



# YEAR END TAX PLANNING

**CavanaghKelly**

# INTRODUCTION

We are our clients' trusted advisors, and with over 100 experts, we will always have someone on hand to provide the guidance you need, whether that's in our audit, accounts, tax or advisory teams.

We aim to provide more than just compliance services. By working in tandem with you, we ensure you and your business are supported and have access to experienced advice when you need it most. We work alongside you to help you take the critical business decisions to grow and develop. We tailor our approach to provide solutions and are dedicated to providing you with the support and service required to succeed in today's challenging business environment.

When thinking about the future, no matter what the goal, having a plan in place helps ensure you reach your objectives. Effective tax planning is no different. We challenge our clients to think about their goals and look ahead when considering tax planning not just for the current tax year, but also for years to come.

Our year end tax planning summary covers the main planning opportunities available to minimise tax liabilities arising both for the 2024/25 current tax year and to plan ahead for the 2025/26 tax year. Contact us now to discuss the planning methods you could implement ahead of 6 April 2025 to minimise your tax bill and maximise your tax reliefs

## KEY CONTACTS



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# INCOME TAX

## Allowances

For 2024/25, the tax-free personal allowance is £12,570. Utilising your tax-free allowance is a quick way to start your tax planning. The next £37,700 of income is taxed at the basic rate of 20% (8.75% for dividend income). Higher rate tax of 40% (33.75% for dividends) is charged on income above £50,270 and additional rate tax of 45% (39.35% for dividends) is charged on income above £125,140.

The personal allowance is gradually withdrawn for individuals with adjusted net income above £100,000. If income is above £100,000, then individual pension contributions before 6 April 2025 can reduce income to £100,000 to restore all or part of the 2024/25 personal allowance which would otherwise be lost.

Married couples / civil partners each have a personal allowance of £12,570. This amount will remain in place until April 2028. Couples should ensure, if possible, that they have sufficient income to use their personal allowance. If your spouse or civil partner has little or no income you may want to consider redistributing income producing assets to minimise the couple's tax liability.

Where one spouse's income is below the personal allowance, and the other spouse is a basic rate taxpayer, the marriage allowance enables the lower earning spouse to transfer 10% (£1,260) of their personal allowance to their basic rate taxpayer partner. If a claim for the transfer is made before 5 April 2025, then this claim can be carried back up to the last 4 tax years.

Reducing taxable income below £125,140 can avoid 45% income tax on income above this level.

Married couples and civil partners have further opportunities for using their allowances and it should not be forgotten that children also have tax free allowances.

## Savings & Investments

The Savings Allowance means a certain amount of savings income, such as bank interest, could be earned tax free.

For individuals with a low income, that includes savings income, the starting rate band for the savings allowance is £5,000. This means that the first £5,000 of interest received, from savings, could be tax free. However, the starting rate band is tapered when earned income exceeds the Personal Allowance. For example, if an individual's income for the year is £14,570, the starting rate band would be reduced to £3,000. The allowance will not be available when total income exceeds £17,570 in the year.

Where interest is due just after 5 April 2025, closing an account just before the tax year end can bring that interest forward to the 2024/25 tax year, which, for example, may help in making better use of any surplus personal savings allowance or nil rate starting (savings) band for the current year.

In addition to the allowance above, the personal savings allowance entitles basic rate taxpayers to £1,000 of tax-free savings income and higher rate taxpayers £500. However, additional rate taxpayers (>£125,140 income) receive no allowance.

No capital gains tax or income tax liability will arise on transfers between married couples or civil partners living together. Investments must be fully transferred with no entitlement retained by the transferor.

### **Personal Contributions**

Personal and employer pension contributions provide some of the highest rates of income tax relief, and with ongoing suggestions that pensions tax relief could be restricted, this is an excellent time to make additional contributions if you are able to do so.

