PLAIN ENGLISH GUIDE TO ALL UK TAXES

HOW TO SAVE TAX 2024/25

TAX Cafe®

Nick Braun PhD

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How to Save Tax 2024/25

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About the Author & Taxcafe

Dr Nick Braun founded Taxcafe in 1999, along with his partner Aileen Smith. As the driving force behind the company, their aim is to provide affordable plain-English tax information for private individuals, business owners and professional advisers.

Since then Taxcafe has become one of the best-known tax publishers in the UK and has won several prestigious business awards.

Nick has been a specialist tax writer since 1989, first in South Africa, where he edited the monthly *Tax Breaks* publication, and since 1999 in the UK, where he has authored several tax books including *Tax-Free Cash*, *Small Business Tax Saving Tactics, Pension Magic* and *Salary versus Dividends*.

Nick also has a PhD in economics from the University of Glasgow, where he was awarded the prestigious William Glen Scholarship and later became a Research Fellow.

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Introduction

Welcome to Taxcafe's *How to Save Tax 2024/25*, our comprehensive tax planning guide for individuals and business owners.

This guide covers all the major tax announcements made in the November 2023 Autumn Statement, the March 2024 Budget and all other important tax changes made in recent times.

In Part 1 you will find out how much income tax and national insurance you will pay during the current tax year, plus lots of tax saving tips for salary earners, the self-employed, landlords and company directors.

You will also find out how to reduce the child benefit charge and how to cut your income tax bill by thousands of pounds by splitting your income with your spouse or partner and other members of your family.

Part 2 covers recent changes to the other big taxes: capital gains tax, inheritance tax, corporation tax and stamp duty land tax. Each chapter contains useful tax-saving tips.

Part 3 shows you how to enjoy bigger tax savings from tax shelters like ISAs, pensions and venture capital trusts.

You will also find a chapter containing a detailed list of amounts that are always TAX FREE!

Finally, in Part 4 we take a detailed look at all the other recent tax changes announced in recent Budgets, plus other important changes coming into force this year or in the near future.

The Current Tax Year

Some of the tax planning strategies discussed in this guide require action before the end of the tax year. The latest tax year runs from 6th April 2024 to 5th April 2025. I refer to it throughout as 2024/25.

Scottish Taxpayers

The Scottish Parliament has the power to set its own income tax rates and thresholds, although it cannot set the personal allowance or alter the tax rates applying to interest income or dividends.

The vast majority of the information in this guide is relevant to Scottish taxpayers. However, unless stated to the contrary, all examples, tables, calculations and illustrations are based on the assumption that the taxpayer concerned is not a Scottish taxpayer.

The Big Freeze

In his March 2021 Budget speech former Chancellor Rishi Sunak promised that "this government is not going to raise the rates of income tax, national insurance, or VAT."

We were then told that the income tax personal allowance (currently £12,570) and the threshold where you start paying 40% tax (currently £50,270) would remain frozen until April 2026.

In the November 2022 Autumn Statement the current Chancellor Jeremy Hunt then announced that he would extend this freeze by a further two years until April 2028 – giving the Government a total of seven years to let inflation erode their value.

Saying you're not going to raise tax rates but you are going to freeze tax thresholds is a bit like a mugger telling you he's not going to shoot you but is going to stab you.

Relying on inflation to push people into higher tax brackets is the sneaky way to raise taxes. The Scots have a wonderfully descriptive word for crafty behaviour like this: "sleekit". It's a word that applies to pretty much every politician on both sides of the border.

One income tax threshold that has never been increased since it was introduced many years ago is the £100,000 threshold where your personal allowance starts to be withdrawn.

The £100,000 threshold was introduced in April 2010. It seemed like a lot more money back then than it does today. In fact if it had gone up with inflation you would only start losing your personal allowance with an income of around £170,000 today.

Another threshold that was frozen for many years is the one applying to the child benefit charge. The child benefit charge was introduced in 2013 and the £50,000 threshold where it kicks in remained the same until 6th April 2024.

