



# Personal tax planning 2024/25

Practical ideas for individuals,  
families and company owners

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**IBDO**

# Personal tax planning 2024/25

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 you 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, particularly in light of the Budget changes to business relief for IHT.

Making the most of opportunities to mitigate the employer NIC increase e.g. through SMART pensions (see [33](#)) can help your business thrive.

Planning in advance for profit withdrawal (see [32](#)), succession (see [55](#)) or a sale (see [38](#)) will make your business tax-efficient.



### Coming to/leaving the UK

If you are a non-dom currently living in the UK you may be concerned about non-dom status being abolished from April 2025 and what that means for you both in 2024/25 and beyond (see [8](#) in relation to IHT).

You may be planning to leave the UK or wish to spend time in the UK without being UK resident (see [5](#) and [6](#)).



### 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 (taking into account the Budget changes to IHT on pensions (see [pension section](#))).



### A property owner

Significant changes to the taxation of property income take effect from 6 April 2024.

Our [property section](#) covers key matters including the changes to furnished holiday lets (see [20](#)), landlords (see [21](#) and [22](#)) and if you are thinking about family wealth in the context of property ownership (see [27](#) and [28](#)).



### Thinking about succession

While the proposed IHT changes announced in the Budget may yet change before they take effect, it is wise to review your priorities and examine planning options now so you can preserve your wealth for the family.

It is important to regularly review and update your Will for changes in the law and in your personal circumstances (see [83](#)). Making gifts in your lifetime can be an effective way to limit your future exposure to IHT (see [60](#) and [62](#)). For some families a trust or a family investment company (see [89](#) and [90](#)) can work from a succession and tax perspective.



### 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 claim higher rate relief on pension contributions (see [58](#))).

If your income fluctuates, we can advise you on claiming to reduce your payments on account (see [10](#)). If you have invested in cryptoassets you may need specialist help in calculating the gains/losses (see [81](#)). We can help with your tax reporting 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 [26](#)).



### 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 tax rules; from maximising your pension contributions (see [57](#)) to whether/when to draw down your pension (see [61](#)).



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The non-dom regime has formed part of the UK's tax system for over 200 years. Where the conditions are met, it has enabled UK resident individuals whose permanent home is outside the UK to benefit from the 'remittance basis', effectively exempting their foreign income and gains (FIG) from UK taxation unless remitted to the UK. It has also offered protection from inheritance tax (IHT) on their non-UK sited assets.

From 6 April 2025, the current non-dom regime will be abolished. The new rules will produce a variety of scenarios with several layers of complexity. However, there are transitional provisions that provide time and a number of options for some individuals to arrange their affairs before the new rules take effect and are available until April 2028.

Keep up to date on the reforms [here](#).

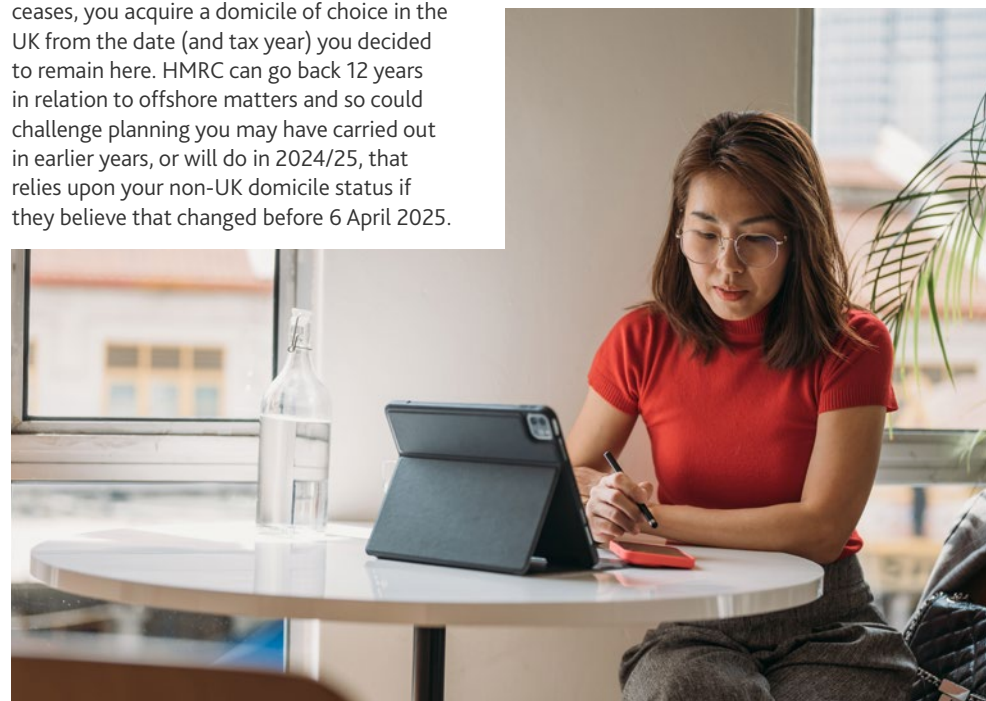
## 1. Get your domicile status checked – it remains important

If you have previously claimed the remittance basis it is vital that you check your current domicile status so you and your advisers can establish how the changes from April 2025 might impact you.

Although the rules are changing, the first thing you need to consider now is your non-UK domicile status. Although this may seem counter-intuitive, domicile status continues to be key for earlier years, the current tax year and potentially also future years.

For example, if your intention to return overseas ceases, you acquire a domicile of choice in the UK from the date (and tax year) you decided to remain here. HMRC can go back 12 years in relation to offshore matters and so could challenge planning you may have carried out in earlier years, or will do in 2024/25, that relies upon your non-UK domicile status if they believe that changed before 6 April 2025.

Domicile status determines your entitlement to claim the remittance basis (including making a claim for the current tax year ending 5 April 2025) and, therefore, impacts FIG qualifying for the Temporary Repatriation facility (see [2](#)). It will also still have relevance when considering the IHT implications for assets held in trusts.



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## 2. Is the Temporary Repatriation Facility right for you?

Transitional reliefs are available to those who have claimed the remittance basis. Therefore, the timing of any future remittances of funds to the UK you may wish to make will need to be considered.

A temporary repatriation facility (TRF) is being introduced for unremitted foreign income and gains (FIG) arising before 6 April 2025. This provides a reduced tax rate of 12% for 2025/26 and 2026/27 and then 15% for 2027/28. Under the TRF, you can designate overseas funds and pay the lower rate of tax. It is not necessary to bring the funds to the UK at that time, you can bring the nominated funds to the UK without a further charge when you choose. Clearly, where the TRF is used, stringent record keeping will be required to comply with HMRC compliance checks on repatriated funds.

