taxes **made** easy

2022/23

TAXES MADE EASY

Clear and concise tax guide 2022/23

The coronavirus pandemic, war in Ukraine and inflationary pressures have undoubtedly taken their toll on the UK economy, creating unprecedented challenges for businesses and individuals. As a result, it is more important than ever to plan ahead and make sure you are using the reliefs available to you.

This guide is designed to help you to make the most of your business and your personal finances by highlighting the main tax allowances and incentives and suggesting actions you might wish to incorporate into your own financial planning.

Every individual and business situation is different and your needs will vary according to your own specific circumstances. We recommend that you use this guide as a starting point, and contact us for expert, tailored advice on any areas which apply to you.

As your advisers, we can help you to clarify your wider objectives, and suggest a range of strategies to help you achieve your personal and business goals.

How to benefit from our services:

Please read those chapters which are relevant to you as soon as possible.

- Take note of the key points arising from this guide and any action you may wish to consider
- Contact us to discuss your action points and to evaluate your long-term financial plans.

We would welcome the opportunity to assist you.

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The general effect of the Civil Partnership Act is to treat registered civil partners on a consistent basis with married couples. For the purposes of this guide we have on occasions referred only to spouses.

'HMRC' refers to HM Revenue & Customs.

This guide is based on current understanding of legislation and the government's proposals at the time of publication and under no circumstances should action be taken without first seeking appropriate professional advice.

INTRODUCTION

In this summary we focus on tax measures which may assist you, your family and your business when looking at longer term prudent financial planning.

Budgets 2021

2021 saw two Budgets due to the exceptional circumstances in which the country found itself. The Chancellor made a number of changes, both to raise taxes to meet the £440bn of additional expenditure caused by the pandemic but also to stimulate business recovery, and some of these are dealt with below.

Personal tax

The UK-wide personal allowance rose to £12,570 from 6 April 2021 and the basic rate band also increased to £37,700. This means the higher rate threshold – the point at which you start paying higher, rather than basic rate tax in England, Wales and Northern Ireland – increased to £50,270 (if you have a full personal allowance).

The personal allowance and higher rate threshold are now frozen until at least 5 April 2026 when the personal allowance and basic rate limit will be indexed with the Consumer Price Index by default.

Scottish taxpayers: income tax rates and bands for non-savings and non-dividend income are different from the rest of the UK: see Personal Tax Essentials later in this guide. The freeze to the personal allowance impacts Scotland, although the freeze to the UK higher rate threshold only affects those with savings and dividend income.

The Social Care Levy

The government will introduce a new, UK-wide 1.25% Health and Social Care Levy from April 2023 although the Levy was effectively introduced from April 2022, when national insurance contributions (NICs) for working age employees, self-employed and employers increased by 1.25%. The Levy will not apply to Class 2 or 3 NICs.

From April 2023, the 1.25% Levy will be formally separated out and will also apply to individuals working above State Pension age, at this time NICs rates will return to their 2021/22 levels.

Existing NICs reliefs to support employers and the Employment Allowance will also apply to the Levy.

In addition, the rates of taxation on dividend income are increased by 1.25% to 8.75%, 33.75% and 39.35% from April 2022.

Spring Statement 2022 and NIC

The Chancellor announced that between 6 April and 5 July 2022, employees will be able to earn £190 a week without paying Class 1 NICs and the Levy. From 6 July 2022 this weekly threshold will increase to £242.

For 2022/23, the self-employed will be able to earn £11,908 before paying Class 4 NICs. In addition, the point at which the self-employed start paying Class 2 NICs increases to £11,908. This means that those with profits between the small profits threshold of £6,725 and the lower profits limit of £11,908 will not need to pay Class 2 NIC from April 2022 but will still be able to access entitlement to contributory benefits.

Corporation tax

The single largest revenue-raiser is a proposed increase in corporation tax from 1 April 2023 to 25% where profits for an accounting period exceed £250,000. If a company has no associated company in the accounting period and its profits are up to £50,000, the small profits rate will be 19%. If a company has no associated company in the accounting period and its profits are between £50,001 and £250,000, a marginal rate will apply.

If a company has one or more associated companies in the accounting period then the limits are divided by the number of associated companies plus one.

For an accounting period of less than 12 months the lower limit and the upper limit are proportionately reduced. There are a number of complex rules regarding associated companies.

Plant and machinery - super-deduction

Between 1 April 2021 and 31 March 2023, companies investing in qualifying new plant and machinery benefit from new first year capital allowances. Under this measure a company is allowed to claim:

- a super-deduction providing allowances of 130% on most new plant and machinery investments that ordinarily qualify for 18% main rate writing down allowances
- a first-year allowance of 50% on most new plant and machinery investments that ordinarily qualify for 6% special rate writing down allowances.

This relief is not available for unincorporated businesses.

Your financial planning strategy

In the face of ongoing change, it is more important than ever to have a robust business and personal financial planning strategy in place, to help ensure that you and your family are financially secure and on course to achieve your long-term goals.

We can help with all of your business and personal tax and financial planning needs. For a strategic review of your finances, please contact us.

PERSONAL TAX ESSENTIALS

Personal allowance

Each individual is entitled to his or her own personal allowance (PA) of £12,570 for 2022/23. The PA reduces an individual's taxable income. For those with income in excess of £100,000, the allowance is restricted.

After reducing income by the PA a series of rate bands are assigned first to your non-savings (this may include income from wages, self-employment, property income and pensions), then to your savings income, and finally to any dividend income.

Income tax rates for 2022/23

Non-savings income for English and Northern Irish taxpayers is taxable as follows:

Band £		Rate %
0 - 37,700	Basic rate (BR)	20
37,701 - 150,000	Higher rate (HR)	40
Over 150,000	Additional rate (AR)	45

Welsh taxpayers

The National Assembly for Wales has the right to vary the rates of income tax payable by Welsh taxpayers. The Welsh rate of income tax has been set at 10% and is added to the UK rates, which are each reduced by 10%. This means that for 2022/23, the tax payable by Welsh taxpayers continues to be the same as English and Northern Irish taxpayers.

Scottish taxpayers

However, the following rates and bands apply for Scottish taxpayers (on non-savings and non-dividend income):

Band £	Band Name	Rate %
0 - 2,162	Starter	19
2,163 - 13,118	Basic	20
13,119 - 31,092	Intermediate	21
31,093 - 150,000	Higher	41
Over 150,000	Top	46

Rates that apply across the UK

Savings income

The Personal Savings Allowance (PSA) applies to income such as bank and building society interest. The allowance applies for up to £1,000 of a basic rate taxpayer's savings income, and up to £500 of a higher rate taxpayer's savings income each year. The allowance is not available to additional rate taxpayers.

