Tax planning guide 2025-26

The 2025/26 tax year presents opportunities for individuals to review their personal finances and consider effective tax planning strategies.

With allowances, tax reliefs and thresholds often subject to change, careful planning can help minimise tax liabilities and make the most of what is available under the current tax rules. This guide focusses on practical tax planning ideas for individuals: whether you are employed, a company director, a property investor, approaching retirement, or simply trying to make the most out of your investments. From using your personal allowance and lower rate income tax bands, to making tax efficient pension contributions, making the most of tax free savings, or thinking about inheritance planning, steps taken now can help to reduce your overall tax burden in the future.

As always tax rules can be complex and subject to change so seeking professional advice is always recommended. This guide aims to provide a helpful starting point to support your financial planning for the year ahead.

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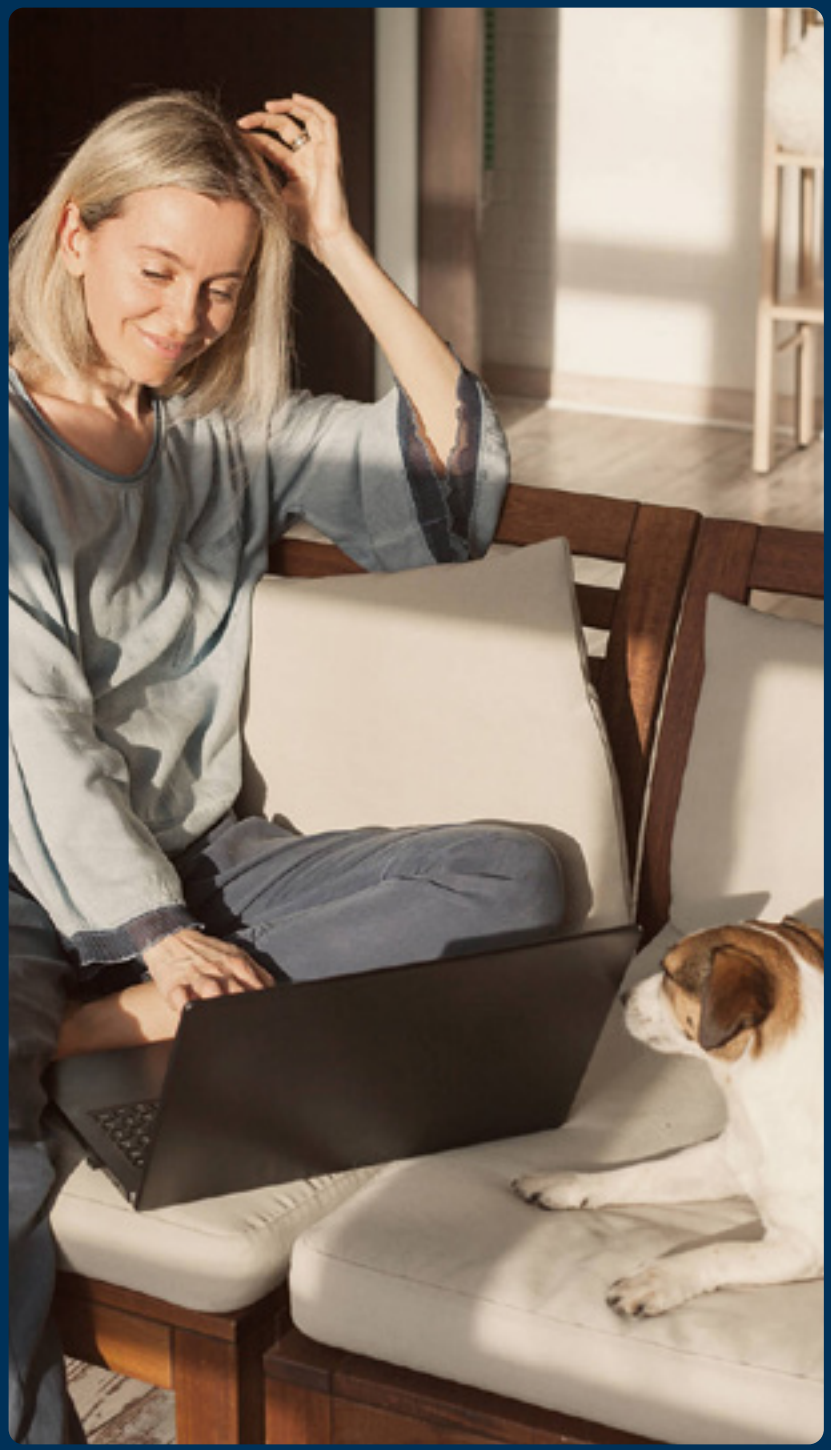

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General income tax planning

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01. Reducing your taxable income

General income tax planning is an essential part of managing your personal finances. With a range of allowances, tax bands and reliefs available, there are a number of simple strategies that individuals and couples can use to reduce their overall tax liabilities in a sensible and efficient manner.

For the 2025-26 tax year, the additional rate of income tax is charged at 45% (England & Wales and Northern Ireland) and 48% (Scotland) on taxable income more than £125,140. The personal allowance of £12,570 is reduced by £1 for every £2 of taxable income over £100,000; meaning that the effective top rate of income tax is 60% in England & Wales and Northern Ireland and 65% in Scotland.

Basic rate taxpayers benefit from a £1,000 personal savings allowance where the first £1,000 of interest is taxed at 0%. This reduces to £500 for higher rate taxpayers. Additional rate taxpayers do not benefit from the personal savings allowance.

The £5,000 zero percent 'starting rate for savings' is available where non-savings income (broadly, any income that is not interest or dividends) is relatively low, but tapers away completely where these sources exceed £17,570.

The zero percent dividend allowance stands at £500 and is available to all taxpayers.

You can find more details on our 2025/26 tax data card.

Here are some ideas that may help to minimise your income tax burden in 2025/26:

Splitting income between spouses (or civil partners)

One of the most straightforward tax planning strategies for married couples and civil partners is to transfer income producing assets such as rental properties, quoted shares and savings accounts, from the higher earning spouse to the lower earner. This is especially beneficial if one partner is not using their full personal allowance (£12,570 in 2025/26) or is taxed at a lower rate.

For example, if one spouse pays tax at the additional rate and the other is within the basic rate band (or has no taxable income at all) transferring income from the former to the latter can significantly reduce the couple's combined tax bill. Importantly, transfers between spouses and civil partners are exempt from capital gains and inheritance tax making this an efficient method of redistribution.

Care should be taken if you are thinking of transferring shares in your personal company to your spouse. Where their shares only convey a right to income, the dividends will remain taxable on you.

Timing of income

When income is received can also influence how much tax is paid. For instance, if you are close to the threshold for entering a higher tax bracket it might be worth deferring income, such as dividends or bonuses, until the start of a new tax year. Similarly, accelerating income into the current tax year might make sense if you expect your tax rate to rise next year due to increased earnings or reduced allowances. This kind of timing consideration is especially relevant for self-employed individuals and company directors who may have more control over when income is drawn, or tax-deductible expenses are incurred.

Timing income receipts can also improve cashflow from a tax perspective. Consider an owner-managed business; paying a dividend to yourself on 5 April 2026 could result in an income tax liability payable by 31 January 2027. Deferring the dividend payment by one day to 6 April 2026 means that any tax on it will not be payable until 31 January 2028.

If you have capital to invest then investment bonds provide a useful way of deferring income until you need it and there may be no immediate income tax liability on the withdrawals.

Gift Aid and pension contributions

Charitable donations made under Gift Aid and contributions to personal pensions are two tax-efficient ways to reduce your income tax bill. Gift Aid allows higher and additional rate taxpayers to claim tax relief on the difference between their marginal tax rate and the basic rate on the value of their donations.

Personal pension contributions offer even greater flexibility. They not only qualify for tax relief at your highest marginal rate, but can also reduce your adjusted net income. This can be particularly useful if you are seeking to keep your child benefit or avoid losing your personal allowance which is gradually withdrawn for income over £100,000.

In certain circumstances, losses made on unquoted shares in trading companies may be offset against total taxable income. Sophisticated investors should see the sections on the EIS and SEIS.

If taxable income cannot be reduced in 2025/26 but you are aware that your income will fall in 2026/27, consider electing to reduce your income tax payments on account for 2026/27 through your 2025/26 tax return. Be aware though; if your payments on account are reduced too far then HMRC will charge late payment interest (currently 8.5%) on the shortfall.

02. Sacrifice salary and opt in for tax-efficient benefits

If offered by your employer, consider exchanging a portion of your salary for tax-free benefits in kind.

Many employers offer the opportunity to swap salary payments for tax-efficient benefits such as pension contributions or other tax-free benefits in kind. This facility is particularly useful if your income is caught between £100,000 and £125,140 and subject to an 'unofficial' 60% income tax rate. It is also beneficial if your income is such that you cannot keep your child benefit and are caught by the high-income child benefit charge.

Under a salary sacrifice arrangement, you agree with your employer to give up a portion of your salary and in return they provide you with a tax-free benefit in kind – usually by contributing to your pension. Your taxable income will reduce and both you and your employer will save National Insurance Contributions (NIC). Your employer may even recycle some of their NIC savings by contributing more to your pension.

Salary sacrifice arrangements are usually irrevocable. In other words, it is not possible to opt in or out on an annual basis so you must be comfortable deciding to permanently give up part of your salary in this way. However, it may be possible to change the terms of your salary sacrifice considering significant 'lifestyle changes' such as marriage, divorce, or if you or your partner become pregnant.

In the event of long-term illness, the level of any income protection insurance that you may be entitled to will usually be based on your lower salary. If you are thinking of making a salary sacrifice, check with your employer or your insurance company to see how any income protection could be affected.

In addition to pension contributions, there is a wide range of other income tax-free benefits in kind available in 2025/26. These include various forms of childcare support, annual health screening and medical checks, beneficial loans, mobile phones, and cycle to work equipment.

If you are provided with one, consider changing your company car for one that is more environmentally friendly to save tax.

Taking up tax-free benefits in kind can lead to material tax savings; why pay for an eye test if you can get one, tax free, via your employer?

03. Donate to charity in 2025/26

The tax system incentivises charitable giving by offering tax breaks on qualifying donations.

Gift Aid donations can only be made in cash and after making a valid Gift Aid declaration.

Donating through Gift Aid means that charities and community amateur sports clubs can claim an extra 25p on every £1 that you give away without costing you any extra. So, for example, if you donated £100 the charity would reclaim an additional £25 back from HMRC and your 'gross' Gift Aid donation would amount to £125.

If you are a higher or additional rate taxpayer, extra tax relief may be claimed through your annual tax return. The mechanism is slightly fiddly, but the value of the gross Gift Aid donation (i.e. £125 in our example above) is added to your basic rate tax band so that an extra £125 of income is taxed at the basic rate rather than at the higher or additional rate.

If a claim is made by no later than 31 January 2026, it is possible to carry back a Gift Aid donation made in 2025/26 and treat it as having been paid in 2024/25. This could be useful if your taxable income was higher in 2024/25 than in the current tax year. Unfortunately, the ability to carry back a Gift Aid donation from 2025/26 will not be possible if you have already submitted your 2024/25 tax return.

If your income exceeds £100,000, the gross value of your Gift Aid donation can act as a notional deduction from your taxable income and could enable you to reclaim some, or all, of your personal allowance.

To use Gift Aid, you must pay at least as much income tax or capital gains tax as the charity will claim back from HMRC. If you do not, you will have to repay the difference to HMRC through your tax return.

Income tax relief is also available where you gift **quoted shares or securities** or **interests in UK land** to charity. Where assets are gifted, their open market value may be deducted from your total taxable income and can potentially reduce this to zero. Unlike a Gift Aid donation, it is not possible to treat such gifts as having been made in a prior tax year so if you gift quoted shares or securities to charity in the current year, tax relief will only be given in 2025/26.

04. Use dividend tax rates

Dividend income tax rates are lower than the main rates. In 2025/26 there is a zero percent dividend allowance that applies to the first £500 of dividends that you receive.

If your dividends exceed £500 the tax rates applying to them are:

- 8.75% where they fall within your basic rate tax band,
- 33.75% within your higher rate tax band and
- 39.35% if they are taxable at the additional rate.

Dividend income tax rates compare favourably with the main income tax rates which stand at 20%, 40% and 45% respectively.

If you are the owner-manager of a limited company, careful consideration should be given about whether income should be withdrawn by way of dividends rather than salary, and we cover this in more detail here. Other ways of withdrawing income could be considered such as drawing down on your director's loan account if this is in credit, or having the company top up your personal pension.

If you own shares in collective investments (such as OEICs or unit trusts) remember that dividends paid on accumulation share classes are still subject to tax and must be included in your tax return, even though the income is not actually paid out.

05. Keep your child benefit

Where either your taxable income or your partner's taxable income exceeds £60,000 in 2025/26, child benefit is clawed back at a rate of 1% for every £200 of income over £60,000. When taxable income exceeds £80,000 all your child benefit is repayable to HMRC through your annual tax return.

The 'high income child benefit charge' (HICBC) has remained controversial since its introduction over 12 years' ago.

The key reason for the controversy is that, when calculating whether the HICBC applies, it is individual taxable income that is taken into account rather than the combined taxable income of the household.

