Why wait until tomorrow when you can start today?

Take advantage of your annual allowances earlier in the tax year to give your savings and investments more time to grow

The new tax year started on 6 April 2023, giving you a fresh chance to take advantage of all the different tax-efficient ways to save and invest. By using your annual allowances sooner rather than later, your money will benefit from the tax advantages and potential growth earlier.

We've put together this guide to highlight the new tax year's opportunities and changes following the Spring Budget. Once you've reviewed the list please speak to an investment manager or a financial planner if you have any questions about how to make your money work even harder.

Pensions and retirement

A pension has always been one of the most tax-efficient ways to save for retirement. Following the Chancellor's recent announcements, you can now contribute more each year into your pension and you're no longer limited by any lifetime allowance on the total amount.

Higher annual allowance

From 6 April 2023, you may be able to contribute up to £60,000 into your pension pot.

Tax relief on contributions means any personal payments will immediately receive a 20% boost to your pension savings (regardless of your income). Higher or additional rate taxpayers can take advantage of additional tax relief of 20% or 25% respectively through their self-assessment tax returns.

No tax is paid on the growth of pension funds, so investing these early on in the tax year can provide greater returns than putting it off until later.

Unlimited lifetime allowance

There's now no lifetime allowance tax charge on pension savings. Previously, it was set at just over a million pounds, after which you would pay a tax penalty.

The change presents an opportunity to grow your pension pot without restriction. It could also have an impact on other decisions. For instance, you could consider working for longer because you'll be able to continue building up your retirement savings without the threat of tax penalties.

Pensions can be complex, so please speak to an investment manager or a financial planner if you're thinking about paying more into your pension now the lifetime allowance has been abolished.

Individual Savings Accounts (ISAs)

ISAs are one of the most flexible and efficient ways to save and invest with no tax to pay on any interest or growth. Here are some things to think about:

- the maximum you can invest across your ISAs (whether in a cash ISA, stocks and shares ISA, innovative finance ISA or any combination) is £20,000 each year
- for a lifetime ISA, the annual allowance is £4,000, which is part of your annual £20,000 allowance, and the government provides a 25% bonus on contributions. You can only use the money to buy your first home or save for later life
- Junior ISAs (JISAs) are a great way to save for children or grandchildren. You can put up to £9,000 in a cash JISA, a stocks and shares JISA, or a combination of the two
- you can't roll over any of these allowances to the next tax year, so use them or lose them
- cash ISAs can be converted into stocks and shares ISAs, so if you're not comfortable taking investment risk at the moment, you have this option in the future.

The tax-free dividend allowance is falling

The 2022 Autumn Statement included an announcement that the tax-free dividend allowance of £2,000 will be reduced to £1,000 from 6 April 2023 (and then to just £500 from 6 April 2024). An ISA can help to reduce the impact of this reduction as dividends received from shares held in ISAs are tax free.

Capital gains

Changes to capital gains tax (CGT) from 6 April 2023 include the annual tax-exempt allowance dropping from £12,300 to £6,000. This reduction means it's more important than ever to use your ISA allowance as they are exempt from CGT. It is also essential to consider how CGT affects your assets because exemptions and thresholds can make a substantial difference.

Speak to an investment manager or a financial planner about taking advantage of your annual CGT allowance and protecting your assets using tax-efficient wrappers.

Annual gift allowances

A cash gift is a great way to use your tax-free allowances and exemptions, which could reduce your estate's inheritance tax (IHT) liability. They include the following:

- a gift of up to £3,000 to one person or split between several people (and you can carry over last year's allowance if you didn't use it)
- as many gifts of up to £250 per person as you want as long as you haven't used another allowance on the same person
- gifts for weddings or civil partnerships of £5,000 to a child, £2,500 to a grandchild or great-grandchild and £1,000 to any other person.

Junior pensions are another great way to transfer wealth to younger members of your family tax efficiently. They have to be set up by a parent or guardian but anyone can contribute. You can pay up to £2,880 in each tax year into a pension on behalf of a child and the government automatically tops this up with 20% tax relief on the total amount contributed. The fund will transfer to them when they turn 18 but they won't be able to access the money until they reach retirement age.

IHT rules are complex, so it could be helpful to speak to an investment manager or a financial planner about your circumstances and what you'd like to achieve. They'll be able to help you strike a balance between transferring your wealth to loved ones during your lifetime, while also making sure you're financially secure for many years to come.

Charity allowances

You can donate to charity and claim back the tax on your donation through gift aid. If you're a higher or additional rate taxpayer, you can also claim back the income tax paid on your donations through your tax return at 20% or 25% respectively.

Marriage allowance

If you're married or in a civil partnership, you may be able to take advantage of the marriage tax allowance. It allows one half of a couple who earns less than the personal allowance threshold (£12,570) to transfer up to £1,260 of their personal allowance to their higher-earning spouse (who must be a basic rate taxpayer). This transfer could reduce their tax liability by up to £252.

Couples that may be eligible for this allowance include those where one partner has retired, given up work to take on caring or childcare responsibilities, or unable to work due to a long-term health condition.

Act now to reap greater rewards

An investment manager or a financial planner can help you make the most of your annual allowances now we are into the 2023/24 tax year. Not only will you get this important job done early on in the year, it will mean any money you've invested will benefit from the tax advantages and potential growth earlier, which can help to boost returns over the long term.

If you would like to find out more about any of these topics or arrange an initial meeting with one of our financial planners to discuss your situation, please contact us.

Top tips for saving and investing

- By taking advantage of your annual allowances at the start of the tax year rather than waiting until the end, you'll get an extra 12 months of interest or potential investment growth (depending on market performance).
- If you're not able to save and invest all of your annual allowances at the start of the tax year then consider setting up a monthly plan so that you'll get your money working harder for you sooner rather than later.
- There may be some annual allowances you didn't even know existed, which is why it's important to speak to an investment manager or a financial planner so you can find out everything that's available to you and your family.