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insight.

MONTHLY

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Making the most of your tax allowances

Every new tax year brings with it a fresh batch of tax allowances to help you make the most of your money. Here we explore how you can benefit.

A new tax year has only just started, so you'd be forgiven if annual tax planning isn't top of your to-do list right now. But starting at the earliest opportunity has merits. You'll avoid an end of tax year rush and much more importantly your hard-earned money can be working tax efficiently for you and your loved ones from as early a stage as possible, putting more in your pocket and less in HMRC's.

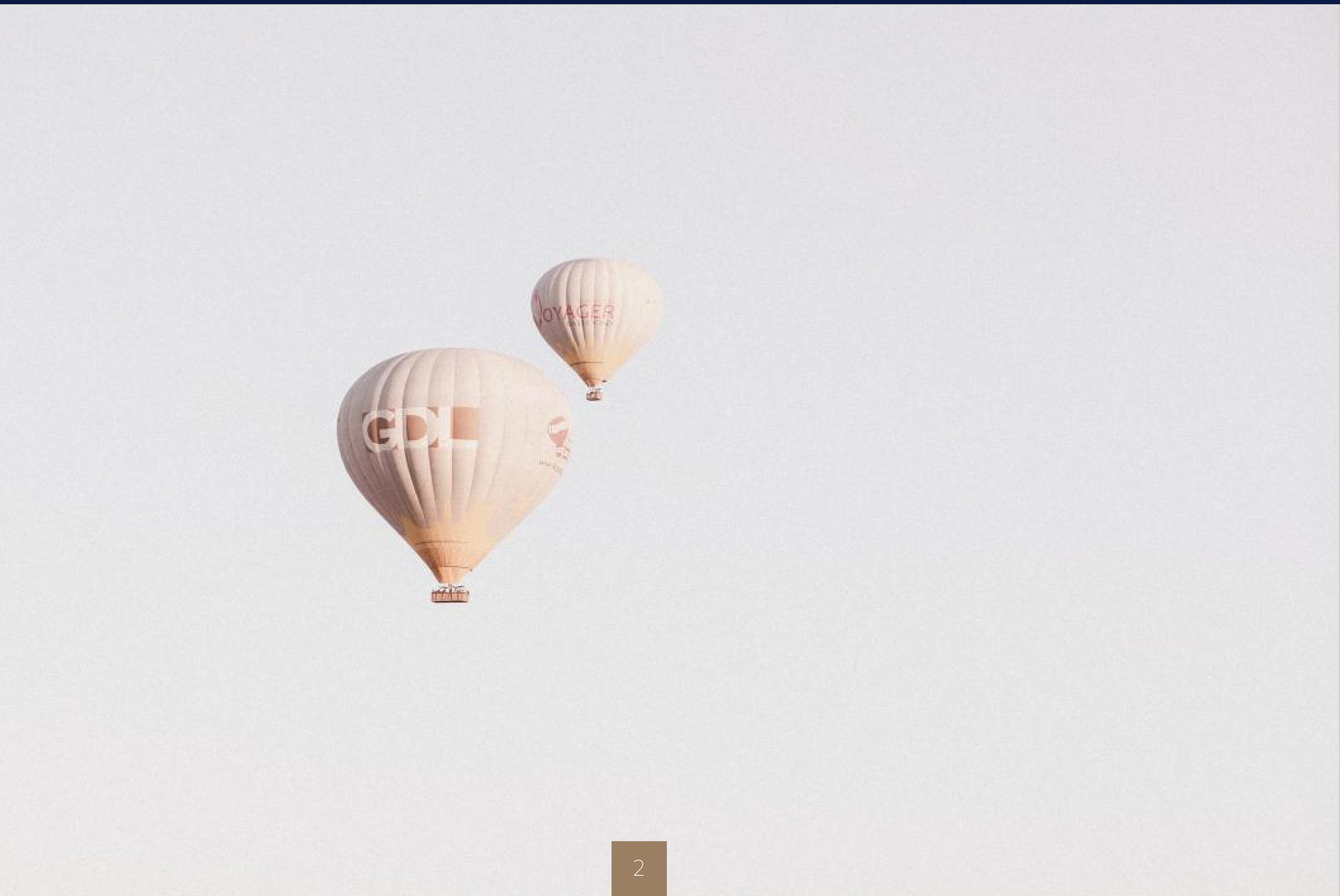
These are just a few of the ways that using tax allowances can help you boost your financial future.

