



KEY GUIDE

Year end financial planning

Introduction

MAKE THE MOST OF YOUR TAX ALLOWANCES AND RELIEFS

With the tax burden rising over the next five years to a post-war high of just over 38% of GDP – around five percentage points higher than before the pandemic – it is more important than ever to make the most of the tax allowances and reliefs available to you. This guide provides an insight into the core opportunities you should consider. With ideas covering income and investment, couples, company directors and employees, there is something for everyone. We also provide some essential tips for those wanting to reduce their inheritance tax liability.

The guidance included here forms the base of a good financial plan as the old tax year comes to an end and the new one starts. If you would like personalised advice on any of these topics, please get in touch.

Contents



PERSONAL TAXATION

Opportunities to minimise tax from sharing allowances



PENSIONS PLANNING

How to make the most of the tax privileges of your pensions



DIRECTORS, EMPLOYEES AND THE SELF-EMPLOYED

How benefits, bonuses and dividends can be used to increase your tax efficiency



TAX-EFFICIENT INVESTMENTS

A look into some of the options for investing tax efficiently



CAPITAL GAINS TAX PLANNING

Timing is everything for your gains and disposals



INHERITANCE TAX PLANNING

With careful planning you can help reduce your final tax bill



How can I minimise my income tax bill for 2025/26?

Everyone should use their personal allowance (a maximum of £12,570) and, as much as possible, reduce income charged at higher, advanced (Scotland only) or additional (top) rates. Two important thresholds to watch are:

- For 2025/26 income over £125,140 is taxed at 45%, or 48% for non-savings, non-dividend income in Scotland. This threshold is frozen (outside Scotland) until April 2031 for all income.
- The personal allowance is gradually withdrawn where income (less certain deductions) is more than £100,000 and is lost entirely once income is £125,140 or more.

If salary sacrifice is an option through your employer, consider using it or think about increasing your pension contributions. If affordability allows, these actions can reduce the amount of income tax paid at the higher, advanced (in Scotland) or additional (top) rates and prevent or reduce the withdrawal of the personal allowance.

From April 2029, the tax advantages of salary sacrifice for pension contributions will be restricted. Only the first £2,000 of pension contributions made through salary sacrifice each year will benefit from reduced national insurance contributions (NICs); any contributions above this level will attract the usual employee and employer NICs. This change will have little impact on most basic-rate savers contributing at auto-enrolment levels, but it will increase NIC costs for higher earners and those making larger pension contributions via salary sacrifice, reducing the overall efficiency of this strategy.

How can my partner and I make the most of our income tax reliefs?

Couples might be able to transfer income-producing

investments between themselves to avoid exceeding one of these limits and to reduce their combined income tax bill. As only income received after a transfer will benefit, prompt action may well be needed if there is to be any benefit in 2025/26. Capital gains tax (CGT) may be payable on switching ownership of an investment if you are not married or in a civil partnership.

Everyone can receive £500 of dividends tax free in 2025/26, regardless of their tax status. For couples, reorganising your shareholdings may help. Basic-rate taxpayers can also receive £1,000 of savings income tax free - £500 for higher- (but not additional-) rate taxpayers.

EXAMPLE

Kate, a higher-rate taxpayer, earns £2,000 in dividend income and £1,500 in savings interest. Her husband, Sam, a basic-rate taxpayer, earns £400 in dividends and £500 in savings interest.

By transferring investments, Kate reduces her dividend income to £500 and her savings interest to £500, matching her allowances. Sam now receives an additional £1,500 in dividends and uses his £500 dividend allowance, paying just 8.75% tax on the remaining £1,400 - a significant saving compared to Kate's 33.75% rate.

Sam also takes on an additional £1,000 in savings interest, bringing his total to £1,500. The first £1,000 is tax free under his personal savings allowance, while the remaining £500 is taxed at 20% (compared to Kate's 40% rate).

