

Tax-saving measures

What actions to review before the 2023/24 year-end?

Have you recently evaluated your personal tax situation? Is your tax structure optimised for efficiency? As we approach the end of the tax year on 5 April 2024, it presents an ideal opportunity to assess and leverage the various allowances and reliefs available to enhance your tax profile. Allocating time for this review can provide valuable insight into potential opportunities for you and your family.

The vast scope and complexity of the UK tax system may seem daunting. However, navigating it with careful planning can lead to significant financial benefits. Understanding your tax affairs is key to maximising your wealth and ensuring your financial future.

Take advantage of potential reliefs or allowances

However, the tax landscape has witnessed considerable changes, making the situation more challenging for taxpayers and investors alike. As we near the end of the 2023/24 tax year, every taxpayer should understand the importance of this date and consider their tax position.

Furthermore, 5 April 2024 marks the end of your personal earnings year. Knowing your yearly income will help you understand your tax band and ensure you take advantage of potential reliefs or allowances. The current tax year officially ends on 5 April 2024. The following day, 6 April 2024, ushers in the 2024/25 tax year.

As the tax year end approaches, we've provided some planning tips to consider:

Marriage Allowance

This allowance provides a unique opportunity for couples where one partner is a basic rate taxpayer and the other partner's income falls below the personal allowance threshold. With the Marriage Allowance, you can transfer up to £1,260, which equates to 10% of the personal allowance, from the lower-income partner to the higher-income partner.

This transfer can significantly reduce the tax liability for the basic rate taxpayer, potentially saving up to £252 in the current year. It's important to note that this allowance is specifically designed for married couples or registered civil partners. By efficiently utilising this allowance, couples can optimise their combined tax liabilities and make the most of their financial situation.

Employee Tax Reliefs

In the course of your employment, there are several tax reliefs you may be eligible to claim. These provisions are designed to offer financial respite for certain expenses related to your job. One such relief is for professional

subscriptions. If you must maintain membership in a professional body as part of your job, you can claim tax relief on these fees.

Another provision is the working-from-home allowance. This relief is aimed at employees who incur additional costs due to working from home. It's designed to alleviate some financial pressure from maintaining a home office. You may also be entitled to claim relief for business miles travelled in your personal vehicle. If you use your own car for work-related travel, this relief can offer significant savings.

Trading and Property Allowances

These allowances are aimed at individuals who earn small amounts of income from activities like selling items on eBay or Amazon or renting out spaces on Airbnb. Each of these allowances offers up to £1,000 of tax-free income.

Furthermore, if you rent out a portion of your home, you may be eligible for the Rent-a-Room relief. This relief allows you to receive up to £7,500 tax-free from letting out a room in your home.

Individual Savings Account (ISA) Allowance

You receive an ISA allowance of £20,000 in the current tax year. Contributions can be allocated to a Cash ISA, Stocks & Shares ISA, Lifetime ISA or Innovative Finance ISA. ISAs are a 'tax efficient wrapper' which can make a big difference to your money over time. You can combine your ISA allowances for married couples, enabling you to put up to £40,000 in ISAs between you.

Investors who have yet to use up their full ISA allowance should discuss with us the potential to sell shares yielding dividends outside their ISA and buying them back within this tax-exempt wrapper. However, care should be taken as this could trigger a Capital Gains Tax charge.

Junior ISA (JISA) Allowance

In the same vein as the ISA suggestions, children are entitled to a Junior ISA (JISA) allowance of £9,000 per annum. Consider funding a JISA to give your children a nest egg when they turn 18.

The Lifetime ISA

A Lifetime ISA (LISA) applies to individuals aged 18 to 40 who are either planning to purchase their first home or preparing for retirement. With the ability to invest up to £4,000 annually, the government bolsters your efforts with a 25% bonus, up to a maximum of £1,000 per year. This money can be used to buy a new property (subject to certain restrictions) or accessed when you turn 60 to supplement your retirement income.

