



Personal tax planning

How to reduce what you owe the taxman.

Nobody wants the taxman to take more than his fair share, and planning your finances early on can ensure you adopt the most tax-efficient strategy for the months and years ahead.

Effective tax planning will help protect your wealth and any assets, ready to pass on when the time comes, while also providing you with peace of mind.

Our complex tax system has a variety of reliefs and allowances to enable you to reduce your tax liabilities with HMRC and help you navigate your way to a wealthier future, but where do you start?

Income

The way you receive an income, and the rates and allowances that apply, should be among your main considerations when planning your personal finances.

Depending on where in the UK you are, you will pay income tax on the rates and bands displayed in the table below.

Dividends

The annual dividend allowance reduced from £5,000 to £2,000 on 6 April 2018.

Income tax 2018/19	England, N. Ireland & Wales		Scotland	
	Threshold	Tax rate	Threshold	Tax rate
Personal allowance	£11,850*	0%	£11,850*	0%
Starter rate	n/a	n/a	£11,851 – £13,850	19%
Basic rate	£11,851 – £46,350	20%	£13,851 – £24,000	21%
Intermediate rate	n/a	40%	£43,431 – £150,000	41%
Higher rate	£46,351 – £150,000	40%	£43,431 – £150,000	41%
Additional rate	Above £150,000	45%	Above £150,000	46%

* Personal allowance reduces by £1 for every £2 of income above £100,000, up to £123,700.

With the personal allowance added to the dividend allowance, the maximum tax-free income you can receive through dividends is £13,850 for 2018/19.

Anything above this amount is taxed at the following rates, regardless of where you are in the UK:

- 7.5% for basic rate taxpayers – £13,850 to £46,350
- 32.5% for higher rate taxpayers – £46,351 to £150,000
- 38.1% for additional rate taxpayers – above £150,000.

Capital gains

When you sell assets that have increased in value, your profit is subject to capital gains tax (CGT). The tax-free allowance for these gains is £11,700, or £5,850 for trusts.

While the gain when added to your income is within your basic rate band, CGT will be paid at the rate of 10%. Once the gain takes you into the higher rate band, CGT is payable at 20%.

The rates are different if you're selling residential property, at 18% in the basic rate band and 28% above the basic rate band.



Personal tax planning

Extra income

Some smaller amounts of income are tax-free up to annual limits.

Under the government's rent a room scheme, you can earn up to £7,500 a year tax-free from letting out a furnished room in your home.

You can opt into the scheme if you're a resident landlord, or if you run a bed and breakfast or guest house.

This also includes renting out your spare room through websites like Airbnb, so you could take advantage of the allowance simply by letting a room to holidaymakers over short periods of time.

The relief is halved if you share the income, for instance with your partner.

If you let property that doesn't qualify for the scheme, a £1,000 allowance applies instead.

There's also a £1,000 allowance that applies to any income from trading, which could apply if you sell in small amounts on marketplace websites like eBay or Etsy.

If you claim these allowances, you won't be able to deduct any business expenses.

Foreign income

If you are UK resident but not domiciled in the UK, you may need to pay UK tax on your foreign income.

Foreign income or gains for non-domiciled residents will be taxed if they come to more than £2,000 in the tax year, or if they're brought into the UK, including if they're moved to a bank account in the UK.

If you have foreign income of more than £2,000, you may be able to claim the remittance basis.

This means you'll only pay tax on what you bring to the UK, but you'll lose your tax-free allowances and may have to pay an annual charge.

Savings

Another way to become more tax-efficient is to look at how your savings are working for you.

Whether you're aiming to grow your wealth or just keep it protected from tax, it's a good idea to think about where you're putting money away each year.

Personal savings allowance

Your personal savings allowance allows you to earn up to £1,000 in interest from your savings each year, without paying any tax.

This is reduced to £500 for higher rate taxpayers, and is removed altogether for additional rate taxpayers.

ISAs

Individual savings accounts (ISAs) are free of tax up to a value of £20,000, whether on interest or on income from investments.

There are various types of ISA, including:

- cash ISA
- stocks and shares ISA
- innovative finance ISA
- lifetime ISA
- junior ISA (for children under 18).

You can choose to put all of your savings in one type of ISA or split them across others in any combination.

However, keep in mind that you can only pay into one of each kind every year and some types have maximum annual contribution limits.

Family matters

Careful planning will help you to ensure financial security for your loved ones, and to eventually pass an inheritance on to them.

It's important to consider the way you share income and gains around your beneficiaries, and the effect this will have on your marginal tax rate and available allowances.

Marriage allowance

If you earn less than your spouse or civil partner, you can transfer £1,190 of your personal allowance to them using the marriage allowance.

This could reduce their tax bill by up to £238 in the tax year, and can be backdated to include any tax year since 5 April 2015.

The marriage allowance is not available if you or your partner pay the higher or additional rate of tax.

Inheritance of the family home

There's no inheritance tax to pay if you leave your home to your spouse or civil partner.

If you pass it on to anyone else, such as a child or grandchild, it will be subject to inheritance tax (IHT) if its value is above the threshold (£325,000) at the date of death.

An additional allowance – called the residence nil-rate band – is available when passing on the family home. This increased in April 2018 to £125,000.

It works on top of the £325,000 basic nil-rate band when passing on the family home to your children or grandchildren (or other direct descendants), meaning you may be able to pass on the family home worth up to £450,000 in 2018/19 without paying IHT.

A number of conditions apply, so be sure to seek expert advice to see if you qualify for this allowance.

Pensions

To achieve your goals for a comfortable retirement, it helps to plan ahead and take advantage of the available allowances.

Your pension savings are free of tax up to your annual allowance, which is £40,000 for most people. You may also be able to bring forward any unused allowance from the last three tax years.

If your threshold income is above £110,000 and your adjusted income is over £150,000, this allowance will be reduced by £2 for every £1 that the limit is exceeded. The minimum the allowance can be reduced to is £10,000.

However, if you have withdrawn any flexible benefits, the money purchase annual allowance of £4,000 will apply instead of the annual allowance.

The total amount you can save into a pension over the course of your life increased to £1.03 million for 2018/19. Your pension will trigger an extra tax charge if it is worth more than this threshold.

Speak to us about your personal tax planning.