#### **Example**

**If your gross income is between £100,000 to £125,000 a gross pension contribution of £10,000 could cost as little as £4,000 net after tax reliefs.**

Making extra pension contributions not only increases your pension provision, but for those who may be subject to a reduced personal allowance, a personal pension contribution could claw back some of this allowance giving an effective tax saving of around 60%.

Announced in the Autumn Budget 2024, from April 2027, majority of unused pension funds and death benefits will be included in the value of an individual's estate for IHT purposes. This will expose the pension assets to 40% IHT on death.

### **Gift Aid**

Donations made under gift aid to registered charities or community amateur sports clubs may help with reducing the taxable income and in particular for High Income Child Benefit Charge, personal allowance tapering and reducing the amount of income taxed at the higher rate potentially.

If one spouse is a higher rate taxpayer, and the other is a basic rate taxpayer it may be worth considering the higher taxpayer makes the gift aid donations to obtain the additional tax relief.

If a taxpayer is thinking of making a significant gift aid donation and will be a higher rate taxpayer, it may be worthwhile making the donation after the 5 April 2025. If the donation is made between 6 April 2025 and 31 January 2026, an election can be made to claim tax relief in 2024/25 or 2025/26. Note there are strict conditions to this election, and it must be made on the tax return 2024/25 before the filing deadline of 31 January 2026. An amended tax return cannot be submitted to update for this election.



Ensure donations to charities are properly recorded as 'gift aid.' This not only enables the charity to reclaim an extra 25p for every £1 donated, but higher and additional rate taxpayers basic rate band will be increased to reflect the gross donation. E.g, Donate £1,000 net to charity equates to £1,250 gross donation. If the individual making the gift is a 40% taxpayer, the amount of income taxed at 40% is reduced by £1,250, saving tax of £250.

It is possible to elect for payments to a charity in the previous 4 tax years to be treated as gift aid payments, thereby obtaining relief against previous tax years income.

### **High Income Child Benefit (HICBC)**

From 6 April 2024, the high income child benefit charge applies where the net adjusted income is over £60,000 for an individual. Net adjusted income is the taxable income after the deduction of personal pension contributions and gift aid payments. Child benefit received will be clawed back at a rate of 1% for every £200 of income above this level, until the upper threshold of £80,000. If both spouses or civil partners are over this threshold, the charge will be the responsibility of the higher earner.

# INVESTMENTS

## Investment bonds

Investment bonds are one type of investment that can deliver valuable tax deferment.

It is possible to minimise taxation on encashment, as an investor can consider deferring encashment until later tax years, if other taxable income is likely to be lower, or nil, or you will be a basic rate taxpayer.

If cash is required from the investment, you can avail of the 5% tax-deferred annual withdrawal facility which should not trigger an annual tax charge.

## Enterprise Investment Schemes (“EIS”)

There are additional investments that can offer a number of tax benefits, such as the tax reliefs offered in respect of shares qualifying for Enterprise Investment Schemes (EIS) or Seed EIS (SEIS) relief.

Both EIS and SEIS shares are normally exempt from capital gains tax (CGT) and can be fully or partially exempt from inheritance tax (IHT), subject to detailed conditions being met.

## EIS Summary

Up to £1 million can be invested or £2 million where any amount above £1 million is invested in knowledge-intensive companies.

Maximum income tax relief is 30%.

Unlimited capital gains tax deferral relief provided some of the EIS investment potentially qualifies for income tax relief.

To carry back the 30% EIS tax relief into the tax year 2023-24, and investment into the scheme must be made in 2024-25 tax year.

## ISAs and JISAs

Tax free investments, such as Individual Savings Accounts (“ISAs”) or Junior ISAs (“JISAs”) can replace taxable income and gains with tax free income and gains. The current maximum annual ISA allowance is £20,000, and the JISA allowance is £9,000.

You cannot hold an ISA with another individual, such as a spouse. Each individual has their own annual allowance of £20,000. Therefore, a couple can invest a maximum of £40,000 each year.

You must save or invest in an ISA by 5 April or the current year’s annual allowance will be lost. Any unused subscription amount cannot be carried forward.

