Year end tax planning guide 2022/2023

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

To complement this advice, and with the end of the 2022/23 tax year on the horizon, our Tax Team have prepared the following guide that considers various tax planning strategies you may find of interest. While many of these strategies are tax year end dependent (such as ensuring you make use of a particular exemption before it is lost) many are not, and can be utilised at any point during the tax year.

Please note: the next Budget will take place on Wednesday 15th March and what follows could be affected by the Chancellor's announcements.

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Income tax planning and tax-efficient investments

Income tax planning always begins by understanding where your income is likely to fall relative to the various tax bands.

In 2022/23, the UK personal allowance amounts to £12,570. It will remain frozen at this level until 6 April 2028.

In England & Wales and Northern Ireland the income tax rates and bands are as follows:

	Taxable income	Main rate	Dividend rate
Basic rate	£12,571 - £50,270	20%	8.75%
Higher rate	£50,271 - £150,000	40%	33.75%
Additional rate	Over £150,000	45%	39.35%

From 6 April 2023, the additional rate threshold above which income is payable at 45% will reduce from £150,000 to £125,140. However, this measure will not apply to the non-savings and non-dividend income of Scottish taxpayers because the Scottish Parliament sets the income tax rates and thresholds for Scotland.

In 2022/23, the first £2,000 of dividend income received by an individual is covered by the dividend allowance and taxed at 0%. While there will be no changes to dividend tax rates, from 6 April 2023, the 0% dividend allowance will reduce from £2,000 to £1,000.

For Scottish taxpayers, the income tax rates and bands applied to earnings are currently:

	Taxable income	Scottish tax rate
Starter rate	£12,571 - £14,732	19%
Basic rate	£14,733 - £25,688	20%
Intermediate rate	£25,689 - £43,662	21%
Higher rate	£43,663 - £150,000	41%
Top rate	Over £150,000	46%

In Scotland, the tax rates and bands applied to dividend income are the same as set out for England & Wales and Northern Ireland. Scottish taxpayers are also entitled to the £2,000 dividend allowance reducing to £1,000 from 6 April 2023.

If you divide your time between living in Scotland and somewhere else in the UK you should consider your position carefully to determine whether you are liable to either Scottish income tax rates, or those in force in the rest of the UK.

Wherever you live in the UK, if your income is just over a particular threshold, then consider ways by which it can be reduced. This can be particularly relevant if income levels are between £100,000 and £125,140 where the personal allowance becomes restricted, leading to the effective rate of tax being 60% (61.5% in Scotland).

There are a number of strategies that could help achieve this; from transferring income producing assets to your spouse if they pay tax at a lower rate, making qualifying charitable donations, personal pension contributions or accepting tax-free benefits in kind from your employer. For those with a greater appetite for investment risk, a number of tax incentivised investments are also available.

In 2022/23, where total taxable income does not exceed £100,000, most taxpayers are entitled to an income tax personal allowance of £12,570.

Basic rate taxpayers are also entitled to a £1,000 personal savings allowance (for interest) which reduces to £500 for higher rate taxpayers.

Depending upon the levels of their other income, some taxpayers may be entitled to make use of a 0% tax rate on the first £5,000 of interest that they receive.

All UK taxpayers are currently entitled to a £2,000 dividend allowance.

Spouses and civil partners

If your spouse or civil partner receives little or no income, it may be worth transferring income producing assets to them in order to utilise their personal, savings and dividend allowances, or basic rate tax band. For example, it may be possible to transfer a bank account, unconditionally, into their name prior to the interest payment date if this falls before the end of the tax year.

Alternatively, the transfer of shares to your spouse before the dividend declaration date could enable them to utilise their personal allowance as well as their dividend savings allowance; thus potentially yielding up to £14,570 of tax-free dividend income before the end of the tax year.

In limited circumstances, where one spouse has not fully utilised their income tax personal allowance and the other spouse is a basic rate taxpayer, the non-taxpayer spouse may transfer 10% of their personal allowance to the basic rate taxpayer spouse. The transfer may be made via your tax return and could save £252 in income tax in 2022/23.

Remember - when transferring income producing assets between spouses, care should be taken to ensure that any transfer is an outright gift with “no strings attached” otherwise it may be ineffective for tax purposes. We would recommend you seek professional advice if this is something you are considering; particularly if you are thinking about transferring shares in your private company.