In addition to the PSA, some taxpayers benefit from the starting rate for savings, which taxes £5,000 of savings income at 0%. This is not available if the taxable non-savings income exceeds the starting rate band.

Dividend income

The Dividend Tax Allowance (DTA) is £2,000. The DTA does not change the amount of income that is brought into the income tax computation. Instead, it charges £2,000 of the dividend income at 0% tax – the dividend nil rate. Like the PSA, the DTA does not reduce total income for tax purposes, and dividends within the allowance still count towards the appropriate basic or higher rate bands. Dividends in excess of the DTA are taxed at 8.75% (BR); 33.75% (HR); and 39.35% (AR) for 2022/23.

Case Study			
Rita has gross income of £56,000 (made up of £26,000 earnings, £5,000 of interest and UK dividends of £25,000). Her tax liability is £7030.99.			
	Earnings (£)	**Interest (£)**	**Dividends (£)**
Income	26,000	5,000	25,000
Deduct: PA	–12,570		
Taxable	13,430	5,000	25,000
Tax at:			
0% on PSA / DTA	0	500	2,000
20% on	13,430	4,500	
8.75% on			17,270
33.75% on			5,730
Total tax	2,686.00	900.00	3,444.99
Total tax liability £7030.99			

The 'hidden' 45% and 60% tax rates

The top rate of income tax, for those with taxable income in excess of £150,000, is 45% (39.35% for dividends). The PA is scaled back if 'adjusted net income' exceeds £100,000, being reduced by £1 for every £2 of income in excess of that limit. This means that an individual with total taxable income of £125,140 or more will not be entitled to any PA. This gives an effective tax rate on this slice of income of 60% – higher if you are a Scottish taxpayer paying the Scottish Top rate of tax of 46%. It may be possible to reduce your taxable income and retain your allowances if approached with due consideration, e.g. by making pension contributions or Gift Aid donations. Contact us now for advice on minimising the impact of the top tax rates.

BUSINESS TAX

Starting a business

Starting a business is an exciting and challenging experience and one which also carries a fair degree of risk. You will need to make decisions that could be critical to the long-term success of the enterprise, such things as the type of business and its attributes; your target market and competition; profit potential and how you will extract those profits; the rate of business growth; and the impact of running the business on your personal life. At some point, you'll also need to consider how you will exit the business when the time comes.

Writing a business plan – One of the first things you need to consider is your business plan. This is not only for the benefit of potential investors but to help you stay on the right course in the short, medium and long-term. It should include: the business structure that best meets your needs; your intended funding sources; tax-efficient borrowings; whether a PAYE scheme is necessary; and whether the business should be VAT registered.

Choosing your business structure – Deciding on the most appropriate structure for your business isn't necessarily straightforward. Sole traders, partnerships, limited companies and limited liability partnerships all have their own pros and cons, with different implications for control, perception, support and costs. For example, careful consideration is needed regarding

personal ownership of any freehold property on incorporation.

Deciding on a year end – It's also important to choose a year end that suits your business. Is there a time of year when it will be more convenient to close off your accounting records, ready for us? What time of year would be best for stock-taking? Is your trading seasonal? Speak to us for advice about choosing your year end, especially with the forthcoming changes in connection with basis period reform.

Registering with HMRC – When you start a business, it is important to inform HMRC of your new self-employed status as soon as possible. If and when you take on employees you need to register for and set up a PAYE scheme and accept all the responsibilities and obligations that go with it, including compliance with Real Time Information reporting (and remember for this purpose you will most likely be an employee of your limited company, if you incorporate). You will also have to comply with the pensions auto-enrolment obligations, although exemptions apply to director-

only companies, so do get in touch for advice in this area.

Claiming expenses

You will pay tax on your taxable profits, so a crucial element of tax planning is to claim all deductible expenses, many of which will be included in your accounting records.

If you are self-employed and carry on your business from home, you can claim tax relief on part of your household expenses, including insurance, repairs and utilities. You may also be able to claim for the cost of travel and accommodation when you are working away from your main place of business, so you should keep adequate business records, such as a log of business journeys. In addition to ensuring that your accounts are accurate, these records may also be requested by HMRC.

As part of Making Tax Digital for VAT, most taxpayers are required to use an appropriate computer package to aid concise and effective record-keeping and to enable them to meet their Making Tax Digital and VAT obligations. We can advise you on suitable software to meet your business needs.

You may also wish to consider the optional cash basis for calculating taxable income for small businesses, which allows eligible self-employed individuals and partnerships to calculate their profits on the basis of the cash that passes through their business. Businesses are eligible if they have annual receipts of up to £150,000 and they will be able to continue to use the cash basis until receipts reach £300,000. Allowable payments include most purchases of plant and machinery, when paid, rather than claiming capital allowances.

Unincorporated businesses are able to choose to deduct certain expenses on a flat rate basis. However, this is worth discussing before opting for it, as the flat rates are not generous.

Capital allowances

'Capital allowances' is the term used to describe the deduction we are able to claim on your behalf for capital expenditure, such as business equipment, in lieu of depreciation.

Annual Investment Allowance (AIA)

The majority of businesses are able to claim a 100% Annual Investment Allowance (AIA) on a portion of expenditure on most types of plant and machinery (except cars). The AIA applies to businesses of any size and most business structures, but there are provisions to prevent multiple claims.

The AIA temporarily is currently £1 million but will reduce to £200,000 from 1 April 2023. Businesses with accounting periods which straddle 1 April 2023 will need to calculate a hybrid allowance using the two rates. It is therefore important to time the purchase of plant and machinery carefully, in order to make the most of the increase.

Businesses are able to allocate their AIA in any way they wish, so it is quite acceptable for them to set their allowance against expenditure qualifying for a lower rate of allowances (such as integral features).

Plant and machinery – super-deduction

Between 1 April 2021 and 31 March 2023, companies investing in qualifying new plant and machinery benefit from first year capital allowances.

Under this measure a company is allowed to claim:

- a super-deduction providing allowances of 130% on most new plant and machinery investments that ordinarily qualify for 18% main rate writing down allowances
- a first year allowance of 50% on most new plant and machinery investments that ordinarily qualify for 6% special rate writing down allowances.

This relief is not available for unincorporated businesses.

Writing Down Allowance (WDA)

Any expenditure not covered by the AIA or super-deduction generally enters either the main rate pool or the special rate pool, attracting WDA at 18% and 6% respectively for 2022/23.

