

2024-25

# YEAR END TAX REVIEW



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## “Stability” and tax rises

The new government has promised an era of fiscal stability. This includes the intention to just make tax announcements once a year, in an autumn Budget. However, this stability involves many tax rises, including those put in place by the Conservative government. The freezing of income tax allowances and thresholds until 2028, which has been dragging a lot more people into paying tax or having to pay it at higher rates, remains in place. Although Rachel Reeves has announced that these allowances and thresholds will begin to rise with inflation from 6 April 2028, that is still a long way off!

Other Conservative plans taken up include, from 6 April 2025, the tax advantages of furnished holiday lets being abolished (which is discussed on page 5) and major changes for 'non-doms', who will no longer have the option of shielding foreign income and gains from tax by claiming to be taxed on the 'remittance basis'. Indeed, non-dom status will cease to be relevant for tax purposes from 2025/26, as the extent to which foreign assets come within the scope of Inheritance Tax will in future be based on how long someone has been resident in the UK. **Anyone affected by these changes should seek advice if they have not already done so.**

The Labour government has raised most rates of CGT (from Budget Day) and the rate payable on gains eligible for Business Asset Disposal Relief will rise from 10% to 14% on 6 April 2025 and then to 18% for 2026/27, when it will only be six percentage points less than the main CGT rate of 24%. Could this be a reason to bring forward planned disposals of qualifying assets?

The proposed restrictions on Inheritance Tax reliefs, which have caused much anger in the farming community, also affect many other types of business. They are due to take effect in April 2026 and may be subject to some revision before then, but anyone potentially affected may need to revise their Will.

All employers need to budget for increases in the rates of National Living Wage and National Minimum Wage from 1 April 2025, as well as for the higher employers' National Insurance charges coming in from 6 April.

There seems to be little good news around on the tax front, but the availability of the 100% allowance for businesses investing in new electric vehicles and charge points has been extended, now expiring on 31 March 2026 (companies) or 5 April 2026 (income tax businesses). However, in April 2025, the tax treatment of double-cab pick-up vehicles with a payload of more than a tonne is changing; going forward, they will be treated as cars rather than vans for income tax and corporation tax. This will adversely affect the tax treatment for businesses and employees (although there are transitional benefit-in-kind rules for those vehicles purchased or ordered before 6 April 2025).

As you can see, there is much to think about. We recommend you undertake an annual review of your financial affairs, in order to check that you are not paying more tax than you need to and to see whether any structures you set up in the past are still appropriate. Between now and the end of the tax year (5 April 2025) is a good time to assess whether you are as well defended against high tax charges as you can be.

**Of course, the personal circumstances of each individual must be taken into account in deciding whether any particular plan is suitable or advantageous, but the suggestions in this document may give you some ideas. We are happy to discuss them with you in more detail.**



## Self-assessment key dates

Failure to notify chargeability to tax, to file your self-assessment tax return or pay any tax due on time may result in penalties. Key dates to be aware of over the next year are outlined below. Note how penalties increase with the lateness of the return.

### 31 January 2025

- Deadline for filing 2023/24 online returns and certain claims and elections.
- A £100 penalty will arise if your return is not filed by 31 January, regardless of whether any tax is due.
- A £100 penalty per partner applies for a late partnership return.

Paper returns for 2023/24 not filed by this date will be three months late and may attract a daily penalty of £10 a day for up to 90 days thereafter.

The balance of your 2023/24 tax liability, together with the first payment on account for 2024/25, is due.

### 3 March 2025

The first automatic 5% late payment penalty will apply to any outstanding 2023/24 tax.

### 5 April 2025

The four-year time limit for certain claims and elections in respect of the 2020/21 tax year expires.

### 30 April 2025

- Paper returns for 2023/24 not received by this date will now be six months late, so a further penalty may be charged of 5% of any tax due, or £300 if greater.
- Online tax returns for 2023/24 not filed by this date will be three

months late and exposed to daily penalties of £10 a day for up to 90 days, to a maximum total of £900.

### 31 July 2025

- Due date for the second payment on account for 2024/25.
- Online returns for 2023/24 not filed by this date will now be six months late and a further penalty may be charged of 5% of the tax due, or £300 if greater.

