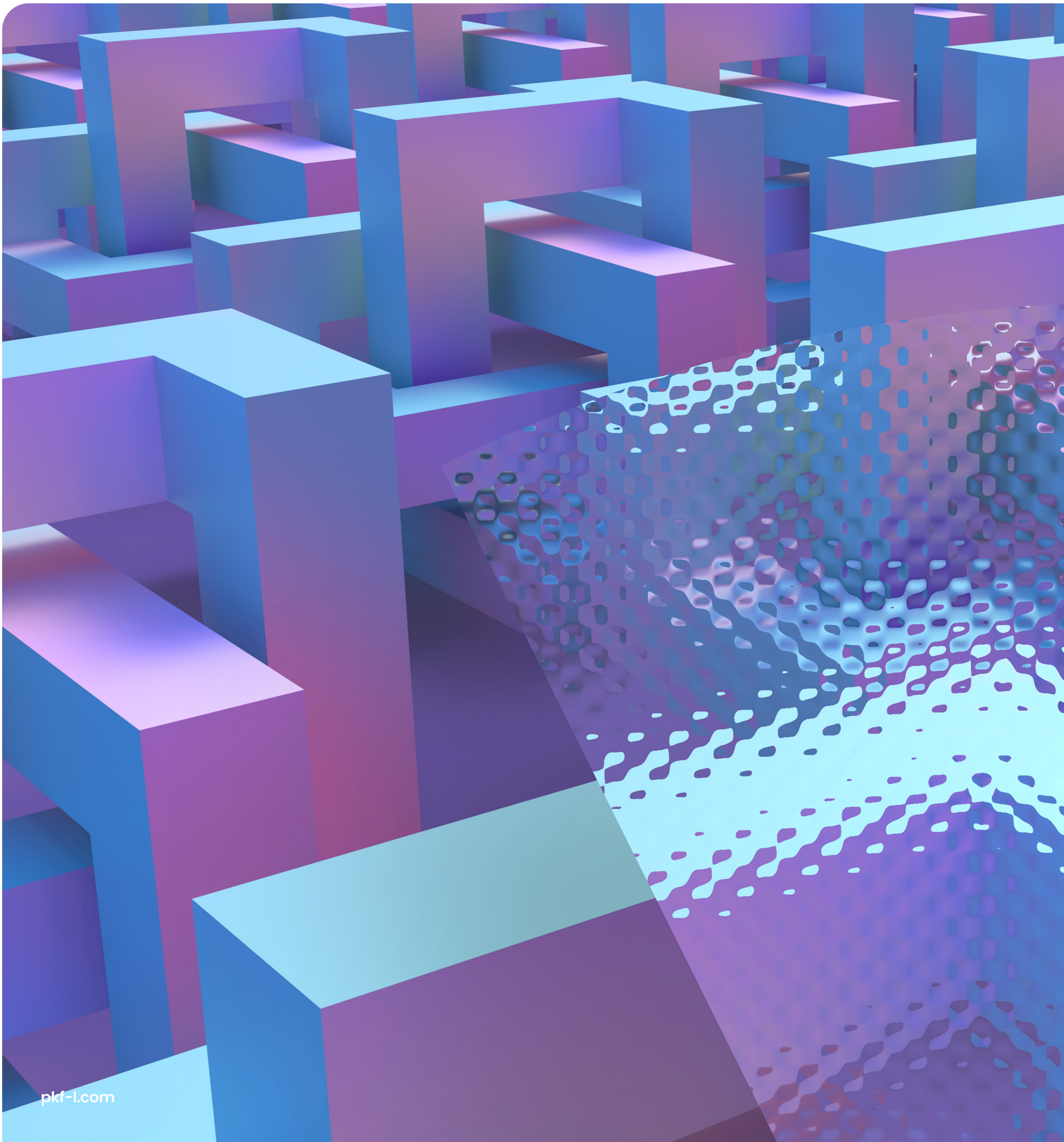
Year end tax strategies 2025



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Tax planning is a year-round activity, but it takes on even more importance as the year end draws nearer.

About this guide

Taking appropriate action ahead of 5 April 2025 will help to ensure that you are able to make the most of the tax saving opportunities available to you and your business.

While most taxation changes take effect from the start of the financial year, or tax year, some may not take effect until later. Where relevant, details of these changes have been included in this guide.

Throughout the guide, 'HMRC' refers to HM Revenue & Customs. References in this guide to 'spouses' include 'civil partners'.

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Introduction

Even the best laid plans change, for better or for worse. You may have considered your tax position earlier in the year, but is your financial situation the same today as it was twelve months ago? Even small changes could give rise to significant tax costs or opportunities that you may not have considered.