The special rate pool applies to higher emission cars, long-life assets and integral features of buildings, specifically:

- electrical systems (including lighting systems)
- hot and cold water systems
- space or water heating systems, powered systems of ventilation, air cooling or purification and any floor or ceiling comprised in such systems
- lifts, escalators and moving walkways
- external solar shading.

For most other plant and equipment, including some cars, the main rate applies.

A WDA of up to £1,000 may be claimed by businesses where the unrelieved expenditure in the main pool or the special rate pool is £1,000 or less.

Cars

The tax allowance on a car purchase depends on CO_2 emissions. Under current rules, purchases of new unused cars with zero emissions attract a 100% first year allowance. For cars purchased with CO_2 emissions up to 50g/km, the main rate of 18% applies. Cars with CO_2 emissions above 50g/km will be restricted to the special rate WDA of 6%.

For non-corporates, cars with a non-business use element are dealt with in single asset pools, so the correct private use adjustments can be made but the rate of WDA will be determined by the car's CO_2 emissions. Remember, cars do not qualify for the AIA or FYA.

Buildings

When a building is purchased for business use, it may be possible to claim capital allowances on plant elements contained therein, e.g. air conditioning, subject to certain conditions. A joint election may need to be made with the vendor. Please contact us for further details and advice prior to any purchase.

The Structures and Buildings Allowance is available on new, or the renovation of old, non-residential structures and buildings. Relief is available on eligible construction costs incurred on or after 29 October 2018, at an annual rate of 3% on a straight-line basis.

Research and Development (R&D) investment

Tax relief is available on R&D revenue expenditure incurred by companies at varying rates. The current rates of relief are as follows:

- for small and medium-sized (SME) companies paying corporation tax at 19%, the effective rate of tax relief is 43.7% (that is a tax deduction of 230% on the expenditure). For SMEs not in profit, the relief can be converted into a tax credit payment, effectively worth 33.35% of the expenditure although the payment is restricted to £20,000 plus three times the company's relevant expenditure on workers
- an 'above the line' credit exists for companies which do not qualify for the SME scheme. This is known as the R&D Expenditure Credit (RDEC) scheme and allows companies to claim a taxable credit of 13% for qualifying expenditure incurred on or after 1 April 2020. Generally, the credit is fully payable, net of tax, to companies with no corporation tax liability

Involving your family

You can employ family members in your business as long as it can be justified commercially. Family members can be remunerated with a salary and possibly with benefits such as a company car or medical insurance. You can also make payments into a registered pension scheme.

It is worth noting that HMRC may challenge excessive remuneration packages or profit shares for family members, so seek our advice first.

Unincorporated businesses

Business profits are charged to income tax and Class 2 and Class 4 national insurance contributions (NICs) on the current year basis. This means that the profits 'taxed' for each tax year (ending 5 April) are those earned in the accounting period ending in the tax year.

For example, in the case of a trader who draws up his accounts to 31 July each year, his profits for the year ended 31 July 2022 will normally be taxed in 2022/23 however the forthcoming basis period reform will see a change to a 'tax year basis' so that a business's profit or loss for a tax year is the profit or loss arising in the tax year itself, regardless of its accounting date.

Numerous 'fines' are administered for those who fail to comply with the rules and regulations set by government departments. We have already mentioned income tax but other possible 'traps' to avoid are:

- late VAT registration and late filing penalties
- late payment penalties and interest
- penalties for errors in returns
- penalties for late PAYE returns
- penalties for failing to operate a PAYE or sub-contractors scheme
- penalties for failing to comply with pensions auto-enrolment regulations.

In order to help you to steer clear of these pitfalls, we must receive all of the details for your accounts and Tax Returns in good time and be kept informed of any changes in your business, financial and personal circumstances.

Employment or self-employment?

There is no statutory definition of 'employment' or 'self-employment', so determining whether someone is employed or self-employed is not straightforward.

Instead, HMRC applies a series of 'tests' in order to ascertain whether someone is classified correctly. As large amounts of both tax and NICs can be at stake, HMRC often takes quite an aggressive line with regard to this issue and errors can be costly, so seeking advice that is tailored to your situation is essential. Please contact us for assistance in this matter.

Unpaid bills and unbilled work

Small businesses may opt into the cash basis and calculate their profits on the basis of the cash passing through the business. However, it is a feature of the tax system that other businesses (including all corporates) must include in their turnover for the year the value of incomplete work, of unpaid bills (debtors) and of work completed but not yet billed, all as at the end of the year.

We will need to discuss with you exactly what needs to be identified and the basis of valuation. Keeping an eye on debtors and unbilled work is very important to your cash flow.

Forming a limited company

Forming a limited company may be a consideration if the limitation of liability is important, but it should be noted that banks and other creditors often require personal guarantees from directors for company borrowings.

Profits in the company will be taxed at 19% but when paid out in the form of salaries, bonuses or dividends may be liable to top tax rates on the individual,

Funds retained by the company can be used to buy equipment or to provide for pensions – both of which can be eligible for tax relief. They could be used to fund dividends or capitalised and potentially taxed at 10% and/or 20% on a liquidation or sale.

Increasing your net income as an owner-director

As an example, consider how much you might pay if, as an owner-director, you wanted to extract £10,000 profit (pre-tax) from your company in 2022/23 by way of a dividend rather than a bonus. We have assumed in this scenario that the director has already taken salary in excess of the upper earnings limit for NICs, is a 40% taxpayer, and the £2,000 dividend tax allowance has already been utilised.

Case Study

As you can see in this case study, the net income is increased by 8% by opting to declare a dividend. Be sure to discuss this with us, as this is a complex area of tax law.

	Bonus £	Dividend £
Profit to extract	10,000	10,000
Employers' NICs (15.05% on gross bonus)	-1,308	
Gross bonus	8,692	
Corporation tax (19% - dividend is not deductible for corporation tax)		-1,900
Dividend		8,100
Employees' NICs (3.25% on gross bonus)	-282	
Income tax (40% on gross bonus)	-3,477	
Income tax on dividend (33.75%)		-2,734
Net amount extracted	4,933	5,366

For Scottish taxpayers paying the Scottish Higher Rate of 41%, the net amount extracted on the bonus would be reduced to £4,846 (£8,692 less tax @ 41%

and NICs of £282). The tax payable on dividends is the same wherever you are in the UK so the net income would be increased by 10%.

Remember that dividends are usually payable to all shareholders and are not earnings for pension contributions and certain other purposes. Finally, you need to consider with us the effect of regular dividend payments on the valuation of shares in your company.

National insurance contributions (NICs)

Leaving profits in the company may be tax-efficient, but you will of course need money to live on, so you should consider the best ways to extract profits from your business.

