SAPPHIRE
FINANCIAL PLANNING

Staying Tax Healthy

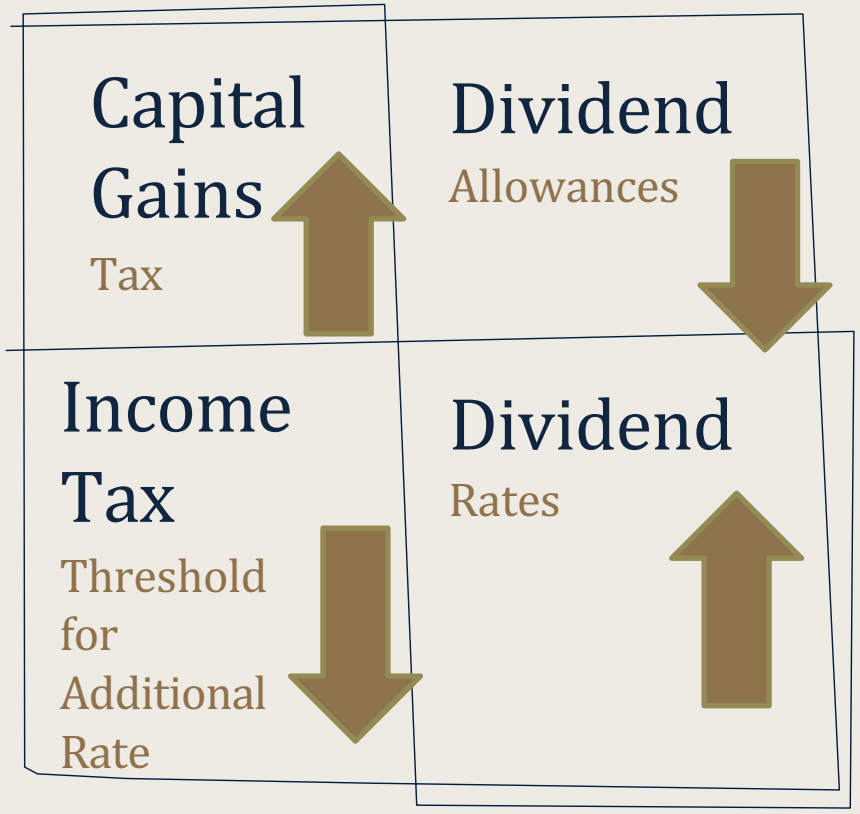
2023

STAYING TAX HEALTHY WITH ISAs

Tax allowances affecting investments are changing on 6th April 2023.

This makes using tax allowances more important than ever. Don't miss out on this tax year!

Tax-year-end planning shouldn't be a rush, but with key allowances being reduced over the coming years, it might be worth checking in with us to find out if you can mitigate their impact by planning ahead now.



It's always a good idea to take advantage of your annual tax reliefs and allowances wherever you can. Not only does it mean that you don't pay more tax than necessary, it also helps to improve your investment outcomes and makes it easier to achieve your financial goals.

This year, though, it's more important than ever. In his first Autumn Statement, Chancellor Jeremy Hunt announced reductions to a number of key allowances used by investors, as part of his attempts to shore up the nation's finances.

You can shelter your investments from Dividend Tax and Capital Gains Tax (CGT) by holding them in tax-efficient wrappers, such as a pension or Stocks & Shares ISA.

The message is use them or lose them!

5th April last date to use 2022/23 allowances

The value of an investment with St. James's Place will be directly linked to the performance of the funds selected and may fall as well as rise. You may get back less than the amount invested.

The levels and bases of taxation, and reliefs from taxation, can change at any time and are generally dependent on individual circumstances.

USING YOUR ISA ALLOWANCE

The tax year ends on 5th April is rapidly approaching.

This year, Chancellor Jeremy Hunt announced several tax changes to start from 6th April for the 2023/4 tax year, including reductions in capital gains and dividend allowances. This makes using tax allowances more important than ever.

Take advantage of your annual tax reliefs and allowances wherever you can

You can shelter your investments from Dividend tax and CGT by holding them in tax-efficient wrappers, such as a pension or Stocks & Shares ISA.

The message is use them or lose them!

5th April

last date to use 2022/23 allowances

Each year, you can pay up to £20,000 into an ISA.

- **If you have money put aside make sure they are in an ISA and you have used your full £20,000 allowance.** It's sensible to think about where you hold your cash savings, too. While Cash ISAs are available, the Personal Savings Allowance lets basic-rate taxpayers earn £1,000 in savings interest tax free and higher-rate taxpayers can earn up to £500 in interest before they need to worry about tax. This means that depending on your circumstances, you may be better off preserving your ISA allowance for stocks and shares.