Going into the 2024 Autumn Budget, many changes were anticipated to the tax regime. The changes weren't as far-reaching as anticipated, however the Government has continued its policy of fiscal drag, squeezing more taxpayers into higher rates and raising the effective burden on many businesses, individuals and families.

As your tax advisers, we can help you understand how these changes will affect you, and suggest strategies to help boost your business's profitability, reduce your tax liabilities and maximise your personal wealth.

These may include:

- Taking advantage of the tax breaks available to you and your business
- Planning to extract profits from your business tax-efficiently
- Utilising tax-advantaged savings options (including pensions)
- Minimising the inheritance tax due on your estate.

Planning and careful timing is crucial. In some cases, the timing of a transaction or investment determines when any reliefs affect your tax payments or your tax code.

This guide contains some key points to consider ahead of the year end. The matters considered here will also be relevant throughout the following tax years unless we specify otherwise – or if the legislation changes – so keep referring to this guide throughout 2025/26.

Sending us your accounting and personal records in good time gives us more of an opportunity to help you manage your cash flow by giving you early warning of any tax payments due. And of course, advanced notice will help to ensure that you avoid any unnecessary penalties and interest levied by HMRC.

Talk to us for advice on making the most of the opportunities available to you and your business this year.

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1.0 Your income

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Income tax rates and allowances

Band	Income	Tax rate non-savings and savings	Tax rate dividend income
Basic Rate	£12,571 to £50,270	20%	8.75%
Higher Rate	£50,271 to £125,140	40%	33.75%
Additional Rate	Over £125,140	45%	39.35%

The income tax rate bands and personal allowance remain frozen until 5 April 2028, with the personal allowance being £12,570 and the additional rate band being £125,140.

The personal allowance is tapered for individuals who have 'adjusted net income' of more than £100,000, creating a hidden marginal tax band of 60% on income between £100,000 and £125,140. For individuals who have an 'adjusted net income' of more than £125,140, the personal allowance is reduced to £0.

The dividend allowance taxes the first £500 of dividend income received by a taxpayer at 0%.

Key considerations

- Taxpayers may wish to accelerate dividends prior to 5 April 2025 to take advantage of the dividend allowance, if not already utilised
- For married couples and civil partners, you may wish to consider transferring some of your income-bearing assets to the lowest earning spouse to reduce your overall tax burden. It is advisable to seek professional advice if this is something you wish to action
- For those earning £100,000-£125,140, you could consider making pension contributions or qualifying Gift Aid donations to 'claw-back' some or all of your personal allowance
- Consider opting-in to salary sacrifice options offered by your employer. Individuals who sacrifice their income in exchange for pension contributions could save on income tax and NICs.

National Insurance Contributions (NICs)

The main rate of NICs for employees was cut on 6 April 2024 to 8%.

For self-employed individuals, Class 2 NIC is no longer required, and the main rate of employee Class 4 NIC has fallen from 9% to 6%.

High Income Child Benefit Charge (HICBC)

If either you or your partner have an ‘adjusted net income’ of more than £60,000 and are in receipt of Child Benefit, you will be liable to the HICBC. This is an increase over the previous threshold of £50,000.

The HICBC claws back Child Benefit at a rate of 1% for every £200 of income between £60,000 and £80,000. The HICBC is assessed through the Self Assessment system.

Importantly, it is the highest earning partner who pays the HICBC. The rules for what is considered a ‘partner’ for HICBC are complex and you may wish to seek advice if you are unsure as to whether you are liable to the charge.

Key considerations

- If you are affected by the HICBC, you may wish to consider making pension contributions or transferring income-producing assets to the lowest-earning partner. Please keep in mind that additional tax implications may arise, and appropriate advice should be taken
- Consider stopping your Child Benefit payments. However, you should ensure you continue to receive the Child Tax Credit as this will contribute towards your entitlement to certain benefits such as the State Pension.

Gift Aid

Donations made to UK qualifying charities can benefit from tax relief through Gift Aid. Higher rate taxpayers can claim further tax relief of 20% whilst additional rate taxpayers can claim an additional 25% tax relief.

There is no upper limit to the value of donations you can make to qualifying charities, as long as you have paid the amount of tax the charity will claim in Gift Aid, so it can be a valuable relief for higher earners.

Key considerations

- Consider making or increasing your Gift Aid donations to benefit from the available tax allowances
- Ensure you keep a note of all qualifying donations and make the appropriate Gift Aid declarations if you are a UK taxpayer
- When submitting your 2024/25 Tax Return, ask your adviser about electing to carry back your Gift Aid donations made after 6 April 2024 to accelerate the tax relief savings
- Consider donating assets such as land or shares to a qualifying charity. As well as attracting generous tax relief, any gain arising on the donation of your assets would not be subject to Capital Gains Tax.