A salary will meet most of your needs, but you should not overlook the use of benefits, which could save income tax and could also result in a lower NIC liability.

Four key NIC points to consider:

1. Increasing the amount the employer contributes to company pension schemes. Care should be taken however as there are limits on the amount of pension contributions an individual can make both annually and over their lifetime.
2. Share incentive plans (shares bought out of pre-tax and pre-NIC income).
3. For some companies, disincorporation and instead operating as a sole trader or partnership may be beneficial.
4. Paying dividends instead of bonuses to owner-directors.

Planning for the year end

Tax and financial planning should be undertaken before the end of your business year, rather than left until the end of the tax or financial year. Some of the issues to consider include:

- the impact that accelerating expenditure into the current financial year, or deferring it into the next, might have on your tax position and financial results
- making additional pension contributions or reviewing your pension arrangements
- how you might take profits from your business at the smallest tax cost, and how the timing of payment of dividends and bonuses can reduce or defer tax.

Minimising the risk of late filing penalties

It is important to keep your personal tax affairs in order so that you avoid incurring any Tax Return late filing penalties.

The timetable for making tax payments is relatively straightforward for the self-employed:

- 31 January in the tax year, first payment on account
- 31 July after the tax year, second payment on account
- 31 January after the tax year, balancing payment.

A system of interest and penalties applies. For example, if any balance of tax or NICs due for 2021/22 is not paid within 30 days after 31 January 2023, further penalties may apply as HMRC will seek to charge a 5% late payment penalty as well as the interest that will be charged from 1 February 2023, with further 5% penalties chargeable on 31 July 2023 and 31 January 2024, plus interest on any outstanding liabilities.

If your business is incorporated, it will be liable to corporation tax. Corporation tax is usually payable nine months and one day after the end of the company's accounting period.

If there are cash flow issues, HMRC might be persuaded to accept a spreading of your next business tax payment – you will have to pay interest at the HMRC rate, but keep to the agreed schedule and late payment penalties will be waived. Arrangements need to be put in place before the due date for paying the tax, so talk to us in good time if you wish to apply.

Payments on account

Payments on account are normally equal to 50% of the previous year's net liability and are due on 31 January in the tax year and 31 July following the tax year.

A claim can be made to reduce your payments on account, if appropriate, although interest will be charged if your actual liability is more than the reduced amount paid on account. There is no equivalent mechanism to make increased payments on account when the year's tax will be higher, so you should ensure that you build a reserve of money to pay the balance of tax due.

Don't wait until it's too late if you have difficulties! Please tell us in good time about any issues facing your business, as we may be able to offer solutions.

Payments on account are not due where the relevant amount is less than £1,000 or if more than 80% of the total tax liability is met by income tax deducted at source. In these cases, the balance of tax due for the year, including capital gains tax, is payable on the 31 January following the end of the tax year.

Case Study

Peter is self-employed. His accounts are made up to 31 August each year. When we prepare the 2022 Return we will be including his profit for the year ended 31 August 2021, and that is the profit which will be taxed for 2021/22.

Peter's payments on account for 2022/23 will automatically be based on the 2021/22 liability.

Your next steps: contact us to discuss...

- **Starting up a new business**
- **The impact of the forthcoming change to the "tax year"basis**
- **Raising finance for your venture**
- **Timing capital and revenue expenditure**
- **Minimising employer and employee NIC costs**
- **Improving profitability and developing a plan for tax-efficient profit extraction**

TAX AND EMPLOYMENT

In this section we consider some of the most important tax issues for both employers and employees.

Is your tax code correct?

The purpose of the PAYE system is to collect the right amount of tax from earnings throughout the course of the year. Employers use tax codes to work out how much tax to deduct from an employee's earnings.

However, if individuals have an incorrect tax code, they can pay the wrong amount of tax – either too much or, perhaps more worryingly, too little. Individuals should check their PAYE code regularly as it is much easier to rectify mistakes before the tax year ends. The code in use will be shown on the current payslip.

The letter in the code indicates whether the code includes one of the standard allowances. The letters are as follows:

L – includes the basic personal allowance

N – taxpayers who are 'transferors' of the Marriage Allowance

M – taxpayers who are 'recipients' of the Marriage Allowance

T – there is usually an adjustment in your code which requires manual checking by HMRC each year – for example, you might have a tax underpayment being 'coded out'

K – HMRC may try to increase the tax you pay on one source of income to cover the tax due on another source which cannot be taxed directly. A 'K' code applies when the 'other income' adjustment reduces your allowances to less than zero – in effect, it means that the payer has to add notional income to your real income for PAYE purposes.

The maximum tax which can be deducted is 50% of the source income.

HMRC will often try to collect tax on other income through your PAYE code, but you may prefer to pay the tax through self assessment. For more information on this, please contact us, as we can arrange for the adjustment to be removed.

If you are resident in Scotland you will pay Scottish income tax. In such cases, your code will start with an 'S' to tell your employer to deduct tax using the Scottish income tax rates and bands on your pay.

If you are resident in Wales you pay the Welsh rates of income tax. The codes for Welsh taxpayers begin with a 'C'.

Dynamic coding

HMRC uses information received from employers, such as notification of a new benefit, to recalculate employee tax codes in real-time. Where a potential underpayment is identified, HMRC makes an in-year adjustment to the code for the current tax year (so-called 'dynamic coding'), rather than waiting until the following tax year.

Employer loans

Where loans from an employer total more than £10,000 at any point during the tax year, tax is chargeable on the difference between any interest actually paid and interest calculated at the official rate of 2%. Please contact us for the latest position.

Expense payments

Expense payments are generally exempt, and do not need to be reported to HMRC on a form P11D. However, expense payments can still be subject to review from time to time, including during an employer compliance visit from HMRC.

You may be able to claim tax relief for other expenses you incur in connection with your job, but the rules are fairly restrictive.

An attractive remuneration package might include any of the following:

- A salary
- Bonus schemes and performance-related pay
- Reimbursement of expenses
- Pension provision
- Life assurance and/or healthcare
- A mobile phone
- Optional Remuneration Arrangements (OpRAs)
- Share incentive arrangements
- Trivial benefits-in-kind (BIK) (worth no more than £50 each)
- The choice of a company car
- Additional salary and reimbursement of car expenses for business travel in your own car
- Contributions to the additional costs of working at home
- Other benefits including, for example, an annual function costing not more than £150 (including VAT) per head, or long service awards.

Most benefits are fully taxable, but some attract specific tax breaks.

