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The Fry Group

Refreshingly individual financial planning from The Fry Group

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Sensible Tax Planning

Tax planning can feel like an onerous task. For those enjoying salaries of £100,000 or more recent changes have made tax mitigation even more complex. Yet it can be possible to restore your personal allowance, enjoy tax relief at up to 60% and build your pension at the same time. Jeremy Woodley explains.

There has been a lot of change in the UK tax system in recent years. One of the ways in which the Government has sought to raise tax revenue is by phasing out the personal allowance for those earning more than £100,000. For anyone in this category, the personal allowance is gradually reduced, and those with a total taxable income of £114,950 or more receive no entitlement at all.

This situation also affects the income tax which has to be paid. For example:

- A person earning £100,000 (and enjoying a full personal allowance) would pay income tax of £30,010.
- A person earning £114,950 (with therefore no personal allowance) would face a £38,980 income tax bill.

The additional tax on the additional income equates to a 60% charge – so for every pound earned between £100,000 and £114,950, HMRC takes 60 pence!

There have been changes regarding pensions too. Currently, the maximum annual pension contribution is £50,000 gross (£40,000 net). However, because contributions to pension schemes can be deducted from income it is possible to use them to restore a personal allowance. For example, someone earning £114,950 and making a gross pension contribution of £14,950 (by paying £11,960 net) would have their income treated as being £100,000. Of course, this would also remove the 60% tax charge too. The same benefits can be enjoyed if, instead of paying this amount into a pension, a charitable donation is made.

The purpose of this illustration is to show that careful planning can reap rewards. An experienced financial adviser can help properly structure pension payments or charitable donations to ensure you make the most of your income. As ever individual advice is key.

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