CONSOLIDATED NOTES AND CHECK LISTS

Tax & Business Planning Road Map

2024-25 – Updated for changes to CGT in the Autumn Budget 24

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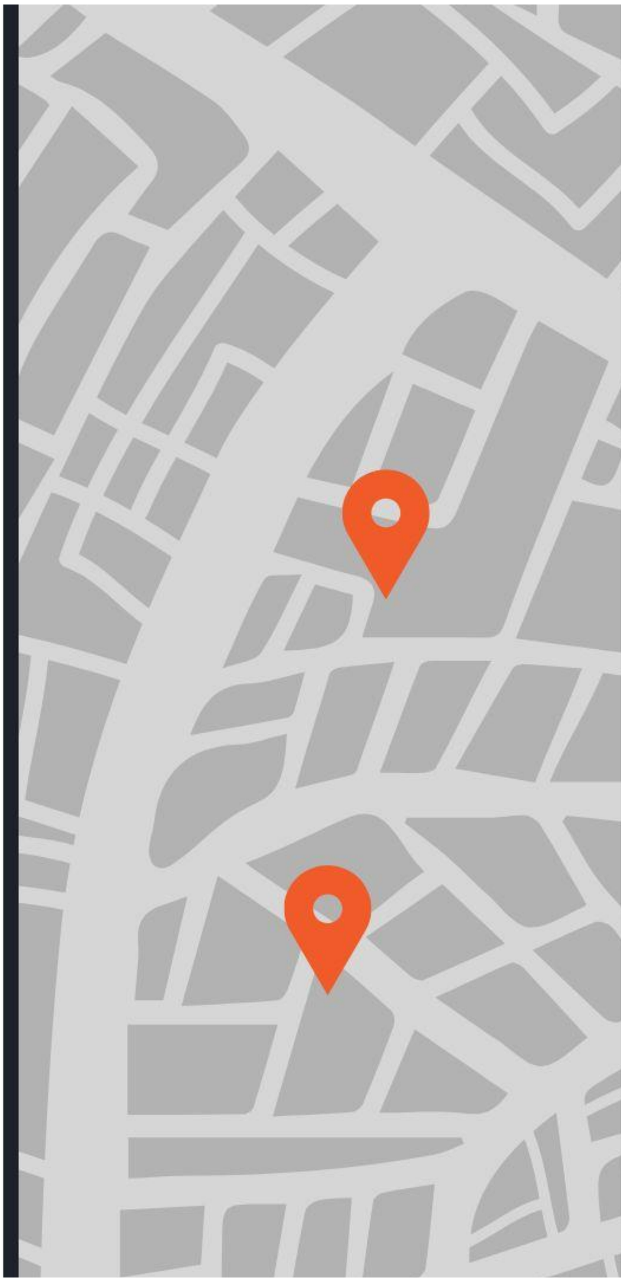

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Introduction

If you live and work in the UK, you will pay income tax. If so, this guide will show how you can minimize your liability and boost your after-tax earnings. It also includes tips for reducing the impact of corporation tax, capital gains tax and inheritance tax.

If you have business interests, including income from letting property, this guide will point to strategies that you could employ to increase profits and reduce taxation.

The key, as the title of this guide implies, is planning BEFORE the end of the tax year (5 April 2025), or the trading year that falls in the tax year if you are in business.

Very often, opportunities to increase your after-tax earnings are lost, and permanently lost, because key actions were not taken before the end of the tax year, or the end of your business trading year.

To simplify the presentation of income tax issues throughout this guide, rates used are those that apply to England, Northern Ireland, and Wales. Scottish taxpayers pay income tax at slightly different rates from the rest of the UK.

Note: Any reference in this publication to a “spouse” applies equally to members of a civil partnership.

If any of the issues we describe are relevant to your circumstances, please contact us at DMO Accountants. There really is no point in closing the stable door after the horse has bolted…

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Tax Planning for Individuals 2024-25

Fiscal drag – freezing tax allowances

As announced in the Autumn Statement 2022, most of the personal tax and NIC rates and allowances are to be frozen at current levels for a further two years until April 2028.

Note: The Chancellor did not change this strategy in the Spring Budget 2024 or the Autumn Statement 2025.