However, in the March 2024 Budget we received some good news. From the start of the current 2024/25 tax year you only start paying the child benefit charge when your income exceeds £60,000. Furthermore, the charge is now levied much more gradually – from now on you will only lose all of your child benefit when your income exceeds £80,000.

In Chapter 7 we take a closer look at the new child benefit charge and provide some tax planning ideas you can consider to protect this valuable tax-free benefit.

Other Taxes Hit by the Big Freeze

It's not just income tax thresholds that have been frozen for many years. The inheritance tax nil rate band (currently £325,000) has also been frozen until April 2028 – a total of 19 years!

It should be around £585,000 today.

The VAT registration threshold was frozen at £85,000 from 1st April 2017 to 31st March 2024 – a total of seven years. Thanks to inflation, this means more and more businesses have been dragged into the VAT net.

Being forced to register for VAT decimates the profits of many small businesses because they have to start handing over one sixth of their *turnover* to the taxman. Many find it difficult to raise their prices to limit the damage.

Fortunately, in the March 2024 Budget the VAT registration threshold was raised from £85,000 to £90,000 from 1st April 2024, a measure that provides some respite for small business owners.

However, if the VAT registration threshold had kept up with inflation it would be around £120,000 today.

Other Recent Tax Increases

- **Additional rate of tax** – currently 45% (39.35% for dividends), the additional rate was always payable when your income exceeded £150,000. Instead of being increased, the threshold was reduced to £125,140 on 6th April 2023.

- **Dividend allowance** – allows you to enjoy some tax-free dividend income. Initially £5,000 it has been continually reduced. From 6th April 2024 the allowance is just £500.

- **Capital Gains Tax Exemption** – allows those selling property, shares and other assets to enjoy some tax-free capital gains. In 2023/24 it was reduced from £12,300 to £6,000. From 6th April 2024 it has been reduced to £3,000.

National Insurance – Good News

You start paying national insurance when your earnings exceed £12,570 (the same threshold as for income tax).

In the November 2023 Autumn Statement the main rate of national insurance paid by salary earners was reduced from 12% to 10%. This change took effect on 6th January 2024. Then in the March 2024 Budget the main rate was reduced again from 10% to 8%. This change takes effect from 6th April 2024.

The main rate of national insurance paid by the self employed has been reduced from 9% to 6% from 6th April 2024.

Salaries and profits in excess of the higher-rate threshold (£50,270) are still subject to 2% national insurance.

From 6th April 2024 self-employed business owners are also no longer required to pay class 2 national insurance, an additional saving of a couple of hundred pounds each year.

Employers have to pay 13.8% national insurance on salaries over £9,100 and this threshold has been frozen until April 2028. The employment allowance was increased to £5,000 on 6th April 2022.

Part 1

Income Tax &
National Insurance

Chapter 1

Income Tax

For the 2024/25 tax year, starting on 6th April 2024 and ending on 5th April 2025, most individuals pay income tax as follows:

- 0% on the first £12,570 Personal allowance
- 20% on the next £37,700 Basic-rate band
- 40% above £50,270 Higher-rate threshold

If you earn more than £50,270 you are a higher-rate taxpayer, if you earn less you are a basic-rate taxpayer (see below for Scottish rates).

Example – Basic-Rate Taxpayer

John earns a salary of £30,000. His income tax for 2024/25 can be calculated as follows:

- *0% on the first £12,570 = £0*
- *20% on the next £17,430 = £3,486*

Total income tax bill: £3,486

Example – Higher-Rate Taxpayer

Jane is a sole trader and has profits of £60,000. Her income tax for 2024/25 can be calculated as follows:

- *0% on the first £12,570 = £0*
- *20% on the next £37,700 = £7,540*
- *40% on the final £9,730 = £3,892*

Total income tax bill: £11,432

Marriage Allowance

It is possible to transfer 10% of your personal allowance to your spouse or civil partner (£1,260 for the current tax year).

Only basic-rate taxpayers can benefit from this tax break, so the potential tax saving is £252 (£1,260 x 20%).

Unmarried couples are excluded – this was David Cameron's rather feeble attempt to use the tax system to reward marriage.