### 1 August 2025

The second automatic 5% late payment penalty will apply to any outstanding 2023/24 tax.

### 5 October 2025

Deadline to notify HMRC of your chargeability to tax if you have not been issued with a return (or a notice to file a return) and you have an income tax or CGT liability for 2024/25.

### 31 October 2025

Deadline for submitting 2024/25 paper returns.

For paper returns filed by this date, HMRC should be able to:

- Calculate your tax for you;
- Tell you what you owe by 31 January 2026; and
- Collect tax through your tax code, where you owe less than £3,000.

If your paper return is submitted after this date, you will be charged an automatic £100 penalty.

Paper returns for 2023/24 not submitted by this date will now be 12 months late and subject to a further penalty of 5% of the tax due, or £300 if greater.

### 30 December 2025

Deadline for online filing for 2024/25 if you want HMRC to collect tax through your tax code (where you owe less than £3,000).

### 31 January 2026

- Filing deadline for 2024/25 online returns.
- Payment date for balancing tax payment in respect of 2024/25 and first payment on account for 2025/26.

### Time-To-Pay arrangement (TTP)

If you are struggling to pay your tax on time, you should be able to set up a TTP before the tax falls due. This will allow you to pay the tax by instalments and avoid penalties.

**Please contact us if you need to set up a TTP – we can help!**

14	15	16
21	22	23
28	<b>Due Date</b>	

## Income tax planning

### Tax thresholds

Income tax rates and thresholds (except in Scotland) are set to remain unchanged for 2025/26. The Personal Allowance (PA), below which income is not taxed, is £12,570. The higher rate threshold at which 40% tax kicks in is £50,270 and top rate tax (45%) begins when income exceeds £125,140.

**Scotland has different tax rates and bands** for non-savings, non-dividend income (e.g. employment income, business profits, rental income and pension income). In the recent Scottish Budget, the following were announced for 2025/26:

- The 19% starter, 20% basic, 21% intermediate, 42% higher, 45% advanced and 48% top rates will be unchanged.
- The basic rate and intermediate rate thresholds will be increased

to £15,397 and £27,491 respectively (from £14,876 and £26,561).

- The higher rate, advanced rate and top rate thresholds will be frozen at £43,662, £75,000 and £125,140 respectively.

Many Scottish taxpayers now pay a significantly higher amount of tax than those elsewhere in the UK (although some lower earners pay slightly less than in the rest of the UK).

### Personal Allowance

The PA of £12,570 is progressively withdrawn for individuals with income of more than £100,000, leading to a marginal rate of 60% on income between £100,000 and £125,140. This rate is different in Scotland and for those who have dividend income within this band.

### Planning points

- Consider taking action to reduce taxable income, particularly where income falls just above one of the thresholds. There are various options to achieve this, including pension contributions and Gift Aid donations.
- Income that can easily be moved from year to year includes:
  - bonus from your own company
  - dividends from your company
  - encashments of life assurance bonds
  - withdrawal of taxable income from pension schemes in 'drawdown'.
- Income can also be moved between spouses, in order to make sure that PAs and lower rate tax bands are utilised. This is not always easy to do, but the

## Income tax planning (continued)

following methods are permissible:

- make an outright gift of investments that produce taxable income
- put savings and investments into joint names and share the income
- employ the spouse or partner in the other person's business
- take the spouse or partner into partnership in that business.
- HMRC can challenge some of these methods if they think the transfer is not genuine. Always

take tax advice to be sure that your plan will work.

- If you have children, it may be possible to switch income from one spouse to the other (as discussed above), so that both spouses' incomes remain below the £60,000 threshold for the High-Income Child Benefit Charge (HICBC).



## Will you get a full state pension?

If you are looking forward to retirement, it's a good idea to check out how much state pension you will get. You can do this by logging on to your personal tax account on gov.uk, which contains lots of useful information about how much tax you owe and about your NICs record, among other things.

To receive the full amount of the state pension, your NICs record needs to contain 35 completed years. You need at least ten complete NICs years to receive any amount of the UK state retirement pension.

