,000 on 10 April, the pension company will apply you tax code for the month of April. This means that 1/12th of your personal allowance will be set against the sum drawn down and the rest will be taxed.

This is to allow for the fact that you may also draw down further amounts each month for the rest of the tax year.

Of course, if you do not draw down further amounts in the tax year (or only take funds from your tax-free cash) you will have overpaid tax in April and will have to apply to HMRC for a tax refund.

Anyone who is entitled to flexible draw down and who is considering retiring overseas should seek expert advice on the potential tax savings of taking such income while outside the UK tax net. Individuals in defined benefit (final salary schemes) may not have these flexible options and may want to consider switching out of their current scheme and into a personal pension to achieve this flexibility.

However, depending on the terms of the particular defined benefit scheme concerned, the cost of such a switch could be prohibitive. Anyone considering this issue is required by law to prove that they have taken advice from an Independent Financial Adviser before such a transfer can take place.

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52. Selling your home

When you sell a home that has always been your main residence since the day you bought it, Private Residence (PR) relief ensures no CGT is payable on any gain, but PR relief is no longer available for periods when the property was let.

PR relief extends for nine months after you move out of the property so that owners who struggle to sell are not penalised.

Property owners who have moved to a new main residence but have yet to sell their former home should consider their position carefully. If the property is not to be sold within the nine month period, letting it can currently help to minimise CGT exposure.

When your former home is let to a tenant, you should be entitled to a further type of main residence relief for let periods. When the property is eventually sold, a time apportionment calculation is carried out looking at the whole period you owned the property.

Relief for the letting period is limited to the lower of either that part of the gain for the periods it was your main residence or £40,000. However, lettings will only qualify after 5 April 2020 where the owner of the property is in shared occupancy with the tenant.

Where there are non-qualifying periods (e.g. if you owned more than one property and the other was your main residence) so that PR relief is not available for the whole time you have owned it, then if there is CGT to pay you will need to submit a land return and pay the CGT within 60 days of completion.

This is even the case when you already complete a self-assessment tax return. If the 60 day land return is not submitted and the tax paid you may be liable for penalties and interest.

It is always sensible to take advice on your tax exposure before you sell a property. Care should also be taken if you purchase a second property due to a 3% increase in Stamp Duty Land Tax (SDLT) rates on second homes (the LBTT surcharge in Scotland is 4%.

The increased SDLT charge on second home purchases is refunded where individuals dispose of their main residence and purchase a replacement main residence within 36 months.

53. Swap your elected main residence

If you have two homes and reside in both, consider making a main residence election for your second home if it is standing at a larger gain or you are likely to sell it first.

Subject to time limits, an election to have your second home treated as your main residence for tax purposes (even for only a short period) can add valuable reliefs when you come to sell it, at a cost of a smaller loss of relief on your main home. If you are not UK resident, then in order to be able to elect for a property in the UK to your main residence you need to spend a minimum of 90 days in the property each year.

Recent tax cases have demonstrated that the owner must establish a period of residence (the quality, rather than quantity, of occupation of the relevant property is important) to be able to claim these valuable reliefs.

Nonetheless, sensible use of the main residence election is a valid way to reduce CGT on a home you do not intend to retain for the long term. If you have purchased a second property since 1 April 2016, retaining both homes will mean that you don't get a refund of the 3% SDLT surcharge you paid on purchase.

It should be noted that the election only applies for CGT purposes so, for example, it has no impact on whether or not you are resident in Scotland for income tax purposes (see 15).

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54. Gains in offshore trusts

Trustees' gains are taxed at 28% on residential property or 20% on other chargeable assets. Individuals and trusts holding investments at a long standing gain should consider realising these assets and paying CGT now at these historically low rates.

Trustees should also consider distributing stockpiled gains to beneficiaries of offshore trusts. At the current low rate of CGT, the maximum uplifted rate of tax that is payable under the supplementary charge provisions applied to delayed distributions is now 32% (reduced from 44.8%).

A change of Government may result in an increase in CGT rates.

55. Use past capital losses

Capital losses arising in the year are deducted from gains before net gains are reduced by the annual exemption or any business asset disposal relief (BADR) due. Crystallising a loss that wastes the annual gains exemption should be avoided.

Equally, if you know that your personal rate of CGT will be 20% in 2023/24 but some of your basic rate band remains available in 2023/24 (so gains would only be taxed at 10%), consider deferring the sale of assets now standing at a loss to ensure that the losses are relieved at 20% in 2024/25.

If you have already realised a capital loss during 2023/24 or cannot avoid doing so, remember that losses can be utilised in the most efficient way. When you complete your tax return for the year, the loss can be allocated against gains realised in the year that are subject to the highest rate of CGT.

Once losses have been claimed on your tax return, any losses that are not set against gains in the same year can be carried forward indefinitely to be set against capital gains in future tax years to reduce your potential CGT liabilities, but remember, no relief will be given unless the loss is claimed on your tax return.