Married couples can generally only benefit from this tax break if:

- One person earns less than £12,570 (not including savings interest under £5,000) and is therefore wasting some of their personal allowance

- The other person earns less than £50,270 (£43,662 in Scotland)

Both individuals must have been born on or after 6 April 1935.

You have to apply to use it:

www.gov.uk/marriageallowance

Potential winners are married couples where one person does not work (e.g. full-time parents) or only has a part-time job.

Example

In 2024/25 Bill earns a salary of £30,000 and his wife Daphne earns £6,000 working part time. Daphne has £6,570 of unused personal allowance. She can transfer £1,260 of this to Bill which means Bill no longer has to pay tax on £1,260 of his income. This will save him £252 in tax (£1,260 x 20%).

Company owners with dividend income have more scope than regular salaried employees to benefit from this tax giveaway (see the Taxcafe guide *Salary versus Dividends*).

Income between £100,000 and £125,140

Once your income exceeds £100,000 your income tax personal allowance is gradually taken away. It is reduced by £1 for every £2 you earn above £100,000. For example, if your income is £110,000 your personal allowance will be reduced by £5,000. If your income exceeds £125,140 you will have no personal allowance at all.

This is a real tax sting for those earning over £100,000. The personal allowance saves you up to £5,028 in tax if you are a higher-rate taxpayer (£12,570 x 40%).

Paying Tax at 60%

The effect of having your personal allowance taken away is that anyone earning between £100,000 and £125,140 faces a hefty marginal income tax rate of 60%.

For example, someone who earns £100,000 and receives an extra £10,000 will pay 40% tax on the extra income – £4,000. They'll also have their personal allowance reduced by £5,000, which means they'll have to pay an extra £2,000 in tax (£5,000 x 40%). Total tax on extra income: £6,000 which is 60%.

Income over £125,140

Once your income rises above £125,140 you start paying income tax at 45% on most types of income. This is known as the additional rate of tax. The threshold used to be £150,000 but was reduced to £125,140 from the start of the 2023/24 tax year.

What Income is Taxed at these Rates?

The above income tax rates apply to most types of income including:

- Salaries
- Self-employment profits (sole traders and partnerships)
- Rental profits
- Pensions

Some types of income (salaries and self-employment profits) are also subject to national insurance. So in the next few chapters we will examine the *total tax* payable by salary earners and the self employed, as well as company directors and landlords.

Some types of income (dividends and interest) are subject to different income tax rates.

Dividends

Many individuals receive dividends from stock market companies or from their own private companies. Dividends received from investments held inside an ISA or pension are, of course, tax free.

For the current 2024/25 tax year the first £500 of taxable dividend income you receive is tax free thanks to the “dividend allowance”. All taxpayers, regardless of income, can benefit from this allowance. The allowance was £1,000 in 2023/24.

The tax rates applying to dividends are lower than for other types of income. This is because dividends are paid out of a company’s *after-tax* profits. In other words, dividend income is taxed twice.

On 6th April 2022 the income tax rates on dividend income were all increased 1.25%, at the same time that national insurance rates were all increased by 1.25%.

The national insurance increase was reversed but the new higher dividend tax rates have remained in force. The Government clearly finds it politically more palatable to increase the tax paid by company owners.

For those receiving dividends in excess of the dividend allowance, the following tax rates apply:

	Old rates	**Current rates**
Basic-rate taxpayers	7.5%	8.75%
Higher-rate taxpayers	32.5%	33.75%
Additional-rate taxpayers	38.1%	39.35%

Dividends are always treated as the top slice of your income and are therefore subject to the highest possible tax rate.

How the Dividend Allowance Works

The dividend allowance is not given as an additional standalone tax-free amount of £500. Instead it typically uses up some of your basic-rate band or higher-rate band.

The way to think about it is like this: dividends are always treated as the top slice of your income and taxed at your highest marginal rate. The dividend allowance exempts the bottom £500 of that income from tax.

So if you have dividend income taxed at both 8.75% and 33.75%, the dividend allowance will exempt some of the income taxed at 8.75%.