Children

Children are also entitled to an income tax personal allowance. However, income generated by parental gifts is taxable in the hands of the parent where this exceeds £100, unless the child has reached the age of 18 or is married. Importantly, the “parental settlement” tax rules do not apply where the person making the gift is a more distant relative such as a grandparent. In addition, the rules do not apply where parents fund junior ISAs (or make contributions to government Child Trust Funds) on behalf of their children.

Charitable giving - Gift Aid

Cash donations to charity can be made under the Gift Aid scheme.

Donations made under Gift Aid are treated as having been paid net of basic rate tax. The charity will reclaim basic rate income tax directly from HMRC and additional tax relief of either 20% or 25% can be claimed through your tax return

depending on whether you are a 40% or 45% taxpayer.

In addition, the gross value of a Gift Aid donation is treated as reducing your total taxable income for the purposes of establishing your right to an income tax personal allowance where this has been partially or fully abated (i.e. when taxable income exceeds £100,000 in 2022/23).

The Gift Aid scheme provides a level of flexibility to taxpayers because it is possible to make a charitable donation in the current tax year but allows this to be treated as having been made in the previous tax year, provided certain conditions are met.

If it is tax-efficient to do so, Gift Aid donations made in 2023/24 may be treated as having been paid in 2022/23. This carry-back facility might be useful if, for example, your taxable income falls between £100,000 and £125,140 in 2022/23 because carrying back a Gift Aid donation may have the effect of reinstating some or all of your personal allowance. The ability to carry back Gift Aid donations presents a useful tax planning opportunity once your total annual income has been determined after the end of the tax year.

Making such donations may also affect the rate of tax you pay overall and your ability to make pension contributions in a given tax year.

Charitable giving - quoted securities and land

If you own quoted shares or securities, or UK land, consider whether it would be tax-efficient to make an outright gift of these assets to charity before the end of the tax year.

Such assets are usually gifted free from capital gains tax and an amount equal to their open market value may be claimed as a deduction against total taxable income. Various conditions must be satisfied and to claim relief in 2022/23 any gifts must be made before 6th April. Unlike Gift Aid, there is no carry back facility to treat the gift as having been made in the previous tax year.

If you are thinking about making a significant donation to charity but are flexible as to which assets you could gift, we would recommend that you seek professional advice before the end of the tax year in order to maximise tax efficiency.

Personal pension contributions

The combination of obtaining tax relief on pension contributions, tax-free growth within the fund, and the ability to take a tax-free lump sum on retirement, make pensions attractive long-term savings vehicles.

Income tax relief is available on annual pension contributions, but during 2022/23 is limited to the greater of:

- £3,600 (gross) and
- the level of your UK relevant earnings, but subject to the annual allowance (generally £40,000 gross).

The tax rules that determine the level of your available annual allowance for 2022/23 continue to be relatively complex. Broadly, the £40,000 annual allowance is gradually reduced by £1 for every £2 that your adjusted income exceeds £240,000. This is subject to a minimum allowance of £4,000 which will apply where your adjusted income exceeds £312,000.

If you have flexibly accessed your pension savings or are drawing an income from your pension under a drawdown arrangement in 2022/23 then the annual allowance may also be restricted.

For personal pension contributions to be relieved against 2022/23 income, they must be paid before the end of the tax year.

Where paid to a SIPP or a defined contribution arrangement such as a group personal pension, any contribution is treated as having been made net of basic rate tax. The mechanism for claiming tax relief is essentially the same as making a Gift Aid donation as explained above i.e. the gross amount is treated as extending your basic rate tax band and also acts to reduce your total income for the purposes of reclaiming your personal allowance.

If you make additional voluntary contributions to your employer's scheme, these are usually paid from gross earnings before PAYE is applied thereby saving tax at your marginal rate.

If, during the previous three tax years, the amounts contributed to your personal pension were below your available annual allowance, the unused relief may be carried forward and utilised in 2022/23, subject to the availability of earned income in the year. This valuable facility enables individuals to make larger pension contributions than those permitted under the current tax year's annual allowance.