If both partners can keep their individual incomes below £60,000, none of their child benefit will be lost. Under the current system, a household receiving taxable income of up to £119,998 (i.e. two parents earning £59,999 each) can keep all their child benefit, whereas if one parent in the household earns £80,000; all their child benefit will be repayable to HMRC.

It is the parent with the higher income who is liable to the HICBC.

Making personal pension contributions, donating to charity under Gift Aid, or undertaking a salary sacrifice arrangement with your employer can help to reduce taxable income for the purposes of calculating the HICBC.

If it is impractical or unappealing to reduce your taxable income there are three options:

1. The parent with the highest taxable income can pay the HICBC, or
2. You can remain on the child benefit register but elect to stop receiving child benefit payments, or
3. You can disclaim all entitlement to child benefit.

Option 1 means that the higher earner must register for self-assessment and pay the HICBC through their annual tax return.

Under option 2, it is necessary to contact the HMRC child benefit office to continue with your claim, but to explain that you wish to stop receiving the actual payments. If the annual 'hassle' of submitting a tax return for the sole

purpose of paying back some of your child benefit outweighs the value of any payments you are allowed to keep, this option may be worth thinking about.

Option 2 also means that if you are a non-working parent your national insurance records will be maintained and will continue to count towards building up your state pension entitlement until your child reaches the age of 12.

Remember – you can opt back in to receiving child benefit payments at any time or if your circumstances change. Child benefit is available until your child reaches age 16 or age 20 if they remain in full time education or training.

06. Childcare support

If you and your partner both receive taxable income of under £100,000 per year, you may claim top-up payments from the government to help pay for approved childcare for children up to age 11.

Large employers may offer onsite or offsite workplace nurseries for the exclusive use of their employee's children. Where these are provided, they are a tax-free benefit-in-kind for the working parent.

The 'childcare voucher scheme' and 'directly contracted childcare arrangements' were closed to new entrants from 4 October 2018.

To replace these earlier schemes, parents may be eligible to receive Tax-Free Childcare of up to £2,000 per year. This increases to £4,000 if a child is disabled.

To claim, you must go online and register for a Tax-Free Childcare account. For every £8 you pay in to the account, the government will pay in an extra £2 subject to the £2,000 (or £4,000) annual limits.

The money in the account may be used to pay for approved childcare arrangements such as nurseries, childminders and nannies, as well as after school clubs and playschemes. To be eligible to receive payments, your childcare provider must be registered under the scheme.

07. Go green by changing your company car

Your employer may offer you a company car as part of your benefits package. Consider opting for a car with low CO2 emissions to save tax.

Broadly, the taxable value (or 'cash equivalent') of your company car is based upon the manufacturers' official list price, multiplied by a percentage that is dependent on its CO2 emissions. It follows that expensive cars with high CO2 emissions will attract a higher percentage and a higher value benefit in kind than cheaper cars with lower CO2 emissions.

By way of illustration: in 2025/26, the cash equivalent of an electric car with zero CO2 emissions will be only 3% of its list price, while the cash equivalent of a diesel car that emits 160g of CO2 per kilometre will be 37% of its list price.

The potential tax charges for a 45% taxpayer are set out in the following table:

Car type	List price	Percentage applied	Cash equivalent	Tax for an additional rate taxpayer
Electric car (zero CO2 emissions)	£60,000	3%	£1,800	£810
Diesel car (160g CO2 per km)	£60,000	37%	£22,200	£9,990

If you are not provided with a company car but use your own car for business travel, you may claim a tax-free mileage allowance of up to 45p per mile for the first 10,000 of business miles travelled, and 25p per mile thereafter. If your employer reimburses business mileage at lower rates, then you may claim the difference as a deduction from your earnings in your tax return.

If your employer also provides you with fuel for private use, consider whether it is more efficient to fully reimburse the cost to the company as this may be a cheaper option than paying the fuel scale charge which is based on the car's CO2 emissions.

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Tax planning for owner-managed businesses

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08. Think about how to withdraw income from your company

Withdrawing income from your company by way of dividends can be tax efficient for some taxpayers.

Depending upon your circumstances, it may be less tax efficient to withdraw income by way of dividends and to instead consider a salary or bonus payment because these, together with the associated employer's NIC (National Insurance Contribution), are corporation tax deductible for the company. Dividends, being an appropriation of taxed profits, are not tax deductible.

It may still be more tax efficient for basic rate taxpayers to draw income by way of dividends instead of salary than it is for higher or additional rate taxpayers. The position for these taxpayers becomes far less clear cut and paying themselves dividends may even be marginally less tax efficient than receiving a salary or a bonus.

A 'one size fits all' approach is not possible and analysis of your company's corporation tax position as well as your personal tax position is always required to calculate the optimum outcome.

The following table shows the effective tax and NIC rates: where the company is liable to corporation tax at 25%:

Taxpayer status	Effective rate for dividends	Effective rate for salary / bonus
Basic rate	31.56%	37.39%
Higher rate	50.31%	49.57%
Additional rate	54.51%	53.91%

Bonus payments may be appropriate, or the only viable option, where there are insufficient distributable reserves for your company to pay a dividend at the required level.

Dividend payments are not earnings for the purposes of making personal pension contributions, but that is less of an issue if your company makes personal pension contributions on your behalf.

Company paid pension contributions remain a very attractive and tax-efficient option for owner-managers. Pension contributions represent a tax-free benefit in kind for the director or employee, they do not attract employer's NIC and are corporation tax deductible. If you are a director, remember that, where it is in credit, you may draw down on your director's loan account completely free of income tax and NIC.

09. Retaining profits within your company

If you do not need to withdraw your business profits, consider retaining them within the company being mindful that this can sometimes be a balancing act for tax purposes.

Corporation tax rates (being either 19% or 25% determined by the type of company or the level of its taxable profits) are lower than the higher and additional income tax rates. With that in mind, it may make sense to retain profits within your company if you do not need to draw them out. This may be appropriate if your other sources of income provide you with sufficient financial support.

Consideration could then be given to extracting the profits through a formal liquidation of the company in the future. If structured correctly, such a liquidation should be liable to capital gains tax and subject to lower tax rates than those applied to earnings or dividends.

For practical purposes, retained profits may help to fund future business activities without having to borrow from a third party, such as a bank. However, care must be taken where cash deposits become significant on the company's balance sheet. For example, where these exceed 20% of the total value of your company, your entitlement to capital gains tax business assets disposal relief (BADR) may be affected.

Furthermore, where cash deposits exceed 50% of the value of the company, entitlement to inheritance tax business relief (BR) may be jeopardised.

Regardless of their level, if your company's cash deposits are genuinely surplus or not required for future business use then, for inheritance tax (IHT) purposes, they could be categorised by HMRC as 'excepted assets' and excluded from business relief. This means that part of the value of the shares in your trading company could be liable to IHT at a rate of 40% on your death.

10. Investment company tax considerations

Where cash surpluses accumulate, many owner managers may decide to reinvest into other asset classes that may provide higher returns. If taken to the extreme, such an approach may fundamentally alter the trading status of your company for tax purposes.

The rules are complex but, broadly speaking, where non-trading investments represent 20% or more of your company's value then entitlement to various tax reliefs could be affected including:

- CGT business assets disposal relief (BADR) (for you as the owner)
- Qualifying status under the Enterprise Investment Scheme (EIS) (for other investors)
- The Enterprise Management Scheme (EMI) (for directors and employees)
- Substantial shareholders exemption (for the company itself)

Where more than 50% of the value is attributed to investments, then your shares may lose entitlement to IHT business relief (BR).

If your trading company has taxable profits below £50,000 it will be liable to corporation tax at a rate of 19%. However, if because of the level of its investments your company became classed as a 'close investment holding company', it would be liable to 25% corporation tax on its profits.

We would recommend that you keep the level of your company's investments under regular review and consider this issue at least annually. That way, there may be sufficient time to undertake tax planning to maximise the chance of a successful claim to appropriate tax relief in the event of a share issue, business sale, or wind-up.

11. Claim business asset disposal relief (BADR) and pay 14% CGT in 2025/26

The BADR rules are complex, and professional advice should be taken if you think you may qualify for the relief. Where you satisfy the conditions, BADR reduces the rate of capital gains tax (CGT) payable on qualifying capital gains arising on the disposal of certain business assets. There is a minimum two-year ownership period, and relief is subject to a £1million lifetime limit on qualifying gains.

BADR is a CGT relief that is designed, primarily, to benefit business owners. The detailed rules are complex and there are traps for the unwary, but capital gains realised on the following assets, up to the lifetime limit of £1million, may qualify for BADR:

- An unincorporated 'sole trade' and its assets
- Trading partnership interests and assets
- Shares in your 'personal trading company' (either quoted or unquoted) where you are a director or employee and own:
  - at least 5% of the ordinary share capital **and**
  - control at least 5% of the voting rights, **and either**:
    - you are beneficially entitled to at least 5% of the profits available to shareholders and to at least 5% of the assets on winding up, **or**
    - in the event of a disposal of the company's share capital, you would be entitled to at least 5% of the sale proceeds.
- Certain 'associated disposals'. These arise where qualifying assets owned outside of your trading business, but used by the business, are sold and at the same time, you make a 'material disposal' of other business assets.

Shares acquired through qualifying Enterprise Management Incentives (EMI) may also qualify for BADR even when you have less than a 5% interest in the company.

The rate of CGT applying to qualifying gains in 2025/26 is 14% but this will rise to 18% from 6 April 2026. Any gains taken in excess of the £1million lifetime limit are taxable at 24%.

When making plans for a business exit strategy timing is everything. This is particularly the case in 2025/26 as there will be 4% BADR tax hike from April 2026.

It is vital you check that your business asset qualifies for BADR before a claim is made. This is especially important where shares are held in companies with complex share structures. For example, alternative share classes or share options exercised by other employees could serve to dilute your holding below the required 5% level.

A sale of shares to a connected company will not work when it comes to claiming BADR and if your spouse owns shares, they must qualify for BADR in their own right. Care must also be taken where trustees hold shares and submit claims for BADR. Subject to detailed rules, such claims may potentially succeed where the shares are held by a life interest trust.

As far as is practical, you should try to ensure that each family member working in the business owns at least 5% of its economic value. If this is undesirable and if your business qualifies, consider using an EMI share scheme to put shares into the hands of family members or trusted employees.

12. Keep your director's loan account under review

If you are the director of a close company and your loan account is overdrawn, the company will face a 33.75% charge payable to HMRC if you do not repay the loan within nine months of the end of the company's accounting period.

If you repay the loan more than nine months after the end of the accounting period, the company may claim a refund of the 33.75% charge paid.

'Bread and breakfasting' director's loans will not escape the charge because any loan made by the company to the borrower within 30 days is treated as a continuation of the original loan.

Remember – if the loan is interest free or low interest and exceeds £10,000 then it will be a taxable benefit in kind. There are two methods of calculating the cash equivalent on which income tax is payable:

- The simpler 'averaging' method, (applied automatically) or
- The 'precise method' (where an election to use this method is required).

You should consult your accountant or tax adviser to see which method is the most tax efficient for you.

Of course, if your director's loan is in credit you may continue to draw on it without any tax consequences.

13. Think about how to use trading losses

If you are an unincorporated sole trader or a partner in a trading partnership, you can offset 2025/26 trading losses against your total taxable income or carry the loss back to 2024/25.

You should review your projected trading loss carefully and seek advice on the steps you may take to receive an early tax repayment.

Where you offset losses against your total taxable income, the maximum loss that you may claim is the higher of:

- £50,000, and
- 25% of your taxable income (after certain adjustments).

If you are a non-active partner in a trading business (i.e. a business in which you work for less than 10 hours per week) the amount of loss that you may claim tax relief for is capped at £25,000 per year.

Claims to trading loss relief are made through your annual tax return. If you do not include a claim, the loss will automatically carry forward and will be available to offset against the first available profits from the same trade.

Extended carry-back rules apply where losses are made within the first four years of commencing a trade and where losses are made in the last 12 months of trade prior to final cessation.

Your trading losses may also be offset against your capital gains, but only after they have been relieved against taxable income first.

If you incorporate a loss-making business in 2025/26 and you meet the conditions, special tax rules allow you to offset pre-incorporation losses against any post-incorporation income you receive from the company by way of salary, dividends or interest.

14. Review how the land and buildings used in your business are owned

Many company owner-managers personally own the trading premises from which their company operates.

If income extraction is key, the rent paid to you by your company to occupy the premises from which it operates should be tax deductible for your company and, unlike director's remuneration, will not attract employee's or employer's National Insurance Contributions (NICs). You will be liable to income tax on the rental profits.

There are other potential tax advantages to keeping the premises in your personal ownership.

If your company owned the business premises and subsequently sold it, there would be double taxation on extracting the funds from the company. The first tax charge being corporation tax on any capital gain, followed by:

- a personal income tax charge on a dividend distribution from the company, or alternatively
- a personal CGT charge following its formal liquidation.

Holding the property personally could limit the total tax due on sale when compared to a sale by your company followed by an extraction of the proceeds.

CGT business asset disposal relief (BADR) may be available on the capital gain if you sold a property being used in your company's trade in circumstances where you also make a 'material disposal' of your shares in the company at the same time, perhaps in the run up to retirement.