Example 1
In 2024/25 Brendan has pension income of £30,000 and dividend income of £6,000. The first £12,570 of his pension is covered by his personal allowance and the next £17,430 is taxed at 20%. This leaves him with £20,270 of basic-rate band remaining.

With just £6,000 of dividend income, all of it falls into his remaining basic-rate band. The first £500 of his dividend income is tax free thanks to the dividend allowance. The final £5,500 is taxed at 8.75%, the rate that applies to basic-rate taxpayers.

Example 2
In 2024/25 Julia has £60,000 of rental income and £3,000 of dividend income. Her rental income uses up her personal allowance and basic-rate band and some of it is taxed at the 40% higher rate.

The first £500 of her dividend income is covered by the dividend allowance, leaving £2,500 subject to tax at the 33.75% higher rate.

The dividend allowance does not use up her basic-rate band because none of her dividends fall into the basic-rate band.

Example 3
In 2024/25 Leon has a £120,000 salary and £50,000 dividend. With this much income his personal allowance is completely withdrawn.

The first £500 of his dividend income is covered by the dividend allowance, leaving £4,640 taxed at the 33.75% higher rate.

Along with his salary this takes Leon up to the £125,140 additional-rate threshold. The final £44,860 of his dividend income is taxed at 39.35%.

Note, Leon has dividend income taxed at both the higher rate and additional rate. The dividend allowance reduces the amount of his dividend income taxed at the 33.75% higher rate.

Example 4
In 2024/25 Martin has a £100,000 salary, £50,000 of rental income and £50,000 of dividend income. With this much income his personal allowance is completely withdrawn.

His salary and rental income take him over the £125,140 additional-rate threshold. The first £500 of his dividend income is covered by the dividend allowance, leaving £49,500 taxed at the 39.35% additional rate.

The dividend allowance reduces the amount of his dividend income taxed at the additional rate.

Foreign Dividends

These days it's easy for stock market investors to buy shares in overseas companies, the most popular being US companies.

Foreign dividends are often subject to withholding tax – the overseas company will deduct tax before paying you the dividend.

However, the UK has double tax treaties with many countries that reduce the amount of foreign tax payable (usually to 10% or 15%).

In the US the dividend withholding tax rate is normally 30%. However, in terms of the double tax agreement between the US and UK, the amount of withholding tax can be reduced to 15% by completing form W-8BEN, issued by the US Internal Revenue Service (IRS).

Most online stockbrokers will handle these forms on your behalf so the process is relatively simple.

The double tax agreement also provides a specific exemption for pension schemes, which means US dividends can be received tax

free if the shares are held inside your SIPP or another pension scheme.

The double tax agreement does not, however, recognize ISAs. ISA investors are still subject to the 15% withholding tax.

If your overseas shares are held outside an ISA or SIPP you will also be subject to UK income tax on your overseas dividends.

However, you may be able to claim Foreign Tax Credit Relief when you submit your tax return. This allows the overseas tax paid to be deducted from the amount of UK tax owing.

However, the amount deducted cannot exceed the UK tax payable on the income.

Interest Income

Personal Savings Allowance

The personal savings allowance provides a 0% tax rate (the savings nil rate) for up to £1,000 of interest income if you're a basic-rate taxpayer and up to £500 if you're a higher-rate taxpayer. Additional-rate taxpayers do not receive this allowance.

Income that falls within your savings allowance will still count towards your basic-rate or higher-rate limit and may therefore affect the level of savings allowance you're entitled to and the rate of tax payable on any savings income you receive in excess of this allowance.

When the personal savings allowance was introduced the automatic deduction of 20% income tax by banks and building societies and other financial institutions ceased. Any tax due on interest income is generally collected through the PAYE system or when you submit your tax return.

Of course, many individuals can shelter all of their interest income from tax by putting their money in an ISA. However, the personal savings allowance may give you the freedom to put your savings into an account that pays the most competitive interest rate, which may not be a cash ISA.

It may also free up more of your annual ISA allowance to invest in shares and stock market funds, if that's what you prefer to do.

Furthermore, some interest income cannot be sheltered in an ISA. For example, if you sell your home and have a large cash lump sum or receive a big dividend from your company it may not be possible to put all the money into an ISA in one go (the annual ISA allowance is currently £20,000).

