



Making the most of your tax allowances and reliefs

Every year the government provides allowances and reliefs available for all taxpayers. Are you making the most of these? Or is another year going to pass and you won't have checked to see how you and your family might benefit? Read on to remind yourself of the opportunities you might miss if you don't act now.

■ *Personal income tax allowance*

The personal allowance for tax year 2022/23 is £12,570, meaning you can earn up to this amount without paying any tax. This can be used against your State Pensions, any income which you are drawing down from your private pension arrangements as well as your other investments or cash savings which are liable to income tax.

If you earn over £100,000, the figure of £12,570 will be reduced by £1 for every £2 earned. If you earn £125,140 or more, income tax is paid on everything over this amount.

▶ **Opportunity**

If you are affected by this, it is worth considering making pension contributions or charitable donations to reduce your tax liability. Your financial adviser will be able to help you with this.

■ *Starting rate for savings*

The starting rate for savings means you can earn up to £5,000 (2022/23) from savings before you pay any tax. It is designed to help those on lower incomes so the £5,000 is reduced by £1 for every £1 of income you earn over the annual allowance. However together with the personal allowance of £12,570 it means you could earn up to £17,570 a year tax free in savings.

▶ **Opportunity**

Your adviser can discuss with you how our solutions can give you flexibility around income. For example, if you are drawing down income from your pension it may be possible to suppress this income in a tax year if you needed to encash an investment bond where the gains are categorised as savings and could make use of this allowance.

■ *Saving allowance*

Since April 2016, savers have been able to grow their money tax free, thanks to the 'personal savings allowance.' This allowance allows you to earn up to £1,000 interest tax-free if you're a basic-rate (20%) taxpayer, or £500 if you're a higher-rate (40%) taxpayer. Additional-rate taxpayers don't receive a personal savings allowance, so if you earn more than £150,000 each year, you'll pay tax on all your savings.

▶ **Opportunity**

Using the savings allowance against any cash savings you have, including your emergency fund, could generate tax free income for you. If you are a higher or additional rate taxpayer, consider tax planning opportunities which could bring you into a lower bracket and save you money. You can find out more about this by speaking to your financial adviser.

Making the most of your tax allowances and reliefs

Tax efficient options

| | | | | | | |
|------|---------|-----|------------|-------------------------|---------------------------------|------|
| Cash | Pension | ISA | Collective | Venture Capital Trusts* | Enterprise Investment Schemes** | Bond |
|------|---------|-----|------------|-------------------------|---------------------------------|------|

Available allowances

| | | | | | | |
|-------------------------------|-------------------------------------|-----------------------------|------------------------------|--------------------------|--------------------------|-------------------------------------|
| Personal allowance £12,570 | Starting rate for savings £5,000 | Savings allowance £1,000 | Dividend allowance £2,000 | CGT allowance £12,300 | ISA allowance £20,000 | Pension annual allowance £40,000 |
|-------------------------------|-------------------------------------|-----------------------------|------------------------------|--------------------------|--------------------------|-------------------------------------|