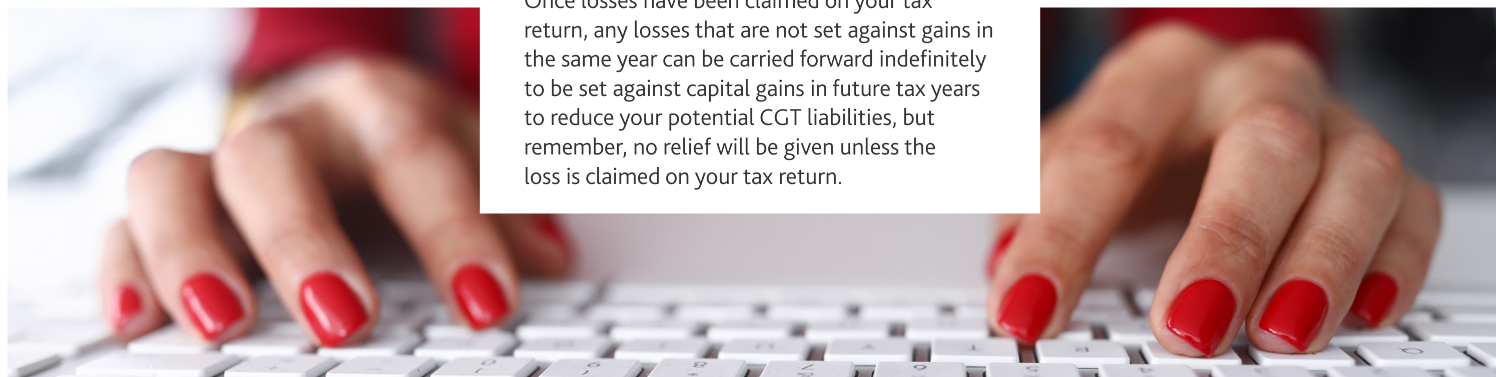
56. Use annual exemptions

Everyone can realise capital gains up to the annual exemption tax-free – £6,000 in 2023/24 and £3,000 in 2024/25. The exemption is available to each individual, including minor children but any exemption unused in a year cannot be carried forward.

Married couples and civil partners can transfer assets between them on a no gain/no loss basis and such transfers should be considered to ensure that the annual exemption can be fully used.

In addition, if one spouse or civil partner is a higher rate taxpayer but the other will not have used his or her basic rate band in full, similar transfers should be considered to ensure that at least some of any taxable gain is liable at 10% rather than 20%.

As always, it is important to ensure that any such transfer is outright and unconditional.



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57. Reporting and paying tax on disposals of UK land

You are required to report and pay CGT on disposals of UK land within 60 days of completion. This also applies to disposals of UK land by trustees of trusts, and partners in partnerships. HMRC has developed a new digital service to support this requirement.

For UK residents only, no UK Land return is required where there is no CGT liability, for example where gains are fully within private residence relief (see 52 and 53), or nil gain/nil loss transfers between spouses and civil partners (see 56) or simply where there is a loss or a small gain covered by annual allowances. In practice for UK residents, the 60 day filing and payment requirement will apply mainly for disposals of let property and holiday/second homes and larger properties with extensive grounds not fully covered by PPR.

These new requirements do not apply to companies or other entities within corporation tax.

58. Use 'paper' losses to reduce CGT but retain investment

Whilst CGT 'bed and breakfasting' of shares is, in general, not effective for tax purposes, where your rate of CGT is unlikely to vary in future years, it may still be possible to crystallise gains to mop up losses.

This could be achieved by a sale followed by a repurchase after 30 days or immediately by an individual's spouse or civil partner, or within an ISA or trust.

Alternatively, the balance of a portfolio of quoted shares can be maintained by selling shares in one company, crystallising either a gain or loss, and reinvesting in another company in the same sector.

59. Use investors' relief and pay only 10% CGT

Investors' relief (IR) from CGT can be claimed by external investors in unlisted trading companies (or a holding company of a trading group): companies listed on AIM will be treated as 'unlisted' for this purpose. IR offers a 10% CGT rate on gains and a lifetime gain limit of £10 million will apply (a completely separate limit to BADR).

It will only apply to shares subscribed for by individuals themselves (or their spouse or civil partner or by trustees for the benefit of an eligible beneficiary). If the investor (or anyone connected with them) is an employee or paid officer of the company, the investment will not qualify for IR. However, an unpaid director (e.g. a 'business angel') can still qualify.

Finally, the shares must be ordinary shares that have been subscribed for and fully paid in cash and held for at least three years from 6 April 2016. Ordinary shares purchased when taking up a rights issue will normally qualify as 'subscribed for'. There are no rules relating to the number of shares held but the company must be a trading company or the holding company of a trading group (e.g. a property letting company would not qualify as it is classed as an investment business).

Read more about investors' relief.

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60. Consider updating your portfolio of unlisted company shares

With the rate of CGT at a historic low and investors' relief now available, now may be a good time to restructure a portfolio of investments in unquoted shares.

For higher rate taxpayers gains on shares sold now (after use of any losses available and the annual exemption) will be liable to CGT at 20%. New unquoted shares purchased can qualify for investors' relief if held for three years and when later sold will only be liable to CGT at 10% but the relief is subject to certain conditions (see 59).

Where a portfolio of unquoted shares is held for the IHT advantages (see 64), the qualifying period for IHT business relief can be maintained provided the sale proceeds are reinvested in new qualifying shares within three years.

The requirement that the shares must be newly issued could, in theory, mean that higher risk investments would need to be considered. However, a rights issue by a long established AIM listed company would result in the issue of 'new' qualifying shares, so there may be opportunities to buy up rights entitlements from existing shareholders and make new investments that qualify for investors' relief without increasing the risk profile of your investment portfolio.

As always, investment advice from an Independent Financial Adviser should be sought before making changes to your portfolio.

61. Aim for business asset disposal relief to pay only 10% CGT

For disposals of businesses or business assets, BADR may be available on the first £1 million of an individual's lifetime qualifying gains meaning that CGT is suffered at a rate of only 10%. Any excess is taxed at 20% (although part of the gain could be taxed at 10% for those on low incomes in the tax year of disposal).

As with most reliefs, there are a number of qualifying conditions to be met. The relief is intended to benefit business owners and can be given on the sale of a qualifying business or shares in a qualifying business. Family members with a share in the business can also benefit (see 43).

Shares acquired through a qualifying enterprise management incentive plan can also qualify and there is no need to have a 5% interest.

It is vital to check that the asset qualifies for the relief before any disposal is made – remedial action to secure the 10% rate can only be taken before a disposal.

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62. How your virtual currency is taxed

For individuals holding Bitcoins or other crypto-currencies, the tax treatment will depend on what activity takes place.

Therefore, if you regularly buy and sell the crypto-currency, and there is a high volume of transactions, HMRC may argue that you are trading and that any trading profits and losses should be declared for income tax purposes. Bitcoin mining activity will be regarded as trading activity.

However, it should be noted that if the trading results in losses, HMRC may well argue that the trade is a 'hobby' and may not allow the losses to be claimed against your other income (see 19).

If you hold the crypto-currency as an investment, gains (or losses) on disposal will be taken into account for CGT purposes and, of course, any such crypto-currencies held at your death will be part of your estate for IHT purposes.

