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7 allowances you **might want to use before the end of** the 2024/25 tax year

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When a new tax year starts, many allowances reset. So, checking if you could use these valuable allowances before 5 April 2025, when the 2024/25 tax year ends, might help your money go further.

It's important to understand which allowances fit into your financial plan and suit your goals. If you have any questions, please contact us.

Read on to discover seven allowances you may want to use before the current tax year ends.

Please note: Tax treatment varies according to individual circumstances and is subject to change.

1. ISA allowance

2024/25 allowance: £20,000

ISAs may provide you with a way to save or invest tax-efficiently. During 2024/25, you can place up to £20,000 into ISAs.

The interest or returns you earn on money held in an ISA are free from Income Tax and Capital Gains Tax (CGT).

So, using an ISA to save or invest could reduce your tax bill.

If you don't use your ISA allowance during the current tax year, you will lose it.

For adults, there are five different types of ISA you may be able to contribute to before the end of the 2024/25 tax year.

1. Cash ISA

A Cash ISA is similar to a traditional savings account, but the interest you earn is free from Income Tax.

Savings held outside of an ISA could be liable for Income Tax if the total interest exceeds the Personal Savings Allowance (PSA). Your PSA depends on your Income Tax band. If you're a:

- Basic-rate taxpayer, your PSA is £1,000
- Higher-rate taxpayer, your PSA is £500
- Additional-rate taxpayer, your PSA is £0.

Some Cash ISAs impose restrictions, such as limiting withdrawals for a defined period. So, it's important to understand which account is right for your goals and time frame.

According to government figures, around 12.4 million ISAs were subscribed to during 2022/23. During that tax year, savers collectively added nearly £72 billion to ISAs.

Please note: The value of investments and the income they produce can fall as well as rise. You may get back less than you invested.

From April 2024, multiple subscriptions to ISAs of the same type, and partial transfers, have been permitted.

These changes could help you access better interest rates and choose accounts that better suit your needs. For example, you may want to deposit some of your £20,000 allowance in a Cash ISA that restricts withdrawals to benefit from a fixed interest rate, while also placing some money in an easy access Cash ISA.

2. Stocks and Shares ISA

A Stocks and Shares ISA allows you to invest, including through individual shares or an investment fund. Any returns your investments earn are free from CGT. If you want to invest to grow your wealth, a Stocks and Shares ISA may be the right option for you.

Remember, investments carry risk. It's essential you understand your risk profile and choose investments that are right for you and your goals.

3. Lifetime ISA

You can open a Lifetime ISA (LISA) if you're aged between 18 and 39. Once you've opened a LISA, you can continue to make contributions until you're 50. You can choose to hold your deposits in cash or invest.

A LISA is designed to help you save to buy your first home, or to boost your retirement fund.

You can add a maximum of £4,000 to a LISA in the 2024/25 tax year, which benefits from a 25% government bonus. This £4,000 counts towards your overall ISA allowance (£20,000 in 2024/25).

Note that you will incur a LISA government withdrawal charge (currently 25%) if you transfer the funds to a different ISA or withdraw the funds before age 60 for any other purpose than buying your first home. So, you may get back less than you paid into a LISA.

By saving in a LISA, instead of enrolling in or contributing to an auto-enrolment pension scheme, occupational pension scheme, or personal pension scheme, you may:

- Lose the benefit of contributions from your employer (if any) to that scheme
- Affect your current and future entitlement to means-tested benefits (if any).

4. Innovative Finance ISA

An Innovative Finance ISA allows you to invest in peer-to-peer loans. Usually, these kinds of investments are higher risk than traditional alternatives. As a result, they are not appropriate for many investors.

5. Help to Buy ISA

You cannot open a new Help to Buy ISA. However, if you already have one, you can continue to make deposits until November 2029.

A Help to Buy ISA is a type of Cash ISA designed to help first-time buyers save a property deposit. You can add up to £200 a month and the government will provide a 25% bonus (up to £3,000) when you buy your first home. To receive the bonus, you will need to buy your first home by November 2030.

Should you save or invest through an ISA?

If you want to add money to an ISA, one of the first decisions you might need to make is whether to save or invest. They both have benefits and drawbacks, so understanding what your goals are is crucial.