If the property is used in your company's trade, IHT business relief (BR) at a rate of 50% could be available on its value.

The tax rules in relation to CGT BADR and IHT BR are potentially complex, and you should seek tax advice to understand whether they are applicable to your personal circumstances.

15. Tax-efficient benefits in kind

Where you employ staff, look at their overall remuneration package as a way of keeping your costs down.

There are a number of tax and NIC-free benefits in kind that you could potentially offer your employees including:

- Low or 0% interest loans of up to £10,000 per year
- Payments of up to £6 per week where you require employees to work from home
- Mobile telephones (including smart phones) – one per employee
- Long service awards (within certain limits)
- Annual eye tests and health screening checks
- Up to £150 per person per year on staff entertainment at an annual event
- £50 on occasional / trivial benefits (like staff suggestion scheme rewards)
- Free car parking facilities at or near the workplace
- Cycle to work and safety equipment
- Relocation costs of up to £8,000
- Electricity for charging an electric or plug-in vehicle

There are specific rules and conditions for each of the above and you should check these to ensure that you do not inadvertently provide an employee with a taxable benefit in kind where none was intended.

16. Employ apprentices

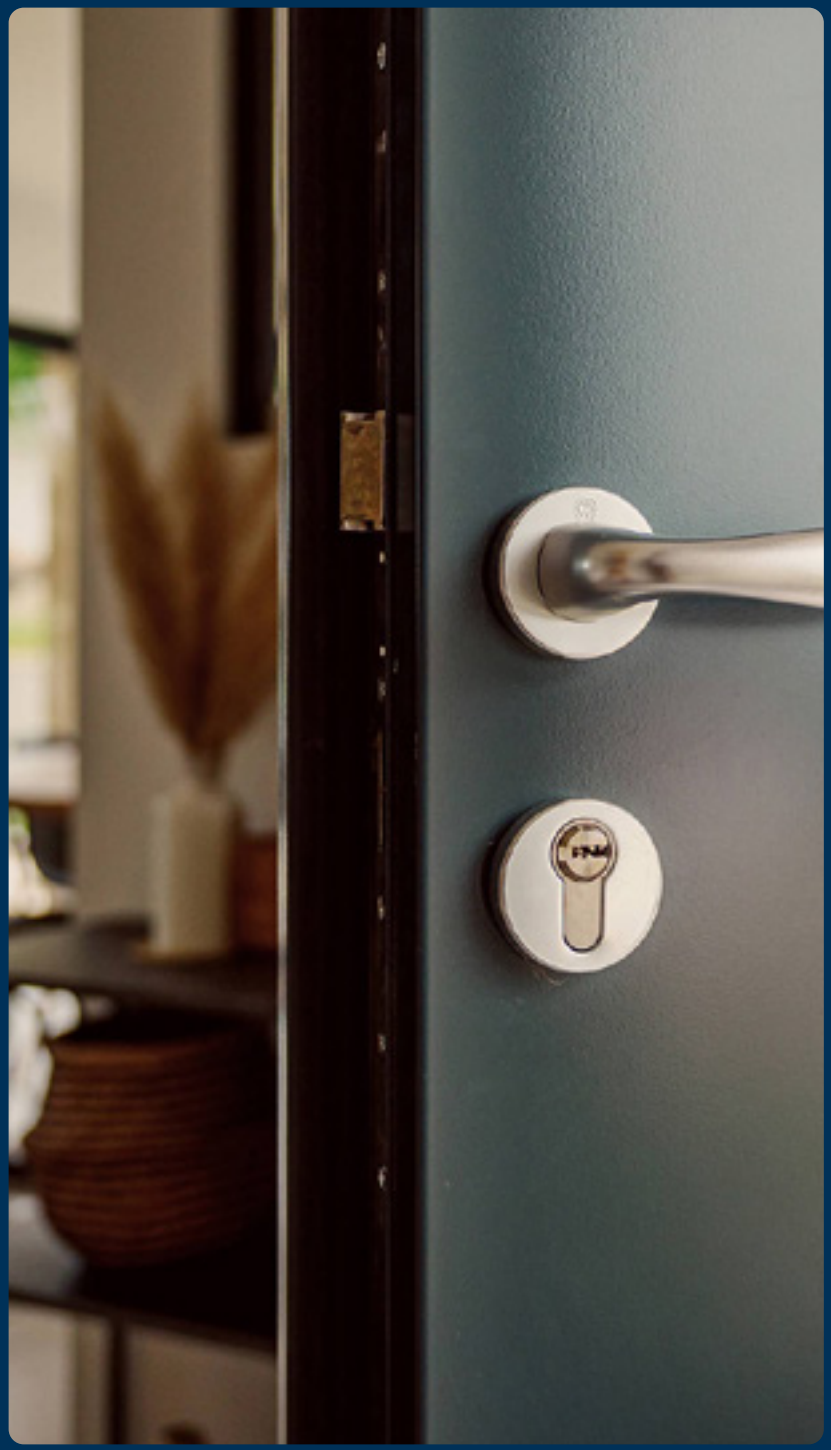
Modern apprenticeships are work based training programmes for people aged 16 or over. They offer young people a gateway into a variety of different careers, and there are tax and National Insurance Contributions (NIC) advantages to be had where employers take them on.

You must pay your apprentices at least the apprentice national minimum wage for all the time they are undertaking their apprenticeship. Apprentices who are aged under 19 or who are over 19 and in the first year of their apprenticeship, must be paid a minimum of £7.55 per hour from 1 April 2025 – many businesses pay more.

There is a common misconception that apprentices are not liable to tax and NIC on their earnings. This is not the case, and they will be taxable if their annual earnings exceed their personal allowance which stands at £12,570 in 2025/26. As their employer, you must operate PAYE against their earnings as appropriate.

In terms of tax savings and other financial rewards:

- Employer's NIC is £nil whilst your apprentice is under the age of 25, if you do not pay them more than the Upper Earnings Limit (£967 per week in 2025/26).
- Depending on your business's circumstances and, subject to certain limits, up to 95% of your apprentice's training costs could be paid for by the government.
- If your apprentice is eligible, you may be able to claim an additional payment of £1,000 from the government to help support them in their training.



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17. Owning a rental property with your spouse or civil partner

If your spouse or civil partner pays tax at a lower rate than you it could be beneficial for them to hold the rental property in their own name or for you to hold it jointly but in unequal shares.

Rental income is subject to the main rates of income tax (20%, 40% and 45%), and you are taxable on your net profits after the deduction of allowable expenses. Rental income is categorised as investment income for tax purposes and cannot be used as earnings for the purposes of making personal pension contributions.

If you and your spouse purchase a buy-to-let, consider the level of rental profits you expect to receive and in whose name the property should be purchased. If you are an additional rate taxpayer and your spouse pays tax at the basic rate, a 25% tax saving may be achieved by purchasing the property in your spouse's sole name. Sole ownership in these circumstances is especially efficient if the property is mortgaged because tax relief for mortgage interest paid is only available as a basic rate tax deduction (20%) in 2025/26.

If you own the rental property jointly with your spouse, the default position is that you will each be taxable on 50% of the rental income. This is the case even if you own the property in unequal shares.

If you wish to be taxed in line with your underlying legal ownership you must submit evidence of this to HMRC together with a specific HMRC form, 'Form 17' within certain time limits from acquiring the property.

Care must be taken if you later decide to transfer ownership of the property between you and your spouse. Whilst there will be no charge to CGT on the transfer and it will also be exempt from IHT, a liability to Stamp Duty Land Tax (SDLT) could arise if the property is mortgaged, and your spouse took over legal responsibility for this. In these circumstances the SDLT charge would be based on the value of the outstanding mortgage, although if this is less than £40,000 no SDLT charge will arise.

Typically, the types of expenses that you are allowed to deduct to arrive at taxable rental profits include:

- Letting agent fees and commissions
- Utilities and council tax
- Ground rent and service charges
- Repairs, maintenance, redecoration and renewals
- Gardening / lawn cutting
- Costs of replacing 'white goods' and soft furnishings
- Accountancy fees and certain legal fees
- Gas safety inspections and electrical tests
- Mortgage interest – subject to restrictions as outlined above.

If you receive modest amounts of rental income amounting to no more than £1,000 per year (such as from letting your home out periodically under an Airbnb arrangement) you may deduct the £1,000 letting allowance and not suffer any tax on the income. The allowance may also be deducted if your rental income exceeds £1,000 but if you choose to do this, you will not be able to claim tax relief on any other rental expenses you incur.

Where you dispose of UK residential property (either by way of sale or gift) any capital gain must be reported to HMRC and a tax payment made on account, within 60 days following the date of completion via their online Property CGT Service. This requirement does not extend to the disposal of UK commercial property (unless the disposal is made by a non-UK resident) or to the disposal of residential property situated overseas. See our section Paying CGT on UK Residential Property for more information.

From 6 April 2026, if your income from property (combined with income from self-employment) exceeds £50,000 you will fall into a new system for reporting this to HMRC under the Making Tax Digital for Income Tax rules.

18. Purchasing residential property for your adult children

Make sensible use of the tax rules when helping your children onto the property ladder in 2025/26.

Many parents and grandparents may decide to help their children or grandchildren onto the property ladder at an early stage; perhaps when they are in their twenties whilst away studying at university.

An outright gift of cash to purchase the property will be a non-event from the perspective of CGT.

For IHT purposes, it will be a potentially exempt transfer (PET) and only brought into account if you did not survive for seven years from the date of making the gift.

If you purchase a property in your child's name in England or Northern Ireland, you will not be subject to the 5% SDLT surcharge because you will not be the owner of that property. Indeed, because your child will be the 'first time buyer', 0% SDLT will be due on the first £300,000 of the purchase price and 5% on the portion between £300,001 and £500,000. If the purchase price is over £500,000 then first-time buyer's relief is not available.

In Wales and Scotland, the devolved governments operate Land Transaction Tax (LTT) and Land and Buildings Transaction Tax (LBTT) respectively.

In Wales, although there is no first-time buyer's relief available, the standard nil rate band of LTT is not charged on the first £225,000 of the price of the property. Conversely, the standard nil rate band for LBTT in Scotland is available for the portion up to £145,000 but first-time buyers' relief extends this allowance to £175,000 with the usual rates of LBTT applicable thereafter.

From your child's perspective, they may decide to rent out rooms in their home to friends. Rent-a-room relief has been available for many years and no income tax will be payable by your child provided that their rental receipts do not exceed £7,500 per year (c. £144 per week).

If their rental income exceeds this, the £7,500 rent-a-room allowance may be claimed as a flat rate deduction with income tax being payable on the excess. Depending upon your child's wider tax position this may be covered by their personal allowance or perhaps only subject to the basic rate (20%).

Receiving tax-efficient rental income in this way could be a real help towards paying your child's university tuition fees or day-to-day living expenses.

Care should be taken if you decide to make an outright gift of a property that you already own to your child. This would be an open market value disposal of the property for CGT purposes leaving you exposed to a tax charge on any capital gain realised.

19. Are you thinking of selling your main residence?

As a 'general rule', any capital gain that you make selling your only or main residence is exempt from capital gains tax (CGT) under the Private Residence Relief (PRR) rules. However, this is not always the case and you could be charged CGT.

In certain circumstances you may be chargeable to CGT on the sale of your main residence. For example, this could arise where the garden or grounds are larger than the 'permitted area' of:

- half a hectare (inclusive of the footprint of the house) or
- the area 'required for the reasonable enjoyment of the property given the size and character of the house'.

PRR is available on estates exceeding half a hectare, but not necessarily without limit. Of course, everyone's circumstances are different but, if you own a large house together with a large area of land, you could find your claim to PRR challenged by HMRC.

PRR will not apply where the garden or grounds are used for business or agricultural purposes.

Tax relief may also not extend to parcels of land where these are physically separated from the main house by roads, hedges, walls or fences. PRR may not necessarily extend to all of the outbuildings and will not be available on an outbuilding that is used exclusively for business purposes, including letting.

It is never a good idea to use any room in your main residence exclusively for business purposes because PRR will not be available on the value attributed to that room. However, in many cases, this problem can easily be avoided by ensuring there is no exclusive business use and by using the room for another, non-business, purpose.

PRR may not be available in full if your home has not been occupied by you as your only or main residence for all the time you owned it.

The tax rules do allow for certain periods of absence to be treated as periods of occupation, but conditions apply. The final nine months of ownership are always treated as a period of occupation, even if you no longer reside in the house. In very limited circumstances the final nine months of deemed occupation may be extended to up to 36 months.

If you are thinking of selling your home in 2025/26 and have concerns about whether PRR will be available in full, it would be a good idea to discuss the matter with your accountant or tax adviser at an early stage. They may recommend that you engage the services of a suitably qualified surveyor, who has experience in dealing with these issues, to help identify the areas of land or buildings that may not qualify for PRR and to attribute appropriate values to them.

If PRR is not available in full, it may be necessary to report the capital gain and make a payment on account of the CGT within 60 days of completion using HMRCs online property CGT service. However, this will not be a requirement if the capital gain arises on non-residential land (e.g. a field used for agricultural purposes) that happens to be sold along with the main house.

If your garden exceeds half a hectare, and you are giving thought to selling off part of it for commercial development, you should seek tax advice about the potential CGT implications in good time beforehand.