- If you have little or no earnings or pension income, you might benefit from a 0% tax rate on up to the first £5,000 of taxable savings income. Again, shifting assets between a couple can help minimise tax.
- A £1,000 tax-free allowance is available for income from property, such as where a parking space is let out, so joint ownership could result in a modest tax saving.
- The marriage allowance allows individuals who are non-taxpayers to transfer 10% of their personal allowance (£1,260 in 2025/26) to their spouse or civil partner, providing the intended recipient pays tax at no more than the basic rate. The allowance is not automatic, so it needs to be claimed initially. It will then remain in place until you cancel it. You can backdate claims for up to four tax years, i.e. back to 2021/22.

Useful link: www.gov.uk/marriage-allowance - how it works and how to apply.

From April 2026, the tax on dividend income for some taxpayers will rise by two percentage points, increasing the basic-rate dividend tax to 10.75% and the higher-rate to 35.75%, with the additional rate unchanged at 39.35%. Then, from April 2027, savings income and property income will also face higher tax rates, rising to 22%, 42% and 47% for basic-, higher- and additional-rate taxpayers respectively. Different rates may apply in Scotland and Wales, with more details on Scottish rates likely to emerge in the Scottish Budget on 13 January 2026. These measures narrow the gap between the taxation of earned and unearned income and will increase the tax cost of holding investments or property outside tax-advantaged wrappers such as ISAs and pensions.

From April 2027, income tax reliefs and allowances must be set first against earnings and other non-savings income before they can reduce savings or dividend income. This reduces the ability for some taxpayers – particularly those with low earnings but significant dividends or savings income – to use their personal allowance to offset higher-taxed investment income. For most people the effect will be modest, but it slightly restricts income-shifting opportunities for couples and further increases the value of using ISAs and pensions to shelter investment income.

What do I need to do if our family is liable for the high income child benefit charge?

Where an individual or their partner has income (less certain deductions) of £60,000 or more, then child benefit is effectively reduced by the high income child benefit charge. This is a 100% reduction if income is over £80,000, and a pro-rata reduction for income between £60,000 and £80,000.

Individuals may be able to overcome this by using salary sacrifice or by making pension contributions and/or charitable donations to bring income below these limits. Couples have the additional option of transferring income between partners.

As a business owner, can employing my partner help to minimise tax?

If you are a business owner, you could pay an otherwise non-earning partner a salary. For sole traders, this can reduce the amount of profit charged to tax at the higher (or advanced) or additional (top) rates.

- You normally must keep PAYE records even if the salary is below the national insurance contributions (NICs) lower earnings limit, which is £559 a month in 2025/26.
- If, however, the salary is between £559 and £1,048 a month, your partner will avoid paying any NICs, but will still qualify for state benefits.

Employer's NICs would be due on salary above a threshold of £417 in 2025/26.

You can also pay an employer's contribution to your partner's personal pension plan. There are no taxes or NICs on the payment itself, and it should be an allowable business expense. However, the total value of your partner's salary, benefits and pension contributions must relate to the work performed.

EXAMPLE

Kai, a sole trader earning £75,000 annually, pays his partner Taylor £550 per month (£6,600 annually) for admin and marketing support. Taylor's salary entitles him to build state benefit eligibility without him having to pay NICs. Kai must keep PAYE records and, for 2026/27, will pay employer NICs of £19.95 a month as Taylor's salary is above the lower threshold of £417 per month. In 2026/27, the salary and NICs payments reduce Kai's taxable profits by around £6,840, saving £2,736 in income tax at the 40% higher rate.

Kai also contributes £3,000 to Taylor's personal pension. This payment is tax-free, NIC-free, and an allowable business expense, further reducing Kai's taxable profits.



Alternatively, you could plan ahead to share the profits of your business by operating as a partnership in 2026/27. You both need to be genuinely involved as business partners, though not necessarily equally.

Planning point

Using all of the opportunities above, you will gain the maximum income tax saving if plans are put in place before 6 April 2026 so that you benefit for the entire 2026/27 tax year.

DIRECTORS, EMPLOYEES AND THE SELF-EMPLOYED

I am likely to pay more tax at higher rates in 2026/27. How can I bring my tax bill down?

Bringing income forward could be a sensible approach if you think you could end up paying more tax at a higher marginal rate in 2026/27.

- If your income is less than £100,000 this year but is expected to exceed £100,000 next year, you could bring forward income into 2025/26 to avoid the tapering of the personal allowance applying next year.
- If your income will fall below £100,000 in 2026/27, you might be able to avoid the tapering of the personal allowance this year by delaying a bonus until after 5 April 2026.