You should consider maximising your personal pension contributions where possible; however if your adjusted income exceeds £240,000 you should seek advice as to how much your 2022/23 annual allowance has been reduced, as payments in excess of the available annual allowance may create unwanted tax charges.

Lifetime Allowance Protections

In addition to the complexities that surround personal pension contributions, the "lifetime allowance" (i.e. the total savings that may be accumulated in a registered pension before incurring a tax charge) should also be considered. The lifetime allowance currently stands at £1,073,100 and will be frozen at this level until 5 April 2026. If pension savings exceed the lifetime allowance, this will trigger a tax charge at the point pension benefits are drawn from the scheme or the individual turns age 75 if later. The excess over the lifetime allowance is taxed at 55% if benefits are taken as a lump sum, or 25% if taken as a pension. Following reductions in the lifetime allowance in recent years some protections are available allowing larger sums to be accumulated in certain circumstances.

Tax-efficient benefits in kind

The tax rules provide a number of tax-free benefits in kind that employers may provide to their employees.

If possible, you should keep under review the benefits in kind provided to you by your employer in order to maximise ongoing tax efficiency on an annual basis. If you are an employer, consider offering tax-free benefits in kind to your staff.

It is already common for employers to offer arrangements allowing employees to exchange cash payments for approved share options, or pension contributions in lieu of salary. Employees near the income tax thresholds may be able to reduce their tax liabilities by reducing their taxable income below £100,000 or £150,000 (reducing to £125,140 from 6 April 2023).

Although detailed conditions may apply; the following is a non-exhaustive list of some of the most common tax-free benefits in kind that may be worth considering if offered by your employer:

- Employer paid personal pension contributions (if suitable for your circumstances)
- Interest free loans (up to £10,000)
- Onsite childcare facilities
- Childcare vouchers (within certain limits)
- Health screening and medical check-ups (one per year)
- Provision of a bicycle and cycle safety equipment for commuting to work (private use is allowed)
- Long service awards ("items" costing no more than £50 for every year of service up to a maximum of 20 years)
- Trivial benefits (costing less than £50, but not cash or cash vouchers)
- Removal / relocation costs (up to £8,000)
- Mobile phones
- Small weekly contributions made by your employer if you are required to work from home.

Remember - the taxable benefit of a company car is calculated by multiplying the list price by a percentage (maximum 37%) based on the car's CO2 emissions. Making a cash contribution towards your company car (up to a maximum of £5,000) will help to reduce the value of the benefit in kind.

Note that cars that produce zero emissions (i.e. electric cars) are subject to only a 2% benefit in kind charge.

Alternatively, consider whether it would be more beneficial to use your own car for business travel and claim a tax-free mileage allowance from your employer. 45p per mile may be paid tax free for the first 10,000 business miles travelled and 25p per mile thereafter.

Deferring or bringing forward income

If reducing taxable income is not possible in your circumstances, consider whether there are any opportunities to defer it to the next tax year. A number of measures may be available, depending upon your personal circumstances:

- Unincorporated business owners who anticipate being subject to higher marginal tax rates in 2023/24 could consider bringing forward income into 2022/23 or delaying expenditure on capital items to 2023/24.
- If you are able to pay yourself a bonus, consider doing so before the end of the current tax year, particularly if the bonus would take your income over the reduced additional rate threshold of £125,140 if it is deferred until 2023/24.
- If you remunerate yourself by way of dividends consider whether it would be tax efficient to declare them before the end of 2022/23 given the £1,000 reduction to the 0% dividend allowance and lowering of the additional rate threshold to £125,140.

Remember – when deferring the payment of tax, timing is of key importance. For example, if you pay yourself a dividend on 5 April 2023, any tax due on it will be payable by 31 January 2024. If you delay paying the dividend by one day, to 6 April, it will fall into the next tax year so the tax due will not be payable until 31 January 2025.