Salary Sacrifice and Optional Remuneration Arrangements (OpRAs)

Rules have been introduced where BIK have been offered through salary sacrifice or OpRAs, such that an income tax and NIC charge will arise on the higher of the salary sacrificed (or cash option) and the value of the BIK taken. By taking the BIK, the only saving made will be in employee NICs. All BIK are covered by these rules except for employer pension contributions; childcare provided in workplace nurseries and Employer Supported Childcare (usually by way of childcare vouchers); cycle to work schemes; and ultra-low emission cars.

Contributing to a pension scheme

Employer contributions to a registered employer pension scheme or your own personal pension policies are not liable for tax or NICs. Please be aware that while your employer can contribute to your personal pension scheme, these contributions are combined with your own for the purpose of measuring your total pension input against the ‘annual allowance’.

Travel and subsistence costs

Site-based employees may be able to claim a deduction for travel to and from the site at which they are working, plus subsistence costs when they stay at or near the site.

Employees working away from their normal place of work can claim a deduction for the cost of travel to and from their temporary place of work, subject to a maximum period.

Approved business mileage allowances - own vehicle

Vehicle	First 10,000 miles	Thereafter
Car/van	45p	25p
Motorcycle	24p	24p
Bicycle	20p	20p

The company car

The company car continues to be an important part of the remuneration package for many employees, despite the rises in the taxable benefit rates over the last few years.

Employees and directors pay tax on the provision of the car and on the provision of fuel by employers for private mileage. Employers pay Class 1A NICs at 15.05% on the same amount.

This is payable by the 19 July following the end of the tax year.

The charge on cars is generally calculated by multiplying the list price of the car by a percentage which depends on the CO_2 emissions (recorded on the

Vehicle Registration Document) of the car. You then pay tax at 20%, 40% or 45% on this charge depending on your overall tax position. The tax rates applicable to Scottish taxpayers range from 19% to 46%.

The table below shows the percentages for 2022/23. Reduced percentages apply to lower emissions cars and performance-related bands apply for hybrid vehicles with emissions up to 50 g/km depending on how far the hybrid vehicle can travel under electric power.

2022/23	
CO_2 emissions (g/km)	% of list price taxed
0	2
1 - 50 (split by zero-emission miles)	
Electric range >130	2
70 - 129	5
40 - 69	8
30 - 39	12
<30	14
51 - 54	15
55 - 59	16
60 - 64	17
65 - 69	18
70 - 74	19
75 - 79	20
80 - 84	21
85 - 89	22
90 - 94	23
For every additional 5g thereafter add 1% until the maximum percentage of 37% is reached.	
For fully diesel cars generally add a 4% supplement (unless the car is registered on or after 1 September 2017 and meets the Euro 6d emissions standard) but the maximum is still 37%. For emissions of 75g/km or more if the CO_2 figure does not end in a 5 or a 0 round down to the nearest 5 or 0.	

Pooling your resources

Some employers find it convenient to have one or more cars that are readily available for business use by a number of employees. The cars are only available for genuine business use and are not allocated to any one employee. Such cars are usually known as pool cars. The definition of a pool car is very restrictive, but if a car qualifies there is no tax or NIC liability.

Mileage allowance vs free fuel

A frequently asked question is: would I be better off giving up the company car and instead claiming mileage allowance for the business travel I do in my own car? In most cases, you are more likely to be better off if your annual business mileage is high.

Another frequent question is: would I be better off having my employer provide me with fuel for private journeys, free of charge, and paying tax on the benefit, or bearing the cost myself? In this case, you are only likely to be better off taking the free fuel if your annual private mileage is high. However, the cost to the employer of providing this benefit is likely to be high.

Every case should be judged on its own merits, and considered from both the employee's and the employer's point of view.

Fuel for private travel

If your employer provides fuel for any private travel, there is a taxable benefit, calculated by applying the same percentage used to calculate the car benefit to the fuel benefit charge multiplier of £25,300. You can avoid the car fuel charge either by paying for all fuel yourself and claiming the cost of fuel for business journeys at HMRC's fuel-only

advisory rates, or by reimbursing your employer for fuel used privately using the same rates.

Considering a company van

Where a company vehicle is still appropriate, it is worth considering a van as opposed to a car. Unrestricted use of a company van results in a taxable benefit of £3,600, with a further £688 benefit if free fuel is also provided. Limiting the employee's private use to only home-to-work travel could reduce both figures to zero.

Considering a company car

Case Study

Hailey is an owner-director. Her company car has a list price of £25,785. The car runs on petrol and emits CO_2 at a rate of 93g/km.

Hailey pays tax at 45% and her 2022/23 tax bill on the car is therefore £2,669 (£25,785 x 23% x 45%). Hailey's company will pay Class 1A NICs of £892 (£25,785 x 23% x 15.05%).

The company also pays for all of Hailey's petrol. Because she does not reimburse the cost of fuel for private journeys, she will pay tax of £2,618 (£25,300 x 23% x 45%) and the company will pay Class 1A NICs of £875 (£25,300 x 23% x 15.05%). The total tax and NIC cost is £7,054.

Childcare schemes

In 2017, the government introduced a tax incentive for childcare, Tax-Free Childcare (TFC). Under TFC, the tax relief available is 20% of the costs of childcare, up to a total of childcare costs of £10,000 per child per year. The scheme will therefore be worth a maximum of £2,000 per child (£4,000 for a disabled child). Parents are able to apply for TFC for children under 12 (up to 17 for children with disabilities).

To qualify for TFC all parents in the household must generally meet a minimum income level, based on working 16 hours a week (generally £152 a week) and each earn less than £100,000 a year and not already be receiving support through Tax Credits or Universal Credit.

Your next steps: contact us to discuss...

- **PAYE and payroll issues**
- **Ensuring you have the correct PAYE code**
- **Putting together an attractive and tax-efficient remuneration package**
- **Cutting the cost of company cars and reviewing the alternatives**
- **Minimising NIC costs and understanding the tax implications of company cars**

EXITING A BUSINESS

The importance of forward planning

At some point you will want to stop working in your business and either sell up, in which case a business exit plan is crucial and could make all the difference to your long-term personal finances. Alternatively, you may wish to hand over the reins to your successors, in which case good planning will also help to ensure a smooth transition.

Important issues to consider include:

- passing on your business to your children or other family members, or to a family trust
- selling your share in the business to your co-owners or partners
- selling your business to some or all of the workforce
- selling the business to a third party
- public flotation or sale to a public company
- winding up
- minimising your tax liability
- what you will do when you no longer own the business.

Selling the business

If your business has a market value, or if you are looking to your business to provide you with a lump sum on sale, it is important to start planning in advance, especially if you envisage realising the value of your business in the next few years. Selling your business is a major personal decision and it is very important to plan now if you want to maximise the net proceeds from its sale.