The TRF is also available on benefits received from an offshore trust structure from 2025/26 to 2027/28, where the benefit is matched to pre-6 April 2025 FIG. This should mean easier access to trust income and gains which, previously, may have been subject to punitive tax rates on distributions from trusts.

The TRF can also apply to FIG where a claim for business investment relief (BIR) has been made. From 6 April 2028 when the TRF period ends, it will no longer be possible to claim BIR on any new investments, or reinvestments.

Making an election under the TRF is not necessarily appropriate in all circumstances and advice should be sought on whether, when and how to use this facility in the most beneficial way.

## 3. Manage capital gains

Now is the time to review your offshore assets standing at a gain.

A capital gains tax rebasing of non-UK sited assets is being introduced for those who cannot benefit from the four-year FIG regime. Assets will be rebased to their market value as at 5 April 2017. Previous rebasing relief still applies provided a non-UK domicile under general law is maintained to April 2025. For those still entitled to claim the remittance basis in the current year ending 5 April 2025, you may wish to review your assets and consider if it is a good time to sell to rebase the assets that way (subject to the bed and breakfasting rules). This may also be a beneficial approach for those with assets held in offshore trusts.



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### 4. The new Foreign Income and Gains (FIG) rules

From 6 April 2025, the current remittance basis regime will be replaced with a new residence-based test.

The new regime will be available for up to four years starting from 6 April 2025, or the first tax year in which the individual becomes UK resident if later. During these four years, new arrivals to the UK would not be subject to tax on their FIG, nor on distributions from non-resident trusts. These could be brought into the UK freely without attracting a tax charge.

This new regime is only available to individuals who have been non-UK resident for at least the previous ten tax years, but qualifying individuals who have been tax resident in the UK for less than four tax years by 6 April 2025 would be able to use the FIG regime for any remainder of the four-year term. After the initial four years, individuals would be taxed on their worldwide income and gains in accordance with the normal tax rules for UK residents.

### 5. 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 in advance of 6 April.

In relation to the changes from April 2025, residence will be relevant to those concerned about IHT (see [8](#)) and those who might be able to qualify for the new residence based test for taxing foreign income and gains in the UK (see [4](#)).

If you are not resident 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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## 6. Coming to the UK

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.

In relation to the changes from April 2025, residence will be relevant to those concerned about IHT (see 8) and those who might be able to qualify for the new residence based test for taxing foreign income and gains in the UK (see 4).

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 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.



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## 7. Review offshore trusts

From 6 April 2025, the protection from taxation for income and gains within settlor-interested trust structures will be removed for those who do not qualify for the four-year FIG regime.

Instead, FIG arising in such settlements will be taxed on the UK resident settlor/transferor on an arising basis. This will also include FIG within underlying companies but subject to whether any commercial motive defences apply under the transfer of assets abroad provisions. FIG arising pre-6 April 2025 will continue to be matched on a worldwide distribution basis, but transitional relief may be available (see [2](#)).

From 6 April 2025, the use of Excluded Property Trusts to exempt overseas assets from IHT will end. However, trusts created with non-UK situs assets by a non-UK domiciled individual under common law before 30 October 2024 (and who was also not deemed domiciled under the existing 15 out of 20-year regime when the trust was established) will retain some benefit. In broad terms, trust assets will not be deemed to be within the Estate of a settlor upon death.

Instead, the trust will be subject to ten-yearly periodic and exit charges (at a rate of 6%), depending on whether the settlor is a long-term resident under the new ten out of twenty-year rule. It would appear this rule can apply even if the settlor is no longer UK resident as at 6 April 2025. When the settlor ceases to be long term UK-resident, the trust will be subject to an exit charge up to 6% of the value of the trust assets.

Trustees' and beneficiaries will need to consider if existing structures remain appropriate or if they should be wound up.



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## 8. Inheritance tax and domicile - how long is your 'tail'?

Under the new rules from 6 April 2025, the length of your IHT 'tail' (how long your worldwide assets remain within the scope of UK IHT after you leave the UK) will depend on how long you were resident in the UK.

The UK will move to a residence-based system from 6 April 2025 that will see IHT being charged on worldwide assets for individuals who have been UK resident in ten out of the last twenty tax years, with a sliding scale for those in the UK for shorter periods. The IHT override for individuals who are currently covered by double tax treaties (e.g. India, Italy, Pakistan), will remain where the conditions are met.

For example, if you were UK resident for between ten and thirteen years before leaving the UK, you will remain within the IHT net for three tax years. This is then increased by one year for each additional year of residence. Those who have already been UK resident for twenty years will be subject to IHT for ten years after exit if they leave after 6 April 2025. As is the case now, UK sited assets will always remain within the scope of IHT irrespective of residence status.

If you have not yet been UK resident for ten years, you should consider how the new rules impact you now. This might include a review of your UK residence position (see [6](#)), your assets and any structures (see [7](#)). It may be that obtaining life cover is an appropriate action while you remain in the UK IHT net. The position for children who remain at school in the UK, as well as any parent remaining in the UK, may also need to be considered. Particularly in relation to the impact of the increased scope of IHT.

Changes to the UK IHT rules on business assets (i.e. the future loss of 100% relief for the transfer of qualifying business or agricultural assets, see [84](#)) may also need to be considered where a non-dom holds such UK assets personally or in trust (see [7](#)).

## Spouse election

The IHT exempt amount that a UK domiciled individual can transfer to their non-UK domiciled spouse or civil partner is £325,000 (the level of the nil rate band). It is 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 IHT and the election cannot be revoked while the individual is resident in the UK. From 6 April 2025, a spouse who has not been UK resident for ten years can make an election to be treated as if they had been. The election will last for ten consecutive tax years of overseas tax residence. It would be sensible for couples in this position to take bespoke advice.

## 9. Inheritance tax and charitable gifts pitfall

From April 2024, only UK based charities qualify for tax relief for income tax, CGT and IHT purposes.

The removal of the IHT relief for non-UK charities may cause accidental tax charges. Previously, if a non-dom made donations to an EU charity with their non-UK funds that would not have any UK tax implications. Since April 2024, any donations made to non-UK charities will be chargeable lifetime transfers and, therefore, subject to an immediate IHT charge.

If you would like to make a donation to a non-UK charity, then you may be able to do this using a donor advised fund or by contacting the charity to see if they have any relationship with a UK based charity.



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## 10. Reduce your taxable income

The additional rate of 45% (48% 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 £500 from April 2024.

