The need to invest in tax planning

HM Revenue & Customs (HMRC) have one clear objective - to recover past government expenditure and then recycle the cash collected to repay government borrowing and release funds for future expenditure. To do this, HMRC are obliged to assess taxes by adopting the current legislation to collect taxes from individuals and businesses.

Fundamentally, HMRC base their judgement of the tax you owe on the data they have collected via tax returns, and all of these numbers relate to events in history. Whilst they will endeavour to allow the reliefs and allowances to which you are entitled, they do not have the data or the staff to call you up and ask about your future plans, and how you can best organise your affairs to minimise overall tax liability.

For example, you may be a self-employed builder about to buy a replacement van in the last month of your accounting year. The cost of £20,000 could potentially be written off against your profits for the year and save you £4,000 in basic rate tax. But you know that in the following year you will be building a house that should net you profits in excess of £50,000. That being the case, it would make sense to defer the new van purchase until the following month, the first month of the new accounting period. Then, the £20,000 investment would save up to £8,000 in higher rate tax.

As we are now already well into January, there are less than three months to the end of the 2023-24 tax year.

This is why it is an important time to speak to your accountant to ensure your tax affairs are managed in the most efficient way; based not only on what has already happened, but more importantly, on what you have planned to happen in the 2024-25 tax year. In this way they can help you keep your tax footprint to a minimum, and determine how you would be best advised to organise your finances to minimise tax liabilities. The clock is ticking.

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