This Time it's Personal: Tax Allowances

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In a broad sense the job of a financial planner can be split into two areas:

Firstly you, helping you understand your money; giving you a plan to achieve your aspirations, reducing worry and enabling you to get on with "life".

Secondly, the technical "stuff" that we continually monitor behind the scenes, taking the heavy lifting so that you take advantage of planning opportunities and avoid pitfalls. You probably have more interesting things to do than reading 150 pages of the Chancellor's Budget!

As we come towards the end of one tax year and the beginning of another, I thought it might be useful to recap on two new tax allowances and a significant change introduced back on 6 April 2016.

Savings accounts interest is now paid gross, meaning no tax is deducted from your interest before you receive it. Another change is the new annual tax-free Personal Savings Allowance (PSA) for interest. Basic rate tax payers can earn up to £1,000 in interest, free of tax and higher rate tax payers, £500. However, now it is really important that you know how much interest you have earned over the year. Previously tax due was paid directly to the taxman from your building society account.

Now the responsibility is on you if you are liable to pay some tax.

Dividends in the old regime included a tax credit which have now been withdrawn and replaced by a Dividend Allowance. This means dividends are paid gross and any dividend income, up to £5,000 a year, will be taxfree.

However, it is really a "zero-rate" band because the dividends still count as taxable earnings so may affect entitlement to the Personal Allowance or Child Benefit. The new tax rates on dividends above the £5,000 allowance are:

- 7.5% for basic rate tax payers
- 32.5% for higher rate tax payers
- 38.1% for additional rate tax payers.

Two broad groups of taxpayers are better off under the new dividend rules: those with dividends of up to £5,000 in a tax year; and higher and additional rate taxpayers who receive dividends, as a rough guide, less than £22,000 and £25,000 respectively. However, those with significant dividend income will be worse off.

These two areas highlight the need to be informed to ensure you don't have any nasty surprises around the corner and that your affairs are arranged efficiently.

If you would like a free 30 minute meeting to discuss your own position, telephone Jo on 01562 745730 to book an appointment.

If you're not sure, have a look at what our clients say about us on our website: www.cre8wm.co.uk