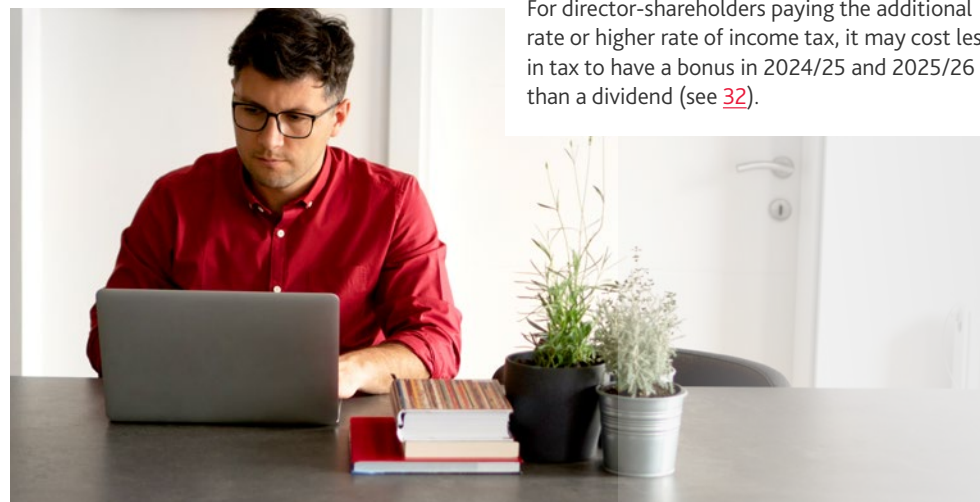
By managing your net income, you can limit your tax exposure. This can be achieved by changing investments into non-taxable forms, deferring income, making pension contributions, or giving income yielding assets to a spouse/civil partner with lower income.

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 2024/25 tax year, pension contributions made by 5 April 2025 (see [58](#)), donations to charity made by 31 January 2026 (see [14](#)) and tax-advantaged investments made by 5 April 2026 (see [65](#) and [66](#)) 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 2024/25 and 2025/26 than a dividend (see [32](#)).



## 11. 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 income near the thresholds can reduce their tax liabilities by reducing their taxable income below £100,000 and £125,140. This is also beneficial for the purposes of keeping your income below the high income child benefit threshold and to retain tax-free childcare (see [16](#) and [17](#)).

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 [57](#)). Exchanging salary for the benefit of an electric company car can also be beneficial as there are special benefit in kind rules for EVs (see [49](#)).

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### 12. Utilise lower dividend rates

The dividend tax rates are lower than the main rates and there is a specific dividend allowance that applies to the first £500 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 [32](#)).

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 [34](#)).

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 [76](#)).

### 13. 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 (48% 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 CGT at a maximum of 24% (20% up to 29 October 2024 for non residential property) and 28% on disposals of carried interest (32% from 6 April 2025).

Even though rates of CGT have risen there may still be other advantages in realising gains rather than income: there are a number of deferral reliefs available for reinvesting gains (see [77](#)).

### 14. 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 [74](#)).

Check that your donation is to a qualifying charity, in particular from 6 April 2024 only UK based charities will qualify (i.e. EU charities are no longer included).



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## 15. Do you have a side hustle?

New rules which came into force from January 2024 require digital platforms to pass on information about their users' income to HMRC. This covers individuals who sell goods or let out holiday accommodation online – or use apps to arrange work as private hire or food delivery drivers etc.

As a result of these changes, in 2025 HMRC will have more accurate information with which to detect and enforce tax compliance – there will be fewer places to hide for those seeking to conceal income and gains. Taxpayers will need to make sure they are accurately reporting their income from all sources – and consider if there are any amounts not declared from earlier years.

See more on getting your taxes up to date [here](#).

## 16. Keep child benefit

Child benefit is clawed back where annual taxable income (or the taxable income of a partner) exceeds £60,000.

The claw back (officially the high income child benefit charge) is at 1% of the benefit for every £200 of income over £60,000, so that when income reaches £80,000, 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 £60,000, child benefit will not be clawed back.

Although it was announced in the March 2024 Budget that the clawback test will be moved to a total 'household income' based system from April 2026, the 2024 Autumn Budget has confirmed this will not be happening.

Making personal pension contributions or exchanging salary in return for employer pension contributions can reduce your taxable income to keep it below the £60,000 threshold (see [9](#)). This also applies if parents/grandparents contribute to your pension (see [82](#)). 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:

1. The highest earning partner can simply pay the claw back tax charge
2. Claim child benefit but elect to receive no money now
3. 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 HMRC 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.



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### 17. 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.

Pension contributions will reduce your taxable income below the £100,000 threshold, in the same way as for child benefit (see [16](#)).

Parents must open an account into which they can transfer funds. The Government will add 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.



### 18. Switch your company car

Choose a lower emissions car to save tax. The taxable benefits on company cars are based on the level of CO<sub>2</sub> emissions.

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% (increasing to 3% for 2025/26), whereas a similar car with an electric range of under 30 miles will trigger a taxable benefit of 14% (increasing to 15% for 2025/26).

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 (45p per business mile for the first 10,000, and 25p thereafter).

If fuel has been provided for private use of a company car, 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<sub>2</sub> emissions.

### 19. 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 48%. 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 income tax in Scotland (although the new NIC rates apply equally across the UK). It is therefore key to ensure that you obtain full tax relief when you are entitled to it, for example, on charitable donations and pension contributions.

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



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## 20. Furnished Holiday Lets (FHLs)

FHLs benefit from a number of tax breaks, however the beneficial regime is being abolished from 6 April 2025.

Currently, 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.

### Once the regime is abolished, the tax benefits owners will lose from April 2025 include:

Tax deductions you can claim for mortgage interest and 'capital' expenditure may reduce significantly. Capital allowances claimed for 2024/25 and earlier years will be carried forward and you will be able to continue to claim writing-down allowances on that pool.

The rental profits will no longer be regarded as 'earnings' for the purpose of claiming tax relief on pension contributions.

Selling the property may result in higher CGT due as it will no-longer be possible to roll over the gain into another business investment and business asset disposal relief (BADR), (giving a potential lower rate of capital gains tax, see [39](#)), will not be available for sales from 6 April 2025 onwards.

### What to do this year?

If the current arrangements suit you, there may be no need to change but it is sensible to check how much extra tax you will pay.

If you already own an FHL and were thinking of improvements for the longer term, you may want to carry out any improvements before 5 April 2025 to be able to claim capital allowances.

Another option is to sell the property. Although the sale may qualify for BADR at a rate of 10% (as opposed to 24%) it is prudent to seek advice on your likely tax charge before you complete the transaction. Remember that capital gains on property need to be reported (and the tax paid) within 60 days of completion (see [26](#)).