Tax-efficient investments

ISAs

For 2022/23 the overall ISA allowance is £20,000. You may invest in any combination of cash or stocks and shares, or innovative finance, provided that the amount invested does not exceed £20,000. There are several tax benefits associated with ISAs:

- Dividend and interest income is earned tax free and does not need to be declared in your tax return.
- Where investments are sold within an ISA, any capital gains realised are tax free and do not count towards your CGT annual exemption.
- If your spouse or civil partner dies and you inherit their ISA, it will not lose its status and you may continue to enjoy income tax and CGT benefits irrespective of its value.
- If permitted by the ISA provider it is possible to withdraw funds from an ISA and to replenish them at a later date (but within the same tax year) without the replacement funds counting towards your ISA allowance for the year.
- It is possible to transfer your existing ISA between providers without it losing its tax-free status.
- Children may invest in a Junior ISA. The allowance for 2022/23 is £9,000 and may be split between cash or stocks and shares. Older children aged 16-17 may invest in both a Junior ISA and a cash ISA meaning that their overall ISA allowance for 2022/23 is increased to £29,000.

Handelsbanken Wealth & Asset Management offers a stocks and shares ISA that can be accessed in two ways:

- With advice: Making investment decisions is not for everyone and for customers who are not comfortable doing so then a client director is on hand to provide wide-ranging, carefully researched advice.
- Without advice: For those customers who are comfortable with making their own investment decisions, Handelsbanken Wealth & Asset Management Self Select provides an opportunity to access our investment solutions on an execution only basis. Self Select enables customers to transfer existing ISA portfolios or simply to use this year's allowance in an investment environment. A Handelsbanken bank account is required to take advantage of this service.

Remember – maximise your ISA allowance before the end of the tax year. It will be lost if you do not do so. A typical family of four with young children could potentially fund ISAs up to a value of £58,000 before 6 April. The value of investments and any income from them can fall and you may get back less than you invested.

Life assurance investment bonds

Insurance backed investment bonds, provided by the major insurance companies, have the tax advantage of allowing

the investor to withdraw up to 5% of the original capital invested without creating an immediate tax charge. After such withdrawals reach 100% of the original capital (usually after 20 years) income tax is payable on further withdrawals or on the surrender of the policy.

Many such insurance companies are situated overseas; often in the Channel Islands or the Isle of Man. Life assurance investment bonds issued by offshore providers benefit from little or no tax being payable within the fund. This "gross roll up" of investment returns can often serve to give the investment performance of such products a valuable boost.

Whilst the decision to invest in a life assurance investment bond should not be wholly driven by tax considerations, individuals whose level of income means that they may lose their personal allowance, or pay higher or additional rates of income tax, may find the 5% tax deferred withdrawal facility particularly attractive.

Regulated investment advice must be obtained before any decision to invest is made. The value of your investment may fall and you may get back less than you invested.

EIS and SEIS

Sophisticated investors with a higher appetite for risk could consider subscribing for ordinary shares in companies that qualify under the Enterprise Investment Scheme (EIS) or Seed Enterprise Investment Scheme (SEIS).

EIS and SEIS companies are small, unquoted trading companies (often "start-ups") which have been awarded EIS or SEIS status by HMRC.

The tax rules are complex but broadly; income tax relief is available at the rate of 30% for subscriptions made under the EIS and 50% under the SEIS on maximum annual investments of:

- £1million* for EIS shares, and
- £100,000 for SEIS shares

For both EIS and SEIS shares, all or part of the investment may be carried back and treated as made in the previous tax year, subject to the overall investment limit for that year.

** It is possible to invest up to a further £1million under the EIS for subscriptions for shares in qualifying "knowledge intensive companies". Typically, these companies will be new and innovative businesses employing a highly skilled workforce involved in research and development activities.*

EIS and SEIS shares also have capital gains tax advantages which are discussed below.

VCTs

For Venture Capital Trusts (VCTs) income tax relief is available at a flat rate of 30% on qualifying annual subscriptions of up to £200,000. Dividend receipts are usually tax free.

Unlike the EIS and SEIS, it is not possible to carry back subscriptions to the previous tax year, so an investment in a VCT must be made by no later than 5 April 2023 to qualify for tax relief in 2022/23.

SITR

The Social Investment Tax Relief (SITR) scheme is designed to support social enterprises seeking external finance by offering income tax reliefs to investors who invest in new shares or qualifying debt instruments.

As with investments made under the EIS, the maximum annual investment is £1million and income tax relief is available at a flat rate of 30%. All or part of the SITR investment may be carried back and treated as being made in the previous tax year, subject to the overall investment limit for that year.

