BWMacfarlane
CHARTERED ACCOUNTANTS

Personal tax planning

A guide for clients

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The overriding aim of all personal tax planning is to legally reduce the amount of tax paid on an individual's income. This income can come from a number of sources and the tax reduction strategies available will be based on the reliefs and allowances applicable to each source.

Thresholds

You will be taxed at a higher rate if your income exceeds certain thresholds and you may also lose part or all of an allowance.

Savings and dividend income are subject to specific allowances and, in the case of dividends, taxed at different rates to other income.

You can choose which slice of income should be set against your personal allowance (£11,500) to achieve the best result.

Taxable income above	Main Rate	Rate on dividends	Why, what and who
£11,500	20%	7.5%	Basic rate and personal allowance used
£43,000	40%	7.5%	Higher rate for Scottish taxpayers
£45,000	40%	32.5%	Higher rate for other taxpayers
£100,000	40%	32.5%	Personal allowance withdrawn by £1 for every £2 of income
£123,000	40%	32.5%	Higher rate – personal allowance completely withdrawn
£150,000	45%	38.1%	Additional rate

Above £45,000:

- marriage allowance not available (above £43,000 for Scottish taxpayers)
- savings allowance cut from £1,000 to £500
- capital gains taxed at 20% rather than 10%.
- tax-free childcare vouchers reduced from £55 to £28 per week.

Above £150,000:

- pensions annual allowance is tapered down to £10,000
- saving allowance is nil
- tax-free child care vouchers reduced to £25 per week.

Both these thresholds can be expanded if you pay pension contributions or make gift aid donations in the tax year. Gift aid donations can also be carried back 1 year.

Savings

As a basic rate taxpayer, you have a saving allowance of £1,000 and you pay no tax on interest covered by that allowance. As soon as your income tips into the higher rate band, your savings allowance is cut to £500.

If your total income, ignoring dividends, is less than £16,500, you also have a savings rate band of up to £5,000. You pay no tax due on interest falling within your saving rate band or savings allowance.

Savings within an individual savings account (ISA) are tax-free. If you are eligible to open a Lifetime ISA, or Help to Buy ISA, you can receive a 25% bonus on your savings. That bonus is lost if your ISA savings are not used for an approved purpose such as for buying your first home. The maximum investment into all ISAs is £20,000 per adult per year.

Family matters

Sharing income or gains around the family can reduce the marginal tax rates for the highest earners, and make use of the allowances available to those on lower incomes. Taken together, this should result in a tax saving for the family as a whole.

To be effective, the lower earner must own the investment, bank account or shares which produce the income or gain. A family business can be used to share income by employing family members or by allowing each person to hold a share in the company or partnership.

Transferring shares or property can create tax charges, so take advice before giving away assets. Married couples or civil partners can generally transfer assets between them without tax charges. Where a spouse has a high income and holds valuable assets, tax can be saved by transferring assets into joint names.

Marriage allowance

Where both spouses or civil partners pay tax at no more than 20%, and one of them doesn't use all their personal allowance, that person can transfer £1,150 of their personal allowance to their partner. This saves tax of £230 in 2017/18. This marriage allowance can also be claimed for 2015/16 and 2016/17.

Children

A family that receives child benefit will have all the benefit clawed back as a tax charge if the highest earner in the family has income of £60,000 or more. Where this person has income of between £50,000 and £60,000, part of the child benefit is clawed back.

There are 2 ways to avoid this tax charge:

- arrange income sources so neither parent has total income over £50,000
- opt out of receiving child benefit.

It is important to claim child benefit if you are eligible, even if you opt out of receiving the payment for a period. The benefit claim provides national insurance credits for the non-earning parent, which will help build up entitlement to the state pension.

We can advise on income tax planning.

Sundry income

Earning small amounts of extra income can be tax-free up to these annual limits:

- £7,500 from letting a room in your own home as residential accommodation (rent-a-room relief)
- £1,000 from letting property which doesn't qualify for rent-a-room relief
- £1,000 from providing services, hiring assets, or selling goods.

These allowances are set against the gross income in those areas. You pay tax on any excess income without deducting expenses. The alternative approach is to not claim the allowance, deduct allowable expenses from the income and pay tax on the profit.

Rent-a-room relief applies per home, so it is halved where there are joint homeowners. The other allowances apply per individual, but they can't be set against income from your own company, a company that employs you or a partnership which you are member of.

Employee benefits

As an employee, you may be offered non-cash benefits by your employer. Where these are free of tax and national insurance, they are worth taking up. The most common tax-free benefits are:

- loan of a mobile phone and all call charges
- loan of a bicycle, if you cycle to work
- eye test and lenses, if needed for computer work
- 1 health check per year

- childcare vouchers within limits
- parking at or near work
- shares or share options within a registered scheme.

In addition, an employer may give its employees a non-cash gift or vouchers worth up to £50 if the gift is not connected with the employee's performance or contract.

Your own company can provide you with a non-cash gift on up to 6 occasions in a tax year, permitting you to receive up to £300 in tax-free vouchers from your company.

Where benefits are provided as part of an agreement to reduce the employee's salary, those benefits may be taxed as if they were salary. The rules surrounding such salary sacrifice arrangements are complex, so take advice before taking up such an offer.

Pension planning

Possibly the most tax-efficient benefit an employer can provide for you as an employee is a pension contribution.

Your employer (perhaps your own company) will receive tax relief on the full amount paid into the pension scheme as long as your total remuneration package, including the pension contribution, is reasonable for the work you do. The money builds up inside the pension fund free of tax.

You only pay tax on a pension contribution if the total amount paid in the year by you and your employer exceeds your pensions annual allowance. Most people have an annual allowance of £40,000, which is expanded by any unused allowance from the 3 most recent tax years.

However, if you have already started to draw taxable amounts from another money purchase pension fund, your annual allowance for further contributions is restricted to £4,000. Also, where you have applied to protect your lifetime pensions allowance at a level higher than £1 million, you may lose that protection if you make further pension contributions.

Always take qualified independent financial advice before making a significant investment into a pension fund, or other savings scheme, and beware of pension scammers.

For further information or assistance please contact Sue Stephens or John Elliott.

About Us

Professional, Personal, Affordable.

We are one of the leading, independent chartered accountancy practices in Liverpool. At BWMacfarlane we provide a wide range of accountancy and business support services to organisations and individuals throughout the North West of England and beyond. Our experienced and skilled partners and their teams are ready to support you with high quality, individual yet affordable services however complex your personal or business needs.

For more details of how we can help you transform your business, please visit www.bwm.co.uk or call us on 0151 236 1494.