

**St
James's
Place**



Tax planning:
for when life happens

If there's one time of year when you're likely to do tax planning, it's spring. March means the Spring Budget and making the most of the allowances you may have missed before the tax year ends, while April is all about getting the new tax year off to the best possible start.

Over a lifetime, tax planning can significantly boost your wealth, but it shouldn't be a once-a-year job. The most effective tax planning comes from thinking about tax every time you make an important financial decision.

So, whether you're just starting out, retired or somewhere in between, take advantage of the reliefs and allowances available to you throughout the tax year and make your money work harder.

Let us *show you how*





Six savvy tax decisions

1

Received a pay rise? Don't fall into the 60% tax trap

If you're starting a new job or have had a salary increase, you need to pay close attention to tax once your salary breaches £100,000 or you could inadvertently end up paying 60% Income Tax. As salaries increase along with the cost of living, more of us could find ourselves in the 60% tax trap.

You'd be forgiven for thinking that tax rate doesn't exist – and indeed you won't see it listed on the HMRC website. Nonetheless, a quirk in the tax system

that sees the personal allowance for higher earners reduce by £1 for every £2 earned over £100,000 creates an effective tax rate of 60% for earnings between £100,000 and £125,140.

This tax trap is easy to mitigate, though – by boosting your pension contributions, you can not only bring your taxable income down below £100,000, but also get that additional contribution potentially topped up by 40% tax relief and employer contributions.

The value of an investment with St. James's Place will be directly linked to the performance of the funds selected and may fall as well as rise. You may get back less than the amount invested.

The levels and bases of taxation, and reliefs from taxation, can change at any time and are dependent on individual circumstances.

For every £100 of income between **£100,000** and **£125,140**, you only take home £40 – with £40 taken in Income Tax and another £20 lost due to the gradual removal of the personal allowance

2

Celebrating a big day? Use your gifting allowance and pay less Inheritance Tax

Do you have an adult child or grandchild getting married or starting a civil partnership this year? A wedding isn't just the perfect opportunity for a party - many of us also choose to mark the occasion with a generous financial gift.

Given the current economic uncertainty, these contributions are more valued than ever. Your gift will not only help the newlyweds pay for their big day, but it could also save your future beneficiaries Inheritance Tax (IHT). With IHT allowances frozen, you may find the tax liability on your estate increases. A gift to loved

ones is one way to mitigate that.

You can give up to £5,000 to your child - or £2,500 to your grandchild - when they marry, without it being included in your estate for IHT purposes. You can also top up that by a further £3,000 - your annual gifting allowance.

These allowances are per person, which means a couple could potentially give their child £16,000 tax free as a wedding present.

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3

Looking to give your child a financial leg-up? Think twice before you raid your pension

Your 50s and 60s can be an expensive period – you may want to help out children financially, do work on your home or see the world. Your pension might be a pretty tempting pot of cash – you can access it from age 55, although that’s rising to 57 in 2028. But while dipping into your pension might be easy, it could cost you a fortune in tax.

Most people can take 25% of their pension tax free, subject to certain limits; the remaining amount will be added to your income for the year and taxed at your marginal rate. It may even bump you up a tax bracket and make you a higher or additional-rate taxpayer overnight. It’s wise to take advice and consider spending other assets – such as ISAs – first, especially as they will form part of your estate for IHT purposes, while pensions are not subject to IHT.

It’s also important to remember the tax relief you get from paying into a pension. This can come in handy if you have any windfalls such as a work bonus or inheritance. Basic-rate taxpayers get tax relief at 20%, which means it only costs £800 to invest £1,000, while higher-rate taxpayers get 40% tax relief, which means it only costs them £600 to invest £1,000.

Please note that anything over the basic rate of tax must be claimed via your tax return. If you chose to then invest the tax relief into your pension, the figures below demonstrate how this could work.

