

Tax Year Planning for 2025/26



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It is always a good idea to review tax planning opportunities to ensure allowances are maximised and your planning is in line with current legislation, particularly this year given various changes now coming into force. Our guide is a brief reminder of the key points to be addressed.

Pensions

- The standard lump sum allowance (LSA) remains at £268,275 and limits the tax-free payments from pensions during the member's lifetime.
- The standard lump sum and death benefit allowance (LSDBA) remains at £1,073,100 and limits the tax-free payments both in life and on death.
- Those with lifetime allowance protections will generally have both a higher LSA and a higher LSDBA. Where benefits have been taken under the lifetime allowance regime there are complex transitional arrangements and advice is necessary.
- The annual allowance for tax relievable contributions, subject to earnings for personal contributions, remains at £60,000. The relief is available at your highest marginal rate of Income Tax.
- The adjusted income limit continues at £260,000, at which point your annual allowance starts to reduce on a £2 for £1 basis, down to a minimum of £10,000 if your adjusted income exceeds £360,000 (and your threshold income exceeds £200,000).
- Employer pension contributions are a tax efficient way of extracting profits for owner-managers and should be deductible for corporation tax purposes. This offers owner-managers a tax efficient deferred income.
- Employers should consider offering their employees salary sacrifice arrangements for employer sponsored pension arrangements. This service could be provided at no extra cost to the employer (subject to possible admin fees). This results in National Insurance Contributions (NICs) savings for both the employee and employer and mitigates the new employer NIC rate which increased to 15% as of 6 April 2025. If employers pass on these NIC savings as a benefit strategy towards staff retention and satisfaction, employees have greater pension savings.

- It may be possible to carry forward unused annual allowances from the previous three tax years if the current year's allowance has been used up. If your income is over £100,000, a pension contribution may also help to reclaim any "lost" personal allowance, potentially resulting in effective tax relief of up to 60% on your contribution.
- Consider making a net contribution of up to £2,880 (£3,600 gross) for family members including those with no earnings e.g. children.

ISAs

- The ISA allowance remains unchanged at £20,000, which means a couple have a total allowance of £40,000 this tax year.
- Any income or growth that is generated within the ISA is received tax free, and withdrawals are not subject to tax.
- You can save your full allowance into a stocks and shares ISA, a cash ISA, or combination of the two.
- Up to £9,000 can be contributed to a Junior ISA or Child Trust Fund.

Dividend allowance

The tax-free dividend allowance from 6th April 2025 remains at £500.

Income Tax

You can split income generating assets between couples to maximise the use of both individual's personal allowances.

Inheritance Tax

Make the most of Inheritance Tax (IHT) allowances:

- The tax-exempt nil rate band remains frozen at £325,000 until April 2028.
- You can gift up to £3,000 each tax year, or £6,000 if there was no gift in the previous tax year. Any unused allowance from the previous year can be carried forward, meaning a couple can between them potentially make a tax-free gift of up to £12,000.
- On a child's marriage, parents can gift £5,000 each (grandparents £2,500 each).
- You can make as many gifts as you wish of up to £250 per person, per tax year.
- Gifts as part of your normal expenditure are exempt from an IHT charge. A pattern of making these payments should be established and documented. You may be able to look back at previous years to increase the amount available.
- Homeowners may benefit from the Residence Nil Rate Band (RNRB) of £175,000 which can be used in addition to the standard IHT nil rate band. To benefit, your home must be passed down to lineal descendants, i.e. children/ grandchildren. There is a tapered withdrawal of this allowance for inheritance estates with a net value of more than £2 million. This is at a rate of £1 for every £2 over £2 million. This is beneficial to married couples and those in civil partnerships as their IHT relief is doubled. RNRB can be transferred to the deceased's spouse or civil partner's estate. On first death, the unused RNRB is capped at the value of the home. This can even be done if the first of the couple died before 6 April 2017.
- If you leave at least 10% of your net estate to charity, your estate could pay the reduced rate of IHT of 36% on assets above £325,000, instead of the standard 40%.
- You can also mitigate any potential IHT liabilities by implementing simple life assurance policies written under suitable trusts.
- From April 2027 unused pension funds will be subject to inheritance tax. It is important to note that pension benefits left to a spouse or civil partner will continue to be exempt from IHT.

Business Relief investments

Have you considered a business relief investment, which can offer up to 100% Inheritance Tax relief?

- The 2024 Autumn Budget announced plans to cap Business Relief from April 2026 on qualifying assets of up to £1 million per individual. Thereafter, 50% of any value in excess of £1 million will qualify for relief, which means an effective IHT rate of 20% will be payable for values above £1 million.
- Qualifying assets must be held for at least two years for your estate to benefit from the relief.
- AIM listed shares currently qualify for 100% Business Relief. From April 2026 the relief for such shares will be reduced to 50%. The £1 million relief allowance will not apply to AIM shares.

Have you reviewed your Will in the last five years?

Review your Will to ensure it meets your current wishes and you are maximising IHT reliefs.

Capital Gains

- UK resident individuals are entitled to realise capital gains of up to £3,000 (2025/26) without having to pay any Capital Gains Tax (CGT).
- The ownership of any asset may be transferred to or shared with a spouse/civil partner without triggering a tax charge, so that both annual exemptions may be used.
- Capital gains tax rates are set at 18% (basic rate taxpayer), and 24% (higher rate taxpayer).
- The CGT rate for transactions involving residential property (other than your principal residence), or carried interest, remains at 18% at the lower rate and 24% for higher rate taxpayers.
- If you have an unused ISA allowance, it may be beneficial to use your CGT allowance to crystallise funds held in a non-tax-privileged investment account and reinvest it in an ISA.

EIS investment

Have you considered an Enterprise Investment Scheme, which offers Income Tax relief of 30% and unlimited capital gains tax deferral?

- Up to £1,000,000 can be invested with a 30% Income Tax reduction being given on the amount invested or your income tax bill if less.
- This limit is doubled to £2,000,000 provided any amount over £1 million is invested in "Knowledge Intensive Companies".
- An EIS must be held for at least three years to retain the tax relief. The full allowance of EIS relief in the year could equate up to a £600,000 reduction in your income tax bill.
- Loss relief allows you to offset a loss made against either your income or capital gains, depending on which route is more tax-efficient.

SEIS investment

Have you considered investing into a Seed Enterprise Investment Scheme which offers 50% Income Tax relief and a CGT exemption?

- Up to £200,000 can be invested annually. The relief provides a 50% Income Tax relief and the ability to exempt capital gains equal to 50% of the amount invested.

VCT Investment

Have you considered Venture Capital Trusts, which offer 30% Income Tax relief available on £200,000?

- Up to £200,000 can be invested and up to 30% Income Tax relief is available with future dividends exempt from income tax. It is recommended that you hold the VCT for at least five years.

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