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A guide to maximising

**END OF YEAR
TAX PLANNING
OPPORTUNITIES**

2026



The end of the tax year presents significant opportunities to make the most of your financial position. A strategic review before the 5th April 2026 may suggest ways to structure your affairs more efficiently and make the most of your tax position. This guide will highlight some of the opportunities, as well as provide more detail in key areas.

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Income Tax



Rates and allowances

The tax-free personal allowance for the 2025/26 tax year remains static at £12,570, with the Government stating their intention for this allowance to remain frozen until April 2031.

The next £37,700 of income is taxed at the basic rate of 20% (8.75% for dividend income).

Higher rate tax of 40% (33.75% for dividends) is charged on income above £50,270 and additional rate tax (ART) of 45% (39.35% for dividends) is charged on income above £125,140.

Note that dividends are treated as the top slice of income, so the basic and higher rates are first allocated against other incomes.

Under current guidance, the allowances will remain at the above levels until April 2031.

The personal allowance is reduced by £1 for every £2 of income above £100,000. There is therefore no personal allowance available at all where income exceeds £125,140. Consequently, the effective rate of tax on income between £100,000 and £125,140 is 60%. This also means that the effective rate of tax relief on pension contributions and gift aid donations is 60% within this income band.

From April 2026, the basic rate of tax payable on dividends in excess of the dividend allowance will increase by 2% to 10.75%, as too will the higher rate to 35.75%. The additional rate on dividends will remain unchanged at 39.35%.

Gift Aid and Pensions

Sufficient gift aid donations and/or personal pension contributions can be made, where possible, to mitigate the impact of the tapering of the personal allowance.

Savings and Dividends

You should consider whether sufficient income can be generated to fully utilise the personal allowance and basic rate band. This may be done by careful planning of the timing of dividends from a private company or distributions from a family trust.

The personal savings allowance entitles basic rate taxpayers to £1,000 of tax-free savings income and higher rate taxpayers £500. However, additional rate taxpayers receive no allowance. You may also get up to £5,000 of interest and not have to pay tax on it if you qualify for the starting rate for savings. You're not eligible for the starting rate for savings if your other income is £17,570 or more.

The dividend tax allowance of £500 is available for all taxpayers. Amounts falling within the dividend allowance are taxed at 0%. The allowance will, however, use any part of the lower rate bands that they would otherwise have fallen into.

Interest and dividends received within ISAs will continue to be entirely tax-free. The ISA will remain at £20,000 for 2026/27, with future changes proposed to start from April 2027.

Finally, you may wish to review and advance the payment of dividends prior to 6 April 2026, after which the rate of tax on dividends will rise.

Married Couples

In certain circumstances, married couples or civil partners can sometimes transfer 10% of their personal allowance between them by making an election (applying online or by post). Tax relief is given via a tax reduction of 20% of the transferred amount of £1,260 for 2025/26, reducing tax by up to £252. This can be backdated for the previous four tax years, as well as the current tax year.

This transfer is only available if one party is a non-taxpayer and the other is a basic-rate taxpayer. To get the full benefit the non-taxpayer must have an income of £11,310 or less. If either of you were born before 6th April 1935, you may benefit more through the Married Couple's Allowance.

Grandparents' Income

There is potential to divert income from grandparents or other relations (not parents), in order to utilise a minor child's personal allowance. This can be achieved by creating a family trust as part of a wider Inheritance Tax planning exercise. Professional advice should be sought before undertaking this.

High-Income Child Benefit Charge

If you or your partner receives child benefit, it is important to remember that taxpayers with an adjusted net income in excess of £60,000 are liable to the high-income child benefit charge. The charge will be levied on the higher earning partner and can be deducted through PAYE or through Self-Assessment. The charge is 1% of the full child benefit award for every £200 income between £60,000 and £80,000. Where income is more than £80,000, effectively all child benefits are lost.

You can elect not to receive child benefit if you or your partner prefer not to pay the charge but through the use of personal pension contributions and gift aid donations, your adjusted net income can be lowered, potentially reinstating some or all of the child benefit received.

Utilising Tax Efficient Investments – Venture Capital Trusts (VCTs)

From April 2026, the upfront income tax relief available on new shares will decrease from 30% to 20%. Therefore, if you currently invest in VCTs to reduce your overall income tax liability, professional advice should be sought to determine whether VCT investment remains appropriate in light of these changes, or if you would like to consider its suitability for the first time. VCTs will continue to pay tax-free dividends, with the Government announcing changes to what companies VCTs can invest into.