For crypto-currency held as an investment, it may be possible to make loss or 'negligible value' claims where the asset becomes or (in the case of fraud victims) turns out to be, worthless. Also, if you have lost your password and can no longer access your crypto-currency account, if this can't be resolved and you have lost the asset, HMRC may accept a negligible value claim to create a capital loss.

There are a number of reporting complexities which can arise from the information provided by the platform not being in a UK tax report, as you would usually receive from an investment broker.

From 2024/25 it will be necessary to show the crypto disposals in a separate section on the CGT pages of your tax return.

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63. Switch your assets

IHT is payable on the chargeable value of your estate above £325,000. However, several types of asset qualify for 100% relief from IHT once held for two years.

So consider realising your current assets and reinvesting in business and agricultural assets, shares in private trading companies and trading partnerships. For example, consider transferring your share portfolio from the main stock exchange to investing in qualifying unquoted shares: share listed on AIM qualify as 'unquoted' for IHT purposes so an AIM portfolio could be IHT-efficient for your family.

Another option is to move your cash into a discounted gift trust which allows the gifting of a lump sum into a trust for other beneficiaries while you can retain a lifelong income.

As always, before you restructure investments you should seek both tax and investment advice from professionals.

64. Use IHT reliefs while you can

Potential reforms to IHT have been the source of much speculation, which will only increase as the next General Election draws nearer. Together IHT and CGT constitute the UK's key taxes on wealth so reforming them both at the same time is the most logical approach.

Parliament has already made some outline proposals regarding reforms of IHT through the All Party Parliamentary Group ('APPG') report. A key proposal was the introduction of a 10% IHT charge on all lifetime gifts in excess of £30,000 each year.

In addition, except for the spousal exemption, it has previously been suggested that all other IHT reliefs be abolished, including Agricultural Relief (AR) and Business Relief (BR).

It is worth noting that these proposals and any final reforms should not automatically be considered as bad news as their impact will very much depend on a person's circumstances.

In particular, where there may be a greater IHT and CGT liability, the payment of the tax might be deferred by instalments or until a subsequent disposal.

Clearly, the potential abolition of BR is of concern for business owners, those looking at succession planning and potentially gifting qualifying shares to Trusts, but also for the AIM market.

Alternatively, there has been much debate over the possible abolition of IHT. If this were to happen, there may well be other tax changes (for example, charging CGT on assets held at death) to mitigate the tax loss to the government.

Whatever change may come in the future, we do know what the rules are now. Therefore, it is a good time to review your current estate planning and Will and gift planning to ensure that they still meet your family's financial objectives and make sensible use of the IHT reliefs currently available. It should be noted that from April 2024, AR only applies to UK agricultural land, not EU. So if you want to pass on a French vineyard or Spanish finca, it may be subject to IHT in future.

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65. Leave your family home to a direct descendant

An additional IHT nil rate band of £175,000 (the residence nil rate band, RNRB) is available on death where a residence is passed on to a direct descendant (including adopted, step and foster children).

The RNRB is tapered away for estates with a net value of more than £2 million (before reliefs and exemptions).

Any unused RNRB can be transferred to a spouse or civil partner in a similar way to the transfer of an unused main nil rate band. If the first spouse or civil partner died before 6 April 2017, there are provisions for a carried forward amount of RNRB to be transferred to the survivor.

This relief was not introduced to deter individuals from downsizing or selling their properties. The Government has confirmed that where part or all of the RNRB might be lost because individuals ceased to own a residence (or downsized to a less valuable residence) the lost RNRB will still be available. The relief is preserved where the individuals' residence is sold (or no longer owned) and certain qualifying conditions are met.

66. IHT relief on charitable gifts

If you already plan to make substantial gifts to charity in your Will, leaving at least 10% of your net estate (after all IHT exemptions, reliefs and the nil rate band) to charity could save your family IHT. A reduced rate of IHT of 36% (rather than 40%) applies where 10% or more of the net estate is left to charity.

This will reduce the cost of your gifts to other beneficiaries of your estate but it is important that such charitable gifts are specified as a percentage of your estate, rather than a fixed sum or specific asset, to ensure that changes in asset values do not cause the eventual gift to fall below the 10% threshold.

Under specific circumstances, any gift you make in life or on death, to a political party is also exempt from IHT. Check that your donation is to a qualifying charity, in particular, from 6 April 2024 only UK charities will qualify (i.e. EU charities are no longer included).

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67. Help your child or grandchild onto the property ladder

If you have the capital, or are prepared to release equity from your own home, it can be possible to help a child aged 18 or older to take a first step on the property ladder in a relatively cost-effective way.

Gifting funds to a child annually to help them fund lifetime ISA contributions (see 76) will help them build up funds for a deposit with a 25% bonus paid by the Government.

To purchase a property, it is cost-effective for parents to loan or gift the child the funds to purchase a first home outright: where a child has low earnings or is still a student, direct mortgage finance for the child is usually unobtainable (at least at market interest rates). In addition, an outright property purchase in the child's name will be cost-effective for Stamp duty land tax purposes.

In a bid to encourage home ownership and house building, particularly for first time buyers, the SDLT starting threshold for purchases of residential property in England and Northern Ireland is £425,000 for first-time buyers (and this can apply on the purchase of a property valued up to £625,000.

Scotland also applies a beneficial land tax rates for first time buyers – albeit with smaller nil bands.

In addition, a 3% SDLT surcharge (in Scotland, a 4% LBTT supplement applies when anyone buys a second home (costing £40,000 or more) even if their child or grandchild is the main user of the property. There is also a 2% surcharge where a UK residential property is bought by a non-UK resident individual.

Traditionally, families have used trusts to protect the assets of the younger generation by controlling the asset until the child is 25 or older. In most cases this is no longer tax-efficient.

However, parents can retain an element of control over the property by loaning part or all of the purchase funds to the child and taking a lender's charge over the property (effectively a family mortgage).

Where one parent has low or no income the child could even pay interest on the loan to that parent without a tax charge – for example, to cover the financing cost of any equity release that the parents have undertaken. Where both parents pay tax, the personal savings allowance would exempt up to £500 interest paid to each parent who is a higher rate tax payer (£1,000 for basic rate taxpayers).

