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The ideal time to take stock

The run up to the end of the tax year on 5 April 2025 is a good time to check that your family and business finances are arranged in the best way possible. In this Year End Tax Planning Guide, we look at useful ways to take advantage of available tax reliefs and planning opportunities.

The Guide is divided into sections: planning points for companies and business owners; then points for families, couples and individuals. This is for ease of use, and there is inevitably some overlap.

Topical issues

Each year brings its own tax challenges, and this year is no exception. Key areas to think about include:

- forthcoming changes to Inheritance Tax
- changes to Business Asset Disposal Relief
- new emphases for profit extraction strategy
- the abolition of the furnished holiday lettings rules
- impact of basis period reform for unincorporated businesses
- increased employer National Insurance costs to come.

We explain these changes here, and suggest practical points for action. As your accountants, we have the insight into your affairs that can make an impact, and we look forward to being of assistance.

Note: in this publication, we use the rates and allowances for 2024/25. Throughout the text, the term spouse includes a registered civil partner.



FOR COMPANIES AND BUSINESS OWNERS

Planning issues for companies

Higher rates of Corporation Tax since 2023, combined with the operation of marginal relief, have made planning for optimal tax efficiency more complex.

Corporation Tax

The rate of Corporation Tax payable depends on the level of taxable profits in the company, plus certain dividends received by the company.

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

The Corporation Tax rate is applied to the company's taxable total profits. A company with profits of £400,000 would therefore have a Corporation Tax liability of £100,000 (25% of £400,000).

Companies with profits between £50,000 and £250,000 pay at the main rate reduced by marginal relief. This creates a gradual increase in the Corporation Tax rate, resulting in an effective tax rate of 26.5% for profits between £50,000 and £250,000.

Action point: maximise deductions

The impact of marginal relief means maximising deductions is particularly important for companies where profits fall between these thresholds. We can help you identify relevant claims for deductions for your business.

Group structure is important as the limits are shared where there are associated companies.

Claim for capital allowances

Making sure capital allowances claims are maximised is a key way to do this.

The Annual Investment Allowance (AIA) now stands at £1 million. Along with general Writing Down Allowances, this will provide relief sufficient for many companies. In addition, however, companies investing in qualifying new plant and machinery can claim:

- Full Expensing, providing first year allowances (FYAs) of 100% on most new plant and machinery investment which would ordinarily qualify for 18% Writing Down Allowances
- a FYA of 50% on most new plant and machinery investment which would ordinarily qualify for 6% special rate Writing Down Allowances.

These additional reliefs will come into their own where companies or groups make major investment. The disadvantage is that where the FYAs have been claimed, a balancing charge based on proceeds may arise on disposal. You may therefore wish to consider timing capital acquisitions to make maximum use of the AIA instead.

There is also a capital allowance, the Structures and Buildings Allowance, available on some new commercial structures and buildings, which will be relevant to some businesses. We can advise further here.

Research and Development claims

Generous tax relief exists for companies engaged in qualifying Research and Development (R&D) activities.

Broadly, the definition of R&D is work on innovative projects in science and technology that aim to seek an advance in a particular area, resolving scientific or technological uncertainty.

New rules

The rules on R&D tax relief changed in 2024. In overview, for accounting periods starting on or after 1 April 2024, there is a taxable 20% above the line credit.

Loss making SMEs, where R&D expenditure accounts for 30% or more of total expenditure, have the option of claiming Enhanced R&D intensive support. This provides additional relief, and the option of surrendering losses for a repayable tax credit.

Advice is key

R&D is a complex area, where trusted professional advice is essential. Though error and fraud in claims for R&D tax relief are very much in the government's spotlight, the benefit that can accrue from a genuine claim is considerable.

Note that companies are sometimes approached by commercial agents offering to submit speculative R&D claims on their behalf in return for high commission, and great caution is recommended in any such case. Even sectors highly unlikely to be carrying out R&D, such as care homes, childcare providers and personal trainers can be on the receiving end of this sort of contact.

We can help you assess whether your company is carrying out activities that might qualify under the R&D rules. Do please contact us for a full discussion.

Loss claims

A claim for loss relief, whether a trading or property loss, or loss on the sale or disposal of a capital asset, can be used to reduce the overall tax liability; in some cases, to generate a refund; and will also assist with cash flow.

Generally, a loss may be set off against other profits of the same accounting period, and then carried back to the previous 12 months. There is also scope to carry losses forward, subject to certain conditions.

Decisions on loss relief claims can influence the timing of cash flow and the overall level of tax relief. We can help you determine the best way to utilise any losses made.

Action point: watch two-year time limits

Broadly, loss claims must be made within a particular window, and clearly making a claim as soon as possible will help with cash flow. To set a loss against profits of the current or an earlier accounting period, the claim must usually be made within two years of the end of the accounting period in which the loss was made.