20. Deciding on your main residence

If you own more than one home, consider which should be treated as your main residence for CGT purposes, and make a formal election to HMRC.

If you own two homes and reside in both, you may submit a formal election to HMRC to state which home should be treated as your main residence for CGT purposes.

Time limits apply – you must make the election within two years of acquiring your second home. Once made, the election may be varied at any time and even backdated for up to two years.

If you do not make an election, the default position is that PRR will apply to the property that is, as a 'matter of fact', your main residence. This may not be contentious and will often be the higher value property in which you spend most of your time living. However, this is not always the case and may not necessarily lead to the optimum outcome for tax purposes. Making a PRR election helps to put the question of which of your homes is your main residence for CGT purposes beyond doubt.

It is important to remember that if you vary your election between properties, CGT relief will accrue on a time apportioned basis on the nominated property but will be correspondingly lost on the other property. Always ensure that you maintain an accurate record of your PRR nominations to ensure that the CGT position on sale of your residence can be calculated with accuracy later.

PRR elections may only be made on properties that you genuinely use as a home. So, for example, they may not be applied to a buy-to-let investment.

21. Paying CGT on UK residential property in 2025/26

Where you sell or give away UK residential property and realise a capital gain, it is necessary to report this to HMRC and make a payment on account of the CGT liability arising within 60 days of the date of completion. Although the rules have been in place since April 2020, many taxpayers remain unaware of their responsibilities.

The requirement to submit a property CGT return applies to individuals, partners in a partnership, and trustees where they make a disposal of UK residential property and realise a capital gain as a result. This situation will most commonly arise following the sale of a buy-to-let investment property or a holiday home. However, there may be a requirement to submit a property CGT return following the sale of your main residence if the capital gain is not covered by PRR in full.

You do not need to complete a property CGT return where you dispose of:

- UK commercial property, or
- residential property situated overseas.

As with many things tax related, the detailed rules get complicated quickly, but it may also not be necessary to submit a property CGT return where the capital gain is covered by your CGT annual exemption or capital losses that you realised prior to its disposal.

If you complete an annual tax return under Self-Assessment, you must also report your capital gain on UK residential property in the CGT pages and claim a credit there for the CGT paid on account via the property CGT return. This will ensure that you do not pay tax twice on the same capital gain and may give you an opportunity to finalise any figures that you needed to estimate in the property CGT return.

HMRC may charge penalties for failing to submit a UK property CGT return within 60 days following completion. Interest will be payable on late paid tax.

Different reporting rules also apply to non-UK tax residents (including offshore companies) who dispose of UK residential **and** commercial property.

UK resident companies are not required to submit UK property CGT returns and continue to pay corporation tax on all their capital gains through Corporation Tax Self-Assessment.

As a 60-day time limit applies, if you are selling your buy-to-let property in 2025/26 and anticipate realising a capital gain, it would be advisable to register with HMRC for their residential property CGT service as soon as possible following the date of completion. Alternatively, your accountant or tax adviser may be able to complete the CGT return on your behalf, but you must still register with HMRC first, and then formally authorise your adviser to complete the return on your behalf via a 'digital handshake'.

If you purchased a residential property for the sole purpose of selling it on for a profit, perhaps after redevelopment, different tax rules apply and HMRC will regard you as undertaking a trading activity subject to income tax rather than CGT. You should seek tax advice at an early stage if you think this applies to you.

04

Tax planning with your investments

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22. Pay the maximum amount into your ISA in 2025/26

If you are a UK tax resident and aged 18 or over, you may contribute up to £20,000 to an ISA in 2025/26. The annual ISA allowance cannot be carried forward or back, so if it is not used in 2025/26 it will be lost for good.

There are several types of ISA available including:

- Cash (aged 18+)
- Stocks and shares (aged 18+)
- Junior ISAs or 'JISAs' (for children aged 17 and under)
- Innovative finance (aged 18+)
- Lifetime ISAs or 'LISAs' (aged 18-40)

If you are a UK tax resident adult, your £20,000 annual ISA allowance covers all ISAs except LISAs where you may only contribute up to £4,000 per year. The government will top this up by adding a 25% tax free bonus to your LISA of up to a further £1,000 per year.

Parents may open one JISA for each of their children in 2025/26. The maximum contribution that may be made to a JISA is £9,000. Although only a parent or a legal guardian may open a JISA for their child, there is no restriction on who can pay in contributions. For example, many grandparents fund JISAs on behalf of their grandchildren as part of their wider IHT planning strategy.

The tax benefits of investing in ISAs are well known:

- Investment income, such as dividends and interest are not subject to income tax, and
- capital gains realised on investments are not subject to CGT, and
- it is possible for you to effectively inherit your deceased spouse's or civil partner's ISA without it losing its income tax and CGT free status, provided this takes place within certain time limits.

There are no tax charges on any withdrawals you make from your ISA. This means that your ISA does not get taken into account when calculating your total taxable income and so will not impact, among other things, your entitlement to an income tax personal allowance.

Some providers offer 'flexible ISAs' where you may withdraw funds and replace them in the 2025/26 tax year without the replacement counting towards using your £20,000 ISA allowance.

Cash ISAs

As their name suggests, cash ISAs may only hold cash. In many ways they are similar to a regular savings account, but you will not pay any tax on the interest earned.

Most retail banks, building societies and credit unions offer cash ISAs so there is a wide variety of providers in the UK. Cash ISAs are also offered by National Savings and Investments (NS&I) and the Post Office.

Some cash ISAs are 'easy access' where you can withdraw money at very short notice. Others may require you to give a longer a period of notice before making a withdrawal. Many cash ISAs are still available 'in branch' whereas others may only be available via online or telephone banking but potentially offer slightly better rates of return.

Stocks and shares ISAs

Stocks and shares ISAs can hold a wide variety of quoted investments such as individual shares, collective funds (i.e. pooled investments such as unit trusts or shares in open ended investment companies (OEICS)), investment trusts, real estate investment trusts (REITS) as well as government gilts or corporate bonds.

It is important to remember that investing in a stocks and shares ISA involves various degrees of risk depending upon the nature of the underlying investments. 'Investing' is very different to 'saving' but taking a long-term approach to investing means allowing your stocks and shares ISA access to the potential for better growth over time.

Innovative finance ISAs

Innovative finance ISAs allow you to use your ISA allowance to lend funds to other investors under a 'peer to peer' lending arrangement. This process is facilitated by the ISA provider.

The interest rates offered by innovative finance ISAs are more generous than those offered by cash ISAs. This is because your cash is at greater risk if the investor you lend to defaults on the loan and is unable to repay you. This risk could be mitigated by spreading your cash against multiple peer-to-peer loans, but if a lot of borrowers defaulted your savings could be at risk.

By their nature, innovative finance ISAs can be illiquid, and it may not always be easy to withdraw your underlying investment, especially at short notice.

Lifetime ISAs (LISAs)

Lifetime ISAs are available for adults to open between the ages of 18-40. Contributions may be made until age 50 but not beyond.

They are designed to help younger adults save towards purchasing their first home or to save towards retirement.

LISAs are available in either 'cash' or 'stocks and shares' format.

For every £4 you save, the government will add an extra £1. The Lifetime ISA annual allowance is £4,000 so the maximum annual contribution that the government will make is £1,000.

If you save £4,000 into a LISA in 2025/26 you will have £16,000 of your annual ISA allowance remaining and this may be invested in another type of ISA.

You may only withdraw funds from a LISA to help purchase your first home, or from age 60 – whichever is earlier. If you withdraw funds for any other reason, you will suffer a 25% penalty on withdrawal because the government will claw back its contributions.

23. Venture capital: subscribing for shares under the Enterprise Investment Scheme (EIS) and Seed Enterprise Investment Scheme (SEIS)

For those with a high tolerance for investment risk and a high capacity for loss, the Enterprise Investment Scheme (EIS), and Seed Enterprise Investment Scheme (SEIS) offer significant tax breaks. EIS and SEIS shares are not for everyone and are not regulated by the Financial Conduct Authority (FCA). Your investments may rise or fall in value. If you decide to invest, you may get back less than the amount you paid in.

The tax rules relating to the EIS and SEIS are very complex. You should seek tax advice if you are thinking about investing, or if you own a company that is seeking to attract inward investment.

It is impossible to cover every detail here but broadly speaking, qualifying EIS and SEIS shares will be in smaller, **unquoted trading companies** that carry on a qualifying trade. Certain trades are excluded under the EIS and SEIS. There are also limits on the 'size' of the trading company taking into account the number of its employees and the value of its gross assets at the time of the investment.

The company cannot be under the control of another company and there are time limits that restrict the number of years over which the company has carried on its qualifying trade. The EIS rules are tightened further under the SEIS. Qualifying SEIS shares will be in very small or 'start up' trading companies.

The EIS and SEIS shares themselves must be new and fully paid-up ordinary shares. You must subscribe for your shares; they will not qualify under the EIS or SEIS if you acquire your shares 'second hand' from someone else.

Finally, a number of tax rules may prevent you, as the investor, from qualifying for tax relief under the EIS and SEIS. For example, you will not qualify if you are an employee of the company, but you may act as a director in certain circumstances.

EIS tax reliefs

Investments in qualifying EIS companies attract 30% income tax relief on the value invested. This is given as a credit against your total income tax liability in the tax year you subscribed for the shares, or the previous tax year if you elect to carry back relief.

In 2025/26 the maximum investment that qualifies for income tax relief is capped at £1million. However, there is a further £1million allowance that covers EIS shares issued by 'knowledge intensive companies'.

CGT deferral relief is available on your EIS investment. You may defer £1 of capital gain for every £1 you invest under the EIS. Unlike a claim to EIS income tax relief, there is no limit on the total value of capital gains that you may defer under the EIS, but you may only defer capital gains arising within a certain time period calculated with reference to the date that your EIS shares are issued. The deferred capital gain will come back into charge in the tax year in which you dispose of your EIS shares.

The EIS shares themselves become exempt from CGT provided that:

- The company retains its EIS qualifying status,
- you claim income tax relief on their value, and
- you own them for at least three years.

If you dispose of your EIS shares and create a capital loss, the loss may be offset against your total taxable income rather than your other capital gains if that is your preference. Depending on your marginal tax rate, by offsetting the loss this way, the income tax savings may be higher than the CGT savings.

It is important to note that income tax relief may be clawed back by HMRC if your shares cease to qualify under the EIS, if you as an investor no longer qualify for relief, or if you dispose of them within three years of the issue date.

SEIS

Investments made under the SEIS qualify for 50% income tax relief on a maximum annual subscription of £200,000 in 2025/26.
Like the EIS, SEIS income tax relief is given as a tax credit against your total income tax liability in the tax year when the shares are issued, or in the previous tax year if you elect to carry back relief.

CGT reinvestment relief is available on 50% of your SEIS subscription. For every £1 you invest, you may claim CGT reinvestment relief of 50p. So, if you make the maximum annual subscription of £200,000 this means that £100,000 of capital gains will qualify for reinvestment relief.

Where you hold your SEIS shares for three years and later dispose of them, the reinvested capital gains will not come back into charge. They reduce to zero. This should be contrasted with the EIS which only gives the opportunity to defer capital gains, albeit at potentially much higher values.

Once you have held your SEIS shares for three years, they will be exempt from CGT if you sell them at a profit.

SEIS income tax relief and CGT reinvestment relief will be withdrawn following certain disqualifying events in line with the EIS rules as described above.

24. Venture capital – venture capital trusts (VCTs)

A VCT is an investment company whose shares are listed on the London Stock Exchange. Their characteristics are in some ways similar to investment trusts.

The VCTs fund manager will invest in a portfolio of unquoted trading companies or trading companies listed on the Alternative Investment Market (AIM). By pooling investments in this way some investment risk is potentially diversified away. That being said, VCTs should still be regarded as higher risk investments that are only suitable for sophisticated investors with a high tolerance for risk and a high capacity for loss.

In 2025/26 income tax relief is available at a rate of 30% on new issues of ordinary shares up to a maximum annual subscription of £200,000. The maximum amount of income tax relief that may be claimed is £60,000.

Relief is given as a credit against your 2025/26 income tax liability. Unlike the EIS and SEIS, it is not possible to carry back VCT income tax relief to the previous tax year.

Capital gains arising on the disposal of VCT shares are immediately exempt from CGT (i.e. there is no minimum holding period) but capital losses are not allowable.

Provided that you do not exceed the £200,000 annual subscription limit, any dividends that you receive from your VCT are tax free and do not count towards using your £500 dividend allowance.

Income tax relief must be repaid to HMRC if you do not hold your VCT shares for at least five years.

As income tax relief is only available on new share issues, demand for VCTs secondary market is comparatively low. This means that it may take time to sell your VCT or you may not be able to sell all your shares in one go.

25. Venture capital – Investors Relief (IR)

Investors Relief (IR) is a CGT relief that may be claimed by external investors in unquoted trading companies or companies listed on the Alternative Investment Market (AIM).

In 2025/26 IR provides a 14% CGT rate on qualifying capital gains up to a lifetime limit of £1million. The 14% CGT rate will increase to 18% from 6 April 2026.

In many ways IR operates in a similar way to CGT business assets disposal relief (BADR), but there are significant differences. Fundamentally, BADR is targeted at owner managers who work within their business, whereas IR is targeted at external investors. IR does not require a minimum percentage holding, whereas BADR is depended upon the '5% rules'.

