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EB Wealth

Inflation eating your savings?

How to benefit from tax reliefs in the current financial year

As your income increases, the complexity of your finances may too. Tax-efficiency is a key consideration when investing because it can make such an enormous difference to your wealth and quality of life.

However, the type of investment and tax-efficiency you should be looking for depends firstly on whether your priority is to save a lump sum for the future or to draw an income today.

There are a number of allowances and reliefs available to UK taxpayers on their savings and investments. It is important to make use of these, as they can help to reduce your overall tax bill.

MAXIMISE YOUR ISA ALLOWANCE

If you're looking to save money on your taxes, if you're a UK resident one way to do so is by contributing to an Individual Savings Account (ISA). With an ISA, you can shelter up to £20,000 of your income from taxation in the 2022/23 tax year.

STOCKS & SHARES ISA

If you're looking to maximise your ISA allowance in this current tax year, you could consider opening a Stocks & Shares ISA. With a Stocks & Shares ISA, you can invest in a wide range of assets, including shares, corporate and government bonds, unit trusts, investment trusts, exchange-traded funds, individual stocks and shares and OEICs (Open Ended Investment Companies). Not only will your investment grow tax-efficiently, you'll also benefit from the potential for capital gains.

CASH ISA

Another option is to open a Cash ISA. With a Cash ISA, you can earn interest on your savings without having to pay any tax on the interest earned. This makes it an ideal way to boost your savings while minimising your tax liability. A Cash ISA is available to anyone aged 16 or over, while an ISA invested in any combination of cash and shares is available to those over the age of 18.

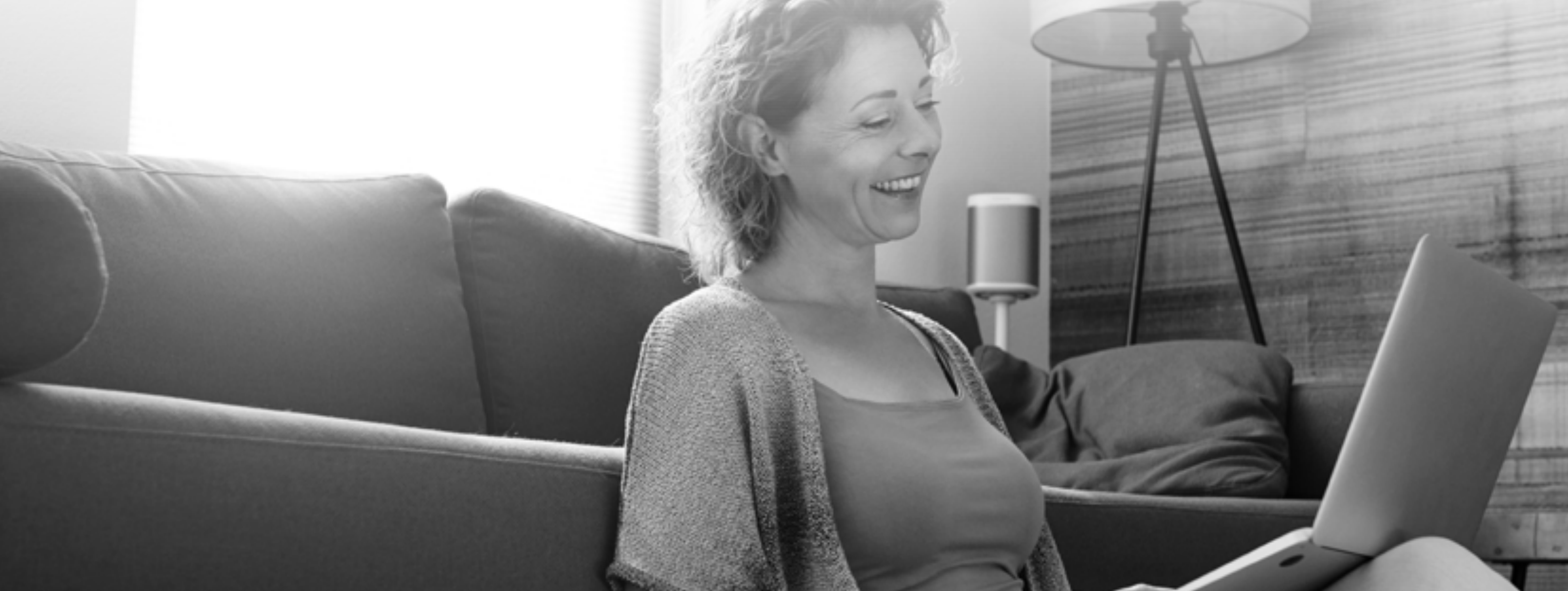
LIFETIME ISA (LISA)