### Planning points

- You can plug gaps in your NICs record by paying voluntary Class 3 NICs. This payment generally needs to be made within six years of the gap year. However, currently there is a dispensation that allows women born after 5 April 1953 and men born after 5 April 1951 to complete gaps in their NICs records right back to 6 April

2006. You can pay the voluntary NICs at the 2022/23 rate of £15.85 per week instead of the current rate of £17.45 per week. **This opportunity to make up these old years with voluntary NICs payments closes on 5 April 2025**, so those who wish to do so need to take urgent action.

- For 2024/25, where profits are above £6,725 (rising to £6,845 in 2025/26), no Class 2 NICs are payable by self-employed traders, but the trader still gets a NICs credit. Self-employed traders whose profits are below this figure can choose to pay Class 2 voluntarily instead of Class 3; paying Class 2 NICs will be cheaper.
- You may also qualify for NICs credits for some years if you were claiming state benefits, Child Benefit or were a foster carer. The NICs credits were not always applied automatically, so it's worth checking your own NICs record in your personal tax account.

## Gift Aid

This is a valuable relief for gifts to charities; the gift is made out of the donor's taxed income and the charity benefits by claiming basic rate tax on the value of the gift.

- Higher rate taxpayers can claim extra tax relief of 20% of the gross value of the gift.
- For top rate taxpayers, the extra relief is 25%.
- There is no cap on the amount that can qualify for Gift Aid, provided the donor has paid sufficient tax during the tax year to cover the charity's reclaim from HMRC.

No relief is available where donations are made to non-UK charities. This is the case even if those overseas charities have UK activities. UK charities that carry out work in other countries (as many do) are eligible for tax reliefs such as Gift Aid.

### Example

If you are a higher rate taxpayer and you make an £800 donation to a charity, the gross value of the gift to the charity is £1,000, since it can claim back the basic rate tax of £200.

You can claim an additional 20% tax relief on the gross value, reducing the net cost to £600.

### Planning points

- You must provide the charity with a Gift Aid declaration, so that both parties can claim the relevant tax relief.
- You can elect for donations made in one tax year to be treated for tax purposes as made in the prior year.
  - This would be of benefit, for example, if you are a higher or top rate taxpayer in 2023/24 but not in 2024/25; in other cases, it will merely accelerate the higher or top rate relief.
- The election can only be made when submitting your tax return, which must be filed on time.
- Donating assets (eg shares, land and property) to charity while you are alive can also attract income tax relief. Additionally:
  - any gain arising on the donation of such assets is exempt from CGT; and
  - the gift itself is not subject to Inheritance Tax (IHT), even if the donor dies within seven years.

***If you are considering a gift to charity, we can make sure that it will meet the qualifying requirements. It will be particularly tax-efficient if the gross donation reduces income that would otherwise be subject to PA abatement or the HICBC.***



## Personal pensions

Contributions within the annual allowance (AA) to pension funds attract relief at your marginal rate of tax. The combination of tax relief on contributions, tax-free growth within the fund and the ability to take a tax-free lump sum on retirement makes a pension plan an attractive savings vehicle. Saving for retirement should always be considered as part of the year-end tax planning process.

This is particularly important for those with an annual adjusted income in excess of £260,000, since the AA of £60,000 is usually tapered by £1 for every £2 of income in excess of £260,000, reducing to a minimum of £10,000 for those with income over £360,000. No tax relief is available for contributions exceeding the available AA.

The AA can be carried forward for three tax years to the extent it is unused. Any unused AA for the three previous years can be added to your allowance for 2024/25 and will attract full relief, subject to the level of your pensionable income ('net relevant earnings').

### Planning points

- If you are approaching retirement and are considering drawing benefits, take advice from a properly authorised advisor, to ensure that you understand the tax and other implications of accessing your pension fund.
- Those aged 55 or over can access their pension fund flexibly, with no restrictions on the amount they can withdraw, although amounts drawn above the permitted tax-free lump sum will be taxed as income as they are drawn.
- Consider making additional contributions to your pension scheme before the end of the tax

year to obtain relief at 40% or 45%, depending on whether you are a higher rate or additional rate taxpayer, taking care not to breach your available AA.