- **For peace of mind that next year's ISA allowance will be used too, a Unit Trust Feeder will automatically transfer the money into an ISA for you.** If you have money to invest now, placing it in a unit trust feeder account will ensure it is invested immediately then drip fed into the ISA wrapper up to the annual ISA limit. For larger investments this can ensure the ISA allowance will automatically be used for a number of years.

- **If you feel this is not the right time for you to make an investment in equities,** investing in a Money Market fund will enable you to use your ISA allowance and avoid losing it, whilst giving you the flexibility to switch into an equity fund when you prefer. The Money Market fund should normally be used only as a short-term investment. The fund aims to preserve capital and to keep money liquid ready to be accessed when needed, however interest rates are at exceptionally low levels.

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A Stocks and Shares ISA will not provide the security of capital associated with a Cash ISA. St. James's Place do not offer Cash ISAs.

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THE CHANGE TO CAPITAL GAINS TAX

Investments within an ISA are free from Capital Gains Tax

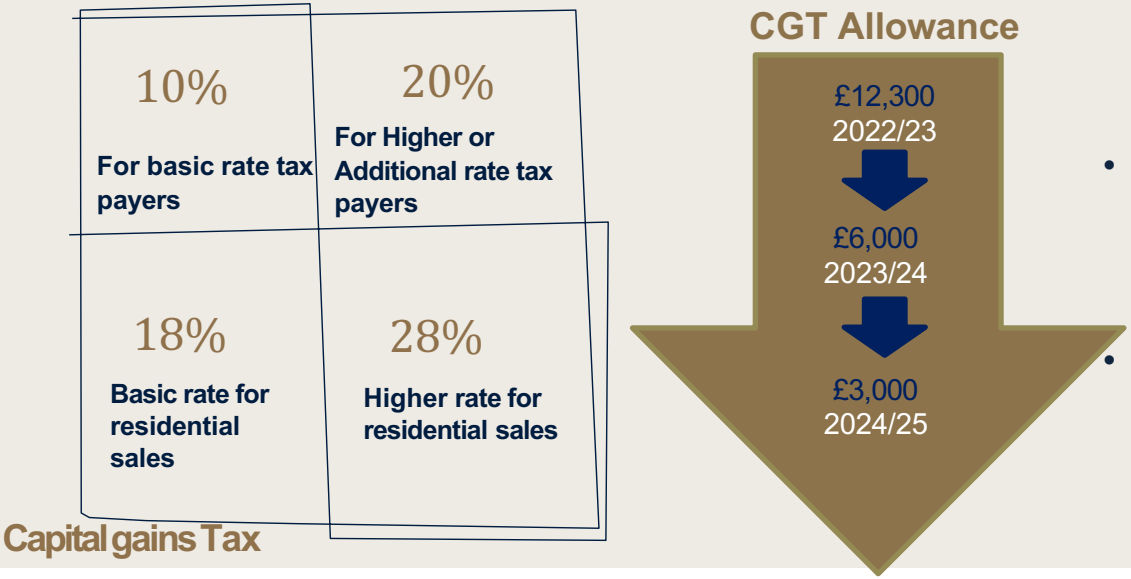
Why is this important?

The Capital Gains Tax (CGT) allowance for the current tax year (2022/23) is £12,300. This means when you sell investments, you can enjoy gains up to £12,300 before your pay CGT.

But following the Chancellor's announcement in the Autumn Statement, from 6 April 2023, the CGT allowance will be more than halved to £6,000, before it halves again to 2024/25 to just £3,000 a year.

The current rates for CGT are 10% for basic-rate taxpayers and 20% if you pay the higher or additional rate (18% and 28% for residential-property sales).

Investments within an ISA will not be affected.



How to mitigate the impact

CGT is a tax on the profit when you sell something that has increased in value. CGT applies only to the gain you make, not the amount of money you receive for the asset.

CGT is a complicated tax, and it can be difficult to calculate gains and losses accurately. Many individuals could end up paying CGT unnecessarily or, worse still, face fines due to incorrect disclosure. Failing to manage capital gains effectively can also create a bigger potential Inheritance Tax liability on your estate, on which assets will be taxed at 40%, so early planning is essential.