Where a child is still a student or has low income, whilst living there, he or she can let rooms in the property to up to two lodgers (usually without the need for planning permission).

Where rent a room relief (see 7) and unused personal allowances exceed the annual rents received there will be no income tax liability. This will either give the child an income while they remain a student or can be used for interest payments to a low income parent.

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68. Borrow to help your child buy a first home

Some lenders will now provide mortgages 'joint borrower sole proprietor' basis or accept parents cash deposits as security for a son or daughter's borrowing.

Joint borrowers

The lender takes all borrowers' income into account (including the parents' income) when assessing eligibility for the mortgage. However, the parents' ages will also be a factor, as lenders are usually reluctant to lend where the term will take the borrower beyond age 65. Therefore, the mortgage may have to be rather shorter than the normal 25 year term – so monthly repayments may be higher.

Both the parents and the child are named on the mortgage, and have responsibility for repaying it, but the property is purchased in the child's name – this will usually save on Stamp duty land tax. When the parents make payments on the mortgage, they do not receive any rights in return. Therefore, they are deemed to be making gifts to the child for IHT purposes.

It may be possible to claim that the payments are IHT-exempt as gifts made out of the parents' surplus income (full records of parental spending should be kept to prove this). Alternatively, if the payments do not exceed £3,000 per year per parent, then these would fall within the annual gifts allowance. Any excess payments would be treated as potentially exempt transfers which fall out of the donor's estate for IHT purposes if the donor survives a further seven years.

Cash deposits as security

In the current UK housing market, mortgages remain expensive, especially for first time buyers. However, an increasing number of mortgage providers are now providing attractive options if a parent provides their cash savings or assets as security.

Some mortgage providers market such arrangements as 100% mortgages, which can allow your child to borrow as much as 100% of the property's value. A charge is placed against your assets, which means that if your child defaults on mortgage payments, your assets could be at risk.

The advantage for tax purposes is that although the cash and assets used as security for your child's mortgage are at risk, they will remain in your name instead of being gifted to your child, so there are no immediate IHT or CGT issues to consider. Clearly, if the security is drawn upon by the lender, then this can trigger tax implications.

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69. Consider equity release plans

Equity release is a means of retaining use of a house or other object which has capital value, while also obtaining a lump sum or a steady stream of income, using the value of the house.

It is only available to those over 55 and the money is repaid when the homeowner passes away or goes into long term care.

There has been an increase in the use of equity release to help family members, in particular to provide a deposit for children and grandchildren to buy their own home (a practice sometimes called 'lifetime inheritance'). In addition, if you are facing a pension shortfall or need to meet an unexpected expense, equity release can seem attractive.

Under the inheritance tax rules, a pre-owned asset tax charge applies where a person continues to occupy land which they previously sold. However, a valuable exemption from the pre-owned asset charge applies for income received under a qualifying commercial equity release scheme. Therefore equity release schemes can be advantageous both from an inheritance tax and cash flow perspective.

Anyone considering this issue must seek advice from an Independent Equity release Adviser.

70. Give funds away

Reducing the value of the part of your estate that is above the nil rate band (£325,000) will reduce the IHT payable when you die. Consider giving assets you do not need to other family members now.

Gifts to a spouse or civil partner to enable them to use up their nil rate band are tax-free and gifts to other family members can also be tax-efficient over time. Other gifts, made as part of normal expenditure from net disposable income, may be exempt but seek advice first. Most lifetime gifts to individuals that are not covered by a lifetime exemption do not immediately trigger IHT and become totally exempt if you survive for seven years.

For example, you can contribute to your children's pension (see 48).

This is due to the availability of taper relief on gifts of assets you make. Whilst the gift remains in your estate, the rate of IHT applied to it on death (40%) reduces each year depending on how many years you survive after making the gift:

Less than three years	Full rate applies
Three – four years	20% Reduction
Four – five years	40% Reduction
Five – six years	60% reduction
Six – seven years	80% Reduction
Over seven years	100% reduction

You can give away up to £3,000 worth of gifts a year plus:

- **£250 to as many individuals** as you like in a year
- **£5,000 to your children** on their marriage.

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71. Leave your ISA to your spouse or civil partner

Although income received and capital gains made through an ISA are tax-free in your lifetime, the total value of an ISA forms part of your estate on death.

If you leave your ISA to your spouse or civil partner, there will be no IHT on its value as gifts between spouses/civil partners are free of IHT.

Therefore, where assets are to be passed on to various members of the family, it will be tax-efficient to ensure that your spouse or civil partner inherits your ISA under your Will rather than the investments passing to other family members.

There is also the added benefit that your spouse or civil partner can retain the funds in the ISA wrapper and continue to benefit from tax-free income and capital growth after your death, even if they already hold an ISA of their own. You may have to update your will to achieve this.

72. Update your will

Regularly reviewing and updating Wills as financial and family circumstances change and tax rules evolve is the best way for all individuals to manage their family's IHT exposure.

For married couples and civil partners, up to twice the nil rate band (currently £325,000) and the residence nil rate band (currently £175,000) may now be available on the second death.

Where the nil rate band is partly utilised on the first death (for example, because chargeable gifts are made to children or others rather than making an exempt gift of all assets to the surviving spouse) the percentage of the nil rate band that is not used can be carried forward. If on the first death, the whole estate passes to the surviving spouse, then 100% of the deceased's nil rate band will be available for use on the survivor's death. When the surviving spouse or civil partner dies, the unused percentage will be applied to the nil rate band applicable at the date of the second death to enhance the nil rate band for the second estate.

These rules, including the new RNRB (see 65) and the pension changes (see 74) may make existing plans in your Will unnecessary or inefficient, so it is important to take expert IHT advice to ensure that appropriate changes can be made.

73. Put your trust in a trust

There are many family situations where the use of a formal trust can help you protect and enhance your family's future finances.

Appointing trustees to manage assets on your behalf can have both practical and tax advantages as well as ensuring that family assets are protected after your death (both in the UK and overseas). For example, an insurance policy can be written in trust for family members so that the proceeds do not form part of your estate for IHT purposes on your death.