Building wealth

Personal allowance £12,570

Spending wealth

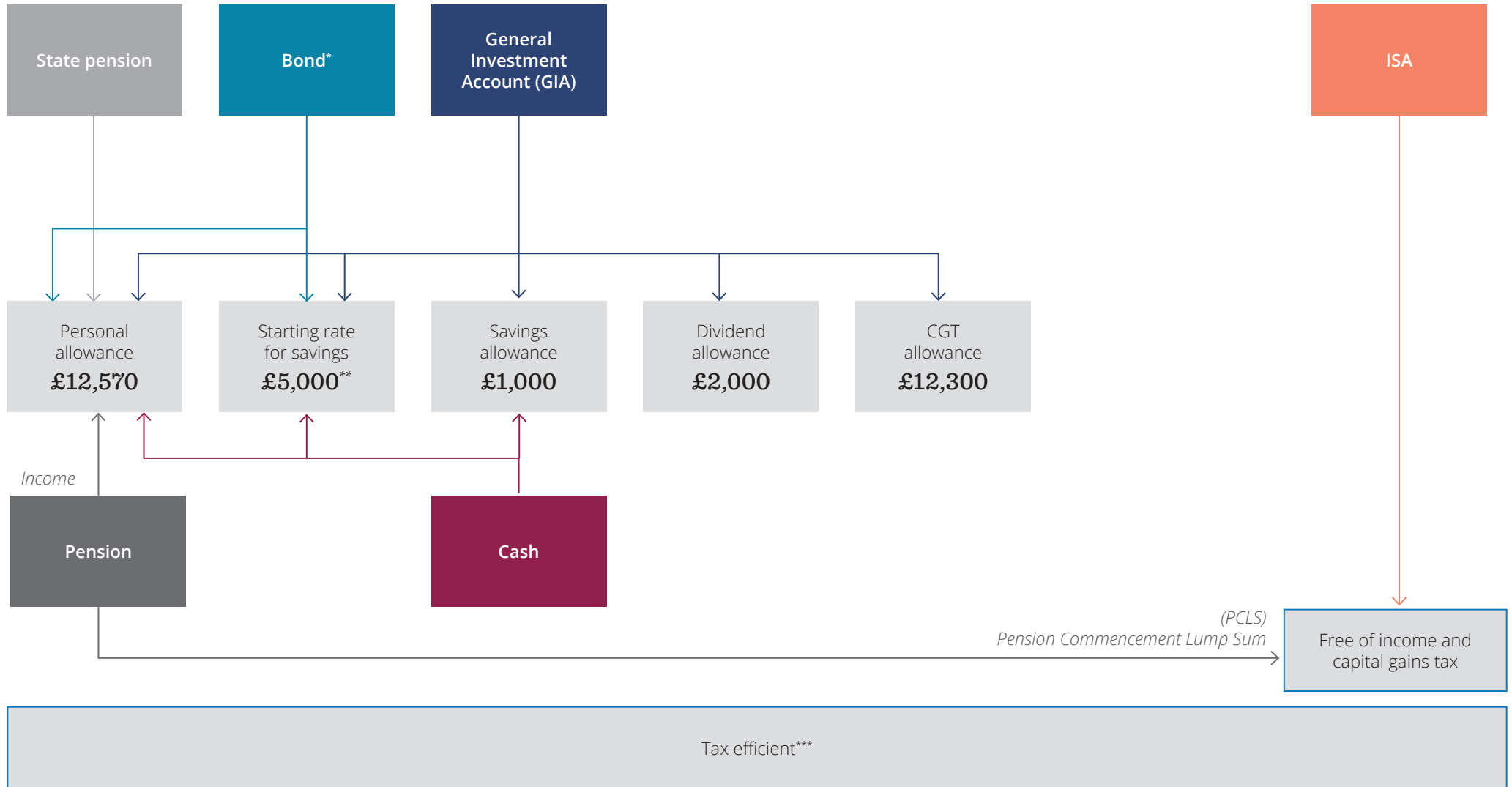
Tax free/tax deferred or reduced

All of the above must be balanced with your IHT planning requirements

* VCT - unlimited tax free dividends, CGT free, maximum investment allowance £200,000 subject to income

** EIS - CGT free, maximum investment allowance £2m subject to income or gains

Helping you use your tax efficient options



* Only offshore bonds benefit from the starting rate for savings ** Subject to other taxable income *** We also offer a range of IHT solutions

■ *Dividend allowance*

You do not pay tax on any dividend income that falls within your personal allowance (the amount of income you can earn each year without paying tax).

You also get a dividend allowance each year. You only pay tax on any dividend income above the dividend allowance. For tax year 2022/23 the dividend allowance is £2,000. This means if you have used up your personal allowance with other sources of income you can earn an additional £2,000 in dividends without paying any tax.

▶ **Opportunity**

Investing directly into equities or a fund which generates equity income will mean you can utilise your dividend allowance. You could also consider transferring shares to a spouse or civil partner if they have not used their own dividend allowance, to benefit from further tax relief.

■ *CGT allowance*

The capital gains tax allowance in 2022/23 is £12,300. This is the amount of profit you can make from an asset sale this tax year before any tax is payable. Investments held in a General Investment Account (GIA) will be subject to CGT only when you decide to sell them or transfer them to anyone other than your spouse or civil partner. There is currently no CGT payable on death.