If you're looking to save for retirement or to buy your first home, you may also want to consider opening a Lifetime ISA (LISA), which is available for people aged between 18 and 40. With a Lifetime ISA, you can save up to £4,000 in the current tax year, which counts towards your annual ISA allowance. The government will add a 25% bonus to savings held in a LISA, up to a maximum of £1,000 per year, and this does not count towards your ISA allowance.

You need to bear in mind that the money you put into a LISA each year forms part of your overall £20,000 ISA allowance — so if you put £4,000 in a LISA during the tax year, you'll be able to put £16,000 into other ISAs.

JUNIOR ISA (JISA)

Finally, if you have children, you may want to consider opening a Junior ISA (JISA) for them. The Junior ISA is available to UK residents aged under the age of 18 who do not have a child trust fund



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account (a child trust fund can be transferred into a Junior ISA to enable future subscriptions to be made to the Junior ISA – or the child trust fund can be kept and up to £9,000pa can be paid into it instead of the Junior ISA). Under-18s, or their parents, can put up to £9,000 in a Junior ISA each tax year. The money saved in a Junior ISA will grow tax-efficiently and can be used for a wide range of purposes, including education and training costs.

If unused, your ISA allowance cannot be carried from one tax year to the next.

CONSIDER PUTTING MORE INTO A PENSION

Under the current rules for tax year 2022/23, the maximum gross contributions that are eligible for tax relief each tax year are the lower of your gross earned income and £40,000. That includes employer and employee combined contributions and if this Annual Allowance is exceeded, a tax charge applies on the excess unless it can be covered by using carry forward. Very high earners may have a lower Annual Allowance.

Increasing your pension contributions is a very effective way of saving for retirement. By putting more into your pension, you will be able to build up a larger pot of money which can provide you with a comfortable retirement income.

MAKING THE MOST OF RETIREMENT PROSPECTS

It is also worth considering increasing your pension contributions if you have recently had a pay rise or come into some extra money. By doing this, you will ensure that you are making the most of your finances and making the most of your retirement prospects. You can also carry forward unused annual allowances from the previous three tax years, subject to certain rules, providing further scope for making contributions.

If you earn over £100,000, making pension contributions can be highly advantageous. Your personal allowance is reduced by £1 for every £2 of income above £100,000; this means your allowance is zero if your income is £125,140 or above. However, if you make a pension contribution this comes off your income figure for this purpose and so if the gross contribution is enough to reduce your total income below £125,140, you are able to offset or remove the reduction in your personal allowance.

USE YOUR CURRENT CAPITAL GAINS TAX ALLOWANCE

If you're thinking of selling an asset, such as a second home, a piece of art or shares in a company, it's important to be aware of the Capital Gains Tax (CGT) implications. CGT is tax on the profit when you sell or dispose of an asset that's increased in value.

In the tax year 2022/23, the annual tax-free allowance is £12,300, meaning you can make gains up to this amount and pay no CGT: after that, the rate is dependent on whether the gain, when added to your income, falls wholly or partly above the basic rate band or not. Losses can be offset against gains but unused allowances cannot be carried forward.

If you're married or in a registered civil partnership, you can each use your own CGT allowance. This means that a couple could potentially exempt up to £24,600 of gains from tax. ■

COULD YOU SAVE A SIGNIFICANT AMOUNT OF MONEY IN TAXES?

Making use of these allowances and reliefs could save you a significant amount of money in taxes every year. Speak to us to see how you can make the most of them — to find out more, please contact us.