With appropriate powers written into the trust deed, trustees can invest, trade and provide financial supervision for family assets and protect the interests of family members from minors to the elderly. In many cases, you can also be one of the trustees to keep a close eye on matters.

The timing of creating a trust can have significant tax implications – for example, non-UK domiciled individuals should consider setting up a trust before they acquire a UK domicile.

Naturally, using a trust does create administrative requirements: both UK-residents and non-UK residents must register their trusts using HMRC's online Trust Registration Service.

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74. Pass on your pension

There have always been special tax rules for funds remaining in a defined contribution pension scheme when an individual dies. Where an individual dies before age 75 and before taking any pension benefits, there is no pension exit charge and no IHT charge (most pension funds are written in trust so that the funds do not form part of the individual's estate). This means that a lump sum can usually be paid to the individual's beneficiaries tax-free.

For individuals that have remaining funds at death after age 75 (see table below), and it is the date that the pension funds are paid out that is important.

The current rules allow beneficiaries to draw out the remaining funds when they wish. For example, basic rate taxpayers can choose to take the funds over several tax years so that they do not become higher rate taxpayers. Although some of an individual's chosen beneficiaries may pay the higher or additional rate of income tax, children or grandchildren under 18 are unlikely to.

Therefore, for many individuals it may now be appropriate to revisit their established plans and update their Wills and letters of wishes (and consider using trusts) to ensure their families get the full benefit of any pension funds remaining at their death.

Retired individuals, with significant funds invested outside their pension, may wish to reduce their future pension drawings and live off other income so that they can pass on the maximum amount of pension capital to their beneficiaries in a tax-efficient way.

Individuals with defined benefit (final salary) pension schemes are not able to take advantage of these rules, so may wish to consider their options for switching to a defined contribution scheme. However, depending on the terms of the particular defined benefit scheme concerned, such a switch may not be possible or the cost could be prohibitive. Anyone considering this issue must seek advice from an Independent Financial Adviser.

Death	Draw down payments	Lump sum payment
Over age 75	Taxed at marginal income tax rate of beneficiary.	Taxed at marginal income tax rate of beneficiary.
Under age 75	No tax charge on funds passed on to any beneficiary in accordance with deceased's letter of wishes. However, from April 2024 it is proposed that the rules will be aligned with those that apply for a death aged over 75.	

75. Spouses and civil partners domiciled outside the UK

The IHT exempt amount that a UK domiciled individual can transfer to his or her non-UK domiciled spouse or civil partner is £325,000 (the level of the nil-rate band).

It is also possible for a non-UK domiciled spouse to elect to become UK domiciled for IHT purposes only. If such an election is made, the 100% exemption for transfers between spouses will apply to all transfers between them (during their lifetimes or on death).

However, care must be taken with the election as it means that all assets owned outside the UK become liable to UK IHT and the election cannot be revoked while the individual is resident in the UK. If the individual subsequently leaves the UK, the election will automatically cease to have effect after four complete tax years of overseas tax residence. However, it would be sensible for couples in this position to carry out a review of their combined IHT exposure in light of the deemed UK domicile changes from April 2017 before deciding whether to elect.

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76. Pay the maximum into your ISAs

UK residents aged 18+ can invest up to £20,000 each and parents can fund a junior ISA with up to £9,000 per child – making a total of £58,000 for a family of four.

Children will automatically have access to the funds in their ISA when they reach age 18 but ISAs are a useful vehicle for building up funds to support them through higher education.

If you have adult children who are planning to buy a home (see 68), it would make sense to gift funds to them so that they can invest in a Lifetime ISA (LISA).

This is available to people aged 18 to 40. Savers can invest up to £4,000 a year to which the Government will add a 25% tax-free bonus of up to a maximum of £1,000 a year.

LISA funds can be used to buy a first home or as a pension (if funds are withdrawn for other purposes the Government bonuses are lost).

Individuals with a LISA can also invest into another ISA providing the combined investment limit of £20,000 for the year is not breached.

Income and capital gains from ISAs are tax-free and withdrawals from adult ISAs do not affect tax relief. See table.

77. Invest in seed enterprise investment schemes

Investing in start-up enterprises qualifying for the SEIS is often thought to carry even more risk than EIS and VCT investments but it is now possible to obtain substantial tax relief to offset a large part of any potential losses.

An individual can invest up to £200,000 in such companies in a tax year and claim income tax relief at 50% irrespective of his or her marginal rate of tax.

In addition, to the extent that you did not use up the £100,000 investment limit for the prior tax year, an investment made now can be carried back and relieved as if it was made in the prior tax year.

No matter when the investment is made, should a loss eventually be made on the investment, this can be claimed against income in a later year when the shares become worthless (although loss relief is reduced by the tax relief given in the year of investment).

SEIS investments are not regulated by the Financial Conduct Authority, so should only be considered by experienced business owners and investors practiced at making direct investments.

Read more on SEIS Investment.

78. Invest in your employer

If your employer offers a share scheme there are usually price discounts and tax breaks for taking part. Where you can participate each year, plan carefully to use annual contribution limits and manage share purchases so that there is a steady flow of potential share sales in future tax years allowing you to maximise use of your annual capital gains exemption.

Shares acquired under share incentive plans (SIPs), or Sharesave (SAYE) schemes have minimum holding periods. For SIPs, employees can contribute up to £3,600 a year from gross pay, saving tax and NIC. For SAYE schemes, the limit is £500 a month from net pay.

Share sales after the holding periods are only subject to CGT, not PAYE/NIC. An income tax liability can sometimes arise when EMI options are granted but not with a company share option plan (CSOP) although there is a minimum three year holding period for CSOP options. Both allow share purchases at a future date at a price agreed now.

Gains made on selling shares after exercising options are only subject to CGT: for EMI shares, this may be at 10% (see 61). It may not be possible to hold such shares in an ISA so any dividends received on the holdings may be taxable. However, if you have not used your dividend nil rate band for the year, the first £1,000 (£500 from 2024/25) of dividend income is not taxed, (see 3). Taking professional investment advice before entering such schemes is important.