▶ **Opportunity**

If you need to release capital for a specific purpose you could consider making use of your annual CGT allowance to do this without paying any tax. If you do need to release any capital from your savings your financial adviser will be able to determine the most tax efficient way for you to do this.

You could also consider gifting assets to a spouse or civil partner (which is tax neutral) so they can also use their CGT exemption.

Many clients also use their annual CGT allowance to take up their annual ISA allowance (£20,000). All income and capital gains from investments held in ISAs are tax free and do not need to be declared on your tax return.

Claiming previous losses is also an option. If you have sold any assets and realised a loss, make sure you claim the loss on your tax return, as this can be offset against any gains above

your allowance. If you do not claim the loss within four years the option will be lost.

■ *ISA allowances*

Make full use of the ISA allowance. For 2022/23 the maximum investment is £20,000, and for children under the age of 18 the JISA allowance is £9,000. The annual ISA limit can be split between cash and permitted investments, such as stocks and shares.

■ *Pension allowances*

The annual allowance is the most that can be paid into all your pension arrangements in a single tax year. For 2022/23 it is 100% of earned income up to a limit of £40,000. This may be lower if you have already accessed your pension pots, or you have a high income.

▶ **Opportunity**

Contributing into a family pension scheme is another option. Any UK resident can contribute up to £2,880 (net) into a pension, irrespective of their earnings, and obtain 20 per cent tax relief. This means the pension is credited with an extra £720 so that the gross contribution amounts to £3,600.

You could consider contributing to a pension for a non-working spouse/civil partner or children to benefit from this.

Your financial adviser will be able to help you identify these opportunities to save tax.

Inheritance tax (IHT)

IHT is arguably one of the more complex areas of tax. The current Nil Rate Band is £325,000 and there is an additional Residential Nil Rate Band of £175,000. This means a married couple is only likely to pay IHT if the estate is above £1m.

If your estate is above this amount your financial adviser can discuss ways to mitigate any IHT payable on death, such as the use of trusts or life cover.

▶ **Opportunity**

You can also make use of various IHT allowances each tax year. Gifts of up to £3,000 in total can be made each year without any IHT implications. If the £3,000 exemption was unused in the previous tax year, this can be carried forward so the maximum available exemption can be up to £6,000.

A married couple could gift up to £12,000 in a single tax year with no IHT implications. This is worth bearing in mind if you are thinking of investing for children or grandchildren into a JISA (Junior ISA) or a pension. As well as the tax benefits of doing this you should also discuss family linking with your adviser as it is possible to make further savings.

Other exemptions are available. For example, small gifts of up to £250 per recipient and gifts in consideration of marriage of up to £5,000 by a parent. Regular gifts out of a surplus income are not subject to IHT, so being able to show a pattern of gifts can remove this from your estate immediately. To be accepted, you must be able to show you have maintained your standard of living after the gifts.

Complex Tax Planning Products

Venture Capital Trusts (VCTs) and Enterprise Investment Schemes (EIS) are designed to encourage investments in smaller early stage companies. They are considered high risk but offer generous tax benefits.

Income tax relief - You can claim up to 30% upfront income tax relief on the amount you invest, provided you keep your VCT shares for at least five years.

An EIS gives 30% tax relief on investments up to £2 million and CGT gains from other investments can be deferred.

These are specialist complex products which will not be suitable for all clients.

Venture Capital Trusts (VCT) and Enterprise Investment Schemes (EIS) invest in assets that are high risk and can be difficult to sell such as shares in unlisted companies. The value of the investment and the income from it can fall as well as rise and investors may not get back what they originally invested, even taking into account the tax benefits.

Your financial adviser will be able to provide guidance with all of these tax savings opportunities and provide advice tailored to your personal circumstances.

The value of pensions and investments can fall as well as rise. You may get back less than you invested.

VCTs and EISs invest in assets that are high risk and can be difficult to sell such as shares in unlisted companies.

The value of the investment and the income from it can fall as well as rise and investors may not get back what they originally invested, even taking into account the tax benefits.

Tax treatment varies according to individual circumstances and is subject to change.

Investors do not pay any personal tax on income or gains, but ISAs do pay unrecoverable tax on income from stocks and shares received by the ISA managers.

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