January
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Hartsfield
Planning

Your **complete** 2021/2022 end of tax year guide

The 2021/22 tax year ends on Tuesday 5 April 2022. This is the date when many allowances reset, and it could be your last opportunity to make use of some of them.

Keeping track of how you've used your allowances can reduce your tax liability and help you boost your wealth. Reviewing your finances ahead of the tax year end could reduce the amount of tax you pay and improve your financial security in the future.

Here are seven allowances and exemptions you should consider making use of to ensure you're ready for the new tax year.

1. Your ISA allowance

2021/22 allowance: £20,000

An ISA is a tax-efficient way to save or invest, as interest or returns are tax-free. For the current tax year, you can place up to £20,000 into ISAs, choosing one account or spreading the allowance across several.

There are four types of adult ISA to choose from:

1. **Cash ISA:** A Cash ISA operates similar to a savings account, but the interest you earn is tax-free. Some Cash ISAs are subject to restrictions, such as how much you can withdraw.
2. **Stocks and Shares ISA:** Using a Stocks and Shares ISA allows you to invest in the stock markets and other assets. Returns are tax-free. As with all investments, you should have a long-term outlook when using a Stocks and Shares ISA.
3. **Lifetime ISA (LISA):** If you're aged between 18 and 39, you can open a LISA. A LISA can be a Cash or Stocks and Shares ISA. You will receive a 25% government bonus on your contributions. However, you will be penalised if you make a withdrawal before you turn 60 for any purpose other than buying your first home. The maximum amount you can place into a LISA each year is £4,000.
4. **Innovative Finance ISA:** An Innovative Finance ISA is designed for peer-to-peer lending investments. Usually, these kinds of investments are higher risk than traditional alternatives, so are not appropriate for most investors.

Around £75 billion was subscribed to Adult ISAs in the 2019/20 tax year.

13 million adult ISAs were subscribed to. Around three-quarters of these are Cash ISAs.

Source: Office for National Statistics

Why use the ISA allowance? What happens if I don't use it before 5 April 2022?

An ISA is a tax-efficient way to save or invest. If you don't use your ISA allowance by the end of the tax year, you lose it.

Please note: Equity investments do not afford the same capital security as deposit accounts. Your capital is at risk. The value of your investments (and any income from them) can go down as well as up and you may not get back the full amount you invested.

Junior ISAs (JISA)

A JISA is a tax-efficient way to save or invest for a child.

The annual subscription limit for 2021/22 is £9,000. The child can begin managing their ISA from 16, but they cannot withdraw money until they are 18.

Like their adult counterparts, interest and returns are tax-free. If you don't use the allowance before the end of the tax year, you will lose it.

Personal Savings Allowance

You may also have a Personal Savings Allowance. This is the amount of interest you can earn without paying tax. The allowance depends on which Income Tax band you're in:

- £1,000 if you're a basic-rate taxpayer
- £500 if you're a higher-rate taxpayer.

You do not have a Personal Savings Allowance if you are an additional-rate taxpayer.

2. Your Marriage Allowance

2021/22 allowance: up to £1,260

The Marriage Allowance allows a husband, wife, or civil partner to give some of their unused Personal Allowance to their partner.

The Personal Allowance is the amount of income you can receive before Income Tax is due. For the 2021/22 tax year, it is £12,570 for most people.

If you or your partner has an income below this threshold, the person on the lower income can pass up to £1,260 of their Personal Allowance to the other, effectively increasing their Personal Allowance to £13,830.

It's a step that saves up to £252 in Income Tax.

To be eligible, you must be married or in a civil partnership.

The partner with the higher income must pay Income Tax at the basic rate in England and Wales, usually meaning their income is between £12,571 and £50,270.

In Scotland, they must pay the starter, Scottish basic or intermediate rate of Income Tax, usually meaning their income is between £12,571 and £43,662.

Why use the Marriage Allowance? What happens if I don't use it before 5 April 2022?

It can reduce your tax bill by up to £252. The Marriage Allowance can be backdated for up to four years, so you won't lose the 2021/22 allowance at the start of the new tax year.

3. Your pension Annual Allowance

2021/22 allowance: up to £40,000

The pension Annual Allowance is the maximum that you can pay into your pension each tax year while still benefiting from tax relief. This includes pension contributions made by your employer or other third parties.