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79. Invest in enterprise investment schemes

Investments made in qualifying companies (for example, certain companies listed on AIM or that are unlisted) may qualify for income tax relief and EIS shares may be exempt from CGT on disposal.

Such investments are often thought to carry a comparatively high risk and the tax reliefs are intended to offer some compensation for that risk.

Investments in qualifying EIS companies attract income tax relief at 30% on a maximum annual investment of up to £1 million a year (£2 million a year where the amount over £1 million is invested in one or more knowledge intensive companies). Relief from CGT is available where disposal proceeds are reinvested in a company qualifying for EIS deferral relief.

The original gain is frozen until the EIS shares are sold. Any further gain made on the qualifying EIS shares is exempt provided they have been held for a minimum period of three years and a valid claim for income tax relief was made.

EIS investments remain higher risk than many other choices but there is now a wide range of sector options available in this maturing market (including media, green energy, leisure and wine).

These investments are not regulated by the Financial Conduct Authority so should only be considered by experienced business owners and investors practiced at making direct investments.

Read more on EIS investment.

80. Invest in venture capital trusts

Buying units in venture capital trusts (VCTs) is higher risk than many other investment choices as VCTs are required to invest in smaller companies that are not fully listed, however, they offer a range of tax benefits.

Income tax relief at 30% is available on qualifying investments of up to £200,000 and dividends received from the units are tax-free.

In addition, the VCT can buy and sell investments without suffering CGT within the trust and there is no CGT payable on any gain made when you sell the VCT units. See table.

81. Consider crowdfunding

Innovative Finance ISAs (IFISAs) allow individuals to invest in small businesses via lending arrangements that are held in an ISA wrapper.

IFISAs can include peer-to-peer loans made through online portals and 'crowdfunding debentures' (a corporate bond issued by the small company). However, if you have already made such investments outside an IFISA, they cannot be transferred into the IFISA.

As such investments carry a much higher risk than standard savings accounts (e.g. many loans have gone bad during the pandemic), the interest rates are set significantly higher. As with all ISAs, any income or gains generated within a IFISA are tax free.

Contributions to an IFISA will count towards your overall annual ISA contribution allowance and the maximum contribution is, therefore, £20,000.

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82. Make a community investment

Investments, by way of share purchase in, or loans to, an accredited Community Development Finance Institution (CDFI) can qualify for community investment tax relief.

Relief is given at 5% of the investment for the year of the investment and the following four years – 25% relief in total. There are a number of qualifying conditions but the most important is that the investment must be held for at least five years.

CDFIs are set up to provide finance to enterprises (both profit seeking and non-profit seeking) within disadvantaged communities so such investments should be regarded as high risk.

However, if losses are made they can be claimed against your other income in the year they are crystallised (and are not subject to the usual loss capping rules).

Any income arising from the investment is taxable but, if not used elsewhere, the dividend nil rate band effectively exempts the first tranche of dividend income from the shares (up to £1,000 (£500 from 2024/25) – see 3).

83. Wine, wheels and woodlands

There are a number of wider classes of investment assets that have specific tax advantages and should be considered if you already have a diversified investment portfolio.

For example, personal motor vehicles are exempt from CGT so investing in classic and vintage cars can yield tax-free gains. Equally, wine is regarded as a wasting asset that is tax-exempt, so again, shrewd investments can yield tax-free profits if a vintage rises in value. However, in both cases, any losses you make cannot be set against other gains.

Investment in woodlands can also be tax-efficient but is clearly for the longer term. There is no up-front income tax relief for the investment but if you have realised capital gains, these can be reinvested in woodlands and the gain rolled over until the land is sold.

Income from timber sales is tax-free, and the value of the investment can qualify for 100% relief from IHT. It should be noted that from April 2024, this only applies to UK agricultural land, not EU. If you sell the whole woodland, only the land element of any capital gain is taxable, not the increase in value of the timber.

84. Spread betting

Spread betting is a way to speculate on short-term movements in investment markets. You can bet on whether you think an investment market will rise or fall but, because you are not buying the underlying asset (e.g. shares), it is effectively a form of derivatives trading.

As with all gambling, any winnings are tax-free but there is no tax relief for any losses made.

With no underlying assets, spread bets are generally highly geared and are associated with high risk and high levels of return.

As the bets are also based on the values of traded investments they should only be considered by experienced investors in the context of a wider investment portfolio.

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85. Life assurance bonds

Insurance backed bonds provided by major insurance companies offer relatively secure returns to investors (depending on the underlying investments). They have the added tax advantage that 5% of the original capital invested can be withdrawn each year tax free.

After such withdrawals reach 100% of the original capital (i.e. after 20 years), income tax is payable on further withdrawals or on surrender of the policy.

While commissions, management costs and basic rate tax charges within the bond must be considered, individuals whose level of income means that they will lose their personal allowance and pay 45% income tax (47% in Scotland) may find the 5% tax-free withdrawals facility particularly attractive.

Some regular premium policies which run for ten years or more can qualify for full income tax exemption on the gains accrued. However, investment into such qualifying policies is limited to £3,600 a year for all arrangements set up after 21 March 2012.

Any amounts invested in new policies that are in excess of the annual limit will not qualify for the favourable tax treatment. Increases to existing policy premiums will be classed as creating a new non-qualifying policy but, if you have a pre-21 March 2012 policy, it should be advantageous to keep the policy going until the existing maturity date.

86. Protect family wealth using a family investment company

Operating an investment company may be attractive in some circumstances if you are seeking to preserve family wealth within a controlled family environment and/or wish to consider introducing the next generation into the decision making about investments made. The most appropriate structure will depend on the family's circumstances and objectives.

By exchanging capital for shares in the company and making loans to it, the family directors can then invest as appropriate. Income and capital gains will be taxed at the corporate tax rate of 25% as a Close Investment Holding Company, which is lower than the 20% or 45% (47% in Scotland) rates paid for gains/income received personally or by a trust. In addition, various corporate tax exemptions may be available. Of course, when funds are later paid out by the company, dividend and interest payments would be taxed on recipients as normal although loan capital repayments would not be taxable.