Alternatively, it might be the right time to pass on the property to your family, but using the property without paying after you have gifted it may have IHT implications. Giving an asset to a 'connected relative' is treated as a disposal at market value. However, in 2024/25 as an FHL property is treated as a business asset, it may be possible to elect to 'holdover' any capital gain on disposal to relatives. Of course, if they subsequently sold it, CGT would be payable at 24% on any historic gains, so consider the options carefully.

If your holiday home does not qualify as an FHL, there is no pressing need to act.



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### 21. Buy to let portfolio 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 CGT charge. However, a 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 up to 31 March 2025 and reducing to £125,000 from 1 April 2025 in England and Northern Ireland, with different thresholds in Scotland and 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 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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## 22. 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 £500). However, retained profit can be reinvested by the company without a further tax charge.

If the lettings are accepted by 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.

A property letting company cannot qualify for BADR from CGT (see [39](#)) unless the lettings qualify as FHLs (although this regime is being abolished from 6 April 2025 (see [20](#))).

### SDLT 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.

However, individuals with a high income from other sources may still benefit from taking a long-term view. The company could eventually be sold or wound up with CGT paid at a maximum of 24%.

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 the tax, 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.

## 23. Let a room in your home tax-free

Rent a room relief has been available for many years. The relief 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 CGT relief available for periods where your home is let (see [24](#)). So where you have claimed rent a room relief your main residence exemption will not be impacted.



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## 24. 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.

When your home is let to a tenant, you may 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 can 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 (see [26](#)).

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 5% increase in SDLT rates on second homes (similar surcharges apply under Scottish and Welsh land taxes).

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.



## 25. Swap your 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% (5% from 30 October 2024) SDLT surcharge you paid on a purchase in England or Northern Ireland.

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 [19](#)).

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### 26. 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 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 PR relief (see [24](#) and [25](#)), or nil gain/nil loss transfers between spouses and civil partners (see [78](#)) 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 PR relief.

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

### 27. 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. Even 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. 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.



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### 28. Help your child or grandchild onto the property ladder

If you have the capital, or are prepared to release equity from your own home or perhaps drawn down on a pension, 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 [63](#)) 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 SDLT 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 was temporarily increased for first time buyers up to 31 March 2025 to £425,000, applying on the purchase of a property valued at up to £625,000. This is reducing from 1 April 2025 to up to £300,000, applying on the purchase of a property valued at up to £500,000.

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

In addition, a 5% SDLT surcharge (in Scotland and Wales a similar 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% SDLT 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. One of the benefits of using a trust is that this would start the seven-year clock, whereas a direct loan would not do that.

As an alternative to a trust, 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 not already used against savings income.

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 [23](#)) 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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## 29. Borrow to help your child buy a first home

Some lenders will now provide mortgages on a '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 SDLT. 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.

## 30. 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 IHT 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 IHT and cash flow perspective.

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



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## 31. Taxing business profits for sole traders and partnerships

From 2024/25, the tax year basis of assessment will apply when taxing your profits.

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

In the 2023/24 tax year, all businesses had their basis period moved to the end of the tax year and any overlap relief accrued 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 accounting year end to 31 March?
- ▶ 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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## 32. Review profit withdrawal options

Withdrawing profits from your company by way of dividends continues to be tax-efficient for some taxpayers.

The exact 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 when paid.

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 £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.

Since 1 April 2024, 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 [34](#)).

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%.

	2024/25* %	2025/26 %
Basic rate taxpayer		
Dividends	31.56	31.56
Salary/bonus	36.73	37.39
Rent/interest	20.00	20.00
Self-employed	26.00	26.00
Higher rate taxpayer		
Dividends	50.31	50.31
Salary/bonus	49.03	49.57
Rent/interest	40.00	40.00
Self-employed	42.00	42.00
Additional rate taxpayer		
Dividends	54.51	54.51
Salary/bonus	53.43	53.91
Rent/interest	45.00	45.00
Self-employed	47.00	47.00
All taxpayers		
Pension contributions	0.00	0.00

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### 33. 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. This saving will increase from April 2025 when the employer NIC rate rises to 15%.

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 £80 less in NIC. The employer will save £138 in NIC (£150 from April 2025) 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 also be highly tax-efficient for both parties (see [49](#)).



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### 34. 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 of 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 may 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 [58](#)). Also refer to the [pension section](#) for details of changes to IHT on pensions and [62](#) discussing whether you should pass on your pension.

### 35. 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).

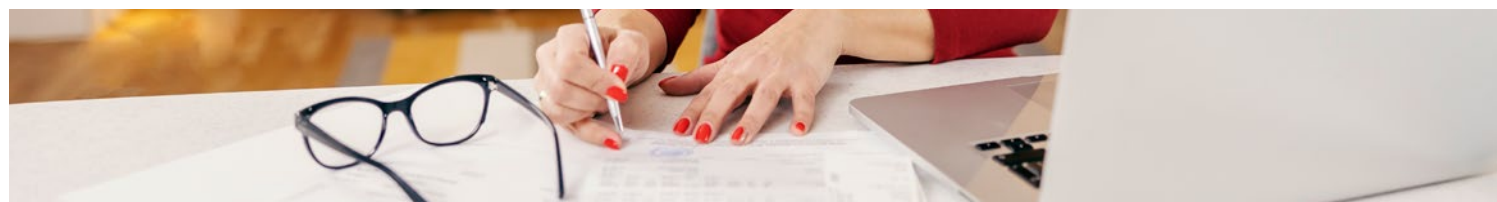
Not only is tax relief obtained on the original pension contributions, such pension funds can invest in a wide range of assets and it is possible for an owner to retain control as a co-trustee of the fund.

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.

See also the [pension section](#) for details of changes to IHT on pensions.



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### 36. 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 (see [39](#)) on sale of the company or BR (see [55](#)) 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.



### 37. 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 (see [55](#)).

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

### 38. 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 CGT liability, in a way which also benefits your employees.

Read more about selling your business to an [Employee Ownership Trust](#).

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39. Aim for business asset disposal relief (BADR) 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% (increasing to 14% from 6 April 2025 and 18% from 6 April 2026). Any excess is taxed at 24% (although part of the gain could be taxed at 18% 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 business or shares in a business. Family members with a share in the business can also benefit (see 54).

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 lower BADR rate can only be taken before a disposal.

40. 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.

41. 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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## 42. Review business 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 see [39](#)) and business relief (BR see [55](#)) 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 needed in order to take advantage of these valuable tax reliefs. This may be another reason personal ownership is beneficial.