Key Income Tax Considerations Before 6 April 2026

For individuals whose income level is around where the personal allowances may be tapered, particularly those with income close to, or exceeding, the £100,000 threshold, it is often appropriate to review how taxable income is structured, considering:

- how income and investments are structured
- whether ISA allowances have been fully utilised
- the timing of dividend payments ahead of rate changes
- eligibility for savings and dividend allowances
- the ownership of income-producing assets between spouses or civil partners
- pension contributions
- charitable donations qualifying for Gift Aid donations
- understanding exposure to the High-Income Child Benefit Charge
- exposure to investments with specific income tax reliefs, such as EIS or VCTs

Pensions



The following does not constitute financial advice. Your personal circumstances must be assessed before taking any action.

Making the most of your annual pension allowance

You are able to contribute £60,000 to your pension annually. This can also be increased if you did not use up your allowances in the preceding 3 years and were a member of a qualifying pension scheme. However, it should be noted that individuals will only receive tax relief up to the higher of your relevant earnings or £3,600.

Individuals' annual allowances continue to be tapered where earnings exceed £260,000. The allowance will continue to be reduced by £1 for every £2 an individual's 'adjusted income' is over £260,000 and can still affect you if your income from all sources is over £200,000. However, the minimum tapered allowance remains at £10,000. Therefore, individuals earning over £360,000 will still be able to contribute up to £10,000 into their pension arrangements. It should also be noted that the Money Purchase Annual Allowance which limits how much individuals can contribute into a pension once they have 'flexibly accessed' their arrangement also continues to be £10,000.

Changes to Salary Sacrifice Relief

From April 2029 National Insurance relief will be capped at £2,000 per year per employee pension contribution made via Salary Sacrifice. Therefore, employees will start paying National Insurance on contribution in excess of £2000 paid into their pension via Salary Sacrifice. This will impact the take home payer of middle and high earners as well as increase employer National Insurance costs.

Lifetime Allowance

The Lifetime Allowance (LTA), which was abolished from 6 April 2024, was the maximum total amount a person could accrue within their pension plans without having to pay an additional tax charge. Since 6 April 2023, no one has faced an LTA charge irrespective of the level of their pension benefits. Although the LTA was abolished completely on 6 April 2024, the level of a person's LTA determines the level of their new allowances. The standard LTA has been replaced with the two mainstream allowances being:

Lump Sum Allowance (LSA)

This limits the amount a person can take as tax-free lump sums during their lifetime, currently £268,275 or higher if LTA protections apply.

Lump Sum and Death Benefit Allowance (LSDBA)

This limits the amount that a person can take as tax-free lump sums during their lifetime, as serious ill-health lump sums before age 75 and by their beneficiaries as lump sum death benefits on the member's death before age 75, currently £1073,100 or higher if LTA protections apply.

The taxation of remaining pension benefits for the owner of the scheme or future beneficiaries will depend on many variables and circumstances will vary. Your Financial Adviser will help clarify your individual situation.

Despite the limitations on accessing tax-free cash, the abolition of the LTA provides huge opportunities for individuals who have previously limited their pension contributions due to LTA concerns to now restart these to take advantage of the tax-advantaged status of pensions. Moreover, individuals who have restricted their contributions in the current or previous tax years due to LTA concerns could potentially be eligible to make a significant contribution (up to £200,000 in some cases) by taking advantage of the carry-forward rules should they have earnings to support these, or are in a position to receive an employer contribution. Please note, this is a complex area and you should consult your accountant and financial adviser before making any contributions.

Pension Death Benefits

Under current rules, no inheritance tax is due on death benefits inherited by the deceased beneficiaries.

From 6 April 2027, the majority of death benefits will form part of the deceased member's estate for inheritance tax purposes. The proposed changes are likely to evoke planning requirements for pension holders.

Why are Pensions so Attractive?

1. Tax relief on contributions

One of the main benefits, when you pay into a workplace pension, personal pension scheme or a Self-Invested Personal Pension (SIPP), is that you can get money back from the Government in the form of tax relief. It's a way of encouraging you to prepare for your retirement and it effectively amounts to free money, so it is important to make the most of it.

If you are under age 75, you receive tax back on all your pension contributions, subject to the upper limits set out later in this article. 20% tax relief is automatically applied to pension contributions you make, or which are made direct from your salary by an employer. Higher rate taxpayers can claim an additional 20% and top rate taxpayers an additional 25% (this is not automatic and must be reclaimed from HMRC).