- Contributions are particularly tax-efficient where your income is between £100,000 and £125,140. Tax relief is available at 60% on income falling within this bracket; the relief is different in Scotland and where the income being relieved is dividend income.
- Review the availability of any unused allowance for the 2021/22 tax year, as this will expire on 5 April 2025.
- Consider making contributions of up to £2,880 to a pension scheme for a spouse or child if they have no earnings of their own, to obtain basic rate tax relief on the contributions. For example, if you contribute £2,880, HMRC will pay in £720, giving a gross contribution of £3,600.
- Unfortunately, pensions scams are very common. They can result in the loss of all or part of your pension pot, a penalty tax charge from HMRC, or both. Before committing to any changes to your pension fund, it is vital to take proper advice.



## Abolition of the pensions Lifetime Allowance (LTA)

The LTA, which previously put a cap on the amount of tax-advantaged pension rights that you could build up without incurring punitive tax charges, has now been abolished.

The tax-free lump sum allowance remains £268,275 (25% x £1,073,100, the old LTA) unless the member holds a higher level of protection from when the LTA had previously been cut.

### Planning points

- For those with large pension pots, the abolition of the LTA charge may change
  - the timing of your retirement; or
  - the level of contributions you might want to make before retiring.

### Example - Angelo

Angelo is aged 58. He is employed at a senior level in his company and receives an annual salary of £210,000 (plus bonuses). He has a pension pot worth £990,000 but has no form of LTA protection in place.

In March 2022, he opted out of payments into his company pension scheme, given that he was getting close to exceeding the LTA and was therefore facing a LTA charge. [Note that the AA was £40,000 for 2022/23.] He plans to retire in early 2025.

- In view of the removal of the LTA charge, Angelo can have further inputs to his employer's scheme.
- So, carrying forward his two years' worth of unused AA relief, he can have total pension inputs of up to £60,000 + £60,000 + £40,000 = £160,000 for 2024/25.

Note that the Labour government has confirmed that the LTA will not be reintroduced.

## Inheritance Tax (IHT)

Domicile status is a difficult legal concept and is currently very important for IHT (although this will change from 6 April 2025). Broadly, 'domicile' means one's country of 'natural or permanent home'.

- Individuals who are **domiciled** (or deemed domiciled) in the UK are subject to **IHT on their worldwide assets**.
- The main category of 'deemed domicile' is those who have been UK resident for at least 15 of the last 20 years.
- In contrast, **non-UK domiciled individuals** ('non-doms') are normally subject to **IHT on their UK assets only**.

IHT is payable at 40% where a person's assets on death, together with any gifts made during the seven preceding years, total more than the nil rate band (NRB). The NRB is £325,000 for 2024/25.

Unused NRB on death can be transferred to a spouse or civil partner, so couples can enjoy a combined NRB of up to £650,000 on the second death. The amount transferable is the percentage of the deceased's unused NRB at the time of their death, as applied to the NRB in force at the date of the second death.

In addition, a 'residence NRB' is available in respect of a property that at some point has been the deceased's

main residence and which is passed **on death** to a direct descendant (or their spouse/civil partner).

- For 2024/25, the residence NRB is £175,000.
- If unused, this relief will also be transferable to the deceased's spouse or civil partner.
- The relief will be tapered where estates are over £2 million in size (before reliefs and exemptions), such that estates over £2.35m receive no benefit from the residence nil rate band.
- The NRB, residence NRB and taper threshold are all frozen at their current values until April 2030.
- If an estate does not qualify for

## Inheritance Tax (continued)

a full residence NRB, it may be entitled to a further relief known as a 'downsizing addition' if three conditions apply:

- The deceased disposed of a home on or after 8 July 2015 and either downsized to a less valuable property or ceased to own a home;
- The former home would have qualified for the residence NRB if it had been retained; and
- At least some of the deceased's estate is inherited by their direct descendants or the spouses thereof.

### Planning points

- Consider gifting assets during your lifetime to minimise the IHT payable on your death.
- Such gifts will fall outside the IHT net after seven years, provided you do not reserve a benefit in the asset transferred.
- After three years, the amount of IHT potentially payable on the gift (should you die within seven years of making it) is reduced, based on how long you survive.