Pension Contributions

Pension contributions should be a key consideration at the end of each tax year. Contributions to pension schemes can be made on behalf of your minor and adult children and your grandchildren. There are several advantages to doing so. For example, the pension scheme can reclaim basic rate tax from HM Revenue & Customs (HMRC). You'll receive additional tax relief if you're subject to a higher tax rate exceeding 20%. You're establishing a pension fund for your retirement or to pass on to future generations.

In the current tax year of 2023/24, contribution limits have been augmented. The annual pension contribution limit is now the lesser of your relevant earnings or an annual allowance of £60,000 gross, corresponding to a net payment of £48,000.

All UK residents under the age of 75 can contribute up to £3,600 gross (£2,880 net) per year, irrespective of income level. However, suppose your adjusted income (typically your total taxable income plus employer pension contributions) exceeds £260,000. In that case, the annual allowance is progressively reduced by £1 for every £2 of income over this threshold, down to a minimum of £10,000 gross (£8,000 net) for those with an adjusted income above £360,000.

For individuals aged over 75, no tax relief is provided on contributions made. If you can make additional contributions, you can use any unused allowances carried forward from the previous three years. Reviewing your pension status and that of your family members is crucial for effective financial planning.

'Carry Forward' Rules

The 'Carry Forward' rules allow you to carry forward unused allowances from the previous three tax years if eligible. As we reach this tax year end, you'll lose any unused allowance for the 2020/21 tax year if it remains untapped. Considering these rules when planning your pension contributions would be best.

Capital Gains Tax Allowance

In light of the changing landscape for Capital Gains Tax (CGT), it's essential to understand how you can optimise your financial strategy. Before 6 April 2024, you have an opportunity to solidify your capital gains and make the most of the annual CGT exemption, which is capped at £6,000. However, please note that this benefit is not extended to individuals who are taxed on a remittance basis with income and capital gains exceeding £2,000.

One effective method to crystallise capital gains involves strategically selling and repurchasing stocks and shares. This approach enables you to maximise the annual CGT exemption. It offers an opportunity to elevate the base cost for future sales, potentially reducing your tax liability in the long run.

However, knowing the timing and the party involved in the repurchase is crucial. To derive the maximum benefit from this strategy, the repurchase should ideally occur after a gap of more than 30 days. Alternatively, the buyback can be executed by your spouse, registered civil partner or through an Individual Savings Account (ISA).

Dividend Allowance

For those with invested assets, the dividend allowance can offer substantial benefits. You can receive up to £1,000 per year tax-free, with dividend tax rates applied

to amounts over £1,000. The dividend allowance will be reduced to £500 per annum in the 2024/2025 tax year.

Gifting for Estate Planning

Certain gifts can be exempt from Inheritance Tax, immediately leaving your estate upon gifting. These are commonly referred to as exempt gifts and include gifts presented to your spouse or registered civil partner. In addition, contributions to charities or political parties are exempt as well as gifts valued up to £250, provided each gift is given to a different recipient and is the only tax-exempt gift they've received from you within that tax year. This often encompasses birthday and Christmas gifts derived from your regular income.

Also exempt are wedding gifts from a parent to their child up to £5,000, from grandparent to grandchild up to £2,500, or up to £1,000 to anyone else. Additionally, you're allocated an annual exemption each tax year, allowing you to gift cash or property up to the value of £3,000. This can be given to a single individual or divided among several recipients. If the previous year's exemption wasn't utilised, it can be carried forward to the current tax year, effectively doubling the exemption to £6,000. Understanding these exemptions can help in efficient tax planning and potentially reduce your Inheritance Tax liability.

Other Available Allowances

Your Personal Savings Allowance (PSA) refers to the amount of savings interest income/growth you can earn tax-free. Current levels are set at £1,000 for basic rate taxpayers and £500 for higher rate taxpayers. Additional rate taxpayers, however, are not entitled to this allowance. ■

DON'T LEAVE IT TO CHANCE. ARE YOUR FINANCES ARRANGED AS TAX-EFFICIENTLY AS POSSIBLE?