IR and BADR are separate tax reliefs, and a £1million lifetime limit for qualifying capital gains applies to each.

At a high level, to qualify for IR:

- You must subscribe for new, ordinary shares in an unquoted trading company,
- Neither you nor your close family members (or your business partners) may be an employee or officer of the company (NB: this requirement does not apply in certain situations).
- The shares must be subscribed for at arms-length and issued as part of a genuine commercial arrangement and not one that is designed to avoid tax.
- You must not receive any 'value' from the company (other than 'insignificant value') in a period beginning one year before the issue date of the shares and ending three years later.
- Your shares must be held continuously and for at least three years prior to disposal.

IR may be a useful tax relief to explore if you have previously used up your lifetime BADR allowance, or if you own shares which initially qualified under the EIS or SEIS but have since become disqualified.

If your unquoted trading company is excluded from issuing shares under the EIS or SEIS because it carries on an excluded trade (such as owning and operating a hotel, nursing home, or is engaged in property development) then IR could be an option to attract inward investment.

26. Go for growth and capital gains

Although CGT rates were increased from the October 2024 Budget, they are still relatively low. At 24%, CGT rates remain attractive for higher and additional rate taxpayers who will pay income tax at 33.75% or 39.35% on their dividends and 40% or 45% on interest (up to 48% for taxpayers resident in Scotland).

If held outside of an ISA, consider rearranging your investment portfolio so that it is biased towards capital returns liable to CGT rather than income returns liable to income tax.

If this is not a practical option and you hold your portfolio in your sole name, consider transferring it into joint ownership with your spouse or civil partner. This is especially useful if they pay income tax at a lower rate than you or if they have capital losses available in their own name.

Transferring your investment portfolio into joint names with your spouse will not trigger a capital gain and will usually be exempt from IHT with no seven-year survival condition. However, you should seek tax advice if your spouse or civil partner is not domiciled in the UK for IHT purposes because different rules apply.

The CGT annual exemption has been much reduced in recent years and stands at £3,000 per person in 2025/26. It cannot be carried forward and so will be lost if you do not use it before the end of the tax year.

If you have come into 'new funds' that are available for investment then investment bonds may be an attractive addition to your portfolio, particularly where you may not need to draw on the investment until later.

27. Remember those capital losses

Consider triggering capital losses in 2025/26 to offset against your 2025/26 capital gains.

Research into behavioural finance shows that investors generally become more distressed by prospective losses than they are made happy by equivalent gains. 'Loss aversion' occurs when investors are reluctant to turn 'paper losses' into real money losses. They hold on to losing investments perhaps longer than they should, in the hope that their losses will be recouped.

If there is a positive side to this, remember that if you dispose of an asset chargeable to CGT for less than what you acquired it for, a capital loss will arise. Capital losses must be claimed for tax purposes and there are strict rules that dictate how they may be used.

Investment decisions should always come first but, if you are convinced that the value of an investment will not recover, it may be worth biting the bullet and trigger the capital loss to reduce your 2025/26 CGT liability. In most cases capital losses can be triggered by simply selling the investment although sometimes finding a willing buyer is not always possible.

If an asset has become negligible in value (i.e. it is worth nothing or 'next to nothing') it may be possible to trigger the capital loss through making a negligible value claim in your tax return. Negligible value claims are particularly useful when it comes to unquoted shares where there is typically no market through which you could attempt to sell your investment. Of course, detailed rules apply and HMRC may ask for evidence to support your claim.

If you trigger a capital loss on EIS or SEIS shares, then it is possible to offset the loss against your total taxable income. This should be more tax efficient than offsetting the loss against capital gains if you are a higher (40%) or additional rate (45%) taxpayer.

Capital losses can also be triggered if you transfer loss making assets to members of your close family other than your spouse or civil partner. However, in these circumstances, the capital loss must be ringfenced and may only be used against capital gains triggered against the same person.

Once claimed, capital losses may be carried forward indefinitely until they are used.

28. What about cars, clocks and antiques?

Some of your investments or personal possessions may not be chargeable to CGT if you decide to sell them.

'Wasting assets' that the tax rules deem to have a predictable life of less than 50 years, are exempt from CGT. This includes all types of machinery – provided the machine has not been used in your business. For savvy investors, who understand a specialised market well, tax-free capital gains can be made on items like classic cars, antique clocks and luxury watches.

HMRC generally regard wine as being a wasting asset and so tax-free gains can be made if you invest in a vintage that rises in value. The same cannot necessarily be said about very fine wines, fortified wines, or spirits which can be laid down for long periods exceeding 50 years as these remain chargeable to CGT.

Special CGT rules apply to 'chattels' which are best thought of as being personal possessions that can be seen, touched, and moved. Chattels include items that could increase in value, such as antiques, jewellery, sculptures and paintings.

If you sell a chattel for less than £6,000 then any profit you make on sale will be exempt from CGT and need not be reported to HMRC. If the proceeds exceed £15,000 special CGT rules apply which may restrict the level of your capital gain. If you sell a chattel for a loss then, in some cases, the capital loss must be restricted before it can be used.

Special tax rules apply to 'sets' of chattels (e.g. antique cutlery or a chess set). It may be tempting to think you can reduce your CGT liability by breaking up a set and selling each piece individually. However, anti-avoidance rules are in place which prevent this and you will remain chargeable to tax as though you sold the set as an undivided whole.

Antiques and artworks are an alternative asset class and could have a place in your overall investment portfolio. They are not for everyone, and their relative attraction will be dependent on your personal interests, knowledge of a subject, eye for an opportunity and appetite for risk. There are tax traps for the unwary and in some cases HMRC may argue that you are undertaking a trade in such items with profits being chargeable to income tax rather than CGT.

29. Investment bonds

Investment bonds are offered by the major insurance companies. They may be established either in the UK or in offshore financial centres such as Ireland, the Channel Islands or the Isle of Man. Investors may withdraw up to 5% of their initial investment per year, for up to 20 years, without any immediate income tax consequences. If you were previously categorised as a UK resident non-domiciled (non-dom), you should seek tax advice prior to encashing your investment bond if this was funded with 'mixed funds'.

You should seek regulated financial advice if you are thinking about placing funds into an investment bond.

Usually classed as 'single premium life insurance policies', investment bonds contain little in the way of life insurance and should really be thought of as a form of wrapped investment product. Invested in collectives such as OEICs and unit trusts, investment bonds may provide attractive returns over the longer term as well as valuable tax advantages to investors.

Investment bonds are non-income producing. What this means is that, as a wrapped investment product, they are 'opaque' rather than transparent, so individual investors are not charged to tax on the internal returns generated within the bond. Instead, special income tax rules apply to certain chargeable events which we touch on below.

There are two types of investment bond: onshore and offshore. The main difference is their tax treatment.

- Onshore bonds are set up in the UK. Their internal investment returns are subject to UK life fund taxation which is dealt with by the insurance company. On the basis that the bond is subject to life fund taxation, where excess withdrawals are made by the investor (see below), they will be franked with a notional 20% income tax credit. As the tax credit is notional it cannot be repaid to the investor.
- Offshore bonds (OIBs) are set up overseas. Their internal investment returns are **not** subject to UK life fund taxation and typically an OIB will suffer from very little internal taxation. However, unlike a UK investment bond, excess withdrawals from an OIB are not franked with a notional 20% tax credit. The value of the excess withdrawal is always 'gross'.

Certain events, known as 'chargeable events', may occur during the lifetime of an investment bond and potentially trigger an income tax liability.

Chargeable events could arise:

- On your death (where bond benefits are paid out to others)
- If you transfer your bond, or some of its segments, for consideration (but not by way of an outright gift)
- On maturity if your bond has a maturity date (this typically only applies to capital redemption bonds)
- On 'excess events' (where you withdraw more than your available 5% allowance)
- On surrender (if you decide to cash-in your investment bond and withdraw all your money)

Where a chargeable event 'gain' arises, the insurance company will provide you with a chargeable event certificate confirming important information for tax purposes. The gain will be subject to income tax at your highest marginal rate.

However, if the gain pushes your income into a higher tax band, a spreading mechanism may apply which has the effect of reducing the income tax payable. This is a complex tax calculation and is referred to as 'top slicing relief'. If a UK investment bond is involved, the notional 20% income tax credit will further reduce you tax liability on the gain.

Given their non-income producing nature, investment bonds, and OIBs in particular, may be attractive if you:

- pay income tax at the higher rates,
- have funds to invest, and
- do not require access to your capital for some time.

You will not be subject to tax unless you trigger a chargeable event gain and, absent internal taxation within an OIB, the gross roll up of investment returns may serve to boost its potential to grow in value over time.

Many investors choose to add an investment bond to their portfolio because of their inherent flexibility for tax purposes.

For example:

- If you are still earning and subject to higher rates of taxation, you may withdraw up to 5% of the original capital invested free of any immediate income tax consequences. This 5% annual withdrawal allowance is cumulative, so if you did not withdraw 5% in the first year of the investment bond, you could withdraw 10% in the second, 15% in the third, and so forth. This may be a useful facility if you needed additional funds to meet a special or an unforeseen expense and wished to avoid encashing other investments that could create an unwanted tax liability.
- If you have retired and are paying tax at a lower marginal rate, you will suffer less income tax on a chargeable event gain than you may have done whilst earning. If you are a basic rate taxpayer and own an onshore bond, the associated 20% tax credit may discharge your income tax liability entirely. Investment bonds are often used as a longer-term savings vehicle and may compliment mainstream retirement savings such as pensions.
- Investment bonds are also useful in the context of IHT planning. Giving away segments of your bond will not create any income tax or CGT liabilities. IHT will not need to be accounted on the gift if you survive for seven years from the date you gave away the segments.

05

Tax and retirement savings

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30. Maximise your personal pension contributions

Whilst a useful source of income to have later in life, many people recognise that the State Pension, on its own, will be unable to fully support them in retirement. Saving extra towards your retirement goals is crucial if you wish to have anything more than a very basic level of income during your 'autumn years'. Luckily, pensions benefit from generous tax breaks and if you are employed, your employer, may contribute to your pension as well.

Pensions are probably the most tax-efficient investments around and, for many people, will form an important part of their wider investment portfolio.

- Pension contributions benefit from income tax relief:
  - If you pay into your employer's pension scheme, your contributions will be deducted from your gross salary before you pay any income tax or NIC, thus saving tax at your highest marginal rate.
  - If you pay into a personal pension scheme your contributions are deemed paid net of basic rate income tax. Your pension provider will automatically recover an additional 25% (of your net contribution) from HMRC and add this to your pension pot. If you pay income tax at the higher (40%) or additional rate (45%), then additional tax relief on your pension contributions can be claimed through your annual tax return.
- Employer contributions are a tax-free benefit in kind:
  - You will not be liable to income tax or NIC on the value of pension contributions paid in by your employer.
  - If you undertake a salary sacrifice in favour of your employer making additional pension contributions they may decide to contribute even more into your pension as they will also make NIC savings.
  - Like salary, pension contributions paid by employers on behalf of their employees are tax deductible for the employer.
- Your pension savings will grow tax free:
  - Your pension savings will not be subject to income tax or CGT whilst they remain invested.
  - The resulting 'gross roll up of investment returns' may help to boost the growth in value of your pension over the long term.
- You may draw out part of your pension savings tax free:
  - Subject to certain limits, you may withdraw up to 25% of your pension savings as a tax-free lump sum.
  - This tax-free cash can be taken as a single lump sum, or as a series of lump sums, from age 55, depending on your needs.
- You may benefit from lower income tax rates when you draw income from your pension:
  - Generally speaking, your income in retirement is likely to be lower than when you were earning. When you finally draw an income from your pension, it is possible that you will pay income tax on it at a lower rate than when you were earning.
  - If a flexi-access drawdown facility is available from your pension you may flexibly access the levels of income that you need and so plan to make withdrawals in the most tax-efficient way.

31. Avoid pension savings tax charges

There are a number of tax incentives to save into a pension but there are traps too. Since the abolition of the Lifetime Allowance, there is no longer any limit on the size of your pension that could trigger punitive internal income tax charges. However, it is possible to incur tax charges if you save more than your available annual allowance into your pension each year.

The basic position is that in 2025/26 the amount that may be contributed to your pension is the lower of:

- 100% of your earnings or
- your annual allowance. This is set at £60,000 **plus** any unused annual allowance brought forward from the previous three tax years.

If you do not have any earnings, the maximum personal pension contribution that you may make in 2025/26 is £3,600 (gross) or £2,880 (net).

If you pay more than what you are allowed into your pension you will not be entitled to income tax relief on your excess contributions. Instead, it will be necessary for you to pay the excess tax relief back to HMRC via an annual 'pension savings tax charge'.

'Earnings' in this context includes income from employment (including taxable benefits in kind) as well as taxable business profits from self-employment or a partnership. This is not an exhaustive list and other types of income qualify as earnings as well. However, investment income such as dividends and interest, rental profits and pension income, do not count as earnings and cannot be used as the basis for making a personal pension contribution.

It is important to note that earnings are only relevant to pension contributions that you make personally. They are not relevant to the level of any pension contributions that your employer makes on your behalf, but you will still be liable to pay a pension savings tax charge where employer contributions together with your personal contributions exceed your available annual allowance.