20% tax relief does not mean that you receive 20% of your contribution back. Instead, it is the difference between your contribution amount and your pre-tax earnings. So, for example, an £80 pension contribution would have been generated from earnings of £100 (from which the taxman deducted 20% to leave you with the £80 to put into the pension). In effect, you only have to pay in £80 for every £100 that lands in your pension.

2. Tax free investment gains

The growth within pension funds is tax free. Therefore, investment returns within your pension fund are not subject to capital gain or income tax.

3. A tax-free lump sum when you retire

You can usually withdraw up to a quarter of your pension savings as a tax-free lump sum or a higher sum if Lifetime Allowance protections apply.

4. Flexible access from age 55 (soon to be 57)

The popular pension freedom reforms that launched in April 2015 mean that you can now access your whole pension pot at age 55 and spend, save or invest the money as you wish. You can withdraw the whole pot in one go, although that might mean mistakenly running up a huge tax bill. Alternatively, you can choose to drawdown from your pension arrangements to provide an income that can be used to support you in retirement.

It should be noted that, from 2028 onwards, the minimum age for accessing your pension will increase to 57.

Opportunities for Planning

1. Review your current contributions

Some questions to consider as you review your current contributions include:

Have you fully utilised your Annual Allowance from the previous 3 tax years?
Could you sacrifice an element of your salary/bonus to boost pension contributions for the current year?

(Noting the changes from April 2029)

2. Ensure you are not caught out by tax 'traps'

Individuals earning over £100,000 will have their personal allowance reduced at a rate of £1 for every £2 resulting in an effective tax of 60% up to earnings of £125,140. Consider making a contribution into your pension to bring your earnings below £100,000 to take advantage of the attractive tax relief available.

A similar 'trap' occurs when claiming Child Benefit and you or your partner, or both of you, receive an annual income of £60,200 or more. For every £200 you receive above £60,000, you need to pay back 1% of the maximum amount of Child Benefit you're entitled to.

Once an individual earns £80,000 a year, the charge you'll pay back is equal to 100% of your entitlement.

If one of you does earn £80,000 or more, you can claim Child Benefit (in order to keep your entitlement to NI credits) but opt out of receiving the payment.

3. Consider restarting contributions following the abolition of Lifetime Allowance

As mentioned, individuals who have previously stopped contributions into their pensions due to LTA concerns should consider reviewing their plans following the changes announced in the Spring Budget of 2023.

In addition, members of defined benefit (DB) schemes, such as members of the NHS scheme, who were likely to be caught out by the LTA, could now consider contributing to a private Defined Contribution pension given the tax benefits on offer.

4. Tax efficient extraction of company profits

Directors of a limited company can choose to make pension contributions for themselves, as well as their employees. Making contributions as a director to your own pension is a very tax efficient way of extracting capital from a company, as contributions are not taxed as income for salary or at dividend tax rates.

Pension contributions are also deemed to be allowable expenses where made 'wholly and exclusively' for the purposes of the business, which generally means that contributions for those that generate revenue for the business are a cost to the business and will potentially reduce corporation tax payable.

It's important to remember that you are still restricted to £60,000 per annum, as well as the £1 for every £2 reduction that applies where income and dividends is over £260,000 (down to a minimum of £10,000). Carry forward rules can also be applied where unused allowances are available from the last 3 tax years.

Inheritance Tax



Why IHT planning matters more than ever

Inheritance Tax (IHT) is increasingly becoming a central part of personal tax and financial planning. Over the past decade, many families have seen the value of their assets grow steadily, and at the same time, the core IHT thresholds have been frozen since 2009 and will remain unchanged until at least 2031.

As a result, a larger proportion of family wealth becomes exposed to IHT, often without deliberate action from the individuals involved. This “fiscal drag” means estates that once fell comfortably below the thresholds may now face a substantial IHT charge. Given that IHT is charged at 40% on assets above available allowances, reviewing your position early – and doing so regularly – is increasingly important. Effective planning does not rely on complex structures. Instead, it centres on understanding the rules, considering the timing of key decisions, and ensuring that your estate passes in accordance with your intentions, and in the most efficient manner.

Understanding the Core IHT Allowances

The Nil Rate Band (NRB)

The Nil Rate Band (NRB) represents the first £325,000 of value that can be passed on without attracting IHT. Although the value has remained static since 2009, the NRB remains a powerful tool in estate planning. Importantly, the NRB is transferable between spouses or civil partners, meaning that if any portion of it is unused on the first death, the balance can pass to the surviving spouse. This can provide a combined allowance for married couples of up to £650,000 on second death.