EIS, SEIS, VCT and SITR investments generally carry a high degree of investment risk and so are not suitable for everyone. They are not regulated by the Financial Conduct Authority and appropriate investment advice should be obtained before any decision to invest is made. Tax decisions should not be the sole driver for investment decisions. The value of investments and any income from them can fall and you may get back less than you invested.

Rental income

Profits from rental businesses are subject to income tax at your marginal rate. Expenses incurred wholly and exclusively in connection with the rental business may be deducted, unless they are capital in nature.

- At the end of the tax year, it is always good practice to review your records to ensure you are able to evidence property expenditure for tax purposes.
- If you intend to purchase a buy-to-let property, consider buying it in joint names with your spouse or civil partner as "tenants in common". After making an election with HMRC, the rental income can then be divided between you according to the proportion of the property that you each own; giving the lower earning partner the bigger share. Income generated from properties bought as "joint tenants" will automatically be split equally between the owners.
- Consider transferring an existing rental property to your spouse if they are liable to income tax at a lower rate than yourself. However, care must be exercised as such a transfer could create a liability to Stamp Duty Land Tax if this is not an outright gift, such as if your spouse assumes responsibility for any mortgage debt. You may also need the permission of your mortgage lender to transfer ownership in this way.
- If you rent out a room (or rooms) in your home, the first £7,500 of rental income you receive is tax free. This "rent a room" allowance is split between couples and if rental income exceeds £7,500 then the income is taxable at normal income tax rates.
- If you rent out your home on an ad-hoc basis and receive a small amount of rental income (such as under an "Airbnb" arrangement) then, provided that the rental income does not exceed £1,000 in a tax year, it does not need to be included in your tax return.

Remember – if you are a residential landlord, tax relief for finance costs (such as mortgage or loan interest) is now only available as a tax reducer at the basic rate (20%).

Furnished holiday lettings – FHLs

In contrast to non-FHL rental businesses, FHLs may benefit from a number of tax breaks including favourable CGT treatment on sale and the ability to use rental profits as relevant earnings for the purposes of making personal pension contributions.

To qualify as an FHL, the property must be available for letting to the public for 210 days in a tax year and actually let for 105 days, with each let being for less than 31 days. If your

property is not actually let for 105 days in a tax year you may elect for a grace period to apply, provided the letting tests were met in either (or both) of the previous two tax years. Making the election will allow the tax breaks to continue for the elected tax year. If you own an FHL and were unable to let it for 105 days in 2021/22 remember to make the grace period election in your 2022/23 tax return to ensure the tax benefits remain for that year.

Capital taxes

Capital gains are charged capital gains tax (CGT) at a rate of 20% to the extent that they exceed your basic rate income tax band and 10% if they fall within it. Where the asset disposed of is residential property (whether situated in the UK or abroad) or carried interest then the rates of CGT are 28% or 18% respectively.

Where capital gains qualify for Business Assets Disposal Relief (formerly Entrepreneurs' Relief) or Investors' Relief, then the rate of CGT is 10%.

CGT planning

Most taxpayers are entitled to a CGT annual exemption of £12,300 for 2022/23. The exemption cannot be carried forward, carried back, or transferred to another person. If you do not use your CGT annual exemption before the end of the tax year it will be lost.

Given that the CGT annual exemption is reducing by more than half for the 2022/23 tax year, from £12,300 to £6,000, it would make sense to use the higher amount before the end of the tax year before it is lost.

- In order to make use of your CGT annual exemption, you might consider selling investments held in your name, and purchasing them back via your ISA, or in your spouse's/civil partner's name. This simple planning technique allows you to utilise your CGT annual exemption (or create a capital loss) and can facilitate the transfer of investments to a tax sheltered environment.
- If your spouse or civil partner has capital losses available, consider transferring assets standing at a capital gain to them, unconditionally, before arranging for them to be sold before the end of the tax year.

Remember – the trigger date for capital gains is the date when a contract becomes unconditional. For example, in the case of selling an investment property, this will be the date that contracts are exchanged – not the date of completion.

