End of Tax Year Financial Planning

Making good use of tax reliefs and allowances will often be a key part of any successful Financial Plan.

As the 2023/24 tax year draws to a close, Rob Ellis, Director and Chartered Financial Planner, comments on some of the key areas clients may want to consider before the end of the tax year.

Individual Savings Account (ISA) Allowances

ISAs were introduced 25 years ago to give savers and investors a way to tax efficiently plan for their future. The main advantage of an ISA is its tax efficiency, with ISA **returns free of income tax and capital gains tax (CGT)**.

> This year's annual ISA allowance is set at £20,000 and **if you don't use it, you lose it**. It's also worth remembering that £20,000 ISA allowance **can be allocated between Cash and Investments** (e.g. £5,000 to a Cash ISA and £15,000 to a Stocks & Shares ISA).

From 6th April ISAs are becoming more flexible with multiple subscriptions to the same type of ISA in one tax year permitted (e.g. £5,000 to one Stocks & Shares ISA and £15,000 to another Stocks & Shares ISA). The current rule is one ISA of each type, each tax year.

Capital Gains

Capital gains tax (CGT) is a tax on the profit when you sell (or 'dispose of') something (an 'asset') that's increased in value.

Individuals have the benefit of a **tax-free allowance** for capital gains purposes, with the allowance set at **£6,000** for the 2023/24 tax year.

> The CGT allowance is important because **it cannot be carried forward** to future tax years if it's not used. Furthermore, there will be a significant reduction in allowance **to just £3,000** for individuals from 6th April this year, having been £12,300 a year ago.

In summary, clients may want to think about their CGT exemption, particularly if there are large unrealised capital gains in assets which are subject to CGT.

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Dividends

You do not pay tax on any dividend income that falls within your Personal Allowance (the amount of income you can earn each year without paying tax). You also get a **dividend allowance** each year, with tax only due on any dividend income above the dividend allowance.

Like the capital gains allowance, we have seen a significant reduction in the tax-free dividend allowance for individuals, reducing from £5,000 in 2017/18 to **£1,000** in the current tax year. Importantly, the allowance will **reduce to just £500** from 6th April this year, meaning more and more investors will be pushed into a taxable position.

In summary, clients may wish to review the dividends being generated by investments held in "unwrapped" portfolios such as a General Investment Account and take any appropriate action before the dividend allowance reduces from April 2024.

Pension Contributions

Pension funds are an incredibly tax efficient way of saving for retirement, with pension contributions generating **tax relief** (see below example) and **pension funds growing tax-free** like an ISA. Importantly, pension funds are also usually **outside of the estate** for **inheritance tax** purposes.

Contributions to pensions are made net of basic rate tax relief, which means that you will only actually contribute **£80 net for every £100 of contributions paid**. Higher and additional rate taxpayers likewise make contributions net of basic rate tax and can then claim additional relief via their Inspector of Taxes / Self-Assessment return.

Due to the tax efficiency of pensions, there are strict **limits** on the total amount of pension contributions that each person can make **in a single tax year**, which is called the Annual Allowance. For the current tax year, the most you can pay into a pension is **£60,000 or 100 per cent of your qualifying earnings**. This includes pension contributions made by an individual, their employer, a company or a 3rd party. If you go over this allowance, you won't benefit from tax relief on the excess and you will have to pay an annual allowance charge. However, you can carry forward any unused annual allowance from the **past three tax years**.

It is important to remember that the earliest age upon which you can take benefits from a pension is **age 55,** so funding a pension isn't always for everyone. The minimum age will also increase to 57 from 2028, with further increases expected as the State Pension Age goes up. At retirement you usually have the option to take up to 25% of the fund as a tax-free cash lump sum, with the remaining funds being taxed as income at your marginal rate(s) of income tax.

Inheritance Tax (IHT)

IHT is a tax on the estate of someone who has died, including all property, possessions and money.

IHT can be a very complex area of Financial Planning, but there are allowances individuals can use whilst they are alive, which can reduce the value of the estate for IHT purposes.

The main allowance is the **annual exemption**, also known as the 'gift allowance', which allows you to give away up to **£3,000 in a tax year** without it being added to the value of your estate for IHT purposes. Importantly, any part of the annual exemption which isn't used in the tax year can be carried forward to the following tax year but not carried over any further. You can also give as many **gifts** of up to **£250** to as many individuals as you want in a tax year, although not to anyone who has already received a gift of your whole £3,000 annual exemption.

If you would like to discuss Financial Planning in relation to your own specific circumstances and the actions you should be taking to meet your financial goals, please do get in touch by contacting the office on 0161 839 8229 or rob@mgp-financialplanning.com.

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