To mitigate a CGT bill refers to the savings you are making there are a number of steps that investors can take:

- **Ensure you transfer existing investments into an ISA to ensure your ISA allowance is fully used.** The longer an investment is in place the more potential it has to grow. Ensuring investments with higher growth potential are moved into an ISA up to the maximum allowed in a timely way will provide the chance the growth will be within the CGT allowance and no tax would be due.
- **Sell off assets over several years so gains are realised over more than one tax year.** However, with such significant reductions to the allowance looming, investors with assets to sell should check in with us and start planning ahead.
- **Take advantage of a spouse's allowance.** Most sales or transfers of gifts between spouses or civil partners don't give rise to a potential CGT liability. By transferring assets in this way you can take advantage of your combined CGT exemptions.. It might also be sensible to split gains over two tax years to make use of both years' allowances.

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THE CHANGE TO TAX ON DIVIDENDS

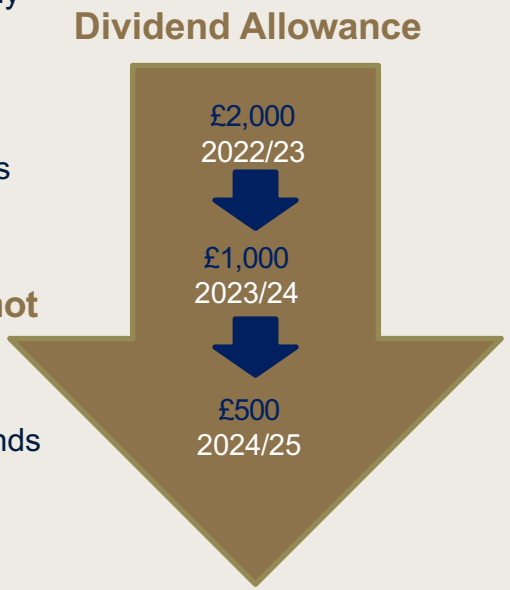
Investments within an ISA are free from tax on dividends

Why is this important?

The Chancellor also set his sights on the dividend allowance. This is the amount you can earn from company dividends before Dividend Tax is charges.

Dividend Tax is charged on dividends you earn on company chares, including dividends from money held in collective investments such as funds and investment trusts.

Investors may also receive income from their investment as interest or dividends. Income from equity funds is automatically treated as dividend distributions where the fund has less than 60% of it's market value in cash or fixed interests.



Changes are being made to tax on dividends however investments within an ISA will not be affected.

1. Reducing dividend allowance

On 6th April 2023 changes are being made to the Dividend Allowance. Before this date £2,000 in dividends could

be earnt in a tax year before any tax becomes due. From this date this is reducing to just

£1,000. And on 6th April 2024 this Dividend Allowance is reducing further to just £500.

2. Increasing dividend tax rates

The rate of tax on dividends has already risen by 1.25%, and the reduction in the additional income tax rate threshold in April 2023 will have a further impact.

2021/22			2022/23			2023/24	
Up to £12,570	0%		Up to £12,570	0%		Up to £12,570	0%
£12,571 - £50,270	7.5%		£12,571 - £50,270	**8.25%**		£12,571 - £50,270	8.25%
£50,271 - £150,000	32.5%		£50,271 - £150,000	**33.75%**		£50,271 - **£125,140**	33.75%
£150,000 and over	38.1%		£150,000 and over	**39.35%**		**£125,140** and over	39.35%
			Increase of 1.25% from April 2022			**Reduction of additional rate threshold**	

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HOW TO MAKE THE MOST OF TAX ALLOWANCES

Other ways to use your tax allowances

It's important to make the most of pensions and ISAs, as well as gifting allowances.

Each year, you can pay up to £20,000 into an ISA or if you can tie it up until age 55 (57 from 2028), you can save into a pension. What is the pensions allowance? Currently, it's £40,000 annually, or 100% of your income if you earn less than that.

If you've already fully funded your ISA or pension, it's worth talking to us for other ideas. You could consider a pension for a spouse, child or grandchild, or explore ISAs for your family. A Junior ISA can be a tax- effective way of saving a lump sum for the children in your life. Junior ISAs have a lower allowance of £9,000 a year (2022/23 & 2023/24).

If your beneficiaries will likely pay Inheritance Tax (IHT) when you die, you may also want to think about using your gifting allowances.

Each year, you can give away £3,000 (or £6,000 between couples) free of inheritance tax. There are also separate allowances for wedding gifts to family members, but they aren't annual.

With reductions in tax reliefs and allowances looming for 2023/24, now is a good time to check in with us to ensure you're taking maximum advantage of them in this tax year.

The message is use them or lose them!

Speak to us and we can help your money to work as tax-efficiently as possible, which will help keep your financial goals on track. Talk to us throughout the year – and not just at the end of the tax year – and we can make sure you take advantage of reliefs and allowances where ever you can.

In addition to making more of your wealth, this can also have a priceless impact on your financial wellbeing, sparing you the worry around paying too much tax or breaching rules and not paying enough.

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