Where shares in an investment company are held by the next generation, dividends could be paid to fund university education (after the personal allowances and dividend exemption these will be taxed at a maximum of 8.75% in the hands of a basic rate taxpayer). Where a parent sets up the company, dividends paid to children before they reach age 18 are taxed on the parent under the settlement rules.

87. Offshore bonds

Offshore life assurance bonds allow income to accumulate virtually tax-free until they are disposed of (when they are taxed in full – i.e. at a maximum of 45% (47% in Scotland).

As with UK bonds, 5% of the original capital invested can be withdrawn each year tax-free for up to 20 years, but there is (currently) no annual investment limit.

While the maximum rate of CGT is 20%, alternative collective investments may be more attractive for short-term investment.

However, offshore life assurance bonds offer the flexibility to defer tax into a year when other income is lower, or until a year when income losses are available to offset the profits, or a year when you are not tax resident in the UK.

You should also consider having the life policy written in trust for family members so that the proceeds do not form part of your estate for IHT purposes on your death.

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Investments: Summary of key tax advantaged investments

Main conditions for tax reliefs	ISA	EIS – Full reliefs	EIS Deferral only	VCT	SEIS
Individuals can invest	Yes	Yes	Yes	Yes	Yes
Income tax credit – % of cost	25% credit (LISAs and Help-to-buy ISAs only)	30%	N/A	30%	50%
Subscription limit per tax year	£4,000 (LISA and Help-to-buy ISAs) £20,000 overall, Junior ISA (£9,000)	£1 million (£2 million if amount over £1 million invested in one or more qualifying knowledge intensive companies)	Unlimited	£200,000	£200,000
Tax free increase in value of shares	Yes	Yes	No	Yes	Yes
Dividends free of income tax	Yes	No	No	Yes	No
Deferral/exemption from CGT for gains on other assets realised in same period as investment	Exemption	Deferral	Deferral	No	Exemption for 50% of gains only
Time limit for carry back of CGT deferral relief to previous disposals	N/A	Shares issued up to 12 months before/ three years after gain	Shares issued up to 12 months before/ three years after gain	N/A	One year
Minimum qualifying period for income tax and CGT deferral/exemption	N/A	Three years	Three years	Five years	Three years
Loss relief on investment	No	Yes	Yes	No	Yes
IHT business relief on shares after two years' ownership	Depends on investments	Yes	Yes	No	Yes
Direct or indirect provision of finance	Direct	Direct	Direct	Indirect	Direct
Gross asset limits	N/A	£15 million-£16 million	£15 million-£16 million	£15 million-£16 million*	£350,000
Maximum number of employees	N/A	< 250	< 250	< 250*	< 25
Investor's maximum holding	N/A	30% of qualifying company	100% of qualifying company	Small % of VCT	30% of qualifying company
Limit on money received by enterprise/company	N/A	£5 million pa, £10 million pa for qualifying knowledge intensive companies)	£5 million pa, £10 million pa for qualifying knowledge intensive companies)	£5 million pa, £10 million pa for qualifying knowledge intensive companies)*	£250,000

* Applies to companies in which the VCT invests.

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AIA	Annual Investment Allowance
AIM	Alternative Investment Market
BADR	Business Asset Disposal Relief
BR	Business Relief (from inheritance tax)
CGT	Capital Gains Tax
CDFI	Community Development Finance Institution
CSOP	Company Share Option Plan
EIS	Enterprise Investment Scheme
EMI	Enterprise Management Incentive
HMRC	HM Revenue & Customs
IHT	Inheritance Tax
IFISA	Innovative Finance Individual Savings Account
IR	Investors Relief
ISA	Individual Savings Account
LISA	Lifetime Individual Savings Account
LLP	Limited Liability Partnership
NIC	National Insurance Contributions
PAYE	Pay As You Earn
R&D	Research and Development
RNRB	Residence Nil Rate Band
SBA	Structures and Buildings Allowance
SDLT	Stamp Duty Land Tax
SEIS	Seed Enterprise Investment Scheme
SIP	Share Incentive Plan
SIPP	Self-Invested Personal Pension
SITR	Social Investment Tax Relief
SSAS	Small Self-Administered Scheme (pension)
VAT	Value Added Tax
VCT	Venture Capital Trust

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Nothing matters more to us than our clients. All our energy is focused on delivering exceptional service.

That's why we seek out and develop talented people with the imagination and initiative to make a difference for you. We've cut out needless bureaucracy, so they can serve you responsively and flexibly. And our partners stay hands-on, leading from the front so you get the full benefit of their experience.

We put the whole firm's capability seamlessly behind each client. Drawing on whatever disciplines are most relevant, we build teams of technically strong, commercially minded people empowered to think on their feet.

Our systems work to support our people, not the other way around. That gives us more time to get to know you and your business so you receive relevant, intelligent advice that adds real value.

BDO UK

18 OFFICES

430 PARTNERS

7,070 STAFF

94% OF OUR CLIENTS SAY IT'S EASY TO WORK WITH US [1]

2022/2023 RESULTS:

REVENUES [2] UP **16%** TO **£935m**

1. BDO Tax & Advisory Client Experience Survey - Spring 2023
2. Gross Revenues for BDO LLP

BDO: International

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As one of the world's largest accountancy networks, we offer the full range of service offerings you would expect of a firm of our calibre and quality.

We operate in areas that are important to you now and in areas where you will want to be in the future.

Ours is not an alliance of disparate independent firms, but a single network of member firms all bound by the same dedication to exceptional client service.

This confident and efficient performance confirmed we'd made the right choice. BDO have built impressive expertise in this area, and we now recognise them as a match for any of the Big Four on tax.

