Ten tax tips as the tax year end approaches

At Handelsbanken Wealth and Asset Management we make every effort to advise clients on sensible and appropriate ways to reduce or defer their tax burden in a straightforward manner.

With the end of the 2024/25 tax year just around the corner and some significant changes coming from 6 April 2025, here are ten tax planning tips to make the most of the remaining time before 5 April.

Please note: the Spring Statement will be announced on 26th March 2025 and what follows could be affected by the Chancellor's announcements.

1.Contribute to your pension

Make sure to contribute to your pension to maximise the tax benefits.

Pensions come with significant tax breaks which make them a useful tax planning tool.

Although you will pay income tax when you start drawing income from your pension, investments benefit from tax-free income and growth whilst held within the pension wrapper.

Generally, from the age of 55, you can withdraw a tax-free lump sum of up to 25% of the value of your pension. You are also able to pass your pension to your beneficiaries free from income tax in the event you pass away before you turn 75.

Pension contributions provide income tax relief by extending your basic and higher rate tax bands by the value of the ‘grossed up’ contribution, meaning that more of your income is taxed at lower rates. Your pension provider claims 20% tax relief from HMRC and adds this to your pension pot. If you are a higher (40%) or additional (45%) rate taxpayer, you can claim the extra tax relief through your annual tax return.

Additionally, the gross value of the pension contribution acts as a charge on your income for the purposes of re-instating your income tax personal allowance if your annual income exceeds £100,000 and potentially can save tax at 60%.

You can claim income tax relief on contributions up to £60,000 or 100% of your earnings – whichever is lower. This annual allowance may be reduced to £10,000 for very high earners or where you have already flexibly accessed your pension.

If you’d like to contribute a larger sum to your pension, and if it is affordable, then you may be able to bring forward any unused relief from the previous three tax years.

However, you must bear in mind that pensions are complex so professional advice may be required before making contributions to avoid any unwanted tax charges where excess contributions are made.

2. Make charitable donations

If you are a higher or additional rate taxpayer then you may wish to consider making charitable donations before the end of the tax year to reduce the amount of income tax that you pay.

Donations made to UK charities are also immediately exempt from inheritance tax (IHT), making them an effective method of reducing the value of your death estate.

Donating through Gift Aid means that UK-based charities can claim an extra 25% of your donation from HMRC at no extra cost to you.

The gross value of your Gift Aid donation extends your higher and additional rate tax bands so that you pay income tax at a lower rate on more of your income. The mechanism is the same as how tax relief works for pension contributions as described in tip 1.

As with pension contributions, Gift Aid donations also act as charges on income for the purposes of reinstating your income tax personal allowance if your annual income exceeds £100,000.

However, don’t worry if you do not manage to make any charitable donations before the end of the tax year. In certain circumstances, the Gift Aid scheme allows you to carry back donations made during the 2025/26 tax year so they can be treated as having been paid in the 2024/25 tax year.

If you choose to make Gift Aid donations then it would be wise to keep records so you do not forget to include them in your annual Self-Assessment tax return.

3. Maximise your ISA allowance

Individual Savings Accounts (ISAs) are excellent tools to help individuals build up the value of savings and investments in a wrapper that is free from income tax and capital gains tax (CGT).

Whilst ISAs are included in your estate for IHT purposes, you can leave your ISA to your spouse or civil partner on death and it will not lose its income tax and CGT protected status upon their inheriting it.

There are a number of different ISAs available, including cash ISAs, ‘stocks and shares’ ISAs, and Junior ISAs (JISAs) for children under the age of 18. Some firms may offer a ‘Lifetime ISA’ (LISA) to those aged between 18-40 who may contribute up to £4,000 per year as well as receive an extra 25% top up from the government. However, LISA funds typically cannot be withdrawn unless they are used towards buying your first home or when you turn 60 years old.

Currently, an annual ISA allowance of £20,000 is available to all individuals. This allowance may be used across a combination of cash ISAs, stocks and shares ISAs, and a LISA provided that the £20,000 limit is not exceeded. The annual JISA allowance is £9,000 per child. Unlike pension contributions, ISA annual allowances cannot be carried forward which means if you do not use them before the 5 April they will be lost.

Make sure to check your remaining allowance to maximise your tax-free savings before the end of the tax year.

4. Make IHT exempt gifts

You may wish to make financial gifts in order to reduce the value of your estate for IHT purposes.

Each year, all individuals have an annual exemption whereby they are able to give away up to £3,000 without it being caught by IHT.

The £3,000 annual exemption, or any unused part of it, may be carried forward for one tax year so you have until 5 April 2025 to use your 2023/24 IHT annual exemption if this has not already been used.

It is a good idea to make the most of your IHT annual exemption before the end of the tax year as a matter of course to ensure you benefit from future IHT savings. The exemption in itself is relatively small, but the tax savings do add up if the exemption is used consistently over the years.