Managing new employer National Insurance rules

Autumn Budget 2024 announced sweeping changes to the National Insurance regime for employers from 6 April 2025.

Contributions start at lower level

Employers will start making secondary National Insurance contributions (NICs) at a lower level of earnings:

- the secondary threshold becomes £5,000 per year, rather than £9,100 per year
- from 5 April 2028, it will then rise in line with the Consumer Price Index.

Rate of contribution rises

The rate of secondary Class 1 NICs paid by employers will rise from 13.8% to 15%.

The increase impacts Class 1A contributions payable on benefits in kind, and Class 1B NICs payable on PAYE Settlement Agreements, which also rise to 15%.

Increase in the Employment Allowance

- The Employment Allowance (EA) rises from £5,000 per year to £10,500 from 6 April 2025.

- Eligible employers can offset the EA against their NICs liability, potentially reducing it to nil.
- It will no longer be necessary to have had an employer secondary Class 1 NICs liability of £100,000 or less in the previous tax year to claim.
- The EA is not available to single director companies where the director is the only employee paid above the secondary threshold.

The new rates and thresholds potentially represent a significant increase in costs for employers, especially when taken alongside the new minimum wage rates in force from April 2025.

Action point: use salary sacrifice to manage costs

In most cases, the tax advantage of salary sacrifice arrangements has been removed in recent years. However, with pension contributions and certain other benefits, advantages remain. As employer NICs bills rise, remuneration packages that manage NICs costs by using salary sacrifice become very attractive options. We can help you assess your remuneration strategies.

Planning window: furnished holiday lets

The tax incentives for furnished holiday lettings (FHLs) are abolished from April 2025.

The rules have treated FHLs as a trade, giving access to favourable tax treatment for capital allowances, finance costs and on disposal. It has also been possible to count income from FHLs as relevant UK earnings for pension contributions.



Options now

The change takes effect on or after 6 April 2025 for Income Tax and Capital Gains Tax (CGT); and from 1 April 2025 for Corporation Tax and Corporation Tax on chargeable gains. Overall, there is a significant impact for FHL owners, and it will be necessary to decide on future plans for the business. Moving to long-term residential letting, disposal or gifting the property to family are all options to consider.

Action point: consider last-chance planning window before April 2025

For disposals and gifts, there is a last-chance planning window before April 2025 to access some important tax reliefs.

Disposing of an FHL business

It is assumed here that a property qualifies as an FHL: please talk to us if you are in any doubt as to the criteria.

Under the FHL rules, if you dispose of an FHL business, you may be eligible for CGT Business Asset Disposal Relief (BADR); or to roll the gain

on sale over into the purchase of new qualifying assets, using rollover relief. The abolition of the FHL rules means this will no longer be possible from April 2025.

Business Asset Disposal Relief

There is a last chance to access to BADR — assuming other eligibility conditions are met:

- if you sell the FHL before 1/6 April 2025 or
- if you sell the FHL on or after 1/6 April 2025, and the business ceased before this, and the property is disposed of within three years of cessation. There are important conditions to meet here. It is essential that the business ceases before 1/6 April 2025. HMRC requires actual cessation of business activity to qualify: the end of the FHL rules themselves do not constitute cessation. Note also that shifting to long-term residential letting could jeopardise access to BADR.

Please talk to us to ensure your plans for the property enable you to take advantage of BADR if required.



Business Asset Rollover Relief

If you sell a FHL property before 1/6 April 2025, there is the opportunity to roll the gain over into the purchase of a qualifying asset after 6 April 2025, as long as the qualifying asset is purchased within three years of the original disposal under the general rollover rules. From April 2025, FHLs will no longer count as qualifying assets for rollover relief, and so fall out of this type of planning.



Giving away an FHL

It may be possible to use gift holdover relief to defer CGT where an FHL is gifted to a 'connected relative', or sold at less than market value. It should be noted that if the recipient later sells the property, a CGT liability accrues.

The timeframe to use gift holdover relief is short, with action needed by 5 April 2025. A gift after this date will usually attract CGT. The gift may have Inheritance Tax consequences in either event, and we are happy to advise here.

Note also that to access rollover relief, gift relief, or BADR, an anti-forestalling rule requires you to make a statement confirming that specific conditions in the legislation are met.

Other points to consider

Overall, the abolition of the FHL rules changes the outlook significantly for business owners. It is not possible to outline all the consequences here, and we should be pleased to discuss them with you more fully.

Invest tax efficiently

Tax efficient investment comes with varying risk profiles, from high to low. We look at both ends of the spectrum.

Venture capital schemes

These offer generous tax incentives to individuals investing in young, higher risk companies which are not listed on a recognised stock exchange, and would otherwise struggle to access finance.

Very specific conditions need to be met to qualify for tax relief under the schemes, including how long the shares must be held for. Do please contact us if you would like to discuss your investment strategy.