Alternatively, you might be able to sacrifice salary to bring your income below the personal allowance tapering threshold (or the £60,000 high income child benefit charge threshold) in exchange for a tax-free employer's pension contribution.

Other considerations

- This is also a good time to review your choice of company car. Switching to an electric or hybrid model could mean significant tax savings for you and tax and NICs savings for your company, as well as reducing other costs.
- If you hold share options, you should consider your tax position both before and after the tax year end when deciding whether to exercise them now or in a future tax year.
- Directors who are shareholders may be able to reduce NICs by taking dividends rather than salary.

As a self-employed person, what can I do to bring down my tax bill?

The director/employee tax planning approach around income levels applies equally if you are self-employed.

Since 6 April 2024, the basis period reforms have meant that the business profits of the self-employed are assessed and taxed in the tax year in which they arise. These changes



Credit: Unico Vector/iStock.com

affected those who did not already use an accounting period (AP) end date between 31 March and 5 April.

For them, 2023/24 was a transitional year, where taxable profits were split into two parts:

- The standard part: taxable profit for the AP ending in 2023/24.
- The transitional part: taxable profit between the end of the AP in 2023/24 and 5 April 2024.

Any unused overlap relief was deducted from transitional profit. The transitional profit was then automatically spread over the five tax years 2023/24 to 2027/28, unless the taxpayer requested otherwise.

Planning point

For example, if you expect to move into a higher tax band in any of the next two tax years (i.e. 2026/27 and 2027/28), you may wish to bring some more or all of the transitional profits into 2025/26 so they are charged at, say, the basic rather than the higher (or advanced) rate or at the higher (or advanced) rate rather than the additional (top) rate.

Transitional profits are not included in the calculation for the high income child benefit charge, nor for calculating income for tapering the pension annual allowance. They are, however, used in calculating the withdrawal of the personal allowance where income (less certain deductions) is more than £100,000. If this looks like it could be an issue for you in the next two tax years, you could be better off taking your transitional profits sooner rather than later.

Useful links: www.gov.uk/business – helpful advice for businesses.

<https://www.gov.uk/guidance/get-help-with-basis-period-reform> – basis period reform help.

CAPITAL GAINS TAX PLANNING

How can I manage my capital gains liabilities to maximise the annual exempt amount?

Everyone has a capital gains tax (CGT) annual exempt amount, which in 2025/26 makes the first £3,000 of gains free of tax.

- Gains above the exempt amount are taxed at 18% where taxable gains and taxable income are less than the UK basic-rate limit of £37,700 in 2025/26.
- The rate is 24% on gains that exceed this limit.

You should generally aim to use your annual exempt amount by making disposals before 6 April 2026 (Easter Monday). If you have already made gains over £3,000 in this tax year, you might be able to dispose of loss-making investments to create a tax loss, to reduce the net gains to the annual exempt amount. You can choose which gains to set against the annual exempt amount.

Timing disposals

If your disposals so far this tax year have resulted in a net loss, the decision on whether to dispose of investments to realise gains before the tax year end will hinge on the amounts involved. Depending on your level of income, timing your disposals either before or after the end of the tax year could result in more of your gains being taxed at 18% rather than 24%. Transferring income-producing investments between married couples or civil partners can also mean more gains being taxed at the lower rate of CGT.

Transferring assets between married couples or civil partners before disposal might save CGT, particularly where one partner has an unused annual exempt amount, has not fully used their basic rate tax band or has capital losses available. You should generally leave as much time as possible between the transfer and the disposal.

EXAMPLE

Jamie and Sally are a married couple. Jamie is considering selling an investment holding with a £10,000 gain. Sally has £4,000 in capital losses.

If Jamie transfers 70% of the holding to Sally, Sally will have a gain of £7,000 on disposal. Sally can use her £4,000 capital losses to reduce the gain to £3,000. She can then use her £3,000 annual exempt amount to make the entire £7,000 gain tax free.

Jamie keeps the remaining £3,000 of the gain. Since his £3,000 annual exempt amount covers this portion, no CGT is due on Jamie's share either.

