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Tax Saving Tactics for Salary Earners

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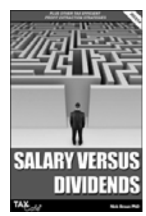

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Introduction

This book is aimed at the vast majority of people who have a steady job, earn a regular wage or salary and pay tax under PAYE.

Most tax books, by contrast, are aimed at business owners or wealthy individuals. After all, they're the ones with the most freedom to control their tax affairs, aren't they?

Tax is something that just seems to *happen* to the vast majority of salary earners. However, as it happens, salary earners *can* do a surprising amount of lucrative tax planning, as you will discover in the chapters that follow.

This book shows you how to make your income as tax efficient as possible, using a whole array of allowances and exemptions which most people are totally unaware of.

In short, it will help you maximise your take-home pay.

Part 1 contains a plain-English guide to *how* salary earners are taxed and a useful table showing all the income tax and national insurance paid at different salary levels.

You'll discover why your tax code might be wrong and why this may mean you're paying too much tax or too little tax.

Part 2 covers *tax-free* benefits-in-kind. You may be pleasantly surprised by the ones that are still available and added together the tax savings could run to thousands of pounds.

They include:

- Childcare
- Mobile phones
- Parking
- Computers
- Work canteens
- Business trips and holidays
- Cheap loans
- Long-service awards
- Staff suggestion schemes
- Gyms and sports facilities

- Relocation expenses
- Eye tests and health care
- Staff parties
- Bicycles
- Redundancy training
- Life insurance
- Gifts and entertainment

In Part 3 we move on to salary sacrifice schemes (swapping salary for tax-free benefits). These can save you both income tax and *national insurance*. In many cases you can also enjoy your employer's national insurance saving.

You'll discover how to increase your pension fund by up to 34% with a salary sacrifice pension, how to save up to £1,866 per year with childcare vouchers and how to save £961 per year with a company car.

Part 4 is all about tax-free expenses – expenses that your employer can reimburse tax-free or you can claim directly on your tax return, including:

- Travel expenses
- Subsistence
- Hotels
- Entertaining
- Working from home

This book will show just how far you can push the boat out, with your employer's permission of course.

Child benefit is extremely valuable (worth £1,752 per year if you have two children and £2,449 if you have three children). In Part 5 you will find out how to avoid the new child benefit charge by making pension contributions (with tax relief of up to 77%).

You can also protect your child benefit with childcare vouchers, by deferring income and reducing your working hours (it is actually possible to work less and have more income!).

Contractors & Personal Service Companies

This book covers personal service companies in tremendous detail.

Temporary staff often work through their own companies but in all other respects are just "wage slaves" like their colleagues – without the employment rights and benefits that the latter take for granted.

In certain circumstances using a company can save you national insurance and in one case study we show how a contractor saves over £4,700 per year. A company can also help you split your income with your spouse or partner. In one example we show how doing this could save you an extra £10,673 per year.

However, these tax savings are by no means guaranteed – getting it wrong could be financially disastrous. Most contractors with their own companies are acutely aware of the so-called 'IR35' tax rules, without really knowing for sure whether they're affected or what they can do. This book explains exactly how the IR35 rules work and what you can do about them.

Staff Share Schemes

Part 7 covers staff share schemes. These offer lots of benefits. For example, some schemes allow you to take tax-free shares instead of taxable salary. They also offer capital gains tax benefits. The guide covers all the main schemes including:

- Share Incentive Plans (SIPs)
- Save as You Earn (SAYE)
- Enterprise Management Incentives
- Company Share Option Plans

We cover all the latest changes to these schemes and show exactly how much tax you could potentially save.

Some salary earners also have part-time businesses and in Part 8 we explain all the tax rules, including how to offset losses against your other income (including your salary) and all the expenses you can claim, including wages paid to your spouse/partner or children, travel expenses, home expenses and interest on borrowings.

Part 9 covers two important domestic tax matters in detail: hiring a nanny and taking on a lodger. If you employ a nanny you are responsible for paying her tax and national insurance, so it is vital to get it right. For lodgers, we examine the rent-a-room scheme in sufficient detail for you to decide whether it is worthwhile.

Finally, we end with a Bonus Chapter covering a whole bunch of important future tax changes. The most important of these is the Government's new childcare vouchers scheme. Will this be better than your employer's existing childcare scheme? Our examples show you when it will be and when it won't.

I hope you enjoy this book and find at least something that helps you keep a bit more of your hard-earned income. After all, you deserve it! Remember it was you who earned it in the first place, not the State, which seems to grab an ever-increasing share!

Good luck.

Part 1

Salary Earners: Tax Basics

Chapter 1

How Much Tax Do Salary Earners Pay?

Calculating Your Income Tax

For the 2013/14 tax year, starting on 6th April 2013, most individuals pay income tax as follows on their salaries:

- 0% first £9,440 (personal allowance)
- 20% next £32,010 (basic-rate band)
- 40% above £41,450 (higher-rate threshold)

Generally speaking, if you earn more than £41,450 you are a *higher-rate taxpayer*. If you earn less you are a *basic-rate taxpayer*.

Example – Basic-Rate Taxpayer

John earns a salary of £30,000. His income tax for 2013/14 can be calculated as follows:

- *0% on the first £9,440 = £0*
- *20% on the next £20,560 = £4,112*

Total income tax bill: £4,112

Example – Higher-Rate Taxpayer

Jane earns a salary of £60,000. Her income tax for 2013/14 is:

- *0% on the first £9,440 = £0*
- *20% on the next £32,010 = £6,402*
- *40% on the final £18,550 = £7,420*

Total income tax bill: £13,822

Income over £100,000

When your taxable income exceeds £100,000 your income tax personal allowance is gradually withdrawn. For every additional £1 you earn, 50p of your personal allowance is taken away.

What this means is that, when your income reaches £118,880, your personal allowance will have completely disappeared.

It also means that those who earn a salary of between £100,000 and £118,880 face a marginal income tax rate of 60%.

Example

Caroline has received salary income of £100,000 so far during the current tax year.

If she receives an extra £1,000 of income she will pay an extra £400 of income tax. She will also lose £500 of her income tax personal allowance, so £500 of previously tax-free salary will now be taxed at 40%, adding £200 to her tax bill.

All in all, she pays £600 in tax on her extra £1,000 of income, so her marginal income tax rate is 60%.

Income above £150,000

Once your taxable income exceeds £150,000, you pay 45% income tax on any extra salary you receive.

This is known as the additional rate of tax. It fell from 50% to 45% at the start of the 2013/14 tax year.

If you earn less than £100,000 or £150,000 it's worth pointing out that those thresholds have not increased with inflation since they were introduced several years ago.

This means more and more taxpayers are likely to be dragged into these higher tax brackets over time.