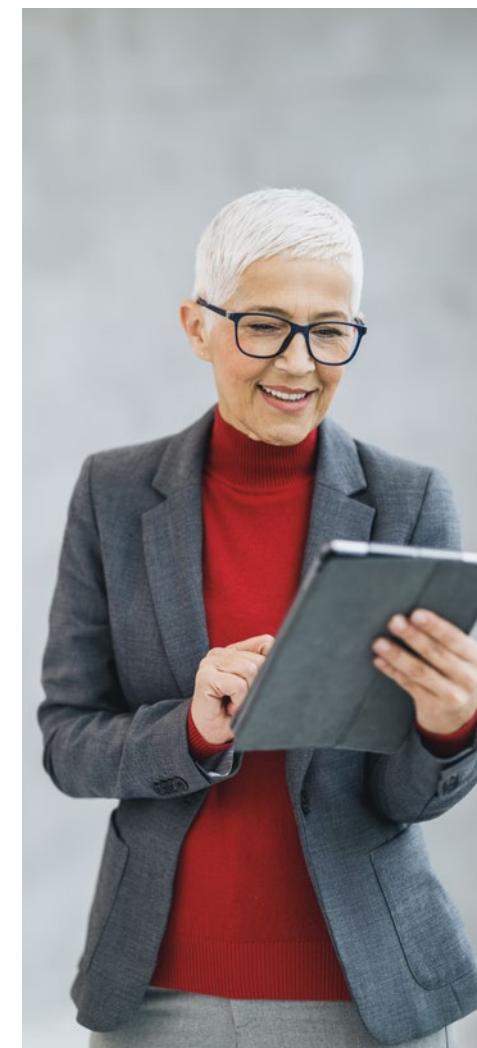
## 43. Claim allowances on structures and buildings

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 [44](#)), 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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### 44. 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.

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.

### 45. Set up in an Enterprise Zone, Investment Zone or a Freeport

Several tax benefits are available in Enterprise Zones, Investment Zones and Freeports.

If you are looking to establish in a new location it is advisable to consider if any of the Enterprise Zones, Investment Zones or Freeports are a suitable location for you.

See more on the capital allowances benefits in Enterprise Zones [here](#).

The tax benefits within Investment Zones and Freeports include SDLT relief on land purchases, NIC relief and business rates relief: certain Customs Duty and VAT reliefs are also available for businesses operating in Freeports (see more [here](#)).





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## 46. Claim R&D relief

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

### HMRC scrutiny

HMRC has drastically increased the level of scrutiny on R&D claims. There has never been a better time to review your previous claims, and ensure that they are aligned with best practice. See more [here](#).

If HMRC queries one of your R&D claims or sends you a general nudge letter it is important to act quickly to protect your business. See more [here](#).

### Rules from 1 April 2024

The new merged R&D scheme applies 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 runs alongside the SME intensive scheme for loss-making companies.

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.

Loss making R&D intensive companies are those whose qualifying R&D expenditure constitutes at least 30% of total expenditure (down from 40% for accounting periods starting before 1 April 2024). Such companies qualify for relief of 26.97p for every £1 of qualifying spend.

### What is R&D?

In all cases, the R&D 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.

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. For contracted out R&D, only the costs of R&D carried out in the UK can qualify (apart from some limited exemptions).

### Claim process

When making a claim it is also now necessary to fill in an additional information form when submitting claims. See [here](#) for further information.

The legislation on limiting R&D tax credits claimed by loss-making SMEs is explained in full [here](#).



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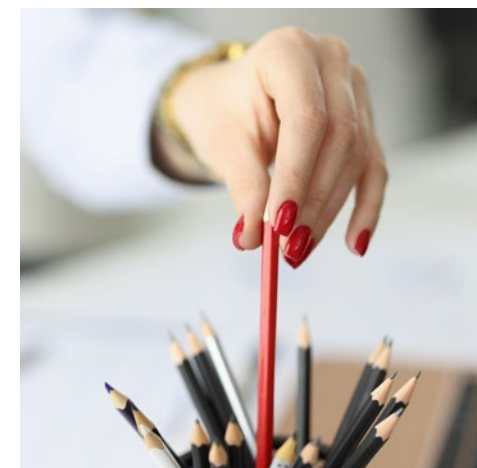
### 47. Ensure losses are used to the best advantage

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 (see 48).

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	Group relief	Carry back to offset against	Carry forward to offset against
Trade losses	Total profits	Yes	12 month carry back against total profits	Total profits of the company/group, but overall relievable amount restricted to £5 million plus 50% of remaining total profit.
Property losses	Total profits	Yes	N/A	Total profits of the company/group, but overall relievable amount restricted to £5 million plus 50% of remaining total profit.
Management expenses	Total profits	Yes	N/A	Total profits of the company/group, but overall relievable amount restricted to £5 million plus 50% of remaining total profit.
Non-trading loan relationship debits	Total profits	Yes	12 month carry back against NTLR profits	Total profits of the company/group, but overall relievable amount restricted to £5 million plus 50% of remaining total profit.
Non-trading losses on intangible fixed assets	Total profits	Yes	N/A	Total profits of the company/group, but overall relievable amount restricted to £5 million plus 50% of remaining total profit.
Capital losses	Chargeable gains	Gains/losses can generally be transferred	N/A	Chargeable gains.

Note: The above loss relief rules do not apply to charities nor on the cessation of a trade. Different rules applied to pre April 2017 losses and there were special rules relating to trade losses arising in accounting periods ending between 1 April 2020 and 31 March 2022. Please contact us if you need advice in relation to any such losses.

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### 48. Carry back 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.

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.

### 49. 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<sub>2</sub> emissions for a car, the higher the percentage of the car's list price that is used to calculate the benefit in kind.

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. Particularly with the NIC rate increasing to 15% from 6 April 2025.

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 [58](#)).

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 CO<sub>2</sub> 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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## 50. '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, rising to 15% from April 2025) 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'.

## 51. 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.





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### 52. 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 Upper 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, with earnings up to the Upper Earnings Limit.

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).

### 53. 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 54).

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.



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#### 54. 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 10% (rising to 14% from April 2025 and to 18% from April 2026).

Of any excess, part is taxed at 18%, up from 10% prior to 30 October 2024 (if your income tax basic rate band is not used up in that year) and the rest at 24%, up from 20% prior to 30 October 2024. The relief can be given on the sale of a business or shares in a business provided the 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:

1. 5% of the ordinary share capital and votes of the company
2. 5% of its distributable profits (dividends)
3. 5% of the assets available on a winding up of the company.

