MJD Accountancy Services
MJ DERBYSHIRE

March 2023
NEWSLETTER

The first order of business for this newsletter is to let you know that I am no longer a sole trader; I incorporated my business from the 1st February and will now be trading as MJD Accountancy Services Ltd.

This won't affect my current or future clients, the only change being my bank account details. The new ones will be highlighted on any future invoices.

It's March, which means the tax year-end is almost upon us, but do not fear because I've set my tax gurus the challenge of distilling all the key information you might need into one handy tax planning guide, which is set out below.

Here's 3 reasons why you need to read (and digest) the content within this guide: -

1. Getting ahead of your finances will make you feel prepared and organised (even if you aren't).
2. We have some top tax busting tips to save you money that you may not be aware of (and we aren't talking about a move to the Cayman islands).
3. Tax is fun, right? Ok so not everyone loves tax as much as me but that's why I'm here. My gurus have outlined the key tax planning tips into one handy document ready for you to read.

So, grab a hot drink and delve in, and if you want further advice and guidance on any of the issues raised in the document, then please get in touch and I'll be happy to discuss your requirements.

On a brighter note, spring is just around the corner so hang in there.

Year End Tax Planning Guide

Managing your wealth and tax profile requires regular review and revision. Striking a balance between managing risk and maximising your personal wealth is complex. Where you also have business interests, combining these considerations with your personal planning will add further challenges.

In this guide, we provide key pointers to consider as you review your affairs ahead of the tax year end. We encourage you to take some time to reflect on your needs now and in the future so that you can plan ahead and ensure the right long-term structures are in place.

Unless otherwise specified, the tax rates used are those for the tax year to 5 April 2023 (2022/23). There are different rates of Income Tax in Scotland, which are highlighted where appropriate. Current tax rates, reliefs and allowances may be subject to change as the Chancellor continues to review the position with regards to the current economic conditions. We will revisit and revise this guide accordingly.

Due to the complex nature of many of the issues raised within this guide, it is intended as an outline only. You should always take advice from appropriate professionals before making any changes to your wealth or tax profile.

What's covered:

- Income Tax
- Making Tax Digital (MTD)
- Personal Allowances
- Dividends
- Savings Income
- Pension Contributions

Income Tax

If you are a tax resident in ***England and Northern Ireland***, you pay Income Tax at the following rates on your taxable income (i.e. your income above the Personal Allowance):

Income (excluding dividends)	Rates
£0-37,700 (Basic rate)	20%
£37,701 - £150,000 (Higher rate)	40%
£150,001 + (Additional rate)	45%

Changes from 5 April 2023 | Additional Rate Tax

The point at which an individual pays additional rate tax (45%) is being lowered to £125,140. For 2022/23, there is no difference between the Welsh rates of tax and the main UK rates of tax above.

For ***Scottish taxpayers***, the rates of tax on their taxable income for 2022/23 are:

Income (excluding dividends)	Rates
£0 - £2,162 (The starter rate of tax)	19%
£2,163 - £13,118 (The basic rate of tax)	20%
£13,119 - £31,092 (The intermediate rate of tax)	21%
£31,093 - £150,000 (The higher rate of tax)	41%
£150,000 + (The top rate of tax)	46%

There are separate rates of Income Tax for Dividends.

Making Tax Digital ("MTD")

From 6 April 2026 MTD applies to individuals who are self-employed or who have income from property.

As part of this process, relevant individuals will need to:

- Keep records digitally and report income online using MTD compliant software.
- Submit quarterly MTD submissions.
- Report income on a tax year basis [6 April – 5 April], regardless of what accounting period is currently being used.

Those affected need to:

- plan for the introduction of MTD.
- revisit planning for the timing of capital expenditure; and
- may need to consider whether it is appropriate to change their accounting period to align to MTD reporting.

A change of accounting year-end can have implications for tax purposes; therefore this needs to be carefully considered. Inevitably there will be costs and resource implications associated with MTD compliance, therefore this requires careful, advance planning. *Don't worry, I will cover Making Tax Digital in more detail in the next newsletter.*

Personal Allowances

Every UK resident taxpayer is entitled to a tax-free Personal Allowance of £12,570 for 2022/23. Your Personal Allowance reduces (down to a minimum of £0) when your income exceeds the current limit of £100,000.

You lose £1 of the allowance for every £2 of income over that limit. For example, if your taxable income is £125,140, your Personal Allowance is reduced by £12,570 (i.e. your Personal Allowance would become £0). This means that if your income falls between £100,001 and £125,140 you have an effective rate of tax rate of 1½ times your usual rate of tax (within that banding you are effectively paying 48.75% tax on dividends, or 60% tax on other income).

You will have no Personal Allowance where your income exceeds £125,570.

Non-UK residents are also entitled to a UK personal allowance if they:

A. hold a British passport,
B. are a citizen of a European Economic Area country (including countries in the EU as well as Iceland, Liechtenstein and Norway),
C. have worked for the UK government during the tax year, or
D. are eligible under a double tax agreement.