## Dividends

It is important to make the most of the financial rewards of running your own business and consider how to extract your profit in the most tax efficient way.

In 2024/25 the dividend allowance was reduced to £500. The dividend tax allowance of £500 is available for all taxpayers. Amounts falling within the dividend allowance are taxed at 0%. The allowance will, however, use any part of the lower rate bands that they would otherwise have fallen into. Choosing to take a dividend over a salary or bonus reduces the tax charges for the company, as dividends are paid after Corporation Tax is paid and are free of National Insurance.

**Note that Dividends are paid out of retained profits in the company, so it is important to factor this into the calculation especially with the higher corporation tax rates.**

Dividend payments do not qualify as relevant earnings for personal pension payments.

### **NIC Contribution Gaps**

The normal time limit for making voluntary contributions to avoid gaps in national insurance records is 6 years. The government announced a further temporary extension, allowing anyone to fill any gaps in their National Insurance record from April 2006 to April 2016. The deadline for doing this has been extended to 5 April 2025.

National insurance records are used to determine an individual's entitlement to state benefits and in particular state pension. For state pensions, individuals need to have a minimum of 10 qualifying years of full credits. To receive the full state pension, which is currently £221.20 a week, individuals will normally need 35 years of qualifying credits. Individuals should review their national insurance records to make sure they have a full year of credits, otherwise they should consider making a voluntary contribution to top credit up.





# CAPITAL GAINS TAX

Spouses are taxed independently for CGT purposes. Each individual has an annual exemption of £3,000 for 2024/25, which can be offset before paying any CGT.

## Rates for Non-Property Assets

The rate of capital gains tax (CGT) is 18% where the total taxable gains and income is less than £37,700. Any excess gains are taxed at 24%.

Where Business Asset Disposal Relief (BADR) applies, from April 2025 the rate of tax on the gain is 14%, with a further increase to 18% in April 2026, subject to a £1m lifetime allowance, per person.

## Rates for Property

In the Autumn Budget, the government increased the CGT rates to 18% and 24% for gains on commercial property to keep it in line with the CGT rates on residential property.

Where a residential property has been disposed of a 60 Day CGT return and the payment of any tax liabilities may need to be submitted to HMRC, 60 days after you stop being the legal owner of the property.

It is important to note, that generally any gains or losses would also be reported on the self-assessment tax return by 31 January following the tax year of sale.

Failure to submit a CGT return within the 60 day period will result in filing penalties as follows:

- 5% of the tax outstanding, whichever is higher.
- If filed > 12 months after the completion of the sale a further penalty of £300 or 5% of the tax outstanding, whichever is the higher

If actual figures are not available when making the report to HMRC then estimated figures can be used rather than delaying making the report after 60 days. You then have 12 months to go back and amend the return when actual figures are available. Alternatively, you may choose to amend the figures on the self-assessment return.

Interest will also be applied on late/underpaid CGT.

Capital gains tax planning involves taking action ahead of, or at the time of, a disposal of an asset to eliminate or reduce a current or future tax liability. This may involve considering the timing of the transaction, e.g. bringing the transaction forward or delaying it.



## **Capital Gains Tax Planning**

It is important to ensure that you:

- Maximise use of this year's annual exemption (currently £3,000). Any amount unused cannot be carried forward - "use it or lose it".
- If required, you may defer the payment of tax for a year, if you make a disposal of non-property assets after 5 April 2025.
- Ascertain whether it is prudent to use two annual exemptions in quick succession, make one disposal before 5 April 2025, and another after 6 April 2025.
- Try to ensure each spouse / civil partner uses their annual exemption. Assets can be transferred tax efficiently between spouses/civil partners to facilitate this. Any such transfer must be outright and unconditional, and care should be taken not to fall foul of anti-avoidance rules that apply.
- Consider banking gains at the current rates rather than waiting for a future tax year when rates may be higher.
- Make full use of any available losses, including those that would have arisen from old investments, property losses or settlement of personal guarantees.

