

TAXANGLES

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COMPASS

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A newsletter for proactive planning...



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Should we pay a dividend before the end of the tax year?

If you are the owner of a personal or family company, it is prudent to review your dividend strategy before the 2024/25 tax year comes to an end as assessing whether paying a dividend before 6 April 2025 would be beneficial.

Sufficient retained profits

The first point to note is that dividends are payable from retained profits and the payment of a dividend can only be entertained where the company has sufficient retained profits from which to pay a dividend. These are post-tax profits on which corporation tax has been paid.

Unused dividend allowances

Where the shareholders have not used their dividend allowances in full for 2024/25, as long as the company has sufficient retained profits, it will generally be worthwhile to pay a dividend to make use of these unused allowances. All individuals are entitled to a dividend allowance regardless of the rate at which they pay tax. For 2024/25, the dividend allowance is set at £500.

Dividends are treated as the top slice of income. No tax is payable where the dividend is sheltered by the allowance, but the allowance does use up part of the tax band in which it falls. In this way, the dividend allowance operates like a zero-rate band rather than a true allowance.

Where a company has more than one shareholder, the dividend strategy will depend on whether the company has an alphabet share structure. This is where each shareholder has their own class of share, for example, A ordinary shares, B ordinary shares, etc. Where this is the case, the dividend payable to each shareholder can be tailored to the level of their available dividend allowance. In the absence of an alphabet share structure where all shareholders have the same class of share, dividends must be paid in proportion to shareholdings.



2026

Unused personal allowance

While it will generally be preferable to pay a salary equal to the personal allowance before extracting profits as dividends, if the company has shareholders who do not work in the company and who have not used their personal allowance for 2024/25 in full, it can be beneficial to pay them further dividends to mop up their unused personal allowance. There will be no further tax to pay on dividends which are sheltered by the personal allowance.

Unused basic rate band

If profits are needed outside the company and the shareholder has not used up all their basic rate band for 2024/25, it may be preferable to pay a dividend before 6 April 2025 where it will be taxed at the dividend ordinary rate of 8.75% if the dividend will be taxed at a higher rate (either the dividend upper rate of 33.75% or the additional dividend rate of 39.35%) if the dividend is paid in 2025/26.

Leave the profits in the company

If the dividend allowance and the personal allowance have been used in full and funds are not needed outside of the company, it may be preferable to leave the profits in the company as paying a dividend before 6 April 2025 will come with an associated tax bill.



Have you used your capital gains tax annual exempt amount?

Individuals have a separate tax-free allowance for capital gains tax purposes – the capital gains tax annual exempt amount. Although it has been reduced considerably in recent years and is only £3,000 for 2024/25, making use of the allowance can still generate tax savings of up to £720.

The annual exempt amount applies to reduce the amount of net gains for the year on which capital gains tax is chargeable. The exempt amount is deducted from chargeable gains for the year after allowable losses for the year have been deducted, but before taking account of allowable losses brought forward from previous tax years.

