

Tips for the end of the tax year

Outline

The tax burden in the UK is at its highest in 70 years, according to the Office for Budget Responsibility, and the strain on taxpayers is set to increase as many allowances have been frozen until April 2028. With this in mind, it's particularly important to make full

use of annual allowances and exemptions that enable you to lower tax bills and build up your wealth. This factsheet highlights some key tips that you could consider applying before the end of each tax year (5 April).

Optimise your pension annual allowance

Contributing to a pension plan can significantly reduce your taxable income. UK savers can pay up to £60,000 into their pension annually and benefit from tax relief on these contributions, in light of the 50% increase to the annual allowance as of 6 April 2023.

This can provide a valuable boost to your savings for retirement, while lowering your tax liability. If you have unused annual allowances from the three previous tax years you may be able to contribute a larger sum via the 'carry forward' rule.

Top up pension contributions with carry forward

Carry forward allows eligible pension savers to pay more than the standard annual allowance (£60,000) into their pension in a given tax year. This can be achieved by carrying forward unused annual allowances from the three previous tax years. To be eligible you must first use up your annual allowance in the current tax year, before using carry forward from prior years, starting with the earliest of the three available years.

retirement pot, achieving substantial tax savings in the process. The example table below illustrates how carry forward works in practice. In this scenario, the individual could achieve income tax savings of up to £35,000 on a pension contribution of £75,000.

Carry forward can be particularly helpful for small business owners, who can extract company profits via workplace pension contributions and boost their

However, any carry forward from the 2021/22 tax year must be used before the 6 April 2025, or it will be permanently lost. Carry forward is only available if you have been a member of a registered UK pension scheme in a relevant tax year. It isn't available if you have started accessing your defined contribution pension benefits.

Make substantial tax savings with carry forward

Example: Taxpayer in England; £10,000 annual pension contribution by employer.

	Earnings	Pension contributions made ¹	Annual allowance remaining
2021/22	£130,000	£15,000	£25,000
2022/23	£140,000	£40,000	None
2023/24	£150,000	£20,000	£40,000 ²
2024/25	£150,000	£30,000	£30,000
			Total: £95,000

1 Employee and employer contributions
2 The pension annual allowance rose from £40,000 to £60,000 as of 6 April 2023

Use it in 2024/25 tax year or lose it

Potential income tax saving of up to £40,000

ISAs offer tax-free gains

Like pensions, ISAs are one of the two main pillars of tax-efficient wealth building. Each UK adult enjoys an ISA allowance of £20,000, with any interest or gains exempt from tax. Under-16s are able to con-

tribute £9,000 a year into ISAs – providing children or grandchildren with a valuable nest egg that will grow over time – while 16- and 17-year-olds can additionally contribute up to £20,000 into an adult

cash ISA equivalent, giving them an effective ISA allowance of £29,000. The ISA annual allowance

can't be carried over into a new tax year. Can you and family members pay more into ISAs before 6 April?

Harvesting your investment gains

Capital gains tax is a tax on the profit when you sell, or dispose of, an asset that has increased in value. This includes investment portfolios where basic rate taxpayers pay 18% tax on their investment gains, while higher and additional rate taxpayers pay 24%. Each adult currently benefits from a capital gains tax annual exempt amount of £3,000.

vestment gains are exempt from tax. However, a couple can still make substantial savings by 'harvesting' investment gains in each tax year and applying their annual capital gains tax allowance, rather than letting gains build up and facing a large tax charge down the line.

The allowance was formerly £6,000, but this was halved as of 6 April 2024, placing even more emphasis on optimising ISAs and pensions, where any in-

A professional investment management team can implement annual capital gains harvesting, to ensure this 'use it or lose it' allowance is appropriately applied before the end of each tax year.

Cutting your dividend tax bill

Investors who are earning income from dividends (on investments held outside of tax wrappers) can also take steps to reduce their tax bill. The dividend allowance of £1,000 was cut to £500 from 6 April 2024, but a couple can still enjoy tax-free dividend income of £1,000 annually. Staying within the basic

rate tax band – which may be applicable for retirees or those working part time – also sees you pay tax on dividend income (above the dividend allowance) at a rate of just 8.75%, rather than 33.75% and 39.35% for higher and additional rate taxpayers.

Don't miss out on optimising these annual allowances before 6 April

Tax wrapper/benefit

Annual allowance

Standard pension allowance¹

£60,000 (or 100% of earnings if lower) a year for earners (contributions for non-earners are limited to £3,600)

Carry forward

Unused annual allowances from 3 previous tax years; carry forward from 2021/22 must be used in the 2024/25 tax year

ISA (stocks and shares)

£20,000 per adult; £9,000 for under-16s; allowances operate on a use it or lose it basis

Tax-free capital gains

£3,000 capital gains tax annual exemption; operates on a use it or lose it basis

Dividend allowance

£500 per adult; like the capital gains tax exemption this also operates on a use it or lose it basis

¹ Savers are subject to a tapered (reduced) annual allowance if adjusted earnings are above £260,000

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