Government data shows 63.2% of ISAs were Cash ISAs in 2022/23. A Cash ISA is often useful if you're putting money aside for an emergency fund or short-term goals as the money isn't exposed to investment risk. However, as interest rates are often lower than the rate of inflation, the value of your money is likely to fall in real terms.

In contrast, investing in a Stocks and Shares ISA could present a way to grow your money at a faster pace than inflation, though this isn't guaranteed. Investing also means you'll be taking on risk and the value of your ISA could be affected by market volatility.

As a result, investing is often used for long-term goals, as a longer time frame provides a chance for the ups and downs of the market to smooth out.

2. Junior ISA (JISA) allowance

2024/25 allowance: £9,000

Similar to their adult counterparts, Junior ISAs (JISAs) offer a tax-efficient way to save or invest for a child.

During the 2024/25 tax year, you can deposit up to £9,000 into JISAs for each child. If you don't use the allowance before the end of the tax year, you will lose it.

Again, like traditional ISAs, you can choose a Cash JISA or a Stocks and Shares JISA, with the interest and returns being free from Income Tax and Capital Gains Tax.

JISAs may offer a useful way to set money aside for your child or grandchild that could help them reach adult milestones, like paying for university or buying their first home.

Keep in mind that money held in a JISA isn't usually accessible until the child turns 18. Once they reach adulthood the JISA will become an ISA, and the child can use the money how they wish.

Government figures show that in 2022/23, around 1.25 million JISAs were subscribed to.

Don't overlook money held in a Child Trust Fund

If your child was born between 1 September 2002 and 2 January 2011, the government may have opened a Child Trust Fund in their name or you might have done so using a government voucher. The account would have been opened with an initial deposit and may have benefited from further contributions.

You can add up to £9,000 to an existing Child Trust Fund in 2024/25.

However, you may want to consider transferring the money to a JISA. You could find JISAs offer a more competitive interest rate and the option to invest if you choose.

3. Dividend Allowance

2024/25 allowance: £500

You might receive dividends if you're a business owner or hold shares in dividend-paying companies. They may provide a useful boost to your income.

You don't pay tax on dividends that fall within your Personal Allowance, which is £12,570 in 2024/25.

The Dividend Allowance could increase how much you can receive through dividends before tax is due by £500 in the current tax year.

The amount of tax you pay on dividends that exceed this threshold will depend on which Income Tax band(s) the dividends fall within once your other income is considered. For 2024/25, the tax rates on dividends are:

- Basic rate: 8.75%
- Higher rate: 33.75%
- Additional rate: 39.35%.

So, while the Dividend Allowance has fallen in recent years, dividends could still provide a tax-efficient way to increase your income as the tax paid could be lower than Income Tax.

It is not possible to carry forward your Dividend Allowance to use in a future tax year.

4. Capital Gains Tax Annual Exempt Amount

2024/25 allowance: £3,000

You may need to pay Capital Gains Tax (CGT) when you dispose of certain assets that have increased in value. Assets that may be liable for CGT include:

- Property that isn't your main home
- Investments that aren't held in a tax-efficient wrapper such as an ISA or pension
- Personal possessions that are worth more than £6,000 (excluding your car).

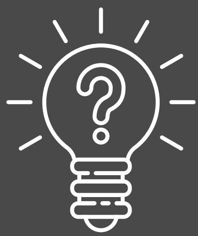
CGT is due if the overall gains exceed your tax-free allowance, known as the "Annual Exempt Amount". For 2024/25, it is £3,000 for individuals.

You only pay CGT if your overall gains for the tax year (after deducting any losses and applying any reliefs) are above the Annual Exempt Amount. So, making gains up to this amount each tax year can help you to reduce a potential tax liability.

