dns accountants

# Tax saving tips

The individual

# Introduction

HMRC assesses taxes annually and many allowances are also allocated annually. Hence there are many opportunities to optimise your taxes just by planning and timing your actions.

Additionally, HMRC wishes to promote some types of action, so it may be to your advantage to take these opportunities, while available.

Here we have outlined some of the key opportunities available to you.

If you want to know more about any of these or book a meeting with an independent financial advisor, then do contact dns Accountants.

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# Income management

Firstly, personal tax is based on annual income levels so you need to be aware of what your income is this year and what you anticipate it to be in the future so you can do some planning to reduce the tax thereon.

We understand you do not want to reduce your actual income, just organise your affairs better so you pay less of it to HMRC.  Here are some good reasons for planning income variations:

- Have you earned enough this tax year to use your personal allowances?
- Have you earned enough to earn your national insurance credits?
- Have you or will you stray into the next tax bracket?
- What is changing and can you exploit this?

If you are in business in your own right, whether as a sole trader, the director of a company, or just a rental property owner, then you may have the opportunity to plan some variations in your personal income.

- When do you change your business entity?
- When do you do those repairs?
- When do you take on a new employee?
- What salary or dividends do you take?
- When do you replace that equipment?

If you are not in business then you may still have some sway over your earned income e.g. do you do that overtime, when do you go on Parental Leave, do you make an extra pension contribution. You may also be able to take advantage of employer benefits that may be offered by your employer.

Do not forget the opportunity to claim job seekers, sick pay or maternity benefit if you are off work, direct from HMRC, especially as many of these claims earn you national insurance credits towards state pensions too.

Child benefit claims also earn you national insurance credits towards state pensions, even if your spouse is a higher earner so the benefit is refundable.

Low earners and low paid pensioners may be entitled to universal credits, based on annual income. Put in your claim early as it may only be back dated by 31 days.  Note: child tax credits can be available up to income of £35,000.

Finally, there are other benefits and support allowances for special circumstances e.g. bereavement, incapacity, carer's that you may wish to investigate.

## Marriage allowance

If you are married and each have income of less than £50,270, then it may be to your advantage to claim the marriage allowance. This effectively transfers 10% (2021/22 - £1,260) of the Personal Allowance from one spouse to the other. This is most beneficial if the lower earner has not earned enough to use their personal allowances, as you can save up to £252

HMRC will accept back dated claims, currently to 2017/18 tax year.

## Personal savings allowance

Individuals may now earn a small amount of interest tax free. This personal savings allowance is dependent on total level of income for the tax year.

| Total Income level | PSA |
|---|---|
| Under £50,270 | £1,000 |
| £50,271 to £150,000 | £500 |
| Over £150,000 | zero |

Interest on investments in joint names is taxed 50:50. Transfers of money between spouses is usually tax neutral, and then interest may use spouse allowances; but interest on money transferred to minor children remains your interest.

See Tax Savings Tips Guide for Business for lending money to your own company.

## Dividend allowance

Individuals may now receive £2,000 of dividends per annum tax free, irrespective of other income. If dividend income exceeds £10,000 then a personal tax return is required. Between these sums additional tax is due but may be assessed by HMRC independently of the need for a personal tax return.

Transfer of shares between spouses is usually tax neutral and can hence be used to make best use of this personal allowance. Do talk to dns accountants about the benefits for you.

## Pension contributions

Pension Contributions are currently one of the best ways to save taxes while at the same time saving money for the future.

Contributions via your employer, go into the pension fund tax and national insurance free.

When you personally contribute, HMRC adds basic rate tax refunds to your fund. Personal contributions should then be declared on your personal tax return, resulting in tax bands being raised and hence income which may have previously been taxed at higher rates now being taxed at a lower tax rate.  This effectively gives you full income tax relief on your personal contribution, but not national insurance relief.

When you reach 55, you can start to make withdrawals; 25% of such withdrawals are tax free, only the remaining being taxed at your normal marginal tax rate at date of withdrawal.

If you want to get involved in the investments of your pension fund then you may like to consider a SIP (Self Invested Personal pension fund)

There are lifetime limits so if you have existing high value funds or expectations e.g. NHS or Teachers pension then please check these limits before you make any new contributions, as there can be hefty penalties if you exceed the caps by even £1.

## Gift aid donations

Gift-Aid donations work in a similar way to pension contributions.

When making a donation to charity, you can sign up to Gift-Aid – hence advising the charity that you are a UK income tax payer.  This enables the charity to ask for a basic rate tax refund on that donation. This increases every £100 you donate into £125.

But you too can benefit, because just like pension contributions you can put the donation on your personal tax return and get higher rate tax relief.

Do not forget donations to charity do not need to be cash – they could be items to a charity shop, shares or even excessive bids at a charity auction.

We do not however recommend donating your anticipated tax refunds to charity, as suggested by HMRC, because if HMRC make a mistake then the donation cannot be refunded.

