101 Practical Tax Tips

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About This Guide

All taxpayers like to save tax and there are many simple steps that can be taken to achieve this aim.

This guide contains 101 ultimate tax tips. By reading through these practical tips you will come across at least a few that will apply to your circumstances and save you some tax. Or at the very least they have given you food for thought and you will take some professional advice before taking any action or refraining from any action as a result of reading these tips.

The tips are for guidance only and professional advice should always be sought before undertaking tax planning of any sort. The savings that can be made will depend on the precise circumstances and the examples are a guide only.

There are always more tips as tax is a very complex subject. However, this book covers the more practical ideas so that everyone can take something from it.

Chapter 1:
Making the Most Of Allowances And Lower Rates Of Tax

1. Keeping The Full Personal Allowance
2. Make Use Of The Marriage Allowance
3. Utilising Your Annual CGT Exemption
4. Transfer Income-Earning Investments To Use Non-Taxpayers' Personal Allowances
5. Utilising Spouse's Or Civil Partner's Annual CGT Exemption
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1. Keeping The Full Personal Allowance

The personal allowance allows a person to receive the first £12,570 of their income tax-free for 2021/22. This is worthwhile. However, once income exceeds a certain level, the personal allowance may be lost.

For 2021/22 the basic personal allowance is reduced where a person has 'adjusted net income' in excess of £100,000 by £1 for every £2 by which this limit is exceeded until the allowance is fully abated.

This means that anyone with adjusted net income of more than £125,140 in 2021/22 loses all their personal allowance.

However, it is possible to preserve entitlement to the personal allowance by reducing income to below £100,000. There are various ways in which this can be achieved, for example by transferring income-producing assets to a spouse or civil partner (see Tip 4).

Likewise, adjusted net income can be reduced by making pension contributions, which is in itself beneficial due to the higher rate relief that is available on pension contributions up to the available annual allowance. Charitable donations made under gift aid would also work (although the donor would lose the benefit of money made as the donation).

Alternatively, a sole trader or proprietor of an unincorporated business could employ a spouse or civil partner or other family member and pay them a salary to reduce his or her self- employment income, shifting income to the family member.

Note: the personal allowance will remain at £12,570 for future tax years up to and including 2025/26.

Keeping The Full Personal Allowance

John has adjusted net income of £128,000 for 2021/22, of which £30,000 is in the form of interest from investments. His wife has income of £10,000 for the year.

As John has income for 2021/22 in excess of £125,140, he will lose all his personal allowance for that year. By transferring the investments to his wife, his income is reduced to £98,000 and he retains the personal allowance of £12,570. For a higher rate taxpayer paying tax at 40%, the personal allowance is worth £5,028 for 2021/22 (£12,570 x 40%). By transferring income to his wife, John retains his personal allowance.

As he is a higher rate taxpayer, he is entitled to a personal savings allowance of £500. Had he not transferred the investments to his wife, he would have paid tax on the investment income of £11,800 ((£30,000 – £500) x 40%). By transferring the investments, and thus the tax liability on the interest to his wife, he saves tax of £11,800 plus a further £5,000 by retaining the personal allowance. His tax bill is therefore reduced by £16,800 (£11,800 + £5,000).

As far as the £30,000 savings income transferred to his wife is concerned, the first £1,000 is covered by her personal savings allowance of £1,000, the next £2,570 is covered by the remainder of her personal allowance (£12,570 – £10,000) and the next £5,000 is taxed at the savings rate of 0%. The remaining £21,430 (£30,000 – (£1,000 + £2,570 + £5,000)) is taxed at 20% – a tax bill of £4,286.

As a couple, they are £12,514 better off. Although his wife pays an additional £4,286 in tax, John saves tax of £16,800 – a combined saving of £12,514.

2. Make Use Of The Marriage Allowance

The marriage allowance allows an individual to transfer 10% of his or her personal allowance (rounded up to the nearest £10) to his or her spouse or civil partner, as long as neither pays tax at a rate that is higher than the basic rate of tax.

This measure allows a couple, where one party does not fully utilise their personal allowance, to give the benefit of some of that allowance to their partner, saving tax of up to 20% of the amount transferred. This is useful where it is not possible to transfer income-producing assets from one spouse or civil partner to the other in order to mop up the personal allowance (see Tip 4).

For 2021/22, the basic personal allowance is £12,570. This means that where neither party pays tax at a rate above the basic rate, the marriage allowance allows £1,260 of the personal allowance to be transferred, making it possible to save tax of up to £252 (£1,260 @ 20%).

The transferor's personal allowance is reduced by the amount of the marriage allowance – from £12,570 to £11,310 for 2021/22 – and the transferee's personal allowance is increased by the amount of the marriage allowance, from £12,570 to £13,830 for 2021/22. Each party's tax code is amended – with the M suffix denoting the individual is in receipt of the marriage allowance and the N suffix denoting that the individual has transferred the marriage allowance to their spouse or civil partner.

The allowance cannot be tailored – the transfer is 10% of the allowance rounded up to the nearest £10 or nothing. Where the transferor's income is less than the personal allowance but is more than an amount equal to the personal allowance less the marriage allowance (i.e. between £11,310 and £12,569 for 2021/22), claiming the marriage allowance will still be worthwhile and will save tax, but the saving will be less than £252. The transferee will save £252, but the transferor will pay tax to the extent that his or her income exceeds the amount equal to the personal allowance less the marriage allowance (£11,310 for 2021/22, being the personal allowance of £12,570 less the marriage allowance transferred of £1,260).

Note: the personal allowance will remain at £12,570 and the marriage allowance will remain at £1,260 for tax years up to and including 2025/26.

Make Use Of The Marriage Allowance

Josh and Hannah are married. Hannah does not work as she stays at home to look after their two-year-old son. Josh earns £20,000 a year. They claim the marriage allowance to transfer £1,260 of Hannah's personal allowance for 2021/22 to Josh. As a result, Hannah's personal allowance is reduced to £11,310 (£12,570 – £1,260) and Josh's personal allowance is increased to £13,830 (£12,570 + £1,260). By making the transfer, Josh pays £252 (£1,260 x 20%) less tax.

Harry has income from freelance work of £12,000 in 2021/22. His wife Lily has income of £18,000 from her job as a teaching assistant.

As Harry is unable to utilise £570 of his personal allowance for 2021/22, the couple claim the marriage allowance. Lily's personal allowance is increased to £13,830 and her tax bill is reduced by £252 (£1,260 @ 20%). Harry's personal allowance is reduced to £11,310 and, as a result, he must now pay tax on £690 of his income (£12,000 - £11,310), a tax bill of £138 (£690 @ 20%). By claiming the marriage allowance, the couple are £114 better off (£252 saved by Lily less than £138 additional tax payable by Harry).