> If either you or your partner have an ‘adjusted net income’ of more than £60,000 and are in receipt of Child Benefit, you may be liable to the HICBC.

2.0 Your savings & investments

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Capital Gains Tax (CGT)

From 30 October 2024, the CGT charged at a lower rate of 10% (18% on residential property) for basic rate taxpayers and 20% (28% on residential property) for higher rate and additional rate taxpayers, has been changed.

The basic rate has been increased to 18%, and the higher rate to 24%. Disposals of residential property are unchanged.

A CGT rate of 10% is available on gains that qualify for Business Asset Disposal Relief (BADR), up to a lifetime limit of £1 million and Investors Relief, up to a lifetime limit of £1 million. However, this too is being changed, with disposals made after 6 April 2025 taxed at 14% and after 6 April 2026 taxed at 18%.

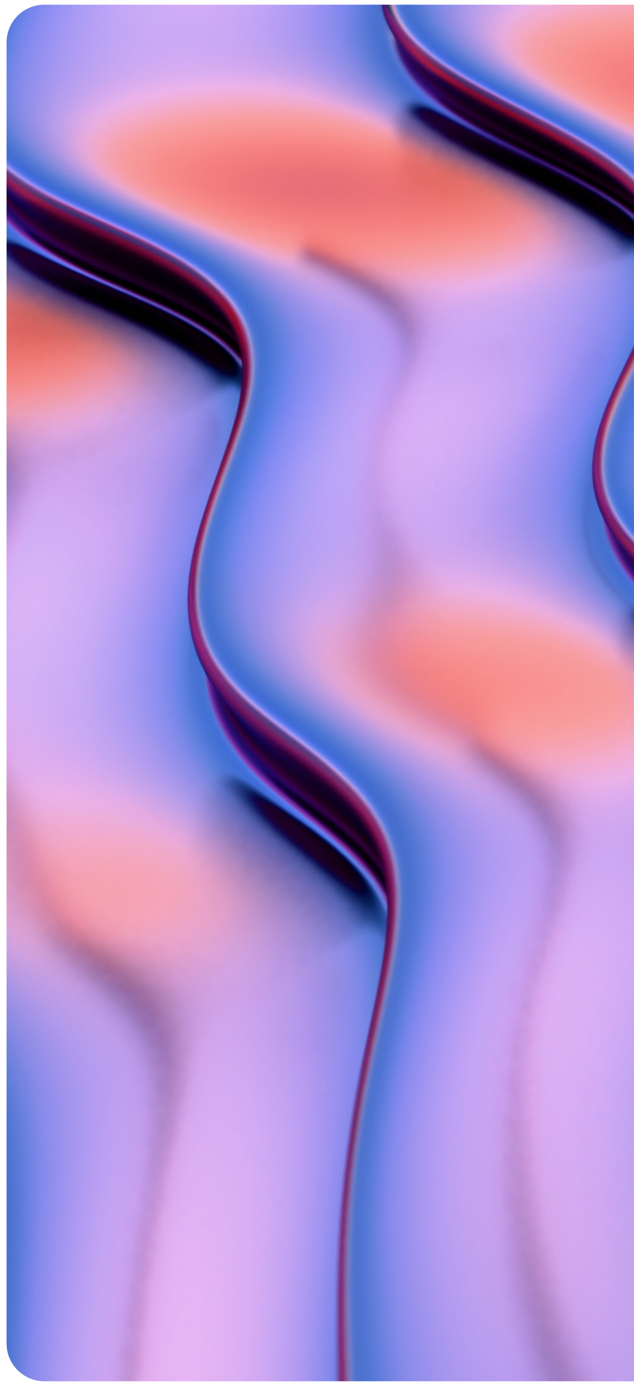
Personal Savings Allowance

Interest of up to £1,000 from savings, such as bank and building society accounts, can be received free of tax up to the available savings allowance.

The available allowance is £1,000 for basic rate taxpayers, £500 for higher rate taxpayers and £0 for additional rate taxpayers.

Key considerations

- The CGT annual exemption is a 'use-it-or-lose-it' allowance of £3,000 for individuals, so you should ensure you utilise it in full prior to 6 April 2025
- You should consider transferring some of your assets to your spouse to allow them to utilise their annual exemption
- Ensure that you have undertaken sufficient tax planning to maximise any potential claims to BADR or Investors' Relief ideally before rate changes apply
- Taxpayers who have income taxed at the higher or additional rates, with a spouse with lower earnings, may wish to consider placing interest-bearing accounts in joint names with their spouse.