The NRB also plays a crucial role in shaping how lifetime gifts and trust transfers are treated for tax purposes. For example, a gift into trust (known as a Chargeable Lifetime Transfer) uses the NRB and this will only become taxable if the value transferred exceeds this threshold. If a person dies within seven years of making a gift(s), the NRB will apply to the gifts first, with the balance, if any then available in the estate IHT calculation. Many long-term estate plans use the NRB repeatedly, for example through phased gifting, enabling wealth to move gradually out of the estate in a tax-efficient way.

The Residence Nil Rate Band (RNRB)

The Residence Nil Rate Band (RNRB) provides an additional allowance of up to £175,000 when a qualifying residence is passed to direct descendants (children, grandchildren, stepchildren and other direct lineal descendants). The RNRB is also transferable between spouses when unused on the first death so when combined with the standard NRB, a couple may pass up to £1 million free of IHT, assuming both allowances are fully available and the property rules are met.

The RNRB, however, is subject to specific conditions. Notably, it tapers once an estate exceeds £2 million, reducing by £1 for every £2 above this threshold. This means that estates above the threshold will lose some or all of this relief. As a result, individuals and families whose assets are near the £2 million mark may find that the structure and timing of lifetime gifts, property ownership, or business transfers can influence whether the allowance remains available.

The RNRB can also apply where an individual has downsized or sold their main residence, provided that assets of equivalent value pass to direct descendants. This ensures that individuals who have moved home later in life do not lose access to the relief.

In practice, the RNRB works best where families review their Wills, ensure the property passes to direct descendants in the appropriate manner, and consider their overall estate value to determine whether the tapering rules may apply and pre-death gifts are needed to optimise the position.

Lifetime Giving and Annual Planning Opportunities

Lifetime gifting remains one of the most accessible and effective ways to reduce IHT exposure. While the timing and intention of gifts can influence the final tax outcome, even smaller, regular gifts can make a meaningful difference over time.

Annual Exemptions & Small Gifts

Every individual can give away £3,000 each tax year without creating an IHT charge. If this exemption is unused, it can be carried forward for one additional year.

In addition, gifts of up to £250 per recipient per tax year are exempt, provided no other exemptions are applied to the same person.

Gifts from Income

Perhaps the most valuable – and often overlooked – exemption relates to regular gifts made from surplus income. These gifts are immediately outside the estate if they form part of a pattern and do not reduce the donor's normal standard of living.

This relief can be highly effective where an individual has surplus income that would otherwise accumulate within the estate.

Wedding & Civil Partnership Gifts

Gifts in consideration of marriage or civil partnership are exempt within certain limits (£5,000 from a parent, £2,500 from a grandparent, £1,000 from others).

Potentially Exempt Transfers (PETs)

Outright gifts to individuals are classified as PETs and fall outside the estate entirely if the donor survives for seven years.

If death occurs within that period, the gift becomes chargeable, although taper relief may reduce the liability if more than three years have passed.

Consideration is needed if the assets being gifted are liable to capital gains tax.

Chargeable Lifetime Transfers (CLTs)

Gifts into most trusts are treated as CLTs and may attract tax at the time of transfer if the value transferred exceeds the NRB.

If the donor dies within seven years, the gift is recalculated as part of the estate and further IHT may be due depending on the circumstances.

Gifts to Charities

Gifts to registered UK charities, during lifetime or on death, are exempt from IHT and if 10% or more of a person's estate is left to charity the rate of IHT applicable to the remaining estate is reduced to 36%.

Gifting strategies should be tailored to the individual's circumstances, taking into account asset types, liquidity needs, and how gifts fit within the broader objectives for wealth transfer. Over time, well-planned gifting can significantly reduce the value of the taxable estate.

It's important to note, CGT can arise on a gift of chargeable assets.

Reliefs for Agricultural and Business Assets

Agricultural Property Relief (APR)

Agricultural Property Relief offers up to 100% relief on the agricultural value of qualifying land, property and buildings used for agriculture. To qualify, the property must meet ownership and occupation conditions – typically two years if the owner farms the land personally, or seven years if let to a third party for agricultural use.

APR applies only to the property's agricultural value; any development or "hope value" will remain within the estate. Nevertheless, for families with agricultural land or farm businesses, APR can remove substantial value from an IHT calculation, provided the conditions are maintained.

Business Property Relief (BPR)

Business Property Relief can relieve up to 100% of the value of qualifying business assets, including shares in unquoted trading companies or interests in a sole trade or partnership.

To qualify, the business must be wholly or mainly trading (not mainly investment-based), and the relevant property must usually have been owned for at least two years. Additional rules apply to ensure the relief remains available where assets are transferred between family members, replaced, or held within broader business structures.