You will need to consider:

- the timing of the sale
- the prospective purchasers
- the opportunities for reducing the tax due following a sale.

We can help with these considerations.

Maximising the sale value

Up-to-date management accounts and forecasts for the next 12 months and beyond will be close to the top of the list of the information which you will need to make available to prospective purchasers.

Anyone who is considering buying your business will want to be clear about the underlying profitability trends. Are profits on the increase or declining? Historical profits drive the value attributable to many businesses and therefore a rising trend in profitability should result in an increase in the business's value.

This means that profitability planning is particularly important in the years leading up to the sale.

A professional valuation will put you on more solid ground than educated guesswork. We can work with you to determine how you can add value to your business.

Your business valuation

When considering business valuations, some of the key questions to ask are:

- Are sales declining, flat, growing only at the rate of inflation or exceeding it?
- Are stock and equipment a large part of your business's value, or is yours a service business with limited fixed assets?
- To what extent does your business depend on the health of other industries/the economy?
- What is the outlook for your line of business as a whole?
- Are your business's products and services diversified?
- How up to date is your technology?

When is the best time to sell?

It is important to consider a number of factors when deciding on the best time to sell your business. These could be factors that may influence potential buyers as well as your own personal circumstances.

Personal factors to consider might include:

- When are you planning to retire?
- Do you have any health issues?

- Does your business have an heir apparent?
- Will your income stream and wealth be adequate, post-sale?

Meanwhile, **business questions** might be:

- What are the current trends in the stock market?
- To what extent is your business 'trendy' or at the leading edge?
- Is your business forecasting increases to the top and bottom lines?
- How well is your business performing when compared to other, similar businesses?
- Is your business running at, or near, its full potential?

Considering capital gains tax (CGT)

As a basic rule, CGT is charged on the difference between what you paid for an asset and what you receive when you sell it, less your annual CGT exemption if this has not been set against other gains. There are several other provisions, which may also need to be factored into the calculation of any CGT liability.

CGT reliefs can reduce a 20% CGT bill significantly. It is vital that you consult with us about the timing of a sale and the CGT reliefs and exemptions to which you might be entitled.

Calculating your CGT liability

The taxable gain is measured simply by comparing net proceeds with total cost (including costs of

acquisition and enhancement expenditure). The rate of tax depends on your overall income and gains position for 2022/23. Gains will be taxed at 10% to the extent that your taxable income and gains fall within the upper limit of the income tax basic rate band and 20% thereafter. These CGT rates are increased to 18% and 28% for 'carried interest' and gains on residential property.

A special tax relief, Business Asset Disposal Relief (BADR), is available for those in business, which may reduce the tax rate on the first £1 million of qualifying lifetime gains to 10%. This is targeted at working directors and employees who own at least 5% of the ordinary share capital of the company and the owners of unincorporated businesses.

The relief is available to individuals on the disposal after two complete qualifying years of:

- all or part of a trading business carried on alone or in partnership

- the assets of a trading business after cessation
- shares in the individual's 'personal' trading company
- assets owned by the individual used by the individual's personal trading company or trading partnership where the disposal is associated with a qualifying disposal of shares or partnership interest.

5% rules for company shareholders

To qualify for BADR, the company needs to be an individual's personal company where the individual must:

- be a company employee or office holder
- hold at least 5% of the company's ordinary share capital; and
- be able to exercise at least 5% of the voting rights.

They must also satisfy one of the following tests:

- a distribution test – an individual is entitled to at least 5% of the company's profit available for distribution to equity holders and 5% of the assets available for distribution to equity holders in a winding up; or
- a proceeds test – an individual is entitled to at least 5% of the proceeds in the event of a disposal of the whole of the ordinary share capital of the company.

All planned transactions require careful scrutiny to ensure the available BADR is maintained. Remember to keep us in the picture – we are best placed to help and advise if you involve us at an early stage. Investors' Relief (IR) also provides a 10% rate with a lifetime limit of £10 million for each individual. The main beneficiaries of this relief are external investors in unquoted trading companies.

CGT and non-residents

CGT is normally only chargeable where the taxpayer is resident in the UK in the tax year the gain arose, although the provisions of any double taxation treaty need to be checked. CGT may not apply where the taxpayer becomes non-UK resident before the disposal and remains non-resident for tax purposes for five complete tax years.

CGT and death

There is no liability to CGT on any asset appreciation at your death.

Inheritance tax (IHT) and your business

Lifetime transfers – For the business owner, the vital elements in the IHT regime are the reliefs on business and agricultural property (up to 100%), which continue to afford exemption on the transfer of qualifying property, or a qualifying shareholding.

Transfers on your death – Remember to take into account your business interests when you draw up your Will. While reliefs may mean that there is little or no IHT to pay on your death, your Will is your route to directing the value of your business to your chosen heir(s) unless the disposition of your business interest on your death is covered by your partnership or shareholders' agreement.

Your next steps: contact us to discuss...

- **Getting your business ready for sale and minimising the tax due**
- **Identifying successors within the business**
- **Exploring possible purchasers**
- **Valuing your business**
- **Timing the sale and maximising the sale price**
- **Planning your transition to your next venture**
- **Providing for a transfer of your business interests at your death or in the event that you become incapacitated**

PERSONAL AND FAMILY FINANCES

Looking to the future

It is likely that you will have a range of different financial requirements and goals. You might be looking to maximise your wealth so that you can enjoy more of your hard-earned money now and during retirement. You may need to pay for your children's education, or to help support ageing parents. As your accountants, we can suggest practical ways to help make your objectives become reality.

Using allowances and exemptions

Each individual within your family is taxed separately, and is entitled to his or her own allowances and exemptions. The personal allowance (PA) is set at £12,570 for 2022/23, while the capital gains tax (CGT) annual exemption is £12,300.

By using the available PAs and gains exemptions, a couple and their two children could have income and gains of at least £99,480 tax-free, and income up to £201,080 before paying any higher rate tax. Through careful tax planning, we can help you and your family to benefit from more of your wealth.

Your tax planning objectives should include taking advantage of tax-free opportunities; keeping marginal tax rates as low as possible; and maintaining a spread between income and capital.

The Marriage Allowance

Some married couples and civil partners are eligible for the Marriage Allowance, enabling spouses to transfer a fixed amount of their PA to their partner. The option is available to couples where neither pays tax at the higher or additional rate. If eligible, one partner will be able to transfer 10% of their PA to the other partner (£1,260 for the 2022/23 tax year). For those couples where one person does not use all of their PA, the benefit will be up to £252 (20% of £1,260).