If CGT is due, the rate you pay will depend on which tax band(s) the taxable gains fall into when added to your other income. Since 30 October 2024:

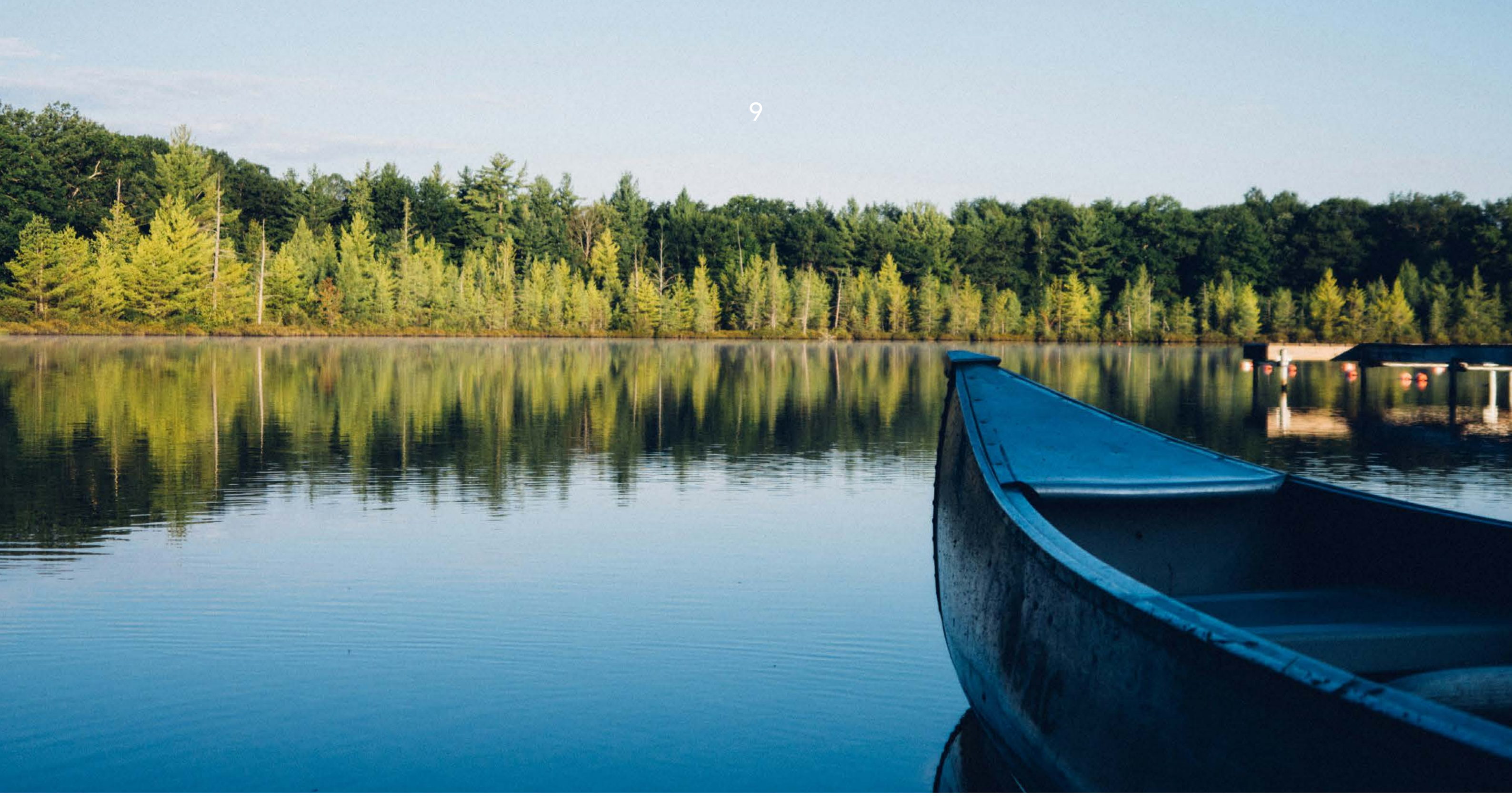
- The lower rate of CGT is 18%.
- The higher rate of CGT is 24%.

The Annual Exempt Amount cannot be carried forward to the next tax year.



Note that the rates of CGT rose in the 2024 Autumn Budget.

- The basic rate rose from 10% to 18%.
- The higher rate rose from 20% to 24%.



5. Marriage Allowance

2024/25 allowance: £1,260

The Marriage Allowance could allow your spouse or civil partner to transfer some of their unused Personal Allowance to you.

