TIME FOR A TAX HEALTH CHECK

With the current tax year soon to end, now is the time to make sure that you're being smart with your money and using all the tax breaks available to you.

This is particularly important at a time when we're all going to start paying more income tax as well as those on dividends received and for capital gains.

Using tax breaks and allowances can help offset these hikes.

Here are some of the key ones to know about:

PENSIONS

Paying into a pension is extremely tax efficient as you get tax relief on contributions. Taxpayers get 20% paid by HM Revenue & Customs to their pension and if you pay income tax at a higher or additional rate you can claim relief on your self-assessment tax return at either 40% or 45%.

Since money invested in your pension grows free of capital gains tax and income tax, your savings can grow much faster.

There's an annual limit of £40,000 for all workers – though you can't pay in more than you earn. Pensions offer the unique benefit of being able to backdate unused allowances up to three years.

If you're self-employed, paying into a pension will also save on your self-assessment tax bill as a higher rate (or top rate) taxpayer.

SALARY SACRIFICE

Using a salary sacrifice arrangement is a very efficient way to contribute to your pension. You enter into an agreement with your employer where you exchange (or 'sacrifice') part of your salary and in return your employer makes a direct contribution into your pension.

The main benefit of salary sacrifice is that both you and your employer save on National Insurance.

ISA

You can shelter up to £20,000 in an ISA where it's exempt from income tax and capital gains tax. This allowance is renewed every April. But if you don't use it, you lose it. By taking full advantage you could potentially grow a savings pot worth hundreds of thousands of pounds over time.

LIFETIME ISA

Designed for savers building a deposit for a first home or for retirement, you can pay in up to £4,000 a year (which forms part of the £20,000 yearly allowance) and bank up to £1,000 in government top-ups. The money can be used to buy a first property worth up to £450,000. Alternatively you can withdraw it from the age of 60 to boost your income in retirement. If you take the money for any other reason there's a 25% exit penalty. You must be between 18 and 39 to open a Lifetime ISA which can be opened as a cash or stocks and shares account.

JUNIOR ISAS AND SIPPS

Consider a Junior ISA for tax-free investing for children and grandchildren, where you can shelter £9,000 each tax year until the child reaches 18. As with adult ISAs, there's an investment and a cash version.

You could even start a pension for under-18s. Tax rules allow up to £3,600 to be saved in a Junior SIPP for under 18s each tax year. A Junior SIPP allowance comes in addition to a Junior ISA allowance.

CAPITAL GAINS TAX

You can receive up to £12,300 profit from the sale of an asset without paying any tax. This might include selling shares, a second property or perhaps valuable art or jewellery. If you do not use your capital gains tax (CGT) annual exemption, it is lost and cannot be carried forward. Where you own an asset with another person, such as in a marriage or civil partnership, you can both apply your allowances. This means where a gain is made on the sale of a second home for example, you can double the amount you make to £24,600 before CGT becomes applicable.

It's worth factoring in that the allowance will be reduced from £12,300 to £6,000 from April 2023 and £3,000 from April 2024[1].

INHERITANCE TAX

The Inheritance Tax (IHT) nil-rate band has been frozen at £325,000 since 2009/10, which means that it has been increasing in real terms over time. It will be frozen at this level until 2028[2].

For those with children or direct descendants who can inherit the family home, this could increase by £175,000 per person following the introduction of the Residence Nil Rate Band (RNRB) in 2017.

That means that for a married couple or civil partners, the first £1 million of their estate could potentially be free of IHT.

However, for estates over £2 million, this additional RNRB is reduced by £1 for every £2. Should the total estate exceed £2.7 million, the additional RNRB is lost entirely.

To reduce the value of your estate – and the eventual IHT bill – use personal gift allowances. This includes the annual exemption which allows you to give away up to £3,000 each tax year and it's exempt from inheritance tax. You can also give £250 to any number of people every year, but you cannot combine it with your annual £3,000 exemption. You can give away all types of assets, as well as cash, including property and shares tax-free, as long as you live for seven years after making the gift.

PENSION DRAWDOWN

You can draw up to 25% of your pension tax-free once you reach age 55 (57 from April 2028).

PERSONAL RELIEFS

Married couples and those in a civil partnerships should consider utilising each person's personal reliefs, as well as their starting and basic rate tax bands.

It may be beneficial to consider gifts of income producing assets (which must be outright and unconditional) to distribute income more evenly between spouses. For example, inter-spouse transfers are free from CGT, so where one spouse/civil partner has not fully utilised their annual exemption, consider a gift followed by a sale in the hands of the recipient to maximise available reliefs.

GET ADVICE OR GO IT ALONE?

Taking action now may give you the opportunity to take advantage of any remaining reliefs, allowances and exemptions - before they end with this tax year. Many people end up paying more tax than they need to because they are unaware of all their allowances.

Getting professional help on all elements of tax planning can help ensure you don't miss out – or end up triggering unknown tax bills.

[1]https://www.gov.uk/government/publications/reducing-the-annual-exempt-amount-for-capital-gains-tax

[2]Inheritance Tax nil-rate band and residence nil-rate band thresholds from 6 April 2026 to 5 April 2028 – November 2022