

The 7 steps to achieving good tax outcomes

The information that follows is based on our understanding of current taxation, legislation and HM Revenue & Customs practice all of which are liable to change without notice.

This is just for UK advisers – it's not for use with clients

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Where content includes case studies or examples these are for illustration purposes and are not recommending a specific course of action.

Past performance is not a reliable indicator of future performance. The value of an investment can go down as well as up and your client may get back less than they've paid in.

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Learning objectives

Describe the key elements of an individual's UK income tax calculation

Calculate the income tax liability for a UK individual

Explain how clients could take steps to reduce their tax liability

The UK Income Tax Computation

1 work out total income

2 deduct allowable reliefs

3 deduct personal allowances

4 tax the income at appropriate rates

5 add up the tax

6 deduct tax reducers

7 add tax additions



Tax liability

Step 1

Identify the amounts of income on which the taxpayer is charged to income tax for the tax year.

The sum of those amounts is “total income”.

Each of those amounts is a “component” of total income

Total income

Salary

Pension income

Benefits in Kind

PCLS

ISA income

Capital Gains

Trading income

Bank Interest

VCT dividends

Foreign income

OEIC dividends

OEIC interest

State Benefits

UFPLS

Redundancy

Rental income

Bond Gains

Bond withdrawals within TDA

Capital element of PLA

Partnership Profits

Trust income

NS&I Interest

DGT withdrawals

Pension Death Benefits

Total income

Salary ✓

Pension income ✓

Benefits in Kind ✓

PCLS

ISA income

Pension Death Benefits

Foreign income

Capital Gains

Trading income ✓

Bank Interest ✓

VCT dividends

UFPLS

OEIC dividends ✓

OEIC interest ✓

State Benefits

Redundancy

Rental income ✓

Bond Gains ✓

Bond withdrawals within TDA

Capital element of PLA

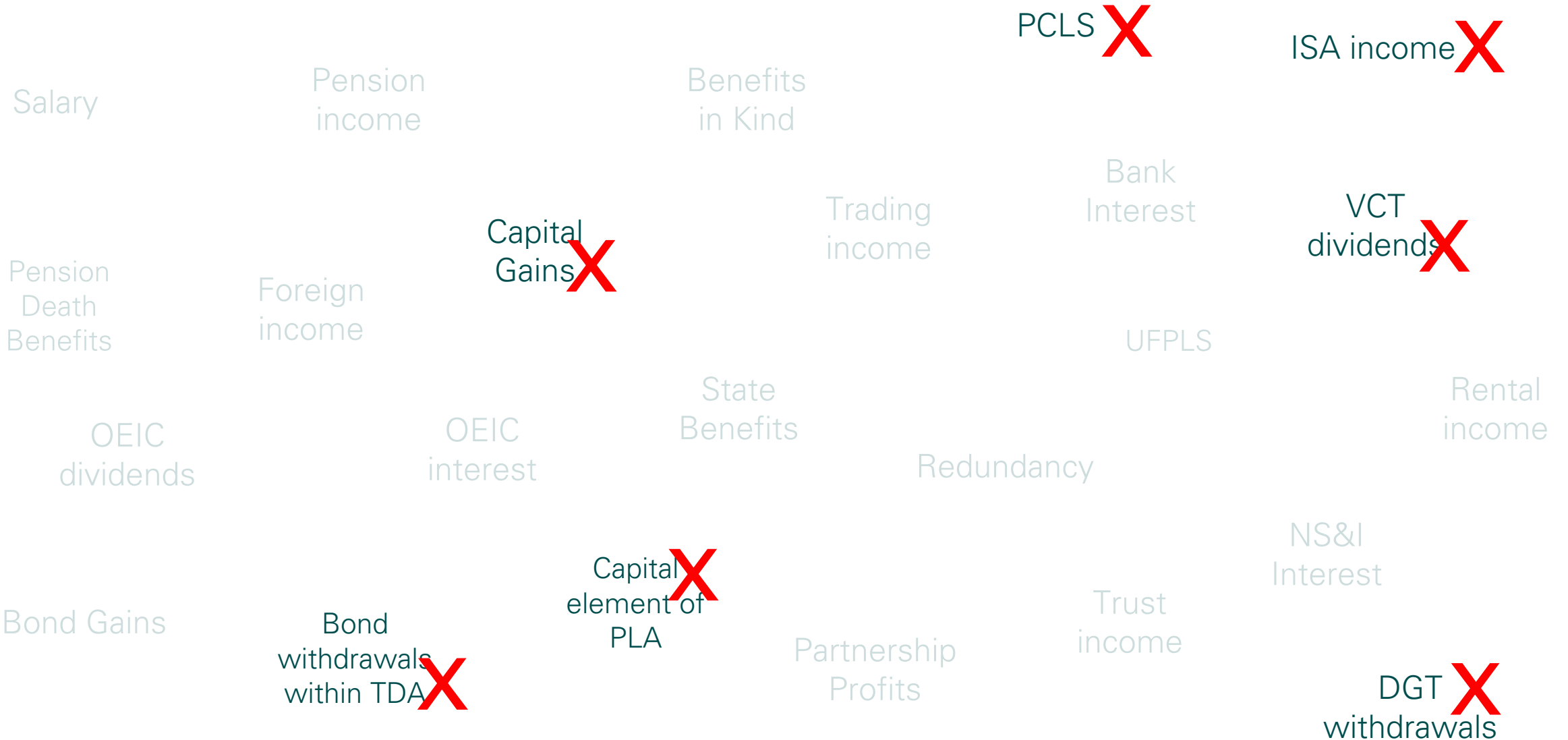
Partnership Profits ✓

Trust income ✓

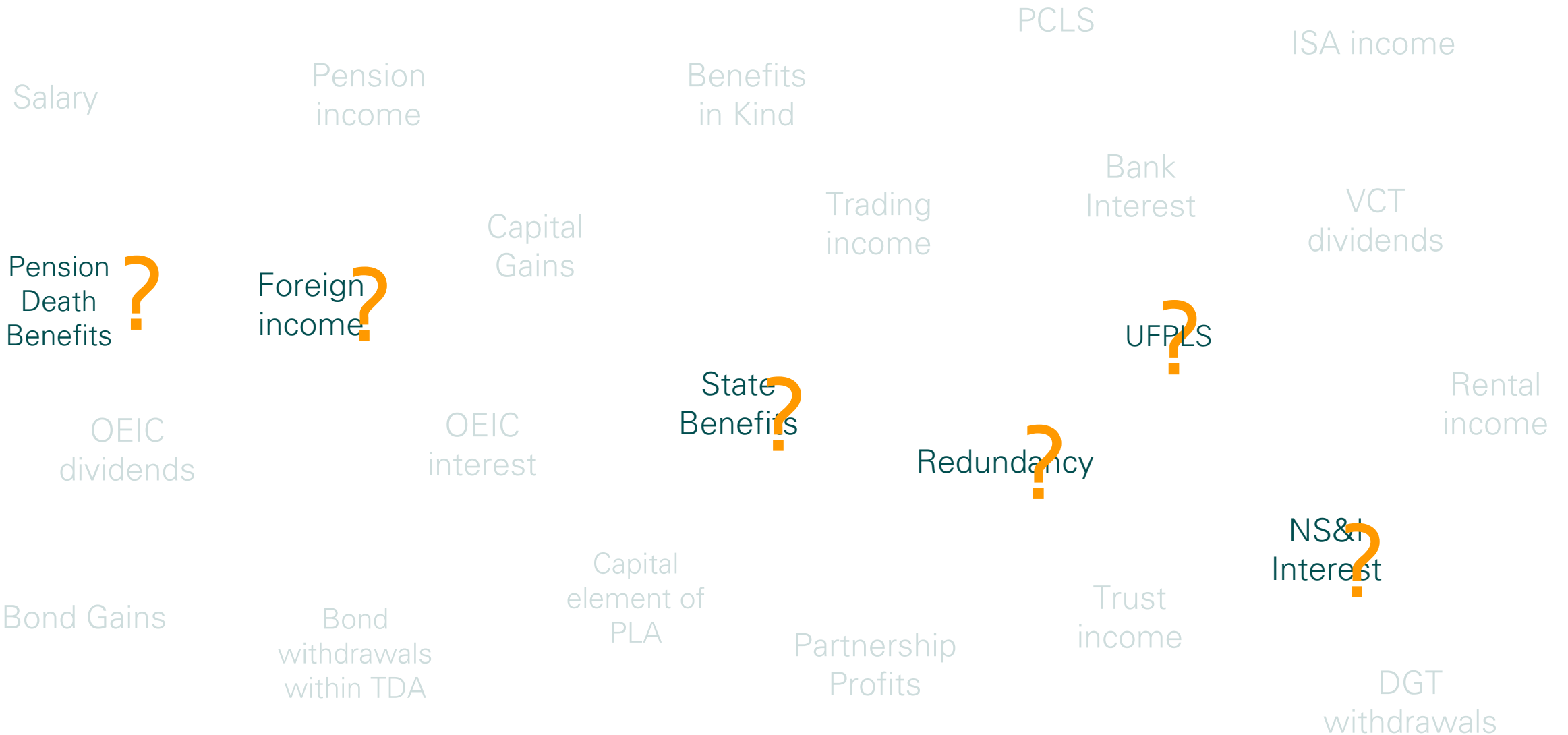
NS&I Interest

DGT withdrawals

Total income



Total income



Total Income - Debbie

Debbie's finances are a bit complicated and you need to work out what her total income is for the tax year. What is going to be included?

Details	How much included?
Gross salary of £40,000. £2,000 pension into net pay scheme	£38,000
Redundancy payment £37,000	£7,000
VCT dividends of £750	£0
Dividends from equity OEIC holdings £3,000	£3,000
Interest from Saving OEIC £1,500	£1,500
Onshore bond gain £40,000 over 5 years so £8,000 slice	£40,000

Total income = £89,500

Total Income - Harry

Debbie's husband Harry isn't straightforward either!
What is going to be included in total income?

Details	How much included?
ISA withdrawals of £25,000	£0
National Savings Certificates Interest of £1,000	£0
Profit of £25,000 with allowable expenses of £5,000	£20,000
State pension of £10,000	£10,000
Taxable capital gain on sale of an OEIC of £15,000	£0