Transferring assets

Planning can be hindered by the potential for tax charges to arise when assets are moved between members of the family. Most gifts are potentially taxable as if they were disposals at market value, with a resulting exposure to CGT and inheritance tax (IHT). However, special rules govern the transfer of assets between spouses. In many cases, for both CGT and IHT there is no tax charge, but there are some exceptions – please contact us for further advice. In addition, gifts must be outright to be effective for tax, and must not comprise a right only to income. Careful timing and advance discussion with us are essential.

High Income Child Benefit Charge

A charge arises on a taxpayer who has adjusted net income over £50,000 in a tax year where either they or their partner are in receipt of Child Benefit for the year. Where both partners have adjusted net income in excess of £50,000, the charge applies to the partner with the higher income.

The income tax charge applies at a rate of 1% of the full Child Benefit award for each £100 of income between £50,000 and £60,000. The charge on taxpayers with income above £60,000 will be equal to the amount of Child Benefit paid. Claimants may elect not to receive Child Benefit if they or their partner do not wish to pay the charge. Equalising income can help to reduce the charge for some families.

Case Study

Dave and Leanne have two children and receive £1,885 Child Benefit for 2022/23. Leanne has little income. Dave expects his adjusted net income to be £55,000. On this basis the tax charge will be £942. This is calculated as £1,885 x 50% (£55,000 - £50,000 = £5,000/£100 x 1%).

If Dave can reduce his income by a further £5,000 to £50,000 no charge would arise. This could be achieved by transferring investments to Leanne or by making additional pension or Gift Aid payments.

Cap on reliefs

There is a 'cap' on certain otherwise unlimited tax reliefs (excluding charitable donations) of the greater of £50,000 and 25% of your income. This cap applies to relief for trading losses and certain types of qualifying interest.

Giving your children a good start

Funding university degrees and saving up a deposit for a first home are increasingly expensive prospects, so the sooner you start planning, the better. All children have their own PA, so income up to £12,570 escapes tax this year, as long as it does not originate from parental gifts. If income from parental gifts exceeds £100 (gross), the parent is taxed on it, unless the child has reached 18, or has married. Parental gifts could be invested to produce tax-free income, or in a Cash or Stocks and Shares Junior Individual Savings Account (Junior ISA) to build a fund to help offset university expenses and minimise debts. The £100 limit does not apply to gifts into JISAs or National Savings Children's Bonds.

Childcare scheme

The government's Tax-Free Childcare (TFC) scheme operates via an online childcare account. Under the TFC scheme, relief is given at 20% of the costs of childcare, up to a total childcare cost of £10,000 per child per year. The scheme is worth a maximum of £2,000 per child (£4,000 for a disabled child). All children under 12 years old are eligible (or up to 17 for children with disabilities), but parents must meet certain eligibility criteria.

Generation skipping

If your child is grown up and financially secure, it may be worth 'skipping' a generation, as income from capital gifted by grandparents or more remote relatives will usually be taxed as the child's, as will income distributions from a trust funded by such capital.

Marriage breakdown

Maintenance payments do not usually qualify for tax relief. The special CGT and IHT treatment for transfers between spouses applies throughout the tax year in which separation occurs. For CGT, transfers in subsequent years are dealt with under the rules for disposals between connected persons, with the disposal treated as a sale at market value, which could result in substantial chargeable gains. For IHT, transfers remain exempt until the decree absolute. Timing is crucial; we can assist you.

A contingency plan

Contingency planning could help to protect your family if you die or become incapacitated. This might include taking out adequate insurance cover, perhaps with life assurance written into trust to ensure quick access to funds. It is also essential to make a Will. We also strongly recommend that you and your spouse:

- **make a living Will (also called 'advance decisions'):** so that your wishes are clear with regard to medical treatment in the event that, for example, you were seriously injured following an accident
- **execute a lasting power of attorney:** so that if you become unable to manage your affairs as a result of an accident or illness, responsibility will pass to a person of your choosing.

Remember to tell your spouse, your parents and your business partners where your Will and related documents are kept. If you are passing on responsibility for managing your affairs, it might be advisable to talk matters through with them.

Unclaimed assets?

Billions of pounds of assets lie unclaimed in the UK! To see if you have lost assets contact the Unclaimed Assets Register on 0333 000 0182 or visit **www.uar.co.uk** (NB: a charge applies for this service). To find out if you have an unclaimed Premium Bond prize, call 08085 007 007 or visit **www.nsandi.com**.

Non-UK domiciles

A UK resident and domiciled individual is taxed on worldwide income and gains. Non-UK domiciles who are UK resident can claim the remittance basis of taxation in respect of foreign income and gains, with the effect that they are only taxed if foreign income and gains are brought into the UK. They will however lose their entitlement to the personal allowance for income tax and the annual CGT exemption. There may also be a significant 'remittance basis charge' to pay. The non-UK domicile is also potentially favourably treated for IHT, as they only pay IHT in respect of UK assets, as opposed to their worldwide assets.

An individual who has been resident for at least 15 of the last 20 tax years will be deemed UK domiciled for all tax purposes. In addition, those who had a UK domicile at the date of their birth will revert to having a UK domicile for tax purposes whenever they are resident in the UK, even if, under general law, they have acquired a domicile in another country.

Checklist: financial protection strategies	**Self ✓**	**Spouse ✓**
Essential:		
Will		
Living Will		
Lasting power of attorney		
Life assurance		
Keep papers in a safe place, and make sure other people know where they are!		
Seriously consider:		
Income, mortgage and loan protection insurance		
Tax-efficient estate planning		
Planning for the transfer of your business		
Funeral arrangements and expenses		
A tax-efficient gift strategy		

Your next steps: contact us to discuss...

- **Making the most of allowances and reliefs**
- **Ensuring that your tax liability is kept to a minimum within the law**
- **Using savings, capital and other vehicles to give your children a better start in life**
- **Writing a Will**
- **Life insurance and obtaining disability and critical illness insurance**
- **Tax-efficient savings and investments**

RETIREMENT PLANNING

It is essential to ensure that you put aside sufficient funds during your working life to allow for a comfortable retirement in the future. You could spend a third of your life as a retired person, so by taking action now, you can help to make this period as financially secure as possible.

Many options are open to retirees in regard to how they use their savings. It is important to seek appropriate advice on the options available to you. Here we outline some of the key areas to take into consideration when planning for your 'golden years'.

Initial considerations

Your retirement planning strategy will be determined by a number of factors, including your age and the number of years before retirement. However, there are some other key issues to consider:

- Do you have an employer pension scheme?
- Are you self-employed?
- How much can you invest for your retirement?
- How much State Pension will you receive?