### **Crystallise and use capital losses**

Capital losses must be offset against capital gains in the same tax years.

Unused losses are carried forward indefinitely and can then be offset against future gains. A formal claim is required. The

The claim must be submitted to HMRC within four years of the end of the tax year of the loss, otherwise it will be time-barred.

When an asset has become valueless or worth next to nothing, it may be possible to make a "negligible value claim" in order to crystallise a capital loss.

### **Main residence**

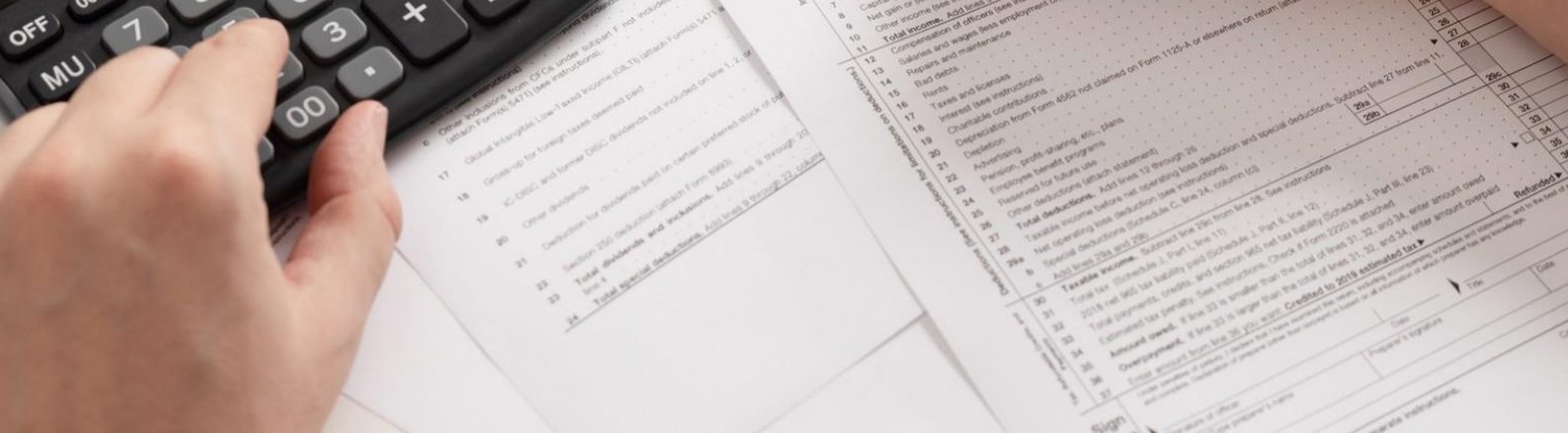
Ownership of two homes in the UK is becoming more commonplace as couples who both own houses marry, houses are inherited, parents buy houses for their children to live in, or people buy a second home as a holiday home.

The capital gain on your principal private residence (PPR) is generally exempt from CGT.

If you have more than one private residence, your 'main' residence will normally be, by default, the one in which you spend the greatest time. However, it is also possible to determine that matter by nominating one of them as your main residence.

This requires careful planning, since the flip side of a gain on one residence being treated as exempt is that a gain on the other residence will become chargeable.

Written nominations must be submitted to HMRC within 24 months of any change in residences becoming available.



If you own more than one home, consider whether a principal private residence election is needed. You have two years to make an election so the sooner you speak with us, the better the position we will be in to advise on which property the election should be made over.

### **Marital Breakdown**

From April 2023 the government introduced changes to the CGT rules for separating partners to include extending the no gain/no loss provisions for up to three years from the end of the tax year of separation.

However, if the couple divorces (or otherwise they become legally separated by court order) before the end of the three-year period, 'no gain no loss' treatment will end at the date the divorce is finalised, unless the transfer of assets takes place as part of a formal divorce (or court separation) agreement.

Where assets are transferred as part of a formal divorce (or court separation) agreement, there is no time limit applied to 'no gain no loss' treatment of asset transfers.

