

Making the most of tax reliefs and allowances

Is your financial planning tax efficient?



Tax Freedom Day

Tax Freedom Day is a concept, a measure calculated to indicate the first day in the year that the UK as a whole has theoretically earned enough income to pay its taxes. In 2017 this day was calculated to be 12 June*. This doesn't mean you stop paying tax, as you can't avoid this but you can make the most of the reliefs and allowances available to you.

What can you do to ensure your financial planning is tax efficient?

Everyone's circumstances are different. Here are some things you can consider, but if you speak to us we can help you make the right plans for your own circumstances.

Your savings

You could keep more of your savings in an Individual Savings Account (ISA). In the 2018/19 tax year you can save as much as £20,000 into an ISA with any growth being tax free.

You could also look to transfer any low interest ISAs into one that could potentially provide a better return – you can do this without using up any of your allowance. Check with your provider for any restrictions and charges they may have on transferring ISAs.

Your investments

Other than gains on residential property, you'll pay capital gains tax (CGT) at 10% on any gains that fall within any unused basic rate tax band you have. And you'll pay it at 20% on any gains that fall outside your basic rate tax band.

However, you only pay tax on the amount of any gain above the CGT exemption, which is £11,700 for the 2018/19 tax year. If you invest in a stocks and shares ISA, you don't pay tax on income received from your ISA investment or on any capital gains. Please remember that if you're married or in a civil partnership, spouses and civil partners are treated as separate individuals so each has their own annual exemption.

Your retirement plan

Pensions can be the most tax-efficient way to save. For example, a basic rate taxpayer only has to pay in £800 to have £1,000 invested in a pension pot. You can potentially get tax relief on any pension contributions you make. This is limited to the higher of £3,600 or 100% of your relevant earnings capped at £40,000 before tax charges may apply. This £40,000 is known as your annual allowance. Your employer may also make contributions on your behalf, which will count towards your annual allowance usage.

It may also be possible to carry forward any unused allowance from the previous three years.

If you're approaching retirement, one of the options to consider is transferring other savings in to your pension, therefore benefiting from tax relief.

Your estate

There are a number of ways to make sure that your estate not only goes to who you want, but you also minimise any inheritance tax that might be payable.

In the 2016/17 tax year the government received over £4.8 billion** in inheritance tax which is paid at a rate of 40% on the value of your estate above your nil-rate band. Some of the things you might consider to reduce the amount of inheritance tax payable include:

- Make gifts
 - Use trusts
 - Give to charity
- A reduced inheritance tax rate of 36% will apply if you leave 10% or more of your net estate to charity.

You can find more information on estate planning in our *Passing on your wealth* leaflet. Ask us for a copy.

Your business

If you own a company, you could explore the most tax-efficient remuneration strategy. Amongst other things, this could involve a combination of salary, dividends and pension contributions.

With interest rates at historically low levels, it may be possible to achieve a better return for surplus cash held in a company bank account by considering an alternative investment.

As always, seeking professional advice is important to help ensure you make the right decision at the right time.

The importance of advice

As these are only a few suggestions of how you can make the most of tax reliefs and allowances. If you would like more information, or would like help to ensure tax efficient financial planning as possible regarding your own personal circumstances, please get in touch.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes, which cannot be foreseen.

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.

Please speak to an Accountant or Tax Specialist to obtain further tax advice.