This does mean that most pay increases in the next six years will be taxable. If these pay increases are less than inflation, then take home pay is going to suffer on two counts. Any pay rise at less than the rate of inflation will result in less household spending power, as will the impact of any extra tax paid on the pay increase received.

If you can afford to manage on existing take-home pay you could direct any pay increases into additional pension contributions, which would be tax-free if kept within the increased annual allowance of £60,000 (previously £40,000).

Income Tax – Avoiding Marginal Rates

WHAT ARE THESE MARGINAL RATES?
Most of us know that income tax is charged at three main rates: 20%, 40% and 45%.

Unfortunately, there are certain levels of income that trigger a loss of benefits or allowances as well as a charge to income tax. Because of this, the percentage rate of tax charged can be higher than the underlying rate of income tax.
For example: Joe's taxable earnings have always been under £100,000, however, for 2024-25 Joe estimates that his income will be £125,140. Bad news…

As soon as income for tax purposes exceeds £100,000 Joe loses part of his tax personal allowance (£12,570 for 2024-25). In fact, for every £2 that his income exceeds £100,000 he will lose £1 of this allowance. This means that as soon as income is equal to or higher than £125,140 the personal tax allowance is no longer available. Taking this into account, Joe's tax bill on the top £25,140 of his income is 40% (£10,056) plus, 40% of the lost allowance - a further £5,028. In total, Joe retains just £10,056 of his £25,140 income (£25,140 - £10,056 - £5,028). His percentage tax charge is therefore 60% on this marginal band of income between £100,000 and £125,140.

Similar marginal rates apply if:

- your income moves above the threshold where working tax or child tax credits cease to be available,
- a higher paid parent's income tops £60,000 at which point child benefits would be under threat, or
- those with incomes in excess of £125,140, paying income tax at 45%, will find the tax relief they can claim for pension contributions will be reduced.

To avoid or lessen the impact of these marginal rate charges you will need to discuss the possibility of reducing your income below the trigger points. There are various strategies that can be employed to achieve this including the sacrifice of salary for non-tax benefits such as increased employer pension contributions or longer holidays. However, since April 2017, HMRC have used new legislation to counter these salary sacrifice arrangements and so it is doubly important to consider options with care.

Work though the check list that follows and if any apply to your circumstances call to discuss your options.

Income Tax – Check List 2024-25

To lower the impact of higher rate tax (or marginal rates), consider sharing ownership of income producing assets with your spouse, especially if your spouse pays no income tax, or tax at lower rates.

Similarly, consider sharing ownership of income producing assets with your adult children (over 18 years). Your children, whatever age, can earn up to £12,570 this tax year without paying income tax. Transfers of certain assets may create a CGT liability, and so planning is key.

If you have a pension scheme, take advice from your pension's advisor on the level of contribution you should make this year. The maximum you can pay in is £60,000 unless you pay tax at 45% in which case the annual limit could be as low as £10,000.

And now that the pensions' Lifetime Allowance has been abolished (the allowance was £1,073,100 prior to April 2023) pensions' savings can be accumulated in excess of £1,073,100 without a punitive tax charge. However, tax free lump sums will be pegged at a maximum of £268,275 (25% of £1,073,100) even if your pension pot exceeds £1,073,100.

There are no limits to the amount of gift aid donations you can make. These contributions extend your basic rate income tax band and are an effective strategy for avoiding the higher and marginal rates of income tax. Charitable donations are also one of the few remaining reliefs that you can carry back, in certain circumstances, to the previous tax year.

You can transfer up to £1,260 of your personal allowance to your spouse if you don't earn enough to fully utilize this allowance against your own earnings. You can only do this if their income is between £12,571 and £50,270.

If you are provided with a company car and your employer pays for your private fuel, you should consider repaying this private fuel cost to your employer in order to avoid the punitive car fuel benefit charge. This will also save your employer National Insurance charges.

A further consideration for company car drivers is to discuss changing your vehicle for a lower CO2 emissions model. The car benefits charge increases in direct proportion to these CO2 ratings.

Don't forget to use your ISA allowance. In this way you can invest up to £20,000 in the current tax year and any interest earned will be tax free.

