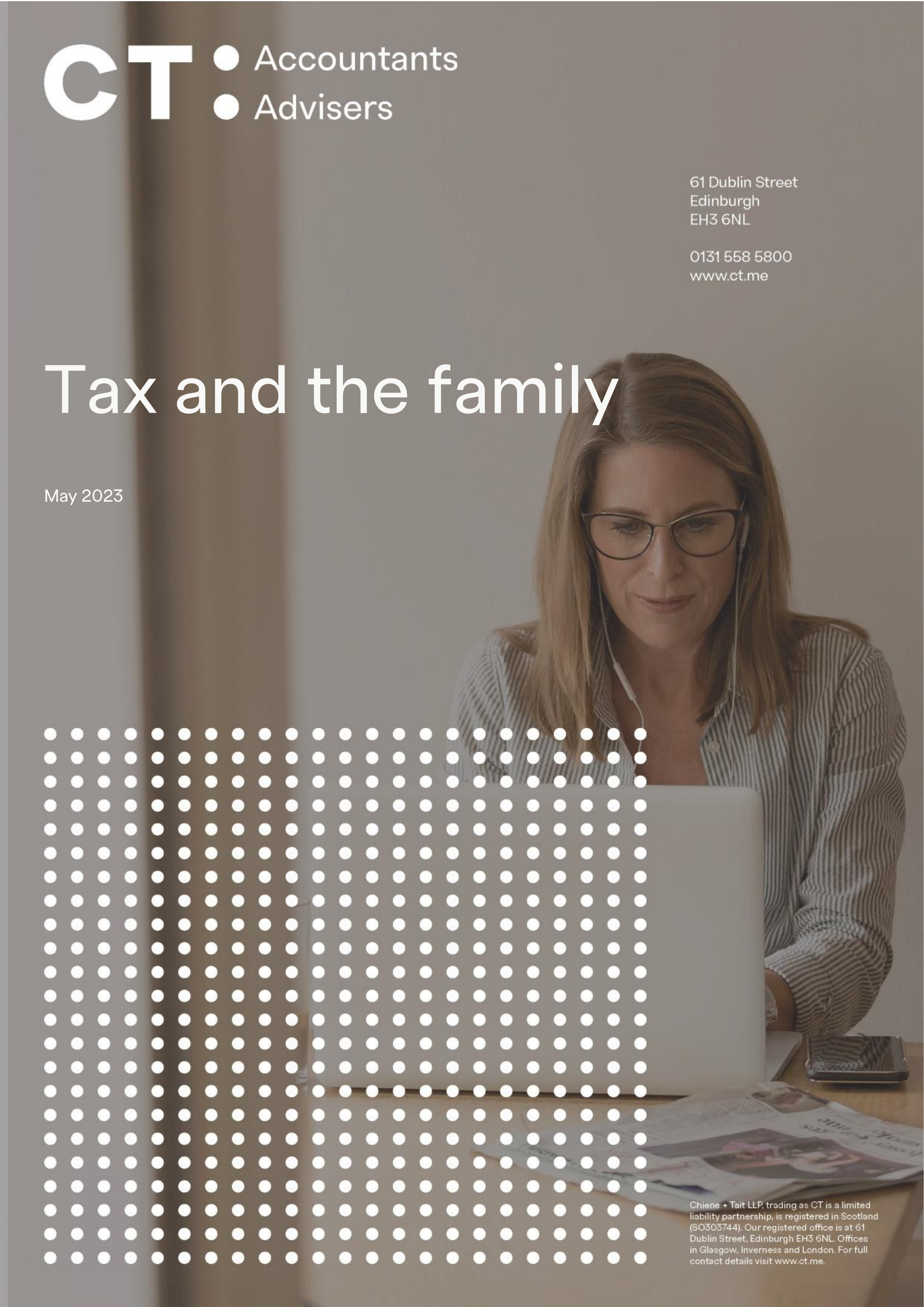

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Tax and the family

May 2023

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Marginal rates

The first step to paying less Income Tax, National Insurance Contributions (NIC) and Capital Gains Tax (CGT) is knowing how much of these taxes you are likely to pay and why. your tax rate depends on:

- How much other income you have in the year
- How the money you receive is charged to tax
- Whether you are a UK taxpayer or a Scottish taxpayer.