As an alternative to conditions two and three, 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 BADR but there is no need to have a 5% share of the company's value.



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## 55. Protect your business for the next generation

Changes announced in the Autumn 2024 Budget to cap 100% business relief (BR) at £1 million, and 50% relief thereafter, mean that all business owners need to review their succession plans now before the new rules take effect from April 2026.

The new rules are subject to consultation and so the position is not final. However, it is sensible to be prepared. If you wish to benefit from BR now (or in the future) you will first need to ensure that your company qualifies for BR. For example, this would be essential for anyone making a lifetime gift of business assets to a trust now for the next generation. See [84](#) for more details of the new rules.

### Qualifying for BR

Fortunately, even if your company shares do not currently qualify for BR, remedial action can potentially be taken. 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 may be kept outside the IHT net (for transfers/deaths before 6 April 2026).

If the shares don't qualify for BR, 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.



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The Autumn Budget 2024 resulted in a significant change to IHT on pensions, with the effective abolition of the IHT exemption from 6 April 2027.

The fact that residual defined contribution pension funds and death benefit lump sums from defined contribution (final salary) schemes will fall within the IHT net from April 2027 will impact many of the estate planning arrangements put in place since 2015.

The Chancellor's stated aim is to prevent pensions from being used as a tool for avoiding IHT. However, if an individual dies on or after their 75th birthday, any withdrawals from the pension by their beneficiaries are already subject to income tax at their marginal rate, so the proposals mean that funds could be subject to overall effective taxes of up to 67% before reaching the beneficiary. The published Budget documents do not mention this fact, but a consultation has been announced during which it will almost certainly be raised - watch this space.

Where IHT is payable, it will be paid by the pension fund to prevent withdrawals being required (and possibly taxed) to pay the IHT.

## 56. Large pension pots – lifetime allowance (LTA) abolished

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 for this reason (see [57](#) and [58](#)). A pension can be retained and passed on to the next generation, currently free of IHT.

However, given the IHT relief for pensions is changing from April 2027, 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.

Read more in relation to this [here](#).



## 57. Tax-free pension contributions

For employees, particularly those paying additional or higher 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. The impact of this will increase from April 2025 when the employer NIC rate increases by 1.2% to 15%. 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.

For those with large pension pots, the IHT changes should also be considered.



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## 58. 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 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.

## 59. 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 them retain the child benefit (see [16](#)) and tax free childcare (see [17](#)).

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.



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### 60. 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, spreading the use of your tax-free cash over a number of years, may be more tax-efficient in the long run (see [61](#)).

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.

### 61. 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 your 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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## 62. Should you pass on your pension?

There have always been special tax rules for funds remaining in a defined contribution pension scheme when an individual dies. However, these are changing from April 2027.

Where an individual dies before age 75 and before taking any pension benefits, there is no pension exit charge and currently 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 funds can usually be paid to the individual's beneficiaries tax-free. From April 2027, any residual funds (and lump sum death benefits from defined benefit pensions) will form part of the individual's estate and be liable to IHT. Any IHT will be paid directly by the pension fund before any pension funds can be accessed by your chosen beneficiaries.

Leaving your pension fund to your children could in future trigger a combined income tax and inheritance tax charge of up to 67% so there may well be more tax-efficient ways to pass on your wealth: for example, leaving your pension fund solely to your spouse will still be tax-free. Therefore, for many individuals, it may now be appropriate to revisit your established plans and update your Will and letter of wishes (and consider using trusts). Anyone with a significant pension fund would also be wise to consider lifetime gifting as part of the mix in passing on wealth.

Beneficiaries will continue to be able 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.

See also 56 in relation to large pension pots and the implications of the lifetime allowance being abolished.

	After 6 April 2024	After 6 April 2027
LTA charge	Nil	Nil
IHT	Nil	40% above the nil rate band
Income tax		
Where member died 74 or under	Nil	Nil
Where member died 75 or over	Marginal rate	Marginal rate

However, note that lump sum death benefits remain chargeable even when a person dies before the 75th birthday, if it is not paid within two years of death or it is paid to a non-qualifying person e.g. a trust.

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### 63. 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 [28](#)), 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](#).

### 64. 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% in 2024/25 (see [39](#)). 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 £500 of dividend income is not taxed, (see [12](#)). Taking professional investment advice before entering such schemes is important.



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## 65. Invest in Enterprise Investment Schemes (EIS)

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). It is possible to carry back up to 100% of an investment to the previous tax year.

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 and is liable to the CGT rate prevailing at that time, which may be higher than the current 24% rate. 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](#) and see [table](#).



## 66. Invest in Seed Enterprise Investment Schemes (SEIS)

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%.

In addition, to the extent that you did not use up the 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.

There is also a CGT advantage where income tax relief is claimed such that 50% of the matched gain in the same year as the income tax relief claim can be exempted. Where the CGT rate may increase, if you are intending to benefit from the CGT exemption, you may wish to consider in which year an investment is made.

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](#) and see [table](#).

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## 67. Invest in Venture Capital Trusts (VCTs)

Buying units in 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](#).

## 68. 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 went 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.

## 69. Make a community investment

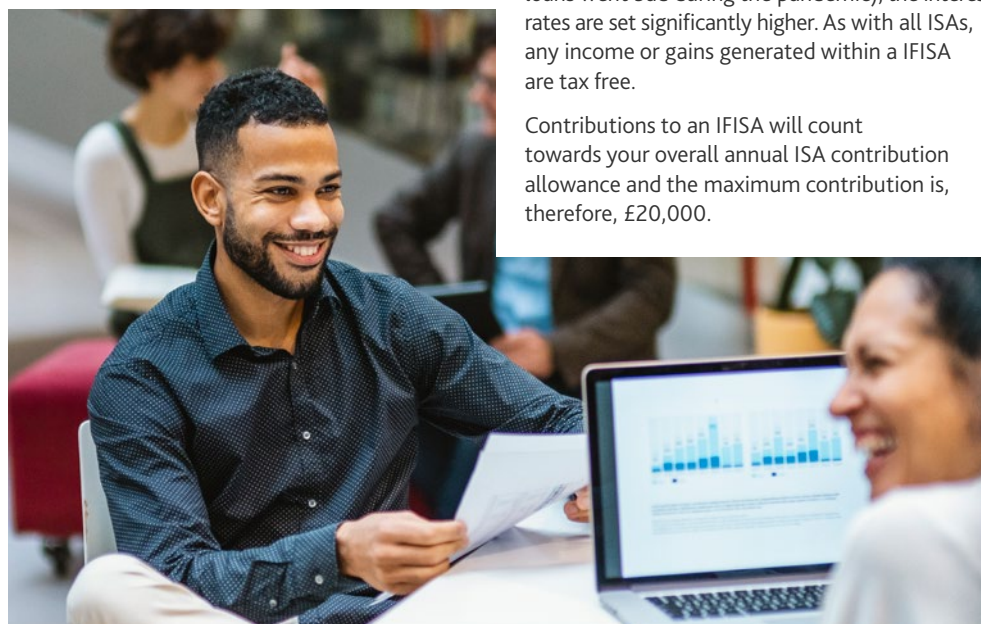
Investments, by way of share purchase in, or loans to, an accredited community development finance institution (CDFI) can qualify for community investment tax relief.

