

An introduction to

## ► Tax Planning

Getting to grips with the basics

How professional advice can help  
Your investments  
Pension planning pays

Getting ahead with  
Inheritance Tax planning  
Your wealth, your future  
We're here to help



**W**hilst we'd all probably agree that paying tax that goes towards providing the important services we all rely on, such as the NHS and schools, is the right and proper thing to do, no one needs to end up paying more than their fair share.

Each year, the government announces the tax allowances and exemptions that we are entitled to and it makes sense to maximise their use in meeting our individual financial goals.

#### How professional advice can help

Most of us face being taxed on our income, our capital gains and in some circumstances, the value of our estate when we die. Taxation can be complicated, and the rules, reliefs, exemptions and allowances often change, so it is worth seeking advice to be clear on how taxes work and the most efficient way to arrange your finances.

In our experience, many people can easily find themselves paying too much tax. That's why it's important that your

financial position is regularly reviewed to ensure that you don't miss out on opportunities that could reduce your tax liability.

#### Taxation basics

In the UK, the tax year runs from 6 April through to 5 April. Each of us has a 'Personal Allowance'. This is the amount we can earn without paying any Income Tax. For the 2023-24 tax year this is £12,570.

If you earn more than your Personal Allowance, you pay tax at the applicable rate on all earnings above the allowance, but the allowance itself remains untaxed. Those who earn over £100,000 will find that their Personal Allowance reduces by £1 for every £2 of adjusted net income above the £100,000 limit.

#### Tax bands

For the 2023-24 tax year, if you live in England, Wales or Northern Ireland, there are three Income Tax bands – the 20% basic rate, the 40% higher rate and the 45% additional rate.

If you live in Scotland, there are five Income Tax bands – the starter rate of 19%, the 20% basic rate, the 21% intermediate rate, the 42% higher rate and the 47% additional rate.

#### Tax-free savings

ISAs make good financial sense, which is why around 12 million Adult ISAs were subscribed to in 2020-21.<sup>1</sup> They represent a tax-efficient way of saving or investing and the annual allowance for 2023-24 is a generous £20,000. Saving for children is encouraged too, through a Junior ISA (annual allowance £9,000).

There are several different types, including the Lifetime ISA which is designed for those aged 18 to 40, wanting to save for their first home or their retirement. You can contribute up to £4,000 in each tax year as part of your £20,000 overall limit. Contributions and government bonuses can continue up to age 50.

We can help you maximise your annual £20,000 allowance and recommend the right plans, taking into consideration your financial goals.

*The value of investments and income from them can go down. You may not get back the original amount invested. Some funds will carry risks in return for higher potential rewards and can involve greater risk than is customarily associated with funds investing in larger, more established companies. The FCA does not regulate tax planning.*

## Investments

ISA allowances can be used to make investments as well as savings. We will always consider your tax position when deciding where you should put any money that you want to invest for the future.

We can explain how Capital Gains Tax (CGT) works, and how best to use your annual personal exemption (£6,000 in the 2023-24 tax year). We will also take into consideration the tax-free dividend allowance (£1,000 in the 2023-24 tax year) and be able to explain how dividend income over that level is taxed.

For those with substantial funds to invest who are prepared to accept a higher level of risk, then Enterprise Investment Schemes, Venture Capital Trusts and Seed Enterprise Investment Schemes all come with Income Tax and Capital Gains Tax benefits.

## Pension planning pays

One of the key attractions of paying into a pension is the tax relief available to savers. Basic rate taxpayers receive 20% tax relief on their contributions. Higher rate taxpayers can get up to 40% relief and the figure for additional rate taxpayers is 45%, which in both instances can be claimed through their tax returns.

Scottish taxpayers paying tax at 21%, 42% or 47% will also need to claim their tax relief through their annual tax returns.

Generally, the annual allowance for pensions is £60,000, however, if you start to take money from a defined contribution pension, the amount you can pay in without penalty may reduce. This is known as the Money Purchase Annual Allowance or MPAA for short. The MPAA will not be invoked if you just take your pension commencement lump sum (PCLS), among other exemptions. The MPAA for 2023-24 is £10,000.

Pensions can be complex, that's why many people seek help. We can help ensure not only that you maximise the use of your

allowable contribution limits, but also ensure that when the time comes to take your pension, you do so in as tax-efficient a way as possible. The good news is that you can take 25% of your pension pot from age 55 (rising to 57 in 2028) in the form of a tax-free lump sum.

## Inheritance Tax

Many people are concerned that on their death, their families will be faced with a sizeable bill for Inheritance Tax (IHT). Where the tax is payable, the rate applicable is 40%, although this can be reduced to 36% if you leave at least 10% of your net estate to charity.

However, with careful planning it's possible to reduce the level of tax payable. The nil rate band is £325,000 per person and where a main residence is passed to a direct descendant there is an allowance of £175,000 in this tax year.

We can explain how you can use your annual IHT allowances to make small gifts each year. If you wish to give away more substantial sums during your lifetime, we will be able to explain how you can do this tax-efficiently. If you survive for seven years after making the gift, it will be outside of your estate for IHT.

