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THE END OF THE TAX YEAR – DO YOU NEED TO TAKE ACTION?

As the end of the 2022/23 tax year approaches on 5 April, it is also a good time to review your affairs, making the most of opportunities to maximise your income and minimise your tax. Some tax planning may require action to be taken before 5 April. I will highlight below a few of these.

Gift Aid Payments

Don't forget that, in respect of the 2022/23 tax year, higher rate taxpayers can claim an extra 20% of the 'grossed up' donation from H M Revenue & Customs (HMRC) for donations made during the tax year. For example, if a donation of £80 is made to charity under gift aid during the year, the higher rate tax relief that HMRC will give you will be 20% of £100 i.e. an additional £20. For additional rate taxpayers (those with taxable income above £150,000 for the year), the extra relief would be £25.

Pension Contributions

You may wish to consider making an additional payment into your pension scheme before 5 April 2023, particularly if your total income for the current year may take you into the 40% (or even higher) income tax rates. For most individuals, the 40% rate starts to apply once income reaches £50,270. The tax relief for personal pension contributions works in a similar manner to gift aid payments and as a result, tax relief is available at your marginal rate of tax. You may however need to bear in mind and take specific advice concerning the Annual Allowance, which limits the amount that can be contributed to a pension each year while still attracting tax relief. For most individuals, the Annual Allowance is £40,000 but this could be more or less in certain situations, depending on factors such as the level of your income, amount of pension contributions made in earlier years and whether you are already drawing a pension etc.

High Earners

High earners also need to bear in mind that they may be at risk of losing their personal allowance. Those with "net adjusted income" in excess of £100,000 for 2022/23 will lose the whole or part of their personal allowance of £12,570. For every £2 of income in excess of £100,000 the allowance is reduced by £1, leading to an effective marginal rate of income tax of 60% in the band between £100,000 and £125,140. Once net adjusted income reaches £125,140 the allowance is completely eliminated.

With both gift aid donations and pension contributions, it is certainly worth considering making a one-off payment before 5 April 2023 if you are in danger of losing all or part of your personal allowance or being subject to the High Income Child Benefit Charge (which applies when "net adjusted income" exceeds £50,000).

The gross amount of any gift aid donations and pension contributions are deducted from total income when calculating "net adjusted income" for these purposes. For example, if you are expecting your total income for 2022/23 to be £110,000 (and assume for these purposes that you haven't yet made any pension contributions in the tax year), by making a net pension payment of £8,000 on or before 5 April 2023 (equivalent to a gross contribution of £10,000), could save you additional income tax of £4,000, over and above the basic rate relief, meaning the effective cost (after tax relief) of the pension payment is actually only £4,000. In other words you obtain the benefit of £10,000 being contributed to your pension scheme at a cost of only £4,000 - a massive 60% relief.

It is also worth noting that the Chancellor announced in his Autumn Statement that the threshold at which the additional (highest) income tax rate of 45% kicks in is to be lowered with effect from 6 April 2023, reducing from £150,000 to £125,140, to coincide with the level at which the personal allowance is eliminated (see above).

Individual Savings Accounts (ISAs)

If you are in a position to do so then you should consider using your annual investment allowance in an ISA. The maximum allowance for 2022/23 is £20,000 and this can be paid into a cash ISA and/or an investment ISA. The key message is to use it or lose it, since it can't be carried forward.

The above are only a small selection of some of the tax planning points included in our annual publication, Financial Perspectives – End of Tax Year Guide Spring 2023 available on our website or to anyone who would like to telephone our offices or e-mail us at mail@pearsonmay.co.uk. Copies of this will be provided free of charge.

The above is for general guidance only and no action should be taken without obtaining specific advice. Such advice in relation to pension schemes should be obtained from your pension adviser or an independent financial adviser.

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