There are a number of specialist investments you can make that are qualifying deductions for income tax purposes. They include: the Enterprise Investment Scheme, investments in certain Social Enterprises, Seed Enterprise Investment Schemes and Venture Capital Trusts. Income tax relief varies between 30% and 50% of the qualifying investments. You will need to consider the commercial risks as well as the tax advantages.

Don't forget that the State Pension is treated as taxable income for tax purposes. You are paid without deduction of tax. If your total income (including your State Pension) exceeds £12,570, this may produce unwelcome bills from the tax office at the end of the tax year.

Although not strictly a tax planning matter, if you have an outstanding mortgage on your home, the current upward pressure on interest rates will be causing concern. The funds you use to repay your mortgage come from your after-tax income. If you can afford to increase loan repayments by paying-off part of the loan or converting from an interest only mortgage to a repayment variety this may drastically reduce the interest cost over the term of your loan. Discuss these ideas with your mortgage advisor.

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Capital Gains Tax (CGT) - Tax Free Gains 2024-25

There are certain assets that you can sell without paying CGT. They include:

- The sale of any chargeable asset, like shares or a second home, if the overall gains in the current tax year do not
  exceed £3,000 (2023-24 - £6,000).
- Any gains on assets you gift to your spouse, as long as you were not separated and didn't live together during the tax year.
- Qualifying gifts to a charity.
- Gains from ISAs or PEPs.
- Gains on disposal of certain UK government gilts and Premium Bonds.
- Betting, lottery or pools winnings.
- In most instances, the disposal of your main home.
- The disposal of your own car unless you have used it for business purposes.
- Any personal possession (jewellery, paintings, antiques and other collectibles) unless sold for more than £6,000.

CGT RATES FOR 2024-25 ARE:

Gains on disposals up to 30 October 2024

If you pay income tax at higher rates on your income plus capital gains (40% or above) you will pay CGT at:

- 24% on gains from sale of chargeable residential property, This reduced rate from 6 April 2024 applies to individuals, trustees and personal representatives.

- 20% on gains from sale of other property.

  If you pay income tax at basic rates on income and gains (20%) you will pay CGT at:

  - 18% on gains from sale of chargeable residential property, and
  - 10% on gains from sale of other property.

Gains on disposals after 30 October 2024

The Autumn Budget presented 30 October 2024, changed the rates of CGT payable on assets other than residential property.

If you pay income tax at higher rates on your income plus capital gains (40% higher rate income tax, or above) you will pay CGT at:

- 24% on gains from sale of other property.

If you pay income tax at basic rates on income and gains (20% income tax) you will pay CGT at:

- 18% on gains from sale of other property.

To qualify for the lower rates your taxable income plus the chargeable gain must be within the basic rate income tax band. If the gain is part under and part over this limit, you will pay CGT one part at the lower and part at the higher rates.

Work though the check list that follows and if any apply to your circumstances call us at DMO to discuss your options.

Capital Gains Tax (CGT) Planning Check List 2024-25

- Make sure you utilize your annual tax-free allowance of £3,000. Consider selling assets, shares for example, which can be sold within the tax-free allowance.
- If your chargeable gains are likely to exceed the £3,000 limit, are there any assets you can sell at a loss to reduce the total gains below the tax-free limit? It is no longer possible to sell and buy-back shares to facilitate this planning option: the so-called “bed and breakfast” arrangement.
- If you are contemplating the sale of your business, make sure you have arranged your affairs such that you can claim Business Asset Disposal Relief. This will potentially allow you to make qualifying gains of up to £1m and only pay CGT at 10%.
- As the level of your taxable income, for income tax purposes, will affect the rate of CGT you will pay, investigating ways to reduce your income tax earnings may save you CGT as well as income tax.
- A gift of chargeable assets to your spouse does not create a CGT charge.
- Your spouse and children also qualify for a separate tax-free allowance of £3,000. Transferring assets between family members can reduce overall CGT liabilities if considered before a sale.
- It may be possible to claim other reliefs to reduce your potential liability to CGT. These could include rollover and hold-over gains reliefs. If you are likely to make significant capital gains during 2024-25, please contact us for advice as soon as possible so that we can explore available strategies for minimizing your CGT bill.
- Although the sale of your main home is generally free of CGT, if you have let the property at any time during your period of ownership, or if you have made significant use of the property for business purposes, then there may be a CGT liability when you sell. If you are affected, make sure you take advice on this issue.
- CGT payable on chargeable disposals after 5 April 2024 and before 6 April 2025 will be due for payment 31 January 2026. If you delay the disposal until after 5 April 2025, any CGT due will be payable a year later, 31 January 2027. Theoretically, you could delay a disposal by one day (from the 5 April to the 6 April 2025) and this would extend the amount of time you would have to pay the tax by 12-months.
- The only exception to the above payment dates is if you are selling a residential property that is not covered by Private Residence Relief. For example, a personally owned let property or a holiday home. Gains on these property disposals have to be filed with HMRC – and any CGT paid – within 60-days of the property disposal (the completion date not the exchange of contracts date).
- Review all the assets you own that are currently worth less than you paid for them. Should you dispose of them and make use of the capital losses? Which would be the best tax year to register the loss? This could include a claim to treat shares as having no value (a negligible value claim).