In the 2021/22 tax year, the Annual Allowance is 100% of your annual earnings, up to £40,000 for most people. However, there are two reasons why your Annual Allowance may be lower:

- The Tapered Annual Allowance means if your threshold income is over £200,000 and your adjusted income is more than £240,000, your Annual Allowance will be reduced by £1 for every £2 your income exceeds these thresholds. It can be reduced by a maximum of £36,000, meaning your Annual Allowance can be as low as £4,000.
- If you have flexibly accessed your pension, you may be subject to the Money Purchase Annual Allowance. This reduces the amount you can tax-efficiently save into a pension to £4,000 per tax year.

It's important to know what your Annual Allowance is, so please contact us if you're unsure or have any questions.

Why use the pension Annual Allowance? What happens if I don't use it before 5 April 2022?

To make the most of your pension contributions by benefiting from the maximum amount of tax relief available. Unused pension Annual Allowance can be carried forward for up to three tax years. This is your last chance to make full use of your allowance from the 2018/19 tax year.

Make use of your family's Annual Allowance

Tax relief makes saving into a pension efficient. Don't just use your own allowance but make use of your loved ones' too, as it can help them create long-term financial security.

Even those without an income, including children, can contribute to a pension and benefit. Non-taxpayers can add up to £2,880 each tax year to their pension. Contributions would benefit from tax relief at the level of Income Tax they pay or at 20% if they are a non-taxpayer.

Please note: A pension is a long-term investment. The fund value may fluctuate and can go down, which would have an impact on the level of pension benefits available. Your pension income could also be affected by the interest rates at the time you take your benefits.

4. Your Dividend Allowance

2021/22 allowance: £2,000

Dividends are paid by companies to share out the profits they have made. If you hold shares in a dividend-paying company, you will receive payments. The amount you receive will usually be dependent on performance and stock price.

You may also receive dividends if you own your own business. Many company directors draw a combination of salary and dividends from their business in order to maximise the tax-efficiency of their income.

The Dividend Allowance means every individual can receive up to £2,000 in dividends without incurring tax. So, if you're a company director, you can pay yourself up to £2,000 in dividends from the business without paying any Dividend Tax.

In September 2021, the prime minister announced that the rates of Dividend Tax would rise by 1.25 percentage points from April 2022.

So, it's never been more important to use your £2,000 Dividend Allowance.

How much tax you pay on dividends that exceed the allowance will depend on your Income Tax band:

- Basic rate: 7.5% (rising to 8.75% in 2022/23)
- Higher rate: 32.5% (rising to 33.75% in 2022/23)
- Additional rate: 38.1% (rising to 39.35% in 2022/23)

Why use the Dividend Allowance? What happens if I don't use it before 5 April 2022?

It can boost your income without increasing your tax liability. If you don't use your Dividend Allowance before the end of the tax year, you will lose it.

5. Your Capital Gains Tax annual exempt amount

2021/22 exempt amount: £12,300

Capital Gains Tax (CGT) is paid when you sell certain assets and make a profit. This may include stocks that aren't held in an ISA, a second property, or personal possessions worth more than £6,000 (excluding your car).

For the 2021/22 tax year, the CGT exempt amount means an individual can make profits up to £12,300 before CGT is due. In some cases, spreading out the disposal of assets across several tax years can help reduce your CGT liability. If you exceed this allowance, your rate of CGT will depend on other taxable income:

- Standard CGT rate: 18% on residential property, 10% on other assets
- Higher CGT rate: 28% on residential property, 20% on other assets.

Why use the Capital Gains Tax allowance? What happens if I don't use it before 5 April 2022?

It will reduce the amount of tax due when you dispose of assets. If unused, you can't carry forward the Capital Gains Tax annual exemption.

6. Your Inheritance Tax annual exemption

2021/22 exemption: £3,000

If you're concerned about Inheritance Tax (IHT), gifting to loved ones now can reduce the value of your estate and, so, the eventual bill.

However, not all gifts are immediately exempt from IHT. Some may be considered part of your estate for up to seven years.

Taking advantage of gifts that are outside of your estate immediately can provide peace of mind. Each year, your IHT annual exemption means you can pass on a tax-free amount.

In 2021/22, this amount is £3,000. The limit applies per individual, so couples can gift up to £6,000 between them.

Why use the gifting allowance? What happens if I don't use it before 5 April 2022?

It allows you to pass on wealth to a loved one that is immediately considered outside of your estate for Inheritance Tax purposes. The exemption can be carried forward for one year.

Mitigating Inheritance Tax

In addition to the gifting allowance, you can gift small amounts (up to £250 per person) to as many people as you like.

There are also many other ways you can reduce Inheritance Tax. Please get in touch if you'd like to discuss this.