An UFPLS of £50,000	£37,500

Total income = £67,500



Step 2

Deduct from the components the amount of any relief under a provision listed in relation to the taxpayer in section 24... See sections 24A and 25 for further provision about the deduction of those reliefs.

The sum of the amounts of the components left after this step is "net income".

Allowable deductions

Accountants

It's their world

Many and Varied

Allowable losses, capital allowances etc

Don't confuse

Step 3 & 6 more common in planning

There's a cap

greater of £50,000 or 25% of the individual's 'adjusted total income'

Common ones

Relief on making a claim pensions

The UK Income Tax Computation

1 work out total income

2 deduct allowable reliefs

= *“Net Income”*

Net Income and the TAA

Threshold income

Section 228ZA(5) Finance Act 2004

An individual's threshold income is found by taking the following steps:

1. Start with the individual's Net income.
2. ADD The amount that would have been employment income but for the operation of a 'relevant salary sacrifice arrangement' made after 8 July 2015.
3. ADD The amount of that would have been employment income but for the operation of a 'relevant flexible remuneration arrangement' made after 8 July 2015
4. DEDUCT The gross amount of member contributions paid in the tax year using relief at source. That is the amount physically paid to the pension scheme plus the amount of basic rate relief claimable by the scheme administrator (see [PTM044220](#)).
5. DEDUCT The amount of any lump sum death benefit taxable as pension income of the recipient