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Tax efficient investments

Enterprise Investment Scheme (EIS)

Investments made to qualifying EIS companies attract Income Tax relief at 30% on the amount invested. The maximum annual investment is £1 million or £2 million provided anything above the £1 million is invested in 'knowledge-intensive' companies.

Income Tax relief may be claimed in the tax year of investment or carried back to the previous tax year.

Provided the qualifying shares are held for at least three years, any gain arising on disposal is not liable to CGT.

Individuals may also defer capital gains made in the three years prior to their qualifying investment, or one year after investment.

Seed Enterprise Investment Scheme (SEIS)

You can invest up to £200,000 in qualifying SEIS companies and claim Income Tax relief at 50% against your Income Tax liability in the year of investment. As with EIS investments, you may carry back your Income Tax relief claim to the previous tax year.

Individuals may also exempt capital gains made in the tax year of investment, up to certain limits.

Provided the qualifying shares are held for at least three years, any gain arising on disposal is not liable to CGT.

Venture Capital Trusts (VCT)

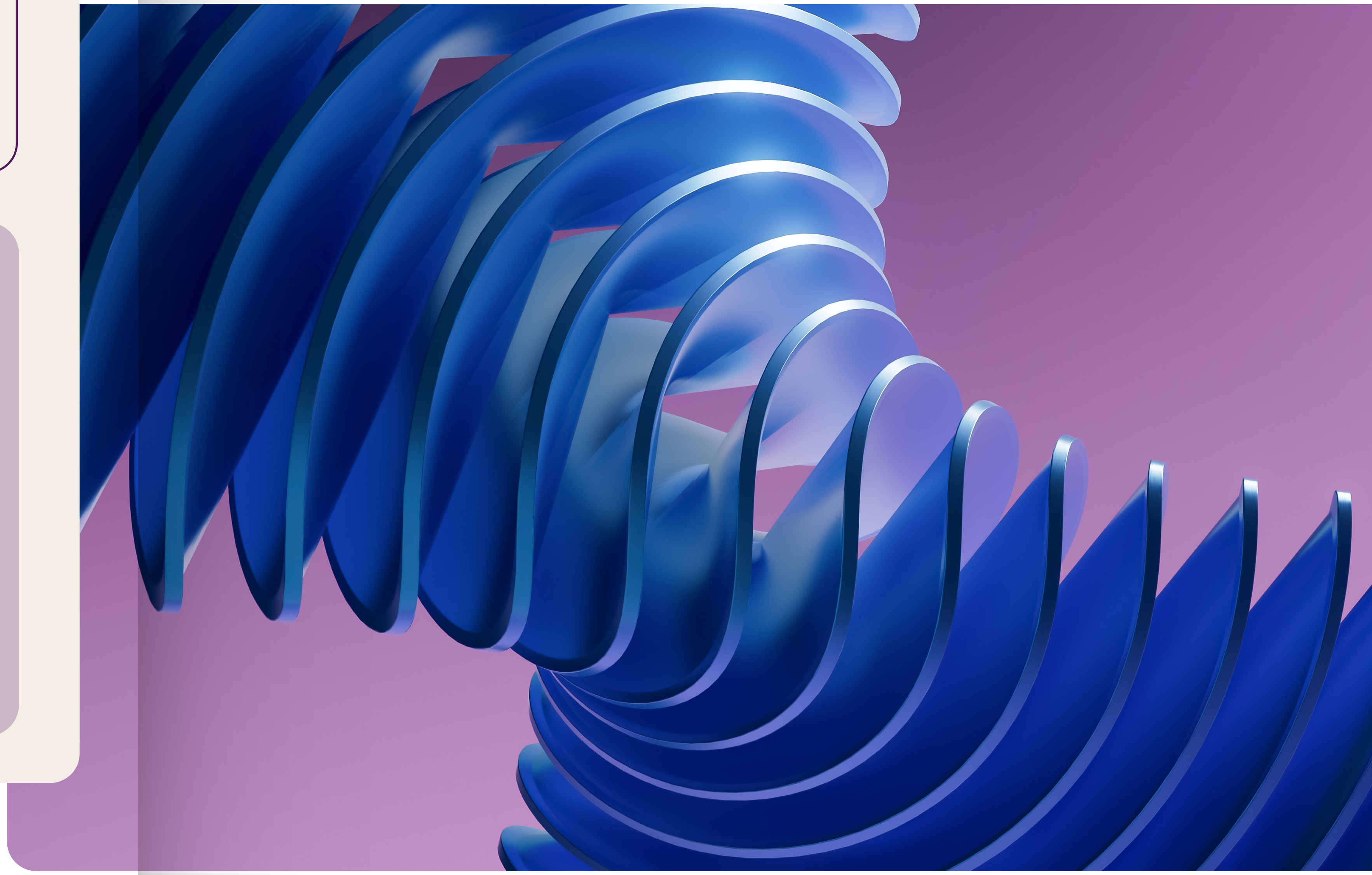
VCT investments of up to £200,000 can qualify for Income Tax relief at 30%.