Another group that may benefit from the savings allowance are company owners who extract interest income from their companies. Getting your company to pay you interest can be extremely tax efficient. Your company will probably receive corporation tax relief on the payment and the income is potentially tax free in your hands (see *Salary versus Dividends* which contains a whole chapter on this subject).

The £5,000 Starting Rate Band

There is also a 0% starting rate for up to £5,000 of interest income, however in most cases only those on low incomes can use it.

You can only benefit from the 0% starting rate if your *non-savings income* is less than £17,570 (£12,570 personal allowance plus £5,000 starting rate band). Your non-savings income typically includes your salary, rental income and pensions but does not include your dividends.

Many readers probably cannot use the 0% starting rate because they will have more than £17,570 of non-savings income. You may, however, be able to benefit from the personal savings allowance (discussed above).

Those who can use the 0% starting rate include spouses who don't work (or work part time) and retirees with modest pensions.

Example
Denise has a salary of £20,000 and interest income of £2,000. The first £12,570 of her salary is tax free and the remaining £7,430 is taxed at 20%. This £7,430 of taxable non-savings income effectively "eats up" her £5,000 starting rate band. She is, however, entitled to a £1,000 savings allowance which shelters £1,000 of her interest income from tax. The remaining £1,000 of interest income will be taxed at 20%.

Example
Fiona's husband earns a substantial salary so she decides to stop working for a few years to raise their children and save on childcare costs. The couple have a rental property which they place in her name, as well as investments that produce taxable interest.

In 2024/25 she earns rental income of £13,000 and interest income of £3,000. The first £12,570 of rental income is tax free and the remaining £430 is taxed at 20%. This £430 of taxable non-savings income leaves her with a starting rate band of £4,570 (£5,000 - £430). This means all of her £3,000 interest income is tax free.

Those who receive a significant amount of dividend income can still benefit from the 0% starting rate. Dividends don't count towards the £17,570 limit.

Example
The facts are the same as before except Fiona also has £5,000 of dividend income from a share portfolio held outside an ISA. Her dividends are the top slice of her income and therefore do not use up any of her starting-rate band. Thus all of her interest income will continue to be tax free. The first £500 of her dividend income is tax free thanks to the dividend allowance and the rest is taxed at 8.75%.

Company owners who pay themselves a small salary and receive a significant amount of dividend income can also benefit from the 0% starting rate when they get their companies to pay them interest income (see the Taxcafe guide *Salary versus Dividends*).

It is important to point out that the 0% starting rate band is not given in addition to your basic-rate band (£37,700 in 2024/25). Instead it is part of the basic-rate band.

In other words, if you use the starting rate band your basic-rate band will be reduced and this may reduce the amount of dividend income you can receive taxed at 8.75%.

New Taxcafe Guide!

Taxcafe has recently published a new guide called *Tax-Free Cash* which shows you how to both increase your interest income and reduce the amount of income tax payable on that income.

Future Income Tax Changes

Many key tax thresholds and allowances have been frozen for seven years, until 5th April 2028, including the income tax:

- Personal allowance £12,570
- Higher rate threshold £50,270

If your income only goes up with inflation (meaning you are no better off in real terms), you will end up paying tax at a higher rate (which means you will be worse off after tax).

Example
*Chavez had taxable income of £60,000 in 2021/22 and paid income tax of £11,432. This means his overall income tax rate was **19%**.*

His income simply increases with inflation and is £80,000 by 2027/28. His income does not increase in real terms, so he is no better off.

*Because the Government has decided to freeze income tax thresholds, Chavez's income tax bill will be £19,432 in 2027/28 and his overall income tax rate will be **24%**.*

Thus by 2027/28 his overall income tax rate has increased by five percentage points. If he was still paying 19%, as he should be, his tax bill would be over £4,000 lower.

The Government is taking a bigger share of his income, even though his income is exactly the same as before in real terms. (The tax system is supposed to tax you more heavily as your income goes up… but only if your income goes up in *real terms*.)