- The gifting of assets can give rise to CGT liabilities, but some assets are exempt CGT (e.g. cash and gilts).
- If you have income surplus to your normal living expenses, consider making use of the IHT exemption for regular gifts out of surplus income.
  - Such gifts are tax-free, even where death occurs within seven years.
  - Appropriate documentation should be retained to show that the gift is **regular** and made from income not required by the donor to cover their living expenses.
- Make use of other IHT reliefs and exemptions.
  - The annual exemption of £3,000 (£6,000 if no gifts were made during 2023/24);
  - The small gifts exemption of £250 per donee p.a.; and
  - Gifts made in consideration of marriage (£5,000 to children, £2,500 to grandchildren and £1,000 to anyone else).
- Consider taking out life insurance

to fund any contingent exposure to IHT, although the availability and cost will depend on the transferor's life expectancy.

- If you sell your home (e.g. to move into care or downsize), keep records of the transactions, so that on your death the downsizing addition may be claimed if you leave sufficient assets to direct descendants or their spouses.
- Most importantly of all, make sure you have an up-to-date will, that is not only efficient from an IHT perspective but also distributes your assets based on your current family circumstances. For example, trusts that were due to be set up in your will while your children were minors may no longer be needed.

This will be particularly important for those owning agricultural or business property, due to the restrictions on reliefs that have been announced and are due to take effect in April 2026.



## Property owners

### Letting property

- Expenses incurred wholly and exclusively in connection with the rental business are deductible when calculating net taxable profits, provided they are not capital in nature. An exception is finance costs of residential landlords - see Furnished Holiday Lettings.
- Capital expenditure is usually deductible against any capital gain on an eventual disposal of the property.
- The rules for determining whether an expense is capital or revenue in nature for tax purposes are not always straightforward, particularly in relation to repairs and maintenance.
- Capital allowances (CAs) are available on qualifying expenditure on commercial property, but not in respect of residential property, in which the actual cost of **renewing** existing furnishings can be taken as a revenue deduction.
- The Rent-a-Room rules provide tax relief of £7,500 per year where an individual rents out a room in their only or main residence.
- There is also a £1,000 property allowance, allowing individuals to receive small amounts of rental

income tax-free. An example would be receiving a few hundred pounds of income for renting out a parking space on your driveway.

### Planning points

- The default position for an unincorporated property business with a turnover of up to £150,000 is to calculate taxable profits on the 'cash' basis (i.e. looking at the cash received and paid during the tax year).
- If you wish to elect out of the cash basis, you have until one year after the relevant self-assessment filing date to make the election (e.g. elections for 2023/24 will need to be made by 31 January 2026). Your taxable profits will then be calculated by matching income and expenditure to the period to which they relate, irrespective of the cash movements.
- Ensure that any losses are claimed, so that they can be carried forward and offset against future profits from the same rental business.
- If you let a furnished room in your home to a lodger and your gross rental income exceeds £7,500 for the year, calculate whether it is more tax efficient:

- for the excess to be charged to tax; or
- to pay tax on your rental profits after deduction of expenses in the usual way (with no £7,500 allowance).
- You can use whichever method produces the lowest tax liability.

### Furnished Holiday Lettings

A property that qualifies as a Furnished Holiday Letting (FHL) can currently benefit from various tax reliefs not generally available to property rental businesses. However, these tax breaks will be ending after 5 April 2025, which may have serious consequences for those currently benefitting from the FHL regime (see below).

To qualify as a FHL, the property must be furnished, located in the UK or another EEA country, and let on a commercial basis with a view to realising profits.

It must also satisfy various other criteria, which ensure that the property is mainly let short-term to holiday makers.