## Planning your wealth for the future

Tax planning involves taking sensible steps to reduce the amount of tax you pay. However, whilst tax-efficiency can have a vital part to play in successful saving and investment, it's important not to let it be the sole driver of your savings or investment decisions, or to steer you away from achieving your core financial goals.

Working with us can help you put in place the right plans for your future to safeguard your wealth.

<sup>1</sup>HMRC June 2022

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## We're here to help

We're only a phone call away, so if you have any questions or would like to discuss the best pension options for your individual circumstances, please do get in touch.

# Some Important Tax Rates for 2023-24

<h3>Tax-free Savings for Individuals</h3> <ul style="list-style-type: none"> <li> <b>ISA ALLOWANCE</b> → <b>£20,000</b></li> <li> <b>JUNIOR ISA ALLOWANCE</b> → <b>£9,000</b></li> <li> <b>LIFETIME ISA</b> → <b>£4,000</b></li> </ul>	<h3>Dividend Taxation</h3> <p><b>£1,000</b> tax-free Dividend Allowance</p> <p>Dividends above this level will be taxed at:</p> <ul style="list-style-type: none"> <li><b>8.75%</b> (basic rate)</li> <li><b>33.75%</b> (higher rate)</li> <li><b>39.35%</b> (additional rate)</li> </ul>	<h3>Income Tax Allowances</h3> <p>Income Tax Personal Allowance <b>£12,570</b></p> <p>There is one Income Tax Personal Allowance, regardless of an individual's date of birth</p> <p>Where your adjusted net income exceeds <b>£100,000</b>, the Personal Allowance reduces by £1 for every £2 of adjusted net income above <b>£100,000</b></p>					
<h3>Personal Savings Allowance</h3> <p>Up to <b>£1,000</b> of savings interest tax free to basic rate tax payers</p> <p>and <b>£500</b> for those who pay higher rate tax</p> <p>For additional rate tax payers the allowance is nil</p>	<h3>Pension Annual Allowance</h3> <p>The Annual Allowance is <b>£60,000</b> for 2023-24</p> <p>£1 of Annual Allowance is lost for every £2 of adjusted income over £260,000. The minimum tapered Annual Allowance is £10,000</p>	<h3>Lifetime Allowance</h3> <p>The standard Lifetime Allowance is <b>£1,073,100</b></p> <p>From April 2023, the charge for exceeding the Allowance has been removed and the abolition of the Lifetime Allowance will be delivered in a Finance Bill</p>					
<h3>State Pension</h3> <p>Flat rate State Pension increased to <b>£203.85pw</b> from 6/4/23 (35 qualifying National Insurance years needed)</p> <p>Old State Pension increased to <b>£156.20pw</b> from 6/4/23</p>	<h3>Inheritance Tax (IHT)</h3> <table border="1"> <tr> <td>Nil-Rate IHT band <b>£325,000</b></td> <td><b>40%</b> IHT payable above this threshold</td> <td>or <b>36%</b> if you leave at least 10% of your assets to charity</td> </tr> </table>	Nil-Rate IHT band <b>£325,000</b>	<b>40%</b> IHT payable above this threshold	or <b>36%</b> if you leave at least 10% of your assets to charity	<h3>Other IHT-free gifts, include;</h3> <table border="1"> <tr> <td><b>Gifts</b> between UK domiciled husband or wife or between civil partners;</td> <td>Small gifts to other recipients up to <b>£250</b> each in a year</td> </tr> </table>	<b>Gifts</b> between UK domiciled husband or wife or between civil partners;	Small gifts to other recipients up to <b>£250</b> each in a year
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<h3>Capital Gains Tax</h3> <p>Annual personal CGT exemption → <b>£6,000</b> (Higher rates of 18% and 28% apply to sales of second homes)</p> <p>levied at <b>10%</b> for basic rate taxpayers</p> <p>or <b>20%</b> for higher rate taxpayers</p>	<p>Additional main Residence Nil-Rate band (RNRB) when a residence is passed on death to a direct descendant.</p> <p>For the 2023-24 tax year the allowance is <b>£175,000</b></p> <p>This will be subject to a maximum estate value of £2m</p>	<p>Total gifts up to <b>£3,000</b> in a year (can be carried forward one tax year)</p> <p>Gifts in consideration of marriage or civil partnership ranging from <b>£5,000</b> from each parent of the couple, to <b>£1,000</b> from anyone else</p> <p>Failed chargeable lifetime transfers and potentially exempt transfers may receive taper relief on the IHT payable.</p>					

#### Warning statement

It is important to take professional advice before making any decision relating to your personal finances. Information within this document is based on our current understanding and can be subject to change without notice and the accuracy and completeness of the information cannot be guaranteed. It does not provide individual tailored investment advice and is for guidance only. Some rules may vary in different parts of the UK. We cannot assume legal liability for any errors or omissions it might contain. Levels and bases of, and reliefs from, taxation are those currently applying or proposed and are subject to change; their value depends on the individual circumstances of the investor. No part of this document may be reproduced in any manner without prior permission.

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