Making small gifts up to the value of £250 is also an effective way to reduce the value of your estate. You can make these gifts to as many different beneficiaries as you like, provided they do not form part of a larger gift.

It is also worth remembering that larger gifts in excess of the annual exemptions can be made but you would need to survive for up to seven years for them to fall out of scope for IHT.

Where you have more annual income that what you realistically need, gifts of the excess can be made and they will be immediately exempt from IHT, if certain conditions are met, rather than having to wait for seven years.

5. Use your CGT annual exemption

Utilising your annual CGT exemption is an effective way of reducing CGT liabilities on your investment gains.

Currently, you are able to crystallise up to £3,000 worth of gains per year before CGT is charged. However, the CGT annual exemption may not be carried forward into the next tax year so it is important to make the most of it before it is lost.

The Autumn Budget saw increases in the CGT rates from 30 October 2024. Basic rate taxpayers are liable to pay CGT at 18% whilst higher and additional rate taxpayers will have a 24% tax charge. Realising up to £3,000 each year, therefore, can help soften the impact of these rate increases further down the line.

6. Crystallise capital losses

In addition to realising any gains you have made, it might also be worth crystallising any capital losses before the end of the tax year.

Capital losses are automatically offset against any gains made within the same tax year so it may be beneficial to crystallise losses to reduce your CGT liability for the year.

To crystallise a loss, you must make an outright disposal by means of a sale or a gift to an unconnected third party. However, if this is not possible, a notional disposal through making a ‘negligible value claim’ could be made through your 2024/25 tax return.

You may also consider transferring assets that are currently standing with a capital gain to your spouse before the end of the tax year if they have available capital losses to use. However, any gift to them must be unconditional with ‘no strings attached’.

It is important to note that in order for crystallised losses to be valid, they must be claimed no later than four years following the end of the tax year in which they arise. Therefore, you have until 5 April 2025 to claim any unclaimed losses arising since the 2020/21 tax year. Check your records for any that you may have missed and submit a written claim to HMRC.

Remember: capital losses crystallised on Enterprise Investment Scheme (EIS) and Seed Enterprise Investment Scheme (SEIS) shares may be offset against your taxable income rather than capital gains if that is your preference.

7. Remuneration from your personal company

If you own a company then you may wish to make use of your annual dividend allowance which currently stands at £500 for the 2024/25 tax year. Although the allowance is modest, you should consider the timing of when you pay the dividend so you can ensure that the allowance is used before the end of the tax year.

Paying yourself using dividends can also be beneficial because the associated income tax rates are lower than those applied to other income sources such as your salary. The current dividend tax rates are 8.75% for basic rate taxpayers, and then 33.75% and 39.35% respectively for higher and additional rate taxpayers.

Keep in mind, however, that dividends are not earnings so therefore do not count towards your earnings for pension contribution purposes. They are also not allowable deductions when you are calculating your company’s taxable profits.

8. Bring forward capital expenditure

First-year allowances are a form of tax relief available to companies, sole traders and partnerships on capital expenditure. When claimed, first-year allowances generally allow you to deduct 100% of the value of new plant and machinery purchased for use in your business in order to arrive at taxable profits.

If you are considering investing in any new plant and machinery for your business then it could be beneficial to bring forward this expenditure before the end of the tax year so as to reduce your taxable profits for the 2024/25 tax year.

9. Consider venture capital investment scheme

For investors with a greater risk appetite and a higher capacity for loss, subscriptions for shares under the Enterprise Investment Scheme (EIS) and Seed Enterprise Investment Scheme (SEIS) offer 30% and 50% income tax relief on the amounts invested respectively. Where shares are issued on or before 5 April 2025, income tax relief may be claimed in 2024/25 or carried back to 2023/24.

Income tax relief is only available for investments made up to certain limits (broadly £1million for EIS and £200,000 under the SEIS). A further investment limit of £1million is available for EIS subscriptions made for shares in knowledge intensive companies.

Subscriptions for new shares in Venture Capital Trusts (VCTs) provide income tax relief at 30% on amounts invested up to £200,000. Furthermore, dividends from VCTs are usually exempt from income tax. Tax relief for VCT subscriptions is only available in the tax year in which the subscription is made and cannot be carried back to the previous tax year. You have until 5 April 2025 to make a qualifying VCT subscription for 2024/25.

EIS, SEIS and VCTs carry a high degree of investment risk and so are not suitable for everyone. You may get back less than you invested.

10. Check your National Insurance records

For men born on or after 6 April 1951, and women born on or after 6 April 1953, the deadline for making payments to fill in gaps in your national insurance record between 6 April 2006 and 5 April 2018 has been extended to 5 April 2025. After this date, it will only be possible to back-date voluntary national insurance contribution payments for the previous six tax years.

You may also request a state pension forecast to see the amount of state pension you are due to receive, when you are able to claim it, and ways in which to increase it if possible.

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