Individuals who reached State Pension age after 5 April 2016 receive a flat-rate pension, worth £185.15 per week where they have at least 35 years of national insurance contributions (NICs) or credits.

Those who reached State Pension age before 6 April 2016 will continue to claim their basic State Pension (plus any additional state pension that they may be entitled to). The basic State Pension in 2022/23 is £141.85 a week.

To receive a State Pension forecast you can phone the Future Pension Centre on 0800 731 0175.

Employer pension schemes

There are two kinds of employer pension scheme into which you and your employer may make contributions. A defined contribution scheme pays a retirement income reflecting the amount invested and the underlying investment fund performance. A defined benefit scheme pays a retirement income related to your earnings: such schemes are very rare. However, in both cases, you will have access to tax-free cash as well as to the actual pension.

Pensions auto-enrolment

In order to encourage more people to save for their retirement, the government has introduced compulsory workplace pensions for eligible workers. Under auto-enrolment, all employers must automatically enrol all eligible workers into a qualifying pension scheme. There is generally a minimum overall contribution rate of 8% of each employee's qualifying earnings, of which at least 3% must come from the employer. The balance is made up of employees' contributions and associated tax relief.

Personal pension schemes

Relying on the State Pension will not be adequate for a comfortable retirement, so if you are not in a good employer scheme, you are advised to make your own arrangements.

To qualify for income tax relief, investments in personal pensions are limited to the greater of £3,600 and the amount of your UK relevant earnings, but subject also to the annual allowance. The annual allowance is £40,000, but this is tapered for individuals who have both threshold income (broadly net income plus any reductions in salary for salary sacrifice or flexible remuneration schemes less gross personal pension contributions) over £200,000 and adjusted income (broadly their income and employer's pension contributions plus employee contributions via a net pay arrangement) over £240,000. For every £2 of adjusted income over £240,000, an individual's annual allowance will be reduced by £1, down to a minimum of £4,000.

Where pension savings in any of the last three years' pension input periods (PIPs) were less than the annual allowance, the 'unused relief' is brought forward, but you must have been a pension scheme member during a tax year to bring forward unused relief from that year. The unused relief for any particular year must be used within three years.

Case Study

Kevin has not made any contribution into his pension policy so far in 2022/23.

Kevin has unused annual allowances of £30,000 from 2019/20, £5,000 from 2020/21 and £20,000 from 2021/22 (total £55,000). Kevin's income is less than £200,000.

Kevin's maximum pension investment is therefore set at £95,000 (£40,000 plus £55,000) for his 2022/23 PIP. He needs to make a pension contribution of £70,000 (current year allowance £40,000 and £30,000 unused relief from 2019/20) in order to avoid the loss of the relief brought forward from 2019/20.

If contributions are paid in excess of the annual allowance, a charge – the annual allowance charge – is payable. The effect of the annual allowance charge is to claw back all tax relief on premiums in excess of the maximum. Where the charge exceeds £2,000, arrangements can be made for the charge to be paid by the pension trustees and recovered by adjustment to policy benefits.

Tax relief on personal pensions

Premiums on personal pension policies are payable net of basic rate tax relief at source, with any appropriate higher or additional rate relief usually being claimed via the PAYE code or self assessment tax return.

Case Study

Linda will earn £60,000 in 2022/23. She will invest £12,500 into her personal pension policy. She is entitled to the basic personal allowance and has no other income.

Linda will pay her pension provider a premium, net of basic rate tax relief of £10,000. She is also entitled to higher rate tax relief on the gross premium, amounting to £2,500.

As Linda is an employee, we can ask HMRC to give the relief through her PAYE code. Otherwise, we would claim in Linda's 2023 Tax Return. Thus the net cost to Linda of a £12,500 contribution to her pension policy is just £7,500.

Scotland has income tax rates which are different from those that apply in the rest of the UK. Pension payments by Scottish taxpayers paying at the starter rate of 19% will be treated in the same way as 20% taxpayers in the rest of the UK. Scottish taxpayers who pay tax at 21%, 41% or 46% claim the difference between these rates and the basic rate of 20%. Contact us for specific advice.

The lifetime allowance

Where total pension savings exceed the £1,073,100 lifetime allowance at retirement (and fixed, primary or enhanced protection is not available), a tax charge arises:

Tax charge (excess paid as annuity)	Tax charge (excess paid as lump sum)
25% on excess value, then up to 45% on annuity	55% on excess value

The lifetime allowance is frozen until 5 April 2026.

Accessing your personal pension fund

Taxpayers have the option of taking a tax-free lump sum of 25% of the fund value and purchasing an annuity with the remaining fund, or opting for income drawdown which offers further flexibility in how the fund is used.

An annuity is taxable income in the year of receipt. Similarly any monies received from the income drawdown fund are taxable income in the year of receipt.

Taxpayers have total freedom to access a pension fund from the age of 55. Broadly, this will increase to 57 from April 2028. Access to the fund may be achieved in one of two ways:

- allocation of a pension fund (or part of a pension fund) into a 'flexi-access drawdown account' from which any amount can be taken, over whatever period the person decides
- taking a single or series of lump sums from a pension fund (known as an 'uncrystallised funds pension lump sum').

When an allocation of funds into a flexi-access account is made the member typically will have the opportunity of taking a tax-free lump sum from the fund.

The person will then decide how much or how little to take from the flexi-access account. Any amounts that are taken will count as taxable income in the year of receipt.

Access to some or all of a pension fund without first allocating to a flexi-access account can be achieved by taking an uncrystallised funds pension lump sum. The tax effect will be:

- 25% is tax-free
- the remainder is taxable as income.

Money Purchase Annual Allowance

The government is alive to the possibility of people taking advantage of the flexibilities by 'recycling' their earned income into pensions and then immediately taking out amounts from their pension funds. The Money Purchase Annual Allowance (MPAA) sets the maximum amount of tax-efficient contributions an individual can make in certain scenarios. The allowance is set at £4,000 per annum, with no carry forward of the allowance to a later year if not used in the year.

The main scenarios in which the reduced annual allowance is triggered are if:

- any income is taken from a flexi-access drawdown account; or
- an uncrystallised funds pension lump sum is received.

However, just taking a tax-free lump sum when funds are transferred into a flexi-access account will not trigger the MPAA rule.

Your next steps: contact us to discuss...

- **Calculating how much you need to save to ensure you enjoy a comfortable retirement**
- **Tax-advantaged saving for your pension**
- **Saving in parallel to provide more readily accessible funds**
- **Saving in employer and personal pension schemes**
- **Using your business to help fund your retirement**

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