MOORE (NW) LLP

Make Use of your Savings & Pension Allowances – why pay voluntary tax?

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Each tax year, it is important to consider taking advantage of various tax 'wrappers' so as to reduce the tax that you pay and make your savings and investment income, tax efficient.

Individual Savings Accounts (ISA's)

Each year, anyone aged 18 or over can save up to a maximum of £20,000 into a stocks-and-shares ISA or a cash ISA. Anyone aged 16 or over can save up to the same amount into a cash only ISA. Anyone under 16 cannot contribute into a stocks-and-shares ISA.

No income tax is payable on any income generated within your ISA, and no capital gains tax is payable on any gain that is made within the stocks-and-shares ISA.

Over time, it is possible to accumulate a substantial 'pot' which can provide a very tax-efficient income.

Junior ISA's

For those with children under the age of 18, funds can be committed, on their behalf, by saving up to £9,000 a year into a Junior ISA which is taken out with a guardian controlling the account. The ISA funds can be invested in exactly the same way as described above.

When the child reaches age 18, they will gain control of the account which they will be able to continue in their own name.

Lifetime ISA

If you are between 18 and 40 years old and have not yet bought your first home, you can invest up to £4,000 into a Lifetime ISA, each tax year, until you are 50. The government will add a bonus of 25%, therefore adding a further £1,000 for every £4,000 paid in; boosting the contribution to £5,000. The payment of £4,000 will count towards your £20,000 annual ISA allowance as described above.

Provided the funds have been invested for at least one year, you can access the funds within your lifetime ISA, penalty free, for one of the following reasons:

- to purchase your first home at any time,
- for your retirement after you turn 60, or
- if you are terminally ill.

Please note a penalty will be incurred if you access these funds for any other reason.

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Pension contributions

Each tax year, you can make pension contributions of up to £40,000 gross or 100% of your relevant earnings, whichever is the lower. Carry forward of previous years' unused allowances are potentially available, depending on your circumstances.

Basic rate tax relief is claimed back by the pension company, and this is then added to your pension. If you are a higher rate taxpayer, additional tax relief can be claimed back via an adjustment on your self-assessment tax return which will then reduce the amount of tax you have to pay.

Higher rate taxpayers begin to lose their tax-free personal allowance when and if, their total income exceeds £100,000 in any tax year. Making a pension contribution can reduce taxable income so that your tax-free personal allowance can be reclaimed.

If you are able to control how and when you are paid; then employer pension contributions are well-worth considering. These are paid gross by the employer which will save both employee and employer national insurance contributions. Such employer contributions are also allowable as a deduction against trading profits, thereby lowering your tax liability.

For non-taxpayers who have no relevant earnings, they can pay up to £3,600 per annum into a pension and receive basic rate tax relief, i.e. with a net contribution of £2,880, HMRC will top the contribution up to £3,600. Payments can also be made into a pension for children and grandchildren, and they also benefit from basic rate tax relief.

In Summary

Above, are a few ways in which you can save tax; however, it is important that you seek independent financial advice before committing to any savings or investments.

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