Whilst VCT investments do not attract the same upfront CGT reliefs as EIS and SEIS, dividends received from a VCT are tax-free.

No CGT is payable on any gains realised from the sale of VCT shares.

Key considerations

- Individuals should consider investing in tax-efficient investments such as EIS, SEIS or VCT to benefit from income tax relief at 30% or 50%
- Consideration should be given to deferring or exempting capital gains on the disposal of any asset through reinvestment reliefs offered by EIS and SEIS qualifying investments
- If you have made a loss on any qualifying investments, you should ensure a claim for loss relief is considered.



3.0 Your assets

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Inheritance Tax (IHT)

Formulating an estate plan that minimises your IHT liability is essential. In recent years, HMRC has been increasingly targeting the estates of individuals to ensure the correct amount of IHT has been paid, so it is more important than ever to regularly review your IHT planning to ensure its effectiveness.

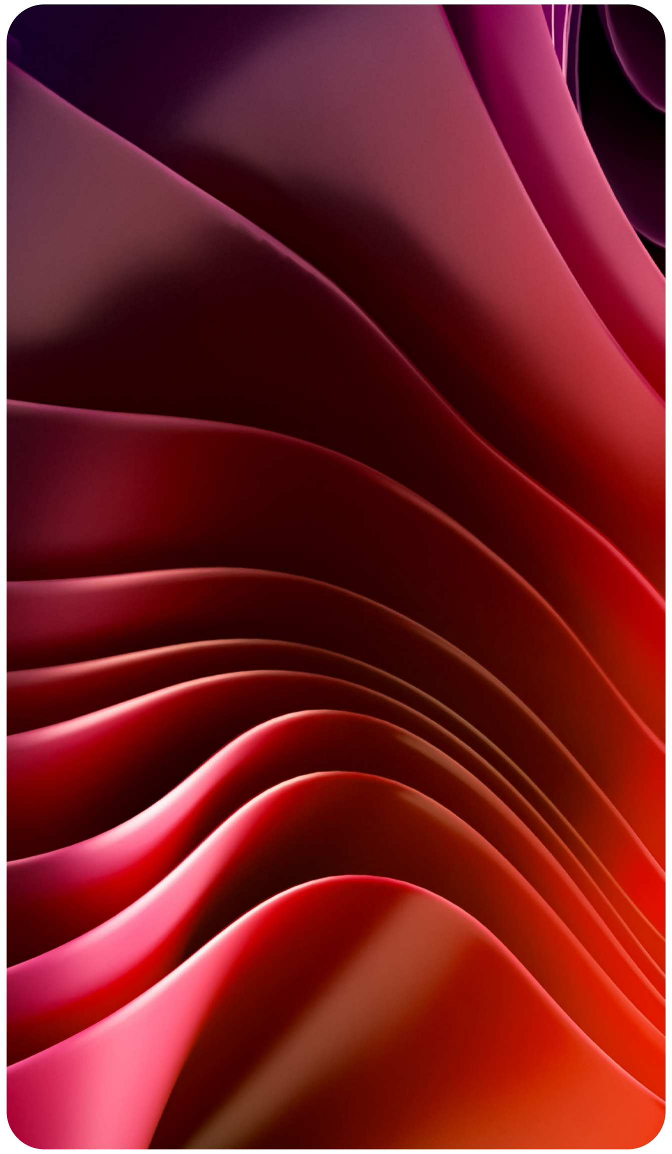
In the past, your estate's liability to UK IHT has been dependent on your domicile at the time of death. From 6 April 2025, this will instead be based on your 'Long-Term Residence' status, a measure of whether you have been resident in the UK for 10 or more of the past 20 tax years.

If your estate is large, it is likely to be subject to IHT, which is currently payable where a person's taxable estate is in excess of the £325,000 nil-rate band (NRB). The NRB has now been frozen until at least April 2028.

The residence nil-rate band (RNRB) is available where a property, that was at some point your main residence, is left to to a direct lineal descendant, such as a child or grandchild. This is currently £175,000 and is tapered where estates exceed a net value of £2 million. An estate over £2.35 million will not derive benefit from the RNRB. The RNRB has also been frozen until April 2028.