Your main residence

If you have recently acquired a second home in the UK then it may be beneficial to make a main residence election to ensure that CGT on your second home, if it is used as a residence, qualifies for a measure of tax relief on sale. Time limits for making a main residence election apply but, once made, it may be varied and even backdated for a period of up to two years. It is advisable to review your main residence position for tax purposes along with your wider CGT affairs towards the end of the tax year.

Residential property disposals – online reporting to HMRC

When a UK resident taxpayer disposes of UK residential property, it will be necessary to submit an online CGT return to HMRC within 60 days following the completion date. A payment on account of any CGT liability is due within the same 60 day window. Submitting an online CGT return is in addition to reporting the disposal in the Self-Assessment tax return – it does not replace this requirement.

A CGT return will not be required where the property:

- is a residential property situated overseas, or
- is UK commercial property, or
- qualifies for full CGT main residence relief (PRR), or
- any capital gain is fully extinguished by capital losses available at the time of disposal, or
- a capital loss arises on the disposal

Note that penalties could apply where the online CGT return is filed late or if it contains material inaccuracies.

Crystallise capital losses

Capital losses must be offset against capital gains incurred in the same tax year. Unused capital losses may be carried forward indefinitely to reduce future capital gains. This can be particularly valuable where gains have been realised on disposals of assets on which CGT at a rate of 28% rather than 20% is payable.

Capital losses are normally claimed in your annual tax return. If you do not complete a tax return, then a stand-alone claim may be made in writing to HMRC. All claims to capital losses must be made within four years following the end of the tax year when the loss was incurred. Hence any capital losses realised in 2018/19 must be claimed by no later than 5 April 2023.

If you own an asset that has become valueless or worth "next to nothing", then it may be possible to make a negligible value claim in order to crystallise the capital loss. In certain circumstances the claim may be related back for up to two tax years thus allowing the loss to be offset against gains made in an earlier tax year.

Check the value of privately held investments and compare this to their original cost. If appropriate, consider selling investments that are standing at a loss before the end of the tax year in order to reduce 2022/23 capital gains.

CGT reliefs – business assets disposals

Business Assets Disposal Relief (BADR) is available where an individual sells their business, a share in a business or shares in their "personal company". Where relief applies, the rate of CGT is 10% on qualifying capital gains subject to a lifetime limit of £1million. As with most tax reliefs, a number of qualifying conditions must be met that are beyond the scope of this note.

The BADR tax rules are complex and, whilst not dependent upon the tax year end, shareholders should consider their position to ascertain whether they currently qualify for BADR. This is particularly the case for shareholders in companies with complex share structures. We can advise whether you would qualify for BADR at present, or whether your interests could be restructured so that a future disposal should attract a more favourable rate of CGT.

EIS and SEIS

In addition to their income tax benefits, EIS and SEIS investments also have CGT advantages.

For every pound subscribed for EIS shares, you may defer one pound of capital gains. The capital gains themselves may be incurred on any asset and there is no upper limit on the amount of gains you may defer. Capital gains incurred in the 36 months prior to the date of your EIS subscription, and 12 months after this date, may be deferred in this way.

If you subscribed for shares under the SEIS, and claim income tax relief on the investment, then you may claim SEIS reinvestment relief and permanently exempt 50p of capital gains for every pound you invest. Capital gains arising in the year of your SEIS subscription, or in the previous tax year, may be exempted in this way, subject to income tax relief being claimed in the same tax year as any CGT relief.

Capital gains realised on the disposal of EIS and SEIS shares themselves are exempt from CGT provided that income tax relief has been claimed, they have been owned for at least three years and still qualify under the EIS at the date of disposal.

> Remember – capital gains deferred under the EIS will re-crystallise in the tax year when the EIS shares are sold or if the company itself loses its EIS status. The capital gains will come back into charge at the prevailing rate of CGT in the tax year they re-crystallise.

At present CGT rates are relatively low but, in light of high levels of government spending in recent years some consider that they could very well increase in the future. If you decide to defer capital gains under the EIS you should be comfortable in accepting that they may come back into charge when CGT rates are higher.

Investors' Relief

Investors' Relief is available for capital gains accruing to disposals of ordinary shares in unquoted trading companies made by individuals (or trustees) subscribed for on or after 17 March 2016 and which have been held for at least three years. The relief will reduce the rate of CGT to 10% on a lifetime limit of £10million of qualifying capital gains. Restrictions mean that employers or officers of the company will generally not qualify for Investors' Relief.

