



End of Tax Year Planning Guide for Barristers

- Your main tax planning opportunities for the 2022–23 tax year
- Focus on financial advice for barristers and members of the judiciary
- Pensions, ISAs, JISAs, VCTs and EISs
- IHT, CGT and the Dividend Allowance
- Don't miss the tax year-end deadline – 5 April 2023
- Contact us for a free initial consultation



The Bar Council



It's time to take advantage of tax-efficient allowances

Rather than leaving things until the last minute, it makes sense to get ahead of the end of tax year rush by ensuring that you have your financial affairs in order, especially as most investment houses have earlier deadlines. That includes taking advantage of all the tax-efficient allowances available to you through pensions, Individual Savings Accounts (ISAs), Lifetime Individual Savings Accounts (LISAs), Junior Individual Savings Accounts (JISAs), Venture Capital Trusts (VCTs) and Enterprise Investment Schemes (EISs).

Pensions

You can contribute as much as you like into your pension, but there is a limit on the amount of tax relief you will receive each year; this year the Annual Allowance is £40,000 gross. Currently, you can carry forward unused allowances from the past three years, provided you were a pension scheme member during those years.

For every £2 of adjusted income (total taxable income including all pension contributions) over £240,000, an individual's Annual Allowance is reduced by £1 (the minimum reduced Annual Allowance is £4,000 gross).

A Lifetime Allowance also places a limit on the amount you can hold across all your pension funds without having to pay extra tax when you withdraw money. This limit is currently £1,073,100.

Both the Annual Allowance and Lifetime Allowance are frozen at current levels until April 2026.

You can also invest into a pension for a non-working or non-tax paying spouse and doing so has the additional advantage of allowing them to use their personal tax allowance in retirement. Similarly, you can pay into a pension for children under 18. The maximum annual contribution you can currently make is £2,880 which, along with tax relief, amounts to £3,600 a year.

The Judicial Pension Scheme 2022 (JPS) is open to all UK eligible judicial office holders, including both salaried (full and part-time) and fee paid judges, terms and conditions to eligibility apply. The JPS 2022 is a tax-unregistered pension scheme, which means that the pension Annual Allowance and the Lifetime Allowance are not applicable. Member contributions to the scheme will also not receive any tax relief.

Pensions are not the only way to invest for retirement. Indeed, many of our barrister clients have no intention to use funds from pensions but instead will rely upon other tax advantageous investments and pass on their pension funds free of Inheritance Tax to their children.

Individual Savings Accounts (ISAs)

The ISA allowance is £20,000 for 2022-23. You can put all the £20,000 into a Cash ISA, or invest the whole amount into a Stocks and Shares ISA or Innovative Finance ISA. You can also mix and match, putting some into Cash, some into Stocks and Shares and the rest into Innovative Finance. However, the combined amount cannot exceed your annual ISA allowance. With pension contributions subject to annual and lifetime limits, ISAs represent an excellent alternative way of saving for retirement. There is no Income Tax or Capital Gains Tax (CGT) payable on ISA proceeds. You cannot carry over your ISA allowance once the tax year has ended.

In certain circumstances, investors can use existing holdings to open or top up their ISAs, this arrangement is known as a Bed & ISA. This is a way of transferring assets held outside an ISA into an ISA so that future investment income and growth are sheltered from tax. The investments are sold, cash is transferred into the ISA and the investments are repurchased. Charges apply and you could end up with a CGT liability if the gain you make on selling the asset together with any other taxable gains you make within the tax year exceeds the annual CGT allowance.

A Lifetime ISA is available to those aged 18 or over, but under 40, who want to buy their first home (up to £450,000) or save for later life. You can put in up to £4,000 each tax year, until you are 50. The government will add a 25% bonus to your savings, up to a maximum of £1,000 per year. This contribution counts toward your annual ISA limit of £20,000. Conditions apply.

Junior Individual Savings Accounts (JISAs)

Junior ISAs are a tax-efficient way to build up savings for children (and grandchildren and god children) and can be opened for any child under 18 living in the UK. The money can be held in cash and/or invested in stocks and shares. They work in the same way as your own ISA; however, the maximum investment is £9,000 per child for 2022-23.