IHT is currently payable at 40% on the value of your estate exceeding the available NRB and RNRB, or 36% if 10% or more of your net estate is bequeathed to charity.

HMRC has introduced significant changes this year to Agricultural Property Relief (APR) and Business Property Relief (BPR). Whereas previously these reliefs could relieve, or potentially exempt, farmland or business property from IHT entirely, from 6 April 2026 relief will be capped at £1 million (covering both reliefs), with 50% relief applying thereafter. If your estate comprises Agricultural or Business Property, you should consider a review of your IHT planning now.



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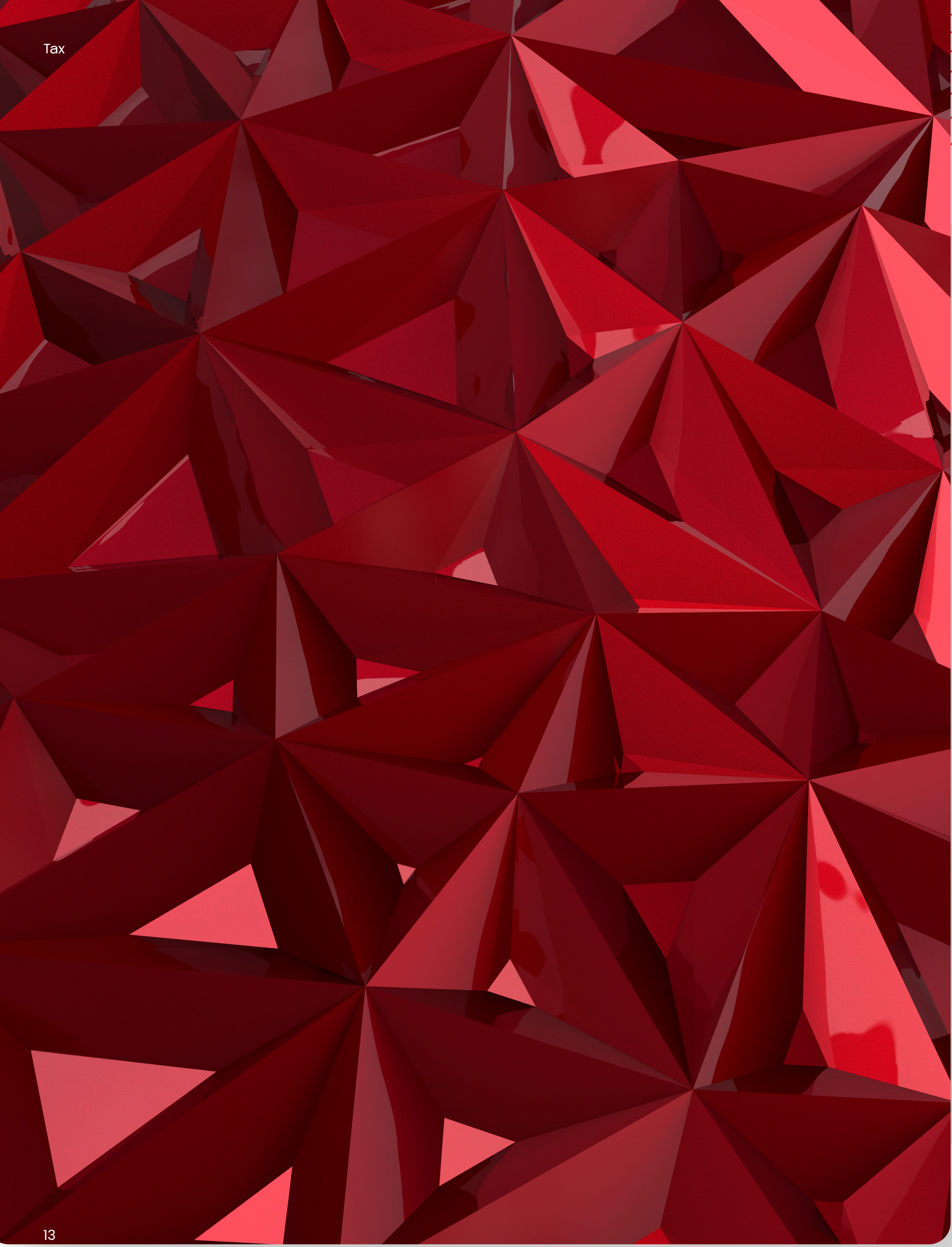

Lifetime gifting

Through effective planning and lifetime gifting, you can reduce the value of your estate for IHT purposes whilst ensuring the succession of your wealth.