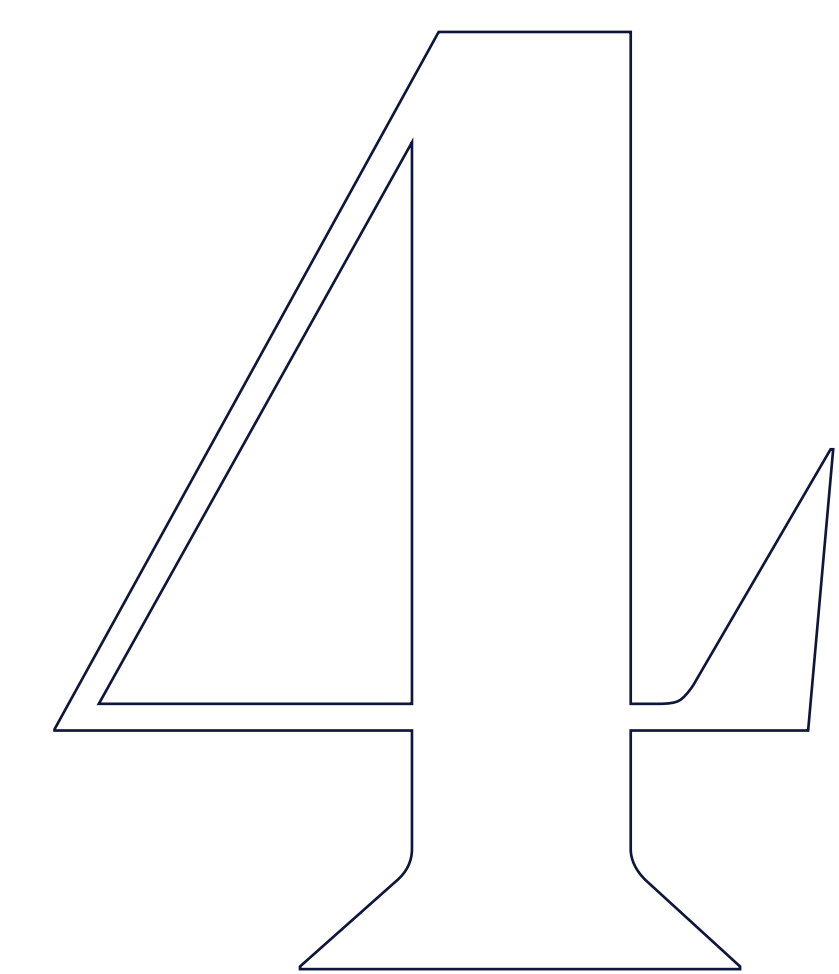
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How tax relief on pension contributions works

When paying into a pension, you receive tax relief on contributions. This is at the highest rate of Income Tax that you pay. The above graphic shows the relief on a total contribution of £100.



Keeping savings in cash? Bear in mind the tax implications of any interest you earn

After a prolonged period of savings accounts paying negligible interest rates, cash savings are paying off again. If you're earning interest on cash savings, it's worth considering the tax implications, particularly if you are a high earner.

Interest earned on cash held in savings accounts may incur a tax penalty. Basic-rate income taxpayers are liable to pay tax on interest earned over £1,000 in a tax year. Higher-rate taxpayers are liable for tax on interest over £500, and additional-rate taxpayers are taxed on any interest earned.

The value of an ISA with St. James's Place will be directly linked to the performance of the funds selected and may fall as well as rise. You may get back less than you invested. An investment in a Stocks & Shares ISA will not provide the same security of capital associated with a Cash ISA.

The levels and bases of taxation, and reliefs from taxation, can change at any time. The value of any tax relief generally depends on individual circumstances.

There are ways to mitigate this – for example, by saving in an ISA, as interest earned from ISAs is tax free.

For long-term savings, a Stocks & Shares ISA may still give you more bang for your ISA buck. On the other hand, a Cash ISA may be a better choice if you might need to access that money at short notice. You can spread your £20,000 annual tax-free ISA allowance between a Cash and a Stock & Shares ISA.

Check with your adviser to ensure you're making the most of your allowances and that you're getting the best returns.



Your Personal Savings Allowance for 2023/24

Basic-rate taxpayers can get up to
£1,000
per year
of interest tax free

For higher-rate taxpayers, it's
£500
per year

There is no allowance for additional-rate taxpayers



5

Want to raise a cash lump sum? Split assets with your other half to reduce Capital Gains Tax

At some point, you may want to sell an asset at a profit. This could be anything from a second home to stocks and shares, or even valuable items such as jewellery or antiques. However, unless you're holding shares in an ISA or pension, any profit you make on the sale of your assets could be liable for Capital Gains Tax (CGT).

From 6 April 2023, the CGT allowance has reduced significantly, from £12,300 to £6,000. It will reduce again in April 2024, to £3,000.

There are ways you can cut your bill, though. One is to give half of your holding to your partner, enabling you both to use your £6,000 CGT allowance – although this can be complicated, so it's worth seeking expert advice. If that's not an option, you could consider selling shares in two stages – March and April – enabling you to straddle two tax years.

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On property
(not including
your home)

18%

Basic-rate taxpayer

28%

Higher or additional-
rate taxpayer



**On
other
assets**

10%

20%

How much Capital Gains Tax you'll pay depends on the rate of Income Tax you pay and whether the asset is a property or something else

6

Watch out for changes to the dividend allowance and Corporation Tax

Perhaps you run your own business and pay yourself with a combination of salary and dividends? If so, it's important to know how the changes from April 2023 will impact you.

From the start of the 2023/24 tax year, the dividend allowance will halve, to £1,000. That means any dividends you receive above this amount are liable for tax.