Changes from 5 April 2023 | Personal Allowance

The personal allowance has been frozen at £12,570

Tax Tip | Spend to save tax

If your income falls above one of the thresholds, you might want to consider reducing your tax liability through tax-efficient spending. There are several ways you can do this such as: making pension contributions; tax-efficient investments; or Gift Aid charity donations.

Tax Tip | Personal Allowance transfer

Where your spouse or civil partner does not use all of their Personal Allowance, consider jointly electing to transfer an element to you (if you are a basic rate taxpayer) to reduce your family tax burden.

Tax Tip | Alter your income profile

Where possible, try to ensure that you generate sufficient income to fully utilise the Personal Allowance and basic rate band. This is not always possible, but potentially can be done through careful planning of the timing of: dividends from a private company; distributions from a trust; or income drawdowns from an investment bond.

Tax Tip | Avoiding the High-Income Child Benefit

If you have children, it may be possible to rearrange income (as between spouses or civil partners) so that both incomes remain below the £50,000 threshold for High Income Child Benefit.

Dividends

The first £2,000 of dividends are tax-free regardless of which tax rate band into which you fall. This relief is in addition to your Personal Allowance.

Dividends can be used as part of the reward strategy for a private limited company.

Basic Rate – 8.75% | Higher Rate – 33.75% | Additional Rate – 39.35%

Changes from 5 April 2023 | Dividend Allowance

The Dividend Allowance is reducing from £2,000 to:

- £1,000 as from 6 April 2023, and then
- £500 as from 6 April 2024.

Tax Tip | Utilising the dividend allowance

Director-shareholders should always consider declaring a dividend of at least £2,000 per shareholder in each tax year to utilise the dividend allowance, provided their company has distributable profits available.

Tax Tip | Maximising dividends

Dividends are taxed at a lower rate than other income. Director-shareholders can often influence the level of salary and dividends when deciding how they are rewarded by their company as a director and as a shareholder.

Tax Tip | Family involvement

If you are a director-shareholder, you may wish to consider who else in your family could have shares, in order to make use of their allowances. This planning might also involve creating jointly owned shares. Income from jointly owned assets is generally shared equally for tax purposes, regardless of whether the asset is owned in unequal shares. It is possible to submit an election to H M Revenue and Customs to split the income proportionally in line with the ownership of the asset.

Tax Tip | Research and Development

Dividends are not taken into account when considering the costs incurred in respect of director-shareholders who are involved in Research and Development activities, therefore consideration should be given to the level of salary.

Savings Income

Personal Savings Allowance (PSA)

If you pay tax at the basic rate of tax you have a PSA of £1,000, which means that the first £1,000 of savings income is tax-free.

If you pay tax at the higher rate the PSA is £500. If you pay tax at the additional rate of tax you are not given a PSA.

Starting Rate for Savings

The first £5,000 of savings income is taxed at the starting rate for savings, which is 0%. However, this is only available if you have low income, and is restricted where non-savings income exceeds the personal allowance (£12,570 for 2022/23).

Tax Tip | Changing your income profile

Whilst many director-shareholders find themselves ineligible to benefit from the starting rate for savings (due to the level of their other non-savings income) for those that are on low incomes, it is often possible to review the way that you are rewarded. Please refer to the section on dividends.

Personal Pension Contributions

(For higher rate and additional rate taxpayers)

If you are a higher or additional rate taxpayer (intermediate rate, higher rate or top rate for a Scottish taxpayer) you can save Income Tax by making personal pension contributions for the tax year.

You must have sufficient earned income (principally employment income or trading profits) to cover the personal contributions.

If you have no earned income, your annual personal contribution is capped at £2,880 (net of tax), with the government adding a tax-free credit of 20% on top of the contribution, taking it to £3,600.

Annual Allowance (AA)

You can typically contribute up to £40,000 per year (which includes employer and personal contributions) into a pension scheme.

However:

If you are already drawing down a pension from a Money Purchase (Defined Contribution) scheme, the £40,000 AA is replaced by a £4,000 Money Purchase Annual Allowance (MPAA).

* There are rules that taper (reduce) the AA available to you, based upon the concepts of 'Threshold Income' and 'Adjusted Income'. These rules are complex but, in outline, the AA is reduced if your income in a tax year exceeds the Adjusted Income. The reduction is £1 for every £2 by which your Adjusted Income exceeds the limit (as shown), and the AA cannot be tapered below the minimum tapered AA (as shown).

If you have not made use of your full AA/MPAA in the preceding three years and were a member of a qualifying pension scheme in that time, you can utilise any such unused allowance in the current tax year.

If you are a member of a Final Salary (Defined Benefit) scheme the contributions to the scheme are determined by reference to the increase in the value of defined benefits not the contributions to the pension scheme.

If too much is paid into your pension, you will be subject to an annual allowance charge, which is charged at your marginal (top) rate of tax.

Tax Year	**Threshold Income limit**	**Adjusted Income limit**	**Minimum Tapered Annual Allowance**
2016/17 to 2019/20	£110,000	£150,000	£10,000
2020/21 to 2022/23	£200,000	£240,000	£4,000

Thank you for reading the March Newsletter. If you have any queries or questions in relation to anything above, don't hesitate to get in touch.

Regards

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