The basic position as described gets more complicated if you are a high earner, or if you are over 55 and have already 'flexibly' accessed your pension. In these circumstances, your annual allowance will be reduced, meaning that your tax relievable pension contributions will be restricted, perhaps to as little as £10,000.

Given these complexities, it is important to seek advice about your pension contribution levels to avoid incurring pension savings tax charges. If these are incurred, you are liable to pay them personally although in some circumstances they can be paid directly from your pension pot under a 'scheme pays' arrangement with your pension provider.

32. Use pension carry-forward

If your pension savings exceed the annual allowance in 2025/26 (£60,000 for most people) check if you have any unused allowances from the previous three tax years that can be used under the pensions 'carry forward' rules.

Carry forward lets you use unused annual allowances from the previous three tax years (i.e. 2022/23, 2023/24, 2024/25). This means that you may be able to save more than you think into your pension in 2025/26 and still qualify for tax relief on the contribution.

Remember: you may still only contribute the lower of your earnings and your available annual allowance including carry forward.

You can use carry forward in 2025/26 if:

- You have used your current 2025/26 annual allowance, and
- you were a member of a registered pension scheme during the tax year(s) you wish to carry forward from, and
- you have not triggered the money purchase annual allowance by taking pension benefits flexibly from a defined contribution scheme.

Carry forward will utilise your unused annual allowance chronologically, using the earliest tax year first.

If you have flexibly accessed your pension, you will be subject to the money purchase annual allowance (MPAA) which restricts your maximum pension contribution to £10,000 per year. Unfortunately, it is not possible to carry forward any unused MPAA from previous tax years under any circumstances.

33.Take your tax-free cash

If you are 55 or older in 2025/26 you may be able to withdraw funds from your pension tax free up to certain limits.

If you have a defined-contribution pension or a SIPP, you may be able to take up to 25% of the fund as a tax-free 'pension commencement lump sum' (PCLS).

If you are a member of a defined benefit (DB) scheme (e.g. a 'final salary' pension) check the scheme rules to see when you are allowed to take out your tax-free cash. Taking it out prior to the DB scheme's normal retirement date may not be possible or, if it is possible, could lead to penalties restricting the level of your tax-free cash or your future pension entitlements. If in doubt – always seek advice.

In 2025/26 for most people, the maximum tax-free cash they may withdraw from their pension is capped at £268,250. If you hold one of the various 'pension protections' that were previously issued by HMRC you may be entitled to take a higher sum.

It is not necessary to take out all your tax-free cash at once. It can be spread over a number of years if that is your requirement. Also, taking your tax-free cash does not compel you to draw on the taxable part of your pension at the same time.

Remember: once all of your tax-free cash has been taken out, anything remaining in your pension pot will be subject to income tax when you withdraw it.

34. Take your pension tax efficiently

Since the introduction of pension flexibilities over ten years ago, there are different ways that you can withdraw funds from your defined contribution pension in a tax-efficient manner.

Flexible retirement income, sometimes called 'flexi-access drawdown' or simply 'pension drawdown' is a way of taking money from your pension in retirement without buying an annuity. Your pension provider may be able to set up a drawdown arrangement for you but if this is not possible, you will need to transfer your pension to another provider if you wish to access the funds flexibly.

Drawdown allows you to access your pension 'a bit at a time' according to need. Doing so allows you to control the level of your taxable income and therefore the amount of tax that you pay on it.

For example, if you have no other taxable income in 2025/26 you could withdraw up to £12,570 from your drawdown pension to use up your income tax personal allowance. If you choose to top up your income, this could be done via a withdrawal of tax-free cash if you have not already used up your entitlement.

Your pension provider will automatically deduct income tax from any pension payments that you receive from your drawdown account. This is the case even if you have no other taxable income and are withdrawing an amount simply to use up your personal allowance. If you have no other taxable income, you will be due an income tax refund and there are various ways of reclaiming this from HMRC.

Another type of flexible pension arrangement is taking funds as an 'uncrystallised funds pension lump sum' (UFPLS). When you take a payment of UFPLS, 25% of it **must** be in the form of tax-free cash. If you have taken all your tax-free cash, you are not allowed to take a payment of UFPLS.

Flexible pension arrangements are becoming more popular, but they are not for everyone. You should seek advice if you wish to use a pension drawdown arrangement because, unlike an annuity which may be guaranteed to pay-out for the rest of your life, there is a risk that you could fully deplete your pension fund and run out of money in retirement. This risk could be heightened if you take large withdrawals during the early years of retirement where these coincide with a significant fall in markets.

Accessing your pension flexibly in 2025/26 will have the effect of reducing your pension savings annual allowance to £10,000. If you are still contributing to your pension this means that the maximum amount you will be able to save tax efficiently will be capped at this amount.

35. Take out a stakeholder pension for your children or grandchildren

Although pensions are long-term investments it is never too soon to start contributing to them. Stakeholder pensions are a low-cost option and even allow pension contributions to be made on behalf of minors.

Parents and grandparents will often help fund savings accounts for their children and grandchildren. The money might be earmarked to help with university living costs, to buy their first car, or a deposit towards their first home. However, in many cases, children may be able to access these funds when they turn 18 and, as with many things in life, there are no guarantees that they will put the money to the use you originally intended.

If you are looking for an option to lock away funds for the exceptionally long term and to help a child later in life, a stakeholder pension might be worth thinking about.

On the assumption they will have no earned income, you may contribute up to £2,880 (net) to a stakeholder pension on behalf of a child each tax year. The pension provider will reclaim an extra £720 from HMRC bringing the total contribution to up to £3,600.

Your contribution will be deemed to be paid by your child so you will personally not be entitled to any further income tax relief on it. However, it will also not impact the level of any personal pension contributions that you may be making for yourself.

Assuming a 5% compounded growth rate (and ignoring the effect of charges) if you contributed £3,600 per year to a stakeholder pension from the birth of your child; their pension pot could be worth around £135,000 by the time they turn 21. If all contributions then ceased and the pension was allowed to grow and, still assuming a 5% compounded growth rate, it could be worth well in excess of £1million by the time your child turned 67.

Making pension contributions for your children or grandchildren could also form part of your IHT gifting strategy.

36. Pensions – and IHT changes

Following announcements in the 30 October 2024 Budget, the IHT treatment of pensions is set to change radically from 6 April 2027.

As matters currently stand, your pension is not included in your estate for IHT purposes because it is held in trust by the pension provider. If you die before age 75, your beneficiaries can receive your pension without being liable to income tax on it. However, there may be a limit on how much they can receive income tax free, depending on the type of pension and how they take the funds.

The new rules are still being finalised but, from 6 April 2027, any remaining pension funds, including lump sum death benefits from defined benefit schemes, will be part of your estate and liable to IHT at a rate of 40%. The IHT will be paid directly on the pension investments before your beneficiaries can access the funds. Your beneficiaries may then pay income tax when they draw on the remaining pension funds.

Depending on the rate of income tax that they pay, your beneficiaries could suffer a combined IHT and income tax charge of 67% on your pension investments (68.8% for Scottish taxpayers).

It is still possible to pass your pension to your spouse or civil partner without incurring any IHT. This could have the effect of deferring the date when any IHT due on your pension must be paid (i.e. when you spouse eventually passes away).

As the new rules will not come into effect until 6 April 2027, there may be no immediate urgency to plan because your pension will be sheltered from IHT until then. However, if you have a large pension or if your beneficiaries are already facing a substantial IHT bill, lifetime gifting of assets or of excess income may need to be considered as part of your IHT planning strategy.

06

'Death and taxes': Inheritance planning and family wealth

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Inheritance tax (IHT) is a tax on your estate – meaning everything that you own when you die – be that property, investments, cash, and personal possessions. It applies where the value of your estate exceeds your IHT nil rate band (£325,000) with everything above this threshold being taxed at 40%. In some circumstances, IHT may also be payable during your lifetime at a reduced rate of 20%.

IHT is probably the most emotive tax in the UK because it involves taxing assets on death when they may have already been subject to income tax or capital gains tax (CGT) during lifetime. Many view IHT as a 'double tax' on the lifetime wealth they have worked hard to accumulate and hope to pass on to their loved ones. The emotional weight of IHT is compounded by the fact that families usually deal with it at a difficult and sensitive time, following the death of a loved one.

IHT is also a very complex tax, which is ironic because it raises very little of the government's annual tax revenue. That all being said, IHT mitigation is important to many and there are ways of reducing its burden.

37. Use your IHT exemptions as a matter of course

Sensible IHT planning usually starts with making sure you do the simple things first.

The IHT annual exemption is £3,000 per person. If you do not fully use your annual exemption in one tax year, what remains may be carried forward to the next tax year. This means that if you did not use your IHT annual exemption in 2024/25, you will have an annual exemption of £6,000 in 2025/26. If you have not used your IHT annual exemption from 2024/25, consider using it in 2025/26 otherwise it will be lost.

If your child decides to get married or enter into a civil partnership, each parent may make a gift of up to £5,000 to them, free of any IHT. If it is your grandchild who is getting married, the exemption halves to £2,500.

If neither of you have used your 2024/25 IHT annual exemptions and your child is getting married in 2025/26, both you and your spouse could give them a combined total of £22,000 completely free of IHT. The IHT immediately saved at 40% would amount to £8,800.

The small gifts exemption is very modest at £250, but you may give as many gifts of up to £250 per person as you wish each tax year, provided that you have not used another allowance on a gift to the same person. It is a useful exemption to use, particularly if you have a large family and wish to make a number of gifts on special occasions.

Remember – using your IHT annual exemption does not necessarily mean that you must give an outright gift of cash to a loved one. You could make use of it by contributing to a stakeholder pension or a lifetime ISA on their behalf instead.

These exemptions are relatively small but if used regularly as part of your overall IHT planning strategy, the IHT savings begin to build up over time.

38. Making larger lifetime gifts

There is no maximum level of lifetime gifts that you may make to another individual, but if you are giving away more than your IHT annual exemption, you must survive for seven years for the gifts to fully escape IHT. These types of gifts are called potentially exempt transfers, or 'PETs'.

Making larger lifetime gifts to loved ones could be an important part of your IHT planning strategy. In principle, you can give away as much as you like during your lifetime and the gifts will escape IHT provided that you live for seven years.

Taper relief is available on lifetime gifts if you do not survive for seven years. The value of the gift remains in your estate, but the 40% IHT due on it is reduced on a sliding scale depending on how many years you survive as shown in the table below.

Less than three years	Full IHT rate applies	40% IHT rate
Three – four years	20% Reduction	32% Effective IHT rate
Four – five years	40% Reduction	24% Effective IHT rate
Five – six years	60% Reduction	16% Effective IHT rate
Six – seven years	80% Reduction	8% Effective IHT rate
More than seven years	100% Reduction	0% IHT rate

Consider giving away assets that you do not need sooner rather than later to start the IHT seven-year clock.

Any gift must be absolute and with 'no strings attached'. A gift will be ineffective for IHT purposes if you are still able to benefit from the asset you have given away unless that benefit is incidental or very minor.

Great care must be taken if you give away property (such as a holiday home) and continue to use it. You should seek tax advice in these circumstances, but the basic position is that for the value of the property to remain outside of your estate, you should pay an open market rent when you occupy it.

For obvious reasons, cash is probably the easiest asset to give away during your lifetime. If you decide to give away other assets, such as shares or property, the gift may trigger a disposal of the asset at open market value for CGT purposes. You could be faced with a CGT bill if the asset is standing at a capital gain.

Before deciding to give anything away, it is vitally important to ensure that you have enough income and assets to support you through your later years. You should not give anything away if you believe that doing so could prejudice your ongoing financial security.

39. Are you able to make gifts from 'surplus income'?

One of the most valuable but often overlooked IHT exemptions is the 'normal expenditure out of income exemption' often referred to as the 'gifts from surplus income exemption'. Used carefully, the exemption allows you to make lifetime gifts that are immediately outside your estate without having to wait for seven years.

In order for the exemption to apply, a number of conditions must be met:

- The gifts must be made from surplus 'income'. This is income after both tax and your usual annual expenditure.
- The gifts must be made regularly, and
- after making the gifts, you must be left with enough income to maintain your usual standard of living.

The gifted funds must come from sources such as employment income, investment income (i.e. interest and dividends), business or rental profits, or pension income. Withdrawals from investment bonds do not count as income, nor do the proceeds from the sale of investments such as shares or property.

The gifts must be regular, so a settled pattern of giving must be established. That does not mean that the gifts must be made on a frequent basis; they could be annual or even bi-annual.

After making the gifts, your usual standard of living must not be impacted. In other words, a gift will not qualify for the exemption if, to maintain your usual standard of living, you need to make up for any financial shortfall by dipping into your savings or selling investments.

Where the gifts qualify for the exemption, they are immediately exempt from IHT without the usual seven-year survival period.

Income eventually becomes capitalised for IHT purposes and generally HMRC take the view that income becomes capital if it is not spent within two years. Making use of the gifts from surplus income exemption can prevent surplus funds from accumulating in your estate and increasing the IHT payable on it.

Given the upcoming changes to the IHT treatment of pensions from April 2027, many may consider it worthwhile to make lifetime withdrawals from their pension, even where the cash is not needed, and to give away the excess funds using the gifts from surplus income exemption.

