Making the most of your tax allowances and reliefs

Quilter Financial Planning

Every year the government provides allowances and reliefs available for all taxpayers. Are you making the most of these? We outline below the allowances you are entitled to and how you can make use of them.

Personal income tax allowance

The personal allowance for tax year 2024/25 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.

The personal allowance is reduced by £1 for every £2 of earnings above £100,000. If you earn £125,140 or more, it is lost completely and income tax will be paid on all of your income.

Things to consider:
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 (2024/25) 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, in combination with the personal allowance of £12,570 it means you could earn up to £17,570 a year tax free in savings across both.

Things to consider:
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 £125,140 each year, you'll pay tax on all your savings.

Things to consider:
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.

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Tax efficient options

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

Available allowances

Personal allowance	Starting rate for savings	Savings allowance	Dividend allowance	Capital Gains Tax (CGT) allowance	ISA allowance	Pension allowance
£12,570	£5,000	£1,000	£500	£3,000	£20,000	£60,000

Building wealth

Personal allowance £12,570

Spending wealth

Tax free/tax deferred or reduced

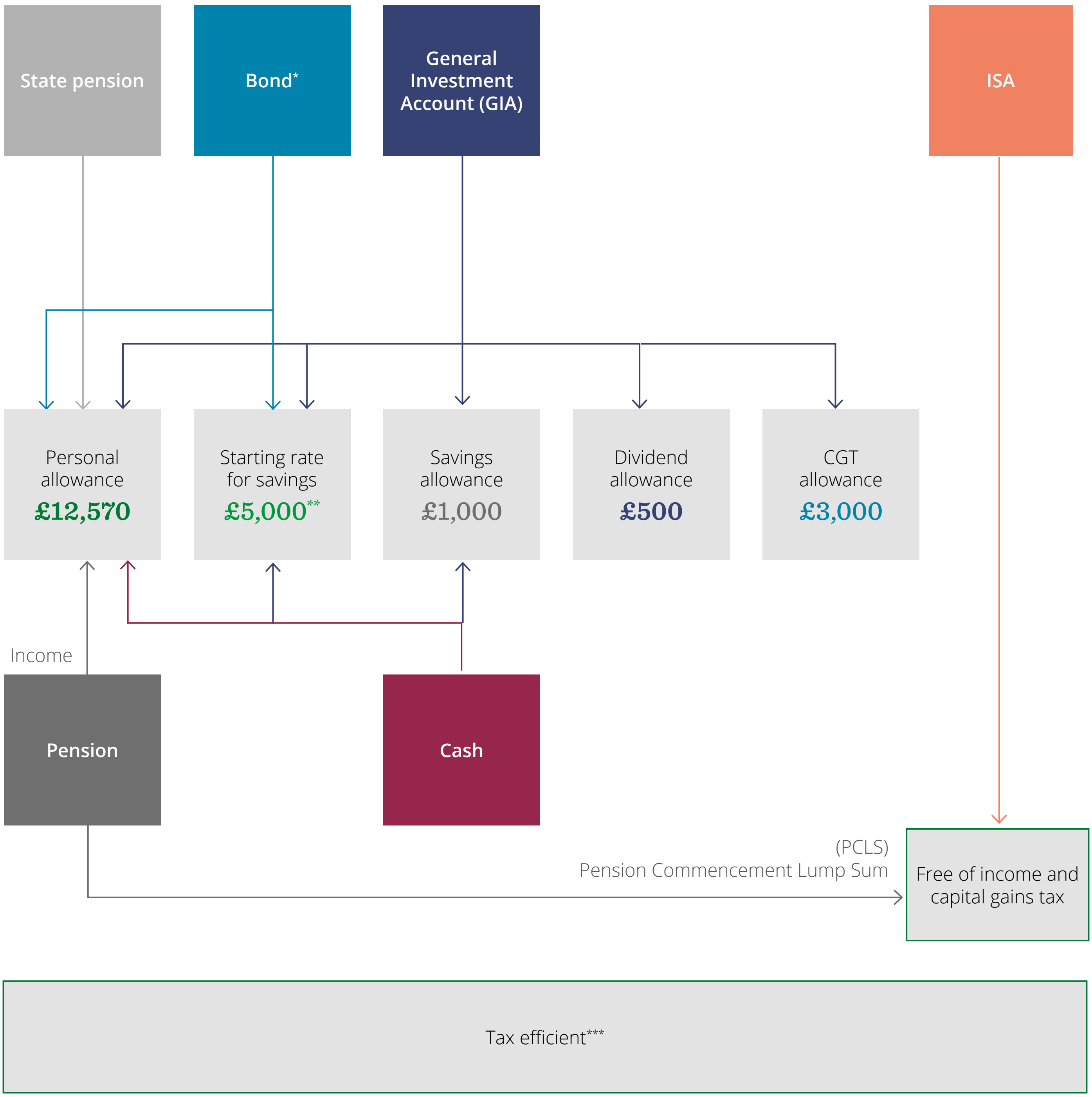
All of the above must be balanced with your Inheritance Tax (IHT) planning requirements

The value of pensions and the income they produce can fall as well as rise. You may get back less than you invested.

* *Venture Capital Trusts (VCT) - unlimited tax free dividends, CGT free, maximum investment allowance £200,000 subject to income*

** *Enterprise Investment Schemes (EIS) - CGT free, maximum investment allowance £2m subject to income or gains*

Helping you use your tax efficient options



For ISAs, Investors do not pay any personal tax on income or gains, but may pay unrecoverable tax on income from stocks and shares received by the ISA managers. Tax treatment varies according to individual circumstances and is subject to change.
** 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 2024/25 the dividend allowance is £500. This means if you have used up your personal allowance with other sources of income you can earn an additional £500 in dividends without paying any tax.

Things to consider:
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 2024/25 is £3,000. 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.

Things to consider:
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 efficient and do not need to be declared on your tax return.

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

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 2024/25 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 2024/25 it is 100% of earned income up to a limit of £60,000. This may be lower if you have already accessed your pension pots, or you have a high income.

Things to consider:
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.

Things to consider:
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 Junior ISA (JISA) 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 and are often suitable for experienced investors.

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.