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Inheritance Tax (IHT) – Tax Free Gifts 2024-25

IHT is payable when a person dies, and their estate exceeds certain limits. It is also potentially payable on gifts made by an individual during their lifetime if the gift was made in the seven-year period prior to their death.

Small lifetime gifts can be exempt. These include:

- Gifts made out of your disposable income, Christmas or birthday presents for example.
- Other gifts up to £3,000 per tax year are exempt from IHT. An unused allowance can be carried forward for just one year.
- Wedding or civil ceremony gifts of up to £1,000 per person (£2,500 for a grandchild or great grandchild, £5,000 for a child).
- Payments to help with another person's living costs, e.g., elderly relative or a child under 18.
- Gifts to charities and political parties.

Larger lifetime gifts are potentially chargeable to IHT. The potential liabilities are:

- IHT is payable at 40% on gifts you make within 3 years of your death.
- Gifts made between 3 to 7 years of your death are tapered. The effective rate of IHT charged reduces from 40% down to 0%.
- Accordingly, these gifts are not included in the valuation of your estate after seven years.

Other situations that will affect your estate's liability to IHT include:

- Any assets left to your spouse are free of IHT.
- If the value of your estate is below £325,000, no IHT is payable.
- If your previously, deceased spouse did not use all of their £325,000 threshold, you can add any surplus to your exempt threshold. Effectively, in these circumstances, your estate could pay no IHT if valued at less than £650,000 (assuming all your deceased spouse's £325,000 threshold was unused).
- Since April 2017, an additional main residence nil-rate band applies when a residence is passed on death to a direct descendant. This additional relief will make it easier for families to pass on the family home without a tax charge. The relief amounts to £175,000.

Work though the check list that follows and if any apply to your circumstances call us at DMO to discuss your options.

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Inheritance Tax (IHT) Planning Check List 2024-25

- Revalue your estate each year and take steps to minimise any future IHT liabilities if your estate valuation has increased.
- Make sure you have an up-to-date Will. Dying without a Will can cause all sorts of problems for your surviving family as well as affecting your IHT liabilities.
- If you own assets in excess of your available IHT exempt threshold, consider transferring assets into trusts or make lifetime gifts in order to reduce your family's exposure to IHT. Timing the creation of a trust can be critical and can have significant tax implications. Professional advice on these matters should be taken sooner rather than later.
- Make the most of the annual gift exemptions. You can only carry forward the £3,000 unused annual allowance for one year.
- If you make regular gifts, say a contribution to grandchildren's school fees, in excess of the £3,000 gifts allowance, you may still avoid any IHT charge on the excess if you can demonstrate that the gifts were made out of your disposable income. i.e., you do not have to dig into your saving to make the payments. Keeping accurate records of your gifts and disposable income is a key factor in claiming this relief.
- If you own a business, take advice on the potential IHT risks and the availability of Business Property Relief. This planning should probably be combined with consideration of the continuing ownership and control of your business after your death.
- You can reduce the rate of IHT on some assets from 40% to 36% if you leave more than 10% of your estate to charities.
- If your estate includes significant property holdings this may mean that your executors have to sell property in order meet IHT payable. It may be prudent to leave instructions on which property(ies) to sell.
- If your circumstances change, for example, if you divorce or re-marry, make sure you make a new Will and reconsider your IHT planning to make sure it is still relevant to your changed circumstances.
- If possible, reduce your exposure to IHT by transferring assets out of your estate. Bear in mind that these transfers, lifetime gifts, may not fully reduce your IHT liability until the 7-year period after that gift is made has expired.
- It may be possible to transfer the ownership of your interest in a business without losing control. You will need to take specialist advice.

