GUIDE

A Guide to Maximising Allowances

This document contains important information and you should read it carefully and keep it safe for future reference.

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IMPORTANT INFORMATION

The contents featured in this publication are for your general information and use only and is not intended to address your particular requirements. Articles should not be relied upon in their entirety and shall not be deemed to be, or constitute, advice. Although endeavours have been made to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough examination of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions taken in respect of any articles.

Introduction

In the context of UK taxes, allowances refer to specific amounts of income that are not subject to taxation or are subject to reduced tax rates.

Whether you're aiming to enhance your savings, reduce your tax liability, or make the most of investment opportunities, this comprehensive guide is your key to understanding the intricate landscape of UK tax allowances.

From Individual Savings Accounts (ISAs) to pension contributions, capital gains and more, we will explore the range of allowances at your disposal. Discover how to harness these financial tools effectively, align them with your personal goals, and secure your financial future.

No matter if you're a seasoned investor, a small business owner, or you're simply looking to maximise your hard-earned income, by becoming well-versed in the allowances available to you and learning how to navigate the regulations effectively, you'll be better equipped to make informed decisions that align with your financial goals.

Personal Allowance

The personal allowance is a specific amount of income that an individual can earn in a tax year before they are required to pay income tax. It is one of the most fundamental and important elements of the UK's income tax system.

The personal allowance for the tax year 2025/26 is £12,570. This means that you can earn up to £12,570 and not pay any income tax. Anything over this amount you will pay tax on at a rate determined by your annual income.

If you're earning or receiving over £100,000 per year, your personal allowance decreases by £1 for every £2 that your net income is over £100,000. Once you reach £125,140 per year, your personal allowance is zero and you're taxed on the full amount.

Tax Rates

If you live in England, Wales or Northern Ireland, any amount that you earn which exceeds the personal allowance will be subject to taxation at the following rates.

- **20% basic rate** – £12,571 – £50,270
- **40% higher rate** – £50,271 – £125,140
- **45% additional rate** – £125,140+

If you live in Scotland, any amount that you earn which exceeds the personal allowance will be subject to taxation at the following rates.

- **19% starter rate** – £12,571 – £15,397
- **20% basic rate** – £15,398 – £27,491
- **21% intermediate rate** – £27,492 – £43,662
- **42% higher rate** – £43,663 – £125,140
- **47% top rate** – £125,140+

If you're near the higher or additional rate threshold, you could consider making pension contributions or utilising other tax-efficient investments to bring your taxable income down and potentially avoid paying the higher band of tax.

Personal Savings Allowance

The Personal Savings Allowance is a tax allowance that allows individuals to earn a certain amount of interest on their savings without having to pay tax on it.

This allowance was introduced to simplify the taxation of savings income and to provide some tax relief to individuals with modest savings.

Under this allowance, you can earn a certain amount of interest from your savings without paying any tax on it. For the 2025/26 tax year the allowance is as follows:

Basic Rate taxpayers:
£1,000 of tax-free savings interest.

Higher Rate taxpayers:
£500 of tax-free savings interest.

Additional Rate taxpayers: No Personal Savings Allowance; all savings interest is subject to tax.

Dividend Allowance

The dividend allowance is a specific tax allowance that allows individuals to receive a certain amount of dividend income without having to pay tax on it.

It was introduced in April 2016 as a part of changes to the UK's dividend taxation system.

The dividend allowance is £500 for the 2025/26 tax year. This means that anyone who receives over this amount in dividend income, will be liable to pay dividends tax at the relevant rate of their earnings.

- **8.75% basic rate** – £12,570 - £50,270
- **33.75% higher rate** – £50,271 - £125,140
- **39.35% additional rate** – £125,140+

£500

2025/26 tax year dividend allowance

Individual Savings Account Allowance

An Individual Savings Account (ISA) is a tax-advantaged savings and investment account. ISAs represent a strategic channel whilst paying no income, dividend or capital gains tax on the money you earn from an ISA.

For the 2025/26 tax year you are able to save £20,000 within a range of ISAs tax-free. ISAs allow individuals to channel their financial resources into diverse avenues, ranging from cash deposits to investment portfolios, whilst shielding the accrued gains from taxation.

