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Reducing your personal tax liability

This guide is intended to help individuals with their financial and tax planning

Good tax planning is an essential component in personal financial planning. Everyone's situation is different and tax rates, allowances and legislation change every year. Without personal tax planning, you may pay more tax than you should.

Minimising your personal tax liability

Each member of your family is taxed as an individual and is entitled to his or her own allowances and exemptions.

Income	Earnings etc.	Savings income	UK dividends
First £10,000 *	Tax free	Tax free	10%
Next £2,880	20%	10%/20%**	10%
Next £31,865	20%	20%	10%
Next £118,135***	40%	40%	32.5%
Above £150,000	45%	45%	37.5%

** The personal allowance is withdrawn by £1 for every £2 by which total income exceeds £100,000 (to £120,000).*

*** The first £2,880 of savings income is taxed at 10% provided taxable non-savings income does not exceed £2,880.*

**** Where income exceeds £100,000 the personal allowance is withdrawn and so up to an additional £10,000 can be at a tax rate of up to 40%. In this instance, you should ignore the £10,000 income line in calculating your cumulative position on the table.*

There is an income tax charge where child benefit is being claimed and at least 1 parent or guardian earns £50,000 or more.

Allowances and rate bands are allocated first to your earned income (which includes pensions), then to your savings income, then to any UK dividend income.

Many individuals fail to optimise their tax allowances. If you have a partner, spouse or child who pays a lower rate of tax than you, you could consider allowing them to hold some or all of the savings in their name.

Any interest in excess of £100 on money given to children by parents will be treated as the parents' income but interest on money from grandparents may be set against the child's personal allowance. Similarly, higher-rate or additional-tax paying landlords could transfer rented property (or a proportion of it) into their spouse's name. This may also produce a capital gains tax (CGT) benefit.

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Investments

There are several tax-free options in which investments can be made, including a New ISA (the maximum 2014/15 investment allowance for an ISA/New ISA is £15,000 for all adults) and some National Savings and Investments products.

Tax-advantageous investment vehicles include the Self Invested Personal Pension, which grants a wide degree of investor choice at the expense of accessibility.

Three other forms of tax efficient investments - the Enterprise Investment Scheme, Venture Capital Trusts and the Seed Enterprise Investment Scheme - are available for people willing to invest in small businesses where there is a higher element of risk.

Dividends and equity

Dividends from most companies (including foreign dividends) attract a non-repayable tax credit which represents 10% of the dividend income. If you are planning to sell shares it may be possible to make a partial sale straddling the tax year, thereby utilising CGT annual allowances each year (provided these allowances have not otherwise been used). If you make losses on your shares, it is also possible to carry this loss forward to offset against future capital gains.

Rental property

Rental property loan interest, subject to certain conditions, is an allowable deduction from rental income. Landlords of residential properties may claim an annual 10% wear and tear allowance if the property is fully furnished. If you are letting a holiday property in the UK or in the European Economic Area you can claim capital allowances rather than the 10% allowance.

If you rent out a room in your own home, you are entitled to receive up to £4,250 per year tax free. However, this means you will not be able to claim any rental expenses as an additional deduction.

Capital gains tax

Individuals can make tax-free gains of up to £11,000 for the 2014/15 tax year when they sell or dispose of an asset.

All year round tax planning checklist

You should not leave tax planning until the final months of the tax or financial year. Opportunities can be lost, or tax savings reduced, if action is delayed. Use this checklist to identify any planning opportunities.

Personal planning checklist	Yes	No
1. Is your liability to income tax and capital gains tax for this year as low as possible?		
2. Are you claiming all your allowances and deductions for income tax?		
3. Are you maximising your contributions to pension schemes?		
4. In determining where to invest your family funds, will you seek to take advantage of tax-efficient investments such as ISAs, VCTs, EIS or SEIS?		
5. If you are a share holding employee in a limited company, have you considered whether there is a tax advantage in receiving dividends instead of salary/bonus?		
6. Are your payments to charity attracting the higher rate or additional rate tax reliefs available by claiming Gift Aid?		
7. Have you considered giving up your company car and instead claiming at the official mileage rate for business use of your car?		
8. Would you consider the use of trusts in your tax planning?		
9. If you are in a position to influence your total remuneration package, have you sought tax-efficient benefits?		
10. Have you reviewed your Will and explored opportunities for reducing your liability to IHT?		

Charitable donations

Throughout your life you may wish to give money to charity. There are a number of ways in which it is possible to gift cash or assets to charity tax-efficiently. For example, under Gift Aid a higher rate taxpayer can give a charity £100 at a net cost of as little as £60. Charitable donations can also be included in your Will and will attract tax relief.

Nearing retirement

If you plan to retire in the next 10 years you will need to carefully consider and evaluate your income requirement and the extent to which your investments can deliver the return you want. As you approach retirement, it is worth checking that your accumulated capital is at less risk and to ensure that your income in retirement will meet your needs.

Please contact us for advice on any of these topics.