FROM BROTHER WLADEK KOCH

Timely reminder for Brothers as we are about to enter the new Tax Year

Governments like to trickle out information and rely on individuals not realising the impact of previous measures.

So, beware. It might be some measures previously announced which come into effect this coming tax year could affect someone.

UNCHANGED FROM LAST TAX YEAR:

1. **Savings interest**
    - a 20% Income Tax payer they can ern £1,000 in a year tax-free
    - a person paying Income Tax at 40% (Higher rate) can earn £500 in a year tax-free
    - a person paying Income Tax at 45% (Additional Rate) has no such allowance

    Remember that all income generated within an Individual Savings Account is tax-free so it is possible to avoid suffering tax on savings interest.

2. **Income tax Personal Allowance**
    The nominal Personal Income Tax Allowance, before any adjustments, remains at £12,570 per person and the Marriage Allowance remains at £1,260. State Pension is potentially taxable depending upon all taxable income sources. A fact that many people forget.

    The fact that these have not been uprated means that as your income is uprated by pay rises or increases in State Pension or Occupational Pension someone could be nudged into paying Income Tax or into a higher tax bracket. Known as fiscal drag.

    The Income Tax bands remain and for 2024-25 will be:-
    - Taxable income between £12,571 and £50,270 - 20%
    - Taxable income between £50,271 and £125,140 - 40%
    - Taxable income above £125,140 - 45%
    - There is a hidden effective 60% tax rate above £100,000 as the Personal Allowance is lost progressively so that anyone above £125,140 has all their income taxed with no tax-free element at all.

3. **Inheritance Tax**
   The main unadjusted personal allowance is £325,000 per person.

   If the entire Estate is left to a surviving spouse or civil partner then on the death of the survivor their Estate can claim the unused allowance from the first death. That means that an Estate could potentially amount to £650,000 before Inheritance Tax becomes an issue for spouses or civil partners.

   On top of which, there is a Main Residence Allowance where the home or its value is left to direct descendants. That is an additional allowanced of £175,000 each meaning that such a couple could have a combined Estate of £1m and not worry about Inheritance provided that their Estate was not valued at more than £2m. That additional allowance does not apply to a second home - it only applies to your main residence.

   Inheritance Tax rate for anything above the allowance is 40%, even though you might never have paid Income Tax at that rate in your life. The Estate can pay Inheritance Tax at a reduced rate of 36% on some assets if you leave 10% or more of the 'net value' to charity in your Will. The net value is the Estate's total value minus any debts.

   The fact that these allowances have been frozen and with any increase in property values means that someone could be tipped into inheritance Tax where that was not the case before.

   Remember too, these Allowances are affected by what are called 'Gifts with Reservation' and if any gifts have been made in excess of the annual gifts allowance. So, careful Estate planning and sound Wills are essential.

CHANGES THAT COME INTO EFFECT IN 2024-25

1. **Capital Gains Tax**
   The annual allowance reduces to £3,000 per person. The sale of a second home is an example of where this could bite.

   The higher rate on disposal of a second home will be 24% not 28% as before above the allowance. The main home is exempt from any Capital Gains Tax.

   Other assets, such as profits on the sale of shares, assessed to Capital Gains Tax remain at 18%.

2. **Taxation of dividends**

   Tax-free amount reduces to £500 a year having fallen previously from £2,000 a year to £1,000 a year.

   The rate of tax on dividends above the allowance depends upon your Income Tax brackets and is:-

   - Basic rate Income Tax payer (20%) - Dividend tax rate 8.75%
   - Higher rate Income Tax payer (40%) - Dividend tax rate 33.75%
   - Additional rate Income Tax payer (45%) - Dividend tax rate39.35%

   Remember that effective use of an Individual Savings Account and if that is not adequate then having the shares registered in the name of the lower rate tax payer can mitigate the impact of dividends taxation albeit it the effective rate of tax is less than on earned income. Earned income includes State, private and occupational pension income.

3. **National Insurance rates**

   From 6 April the employee rate becomes 8% and for the self-employed the Class 4 rate applied to taxable profits becomes 6% and there is no obligation to pay Class 2 NI. These changes were much vaunted in the recent Budget Statement.

For more detail and an understanding in key areas do visit www.gov.uk