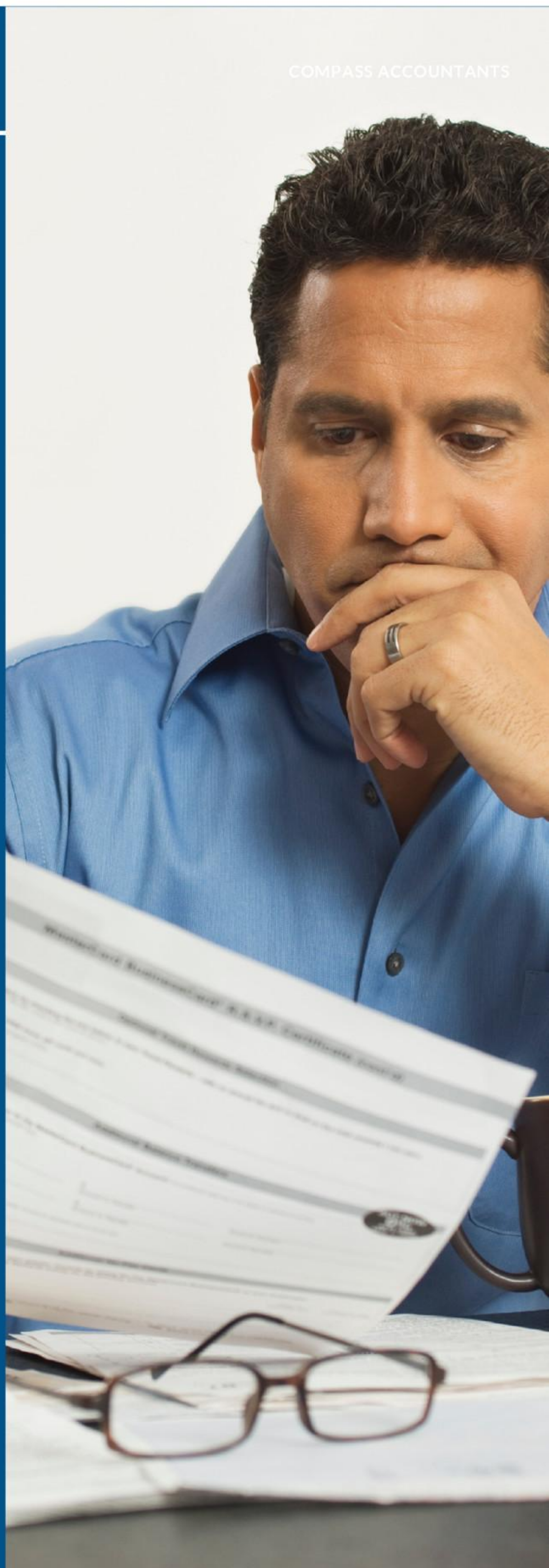
Where a disposal is on the cards which may realise a chargeable gain, if the annual exempt amount for 2024/25 has not been used in full, making the disposal before the end of the 2024/25 tax year rather than after 5 April 2025 may be beneficial as it will not eat into the 2025/26 annual exempt amount.

Before making the disposal, the size of the gain should also be taken into account. If the chargeable gain is less than £3,000 and the annual exempt amount is available in full, from a tax perspective, it will be beneficial to make the disposal in the 2024/25 tax year so as not to waste the 2025/26 annual exempt amount.

Spouses and civil partners

Spouses and civil partners each have their own annual exempt amount. Where one partner is planning to make a disposal, they should consider not only their available exempt amount, but also that of their spouse or civil partner. While spouses and civil partners cannot transfer their annual exempt amount to their partner, any transfers of assets between them are at a value that gives rise to neither a gain nor a loss. This means that by making a transfer of an asset or a share of an asset prior to disposal it is possible to utilise both partners' annual exempt amounts.

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Example

John and Julie are married. John wants to dispose of some shares which he expects to realise a gain of £2,700. As John has already used up his annual exempt amount for 2024/25, he is planning to wait until after 5 April 2025 to make the disposal, so that he can set his 2025/26 annual exempt amount against the gain.

However, Julie has not made any chargeable disposals in 2024/25 and her annual exempt amount for 2024/25 remains available. If John transfers the shares to Julie, taking advantage of the no gain/no loss rules, and she disposes of them before 6 April 2025, the gain will be sheltered by her 2024/25 annual exempt amount. By proceeding in this manner, Julie's annual exempt amount for 2024/25 is not wasted, and both John and Julie have their annual exempt amounts for 2025/26 available to shelter disposals in that year.

Consider your marginal rate of tax

Chargeable gains are taxed at 18% where income and gains do not exceed the basic rate band and at 24% once the basic rate band has been used up. If the gain on a planned disposal will exceed the available annual exempt amount, it is necessary to take into consideration the rate at which the remainder of the gain will be taxed.