ISAs come in several different types, each catering to various financial goals and risk appetites.

Cash ISA

A Cash ISA is essentially a tax-free savings account. Interest earned on the money you save in a Cash ISA is not subject to income tax. It's a low-risk option suitable for those who want to preserve their capital whilst earning interest. Depending on the type of Cash ISA you open, you can either have instant access to your money where you can withdraw whenever you need to, or you will have limited access where you can only take out money a certain amount of times and then your interest rate will drop.

Stocks and Shares ISA

This type of ISA allows you to invest in a wide range of assets, including stocks and shares (equities) and bonds amongst other investments. Any dividends or capital gains earned within a Stocks and Shares ISA are exempt from tax.

Stocks and Shares (or investment) ISAs do not offer the same level of capital security as cash ISAs. Investments carry risk and you may not get back the full amount that you initially invested.

Innovative Finance ISA

This type of ISA is designed for peer-to-peer lending platforms or other alternative finance investments. It allows you to invest in loans or debt-based securities and receive tax-free interest on returns. It is important to note that IFISAs could be considered higher risk and they do not have any protection from the Financial Services Compensation Scheme (FSCS).

Junior ISA (JISA)

A parent or guardian can open a Junior ISA to save tax-free for their children, although anyone can contribute to them. It operates similarly to a Stocks and Shares ISA or a Cash ISA, but with an annual contribution limit of £9,000 for the tax year 2025/26. It is important to note that the funds belong to the child who take control of the ISA at age 16. They cannot access until they are aged 18, so if you require access before this it may not be appropriate.

There is no right or wrong way to use your ISA entitlement, but what is important is that you seek financial advice in order to determine your risk appetite. The younger you are, the longer you have to recover from a market fall, whereas if you're nearing or are in retirement, you may have to take a more cautious approach to protect the savings you have built up over the years. This will be dependent on your appetite for investment risk.

Lifetime ISA (LISA)

A LISA is designed for long-term savings, specifically for purchasing your first home or saving for retirement. Currently, you can contribute up to £4,000 per year into a LISA although this counts towards your annual overall £20,000 ISA allowance. The government adds a 25% bonus to your LISA contributions each year up to a maximum of £1,000. You can open a LISA from the age of 18 and you must make your first payment into it before you reach 40. When you reach the age of 50, you're no longer able to pay into a LISA and the government's additional 25% will stop. Your LISA will remain open and your savings will continue to earn interest.

When it comes to withdrawing money from a LISA, you will incur a 25% withdrawal charge unless you're:

- Buying your first home (under a total of £450,000)
- Aged 60+
- Terminally ill with less than 12 months to live

Equity investments do not afford the same capital security as deposit accounts. Your capital is at risk.

The value of your investment (and any income from them) can go down as well as up and you may not get back the full amount you invested. Investments should be considered over the longer term and should fit in with your overall attitude to risk and financial circumstances.

Pension Contributions

Contributing to a pension scheme is a tax-efficient way to save for retirement. Contributions to pensions receive tax relief, meaning you could get back the income tax you've paid on those contributions, up to certain limits.

Pensions cannot be accessed until the age of 55, 57 from 2028 and will increase in line with state retirement age.

The annual pension contribution allowance for the 2025/26 tax year is £60,000, or up to 100% of your annual earnings if this is lower than £60,000. which remains the same from the 2024/25 tax year.

You may be able to use the pension carry forward allowance to contribute more into your pension. This allowance allows individuals to carry forward any unused pension contribution allowance from the previous three tax years and use it in the current tax year, in addition to the standard annual allowance for pension contributions.

For example, in the 2022/23 tax year, the annual pension allowance was £40,000 but if you only contributed £25,000 in that tax year then you were able to carry forward £15,000 to contribute to the 2023/24 tax year.

The carry forward allowance can be complicated, and it is strongly recommended that you consult with a Financial Adviser to help you calculate how much you have remaining and if you need to declare anything to HMRC.

The pension carry forward allowance can be useful for business owners or those who are self-employed and have irregular income.