The legislation also includes a change to how capital gains are calculated on the sale of the former marital home, where one party moves

out following separation and there is an agreement for that person to receive a percentage of the proceeds from the sale. This change can allow that party to have any private residence relief on their share of the gain unaffected by the fact they did not live in the property between their moving out and the property being sold.

### **Business Asset Disposal Relief ("BADR")**

BADR applies to the sale of a trading business carried on as a sole trader or partnership, or to the sale of shares in a trading company. It can also apply to personally held assets that have been used in the trade of a partnership that you are a partner of or a company that you are a shareholder in.

If the qualifying conditions are met a rate of 10% applies to the capital gain arising up to a lifetime limit of £1m.

Business owners should consistently review their BADR position as it is easy to fall foul of the detailed rules.

From April 2025 the rate will increase from 10% to 14% with a further increase to 18% planned for April 2026.

# INHERITANCE TAX (IHT)

As part of the ongoing tax reforms, the UK government has proposed significant changes to the IHT system.

**Given these changes it is important to review existing Wills/Letters of Wishes to make sure they remain tax efficient and to consider planning opportunities to mitigate IHT exposure**

IHT is paid on the value of an estate on death, and some lifetime gifts. The current tax rate of IHT is 40%.

For married couples and civil partners, the nil rate band (currently £325,000 each) and the residence nil rate band (currently £175,000 each) is transferable to a surviving spouse on death. Potentially both of these nil rate bands collectively could give couples IHT relief of up to £1million. Note, there will be restrictions where estates are more than £2 million.

As from April 2027, it is proposed that unused pension funds and lump sum death benefits payable from registered pension schemes will be potentially liable to IHT.

In addition, agricultural relief and business property relief will change as from April 2026. Prior to the Budget, if a claim for agricultural property relief and business property relief was available at 100% of the value, and therefore not subject to IHT.

As from April 2026 only the first £1,000,000 will receive this 100% relief and the rest of will be limited to 50% relief from inheritance tax. The limit will apply to the combined value of business and agricultural assets with additional assets above this threshold obtaining 50% relief only. It is important to note this limit will apply per person and any unused limit will be lost. It is also not available to be transferred between spouses or civil partners.

This could cause significant problems for family businesses and farms.

## IHT Planning

It is important to make best use of all available IHT relief and exemptions.

Every individual has an annual exemption of £3,000 to use each tax year. Any unused annual exemption can be carried forward for one year only. Therefore, it would be prudent to use any available annual exemption carried forward from last year before 6 April 2025.

Gifts between spouses are generally exempt and this method can be used to equalise an estate.

Gifts for wedding or civil partnerships from parents up to £5000 are IHT exempt. Note lower limits will apply for gifts to other donors.

A person can make as many outright gifts of up to £250 per individual per tax year as they wish free of IHT, provided that the recipient does not also receive any part of the donor's £3,000 annual exemption. The annual £250 per exemption cannot be carried forward.

For those who have income that is surplus to their needs, it may also be appropriate to establish arrangements whereby regular gifts can be made out of income in order to utilise the normal expenditure out of income exemption.





# COMPANIES AND BUSINESSES

Taxable profits	Corporation Tax Rate
£0 - £50,000	19% small profits rate
£50,001- £250,000	25% less marginal relief
Over £250,000	25% main rate

The rates for Corporation tax as shown above, will depend on the level of taxable profits plus any dividends that are received by the company. It is also important to note that the limits will be shared where there are associated companies.

## Capital Allowances

The annual investment allowance (AIA) limit is currently £1million. However, if a company invests in:

- new qualifying plant and machinery they may be able to claim:

1. Full Expensing which will provide First Year Allowances (FYA) of 100% instead of written down allowance of 18%.

2. FYA of 50% which would ordinarily qualify for 6% special rate writing down allowance.

- Structure and Building Allowance (SBA) may be available on qualifying new commercial structures and buildings.