The Personal Allowance is the amount you can earn before you could be liable for Income Tax. For the 2024/25 tax year, the Personal Allowance is £12,570, and it's frozen at this level until April 2028.

If your partner isn't using their full Personal Allowance, they may be able to transfer £1,260 to you. It could reduce your overall tax bill by up to £252 in 2024/25.

To be eligible, you must pay Income Tax at the basic rate in England, Wales, or Northern Ireland. This usually means your total income is between £12,571 and £50,270.

If you're based in Scotland, you must pay Income Tax at the starter, basic, or intermediate rate. Typically, this means your income will be between £12,571 and £43,662.

You can backdate the Marriage Allowance for up to four years. You have until 5 April 2025 to use your entitlement from the 2020/21 tax year.

Financial planning with your partner could be valuable

The Marriage Allowance isn't the only benefit of creating a financial plan with your spouse or civil partner.

Many allowances are individual. So, you could choose to pass assets to your partner to make the most of both of your allowances, such as the pension Annual Allowance.

Get in touch to discuss how we could help you make a long-term financial plan with your partner that places your goals at the centre.

6. Pension Annual Allowance

2024/25 allowance: £60,000

The pension Annual Allowance is the maximum amount you can contribute to a pension each tax year while still receiving tax relief, and without incurring additional tax charges.

It covers contributions made by you, your employer, and other third parties. However, you can only claim tax relief on up to 100% of your annual earnings.

There are instances where your Annual Allowance may be lower.

1. If you've already flexibly accessed your defined contribution (DC) pension, you might be subject to the Money Purchase Annual Allowance (MPAA). This reduces how much you can tax-efficiently add to your DC pension to £10,000 in 2024/25.
2. If your adjusted annual income (usually your income plus the pension contributions your employer makes) is more than £260,000, your Annual Allowance will usually fall by £1 for every £2 your income exceeds this threshold. Your allowance can be reduced by a maximum of £50,000, leaving you with an Annual Allowance of £10,000 if your income is £360,000 or more.

The Annual Allowance can be carried forward for up to three tax years. So, you have until 5 April 2025 to use your allowance from 2021/22.

Tax relief could make pensions a tax-efficient way to invest for the long term, and you might want to consider contributing to your family's pension before the new tax year too.

Even non-taxpayers, including children, could add up to £2,880 to a pension in 2024/25 while usually benefiting from 20% tax relief.

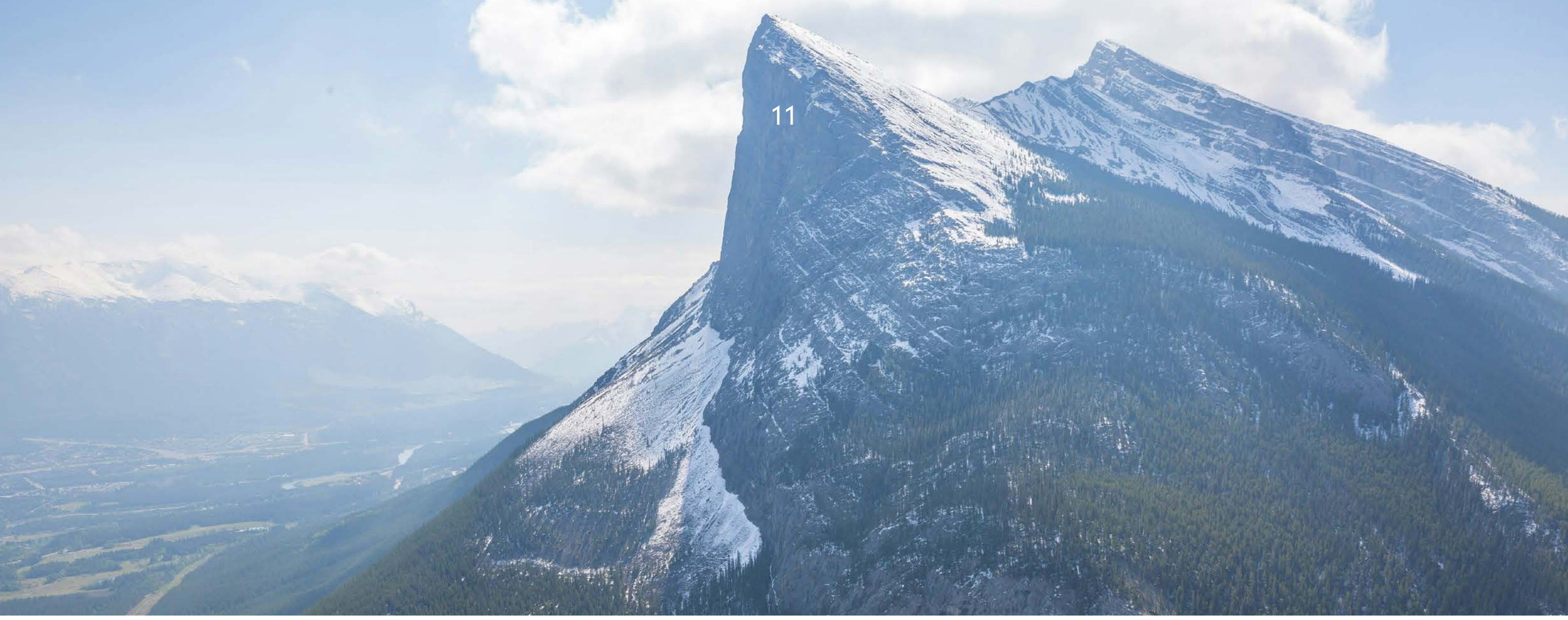
The pension Lifetime Allowance was abolished in April 2024