Depending on the size of the gain, if the taxpayer is a higher rate taxpayer in 2024/25 but will be a basic rate taxpayer in 2025/26, it may be better to wait until 2025/26 to make the disposal, even if the annual exempt amount for 2024/25 is wasted.

The aim is to minimise the tax payable on the gain, and there is no substitute for doing the sums.

Time running short to use your 2024/25 personal allowance

Most individuals are entitled to receive a personal allowance. This is the amount that they are able to earn before they pay tax. For 2024/25, the personal allowance is set at £12,570. The allowance is for the tax year only – if you do not use it in the tax year, you lose the benefit of it; you cannot carry any unused amount forward to the next tax year. As the end of the tax year approaches, if you have yet to use your 2024/25 personal allowance, you may want to consider whether there is scope to do so.

1. Pay a salary or a bonus

If you operate a personal or family company, you may wish to consider withdrawing further profits in the form of a salary or bonus before 6 April 2025. For 2024/25, the optimal salary is one equal to the personal allowance of £12,570 where the allowance is not used elsewhere. If you have yet to pay a salary of this level, there is still time to do so before the end of the tax year.

2. Advance income or defer expenses

For 2024/25 onwards, the cash basis is the default basis of assessment for unincorporated businesses. Under the cash basis, income is assessed when received and expenses recognised when paid. If your taxable profit for 2024/25 is less than your personal allowance and you have no other income, consider whether you can bring profit into 2024/25 rather than 2025/26 by accelerating income (for example, by invoicing early) or by delaying paying expenses.

3. Consider pension payments

If you have reached the age of 55 and have already flexibly accessed your pension, for example, by withdrawing your 25% tax-free lump sum, consider taking further payments from your pension to use up any remaining personal allowance as this will enable you to withdraw further amounts from your pension tax-free.

4. Preserve the allowance if you are a high earner

The personal allowance is reduced once adjusted net income reaches £100,000. For every £2 by which adjusted net income exceeds £100,000, the personal allowance is reduced by £1 until fully abated once income reaches £125,140. Individuals whose adjusted net income is £125,140 or more in 2024/25 do not receive a personal allowance. However, to prevent the loss of the personal allowance, consideration could be given to delaying income, for example, deferring bonus or dividend payments from a personal or family company, or reducing adjusted net income by making pension contributions or charitable donations.

5. Consider the marriage allowance

If you are married or in a civil partnership and are unable to use your 2024/25 personal allowance in full, consider whether you can make use of the marriage allowance to save tax. If your spouse or civil partner is a basic rate taxpayer, you can transfer £1,260 of your personal allowance to them by making a marriage allowance claim. This will reduce their tax bill by £252.

Timing your payments around the year end

For unincorporated businesses, from 6 April 2024 onwards the cash basis is the default basis of accounts preparation. Unlike the accruals basis under which income and expenditure must be matched to the accounting period to which it relates, where the cash basis is used, income is only taken into account when received and expenditure when paid. This presents some tax planning opportunities around the end of the tax year as regards the timing of income and expenditure.

1. Consider delaying invoicing

If income is likely to be taxed at a higher rate in 2024/25 than in 2025/26, consider delaying invoicing so that a receipt will fall in 2025/26 when it will be taxed at a lower rate.

Example

A sole trader is a higher rate taxpayer in 2024/25, but expects to be a basic rate taxpayer in 2025/26. In March 2025 he undertakes a job, the fee for which is £5,000. If he delays invoicing for the work until April 2025 so that he receives the fee in 2025/26, he will pay tax on it at 20% rather than at 40%.

