Avoid the 60% Tax Trap

If your income is £100,000 or more, you could be caught in the 60% tax trap due to the gradual removal of the £12,570 personal allowance. Here's how it works and what you can do to avoid it.

How the 60% Tax Trap Works

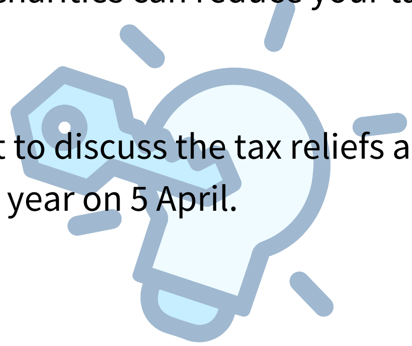
When your income exceeds £100,000, your personal allowance is reduced by £1 for every £2 you earn above this threshold. This effectively increases your tax rate to 60% on income between £100,000 and £125,140.

Example:

- Income increase: **£100,000 to £110,000**
- Standard 40% Income Tax: **£4,000**
- Additional Income Tax (due to reduced personal allowance): **£2,000**
- Total Income Tax paid: **£6,000 (60% of the pay rise)**

Three Key Strategies to Avoid the 60% Tax Trap

1. Make pension contributions
   - Contributing to your pension can prevent your taxable income from exceeding £100,000.
   - Pension contributions benefit from tax relief at your marginal rate.
2. Charitable donations
   - Donations to qualifying charities can reduce your taxable income, similar to pension contributions.
3. Seek professional advice
   - Contact your accountant to discuss the tax reliefs and allowances available to you before the end of the tax year on 5 April.



Why Act Now?

- Maximise tax ffficiency: Ensure you are making the most of available tax reliefs and allowances.
- Avoid higher tax tates: Implement strategies to keep your taxable income below the £100,000 threshold.
- Plan for the future: Secure your financial future with effective tax planning.

Don't let the 60% tax trap catch you off guard. Take proactive steps to manage your income and tax liabilities effectively. Our team at Charterhouse is here to help you navigate these changes and secure your financial future.

The value of a pension will be directly linked to the performance of the funds you select and can therefore go down as well as up. You may get back less than you invested. The levels and bases of taxation, and reliefs from taxation, can change at any time and are generally dependent on individual circumstances. Any tax relief over the basic rate is claimed via your annual tax return. Please take appropriate financial advice in respect of your pension investments.

Planning Tips for Business Owners

As we approach the new tax year in April 2025, several tax changes from the last budget will come into effect. These changes will significantly impact small business owners. Here are some key points to consider to stay on track with your financial goals:

1. Maximise Your Tax Allowances and Exemptions

- Pensions: Despite changes, pensions remain a tax-efficient way to save for retirement.
- Allowances: Utilise pension annual limits, ISAs, dividend allowances, R&D tax credits, and capital allowances to minimise tax liabilities.

2. Understand the Impact of Increased Minimum Wage and Employer NICs

- Employer NICs: Rising from 13.8% to 15%, with the threshold dropping from £9,100 to £5,000.
- Minimum wage: Increasing by 6.7% to £12.21 for those aged 21 and over.
- Action: Assess the impact on staffing and pricing strategies.

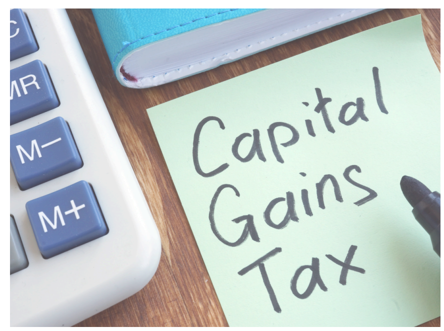
3. Be Aware of Changes to Business Relief (BR)

- Inheritance Tax: From April 2026, a 20% inheritance tax will apply to BR assets above £1 million.
- Strategy: Consider lifetime gifting for businesses over this threshold.

4. Reconsider Your Remuneration Strategy

- Employer NICs: Increased NICs from April 2025 affect the most efficient means of drawing money from companies.
- Advice: Consult with us to optimise your remuneration strategy.

5. Understand the Impact of Capital Gains Tax (CGT) Changes



- CGT Rates: Increased to 18% and 24% for non-residential property.
- BADR Rates: Increasing to 14% in 2025 and 18% in 2026.
- Action: Consider advancing business exits to mitigate CGT increases.

6. Reconsider Your Drawdown Strategy

- Inheritance Tax on pensions: From April 2027, pension funds will be liable for inheritance tax.
- Strategy: Develop a tax-efficient drawdown strategy to manage IHT liability.

7. Key Tax Deadlines for 2025

- **31 January 2025:** Online Self Assessment tax return submission for the 2023/24 tax year. Penalties are imposed for failure to meet this deadline and increase substantially over time.
- **5 April 2025:** End of the 2024/25 tax year.
- **6 April 2025:** Start of the 2025/26 tax year.
- **31 July 2025:** Second payment on account for Self Assessment for the 2024/25 tax year.

DEADLINE

8. Common Tax Mistakes to Avoid

- Missing tax deadlines: Ensure you file and pay on time to avoid penalties and interest charges.
- Inaccurate income reporting: Report all taxable income accurately to prevent HMRC investigations and fines.
- Failing to claim eligible deductions and reliefs: Make sure to claim all allowable expenses and reliefs to reduce your tax liability. Strict time limits apply!
- Incorrect expense deductions: Only claim legitimate business expenses to avoid penalties.
- Neglecting VAT obligations: Stay on top of VAT registration, returns, and payments to avoid fines.
- Inadequate record-keeping: Maintain accurate and organised records to support your tax filings.
- Relying solely on DIY Tax filing: Consider professional advice to ensure compliance and optimise tax savings.

These changes may necessitate fundamental adjustments to achieve your financial goals. We can help you put a plan in place or bring your current plan back on track.

Contact Us Today...

To find out more about what these changes mean for you and your business, get in touch with us charterhouse.welcome@charter-house.net