Capital Gains Tax Allowance

Capital Gains Tax (CGT) is a tax levied on the profits from the sale or disposal of certain types of assets that have appreciated in value.

The tax is typically applied to the difference between the sale price of the asset and its original purchase price, often referred to as the "capital gain."

The CGT allowance for the 2025/26 tax year is £3,000. This means that if you dispose or sell any assets such as stocks and shares, you won't be taxed on the profits if they're below £3,000.

You cannot carry over any unused capital gains tax allowance to the next tax year, so if you're planning to sell your assets, it may be worth considering doing so.

A Financial Adviser will be able to help you maximise your CGT allowance, whilst offering advice on how to make the most of your assets. Remember, with any form of investing your money is at risk and there is a chance you could get back less than you originally invested.

£3000

2025/26 tax year
CGT allowance

Marriage and Married Couples Allowance

Marriage Allowance

If you're married or in a civil partnership, you can transfer up to £1,260 of your personal allowance to your partner.

This transfer reduces a partner's tax by up to £252 in the 2025/26 tax year.

To benefit as a couple, you (as the lower earner) must normally have an income below your Personal Allowance – this is usually £12,570.

Marriage allowance does come with conditions. You're eligible for marriage allowance if:

- You're married or in a civil partnership and are not in receipt of married couple's allowance.
- You do not pay income tax or you earn less than your personal allowance so you're not liable to tax.
- Your partner pays tax on their income at the basic rate so is not liable to tax at the higher or additional rates. This will usually mean that your partner has an income between £12,571 and £50,270 before they receive the marriage allowance. For Scottish residents, your partner must pay the starter, basic or intermediate rate, which usually means that their income is between £12,571 and £43,662.

Marriage Allowance means the partner who earns more will get £1,260 added to their basic Personal Allowance. Of the amount of money transferred to a partner as part of Marriage Allowance, 20% is given as a reduction in their tax bill.

Married Couples Allowance (MCA)

If one or both of a couple who are married or in a civil partnership are born before 6th April 1935, they will be eligible for married couple's allowance.

For marriages before 5th December 2005, the husband's income is used to work out the allowance, for marriage and civil partnerships after this date, the income is based off the highest earner.

For the 2025/26 tax year, it could cut your tax bill by between £436 and £1,127 a year.

Inheritance Tax Gifts Allowance

Inheritance Tax (IHT) is a tax that is levied on the value of a person's estate when they pass away. The estate includes all their assets, property, money and possessions.

There is also a provision for taxing certain gifts made during a person's lifetime. One important aspect of IHT is the "gift allowance," which refers to the value of gifts that can be given tax-free, both during a person's lifetime and upon their death.

Annual exemption: You can give away gifts worth up to £3,000 in total each tax year without them being added to the value of your estate for inheritance tax purposes. This is known as the annual exemption.

Small gifts exemption: You can give small gifts of up to £250 to as many people as you like in any one tax year. These gifts are in addition to the annual exemption and won't be included in the value of your estate.

Wedding or civil partnership gifts: There are specific exemptions for gifts given in consideration of marriage or civil partnership. The exemption limits vary based of the relationship to the recipient:

- Parents can gift up to £5,000
- Grandparents and great-grandparents can gift up to £2,500
- Anyone else can gift up to £1,000

- **Gifts from surplus income:** You can give away gifts from your normal income, as long as it doesn't affect your standard of living. These gifts are exempt from inheritance tax.
- **Potentially exempt transfers (PETs):** If you give away more than the annual exemption, the gift might be considered a potentially exempt transfer. If you live for seven years after making the gift, it's generally not counted towards your estate for inheritance tax purposes. If you pass away within the seven years, there might be tax implications depending on the value of the gift and the time elapsed.
- **Gifts to a spouse or civil partner:** Gifts to your spouse or civil partner are usually exempt from inheritance tax.

Charitable gifts: Gifts to charities and some other exempt institutions are generally free from inheritance tax.

You can carry any unused annual exemption forward to the next tax year - but only for one tax year.

Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts and their value depends on the individual circumstances of the investor. The Financial Conduct Authority does not regulate Tax Advice.

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