101 Practical Tax Tips

2024/25

By

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Publisher details

This guide is published by Tax Insider Ltd, 3 Sanderson Close, Great Sankey, Warrington WA5 3LN.

'101 Practical Tax Tips' (formerly 101 Tax Secrets Revealed) was first published in July 2010, second edition September 2010, third edition May 2011, fourth edition April 2012, fifth edition May 2012, sixth edition August 2012, seventh edition April 2013, eighth edition April 2014, ninth edition November 2015, tenth edition October 2020, 11th edition August 2021, 12th edition May 2022, 13th edition May 2023, 14th edition May 2024.

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ISBN 978-1-7394249-5-4

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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 will 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
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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 2024/25. This is worthwhile. However, once income exceeds a certain level, the personal allowance may be lost.

For 2024/25 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 2024/25 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 2027/28.

Keeping The Full Personal Allowance

John expects to have adjusted net income of £128,000 for 2024/25. To prevent losing his personal allowance, he makes contributions into his registered pension scheme of £30,000. This reduces his adjusted net income to £98,000, allowing John to retain his personal allowance.

Making pension contributions is tax efficient as John receives tax relief on his pension contributions at his marginal rate of tax, as well as boosting his pension pot in the process.

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.

Where one partner does not fully utilise their personal allowance, the marriage allowance enables them to give the benefit of some of that allowance to their partner, saving the couple tax of up to 20% of the allowance. 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 2024/25, the basic personal allowance is £12,570 and the marriage allowance is £1,260. Making use of the marriage allowance will save tax of up to £252 (£1,260 x 20%).

The transferor's personal allowance is reduced by the amount of the marriage allowance – from £12,570 to £11,310 for 2024/25 – and the transferee's personal allowance is increased by the amount of the marriage allowance, from £12,570 to £13,830 for 2024/25. Each partner'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 only permitted transfer is 10% of the allowance rounded up to the nearest £10 (i.e., £1,260 for 2024/25). Lower amounts are not allowed, so that if a person has income of £12,000 in 2024/25, they cannot simply transfer the balance of their personal allowance of £570 to their spouse or civil partner.

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 2024/25), 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 their reduced personal allowance – £11,310 for 2024/25, 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 2027/28.

The allowance must be claimed. This can be done online on the GOV.UK website.

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 2024/25 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 2024/25. 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 2024/25, 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 x 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 x 20%). By claiming the marriage allowance, the couple are £114 better off (£252 saved by Lily less the £138 additional tax payable by Harry).

3. Utilising Your Annual CGT Exemption

If you have capital gains within your portfolio then it is important to utilise the annual capital gains tax exempt amount. The annual exempt amount has been significantly reduced in recent years, reducing the potential tax savings that are available.

For the 2024/25tax year, this is worth £3,000 per person. Any net gains (after deducting allowable losses) within this figure are exempt from capital gains tax.

The capital gains tax annual exempt amount was set at £12,300 for 2022/23 and at £6,000 for 2023/24.

As each individual has their own allowance, spouses and civil partners can make gains of £6,000 in 2024/25 before any capital gains tax is payable, using the no gain/no loss rules to transfer assets between them before the sale to ensure that one spouse or civil partner’s annual exempt amount is not wasted (see Tip 5).

It is important to remember that the allowance is lost if it is not used in the tax year – it can’t be carried forward. Where, for example, an individual has shares to sell, they could use their tax-free allowance each year to sell off just enough shares (or other qualifying assets) to realise a gain equivalent to the annual exemption. Once gains equal to the annual exemption have been realised, any further disposals should ideally be deferred until the following tax year to avoid triggering a capital gains tax liability.

It should also be noted that there is no relief for inflationary gains and where an asset that has been held for a long time is disposed of, the gain is effectively treated as if it had all been made in the year of disposal. Only the annual exempt amount for that year is available to set against the gain. As the annual exempt amount is lost if not used in the tax year, it is not possible to utilise unused annual exempt amounts from earlier tax years to set against the gain.

Utilising Your Annual CGT Exemption

Smart John

John has a significant share portfolio and is a higher rate taxpayer.

For 2024/25, he will be liable to capital gains tax at 20% on any chargeable gains (or 24% if from a residential property) in excess of his capital gains tax annual exempt amount of £3,000.

He has held his shares for a number of years and has always made use of his annual exemption for capital gains tax purposes, selling sufficient shares to realise a gain approximately equal to the capital gains tax exempt amount (£3,000 for 2024/25). He makes no further disposals in the tax year once his annual exemption has been utilised.

By utilising his annual exemption for 2024/25, he is able to realise tax-free gains of £3,000. Had he already used his annual exempt amount, he would have had to pay capital gains tax of £600 (£3,000 x 20%) on the gain on the shares.

By using his annual exemption each year and only making disposals within the annual exemption rather than disposing of further shares once his annual exemption has been used, he can dispose of his shares without having to pay any capital gains tax.

He reinvests the sale proceeds in further shares.

Not So Smart Jack

Jack does not spread the sale of his shares over several years but instead sells shares and realises gains of £35,000 in 2024/25. He has other income of £60,000. As he is a higher rate taxpayer, he pays capital gains tax at 20%.

The annual exemption of £3,000 is set against the gain of £35,000, leaving net chargeable gains of £32,000. He pays tax on these gains of £6,400 (£32,000 x 20%), leaving him with £28,600 after tax to reinvest.

Compare this with John, who is able to reinvest all his sale proceeds by realising his gains completely tax-free by selling his shares over a number of years and making best use of the annual exempt amount.

Note: the significant reduction in the annual exempt amount in recent years has seriously curtailed the tax-free gains that can be made each year.