Previously, the Lifetime Allowance limited the total pension benefits you could build up before facing an additional tax charge on withdrawals. During the 2023 Spring Budget, the former chancellor Jeremy Hunt announced it would be abolished from 6 April 2024.

So, if you've limited your pension contributions to avoid a potential Lifetime Allowance charge, you may want to review your retirement plan.

Please note: A pension is a long-term investment not normally accessible until 55 (57 from April 2028). The fund value may fluctuate and can go down, which would have an impact on the level of pension benefits available. Past performance is not a reliable indicator of future results.

The tax implications of pension withdrawals will be based on your individual circumstances. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts.



7. Inheritance Tax annual exemption

2024/25 allowance: £3,000

If you're worried about your estate being liable for Inheritance Tax (IHT) when you pass away, gifting assets during your lifetime may be useful.

However, not all assets are immediately outside of your estate for IHT purposes. Gifts that are not immediately outside of your estate for IHT purposes are known as "potentially exempt transfers". They may be included in IHT calculations if you pass away within seven years of being gifted.

The "annual exemption" is the amount you can give away each tax year without it being counted towards your estate's value for IHT purposes. In 2024/25, the annual exemption is £3,000. The allowance is individual, so if you're planning with your partner, you may choose to pass on £6,000.

You can carry forward any unused annual exemption for one tax year, as long as the current tax year's exemption is also fully used.

5 other useful ways you could reduce a potential Inheritance Tax bill

If IHT is a concern, there may be other steps you could take to reduce a potential bill, including these five:

1. Gifting small amounts (up to £250 per person) to as many people as you like so long as they have not benefited from gifts totalling more than £250, including the annual exemption
2. Placing assets in a trust to pass on to loved ones
3. Gifting on the occasion of a wedding
4. Making regular gifts from your income as part of your normal expenditure
5. Donating at least 10% of your estate to charity, to reduce the IHT rate from 40% to 36%.

IHT rules and allowances can be complex. If you'd like to talk about your estate plan and how you may reduce IHT, please contact us.

Contact us to talk about how to use your allowances in 2024/25 and beyond

If you'd like to discuss how allowances could fit into your financial plan and which ones you may want to use before the end of the current tax year, we could help.

It's not too soon to make a plan for the 2025/26 tax year either. Thinking about which allowances could make sense for you may help you manage your outgoings. For example, you might choose to make monthly deposits into your ISA rather than contribute a lump sum at the end of the tax year.

Please contact us to talk about your finances and how allowances may help you get more out of your money.

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Please note: This guide is for general information only and does not constitute financial advice, which should be based on your individual circumstances. The information is aimed at retail clients only.

The guide is based on our current understanding of legislation, which is subject to change.

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