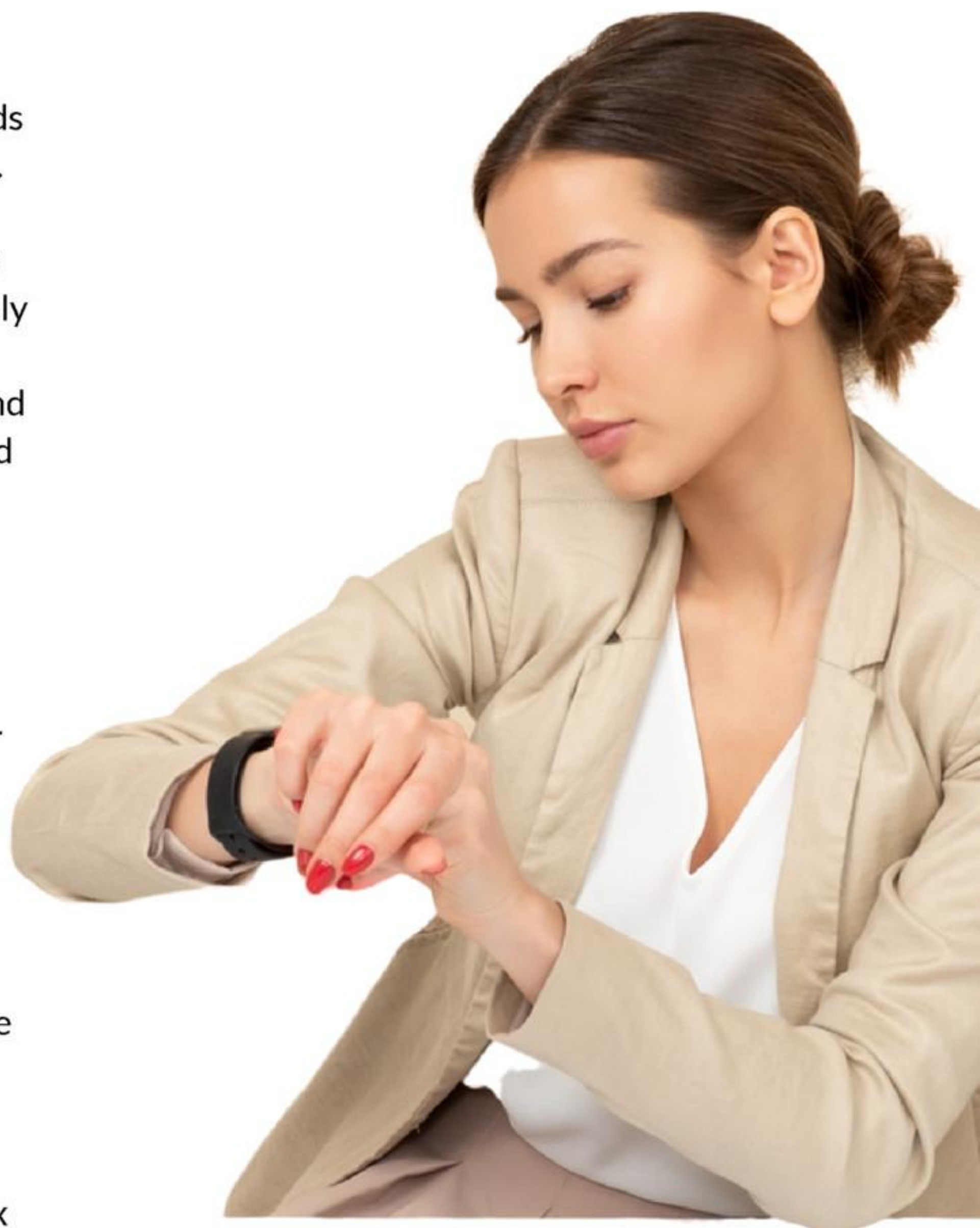
Delaying invoicing will also delay the time at which the tax is payable on the work. Tax for 2024/25 is due by 31 January 2026, whereas that for 2025/26 is due by 31 January 2027.

2. Consider invoicing early

Conversely, if the taxpayer is a basic rate taxpayer in 2024/25 but expects to be a higher rate taxpayer in 2025/26, or if they have not used their personal allowance for 2024/25, invoicing early so that the receipt falls in 2024/25 rather than 2025/26 will save tax.