When FHL status disappears on 6 April 2025, the following consequences will arise:

## Property owners (continued)

- Finance costs (such as mortgage interest and arrangement fees) will no longer be deductible when calculating property business profits for tax purposes, so taxable profits will be higher. Instead, a 'tax reducer' equal to 20% of the disallowed finance costs will be given when calculating the taxpayer's final tax liability (although this deduction can be subject to restrictions). This means that the property will be treated like a normal residential let.
- Unless someone is (and after the disallowance of finance costs remains) a basic rate taxpayer, this may significantly increase the landlord's income tax bills.
- FHL income will no longer count as pensionable income.
- Capital allowances will not be able to be claimed on fixtures and fittings (e.g. beds, tables) for use in the property; instead, tax relief will only be given when such assets are replaced (without improvement), not when they are first installed.
- Business Asset Disposal Relief (BADR) will no longer potentially be available on the sale of a FHL property; this means that the rate of CGT on any gain will be either 18% or 24%, rather than 10%.
- CGT gift relief and rollover relief will not be available. Gift relief (or 'holdover relief') enables gifts to be made (e.g. to a family member) without triggering any immediate CGT charge; rollover relief enables a similar deferral of tax, where a FHL property is sold and the proceeds reinvested in another qualifying property up to 3 years from when the first property is sold. Both these reliefs require a claim.

### Planning points

- If your FHL property is not let short-term for the requisite 105 days in 2024/25, but satisfies the other conditions, you may still be

able to secure the tax reliefs available by electing for a 'grace period' to apply. This is possible if all the conditions were met in the previous year (2023/24).

- Consider making an averaging election where you have more than one FHL property and one property does not meet the occupancy test of 105 days on its own. Where the average occupancy of all the FHL properties is above 105 days, all properties will qualify.
- Check whether any capital expenditure on furniture, fittings and equipment qualifies for the 100% Annual Investment Allowance (AIA).
- Budget for any increased tax bills arising from the upcoming disallowance of finance costs.
- If the increased tax bills make the letting business unviable for you, consider selling your FHL properties before the rules change (i.e. by 5 April 2025), so that you may (subject to meeting all the relevant conditions for the relief) get BADR on the disposal.
- If your intention is to eventually gift your FHL properties to a child, it may be worth bringing this forward to the current tax year, so that a gift relief claim may be made to defer any capital gain that arises.

### Private Residence Relief (PRR)

- PRR reduces the gain on the sale of your main home, usually to nil, thus avoiding a charge to CGT. The relief applies for the time that the property is occupied as your main home, plus the final 9 months of ownership, which is extended to 36 months for:
  - disabled people or their spouses; or
  - individuals moving into a care home.
- Other periods of absence from the property may qualify for PRR as deemed occupation (e.g. if

working full-time abroad).

- You need to show that you have occupied the property with the intention of living there as a 'home' with a degree of permanence.
- If you own more than one property that you actually use as a home (as opposed to always renting out), you may be able to make a PRR election, stating which property is your main home for CGT purposes.
- For UK residents, such an election must normally be submitted within two years of an additional property being available for occupation as a residence.

### Planning points

- HMRC often challenge the availability of PRR on a property, particularly where it is a partial claim for a property that was once lived in for some of the period of ownership. Make sure you have enough evidence to show that you lived there (e.g. utility bills, council tax statements or having notified the DVLC that you lived there).
- Couples should consider jointly owning property for which no PRR election can be made, to benefit from two annual exempt amounts and (possibly) lower rates of CGT when the property is sold.
- If a residential property is not fully covered by PRR when sold and a tax liability arises, a CGT property return has to be filed within 60 days and the CGT on the disposal paid by that date. **This is a very tight deadline.** To make sure it can be met, it is sensible to ensure that you have a record of all costs you have incurred on the property and all documentation (as discussed above) to back up any PRR claim. This will enable the taxable gain to be calculated in time to make the 60-day payment.
- Where non-residents dispose of UK land and buildings, a 60-day report is needed even if the disposal generates a loss.

## Capital Gains Tax

The annual exempt amount (AEA) is £3,000 for 2024/25 and will be unchanged in 2025/26. Gains above this level are taxed as follows:

- 10% if the gains qualify for Business Asset Disposal Relief (BADR) or Investors' Relief, up to a lifetime limit of £1 million of qualifying gains;

- 18% if the gains fall within any unused basic rate band; and
- 24% for gains above the basic rate band (except receipts of carried interest, where the rate is 28%).

Note that, for disposals before 30 October 2024:

- gains arising on assets other than residential property and receipts of carried interest were taxed at 10% (within the basic rate band) and 20% (above the basic rate band);
- the lifetime limit for Investors' Relief was £10m.