With pension contributions subject to annual and lifetime limits, ISAs represent an excellent additional way of saving for retirement.



Gifts for Inheritance Tax (IHT) purposes

You can make gifts worth up to £3,000 in each tax year which will be exempt from IHT on your death. You can carry forward any unused part of the £3,000 exemption to the following year, but if you don't use it in that year, the exemption will expire.

Certain gifts don't use up this annual exemption but there is still no IHT due on them e.g. wedding gifts of up to £5,000 for a child, £2,500 for a grandchild (or great grandchild) and £1,000 to anyone else. Individual gifts worth up to £250 are also IHT free.

It is also possible to make regular gifts, known as 'normal expenditure out of income' providing you can afford the payments after meeting your usual living costs.

IHT thresholds remain frozen until April 2028, so although these gift allowances are relatively small sums you should use them where possible to gradually reduce your overall estate.

Capital Gains Tax (CGT)

Every individual is entitled to a CGT annual exemption which is currently £12,300 (£6,150 for trusts). You cannot carry forward this relief and so you may look to crystallise gains up to this amount before the end of the tax year. Capital losses can also be used to offset gains.

Above the CGT allowance, basic rate taxpayers selling investments would pay CGT at 10%, with higher rate taxpayers paying at 20%. Although it is worthy of note that remaining within the allowance should not be your sole driver.

Spouses have two annual exemptions between them and can take advantage of the rules allowing assets to be gifted with no CGT implication until the asset is subsequently disposed of.

The annual CGT exemption will fall to £6,000 in April 2023 and then to £3,000 in April 2024.

There are significant opportunities to take advantage of before the end of the tax year.

Dividend Allowance

For the current tax year, investors can earn up to £2,000 in dividend income tax-free. How much tax you pay on dividends above the Dividend Allowance depends on your Income Tax band; this is 33.75% for higher rate taxpayers and 39.35% for additional rate taxpayers.

The Dividend Allowance reduces to £1,000 from 6 April 2023 and then to £500 from 6 April 2024 for individuals who receive dividend income.

Venture Capital Trusts (VCTs)

VCTs offer growth potential by investing in smaller VCT-qualifying UK companies that are not listed on the main London Stock Exchange. For 2022-23 the maximum investment into VCTs is £200,000.

VCTs provide several tax incentives including:

- 30% upfront Income Tax relief, provided you hold the VCT for five years
- No CGT on profits
- Tax-free dividends

Enterprise Investment Schemes (EISs)

For this tax year, the maximum investment in EISs is £1m (or £2m as long as at least £1m of this is invested in knowledge-intensive companies). Tax incentives are a feature of EISs and include:

- 30% upfront Income Tax relief, provided you hold the EIS for three years
- No CGT on profits after three years
- No IHT after two years

Both EISs and VCTs are only suitable for investors who are comfortable holding high-risk investments. This enhanced risk element stems from the fact that EISs and VCTs invest in small, fledgling, and therefore typically fragile enterprises. In recent years, both EISs and VCTs have gained significant popularity amongst wealthier investors and both schemes undoubtedly remain an attractive proposition for experienced investors looking to maximise tax-efficiency and diversify their portfolios.

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We are a Chartered independent financial advisory and wealth management firm, one of the main providers of financial services to barristers, working with several hundred barristers from within most of the London sets and members of the Judiciary. Furthermore, we are a Bar Council Partner. We are well known within chambers, by many of the clerks, accountancy firms who operate within this sector and other affiliated bodies. We also act as adviser to most of the main legal charities based on Chancery Lane.

We recognise the issues barristers face due to the unpredictable nature of self-employment and can help provide structure to one's financial affairs, analytical rigour and quality fund management. We account regularly to clients on benchmarked performance and costs and provide a comprehensive review process to serviced clients.

As a Chartered firm, with a highly competitive, transparent fee structure, including fixed initial fees, discounts for multiple transactions and capped ongoing charges for larger accounts, we are a firm you can trust.

It's important to ensure that you take expert advice to ensure that you benefit from those opportunities. To arrange a free initial consultation to discuss your end of tax year planning, please call us on 0207 353 6373, email barristers@fswealth.co.uk or visit www.fswealth.co.uk.

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