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Taxing times for 2023

A year marked by several tax changes that impacted higher rate taxpayers

As we approach the end of the year, taxpayers should begin assessing their tax obligations. This is not a task to be left to the eleventh hour, especially considering tax changes coming into effect in 2024.

This is also particularly true for 2023, a year already marked by several tax changes that impact higher rate taxpayers. By understanding your tax obligations early on, you could avoid unwelcome surprises. Understanding these tax changes lets you plan and strategise effectively to meet your tax obligations without unnecessary stress or last-minute surprises.

Remember, proactive tax planning can help you optimise your finances and potentially reduce your tax liability.

TAX CHANGES AND THEIR IMPACT

In the 2023/24 tax year, the threshold for taxpayers in England, Wales and Northern Ireland paying the top tax rate of 45% has been reduced from £150,000 to £125,140. This figure aligns with taxpayers earning over £100,000, who lose all of their personal allowance. Scottish taxpayers face a similar situation, but the tax rate has increased to 47%.

Capital Gains Tax (CGT) allowances and dividend allowances have also been slashed. The annual exempt amount for CGT has dropped from £12,300 to £6,000 for this tax year and will further decrease to £3,000 from April 2024. Similarly, the dividend allowance has been cut from £2,000 to £1,000, with another £500 reduction planned for April 2024.

STRATEGIES FOR MITIGATING TAX RISES

The challenge for all is devising ways to counteract these tax increases. Here are some strategies for those likely to become additional rate taxpayers due to the threshold reduction, if applicable.

CHARITABLE DONATIONS

The tax system encourages generosity by providing tax relief on charitable donations. You won't have to pay CGT on land, property or shares donated to charity. By deducting the value

of your donation from your total taxable income, you can also pay less Income Tax.

SELLING SHARES

With the CGT allowance set to decrease further in the next tax year, it might be worth considering selling stocks that have gained value. However, investment decisions should align with your goals and objectives rather than purely tax breaks.

DEFER TAX WITH INVESTMENT BONDS

Offshore investment bonds can provide cash in the form of capital payments, deferring tax on growth. The trade-off is that the growth will be subject to Income Tax rather than CGT when the bond matures.

BOOST PENSION CONTRIBUTIONS

Pension contributions can reduce taxable income levels. If your earnings surpass £125,140, every £55 contributed to a pension will yield £100 of investment. How you receive the tax relief depends on whether you're employed or self-employed. However, it's essential to have enough 'earned' income to cover the gross contribution and be aware of the annual allowance limit. This is the limit on how much money you can contribute to your pension in any one tax year while still benefiting from tax relief. It currently stands at £60,000.

INVESTMENT SPLITTING

Splitting investment portfolios between spouses or partners allows you to use both CGT allowances and lower rate bands. Gifting investments to a non-earning spouse or partner can ensure their allowances aren't wasted.

RESTRUCTURE COMPANY DIVIDENDS

Company owners might consider restructuring dividends to retain their personal allowance every

other year. This approach requires careful planning and discipline to retain enough cash each high-income year.

FAMILY INVESTMENT COMPANIES

Family investment companies can serve as a longer-term wealth accumulation structure. Although the corporation tax rate has increased to 25%, dividends received by a company are not subject to tax, allowing for potential gross roll-ups of income. ■

TIME TO TAKE CONTROL AND FIND WAYS TO MINIMISE YOUR TAX BURDEN LEGALLY?

Understanding your tax obligations early can help you plan better and avoid unnecessary financial stress. You can make the most of your tax planning options with careful planning and professional advice. Don't wait until the start of the new tax year is upon you. Start today and explore the various strategies that could help you pay less tax. If you require further information, please get in touch with us.

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