April 2026 Changes

Inheritance Tax (IHT) is increasingly becoming a central part of personal tax and financial planning. Over the past decade, many families have seen the value of their assets grow steadily, and at the same time, the core IHT thresholds have been frozen since 2009 and will remain unchanged until at least 2031.

As a result, a larger proportion of family wealth becomes exposed to IHT, often without deliberate action from the individuals involved. This "fiscal drag" means estates that once fell comfortably below the thresholds may now face a substantial IHT charge. Given that IHT is charged at 40% on assets above available allowances, reviewing your position early – and doing so regularly – is increasingly important. Effective planning does not rely on complex structures. Instead, it centres on understanding the rules, considering the timing of key decisions, and ensuring that your estate passes in accordance with your intentions, and in the most efficient manner.

New Allowance

In addition to existing nil rate bands and exemptions, a new £2.5 million allowance will apply to the combined value of property in an estate qualifying for 100% business property relief or 100% agricultural property relief. Relief at the lower rate of 50% will apply to the value of any qualifying relievable property over £2.5 million. Combined with the nil rate bands, this means two individuals could pass on up to £5.65 million tax free between them.

Any unused amount of the £2.5 million allowance can be transferred to a surviving spouse or civil partner from 6 April 2026. If the first death was before 6 April 2026, it will be assumed the entirety of the £2.5 million allowance will be available for transfer to the surviving spouse or civil partner. A £2.5 million allowance will also apply to the combined value of relievable agricultural and business property in trusts.

The rate of business property relief available will be reduced from 100% to 50% in all circumstances for shares admitted to trading on recognised stock exchanges designated as not listed (AIM). The rate of relief will also reduce from 100% to 50% for qualifying shares listed on foreign exchanges which are not a recognised stock exchange.

The option to pay Inheritance Tax by equal annual instalments over 10 years interest free will be extended to all property which is eligible for agricultural property relief or business property relief.

The method to calculate rates of Inheritance Tax on trust exit charges will be standardised so that all exit charges will be calculated based on unrelieved values, regardless of whether the exit takes place before or after the first 10 year anniversary.

Considering a Trust

Trusts can play a significant role in estate planning, allowing individuals to pass assets to the next generation in a tax-efficient way, while retaining control over timing, access and protection. Trusts are often used to:

- provide for children or grandchildren in a managed way
- protect family assets and wealth for future generations
- support beneficiaries who may be financially inexperienced, or minors who are unable to manage their own affairs
- safeguard family assets from external claims or changes in circumstances
- achieve tax efficiency

Most trusts created during a lifetime fall under the Relevant Property Regime, meaning they may incur IHT on the 10-year anniversary and when assets are appointed out of the trust (exit charges). Trusts are not the only option. In some cases, life insurance written in trust, a structured gifting programme, or investment in assets that may qualify for BPR or APR can be equally effective. The most suitable solution depends on personal objectives, family circumstances and the nature of the assets involved.

Pensions and Their Role in Estate Planning

Currently pensions sit outside the IHT estate in most circumstances, historically making them one of the most tax-efficient ways to pass on wealth.

However, from 6 April 2027 unused pension funds are due to come within the charge to Inheritance Tax which could significantly increase the IHT liability in estates with large pension funds.

Pensions remain a useful profit extraction tool and have other benefits, but the IHT savings that could be achieved before will no longer be available from 6 April 2027.

Key Year-End Steps for 2025/26

Taking small, consistent steps each year can significantly improve the long-term IHT position of an estate. As the 2025/26 tax year-end approaches, consider the following actions:

- Make use of the £3,000 annual exemption and any unused allowance from the previous year.
- Review regular gifts from income to ensure they meet the necessary criteria.
- Assess whether your estate is near the £2 million RNRB taper threshold.
- Revisit your Will, ensuring it remains aligned with your intentions.
- Review asset ownership — jointly held assets, trusts and business interests.
- Check pension nomination forms and death benefit options.
- Review the qualifying status of business and agricultural assets.
- Consider whether lifetime gifts or restructuring would be beneficial.
- Ensure any existing trusts remain compliant and fit for purpose.

Tax Efficient Investments



A number of these are high-risk investments and therefore they are not suitable for most retail investors. They require a full and detailed advice assessment.

Another year of fiscal drag, and years to come

With personal allowances and income tax thresholds currently planned to remain frozen until 2031, the impact of so-called “fiscal drag” is becoming increasingly difficult to ignore. While the cost of living has continued to rise, tax thresholds have not kept pace, quietly drawing more individuals into higher tax brackets over time.