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Business Owners Planning Review 2024-25

Business Profits Review 2024-25

The check list that follows this introduction is relevant for any business structure: sole trader, partnership, or limited company. Where there are ideas listed that are only applicable to one of these three, this will be highlighted in the text.

The aim of this area of business year-end planning is to consider factors that you have some measure of control, and that will enable you to either reduce or increase your published profits for the year under review.

This may seem to be counter intuitive. How can you affect levels of profitability? Isn't this determined by market conditions?

We shall see…

However adept you are at keeping your accounts it is likely there are inaccuracies in your numbers that will have an impact on the amount of profit or loss you believe you have achieved. We are not suggesting that you artificially adjust your figures, far from it. The prime aim of pre-year-end planning is to seek out your true financial position and then consider what can be done to improve your position BEFORE the end of your trading period. If you wait until after your year-end, remedial action may no longer be possible.

The benefits of profit planning prior to your trading year-end can be summarized as follows:

1. An opportunity to arrive at a realistic estimate of profits for the current fiscal year.
2. A chance to make decisions based on this estimate that will benefit your longer-term goals.
3. Time to consider the effects of the current year's performance on your business investors, your bank, and your staff.
4. It also flags up the ability of your business to sustain your current and future remuneration and withdrawals from your business.
5. And finally, all UK businesses will be challenged by the current, dire state of the UK and world economies. In the UK we are facing high inflation, rising interest rates, continuing supply issues – as well as extreme increases in energy costs. Assessing and planning your business profitability will be key to surviving these challenges.

Another word for planning is forethought. If you do not plan your business future, you are apt to end up considering the reasons why things have not worked out as you expected – you will stare at the open stable door, and the empty stall, and wonder why you never repaired the lock.

Business Profit Review Checklist

ACCOUNTS:

- Make sure you have depreciated your fixed assets, equipment and vehicles, at a realistic rate. You don't want the written down value of your assets to exceed their market value.
- Write off any bad debts.
- Write off any slow moving or obsolete stock. Consider an on-site auction or similar to sale.
- Make sure that you have not capitalised any replacement equipment that should have been written as repairs or written off equipment purchases that should have been capitalised.

Take a good look at your cut-off procedures. Are all your supplier invoices received and posted? Have you invoiced

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customers for work you have not delivered yet?

PROJECTIONS TO THE END OF YOUR TRADING YEAR:

- Base your sales projections on known factors. For example, orders received, consistent with past or repeat sales and considering current economic challenges.
- Base your cost projections on current fixed costs, rents, wages and salary costs, and additional costs that you feel need to be included. Be realistic.
- Factor in expenditure on capital equipment that you feel must be acquired to maintain sales or production at the required levels.
- Make sure that apart from creating profit and loss and balance sheet forecasts, you also prepare a detailed cash flow forecast.

CONSIDER THE RESULTS.

Do the results:

- Show an overall improvement or worsening of your financial position.
- Reveal a healthy cash flow.
- Point to deteriorating market conditions, falling demand for your products or services. How will this affect your planning for the immediate future and your longer-term goals?
- If you consider demand for your services will rise, are you in danger of over-trading?
- How will your business investors, or your bankers, react to the projected results?
- Is your business providing you with an adequate return for your capital invested in the business and are you properly remunerated for the time you spend in the business?

ACTION PLAN:

Based on the answers to these bullet points you will need to draw up an action plan. Included in this plan will be scrutiny of your business tax position – consideration of these tax issues are listed separately in the following section.

Business Tax Review 2024-25

THE BASICS:

Whether you are self-employed or have your own company your periodic business tax payments will always be based on yearly trading profits and other chargeable gains made in the same period.