## Research and Development (R&D)

There is generous tax relief available for companies who engaged in qualifying Research and Development activities. This is an extremely complex area, and it is

recommended that professional advice is taken before a claim is made.

## Loss Claims

Claims for loss relief can be used to reduce the overall tax liability and, in some cases, maybe even produce a tax refund. Losses can generally be offset against profits of the same accounting period, carried back or carried forward subject to certain conditions. Tax planning on how to use the losses in the most efficient and effective manner is crucial especially if it has an impact on the cash flow of the company.

## Employer National Insurance Contributions (NIC)

From 6 April 2025, employer national insurance rate will increase from 13.8% to 15%. This will impact employer contributions on employee wages (Class 1), Benefits in kind (Class 1A) and PAYE settlement agreements (Class 1B).

The employment allowances will increase from £5,000 to £10,500 per year. Eligible employers will be able to offset this allowance against their NIC potential reducing their liability to NIL.

The employment allowance is not available to companies where only one director is on the payroll and paid above the secondary threshold.

The secondary NIC thresholds will start from £5,000 rather than £9,100.



### **Double Cab Pick Ups (DCPUs)**

From April 2025, double cab pick ups with a payload capacity of at least one tonne, will be reclassified from a van to a car for capital allowances and benefits in kind purposes. HMRC will also consider the “primary suitability” of the vehicle at the time of manufacture to determine if the vehicle is mainly used for carrying goods or passengers. Under this test, it is expected that majority of DCPUs, with payloads over one tonne will be classified as cars.

For Benefit in Kind purposes, if an employer purchases, leases or orders a DCPU with a payload of over one tonne, before 5 April 2025, the current tax treatment will apply i.e. the vehicle will be treated as a van and until the vehicle is disposed of, leases expires or 5 April 2029.

For capital allowance purposes, if expenditure has been incurred as a result of a contract entered into before 1 April 2025 (for corporation tax purposes) or 6 April 2025 (for income tax purposes) and the expenditure has been made before 1 October 2025, the current rules will apply i.e. the vehicle will be treated as a van.

With regards to VAT, nothing has changed and DCPUs will still be classified based on the payload and whether or not the VAT can be reclaimed.

### **Furnished Holiday Lets (FHLs)**

From April 2025 there are new rules coming in to affect for income tax, capital gains tax and corporation tax on Furnished Holiday Lets. Currently FHLs which qualify as a trade, are able to claim more favourable tax treatments for capital allowances, finance costs and tax treatments when the assets are disposed off. When the new rules come in force, FHLs will not be able to avail of these tax treatments. The capital allowances claimed for in 2024/25 and earlier years will however be available to carry forward and continue claiming the written own allowances on this pool.

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

# CONCLUSION

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This booklet is to help you identify some of the areas that could have an impact on your tax planning. To ensure that there is enough time to carry out effective tax planning, all individuals and companies should continually review their tax position and specifically before the year end.

Our dedicated tax planning team would be delighted to speak directly to you on the ways in which you could mitigate tax liabilities and potentially avoid any pitfalls.

If you require any further assistance, please contact the CavanaghKelly tax team.

# CHECKLIST

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## Individuals

- Implement a tax planning strategy
- Utilise all allowances available across the family
- Maximise usage of tax rates, bands and allowances
- Minimise the loss of personal allowance
- Take advance of an unused allowances from previous years
- Minimise the impact of HICBC
- Extract profits from your business tax-efficiently
- Review and update pension arrangements
- Review and update any will and estate plan in particular with regards to the recent changes with APR and BPR
- Extract profits from your business tax-efficiently
- Review and update pension arrangements

## Companies and businesses

- Check all available capital allowances have been claimed
- Consider the purchase of double cab pick up and the timing of the purchase
- Utilise the offset of losses
- Consider making eligible R&D claims
- Review the effect of the changes on FHL



We have made every effort to ensure the information provided in this document is accurate, but we cannot accept responsibility for the consequences of any action you take in reliance on its contents. If you have any matters which you would like to discuss further, one of our staff will be pleased to help you.

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