Assuming that tax thresholds will move in line with inflation is no longer a robust financial planning assumption. Similarly, relying on the ability to keep income within basic or higher rate tax bands may prove unrealistic without cutting your standard of living in the future.

This direction of travel with tax makes it essential for investors to seek strategies that minimise tax liabilities while maximising long-term investment returns. Understanding and leveraging tax efficient investments as part of your financial plan can provide a critical edge, helping to ensure that your assets work harder for you over time.

Below, we highlight a number of tax efficient investment and planning considerations worth reviewing as part of your wider strategy.

New ISA Allowances

ISAs remain as one of the most effective ways to save and invest tax-efficiently. A Stocks & Shares ISA allows individuals to invest in assets such as individual shares or pooled investments, including open-ended funds and investment trusts. Cash ISAs, by contrast, are typically held with a bank or building society and are designed for savings rather than investment.

From April 2027, the UK Government has announced it will reduce the annual cash ISA allowance, protecting savings from tax, from £20,000 to £12,000 for individuals under 65, while those aged 65 and over will retain the £20,000 limit. If you are aged 18 or over, you can contribute up to £20,000 to a Stocks & Shares ISA, and both types of ISAs still share a joint limit with tax-free profits.

These changes aren't about increasing tax – the OBR estimates it will only raise £0.1bn – but rather is about encouraging individuals to invest and will also encourage Financial Advisers, Investment Platforms and Banks to consider how products are marketed in-light of new allowances.

While the objective is positive, creating different allowances complicates planning, so it remains to be seen as to whether this will help the Government get more people to invest.

Bonds vs Offshore Bonds

For those who hold investments above the ISA allowances, and are paying punitive rates of tax for investments that aren't in tax-wrappers, Onshore and Offshore Investment Bonds might be worthy of consideration.

These allow for the deferral of tax on profits, either to a future date, or potentially onto other individuals – as financial planners, considering your marginal rates of tax now, investments you are likely to hold, who will benefit from them and when, and what tax they may pay at the time all drives decision-making when it comes to holding unwrapped investments, onshore bonds or offshore bonds.

This is a particularly complex area, so receiving professional financial advice is crucial.

Family Investment Companies (FICs)

A Family Investment Company (FIC) is a private company structure used in the UK to manage and pass on family wealth. It's especially popular among high-net-worth families looking for a flexible alternative to trusts. FICs can be a useful way to protect family wealth across generations, but the most appropriate structure will depend on the family's circumstances and objectives.

A FIC enables parents and grandparents to retain control over assets whilst also protecting and enhancing wealth in a tax-efficient manner. Care should be taken with the structuring and funding of a FIC to ensure that the directors can invest tax efficiently and ensure future growth is protected.

Profits and gains made by a FIC will be subject to corporation tax at 25%, where these exceed £250,000. A lower rate of 19% may apply for some FICs where profits are not more than £50,000. Therefore, in many cases, this will still be lower than if the investments had been held directly or via trust, suffering income tax at 40%/45% and up to 47% from April 2027, and capital gains tax at a maximum of 24%.

If the company receives UK dividend income from investments in shares, this will be exempt from tax. However, other income, such as bank interest or rents from investment properties, will be taxable. Losses from a FIC's rental business can be offset against other income in the company.

A FIC should be considered for long-term asset protection planning, as well in terms of the income needs of the family. Shareholders only pay tax personally when the FIC distributes income, or if it is wound up. There is merit in using a FIC to allow profits to be retained in the company until required and drawn when the individual's personal tax rate may be lower.

Any investment gains and income could be paid into a pension plan for the benefit of the shareholders; therefore, it is recommended that parties to a FIC receive independent financial advice.

Venture Capital Trusts (VCTs)

Venture Capital Trusts (VCTs) are specialist tax-incentivised investments that enable individuals to invest indirectly in a range of small higher-risk trading companies and securities.

VCTs are companies in their own right and, like investment trusts, their shares trade on the London Stock Exchange.

Shares in qualifying VCTs offer the following tax incentives:

- Upfront income tax relief at 30% of the amount subscribed, subject to a maximum investment of £200,000 per tax year. The investment must be held for a minimum of five years in order to retain the income tax relief. Note that income tax relief on the purchase of VCTs is available only where new shares are subscribed, and not for shares acquired from another shareholder.
- The rate of income tax relief on VCT investments will reduce to 20% from 6 April 2026 so there is a small window of opportunity to obtain relief at the higher 30% rate.
- Dividends received on VCT shares are exempt from income tax in respect of shares acquired within the 'permitted maximum' (including shares acquired from another holder).
- Gains are exempt from Capital Gains Tax (CGT) and losses are not allowable on the disposal of VCT shares (including shares acquired from another holder).