If you run your business through a company, corporation tax is payable on adjusted business profits (after allowances for capital purchases), nine months and one day after your year-end date. Accordingly, corporation tax for the accounting year to 31 March 2023, will be due for payment 1 January 2024.

As a quick fix, you could transfer between 20% and 25% of your monthly profits to a deposit account to reserve for this liability.

If you are self-employed, your business profits will form part of your self-assessment tax return. The amount of tax you will pay is split into two instalments on account, and a balancing adjustment if necessary.

To reserve cash for your self-assessment tax payments, the mathematics are more complex. Your best option is to deduct £1,000 per month (being your approximate income tax personal allowance) for each business partner, from the trading profits you make, and apply 20% to what is left. Transfer this amount to a deposit account. However, this will only provide the funds to pay tax on your business profits at the basic rate. If you have other taxable income and your total income is more than £50,270 the

potential higher rate tax will need to be factored in.

PRE-YEAR-END TAX PLANNING:

If you have a good set of management accounts, for say the first three quarters of your trading year, and a realistic projection for the year, then you can sit back with your trusted tax advisor and consider your options.

Whatever your business structure tax due on business profits needs to be paid at some future date. Pre-year-end tax planning gives you adequate time to estimate your future liabilities and reserve funds to pay the bill…

VAT: ARE YOU USING THE BEST SCHEME?

Both self-employed business owners and companies should consider their options if registered for VAT. If you presently use the standard scheme, you may be advised to look at the VAT special schemes. These include:

- Cash Accounting,
- the Flat Rate Scheme, and
- Annual Accounting.

There are turnover limits that will exclude larger organisations benefitting, but smaller businesses may be able to secure cash flow benefits and a possible reduction in their overall VAT payments. Worth checking this out.

The check lists that follow have been split into two: the first for self-employed business owners (sole traders or partners), and the second for limited companies and their directors. The suggestions will impact income tax, NIC and corporation tax payments.

Self-Employed Tax Review Check List 2024-25

- The income tax you will pay for 2024-25 will based on your profit or share of profits for the trading year ending in the 2024-25 tax year. However, you will have made two payments on account for 2024-25 (January and July 2024) based on your profits for the preceding year. Accordingly, if your profits are increasing you will likely have underpaid tax for 2024-25 and any balance owing will be payable 31 January 2025. If your profits are decreasing, you can elect to make smaller payment on account. Either way, having your estimated trading figures available, to forecast your tax payments, means you have ample time to request reductions in payments on account or save to meet any balance due January 2025.
- Every self-employed person is entitled to earn £12,570 during 2024-25 without paying income tax. If your projected profits (or share of profits), assessable in 2024-25, are lower than this amount your personal tax allowance (or part of the allowance) may be wasted. To avoid this, you can defer claims for capital allowances, or perhaps defer refurbishment or other non-recurring costs to increase your taxable profits, and fully utilize your personal tax allowance. These adjustments will tend to push tax relief on deferred expenditure into future years.
- If your share of profits looks as if it will breach one of the thresholds and push you into higher, marginal rates of tax (for example: loss of child benefit if income exceeds £50,000, loss of your personal allowance if your income exceeds £100,000, or a 75% reduction in the amount of pension relief you can claim if your income exceeds the relevant threshold). To counter these risks, you could consider bringing forward capital investments, in plant, equipment or commercial vehicles and claim additional capital allowances.
- Self-employed farmers, who can experience significant variations in the level of profits achieved, should take advantage of the extended averaging rules that entitle them to average their profits over a five-year or two-year period for 2024-25.

- In planning for tax payments, based on profits assessable for 2024-25, business owners should be aware that generous tax allowances are still available for qualifying capital expenditure. The Annual Investment Allowance allows you to claim a 100% write off for expenditure up to a £1m limit. This is a useful adjustment device to reduce taxable profits and save tax, whilst maintaining published profits in your profit statement. If your business is incorporated, you can take advantage of the Full-Expensing of qualifying capital purchases. This means that ALL capital expenditure can be written off for tax purposes, no limits.
- Class 4 National Insurance is based on the level of business profits: 8% on profits between £12,570 and £50,270, and 2% on profits over £50,270. Any reductions you can achieve in your taxable business income will also reduce this significant NIC charge.
- Since 2016 the rules for the VAT Flat Rate Scheme changed. All users of this scheme should crunch the numbers to see if they qualify as a limited cost trader. If they do, a flat rate of 16.5% must be applied and this may preclude the advantages of registering for the scheme.
- Finally, readers should take a look at our check list for individuals’ subject to income tax, as all of the comments made will help self-employed persons reduce their tax liabilities.