## Capital gains allowances

Each year you can make up to £12,300 of capital gains tax free. So is your investment including cryptocurrencies portfolio being managed to use this annual allowance? Or are you in for a big tax bill when all those investments that have risen in value over the years are sold off.

If total of all capital gains in the year is less than £12,300, on sale proceeds of less than £49,200, then you do not need to report these on your personal tax return – so is it time to sell some of those tricky investments that you would struggle to cost for a capital gains computation e.g. those with reinvested dividends, or you inherited.

From April 2020 most residential property that you have not lived in will be subject to capital gains tax - reportable and payable within 60 days of sale.  Do talk to dns accountants about your liabilities.

# Inheritance Tax (IHT) - lifetime allowances

Every individual has lifetime gift allowances – amounts they can give away without effecting their inheritance tax bill. As follows: -

- Annual exemption – up to £3,000 (if you have not used last years allowance then you can use that this year too)
- Wedding exemption – up to £1,000 per person (£2,500 for a grandchild or great grandchild, £5,000 for a child)
- "Normal Gifts out of income" exemption – must happen regularly and not affect your standard of living e.g. regular Christmas or birthday presents or even a grandchild's school fees paid from a large monthly pension.
- Spouse exemption – there is no limit on lifetime gifts between spouses who both live in the UK permanently
- Assistance with another's living costs e.g. elderly relative
- Donations to charity or political parties
- Small Gifts – up to £250 per recipient per year (if not in receipt of one of the above)

Any gift that is not tax free when made, under one of the above, could incur inheritance tax, if you die within 7 years – so do use these allowances. The recording of significant gifts and loans is recommended, including terms and allowances being used.

# HMRC investment incentives

## Individual Savings Accounts (ISAs)

ISAs are a great way to save and invest money while saving taxes. Currently up to £20,000 can be put into ISAs annually, with any income or gains from such investments being tax free. Also, income from ISAs doesn't need to be declared on your personal tax return.

There are several types of ISA you can invest in

- Cash ISA – for investing cash
- Shares ISA – for new or existing shares
- Combinations
- Special purpose ISAs

## Lifetime ISA

One special purpose ISA is a Lifetime ISA, intended for use to buy your first home or to save for later in life.

Special rules:-

- You must be aged 18 to 40 to open one.
- Up to £4,000 pa may be invested, until you're 50.
- The government will add a 25% bonus to savings deposits
- There is a 25% penalty if you withdrawn the funds other than when:
    - Buying your first home, OR
    - Over aged 60   OR
    - Terminally ill, with less than 12 months life expectancy

## Investing in EIS, SEIS, SITR or VCT

The Government is incentivising people to invest into companies that are just starting, by offering personal tax reliefs to investors. The Tax Reliefs vary depending on the specific tax scheme under which the investment is made. The company raising funds needs to be registered with HMRC, under the relevant scheme and follow the rules for that scheme, or investors will not get the reliefs.

An entrepreneur may benefit by registering their company, to attract outside investors, but cannot personally claim these reliefs.

The main schemes available at present are as follows:

- Enterprise Investment Scheme (EIS)
- Seed Enterprise Investment Scheme (SEIS)
- Social Investment Tax Relief (SITR)
- Venture Capital Trust (VCT)

Upon investing in newly issued shares, for at least 3 years, investors may enjoy a whole raft of benefits

- Income tax bill reduction (in current and or previous year) - as a percentage of the amount invested,
- Tax relief on Dividends
- If investment goes well, then capital gains on disposal may be tax exempt
- If the investment does badly then you may be able to claim income tax relief on the loss
- If the money you invest was from the sale of an asset, then there may be tax reliefs available for that gain too

Here is a table to show how these schemes differ

| | EIS | SEIS | SITR | VCT |
|---|---|---|---|---|
| Investment limits | £1m (+ £1m in Knowledge companies) | £100,000 | £1m | £200,000 |
| Income tax relief | 30% | 50% | 30% | 30% |
| Relief year | Current & preceding | Current & preceding | Current & preceding | Current only |
| Dividend relief | None | None | None | Tax free |
| Capital gains relief | Yes, if you had income tax relief | Yes, if you had income tax relief | Yes, if you had income tax relief | Yes |
| Loss relief | Yes | Yes | Yes, but not on loans | No |
| Investing gain | Deferred to sale | 50% exempt | Deferred to sale | No |

Remember these are reductions to tax bills, not refunds.

# Conclusion

This guide is only a quick insight into what may be available at the time of writing. Each circumstance is unique and HMRC is always changing the rules and guidance for implementation.

Please speak to dns Accountants about what is currently available to you before taking any actions.

There is no limit to tax saving and planning, and there may be new opportunities available to you. We are passionate for our clients to pay the least amount of tax legally.

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- Tax saving tips – The business
- Tax saving tips – The employee

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