Enterprise Investment Schemes (EISs)

The Enterprise Investment Scheme (EIS) is a government-backed initiative designed to encourage investment in smaller, higher-risk trading companies. Tax relief is available to investors who subscribe for new shares in companies that qualify for relief under the scheme.

Under the EIS, your Income Tax liability for the tax year in which you make your investment, or the previous tax year, may be reduced by up to 30% of the sum invested. You can invest up to £1m under the EIS in a tax year or up to £2m if you invest at least £1m in knowledge-intensive companies (broadly these are early-stage businesses engaged in scientific or technological innovation).

If you sell your EIS shares at a profit after three years and the Income Tax relief claimed when they were acquired is not withdrawn, there is a Capital Gains Tax (CGT) exemption on the disposal of the EIS shares.

Losses on EIS shares (restricted by Income Tax relief given and not withdrawn) can be offset against gains or, alternatively, against general income in the tax year of disposal or the preceding year.

Inheritance Tax relief (via Business Relief) should be available for EIS shares provided they are held for two years.

In addition, capital gains arising on disposals of other assets may be deferred by reinvesting those gains in a subscription for qualifying EIS shares. The investment in EIS shares must be made in the period beginning one year before and ending three years after the disposal.

Capital Gains Tax



What is Capital Gains Tax?

Simply put, CGT is a tax paid on the profit made when disposing of a chargeable asset that has increased in value. A disposal includes selling, gifting or transferring assets.

Assets that are chargeable to CGT include, but are not limited to, the following:

- Business assets
- Most shares (some exclusions apply, such as shares in an ISA)
- Land and property (unless it is your main home, provided you have not let it out, nor used it for business, and it is not – together with its garden and grounds – exceptionally large)
- Most personal possessions worth £6,000 or more, apart from your car, and moveable property with a useful life of 50 years or less

Annual Exemption

The CGT annual exemption for 2025/26 is £3,000 for individuals. Gains within this amount do not incur CGT. This exemption is in addition to the personal allowance for income tax purposes.

The £3,000 is a 'use it or lose it' exemption; it cannot be carried forward to future years. It may therefore be beneficial for tax purposes to realise gains each year to the extent of the annual allowance, if possible.

It should be noted that transfers between spouses are deemed to be at "no gain, no loss", which means no tax charge should arise on transfer and that the recipient effectively assumes the donor spouse's base cost. This means that spouses can plan to maximise the benefit of both annual exemptions.

Consideration should therefore be given to using each year's £3,000 exemption by realising gains prior to the tax year end on 5 April, where appropriate.

Rates of Tax

The Autumn Budget on 30 October 2024 announced an overhaul of the rules. The changes in rates can be summarized as follows.

Date	Basic Rate Taxpayer	Higher Rate Taxpayer
Pre 30 th October 2024	10%	20%
From 30 th October 2024	18%	24%

This means that where the total taxable gains and income are within an individual's basic rate band, CGT is now taxed at 18%. Excess gains are now taxed at 24%.

In some cases, Business Asset Disposal Relief ("BADR", previously known as "Entrepreneurs' Relief") may apply to give lower rates as explained on the next page.

Investment Property

The position on CGT rates for investment property has also changed and can be summarized as follows:

Date	Residential Property	Non-Residential Property
6 April 2024 to 29 October 2024	18% (basic rate), 24% (higher and additional rate)	10% (basic rate), 20% (higher and additional rate)
From 30 th October 2024	18% (basic rate), 24% (higher and additional rate)	18% (basic rate), 24% (higher and additional rate)

This represents a notable increase for non-residential property from 30 October 2024. Taxable gains on the sale of UK residential property must be reported by a UK resident to HMRC within 60 days of completion of the sale. Interest and penalties may apply if they do not report and pay the tax on time and the 60-day return does not preclude the need to file a self-assessment tax return.

Non-residents will have similar obligations where directly or indirectly disposing of a residential or non-residential land and property.

Business Asset Disposal Relief (BADR) and Investors' Relief

This relief covers certain gains subject to a lifetime limit of £1m. BADR will be limited for the 2025/26 tax year, and again for the 2026/27 tax year, as follows:

Date	Rate
Pre-6 April 2025	10%
From 6 April 2025	14%
From 6 April 2026	19%

As a result, from 6 April 2026, BADR will only be worth a maximum of £60,000 per person. Careful consideration should be given to realising gains at current rates where possible, given that the current BADR position is only available until 5 April 2026. There are anti-avoidance provisions to help limit the risk to HMRC of artificially accelerated transactions to obtain a lower rate.