And do not forget, you pay tax on the profits you make, not the drawings you take from your business!

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Limited Company Tax Review Check List 2024-25

- Incorporated businesses are taxed at corporation tax rates, currently between 19% and 25%, and any profits retained in the business will be subject to no additional tax charge. This final point illustrates one of the major advantages of running a profitable business inside a limited company structure. If you are self-employed you may want to consider the benefits of incorporating your business.
- Since April 2023, two rates of corporation tax apply. Smaller companies with profits up to £50,000 continue to pay corporation tax at 19%. Companies with profits in excess of £50,000 will be subject to a 25% rate. Firms with profits between £50,000 and £250,000 will be able to claim marginal relief.
- The marginal rates reduction from April 2023 will be reduced if companies have associated businesses. It is recommended that companies consider restructuring these associated businesses to avoid unnecessary increases in their corporation tax payments.
- Companies who are considering investments in plant or other qualifying assets in excess of £1m, can fully expense their investment against profits. This was facilitated by the new “fully expensing” rules introduced in the Spring Budget March 2023.
- Shareholders should review any plans in place to deal with succession, especially, smaller family businesses. This review should consider personal circumstances, changes in the company’s financial status, and changes in tax legislation.
- Shareholders should also review shareholder agreements to ensure they still reflect the intentions of signatories.
- Presently, shareholders’ dividends up to £1,000 can be drawn tax free. Would it be possible to issue shares to adult children and provide them with a small tax-free income?
- If all the shareholders of a small company hold the same class of shares, say ordinary shares, dividends will be paid based on the percentage held. This can be inconvenient if directors want to split dividends in a different proportion to equalise tax liabilities. One way to achieve this result is to convert existing shares into a number of different classes, say “A”, “B” shares etc., and in this way, shareholders can receive dividends in a more tax efficient manner.
- Review the active participation of director/shareholder family members. Is there an opportunity to employ a spouse or child; or provide taxable benefits?
- Directors who have overdrawn their loan accounts with the company should consider taking a dividend to clear the loan (if reserves are available) or otherwise repaying the loan within nine months of the trading year-end. In this way an additional (albeit temporary) 33.75% corporation tax charge can be avoided.
- Directors with semi-permanent deposits on loan to the company, may be advised to charge the company interest. Basic rate income taxpayers can receive up to £1,000 in interest tax free, higher rate taxpayers £500.
- The tax on-costs of running a company car fleet – class 1A National Insurance for instance – as well as the considerable tax implications for participating employees, may provide sufficient justification for a change in strategy. For example, could the company lend employees funds to buy their own cars and pay them a tax-free business mileage allowance to cover running costs?
- If projected profits forecast a temporary dip, or a loss in the short-term, could the company’s accounting period be extended to embrace the loss and average down the taxable profits for the preceding period?

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- If projected profits are forecasting a downturn in profits, how will this affect director/shareholders' remuneration in the coming months; will there be sufficient retained profits to maintain regular dividend payments?
- Be sure to consider the funding of corporation tax payments that will need to be made nine months and one day after the company's accounting year-end date.

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Property Owners Interim Planning Review 2024-25

Property Business Tax Review 2024-25

A major change in the way that property income is taxed was the gradual reduction in the amount of tax relief that landlords of residential property could claim for finance charges: this includes mortgage interest. Accordingly, finance charges are now disallowed as a business expense and are replaced by a basic rate tax credit.

This change has impacted tax liabilities since 2017-18. Most at risk are buy-to-let, residential property owners who have acquired property by maximizing the use of cheap mortgages. In accountant-speak they are highly geared. This means that total borrowings are not much lower than the cost or market value of the properties they own.

There are strategies that can be used to lessen the impact of these changes, ranging at one extreme to selling properties to reduce debt, or incorporating property businesses. Neither option is for the faint hearted.

We have produced two check lists for landlords that may be of some help.