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, being up to £500 (see [12](#)).



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### 70. 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 up to 5 April 2027, with a reduced relief available after that (see [53](#)). 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.

### 71. 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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### 72. 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 (48% 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.

### 73. 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% (48% 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 24%, 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 (see also [90](#)).





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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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## 74. 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 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 24% in 2025/26 but some of your basic rate band remains available in 2024/25 (so gains would be taxed at 18%), consider deferring the sale of assets now standing at a loss to ensure that the losses are relieved at 24% in 2025/26.

If you have already realised a capital loss during 2024/25 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.

## 75. 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 (see [48](#)), 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.

## 76. Use 'paper' losses to reduce CGT but retain investment

Whilst CGT 'bed and breakfasting' of shares is, in general, not effective for tax purposes, 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.



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## 77. 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. But it is important to be aware that any deferred gains will be liable to tax at the CGT rate prevailing at the future time they become chargeable, which may be higher than the current 24% rate.

Alternatively, if a qualifying investment was made in 2023/24, 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 2024/25.

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. If the gain is not deferred again, then it will be liable to tax at the CGT rate prevailing at that time, which may be higher than the current 24% rate.

## 78. Use annual exemptions

Everyone can realise capital gains up to the annual exemption tax-free – £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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## 79. 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 £1 million will apply (a completely separate limit to BADR).

As with BADR (see [39](#)), changes were made in the 2024 Autumn Budget. The lifetime limited was reduced from £10 million to £1 million with effect from 30 October 2024. The rate remains 10% in 2024/25. This will increase to 14% from 6 April 2025 and 18% from 6 April 2026. Any excess is taxed at 24% (although part of the gain could be taxed at 18% for those on low incomes in the tax year of disposal).

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](#).

## 80. Consider updating your portfolio of unlisted company shares

With the rate of CGT increasing to 24% and investor's relief remaining available (albeit with a much reduced lifetime allowance (see [79](#)), now can still 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 24%. New unquoted shares purchased can qualify for investors' relief - see opposite.

Where a portfolio of unquoted shares is held for the IHT advantages (although these are significantly reduced from April 2026, see [84](#)), 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.



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# Capital gains

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## 81. How your virtual currency (e.g. Crypto) 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 [48](#)).

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. It is important to bear in mind that you do not need to 'cash out' of a holding to trigger a disposal: switching directly to another crypto-currency or using it to buy goods or services will be treated as a disposal.

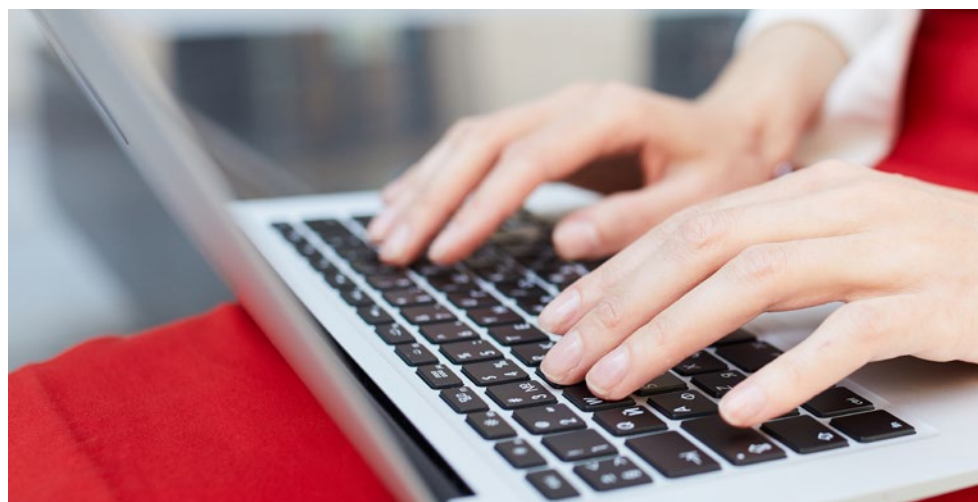
For crypto-currency held as an investment, it may be possible to make loss or 'negligible value' claims where the asset becomes or (in the case of fraud victims) turns out to be, worthless.

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.

HMRC has data from crypto platforms and identified that some investors have not disclosed their gains correctly: it is sending 'nudge' letters to encourage investors to correct these errors. If you have concerns about such issues, please contact our [Tax Disputes team](#).



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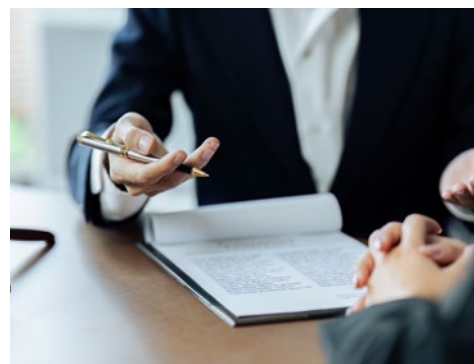


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In the Autumn Budget 2024, the Government proposed significant changes to IHT for business and agricultural property owners from 6 April 2026 with more details expected in a consultation document to be published in Spring 2025. However it is best to be ready to act quickly if needs be once we have certainty on the changes – this may not materialise until quite close to April 2026. Changes were also made to IHT on pensions (see [62](#)).

It will be important to review your Will/letter of wishes to make sure that it remains tax efficient. Life cover can also be purchased to cover both lifetime giving as well as on death.

Passing on assets earlier through lifetime giving may become more popular (see [87](#)).



## 82. Bank of mum and dad

Parents wishing to gift money to their children or grandchildren may wish to consider tax-efficient options.

If you have maxed out your ISA allowance, you could consider helping your children or grandchildren to do the same. If your child or grandchild is over 18 but under 40 you could consider making a contribution of up to £4,000 to their Lifetime ISA to help them get onto the property ladder. The government adds a 25% bonus to the savings up to a maximum of £1,000 per year.