If shares or assets have become virtually worthless, you could claim the loss against your capital gains without actually disposing of the asset by making a negligible value claim.

You can backdate the loss relief to either of the two tax years before the one in which you make the claim, provided that you owned the asset in the earlier tax year and it was already of negligible value. The deadline for backdating a claim to 2023/24 is 5 April 2026.

Planning point

CGT is normally payable by 31 January after the end of the tax year in which you make the disposal. You could therefore delay a major sale until after 5 April 2026 to give yourself an extra 12 months before paying. (For a non-exempt residential property disposal, a payment on account of CGT must be made within 60 days of completion.)

PENSIONS PLANNING

Pension contributions benefit from a number of tax reliefs, which have widely been viewed as under threat in future Budgets.

Pension funds are broadly free of UK tax on their capital gains and investment income. When you draw the benefits, up to a quarter of the fund is normally tax free, although the pension income will be taxable.

What do I need to consider in making pension contributions in 2025/26?

If you have surplus income, you may wish to consider increasing your pension contributions to boost your retirement funds.

There is a general annual limit – the annual allowance – of £60,000 on pension contributions that qualify for tax relief. However, if your income (including any pension contributions made by your employer) exceeds £260,000 the limit is tapered down, with a minimum of £10,000 applying if the figure is £360,000 or more.

You can carry forward unused annual allowances for up to three tax years to offset against a contribution of more than your annual limit. If you are already drawing a flexible income from a pension, the annual allowance is £10,000 and you cannot take advantage of carry forward.



- You can pay up to your entire annual earnings into a pension scheme in any one tax year, but tax is capped by the annual allowance plus any unused allowances brought forward.
- Unused allowances are calculated based on the annual allowance from the tax year they are brought forward from. For two of the last three tax years (2022/23), this was a maximum of £40,000, rather than the £60,000 which applies for the current tax year, 2023/24 and 2024/25.
- Tax relief on pension contributions is normally at least 20%, with higher- and additional-rate taxpayers receiving relief at 40% or 45%. In Scotland, intermediate-, higher-, advanced- and top-rate taxpayers receive relief at 21%, 42%, 45% or 48% respectively.

EXAMPLE

Jamal earns £200,000 a year. His annual contributions and carry forward position over the last three years would be:

Tax Year	Annual Allowance £	Contributions Paid £	Amount Carried Forward £
2022/23	40,000	30,000	10,000
2023/24	60,000	52,000	8,000
2024/25	60,000	25,000	35,000
TOTAL		<u>53,000</u>	

In 2025/26, Jamal can contribute £60,000 (the 2025/26 annual allowance) plus £53,000 carried forward, making a total contribution of £113,000, all within his £200,000 earnings.

- Tax relief is greatest where it exceeds the eventual tax on benefits, for example, where a higher-rate taxpayer becomes a non- or basic-rate taxpayer in retirement.
- Limiting your contributions to amounts that qualify for tax relief at the higher rates will give you the most benefit.
- Effective relief can be as high as 60%, or 67.5% in Scotland, where the personal allowance is being withdrawn, and can be even higher if tax credits or Universal Credit payments are being withdrawn.

You could set up a pension for a non-working partner or your children since they don't need earnings to contribute up to £3,600 in a personal pension. Even if they do not pay any tax, they can still benefit from 20% tax relief.

EXAMPLE

Caroline wants to help her 10-year-old grandson, Max, start saving for his future. She decides to contribute £2,880 to a personal pension for him.

With 20% tax relief, the £2,880 net contribution is grossed up to £3,600, as the government adds £720 in tax relief. This amount is invested in an adventurous fund, aiming for maximum growth given the long timescale until Max retires.

What other lifetime allowances could affect me?

From 6 April 2024, the £1,073,100 lifetime allowance was abolished and replaced with:

- Lump sum allowance (LSA): £268,275 (25% of the former lifetime allowance), the maximum tax-free lump sum you can take from your pension during your lifetime, unless you have a protected right to take a higher amount.



- Lump sum and death benefit allowance (LSDBA): £1,073,100, the total tax-free amount you can take from your pension while alive and upon death, unless you have a protected right to a higher amount.