First, a list of the "red tape" that landlords need to comply with. It covers most of the main points. Secondly, a list of tax and related strategic options that landlords should consider prior to 6 April 2024.

Work though the check list that follows and if any apply to your circumstances call us at DMO to discuss your options.

Property Businesses – The Legal Formalities Check List

Documents that you need to maintain, most of these are required by legislation, so penalties may apply if you do not comply:

- Building and landlord insurance
- Gas Safety Certificates
- Energy Performance Certificates
- Electrical Installation Reports and Certificates
- Smoke detectors on each floor
- Carbon monoxide detectors if required
- Copies of tenants' references
- Tenants' agreement to receive communications by email
- Proof that tenant has right to rent in the UK (copy passport for example)
- Household inventory
- Register your property business with HMRC
- Tenants contact details
- Protect deposit within 30 days of receipt
- You are required to respond to written complaints within 14 days of receipt, in writing
- Inform tenants prior to a property inspection

Provide tenant with:

- How to Rent – the checklist for renting in England
- Guarantors Agreement – if required
- Assured Shorthold Tenancy Agreement
- Information regarding Deposit Protection Scheme
- Serve the correct form of notice to end tenancy
- Tenant should sign a list of deductions made from rent deposits

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- Return whole or balance of deposit at end of tenancy

Many landlords use the services of letting agencies who would no doubt ensure that you are compliant…

Property Businesses Tax Review

Buy-to-let Checklist 2024-25

- Review any replacement furniture and equipment to ensure you will qualify for the new replacement furniture relief (RFR). Remember, if you sold the replaced item(s) you must deduct any proceeds of sale when calculating your entitlement to RFR. This relief only applies to the replacement of existing items not the purchase of new items.
- If you are buying a buy-to-let residential property, consider allocating a nominal amount in the contract for any second-hand furniture left in the property. In this way, if you subsequently replace the furniture, you can write off all the expenditure under the RFR. If you do not allocate sums in the contract, you will have no legal claim to the furniture and you will not be able to claim RFR when you replace it. This strategy will also save you Stamp Duty Land Tax (Land & Building Transaction Tax in Scotland and the Welsh Land Transaction Tax) as this is not applied to the cost of furniture.
- Consider whether to make a joint property election with your spouse to vary the split of any rental income in a proportion other than 50:50. This is a useful device to allocate income to the spouse with spare allowances or that is taxed at lower income tax rates.
- In certain circumstances it may be beneficial to incorporate your property business. However, great care should be taken in planning to see if this is feasible and if stamp duty and CGT on-costs can be legitimately avoided.
- Make sure that you amend your Will if you have acquired or disposed of rental properties since your last review.
- Consider employing family members to assist with the management of your property interests. If there are sound commercial reasons for doing this, you should be able to make a successful claim against your tax. In this way you can reduce your exposure to higher rate tax and provide your family with additional income subject to deduction of tax at lower rates.
- Transfers of property (or a part interest) between spouses are generally free of CGT and IHT charges. This may enable you to direct rental profits into the hands of the spouse taxed at lower rates. Planning is key as in certain circumstances this may trigger a stamp duty charge.

Furnished Holiday Lets 2024-25

If you have properties that qualify as Furnished Holiday Lets (FHL) they are treated as a trade for UK tax purposes. To secure the trading tax benefits FHL owners should work through the following check list before 5 April 2024.

- Check your lettings records to ensure you comply with the minimum occupancy requirements (they are, property must be available for letting for at least 210 days in the current tax year; public letting of a FHL property must be at least 105 days in the year; and longer lets of more than 31 continuous days cannot it total exceed 155 days). If any of these criteria are exceeded FHL status will be lost.
- Averaging elections can be made to even out exceptional breaches of the above occupancy conditions. We can help you consider this option if necessary.

FHL rental income is considered to be trading income and is potentially subject to

- VAT. Total FHL income would need to exceed the present VAT registration limit of £85,000. Please contact us if your annual FHL income is approaching this figure.
- Would it be possible to convert present buy-to-let properties into FHL businesses?
- You can claim capital allowances for items such as furniture equipment and fixtures.
- The profits count as earnings for pension purposes.

Please contact us at DMO Accountants if you want more information on any of the issues raised in this update.

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