The Enterprise Investment Scheme

The main tax advantages of the Enterprise Investment Scheme (EIS) are Income Tax relief on the investment (at 30% on investments of up to £1 million per year; with a £2 million yearly limit for knowledge-intensive companies); and a Capital Gains Tax (CGT) exemption on gains made when the EIS shares are disposed of. In addition, you may be able to defer capital gains on the disposal of other assets when you purchase EIS shares.

Seed Enterprise Investment Scheme

This also provides generous tax relief for individuals investing in new, unquoted, growing companies. Qualifying investors can invest up to £200,000 per tax year in qualifying companies, receiving Income Tax relief of up to 50% of the sum invested. Unused relief in one tax year can also be carried back to the preceding tax year. There is also favourable CGT treatment.

Venture Capital Trusts

Venture Capital Trusts (VCTs) complement the EIS and Seed Investment Scheme; but whereas the EIS requires investment directly into the shares of a company, VCTs work via indirect investment through a mediated fund. VCTs are quoted companies required to hold at least 70% of their investments in shares or securities in qualifying unquoted companies.

Income Tax relief of 30% is available on subscriptions for VCT shares, up to a limit of £200,000 per tax year. Dividends on the first £200,000 are also tax free.

This is a high-level overview designed to give an indication of some of the potential tax advantages of these schemes. For personalised, in-depth advice, do please get in touch.

Individual Savings Accounts

Individual Savings Accounts (ISAs) are free of Income Tax and CGT and do not impact the availability of the Savings or Dividend Allowances. The tax benefits of ISAs continue to be attractive, especially in view of the reduction in the CGT annual exemption over recent years.

There are four types of ISAs:

- cash ISAs
- stocks and shares ISAs
- innovative finance ISAs
- lifetime ISAs.

Who can invest?

Adults: ISAs are available for anyone over 18, resident in the UK. To open a Lifetime ISA (LISA), you must also be under 40.

ISAs are an individual investment: you cannot hold an ISA with anyone else, such as a spouse. Each spouse has their own yearly subscription limit, so as a couple you can invest a maximum of £40,000 each tax year.

Withdrawals can be made at any time, without losing the tax benefits. Note, however, that there are different rules for LISAs. These get up a 25% government top-up intended to help towards purchase of a first home or provide for later life. Where money is withdrawn for any other reason, the top-up is clawed back. An exception is made for those who are terminally ill, with less than 12 months to live.

Parents or guardians with parental responsibility can open a Junior ISA for a child under 18 who lives in the UK. Junior ISAs are covered elsewhere in this Guide.

Action point: review ISA position each year

We recommend taking stock of your position before 5 April each year. ISA limits can't be carried forward into future years. They are lost if not used by the end of the tax year.

Investment limits

There is a limit on the amount that can be saved in an ISA per tax year. For adults, the limit is £20,000 in 2024/25, and will remain frozen at this level until April 2030. You can invest this in one ISA or split the investment over multiple accounts. The LISA has slightly different rules: investment into a LISA is capped at £4,000 per year. Whilst you can only invest in one LISA in a tax year, you can, subject to the overall £20,000 cap, invest in multiple ISAs.



Year end checklist

For companies

- ☐ Maximise deductions for Corporation Tax purposes
- ☐ Check that all available capital allowances are claimed
- ☐ Consider accelerating purchase of double cab pick-ups
- ☐ Make loss claims within appropriate two-year window
- ☐ Consider eligibility for R&D claims

For director-shareholders and other business owners

- ☐ Assess remuneration strategy to help manage National Insurance costs
- ☐ Review profit extraction strategy in family companies
- ☐ Take appropriate action on directors' loan accounts
- ☐ Unincorporated businesses: assess basis period reform transition profits
- ☐ Furnished holiday lettings: review plans before April 2025
- ☐ Check eligibility for Business Asset Disposal Relief (BADR)
- ☐ Consider short window before 6 April 2025 to make qualifying disposals at current 10% rate of BADR
- ☐ Plan for business succession

For families, couples and individuals

- ☐ Maximise use of tax rates, tax bands and allowances
- ☐ Act to minimise loss of Personal Allowance
- ☐ Assess allowances available for all family members
- ☐ Use ISA investment limits before 6 April 2025
- ☐ Claim higher and additional rate repayments under Gift Aid
- ☐ Take advantage of any unused annual allowance from previous years
- ☐ Plan to minimise impact of High Income Child Benefit Charge
- ☐ Review pension planning
- ☐ Update wills and estate planning, especially in the light of forthcoming IHT rule changes
- ☐ Contact us as soon as possible for maximum tax efficiency.

Working with you

This Guide will help identify areas that could significantly impact your overall tax position. Advice specific to your circumstances, however, is always essential.

Do please contact us well in advance of 5 April 2025 to make the most of the options available.