Amounts above these limits are taxed income. In certain circumstances higher limits may apply, for example if you have a transitional protection.

Lump sum death benefits will normally be regarded for inheritance tax (IHT) purposes as part of your estate from 6 April 2027, unless they represent death-in-service benefits.

I am over 55 – what are my options for drawing benefits from my pension?

Many people aged 55 and over (57 from 6 April 2028) can draw their pension savings flexibly. Withdrawals above the tax-free amount are liable to income tax at your marginal rate. You should take advice before accessing pension savings as there are several options, each with their own pros and cons, and they will generally have a long-term effect on your financial position.

If you are already drawing your benefits from a pension fund that is not guaranteed and are considering reducing your withdrawals, be aware that this should also reduce the amount of income tax due.

Planning point

If your pension fund is over or close to the £1,073,100 standard lump sum and death benefit allowance, you might consider speaking to a financial adviser to review the implications for you and any future beneficiaries of your pension and whether you should apply for a transitional tax-free amount certificate.

TAX-EFFICIENT INVESTMENTS

Some investments have income tax and CGT advantages.

How can I make the most of my individual savings accounts for 2025/26?

Tax-efficient savings and investments like individual savings accounts (ISAs) can give your returns a further boost.

You can invest in any number of cash, stocks and shares and innovative finance ISA in each tax year. If you are aged 18 to 39, you can also invest up to £4,000 in a single lifetime ISA (LISA). If you already have a LISA, you can in theory contribute until you reach age 50. In practice, LISAs are due to be replaced by a new Help to Buy ISA following a consultation due early in 2026. Currently it is unclear whether the reform will mean contributions to existing LISA will have to stop, but precedent suggests the option to contribute will remain.

The maximum ISA investment limit of £20,000 for 2025/26 (and through to 2030/31) applies across all four types of ISA. This sum may be invested in one type of account or split

between two or more. ISAs are free of UK tax on investment income and capital gains, and there is a wide choice of funds and providers.

From April 2027, the annual cash-ISA allowance for savers under age 65 will be reduced from £20,000 to £12,000. This means that up to £8,000 of the annual allowance would need to be placed into a Stocks & Shares ISA (or another ISA type) to make full use of the limit, which may lead some savers to reconsider how they allocate their ISA contributions. For those aged 65 and above, the full £20,000 cash-ISA allowance remains. From April 2027, there will also be a new charge on interest earned on cash in a stocks and shares ISA and restrictions on cash and quasi-cash funds in such ISAs for savers under age 65.

The government adds a 25% bonus to investments of up to £4,000 a year in a LISA. You can use these savings to help buy a first home or keep the funds to use from age 60. Eligible savers can use a LISA either instead of or alongside more traditional ways of saving for retirement. The decisions can be complex so taking advice is essential. You will incur a LISA government withdrawal charge (currently 25%) if you transfer the funds to a different ISA or withdraw the funds before age 60 (other than for a first home purchase) and you may therefore get back less than you paid into a LISA.

Parents and others can contribute to a Junior ISA for children up to 18 who do not have a child trust fund. The contribution limit is a generous £9,000 in 2025/26 (and each subsequent tax year to 2030/31) and funds are generally locked in until the child is 18.

Planning point

ISAs have always been valuable for those who can afford to regularly invest the annual maximum and consequently build up substantial tax-free savings. With tax rates on savings income and dividends due to increase, ISAs have become more attractive.

What are my options on enterprise investment schemes and venture capital trusts?

These are schemes that offer significant income tax and CGT benefits. However, they are high-risk investments and may be difficult to sell so you should seek specialist advice.

- Enterprise investment schemes (EISs) give income tax relief at 30% for investing in new shares in relatively small qualifying trading companies that are not listed on any main stock exchange.
- The seed enterprise investment scheme (SEIS) is similar but gives income tax relief at 50% and is aimed at start-up companies.
- Gains from both EISs and SEISs escape CGT after three years. CGT reinvestment relief is also available.

- Once held for two years, investments in EISs and SEISs are usually outside of an individual's estate for IHT purposes.
- Income tax relief for investment in newly issued shares in venture capital trusts (VCTs) is 30%. Normally gains are exempt from CGT and dividends free of income tax. VCTs are investment trusts that invest in relatively small trading companies.