All individuals are entitled to a personal allowance, this is currently £12,570. Your Personal Allowance goes down by £1 for every £2 that your adjusted net income is above £100,000. This means your allowance is zero if your income is £125,140 or above. Any income received above the personal allowance is taxed at the rates below.

In 2023/24, the Income Tax rate on general income for a Scottish taxpayer changes when total income exceeds:

- £12,570 – 19% rate starts ('starter rate')
- £14,732 – 20% rate starts ('basic rate')
- £25,688 – 21% rate starts ('intermediate rate')
- £43,662 – 42% rate starts ('higher rate')
- £100,000 – 61% effective rate from withdrawal of personal allowances
- £125,140 – 47% rate starts ('top rate')

In 2023/24, the Income Tax rate on general income for a UK taxpayer changes when total income exceeds:

- £12,750 – 20% rate starts ('basic rate')
- £50,270 – 40% rate starts ('higher rate')
- £100,000 – 60% effective rate from withdrawal of personal allowances
- £125,140 – 45% rate starts ('top rate')

NIC is charged at 12% on salary or 9% on business profits between £12,570 and £50,270, and 2% above that irrespective of whether you are a UK taxpayer or a Scottish taxpayer.

Dividend income is taxed on the amount received at 8.75%, 33.75% and 39.35% but the first £1,000 of dividends received per tax year is taxed at 0%, this will be reduced by 50% to £500 in 2024/25.

Interest received is taxed at 0% on the first £1,000 received by a basic rate taxpayer in the tax year, and at 0% on the first £500 received by a higher rate taxpayer per tax year. If you receive more than £1,000 or £500 of interest the excess is taxed at 20% or 40%. If you pay tax at 45% all of the interest you receive is taxed at 45%. If you receive less than £17,570 of employment income or business profits and receive interest, up to £5,000 of the interest is taxed at 0%.

CGT is not charged on the first £6,000 of gains, this is your annual exemption. However, from the tax year 2024/25 onwards, this exemption will be lowered to £3,000. Gains above that threshold are taxed at 10% until your total of taxable income and gains (after tax-free allowances) exceeds £37,700, and is 20% above that. However, where the gains arise from residential property those gains are taxed at 18% in place of 10%, and 28% in place of 20%.

Where one member of a couple earns over £50,000, some or all of any Child Benefit paid to the family will be clawed back from the higher earner. This gives rise to an unpredictable 'marginal rate' of tax on income between £50,000 and £60,000.

Key planning questions

To identify opportunities to save tax you need to know what the marginal rates of tax are for you and for other family members.

- How much income did you have last year?
- Do you expect significant changes in the mix or level of income this year?
- Do you expect significant changes next year?

Key planning points

If you are close to one of the thresholds, moving income or gains can save tax. You can do this by transferring to a spouse or civil partner investments which generate income or which stand at a gain, as such transfers are exempt from CGT. This is the case whether the asset is gifted or paid for by the recipient spouse.

- Taking a spouse into employment or partnership.
- Advancing or delaying transactions around 5 April.

If you want to transfer a gain, you have to make a genuine gift of the asset to your spouse before it is sold. If you give something standing at a gain to anyone other than a spouse or civil partner, you are usually charged to tax on the gain as if you had sold the asset at its full market value.

Catches

The taxman will not accept:

- Transfer of income to your own under-18 child (unless it is in Child Trust Fund or Junior ISA, or if the interest earned on the gifted money is under £100).
- Transfer of income to a spouse unless it comes from an outright gift of a capital asset.

Need more help?

For further information, please contact the Personal Tax Team at PersonalTaxAdvisory@ct.me

- Information correct at May 2023

CT: Accountants Advisers