Pennymatters
THE MODERN APPROACH TO FINANCIAL ADVICE

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Will you use your allowances before the tax year end?

Why now is the time to make a significant difference in your overall personal financial health

As the tax year draws to a close, individuals have a prime opportunity to maximise their annual allowances and enhance their financial wellbeing. Ensuring your financial strategies are optimised could make a significant difference in your overall personal financial health. Strategic planning can yield substantial tax savings, making it crucial to understand the available options. This article explores various avenues to optimise allowances while also highlighting potential pitfalls to avoid.

IMPORTANCE OF ISAS

One of the most efficient ways to handle investments is through an Individual Savings Account (ISA). With an ISA allowance of £20,000 for the 2024/25 tax year, individuals can spread this across cash, investment, innovative finance, or lifetime ISAs. This offers flexibility and ensures that any gains from investments within an ISA remain free from income tax, tax on dividends, or capital gains tax (CGT).

However, it is essential to remember that investing outside of an ISA does not automatically incur tax, provided that dividends do not surpass the dividend allowance and any interest from cash, funds, gilts, or bonds stays within the personal savings allowance. As always, strategic planning is key to maximising these benefits.

PENSION CONTRIBUTIONS: A STRATEGIC APPROACH

Boosting pension contributions before the tax year ends can be an effective way to secure future financial stability. Many employers offer to match contributions up to a certain limit, presenting an excellent opportunity for employees to enhance their savings. Moreover, the tax relief on pension contributions varies with the taxpayer's income level, providing more relief to those in higher tax brackets.

For basic rate taxpayers, every £800 contributed is topped up to £1,000 by HM Revenue & Customs. Higher and additional rate taxpayers can claim even more through their tax return, making pensions a lucrative option for tax efficiency. With a maximum of £60,000 eligible for tax relief per year, understanding these limits can help plan contributions effectively.

UNDERSTANDING CGT ALLOWANCES

The annual CGT allowance for the 2024/25 tax year stands at £3,000. This allowance permits the sale of shares, property, and other assets without incurring tax on the first £3,000 of gains. For those looking to sell assets with substantial gains, strategically utilising the CGT allowance over multiple tax years can minimise tax liabilities.

As part of a broader tax-raising initiative, the Chancellor, Rachel Reeves, during the Autumn Budget 2024 confirmed that the lower Capital Gains Tax (CGT) rate will rise from 10% to 18%, while the higher rate will increase from 20% to 24%. This change means you might face higher taxes on profits from selling assets like shares. Previously, those with gains above the threshold had to pay 20% on profits from assets such as shares, or 24% from selling additional property. Rates on residential property will remain at 18% and 24%, respectively.

It's important to note that CGT does not apply to assets within pensions and ISAs, or on your primary residence. Being aware of these exceptions can help you make informed decisions about asset sales and investments.

TOP-UP OPPORTUNITIES

As the tax year end approaches, topping up existing ISAs is a practical step to ensure every part of the allowance is used. The annual ISA limit operates on a use-it-or-lose-it basis, meaning previous years' unused allowances cannot be reclaimed. Making the most of current opportunities is, therefore, essential.

BE AWARE OF PENSION ACCESS CHANGES

For those who have accessed more than their tax-free lump sum from a pension, the amount they can contribute may be reduced, with the Money Purchase Annual Allowance (MPAA) coming into effect. This underscores the importance of planning when accessing pension funds to avoid unexpected contribution limits. ■

LOOKING FOR PERSONALISED GUIDANCE ON MAXIMISING YOUR ALLOWANCES?

Given the complexities and potential changes in tax rules, staying informed is imperative. Personal circumstances can significantly influence the impact of these regulations, and professional advice is often beneficial. For further information or personalised guidance on maximising your allowances before the tax year ends, please do not hesitate to contact us.