Inheritance tax (IHT) planning

Potential reforms to IHT have been the source of much speculation in recent years. However, the government has recently confirmed that the IHT rules will not be subject to a fundamental overhaul; at least for the foreseeable future. It is doubtful that we will see any significant changes to the existing rules for the duration of the current parliament.

Generally individuals who are domiciled (or deemed domiciled) in the UK are subject to IHT on their worldwide assets. Those who are not domiciled are normally subject to IHT on their UK assets only. Broadly, IHT is payable at a rate of 40% if a person's assets on death, together with the value of any gifts made in the seven years prior to death, and after available reliefs, exceed the nil rate band – currently £325,000.

We are of the view that sensible IHT planning should start with doing the easy things, such as making use of your available exemptions, as a matter of routine.

- Where possible, remember to use your £3,000 annual exemption before the end of the tax year. Any unused amount may be carried forward for one tax year only which means that if you have any remaining exemption carried forward from 2020/21 it will be lost from 6th April this year.
- Make use of the other basic IHT reliefs and exemptions such as the small gifts exemption of £250 per recipient and gifts made in consideration of marriage (£5,000 to children, £2,500 to grandchildren and £1,000 to anyone else).
- Gifts to "mainstream" political parties are also exempt from IHT, provided that certain conditions are met by the party.
- Gifts to registered charities or community amateur sports clubs are exempt.
- Gifts forming normal expenditure out of income are exempt, provided certain conditions are satisfied.

Making gifts in excess of your IHT annual exemption is not year-end sensitive tax planning, but as part of an annual review you might consider whether it is appropriate to make larger lifetime gifts in order to reduce the value of your estate for IHT purposes. Unconditional gifts to individuals are treated as potentially exempt transfers (PETs) and are not subject to IHT if you survive for seven years from the date of making them.

Alternatively, you could consider establishing a lifetime trust to receive assets if you believe that making outright gifts may not be in the best interests of the recipients. If drafted correctly, trusts can protect assets as well as the interests of beneficiaries if you are concerned about individuals receiving "too much too soon".

Trusts can be complex entities from a tax perspective so you should always seek professional advice to ensure they meet your objectives and do not fall foul of any tax rules.

Is your will up to date?

The importance of having a valid will in place cannot be over emphasised. For example, if you have recently married, or re-married, any existing will is automatically invalidated leaving your estate exposed to the intestacy rules. This could lead to inefficient outcomes from a tax perspective and potentially direct your estate in a way you would not otherwise intend. Whilst not tax year-end dependent, we generally recommend that you review the terms of your will at least every five years or so to ensure it still meets your requirements.

> Remember – if a family member has died within the last two years, check whether a deed of variation could reduce any IHT liability on their estate, or used to direct assets to where they are most needed. All beneficiaries of the estate impacted must agree to a deed of variation.

Additionally, if conditions are met, a reduced IHT rate of 36% may be applied to your estate, if at least 10% of your net estate is left to a qualifying charity.

Do you have a Lasting Power of Attorney (LPA) in place?

Whilst reviewing your will, consider whether you should have Lasting Powers of Attorney drawn up.

A Lasting Power of Attorney (LPA) allows your loved ones to take care of you and your finances if you are unable to do so yourself. There are two types of LPA available:

- A ‘Property and Financial Affairs’ LPA allows your loved ones to pay your bills, manage your bank accounts, claim state benefits and buy and sell property.
- A ‘Health and Welfare’ LPA covers decisions about your health and daily care routine. This type of LPA may only be activated if someone is incapable of dealing with their own health and welfare themselves.

If you lose mental capacity without having LPAs in place then your loved ones would need to apply to the Court of Protection to have a deputy appointed to deal with your affairs. This can be a slow and expensive process.

In order to avoid problems later, we generally encourage clients to have LPAs drawn up as a matter of course.

Non-UK Domiciliaries (non-doms)

The tax rules relating to non-doms are extremely complex and have changed significantly over the last few years. If you are not domiciled within the UK we would recommend that you seek appropriate professional advice to see how the tax rules affect your personal circumstances.

The value of investments and any income from them can fall and you may get back less than you invested.

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