Parents thinking of giving a cash gift to their adult children or grandchildren would be wise to consider paying into their offspring's pension fund as gifts used for pension contributions can be highly tax-efficient. Even though it is the parent making the donation, it would be the recipient who would benefit from the tax relief on the pension contribution. And the contribution also has the effect of reducing the recipient's 'adjusted net income' for the purposes of the high income child benefit charge and entitlement to tax-free childcare (see [16](#) and [17](#)).

Outside of the IHT allowances (see [87](#)), the parent will need to survive for seven years for any gift to be most efficient for IHT purposes.

Parents and grandparents can also help pay for childcare by gifting funds to pay into a Government childcare account (see [17](#)).

## 83. Update your Will

Regularly reviewing and updating Wills as financial and family circumstances change and given the significant proposed changes to IHT 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 (£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 RNRB (see [27](#)) and the pension changes (see [62](#)) may make long-standing plans in your Will inefficient, so it is important to take expert IHT advice to ensure that appropriate changes can be made.

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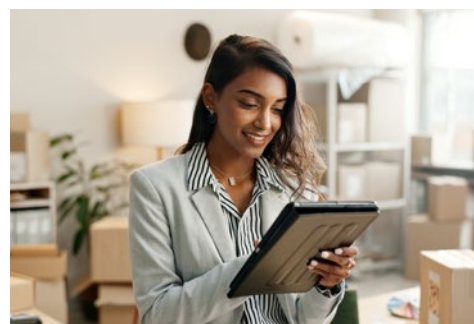
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### 84. Prepare for changes to IHT for business owners

Based on the proposals published on Budget Day, from 5 April 2026, the first £1 million of combined agricultural and business property will continue to receive 100% relief, with 50% relief on amounts over £1 million.

The £1 million will effectively be a 'lifetime allowance' per individual, covering the estate on death, gifts in the seven years before death and lifetime transfers into trust. It will apply to the total value of assets qualifying for Business Relief (BR) and Agricultural Relief (AR). Any unused allowance will not be transferable between spouses.

BR for shares that are not listed on a recognised stock exchange, which includes AIM shares, will reduce to 50%. The £1m allowance does not apply to these shares. Assets that receive 50% relief are subject to an effective IHT rate of 20%, as opposed to the main rate of 40%.



### Trusts

Trusts owning assets qualifying for BR and AR will receive a combined £1 million allowance. However, where a settlor has settled multiple trusts before 30 October 2024, each of those trusts will have its own £1 million allowance.

Where business assets have been put into a trust, such trusts could now incur ten-year IHT charges (at an effective rate of 3% on the value above £1m) where none previously arose. How to fund this charge needs to be considered as it may be as soon as two to three years away depending on when the ten-year anniversary is. Where the settlor has died, it may be beneficial to wind up the trust.

Where loans have been made to the company by the settlor, under the new rules if the loan is written off by the settlor, that decision could trigger a chargeable lifetime transfer.

### What to do now?

Every family business will face different circumstances and choices, so it is vital to start reviewing your options and taking advice at an early stage.

For example, business owners, former business owners who have settled business assets into trust and any beneficiaries of trusts that own business assets will need to take advice on their options and think through what action is viable for the family.

Current Wills and plans need to be reviewed to ensure that spouses hold least £1 million of BR and/or AR qualifying assets as any unused entitlement does not pass to the surviving spouse on death.

There are also opportunities. The changes take effect from April 2026, so there is window for those who wish to settle business assets into trust and claim BR and/or AR on that transfer without an immediate tax charge. There are anti-forestalling rules that will apply for gifts made now where the death is after April 2026; however, if you gift now AND survive seven-years, then no IHT will be payable. If you wait until after April 2026, then there will be a lifetime IHT charge on settling a trust with assets valued above the £1 million allowance/nil rate band and potentially an IHT charge on death (if that occurs within seven years).



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### 85. Switch your assets

IHT is payable on the chargeable value of your estate above £325,000. However, several types of assets that once qualified for 100% relief from IHT will no longer do so from April 2026.

Consider your current assets and whether they remain appropriate given the changes from April 2026 to IHT on business and agricultural assets (see [84](#) and for woodland see [70](#)). There is still an IHT saving, so for example, transferring your share portfolio from the main stock exchange to investing in qualifying unquoted shares could still be IHT-efficient for your family (shares listed on AIM qualify as 'unquoted').

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. BDO do not, and are not authorised to, provide investment advice.



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### 86. 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, since 6 April 2024 only UK charities qualify (i.e. EU charities are no longer included).

### 87. 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 [59](#)).

Taper relief is available on lifetime 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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### 88. 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.

### 89. 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, compared to the 45% (48% in Scotland) rates paid on 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.

### 90. 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 (see also [72](#)).

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 take advice if they were considering setting up a trust (see more in our [domicile and residence section](#)).

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 (see more [here](#)).



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

BDO UK

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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 **8,000** PEOPLE

**92%** OF OUR CLIENTS

SAY IT'S EASY TO WORK WITH US <sup>1</sup>

**2023/2024 RESULTS:**

REVENUES<sup>2</sup> **UP 8.6% TO £1.02bn**

1. BDO Tax & Advisory Client Experience Survey - Spring 2024  
2. Gross Revenues for BDO LLP



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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\$15 billion**  
2023/2024 REVENUE  
A YEAR ON YEAR INCREASE OF **7%**<sup>1</sup>

**166**  
COUNTRIES &  
TERRITORIES

**1,800 OFFICES**  
**119,000 STAFF**

<sup>1</sup> At constant exchange rate  
All numbers updated as of 18 December 2024



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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 Collaborative

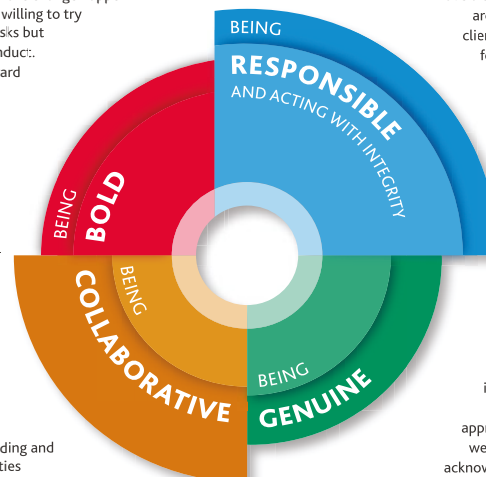
Being collaborative means that we recognise the power of supporting and working with each other, our firm and our clients. It is a way of working where everyone has an important role to play, and we believe in empowering and helping one another. To enable this, we build meaningful relationships based 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 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 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.



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## 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](#).

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