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PRUDENTIAL

How U can trim your tax

Are you paying too much tax? Cut your losses with this guide for the 2016/17 tax year.

Every year we in the UK pay more than £4 billion more tax than we need to. We do this by failing to use the many tax-saving allowances and planning methods available. Use this checklist to identify the areas where you could trim your tax wastage.

Income tax

You may pay income tax on income above the tax-free personal allowance (£11,000 for tax year 2016/17). It's important to make sure you're paying the right amount, so check your tax position.

What to check	Why?	What to do
Is your tax code correct?	Your PAYE tax is calculated with your tax code. If yours isn't the standard code for this year, you could be paying the wrong amount.	Find out your tax code from your payslip or a form P6 or P9. If you suspect it's wrong, call HMRC immediately.
Are you self-employed?	Your tax will be based on your self-assessment tax return.	Be sure to claim allowable expenses – it can also help to talk to an accountant.

Your pension

A pension is a good way to reduce the amount of tax you pay over your lifetime. As the government grants tax relief on pension contributions the actual cost to you is lower than the amount invested in your pension. For example, £100 in a pension costs a basic rate taxpayer £80. The cost is lower if you pay tax at higher rates.

What to check	Why?	What to do
Are you contributing as much as you can afford?	Tax relief boosts the value of your pension, and also your employer may pay in when you do.	Review your monthly expenditure to see if you can pay in more to your pension.
Are you a higher-rate or additional rate taxpayer?	Only the first 20 per cent of tax relief is automatic. If you're entitled to more, you need to claim this back yourself.	Claim the additional tax relief on your self-assessment tax return, or contact HMRC.
Can you use your full annual allowance?	You can pay up to £40,000 a year into a pension and receive tax relief.	Remember you can carry over up to three years' worth of unused annual allowance.
Have you started to access your pension?	25 per cent of your pension pot is tax free, but the rest is taxable.	With careful planning you can minimise how much tax you pay on pension withdrawals.

Cash savings

Interest on savings may be subject to income tax, especially for higher earners or those with large amounts of savings income. A **cash ISA** is a savings account where the interest is always tax-free.

What to check	Why?	What to do
Is your total taxable income less than £17,000?	You will not pay tax on any savings income.	N/A
Are you a basic-rate taxpayer?	You will not pay tax on the first £1,000 of savings interest.	N/A
Are you a higher-rate taxpayer?	You will not pay tax on the first £500 of savings interest.	N/A
Are you an additional-rate taxpayer?	All your savings interest is taxable.	See if you have any unused ISA allowance.
Do you have any unused ISA allowance?	You get a new ISA allowance every tax year.	Move money from ordinary savings accounts to an ISA.
Do your children have unused Junior ISA allowance?	A child under 16 who does not have a Child Trust Fund may qualify for a Junior ISA. Those aged 16 or over can hold a cash ISA.	If your child already has a Child Trust Fund, you may get a better rate by transferring the money to a Junior ISA.

Although basic and higher-rate taxpayers receive a tax-free personal savings allowance, a cash ISA will still be very useful if you have a lot of savings income, if these allowances were to be removed or if interest rates start to rise.

Investments

Growth on investments is often subject to capital gains tax (CGT), but you can avoid this by holding equities and/or bonds in a **stocks & shares ISA.**

What to check	Why?	What to do
Do you have any unused ISA allowance?	In 2016/17 your total ISA allowance is £15,240. Subject to your overall limit of £15,240, you can subscribe in the current tax year to one cash ISA, one stocks and shares ISA and one 'innovative finance' ISA.	You pay no CGT on capital gains arising inside an ISA. Income (e.g. from interest on bonds) is also free of income tax.

Other assets

Other investments (e.g. investment properties or shares) may trigger a CGT bill when you sell them, if they have increased in value.

What to check	Why?	What to do
Have you used up your CGT annual exempt amount?	You only pay CGT on gains above your annual exempt amount (£11,100 in 2016-17)	If you have used all your own exemption, you could transfer assets showing a gain to your spouse or civil partner. Also consider timing the sale of assets – selling them in different tax years, not all at once.

Your estate

When you die, the value of everything you own is added up – this is your estate. Your beneficiaries must pay inheritance tax (IHT) on everything above your tax-free IHT allowance (nil rate band) of £325,000. Your estate is exempt from IHT if you leave everything to your spouse or civil partner. Any unused portion of your nil-rate band also passes to your spouse or civil partner (and vice versa).

What to check	Why?	What to do
Does your estate exceed your nil-rate band?	Your beneficiaries will pay tax at 40 per cent on everything above your nil-rate band.	Make plans in good time for reducing the size of your estate, e.g. through gifts. Also ask your adviser about reliefs (e.g. Business Property Relief).
Do you plan to leave money to charity?	If you leave 10 per cent or more of your net estate to charity, the rest is taxed at a reduced IHT of 36 per cent.	Make your will in good time and have your adviser check over the figures.
Do you have suitable life insurance?	Life insurance can be set up to help pay an IHT bill.	Ensure that your life insurance policy is held in trust so it's not part of your estate.
Is your will up to date?	If you die without a will, IHT and other costs may be much higher. Also your estate will be distributed according to intestacy law, which may differ from your wishes.	Take professional advice on preparing your will – a solicitor and a financial adviser can both help.

What to do now

To find out more about reducing your tax wastage, talk to a financial adviser. You can find one at unbiased.co.uk.