## Capital Gains Tax (continued)

Assets transferred between married couples or civil partners do not normally give rise to a CGT charge; instead, the recipient takes over the CGT cost of the donor. This means that, when the asset is eventually sold by the recipient, the gain or loss will reflect the combined ownership period.

Gifts to other family members will produce capital gains or losses, using the market value at the time of the gift as deemed proceeds. However, where the asset is a qualifying business asset (e.g. unquoted trading company shares), a joint 'holdover relief' election will enable any gain to be deferred.

Non-residents are not generally subject to UK CGT. There is an exception to this rule, however, for disposals of UK immovable property (i.e. land and buildings) and certain indirect interests in UK immovable property.

### Planning points

- The AEA cannot be carried forward or transferred to a spouse, so where possible aim to make disposals before 6 April 2025 to utilise this year's AEA.
- Consider transferring assets (wholly or partly) to your spouse or civil partner, to utilise their AEA or capital losses on a subsequent disposal. Such transfers must be made outright and without preconditions to be effective for tax purposes.
- Where disposals of assets are eligible for BADR or Investors' Relief, consider bringing forward disposals to this current tax year, as the tax rate is going up to 14% in 2025/26.
- Consider carefully when you will make any disposal, as the timing will determine when any CGT is due and may affect the amount of CGT payable.

### Example - David

David is a basic rate taxpayer (with £7,000 of basic rate band unused) in 2024/25 but expects to be a higher rate taxpayer in 2025/26. His sole disposal in 2024/25 of some non-residential land takes place on 31 March 2025 and realises a capital gain of £15,000.

- His taxable gain (i.e. after AEA) is £12,000 and his CGT liability will be £2,460 [(£7,000 @ 18%) + (£5,000 @ 24%)].
- This would be payable on 31 January 2026.

If, instead, the disposal is made early in 2025/26 (say, on 30 April 2025):

- His taxable gain (i.e. after AEA) is still £12,000 but his CGT liability will be fully at 24%, i.e. £2,880.
- This would be payable on 31 January 2027.

## Sole traders

### Change in basis of assessment

Tax year 2023/24 was the transition year from the 'current year' basis of assessment (which charged tax on the profits of a 12-month accounting period ending in the tax year) to the 'tax year' basis of assessment, which taxes the profits actually arising in the tax year. Only businesses that already have a year-end between 31 March and 5 April will be unaffected by the change.

For 2024/25 onwards, all businesses are taxed on a tax year year basis.

Under the transition year rules:

- Up to 23 months' worth of profits come into charge in 2023/24, with overlap profit (which usually arises on commencement of trade) being set off against the additional months' profits.
- The extra profits will be spread over five years, to avoid a large additional tax charge arising in one year.
- The taxpayer may choose to advance the spread profits into an earlier year if it is beneficial to them (e.g. to use up basic rate band) by election on their tax return.
- If businesses do not have an accounting date between 31 March and 5 April, they will need to file their return every year

using partly provisional figures and, when the final figures are available, amend the return (usually when the following year's tax return is filed).

### 'Cash basis'

For 2024/25 and subsequent years, whatever the level of profits, cash basis is the default method of calculating taxable profits.

If you wish to elect out of the cash basis, you have until one year after the relevant self-assessment filing date to make the election (e.g. elections for 2024/25 will need to be made by 31 January 2027). Your taxable profits will then be calculated by matching income and expenditure to the period to which they relate, irrespective of the cash movements.

### Losses

- Losses made by an unincorporated business for tax year 2024/25 can be offset against your other income of that year and/or 2023/24, subject to a maximum of £50,000 or 25% of your total income for the year (whichever is greater).
- Unused losses can be carried forward against future profits of the same trade with no limit.
- Further options may be available to obtain relief for losses in the early years of a business, or on its cessation.

### Planning points

- Employing a spouse or child might allow them to utilise their personal allowance and provide a NICs record for state pension purposes. The level of salary paid must be commensurate with the duties performed and must meet National Minimum Wage requirements.
- Pension contributions can also be made on behalf of a spouse or child whom you employ, to save tax and NICs. Any contributions made should be reasonable in relation to their working hours and salary.
- Note that the above two points are equally applicable for companies.