The five percentage point tax increase Chavez suffers will probably be permanent. If the Government adjusts income tax bands for inflation in 2028/29 this will simply stop his overall tax rate from increasing further. To reduce it back to 19%, tax bands would have to be adjusted by much more than inflation.

In other words, it is possible Chavez's overall income tax rate will be 5% higher forever!

In this example, I have assumed inflation averages 5% per year over the seven year period. This is not an outlandish assumption given that it was running at around 10% for some of the time.

Scottish Income Tax

The Scottish Parliament has complete power to set income tax rates and thresholds for most types of income including salaries, self-employment income, rental income and pensions.

It does NOT have the power to tax interest and dividend income (including small company dividends). These types of income continue to be taxed using UK rates and thresholds. The Scottish Parliament also does not have the power to set the personal allowance. National insurance and most other taxes, including corporation tax, capital gains tax and inheritance tax, remain the preserve of the UK Government.

Scottish Income Tax 2024/25

Income tax in Scotland is being levied as follows in 2024/25:

£0 - £12,570	0%	Personal allowance (PA)
£12,570 - £14,876	19%	Starter rate
£14,876 - £26,561	20%	Basic rate
£26,561 - £43,662	21%	Intermediate rate
£43,662 - £75,000	42%	Higher rate
£75,000 - £100,000	45%	Advanced rate
£100,000 - £125,140	67.5%	PA withdrawal
£125,140 +	48%	Top rate

The top rate has been increased yet again to 48% and a new 45% “advanced rate” has been introduced for those earning over £75,000. The Scottish higher-rate threshold remains frozen at £43,662.

Many Scottish taxpayers now face an overall tax rate that is between 3% and 4% higher than those in the rest of the UK.

Table 1 compares Scottish income tax with the rest of the UK. Someone earning £50,000 in Scotland will pay £1,542 more tax than someone living elsewhere in the UK; someone earning £100,000 will pay £3,346 more tax.

Those with income below £28,867 pay slightly less than their counterparts elsewhere in the UK, with a maximum saving of £23.06, or about 44p per week!

Table 1
Income Tax: Scotland vs Rest of UK
2024/25

Income	Scotland	Rest of UK	Difference
£20,000	£1,463	£1,486	-£23
£30,000	£3,497	£3,486	£11
£40,000	£5,597	£5,486	£111
£50,000	£9,028	£7,486	£1,542
£60,000	£13,228	£11,432	£1,796
£70,000	£17,428	£15,432	£1,996
£80,000	£21,778	£19,432	£2,346
£100,000	£30,778	£27,432	£3,346
£125,000	£47,653	£42,432	£5,221
£150,000	£59,681	£53,703	£5,978
£175,000	£71,681	£64,953	£6,728
£200,000	£83,681	£76,203	£7,478

Who is a Scottish Taxpayer?

Someone is a Scottish taxpayer if their sole or main place of residence is in Scotland. For example, someone who rents a flat in London where they work during the week will probably be treated as a Scottish taxpayer if they spend their weekends with their spouse and children in the family home in Edinburgh and most of their friends and other social links are also in Edinburgh.

In some cases it may be difficult to establish where the main residence is located.

Where no close connection to Scotland can be identified (for example, because it is not possible to establish the person's main place of residence), Scottish taxpayer status will be determined through day counting.

You will be a Scottish taxpayer if you spend more days during the tax year in Scotland than you spend in either Wales, Northern Ireland or England (taking each country separately).

Welsh Income Tax

Since April 2019 the National Assembly for Wales has been able to vary the income tax rates payable by Welsh taxpayers.

However, this year (2024/25) Welsh taxpayers will pay exactly the same income tax as those in England and Northern Ireland.

According to Rebecca Evans, the Welsh finance minister: "Households are experiencing the largest reduction in real living standards since Office of National Statistics records began in the 1950s, and tax payers in Wales should not face increased rates of income taxes."

As in Scotland, the Welsh powers are limited with the UK Government retaining responsibility for the income tax personal allowance and the taxation of savings and dividend income. The UK Government also retains control of most other taxes such as national insurance, VAT, corporation tax, capital gains tax and inheritance tax.