March 2023

The Premier Partnership Limited

Your Family Office

A Change is Gonna Come!

As the legendry Sam Cooke sang, (on the 6 April 2023) “A Change Is Gonna Come “ - to tax!

The mini (Maxi?) Budget that hit following Car Crash Kwarteng's earlier pronouncements, was Jeremy Hunt’s first Budget, and his second is on the way.

The Budget announced a series of tax increases to both corporate and personal accounts, so in this timely reminder, we will be looking at utilising the 2022/23 rates and thresholds.

From 6 April 2023 New tax rates and thresholds will apply.

Income Tax

Consider reviewing and/or accelerating dividend payments to arrive in this tax year. The reason for this review is that with tax rates rising there may be a window of opportunity to pay tax at 2022/23 rates and not 2023/24 rates.

Thresholds

Tax thresholds are being adjusted from 6 April.

For example:

The Additional Rate (45%) threshold will reduce from £150,000 to £125,140

So a £150,000 salary will be subject to an additional income tax charge of over £1,200 in 2023/24.

Allowances

The Personal Allowance for 2023/24 is £12,570 (This allowance is frozen until April 2026).

After the first £12,570 you will pay income tax at the following rates:

- **Basic Rate of 20% on earnings between £12,571 and £50,270**
- **Higher Rate of 40% on earnings between £50,271 and £125,139**
- **Additional Rate of 45% on earnings above £125,140**

With the reduction in the Additional Rate threshold more people will fall into the 45% rate earlier than previous.

Your standard Tax Code should be 1257L - although this can vary greatly with personal circumstances.

Tax REPORT

Dividends and Allowances

The thresholds for dividend taxation are also changing from 6 April 2023.

For example:

A £10,000 dividend received by an Additional Rate tax payer will cost over £3,500 in 2023/24, compared to £2,700 in 2022/23.

The Dividend Allowance - the amount of dividend income a UK Tax resident can receive tax free in a tax year will reduce from £2,000 currently to £1,000 on 6 April. This Dividend Allowance will reduce further to £500 in 2024/25.

The actual rates of dividend tax will remain the same, but the reduction in allowances mean that more tax will be paid.

Dividend Rates

Ordinary Rate	**8.75%**
Upper Rate	**33.75%**
Additional Rate	**39.35%**

These actual 'pay' rates will remain for 2024/25 as well.

Pension Contributions

Maximising current year and brought forward allowances.

- £40,000 annual allowance on gross contributions
- Three-year carry forward (2019/20 onwards)
- Current year used in priority

Beware of tapering of allowance for higher earners

- Allowance reduced by £1 for every £2 income above £240,000, down to £4,000 minimum at £312,000
- 2019/20 income thresholds are lower

Consider effective rate at which relief is given – might be better to defer some contributions until 2023/24, or maximise 2022/23 contributions if income is higher this year.

Note: any previous withdrawal from pension schemes could have triggered the Money Purchase Annual Allowance (MPAA) restrictions.

Summary

All of the above changes were made in the Autumn Statement of 2022, and will come into effect on 6 April 2023. For Directors/Business Owners, who pay themselves a mixture of salary and dividends, review that balance now to ensure tax efficiency. It may seem counter intuitive to pay a higher salary but in certain circumstances it may be the right thing to consider.

There is no doubt this is a tax by stealth process and the freezing or reducing of allowances serves fully to achieve Governmental targets of increased taxation revenue.

The increase in the State Pension in April 2023 will take some people into taxation for the first time in retirement, as the increase could well take many people above the frozen personal allowance for the first time.

Time is short, so if you wish to discuss your remuneration strategy or your tax position ongoing for the new tax year, please contact us.

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