Investment planning

Capital gains tax (CGT)

There's an annual exemption for CGT of £12,300 this tax year. That means you can make a profit of up to £12,300 by disposing of chargeable assets (which include investments held outside of an investment or ISA and valuable personal possessions) without having to pay CGT.

There are lots of ways you can potentially use this to your advantage. For example, you can realise gains on investments held outside of an ISA or pension and then use your allowances for paying into these vehicles (see further below) to shelter future gains and income from HMRC.



Individual Savings Accounts (ISA)

Each adult can pay up to £20,000 into an ISA this tax year. For a child, £9,000 can be paid into a Junior ISA. Gains and income generated in an ISA or Junior ISA are exempt from CGT and income tax making them a great way of boosting future wealth in a tax efficient manner across a whole family.

Spoiled for choice

There are four types of ISA available to adults depending on your needs, wants and circumstances: stocks and shares, cash, lifetime and innovative finance. You are free to use any mixture, as long as you stay within the £20,000 limit overall.

The lifetime ISA has a maximum individual annual limit of £4,000. Only those between the ages of 18 and 39 can open one and then pay in until age 50. Contributions attract a 25% government bonus as they are designed to help people save for a first home purchase or their future retirement.

Retirement Planning

Using your annual allowance

Most people (there are exceptions for higher earners and people already taking an income from a pension) can pay up to 100% of earnings or £40,000, whichever is lower, into a pension during the 2021/22 tax year and benefit from tax relief on those contributions.

If you're expecting a particularly good year from an earnings point of view, any unused annual allowances from the previous three years can be 'carried forward' to the current year to maximise the tax relief benefit for you. This can be of particular help to business owners or others with earnings that vary considerably from year to year.

Inheritance tax

Taking a longer term view

Anyone can get basic rate tax relief on pension contributions up to £3,600, regardless of earnings. This can be a useful planning tool in families if you want to fund pensions for children from the second they are born, or for a non-earning spouse or partner.

Don't forget about the lifetime allowance for pensions either. It's £1,073,100 this tax year and is the maximum benefit you can hold in pensions without triggering a hefty tax charge. If you might be running close to the limit, it's sensible to investigate and take steps to manage this risk.

SAVING FOR A CHILD

In the case of a Junior ISA, whatever's paid in belongs to the child and they can access it from age 18. If you'd prefer to stay in control of their money for longer, there are other options you can consider. For example, saving for them through your own ISA (or ISAs if you have a spouse of partner) or setting up a Trust for their benefit. Different approaches have different tax risks and benefits.

THE TAX BENEFITS OF PENSIONS

Pensions are one of only a handful of investment products offering income tax relief at source (for basic rate tax and through your tax return at higher rates) as well as sheltering your money from CGT and income tax. Their tax benefits can be considerable whether you are an employee, run your own business or have loved ones you want to provide for over the much longer-term.

Estate Planning

Don't forget inheritance tax

Inheritance tax (IHT) can potentially be an issue for estates with a value of £325,000 or more, although it is possible to pass on up to £1million of assets IHT free depending on your circumstances. Managing down your loved ones' potential future exposure to IHT (currently set at 40%) may not be an obvious annual tax planning task, but there are some useful allowances here too.

Giving purposeful gifts

These allowances let you give gifts in your lifetime that reduce the value of your estate and that won't attract IHT at a later stage. They include a general annual gifting exemption of £3,000; making wedding or civil ceremony gifts up to £5,000 for a child, £2,500 for a grandchild or great grandchild, or £1,000 for anyone else; making regular gifts to someone out of income (you must prove your standard of living is unaffected); and making gifts to charities and political parties.

Here to Help

Some areas of tax planning are easy to navigate, others are more complicated. The one thing they all have in common is that, navigated well, you and your loved ones stand to benefit. We've only touched on some of the basics in this article. Tax planning is core to what we do at Richmond House and if you would like to arrange a meeting with one of our expert financial planners to help ensure your financial future is looked after tax-efficiently for the current tax year and beyond, we would be very happy to hear from you.

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