40. Set up a family trust

The successful, long-term stewardship of family wealth is often enhanced by setting up trusts to receive assets and hold them on behalf of others who may not be ready, or able, to manage their financial affairs themselves.

Setting up a lifetime trust will involve gifting so, unless IHT exemptions or reliefs can be used, it will still be necessary for you to survive for seven years from the date of transferring assets to the trustees.

Depending on the type of trust being used there will be a 20% lifetime IHT charge if the value gifted exceeds your available nil rate band (£325,000).

Incurring a lifetime IHT charge is undesirable but with care this situation can be avoided.

Several types of trust can be used, depending on your wishes as well as the needs and circumstances of your chosen beneficiaries.

- Bare or absolute trusts are simple and effective vehicles to retain control over assets while beneficiaries are minors. The trust assets automatically become the legal property of the beneficiary when they turn 18.
- A life interest trust entitles a beneficiary to receive the income produced by the trust fund, or to occupy a property owned by it, for the duration of their life. The underlying trust assets will pass to others following their death.
- A discretionary trust can be an effective vehicle through which your trustees retain legal control over the assets and decide in what circumstances the beneficiaries may receive benefits. No beneficiary has an absolute entitlement to assets held in a discretionary trust. If you wish to give away assets during your lifetime but are unsure about who you would like to see benefit from them, a discretionary trust may be suitable.

With appropriate powers granted under the trust deed, your trustees may invest, trade, borrow, lend, guarantee and provide financial supervision over assets held for the benefit of family members – from young minors to the very elderly.

Appointing trustees to manage assets after your death can have practical advantages. For example, an insurance policy held in trust will pay out on your death without the proceeds forming part of your estate. Furthermore, it will pay out before probate and provide your executors with useful liquidity to help administer your estate.

Trusts have the potential to become complicated for tax purposes so you should obtain both tax and legal advice if you are thinking about setting one up. They also need a certain amount of administration and must be formally registered with HMRC. Many trustees delegate these day-to-day activities to a professional accountant or tax adviser.

41. Protect family wealth by using a family investment company (FIC)

If you wish to retain control over your family's wealth and have decided that a trust is not suitable for this purpose, an alternative structure could be a family investment company. A FIC is a private limited company where family members are the shareholders. FICs can be used to manage and protect family wealth, reduce IHT, and facilitate the transfer of wealth to the next generation.

FICs have become popular alternatives to trusts in recent years. Unlike with some types of trust, there are no lifetime IHT charges if you transfer the value to a FIC in excess of your nil rate band.

There are many variations on the theme but, broadly speaking, FICs are set up much like any other company with shares allocated among family members. The founding family members typically act as directors and will control all investment decisions and the wider management of the company. Younger family members will hold shares but will generally be unable to exercise much in the way of control.

Typically, the younger family members will hold 'alphabet shares' which allow the directors granular control over the distribution of shareholder benefits such as the payment of dividends or the allocation of capital growth.

A FIC is unlikely to attract any IHT reliefs due to its investment activities. However, with appropriate structuring, the IHT savings could come in other ways:

- Making cash gifts to your children to enable them to subscribe for shares in the FIC will save IHT, if you survive for seven years. The same applies if you gift them shares in your FIC, but you should be mindful of any CGT consequences that may arise if the shares you give away have risen in value since you acquired them.
- The underlying FIC investments will grow in value outside of your estate, with capital growth directed towards the shares held by your children.

- The IHT rules provide for discounts on minority shareholdings. Whilst these discounts are usually less for shares in an investment company than for shares in a trading company, the market value of the shares that your children hold in the FIC could be far less for IHT purposes that what the company's balance sheet may otherwise imply.

A FIC will be liable to 25% corporation tax on its taxable profits. Where companies receive dividends from other companies, (including from some investment funds) they will not be liable to tax on them. The annual corporation tax liability for a FIC could be low depending upon the type of income it receives. Investment company management fees are tax deductible and will reduce any corporation tax liability further.

Of course, there are also various filing requirements involving Companies House, so running a FIC will involve a certain amount of administration but this could of course be delegated to a company accountant or tax adviser.

42. IHT and charitable giving

Making gifts to charity is very IHT efficient and could also lead to a reduction in the rate of IHT charged on your estate.

Any gifts that you make to registered UK charities during your lifetime will be immediately exempt from IHT without the usual seven-year survival period. You effectively save 40% IHT on every gift made.

The same applies to gifts to community amateur sports clubs and 'mainstream' political parties, provided the party meets certain rules.

If you leave at least 10% of your net estate to charity, a reduced IHT rate of 36% will apply to the remainder. The devil is always in the detail, but to secure this relief it is recommended that charitable bequests are specified in your will as a percentage of your net estate, rather than leaving fixed sums or specific assets.

43. Consider a discounted gift trust (DGT)

A discounted gift trust could be useful if you have excess capital that you wish to give away but still require a regular income from it. A DGT can help to reduce your IHT liability at the same time.

A DGT is an arrangement that might be suitable if you wish to undertake IHT planning during your lifetime but still need access to the capital you have given away. Here is a high-level overview of how they work:

- Your 'capital' in the form of a cash lump sum, is transferred to a trust and invested in an investment bond via an insurance company.
- Access to your capital is provided by paying back to you a series of fixed payments from the trust for the rest of your life.
- The remainder of the trust fund goes to your chosen beneficiaries when you die.
- The trust could be discretionary or bare / absolute in nature, depending on your wishes.

On setting up a DGT, the insurance company will calculate the likely level of income that the trust will pay back to you. This is determined by your age, gender, lifestyle, and any underlying health conditions that you may have. Your right to the fixed income payments has a value for IHT purposes and is not given away – it is retained by you.

On your death your right to the fixed income payments immediately ceases. The accepted tax treatment is that, on death, your right to the income payments has no value. This means there will be an immediate reduction in the value of your estate for IHT, even if death occurs within seven years of setting up the trust. Effectively there is an immediate IHT discount when setting up a DGT.

You should seek both tax advice and regulated financial advice if you are thinking about investing in a DGT.

44. Have a will in place (and review it regularly)

The importance of having a valid will in place cannot be overstated. If you do not have a will your estate will be distributed according to the intestacy rules which could be inefficient for IHT purposes or lead to other undesirable outcomes.

Your will sets out how you would like your estate to be distributed after you die. As your wishes are clearly set out, a will can help prevent arguments between family members that may arise if they have to agree 'who gets what' between themselves. In your will, you can make provision for your spouse (or common law partner), children from a current or previous relationship, wider family members, friends, or causes that you wish to support.

We would recommend that you review your will regularly to ensure it continues to meet your wishes. This is because your financial and family circumstances inevitably change over time. It may also be necessary to periodically change your executors if those currently appointed are no longer able, or willing, to carry out this vital role. Tax changes can also make long standing plans set out in your will inefficient.

If you marry (or re-marry) then your existing will is automatically invalidated, so drawing up a new will after marriage should be high on your list of financial priorities.

Wills are essential when it comes to IHT planning.

Everyone has an IHT nil rate band (£325,000) and assets falling within this do not suffer IHT on death. If you do not use your IHT nil rate band any unused portion may be transferred to your spouse or civil partner for use on second death.

If you leave residential property to your children or grandchildren a residence nil rate band of up to £175,000 is also available provided the value of your estate does not exceed certain limits. This may also be transferred to your spouse if it is not used on your death. When combined, up to £1million of nil rate bands and residence nil rate bands could be available on second death leading to an IHT saving of £400,000.

Gifts of assets to your spouse (or civil partner) through your will pass free of IHT. Whilst this does not remove the IHT liability that may fall due on second death, it may have the effect of deferring payment for some years, giving your spouse time to undertake IHT planning during their remaining lifetime.

Will trusts can be especially useful if your estate is made more complicated by divorce and remarriage. For example, a suitable trust could be established in your will to hold property for the benefit of your surviving spouse for the remainder of their life with the capital eventually passing to your children from a previous relationship.

Although it is not strictly necessary, we would always recommend that you engage the services of a lawyer to help prepare your will and to ensure that it is properly executed to ensure its validity.

45. Upcoming changes to IHT Business Relief (BR) and Agricultural Relief (AR)

The 30 October 2024 Budget announced fundamental changes to the availability of IHT Business Relief and Agricultural Relief that will take effect from 6 April 2026.

IHT BR and IHT AR reduce the value of certain business or agricultural assets when calculating the IHT due on them. Relief from IHT is available at 100% or in some cases at 50%, depending on the type of asset concerned.

IHT BR applies to the assets of unincorporated businesses as well as shares in unlisted trading companies. IHT AR applies to agricultural land, buildings and woodlands.

IHT BR does not apply to 'excepted assets' which are, broadly speaking, private assets or assets that are no longer required for use in the business. The value of these assets remains chargeable to IHT. If your trading company holds excepted assets, the value of your shares may not qualify for BR in full.

Based on current proposals, the first £1million of the combined value of your qualifying business and agricultural assets will receive 100% IHT relief with 50% applying to the excess.

The £1million allowance does not apply to AIM shares – IHT BR will be capped at a maximum of 50% on these from 6 April 2026.

For individuals, the £1million allowance will be available in chronological order on lifetime gifts to individuals, lifetime gifts to trusts, and finally to the estate. In a change to the original proposals, the £1million allowance will not be a 'lifetime limit'. Instead, it will periodically refresh meaning that, if you hold qualifying assets of sufficient value, you may be able to make gifts of up to the £1million allowance every seven years.

Where you have previously set up trusts that hold IHT BR and AR qualifying assets, each trust will benefit from its own £1million allowance going forward. However, there will be a single £1million allowance for all new trusts created by the same settlor after 30 October 2024. The allowance will be applied in chronological order.

As the rule change is not expected until 6 April 2026, a window of opportunity is still available if you are giving thought to transferring IHT BR or AR qualifying assets to a trust. However, be mindful that such trusts could now incur ten-year IHT charges at an effective rate of up to 3% on values above £1million.

It may also be worthwhile reviewing your will to ensure that you leave assets qualifying for IHT BR and AR to your spouse or civil partner because any unused entitlement to the £1million allowance does not pass the surviving spouse on death.

46. Transferrable ISA Allowance (on death)

Each year, the government sets a limit on how much you can save across all of your ISAs. This is your ISA allowance which is set at £20,000 in 2025/26. If your spouse or civil partner holds an ISA and they pass away, you are entitled to an additional tax-free ISA allowance based on the value of their ISA.

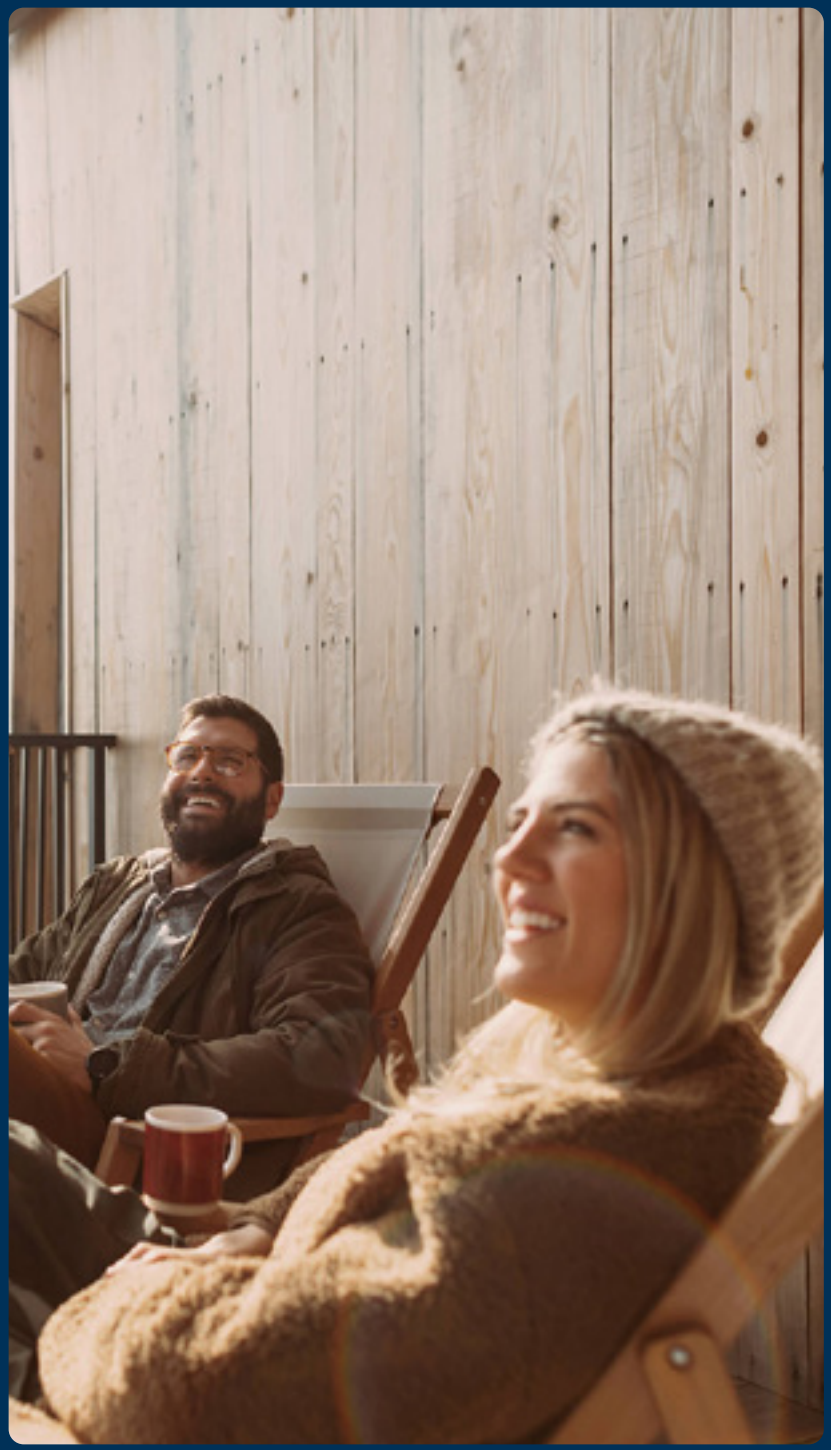
Although not subject to income tax or CGT, your ISA still forms part of your estate and is liable to IHT on death.