7. Gifts from your income

2021/22 allowance: Dependent on your disposable income

If Inheritance Tax is a concern, gifting from your income is another way to reduce a potential bill. However, these gifts need to be made regularly and must:

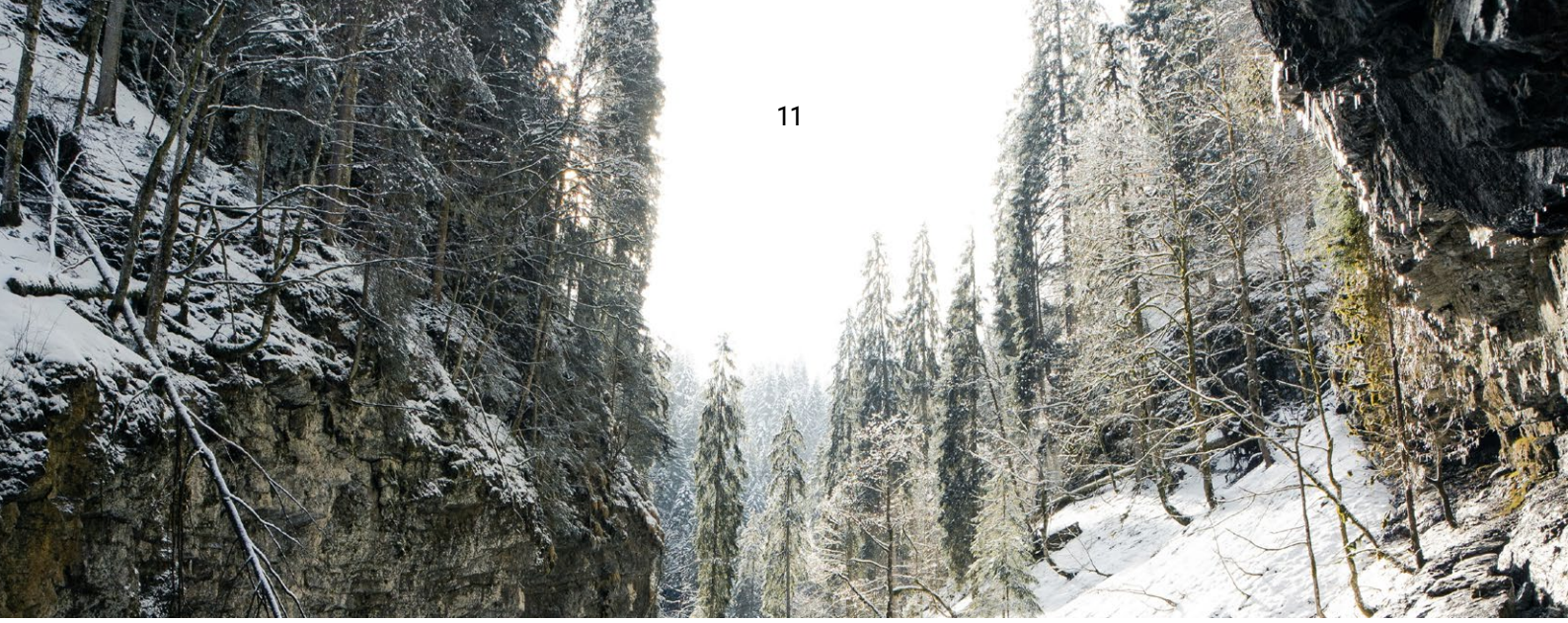
- Be made from your income
- Be part of your normal expenditure
- Leave you with sufficient income to maintain your current lifestyle.

This can be a useful way to offer financial support to loved ones. For example, you might pay the school fees of grandchildren or make regular deposits to pay for the living costs of your children.

If you want to take advantage of this, it's important to make sure your regular gifts have continued throughout the current tax year. You should also keep a careful record of gifts made under this exemption.

Why make gifts from your income? What happens if I don't use it before 5 April 2022?

Gifting to loved ones now can reduce the amount of Inheritance Tax due on your estate. Gifts from your income must be made regularly. So, missing a gift might mean that HMRC don't deem the gifts "regular" and so include them in the value of your estate when you pass away.



Boost your wealth by making the most of your allowances and exemptions

Keeping on top of allowances and exemptions, and how to use them, can be challenging. So, creating a financial plan that helps you get the most out of your money can put your mind at ease.

As a financial planner, we can help you take advantage of this year's allowances to reduce your tax liability and set up a plan for the coming year.

Organising your finances now can put you in a position to make the most of opportunities as they arise in 2022/23 and avoid a last-minute rush as the deadline approaches.

We're here to help you get the most out of your money, including taking advantage of appropriate allowances. To create a financial plan with your goals in mind, please get in touch.

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