There are generous reliefs available for individuals who wish to make gifts during their lifetime that exempt certain transfers from IHT. These include:

- Small gifts exemption (gifts not exceeding £250 per tax year, per person) to any number of individuals
- Annual transfers not exceeding £3,000 (£6,000 if no gifts were made in the previous tax year)
- Certain gifts in consideration of marriage or civil partnership (up to £5,000)
- Gifts to charities
- Unlimited transfers can be made to your UK domiciled spouse.

Perhaps the most valuable exemption available to an individual is making gifts from surplus income. Qualifying transfers are treated as exempt from IHT.

In order for the gifts to qualify, you must show that they are regular in nature and are paid out of surplus income (i.e. it should not be required by the individual to cover their living expenses). The rules surrounding gifts from surplus income are complex and it is recommended you seek advice prior to making regular gifts.

Some lifetime gifts may qualify as a Potentially Exempt Transfer (PET). PETs are exempt from IHT if you survive seven years from the date of the gift. A reduction in the rate of IHT payable applies where the PET was made between three and seven years before the date of death.

Key considerations

- You should review your Will at regular intervals to ensure that it reflects changes in your family and finances, is tax efficient, and includes any specific legacies you would like to give
- You may consider utilising the available IHT reliefs every tax year and decide whether making gifts out of surplus income is a suitable method of lifetime gifting
- If your estate includes agricultural or business property, you should review your IHT exposure in light of the changes to APR and BPR
- You may consider bequeathing at least 10% of your net estate to charity to take advantage of the reduced IHT rate of 36%. You must ensure that your Will is drafted carefully to take advantage of the reduced rate
- Make lifetime gifts as early as possible as some gifts could escape the IHT net if made more than seven years prior to the date of death. Taking professional advice is strongly recommended prior to making a lifetime gift
- Consider making gifts to your child or grandchild's Junior SIPP or ISA to allow them to benefit from tax-free investment growth for the future.

4.0 Your businesses

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Capital allowances

The super deduction, which allows businesses to claim 130% and 50% on qualifying capital expenditure, ceased on 31 March 2023. However, it is important to ensure these are claimed through Corporation Tax or Self Assessment returns whilst still in time.

From 1 April 2023 'full expensing' is available for companies investing in new items that qualify for the 'main pool' of capital allowances, allowing 100% of costs. Investment that falls within the 'special rate pool' will be given a 50% allowance. Initially, these allowances were available for qualifying expenditure incurred between 1 April 2023 and 31 March 2026, but have now been made permanent.

Qualifying investments will be eligible to claim the £1 million Annual Investment Allowance (AIA), which should therefore be allocated to the 'special rate' items first to enable 100% relief up to the AIA limit.

Key consideration

- If you are planning to make significant investments, consider the appropriate order in which to claim capital allowances to optimise your tax relief.

Employee benefits in kind – payrolling vs P11D

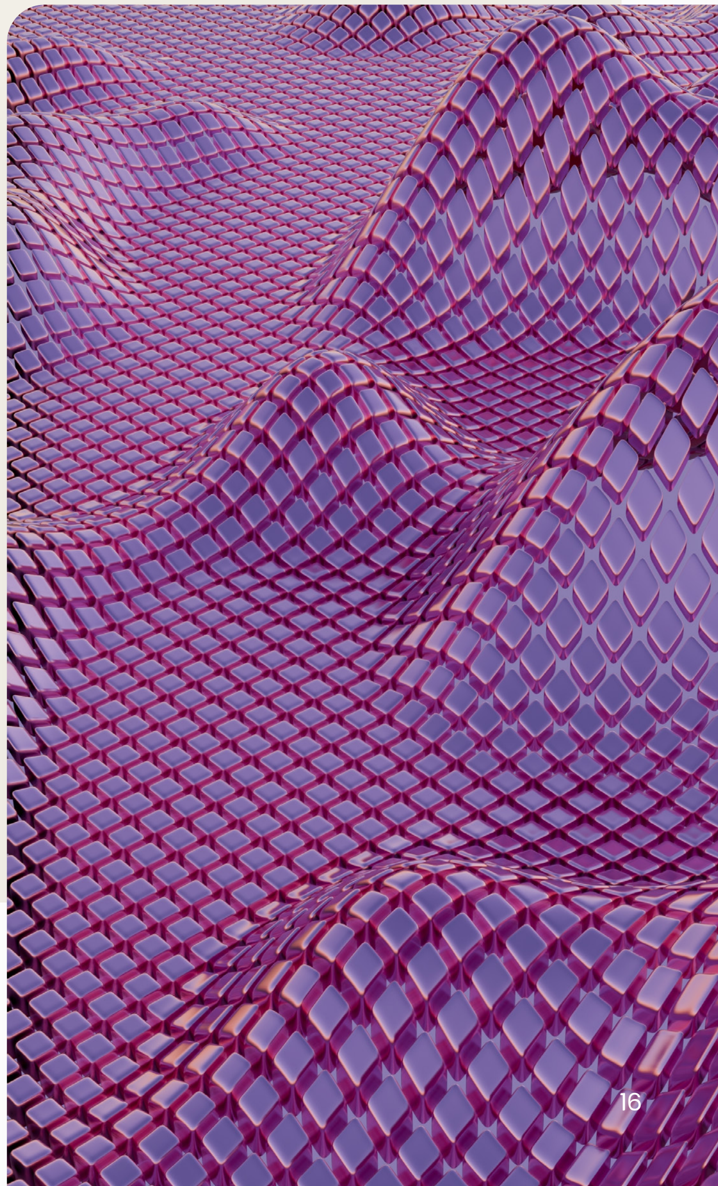
The most common way of reporting benefits such as medical insurance or company cars has often been via a P11D form. Employees would receive the P11D from their employer after the end of the tax year, summarising the total benefits received, and outlining the total Class 1A NIC due on these benefits. Employers who opt for this method must legally provide their employees with a copy of their P11D, whilst also being required to submit a Form P11D(b).