Time is running out if you want to ensure your personal affairs, family and business affairs and plans for the long term are arranged tax-efficiently. For further information on tax year-end planning opportunities, please get in touch with us. We're here to help you make the most of your money.

THIS ARTICLE DOES NOT CONSTITUTE TAX OR LEGAL ADVICE AND SHOULD NOT BE RELIED UPON AS SUCH. TAX TREATMENT DEPENDS ON THE INDIVIDUAL CIRCUMSTANCES OF EACH CLIENT AND MAY BE SUBJECT TO CHANGE IN THE FUTURE. FOR GUIDANCE, SEEK PROFESSIONAL ADVICE.

A PENSION IS A LONG-TERM INVESTMENT NOT NORMALLY ACCESSIBLE UNTIL AGE 55 (57 FROM APRIL 2028 UNLESS THE PLAN HAS A PROTECTED PENSION AGE).

THE VALUE OF YOUR INVESTMENTS (AND ANY INCOME FROM THEM) CAN GO DOWN AS WELL AS UP, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

YOUR PENSION INCOME COULD ALSO BE AFFECTED BY THE INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS.



Treasure Trove

£26.6 billion in forgotten pensions

Did you know as many as 1 in 20 people could have a pension they didn't think they had? Could that be you? It's estimated £26.6 billion is currently trapped in forgotten pensions, averaging about £9,500 each⁽¹⁾.

With most individuals juggling multiple jobs throughout their lifetime, it's no wonder that some of these pensions fall through the cracks. Whether due to a change of address or simple forgetfulness, these lost pensions could be the key to a more comfortable retirement.

Search for lost pensions

Losing track of an old pension is easier than you think, especially if you've moved house and should have informed your old pension provider. But if you suspect that you have a lost pension, don't despair. Start by reaching out to your previous pension provider. If you're unsure who that might be, the government's Pension Tracing Service can provide up-to-date contact details for your pension scheme.

Tips on how to track down your lost pension:

Begin by revisiting your CV or recalling every job you've held since leaving school or university. You may have had a workplace pension for each of these roles. Check any old pension statements you might have for details about your plans. The more information you can gather, the better.

Connecting with your pension provider

If you remember the provider of your old pension, contact them first. When doing so, provide as much information as possible to aid in the search for your

pension savings. This includes your plan number (if available), date of birth and National Insurance number.

Utilising the Pension Tracing Service

If you believe you have a missing pension but lack information, turn to the government's free Pension Tracing Service. Available on the gov.uk website or via phone at 0345 600 2537, this service can provide up-to-date contact details if you remember the name of your old employer or the pension company.

Contacting the Pension Administrator

The Pension Tracing Service will only provide the contact details of the pension's administrator. It's then up to you to reach out and determine whether you have a pension and its current value.

Verifying Your Pension Entitlement

Just because you have pension paperwork from a previous employer doesn't necessarily mean you're entitled to a pension. You may have received a refund of your contributions when you left the employer. Some older workplace pensions also required membership for a specific number of years before a pension entitlement was granted.

Beware of scammers

Scammers often exploit legitimate events, so be vigilant around National Pension Tracing Day. Always ensure you're communicating with legitimate entities.

Keep track of your pensions

If you move house in the future, remember to inform your pension providers of your new address to avoid losing track of your pensions again. ■

TIME TO TRACK DOWN YOUR LOST PENSIONS?

Have you lost track of pensions from previous employers? Don't let your hard-earned money go unclaimed. Remember, it's your money, and you have every right to claim it. Let us discuss how we can help you start your search and secure your financial future! We look forward to hearing from you.

Source data:

[1] <https://nationalpensiontracingday.co.uk/>

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To arrange a complimentary consultation or review, please contact our Independent Financial Advisers on 01803 224888.