Michael Hepburn
Managing Director, JOEL UK Ltd

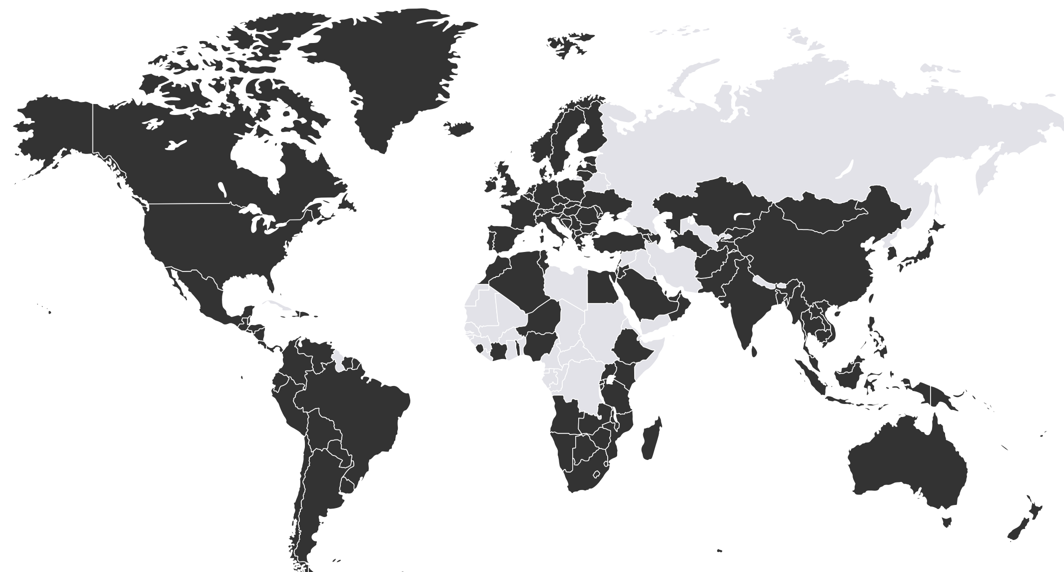
BDO International

US$12.8 billion 2021/2022 REVENUE
A YEAR ON YEAR INCREASE OF **12%** [1]

164 Countries

1,800 Offices
111,300 Staff

1. At constant exchange rate.
All numbers have been updated as of 30 September 2022.



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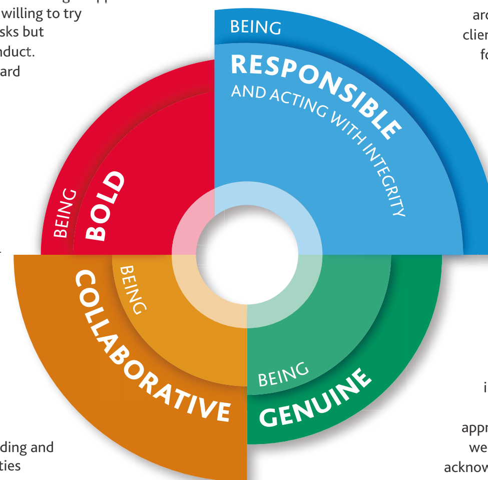
BDO: Our values

Underpinning our culture is a set of defined values which reflect how we manage our work, our relationships and ourselves.

These values embody the standards by which we conduct ourselves, and the standards you can expect in all our dealings with you as a client.

Being Bold
Being bold means we are ambitious, innovative and passionate about the things we do. We're curious, initiate ideas and make change happen – even if it sometimes feels uncomfortable. We are willing to try something new and prepared to take appropriate risks but never to the detriment of quality or our code of conduct. Today's fast changing world demands us to be forward thinking, pragmatic and willing to positively challenge the way things have always been done – to come up with new and innovative ways to help us succeed.

Being Responsible and acting with Integrity
Being responsible and acting with integrity starts with a recognition that we have a choice in how we act, respond to and influence the world around us, conscious of our impact on others, our firm, our clients and the environment. It is about taking responsibility for our actions and learning from our mistakes. It extends to our commitment to acting ethically with integrity, professional competence and scepticism, objectivity, due care, confidentiality and, when appropriate, with independence. Always delivering high quality work with the public interest in mind.



Being Collaborative
Being collaborative means that we recognise the power of supporting and working with each other, our firm and our clients. It is a way of working where everyone has an important role to play, and we believe in empowering and helping one another. To enable this, we build meaningful relationships based on trust, understanding and respect for the unique perspectives, skills and qualities that we each bring. Above all, we are committed to supporting each other and sharing our knowledge, experience and expertise to help others to succeed.

Being Genuine
Being genuine means we are true to who we are. We're honest about what we think, believe and feel – as well as our own vulnerabilities. We embrace individuality and difference, which means we don't judge the beliefs and opinions of others, but listen and, where appropriate, learn from them. Being true to ourselves means we speak up when we don't agree with something, but also acknowledge when we're unsure or have got something wrong. Trust has to be earned and we nurture it by being authentic, generous and respectful of others.

Get in touch

To discuss any of these planning points in more detail please contact your usual BDO adviser. Alternatively, contact the BDO adviser closest to you.

National

Paul Ayres
+44 (0)207 893 2247
paul.ayres@bdo.co.uk

International

Richard Montague
+44 (0)207 893 2213
richard.montague@bdo.co.uk

Simon Baylis
+44 (0)207 651 1605
simon.baylis@bdo.co.uk

London

Anna Jarrold
+44 (0)207 893 3987
anna.jarrold@bdo.co.uk

Reading

Linda Mounter
+44 (0) 118 925 4400
linda.mounter@bdo.co.uk

Southampton

Lisa Davis
+44 (0)238 088 1869
lisa.davis@bdo.co.uk

Guildford

Michael Flaherty
+44 (0)148 340 8035
michael.flaherty@bdo.co.uk

East Anglia

Peter Harrup
+44 (0)147 332 0778
peter.harrup@bdo.co.uk

Bristol

Paul Falvey
+44 (0)117 930 1635
paul.falvey@bdo.co.uk

Birmingham

Sarah Moss
+44 (0)121 352 6365
sarah.moss@bdo.co.uk

Nottingham

Tim Lynch
+44 (0)115 960 3665
tim.lynch@bdo.co.uk

North

Hilary Sharpe
+44 (0)161 833 8302
hilary.sharpe@bdo.co.uk

Wayne Dutton
+44 (0)797 171 6331
wayne.dutton@bdo.co.uk

Scotland

James Paterson
+44 (0)131 347 0376
james.paterson@bdo.co.uk

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