Planning point

Income tax relief on (VCT) investments will fall from 30% to 20% from April 2026. Clients considering VCTs may wish to act before the end of the 2025/26 tax year to secure the higher 30% rate of relief, provided the investment is suitable for their circumstances and risk appetite. If you are an existing VCT investor who automatically reinvests their VCT dividends to buy new shares with tax relief, you should review whether to continue doing so.

INHERITANCE TAX PLANNING

Are there any key issues around estate and IHT planning I should consider before the 2025/26 year end?

IHT is payable if a person's assets on death, plus gifts made in the seven years before death, add up to more than the nil-rate band, which is currently £325,000. A residence nil-rate band of £175,000 may also be available where a residence is left to direct descendants.

Lifetime gifting is a way of reducing the value of your estate. Gifts totalling up to £3,000 in a tax year are exempt from IHT. If you didn't use this exemption in 2024/25, you can make IHT-free gifts of up to £6,000 before 6 April 2026. The exemption for the current tax year must be used first before any unused amount from 2024/25 can be carried forward.

EXAMPLE

Joan made a gift of £2,000 to her granddaughter, Hannah, in July 2024. She can make a gift of up to £4,000 in 2025/26 using her current and unused carried forward exemption. However, if Joan gives Hannah £3,000 in 2025/26, there will be nothing to carry forward to 2026/27.

Useful link: www.gov.uk/inheritance-tax – HMRC guide to IHT.

CHARITABLE GIVING

I would like to contribute more to charities that are important to me. What are the tax implications?

You can get tax relief for any gifts to charity if you make a gift aid declaration.

You make the gift out of your taxed income and the charity benefits by claiming back basic-rate tax on the value of the

gift. Higher-and additional-rate taxpayers can claim an extra 20% or 25% in relief. Intermediate-, higher-, advanced- and top-rate taxpayers in Scotland can claim an extra 1%, 22%, 25% or 28% in relief, respectively.

You can obtain both income tax and CGT relief on gifts to charities of shares listed on the stock market and certain other investments.

Gifts to charity are free of IHT, so remembering a charity in your will can reduce the total amount of IHT that will be paid on your estate. If at least 10% of your net estate is left to charity, then the rate of IHT payable will be reduced from 40% to 36%.

Useful link: www.gov.uk/donating-to-charity – information about gift tax relief.

CHECKLIST

- Could you **transfer savings or investments to your partner** to minimise tax payable at the higher rates next tax year, to maximise use of the personal savings and dividend allowances, or to avoid losing your personal allowance or child benefit?
- Have you considered the **timing of dividends and bonuses** to minimise tax payable?
- Have you used your **CGT annual exempt amount** by making any available disposals before the tax year end?
- Are you **investing enough in your pension** (or possibly a lifetime ISA) if you wish to, or have to, retire earlier than state pension age, which is likely to keep going up?
- If you are aged over 55, have you taken advice about the options for **drawing your pension savings**?
- Have you used **this year's ISA allowance** and made any other tax-efficient investments before 6 April 2026?
- Have you made gifts to use your **annual IHT allowances**?

The value of tax reliefs depends on your individual circumstances. Tax laws can change.

The Financial Conduct Authority does not regulate will writing, tax and trust advice and certain forms of estate planning.

The value of your investment and the income from it can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.

Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.

**Simpson Financial Services Limited**

23a Cross Street
Royal Leamington Spa
Warwickshire
CV32 4PX
Tel: 0800 6342 111
Email: office@simpsonfs.co.uk
Web: www.simpsonfs.co.uk

Advisers

Rob Simpson DipPFS - Managing Director and Independent Financial Adviser
Michael Hinett APFS - Chartered Financial Planner
Natasha Palmer Cert CII (MP) - Director and Mortgage Capacity Assessment Specialist
Lisa Simpson - Trustee Accounts Specialist
Christian Wilson DipPFS - Independent Financial Adviser
Hannah Stanley DipPFS - Independent Financial Adviser
Chris Le Marquand Cert CII (MP) - Independent Mortgage Adviser
Alex James FPFS - Chartered Financial Planner