In recent years, more companies have looked at payrolling these benefits, to reduce the compliance element of completing annual P11D forms. Additionally, employees are more likely to pay the correct tax due on their benefits through payroll, as PAYE tax code errors and underpaid liabilities are less likely to occur. There will be mandatory payrolling of benefits from April 2026.

Key considerations

Registration for payrolling benefits is voluntary but must be made online before the start of the tax year (6 April) in which the employer wants to start payrolling benefits. If the deadline is missed, benefits cannot be formally payrolled until the following tax year:

- Some benefits cannot be payrolled. These include employer provided living accommodation and low or interest-free employer provided loans
- For any payrolled benefits, employers have a responsibility to inform employees of details of those benefits by 1 June following the end of the tax year
- Employers are still required to calculate and pay Class 1A NIC on the benefits provided, as well as submit the annual P11D(b) form by 6 July, and make the payment to HMRC by 19 July or 22 July if paying electronically.



Basis Period Reform

From 2024/25, all self-employed individuals and members of partnerships will be taxed on the profits generated during the tax year from 6 April to 5 April (year end 31 March can be used). This applies regardless of the year end to which the business prepares its accounts.

Merging of the Research and Development (R&D) and small and medium-sized enterprise (SME) schemes

A new R&D expenditure credit (RDEC)-style scheme applies to all companies for expenditure incurred in periods starting on or after 1 April 2024. Prior to this, different R&D tax reliefs were claimed depending on the company's size.

Costs related to subcontractors and externally provided workers are only allowable if the work is undertaken in the UK, subject to specific exemptions, for accounting periods starting on or after 1 April 2024.

The eligible expenditure categories include the cost of datasets and cloud computing.

Short-term business visitors (STBV) / Appendix 4 and Appendix 8

UK companies are continuing to see increasing numbers of overseas employees visiting them in the UK. When this occurs, UK companies should be aware of the Income Tax obligations under PAYE of these visitors.

One way this can be managed is through an STBV arrangement also known as an Appendix 4. This offers an alternative to the company's tax withholding obligations, meaning the employer does not have to operate PAYE for certain visitors. Though the STBV agreement does have record keeping and reporting requirements, depending on how long employees are spending in the UK.

Value Added Tax (VAT)

The VAT registration threshold, will remain at £90,000 for the 2025/26 tax year.

Businesses may also deregister from VAT if their taxable turnover goes below £88,000.

It is important for businesses to be aware of their turnover, expected turnover, and their VAT registration timelines.

Key considerations

STBV arrangements only apply to countries in which the UK has a Double Tax Agreement (DTA).

If you have entered an STBV arrangement for the current tax year (2024/25), you are required to submit your report to HMRC by 31 May 2025.

The other type of arrangement which applies to countries in which there is no DTA in place with the UK is known as an Appendix 8.

This is an agreement whereby visitors to the UK who spend less than 60 days in the country could be captured on the annual payroll. The payroll is run at the end of the tax year with any tax paid over to HMRC by 31 May 2025 (deadline for the 2024/25 tax year). This also applies where the criteria for an STBV arrangement have not been met.

It should be noted that Non-Resident Directors of UK companies cannot use either the STBV arrangement or Appendix 8 (annual payroll) arrangement.

Our expert team can help you ensure that you are able to make the most of the tax saving opportunities available to you and your business before 5 April 2025.

Get in touch to find out more

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