## Capital expenditure



Capital allowances can be claimed on expenditure on certain types of assets used in your business. You must be careful to distinguish between:

- 'plant and machinery' (P&M), which includes many fixtures and fittings (such as desks or chairs for an office); and
- structures and buildings.

The latter attract much slower tax relief.

***The rules on capital allowances can be quite nuanced and there are lots of cases where the taxpayer does not get the tax relief they were expecting, so please check the likely tax treatment with us before undertaking any major expenditure.***

However, we explain below some of the key points of which you should be aware.

### P&M allowances

- The Annual Investment Allowance (AIA) is a particularly valuable relief for businesses. 100% relief is given for expenditure on most types of P&M, up to a limit of £1m p.a.

- Cars (with a few exceptions, such as dual control driving school vehicles) are not eligible for the AIA (or the FYAs mentioned below).
- Any other expenditure eligible for capital allowances generally attracts an annual capital allowance of 18% or 6% (depending on the nature of the expenditure) on a reducing balance basis (i.e. the rate is applied to the balance of unrelieved expenditure each year, rather than full cost).
- For expenditure on new, unused P&M **by companies**, there is now a First-year Allowance (FYA) of either 100% ('full expensing') or 50%, depending on the type of P&M bought.
- Most businesses will be better off claiming the AIA though, as:
  - It is available on second-hand plant;
  - It is available to unincorporated businesses, not just companies (although certain businesses cannot claim the AIA, including partnerships with a corporate member); and
  - Unlike the new FYAs (and the 130% super-deduction that was available from 1 April 2021 to 31 March 2023 for companies buying new, unused P&M), there are no special rules that apply when the asset is eventually disposed of.

### Structures and buildings

- Structures & Buildings Allowance (SBA) can provide relief for expenditure on non-residential buildings (including new conversions and renovations).
- Relief is normally given at a flat rate over 33<sup>1</sup>/<sub>3</sub> years at 3% per

annum of qualifying cost (which will always exclude the cost of land).

- Garden offices used purely for business purposes will NOT qualify as they are built on residential property.
- ### Planning points
- To accelerate tax relief, consider purchasing new assets:
    - just before the end of your accounting period (companies); or;
    - before the end of the tax year (unincorporated businesses).
  - Consider the timing of the disposal of cars and other equipment on which allowances have been claimed. Such disposals will impact the taxable profits for the period in which they take place.
  - If your company previously claimed super-deduction or claims full expensing, make sure that any disposal proceeds of that asset are separately identified; they will be treated as taxable profits of your company in the period of disposal.
  - If you are intending to purchase commercial property containing fixtures that are P&M, seek advice to ensure that the maximum capital allowances can be claimed. On purchase, any value attributed to the fixtures should be agreed by a joint election between the seller and the purchaser.

## Benefits-in-kind

In some cases, an employee can avoid being taxed on a benefit if they 'make good' the value of the benefit by reimbursing their employer. There are strict time limits for doing this.

All reimbursements of taxable non-payrolled benefits for 2024/25 must be made by 6 July 2025, which aligns with the date for submitting the P11D forms.

The dates for making good on payrolled benefits provided in 2024/25 are:

- 1 June 2025 for the value of vehicle fuel used; and
- 5 April 2025 for all other benefits.

The deadlines for making good do not

apply to interest payable on beneficial loans and overdrawn directors' loan accounts. Where such loans exceed £10,000 at any point in the tax year, there is a taxable benefit if insufficient interest is paid. This benefit takes account of the loans outstanding throughout the year, not just the days when the balance was above £10,000.

This taxable benefit can be avoided if interest at least equal to the Official Rate is reimbursed, as long as the borrower is legally obliged to pay interest. The Official Rate for 2024/25 is 2.25% p.a.

Despite this exclusion from the reimbursement deadlines, most

people should try to pay any interest due on a loan by the 6 July following the tax year, to avoid any doubt as to whether a benefit arises at the time the P11D form is being prepared.

***Don't miss the deadline for 'making good' any benefits you have received, if you want to avoid a tax charge.***