Meanwhile, the new tax year also brings changes to Corporation Tax. Profits of up to £50,000 will continue to be taxed at 19%. Profits of £250,000 or more will be taxed at 25%, and profits between £50,000 and £250,000 will be taxed at a marginal rate.

If you're affected by the hike in Corporation Tax, speak to us about how you could mitigate your tax liability, for example by paying more into your pension.

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What's **changing** in the **2023/24** tax year?

- ◆ The standard annual tax-free allowance for pension contributions will increase from £40,000 to £60,000 from 6 April 2023.
- ◆ The pension lifetime allowance – which currently stands at £1,073,100 – will fall away throughout the 2023/24 tax year. It is planned to be abolished completely from 6 April 2024.
- ◆ The threshold for additional-rate Income Tax will stand at £125,140 – down from £150,000.
- ◆ From 6 April 2023, the Capital Gains Tax allowance will reduce to £6,000. From 6 April 2024, it will reduce again, to £3,000.

The most important tax rules for the 2023/24 tax year

Pensions

- ◆ Save up to £60,000 (or 100% of your earnings if lower) into your pension/s (including any employer contributions and tax relief at your marginal rate).
- ◆ You can also take advantage of any unused annual allowances from the previous three tax years – however, the allowance for each year remains at the previous limit of £40,000 a year.
- ◆ You can save an unlimited sum into your pension over your lifetime without incurring tax.

Income Tax

- ◆ The first £12,570 of your income is tax free.
- ◆ You pay 20% tax on everything between that and the higher-rate threshold, which is £50,270.
- ◆ Everything from £50,271 to £125,140 is taxed at the higher rate, which is 40% (42% in Scotland).
- ◆ Everything above £125,140 is taxed at the additional rate of 45% (47% in Scotland).

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ISAs

- ◆ Your annual ISA allowance is £20,000.
- ◆ You can save up to £20,000 in either a Stocks & Shares ISA or a Cash ISA (or a combination of the two) during this tax year without paying any tax on the interest or profits.
- ◆ This limit is per person, so you and your spouse or partner can have one each.
- ◆ The annual allowance for Junior ISAs is £9,000. There is a choice of Cash or Stocks & Shares ISAs, but the money can't be accessed until the child turns 18.

Dividends

- ◆ The first £1,000 you earn in dividends is tax free.
- ◆ You then pay 8.75% on anything above that if you pay Income Tax at the basic rate or no Income Tax at all.
- ◆ If you pay Income Tax at the higher rate, it's 33.75%.
- ◆ If you pay Income Tax at the additional rate, it's 39.35%.
- ◆ If your stocks and shares are held in an ISA or pension, any dividends you earn from them are tax free.

Personal Savings Allowance

For cash savings:

- ◆ If you're a basic-rate taxpayer, you can earn up to £1,000 interest on your savings each year without paying any tax.
- ◆ If you're a higher-rate taxpayer, you can earn up to £500 a year.
- ◆ If you pay additional-rate Income Tax, there is no allowance.

Corporation Tax

- ◆ From 6 April 2023, Corporation Tax will rise to 25% for businesses with profits of £250,000 and above.
- ◆ For businesses with profits of £50,000 or less, the rate will remain unchanged at 19%.
- ◆ For those in between, the tax rate will be tapered.

Capital Gains Tax

- ◆ From 6 April 2023, the annual exempt amount – the amount of capital gains you can make before accruing tax – will reduce to £6,000.
- ◆ Gains over that £6,000 threshold are taxed at 10% if you pay basic-rate tax or 20% if you're a higher-rate taxpayer.
- ◆ Profits from property (if it's not your main residence) are charged at the higher rates of 18% and 28% respectively.

Inheritance Tax

- ◆ Anything you pass on to your spouse or civil partner when you die is usually tax free.
- ◆ The first £325,000 of your estate is tax free.
- ◆ Anything above this is charged at 40%.
- ◆ If your home is included in your estate, the tax-free threshold increases to £500,000 (as long as you're passing the home to a child or grandchild and your total estate is worth less than £2 million).
- ◆ Your tax-free allowance can be passed on to your spouse or civil partner – so when they die, the allowances can be combined.
- ◆ You can give away up to £3,000 per tax year in gifts. You can also give additional amounts to children or grandchildren if it's for a wedding. Anything that you give above the gift allowance will count towards your estate if you die within seven years of making the gift and will be subject to IHT.
- ◆ The £3,000 gift allowance is per person, so you and your spouse or partner can give away £6,000 between you this tax year and it won't be counted towards your estate if you die.
- ◆ You can also use last year's gifting allowance if you haven't already.

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To find out how to make the most of your tax reliefs and allowances throughout the year, please get in touch with us today.

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