BADR applies to the sale of a trading business carried on as a sole trader or partnership, or to the sale of shares in a personal trading company. It can also apply to personally held assets that have been used in the trade of a partnership that you are a partner in or a company that you are a shareholder of. There are other conditions to be met for BADR to apply.

Business owners should regularly review their BADR position as it is easy to fall foul of the detailed rules.

Investors' Relief was previously limited to £10m of lifetime gains. This was reduced to £1m from 30 October 2024.

Main Residence Relief

The gain on a person's only or main residence is generally exempt from CGT.

Ownership of two homes in the UK is becoming more commonplace as couples who both own houses marry, houses are inherited, parents buy houses for their children to live in, or people buy a place in the country, either to let or to escape to at weekends.

If you have more than one private residence, your 'main' residence will normally be, by default, the one in which you spend the greatest time. However, it is also possible to nominate one property as your main residence. This requires careful planning since the flip side of a gain on one residence being treated as exempt is that a gain on the other residence will become chargeable. Written nominations must be submitted to HMRC within 24 months of any change in residences becoming available.

Lettings relief (capped at £40,000 per person, or £80,000 per couple) is now very limited and is generally only available where the owner shares occupation of the property with the occupier. Main residence relief can be restricted where part of a property is used exclusively for letting or business purposes.

The final 9 months of ownership of a former main residence are exempt from CGT, irrespective of how the property is used during that time.

Bed and Breakfasting

There is a 'bed and breakfasting' rule, under which a gain or loss is not realised for tax purposes if you sell shares and repurchase the same shares within 30 days.

However, there are similar strategies that can still help. A person can sell their shares and have their spouse or civil partner buy the same or similar shareholding at the same time or shortly afterwards. Perhaps to make use of the CGT annual exemption.

It may also be possible to arrange to sell shares to a spouse or civil partner after their spouse or civil partner has transferred some loss-making shares to them, to reduce the overall gain. Another strategy might be to sell shares and then repurchase the same shares through an ISA or SIPP so that future gains are CGT free.

Realise and Use Capital Losses

Capital losses are automatically offset against capital gains in the same year. Unused losses are carried forward indefinitely and can then be offset against future gains.

A formal claim is required. The claim must be submitted to HMRC within four years of the end of the tax year of the loss, otherwise, it will be time-barred. Hence, claims must be made by 5 April 2026 in respect of 2021/22 losses if claims have not already been filed.

When an asset has become valueless or worth next to nothing, it may be possible to make a "negligible value claim" to realise a capital loss. The claim can be related back up to two tax years in certain circumstances, allowing the loss to be offset against gains made in earlier years.

In some cases, capital losses from disposals can be used against other income to help save Income Tax which is generally at higher rates than CGT.

Gifting Assets

A gift of assets will generally be treated as a disposal for CGT purposes. Whilst there may not be any actual disposal proceeds, when calculating CGT the disposal proceeds can be deemed to be equal to market value at the date of transfer. This can create the potential for a "dry" tax charge, i.e. a tax bill can arise even though the donor has not realised any funds from the transfer.

There is relief available for gifts of business assets to individuals, provided certain conditions are met, which can operate to ensure no tax arises on the transfer and that the recipient picks up any capital gain to the date of transfer. This requires a joint election to be made between transferor and transferee. The relief can be restricted in certain circumstances. For other gifts, relief may be available where they are immediately chargeable to Inheritance Tax (IHT).

IHT should always be considered before making gifts. Further advice should therefore be sought before transferring assets to ensure that CGT and IHT have been considered, along with other applicable taxes.

There are also potential non-tax issues to consider before transferring shares, for example, whilst it may be possible and tax efficient in some situations to transfer shares in a trading company to children, it should be appreciated that the parent would lose all control and rights over those shares (and that the child would have these rights instead) unless further planning was undertaken.

Key Year-End Steps for 2025/26

As the 2025/26 tax year-end approaches, take a moment to consider the following CGT actions:

- Review whether it is possible to realise gains before 6 April 2026 to utilise exemptions and lower rates.
- Consider realising assets standing at a loss, if expecting to realise other gains before the end of the tax year.
- Assess whether it is beneficial to transfer assets, either as part of bed and breakfasting or a wider strategy, before the year end.

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