If you leave your ISA to your spouse or civil partner, there will be no IHT due on its value because gifts between spouses and civil partners are exempt from IHT.

Following your death, your spouse or civil partner can also inherit the income tax and CGT free status of your ISA by way of the Additional Permitted Subscription (APS) allowance. The value of the allowance is equal to the value of your ISA on the date of death, or its value on the date it closed if this is higher.

The APS is in addition to the £20,000 annual ISA allowance. Your spouse can use their APS allowance with your ISA provider or alternatively transfer it to another provider of their choice. There is a time limit for using the APS allowance which is generally three years from the date of death.

It is clearly very tax efficient to leave your ISA to your spouse or civil partner and you should consider reviewing your will to ensure this happens after you die.



07

Abolition of domicile status for tax

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47. Non-dom tax changes – a brief overview
48. Are you ready for Making Tax Digital for income tax (MTD)?

From 6 April 2025 in the UK, significant changes were made to the taxation of UK resident but non-domiciled individuals ('non-doms') who now transition to a residence-based tax system.

47. Non-dom tax changes – a brief overview

The 'remittance basis' which allowed UK resident non-doms to pay UK tax on foreign income and capital gains only when these were brought onshore was abolished for foreign income and capital gains arising after 5 April 2025. Broadly speaking, from 6 April 2025, all UK residents will be taxed on their worldwide income and capital gains as they arise regardless of their common law domicile status. However, existing UK resident non-doms, and qualifying new residents, may benefit from various transitional measures that are designed to ease their UK tax burden.

Introduction of the foreign income and gains regime (FIG)

New arrivals who have not been UK tax resident in any of the previous ten years will benefit from a four-year exemption on foreign income and capital gains. During this time such overseas income and gains can be brought into the UK completely tax free. From the fifth year, the individual will be fully taxable in the UK on their worldwide income and gains.

The FIG regime is open to anyone who meets the conditions, including repatriating long-term non-UK residents who would formerly have been considered UK domiciled on their return.

If you make a claim for FIG regime to apply, among other restrictions, you will lose your entitlement to an income tax personal allowance, CGT annual exemption, and the ability to use capital losses arising on overseas assets.

CGT rebasing

Individuals who have previously claimed the remittance basis and who were not UK domiciled or deemed domiciled by the 5 April 2025 will automatically have any foreign chargeable assets which they owned on 5 April 2017 (and subject to a disposal on or after 5 April 2025) rebased to their value as at the 5 April 2017.

Where an asset is rebased, its original or 'book cost' is replaced by its open market value on the date of rebasing. An election may be made to disapply automatic rebasing if the result is unfavourable, for example where the original cost figure results in a smaller capital gain or a larger allowable loss.

Temporary repatriation facility (TRF)

The TRF is an optional regime designed to incentivise former remittance basis users to pay UK tax on unremitted foreign income and capital gains that arose prior to 6 April 2025. The TRF lasts for three years from 6 April 2025 to 5 April 2028. The tax rates applicable are 12% in 2025/26 – 2026/27 and 15% in 2027/28.

Changes to trust taxation

From the 6 April 2025 protections for settlor-interested offshore trusts will be removed. Income and gains within such trusts will be taxable on the settlor unless they qualify for the new foreign income and gains regime.

Reform of overseeing overseas workday relief

Prior to 6 April 2025, UK resident non-doms were able to benefit from 'overseas workday relief'. It was available for the tax year in which they became UK resident and the following two tax years if they worked partly in the UK, partly overseas and were taxed on the remittance basis. On making a claim, overseas earnings were treated as foreign earnings and only taxed when they were remitted to the UK.

From 6 April 2026 overseas workday relief will apply to qualifying new residents and extended to four years. It will provide income tax relief on earnings related to work performed abroad regardless of whether those earnings are brought into the UK. However, claims will be capped at the lower of £300,000 or 30% of the individual's net employment income per tax year.

Inheritance tax changes

Following the move to a residence-based system from 5 April 2025, IHT will be chargeable on worldwide assets for individuals who have been UK resident in ten of the last 20 tax years. Such individuals will remain within the scope of IHT for up to ten years following their departure.

The amount of time during which they will remain exposed to IHT will depend on how long they were previously resident in the UK. For example, if the individual has been UK resident for ten of the last 13 years, they will remain liable to IHT on worldwide assets for three tax years after departure. If UK resident for ten of the last 14 tax years this will increase to four years after departure and so on.

UK assets will remain in the scope of IHT regardless of an individual's residence status.

These fundamental changes and reforms to are designed to 'modernise' the UK's tax system to ensure fairness and competitiveness. While they may increase tax liabilities for some individuals, the transitional measures and the new foreign income and gains regime provide opportunities for tax planning in 2025/26.

If you are affected by these changes should seek professional advice to navigate the new rules effectively.

48. Are you ready for Making Tax Digital for income tax (MTD)?

Making tax digital for income tax is a key part of HMRC's digital transformation strategy and will potentially affect you if you receive income from property and from self-employment. Long delayed by HMRC, the new rules will finally be phased in over the forthcoming 2026/27 – 2027/28 tax years.

You will be in the scope of the new rules:

- From **6 April 2026**, if your gross income from self-employment and / or property is **over £50,000** and
- from **6 April 2027**, if your gross income from these sources is **over £30,000** and
- from **6 April 2028,** if your gross income from these sources is **over £20,000**.

For the purposes of determining whether the new rules apply to you, 'gross income' refers to the combined gross income received from self-employment and / or property and not your 'net' or taxable profits after the deduction of allowable expenses.

If you are in scope, from 6 April 2026, it will be necessary for you to submit quarterly returns to HMRC which set out your income and expenses from these two sources. A final declaration will then be required to provide HMRC with details of the final taxable profits for the year together with any other taxable income and capital gains arising in the tax year.

Our **Insight** here provides more information about MTD for income tax.

Contents

Glossary and definition of terms

Glossary and definition of terms

A

AA – Annual Allowance: The maximum level of pension savings that can be made each year benefitting from tax relief.

AIM – Alternative Investment Market: a subsidiary market of the London Stock Exchange where shares in smaller companies with the potential for growth are traded.

APS (allowance) – Additional Permitted Subscription allowance: an extra amount that may be saved into your ISA if you inherit an ISA from your late spouse or civil partner.

AR – Agricultural Relief: Applies a 0% tax rate to the value of agricultural land and buildings for inheritance tax purposes.

B

BADR – Business Asset Disposal Relief: reduces the rate of capital gains tax payable on the sale or disposal of certain business assets.

BR – Business Relief: Applies a 0% tax rate to the value of various types of business assets for inheritance tax purposes.

C

CGT – Capital Gains Tax: payable on the profit when you sell (or 'dispose of') an asset that has increased in value.

CLT – Chargeable Lifetime Transfer: a lifetime gift to certain types of trust where inheritance tax will be payable if the value gifted exceeds your available nil rate band (£325,000).

CT – Corporation Tax: payable by UK companies on their taxable profits.

D

DGT – Discounted Gift Trust: a special type of trust arrangement where some of the funds gifted will be repaid to the settlor as income. Immediate inheritance tax savings may be made if the settlor dies within seven years of setting up the trust.

E

EIS – Enterprise Investment Scheme: an initiative that provides tax relief to investors who subscribe for ordinary shares in qualifying, unquoted UK trading companies. EIS shares should be considered as high risk investments.

EMI – Enterprise Management Scheme: A tax advantaged share option scheme available to qualifying UK trading companies. If conditions are met, income tax is not payable when employees exercise their options. The sale or disposal of shares acquired under the EMI may qualify for CGT Business Asset Disposal Relief (BADR).

F

FIC – Family Investment Company: a private limited company which holds investments for family members who will also be the shareholders.

FIG – Foreign Income and Gains (regime): provides income tax and capital gains tax relief on overseas income and gains as these arise for qualifying, 'newly arrived' UK residents.

H

HICBC – High Income Child Benefit Charge: a mechanism through which Child Benefit is repayable to HMRC if you or your partner have taxable income over a certain threshold.

HMRC – His Majesty's Revenue & Customs: executive agency of HM Treasury whose remit is to collect tax and customs duties from individuals and businesses in the UK.

I

IHT – Inheritance Tax: tax on the estate (property, money, investments and possessions) of someone who has died. Inheritance tax is payable during lifetime in some circumstances, and also by certain types of trust every ten years and when assets are appointed to a beneficiary.

IR – Investors' Relief: reduces the rate of capital gains tax payable on shares in unquoted UK trading companies. It only applies if conditions are met and the shares have been subscribed for by the investor.

ISA – Individual Savings Account: a tax-free savings or investment account available to UK residents aged 18 and over. The annual investment amount is currently £20,000.

J

JISA – Junior ISA: a tax-free savings or investment account available to UK residents aged 17 and under. The annual investment amount is currently £9,000.

L

LBTT – Land and Buildings Transaction Tax: payable on the purchase of residential and commercial property in Scotland.

LISA – Lifetime ISA: tax-free savings account designed to help individuals aged 18-39 to save towards either their first home or retirement. The maximum annual contribution is £4,000 with a government top-up of £1,000.

LTT – Land Transaction Tax: payable on the purchase of residential and commercial property in Wales.

M

MPAA – Money Purchase Annual Allowance: reduces the level of pensions savings that qualify for income tax relief to £10,000 where the investor has previously accessed their pension in a 'flexible' way.

MTD – Making Tax Digital: a government initiative that will digitise certain tax records and submissions to HMRC coming into effect from 6 April 2026.

N

NIC – National Insurance Contributions: paid by employers, employees and the self-employed. Contributions enable individuals to qualify for certain state benefits and the state retirement pension.

Non-Dom – Non UK Domiciled individual: prior to 6 April 2025, a UK resident individual who did not consider the UK to be their permanent home and who could benefit from various tax advantages from this status.

NRB – Nil Rate Band: the level above which inheritance tax is payable on an estate, or on the gift of assets to certain types of trust. The nil rate band is currently set at £325,000.

O

OEIC – Open Ended Investment Company: a collective investment fund with variable share capital that grows and contracts with investor demand.

OIB – Offshore Investment Bond: a single premium life insurance policy serving principally as a tax-efficient investment wrapper. OIBs are offered by life insurance companies based outside of the UK.

P

PAYE – Pay as You Earn: a system where employers deduct income tax and national insurance contributions from the earnings of their employees and pay this directly to HMRC. PAYE is also operated by pension providers.

PCLS – Pension Commencement Lump Sum: income tax-free lump sum that you may take from your pension when you start accessing benefits. In most cases your PCLS is limited to 25% of the value of your pension but is subject to an overall cap.

PET – Potentially Exempt Transfer: a gift to another individual which will be exempt from inheritance tax if you survive for seven years from the date of making the gift.

PRR – Private Residence Relief: a CGT relief that may be available when selling or disposing of your only or main residence.

R

RNRB – Residence Nil Rate Band: an IHT nil rate band only available on death where you leave your home to your children or grandchildren. It is currently set at £175,000 but is only available to estates valued below a certain limit.

S

SDLT – Stamp Duty Land Tax: payable on the purchase of residential and commercial property in England and Northern Ireland.

SEIS – Seed Enterprise Investment Scheme: an initiative that provides tax relief to investors who subscribe for ordinary shares in small qualifying, unquoted UK trading companies. SEIS shares should be considered as high risk investments.

SIPP – Self Invested Personal Pension: a flexible type of pension allowing personal choice over the underlying investments and methods of withdrawal at retirement.

T

TRF – Temporary Repatriation Facility: an arrangement allowing former non-domiciled remittance basis users to bring unremitted income and capital gains into the UK without incurring the marginal UK tax charges that would usually apply to such remittances. The TRF will be available for the three tax years 2025-26 to 2027-28 inclusive.

U

UFPLS – uncrystallised funds pension lump sum: a facility that enables you to flexibly access your pension without placing funds into drawdown or buying an annuity. 25% of an UFPLS payment will be tax free.

V

VCT – Venture Capital Trust: a type of collective investment fund listed on the London Stock Exchange that invests in unquoted UK companies and companies listed on AIM. Tax relief is available to investors who subscribe for new shares in a VCT. VCT shares should be considered as high risk investments.

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