3. Consider advancing expenditure

Taxable profits can be reduced by reducing income or increasing expenditure. Where the cash basis is used, taxable profits for 2024/25 can be reduced by bringing forward planned expenditure so that it falls in 2024/25 rather than in 2025/26.



Example: A sole trader is planning to buy a van. The van will cost £15,000. If the van is purchased before the end of the 2024/25 tax year, the expenditure will fall in 2024/25 and can be deducted in calculating the taxable profits for 2024/25, reducing the tax that is payable for that year. If the purchase is delayed beyond 5 April 2025 so that it falls in the 2025/26 tax year, the sole trader will need to wait a further year to benefit from the tax deduction.

4. Consider delaying expenditure

If the taxpayer is likely to pay tax at a higher rate in 2025/26 or has not fully used their 2024/25 personal allowance, it will be advantageous to delay planned expenditure so that it falls within the 2025/26 tax year to secure tax relief for the expenditure at the best possible rate.

Claiming tax relief for expenses online

Employees who incur expenses in undertaking their job may be able to claim tax relief for those expenses where they are not reimbursed by their employer. The expenses will qualify for relief if they are incurred wholly, exclusively and necessarily in the performance of the duties of their employment or meet the deductibility conditions for particular types of expenses, such as travel expenses or professional fees and subscriptions.

Last year, HMRC introduced new evidence requirements for claims for employment expenses. While the new rules were being implemented, they also closed their online expenses claim service for a limited period. During this time employees who wished to submit a claim for relief for employment expenses had to do so by post on form P87. A new iForm went live in December, meaning employees can once again claim relief for employment expenses online.

Making an online claim

A claim can be made online using the new iForm by visiting the Gov.uk website at www.gov.uk/tax-relief-for-employees/travel-and-overnight-expenses, but only if the claim amounts to £2,500 or less in a single tax year. Where the amount claimed is more than £2,500, it must be made in the tax return. Employees who are required to submit a Self Assessment tax return should make the claim in their return, even if it is for £2,500 or less.

Evidence required

Claims for tax relief for employment expenses must now be accompanied by evidence in support of the claim. The evidence that is required will depend on the nature of the claim.

For example, where the claim is for a subscription to a professional body, a receipt or other evidence of the amount paid to that body should be supplied. For mileage allowance claims, a mileage log should be maintained which shows each journey, the postcode for the start and end of the journey and the reason for the journey.

The mileage log should be supplied with claims for mileage allowance relief.

Where an employee is required to work from home some or all of the time, a claim can be made for the additional household costs incurred as a result.

Where such a claim is made, the claimant will need to submit a copy of their employment contract or such other document as makes it clear that the employee is required to work from home rather than working from home through personal choice.

For other expenses, a receipt or other evidence, such as a bank or credit card statement, must be provided which shows both the item in respect of which relief is claimed and also that the claimant paid for that item.

Evidence is not required for flat rate expenses claims made for uniforms, work clothing and tools.



TAX DIARY

MARCH

1 March 2025 – Due date for Corporation Tax due for the year ended 31 May 2024.

2 March 2025 – Self-Assessment tax for 2023-24 paid after this date will incur a 5% surcharge unless liabilities are cleared by 1 April 2025, or an agreement has been reached with HMRC under their time to pay facility by the same date.

19 March 2025 – PAYE and NIC deductions due for month ended 5 March 2025 (If you pay your tax electronically the due date is 22 March 2025).

19 March 2025 – Filing deadline for the CIS300 monthly return for the month ended 5 March 2025.

19 March 2025 – CIS tax deducted for the month ended 5 March 2025 is payable by today.

For further information on any of the stories in this month's newsletter, or for any other matter that Compass Accountants can assist you with, please contact us on 01329 844145 or contact@compassaccountants.co.uk

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