Adjusted income

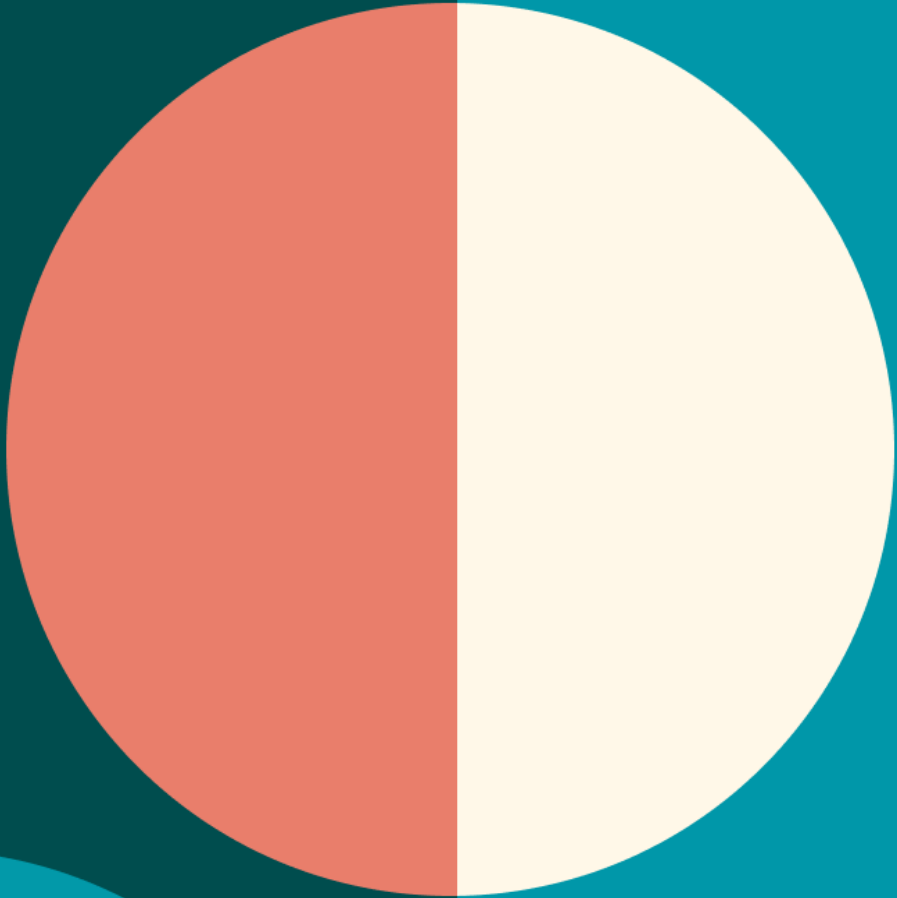
Section 228ZA(4) and paragraph 8(1) Schedule 36 Finance Act 2004

An individual's adjusted income is found by taking the following steps:

1. Start with the individual's Net income.
2. ADD the amount of any relief given under section 193(4) - claim for excess relief under a net pay arrangement - or 194(1) Finance Act 2004 - relief on making a claim (see [PTM044240](#)). Tax relief is given only when an individual claims it from HMRC. For individuals completing Self Assessment on the SA100 under the section 'Tax reliefs' this will be by completing box 3 for claims for excess relief or boxes 2 or 3 for relief on making a claim.
3. ADD the amount of member contributions paid via the net pay arrangement (see [PTM044230](#)) or with transitional corresponding relief (see [PTM111500](#)). Full tax relief will have been given in respect of these contributions by reducing the amount of the individual's employment income chargeable to tax.
4. ADD an amount equal to the individual's total pension input amount for the year minus the amount of member contributions paid in the tax year
5. DEDUCT the amount of any lump sum death benefit taxable as pension income of the recipient.

“Step 2.5”

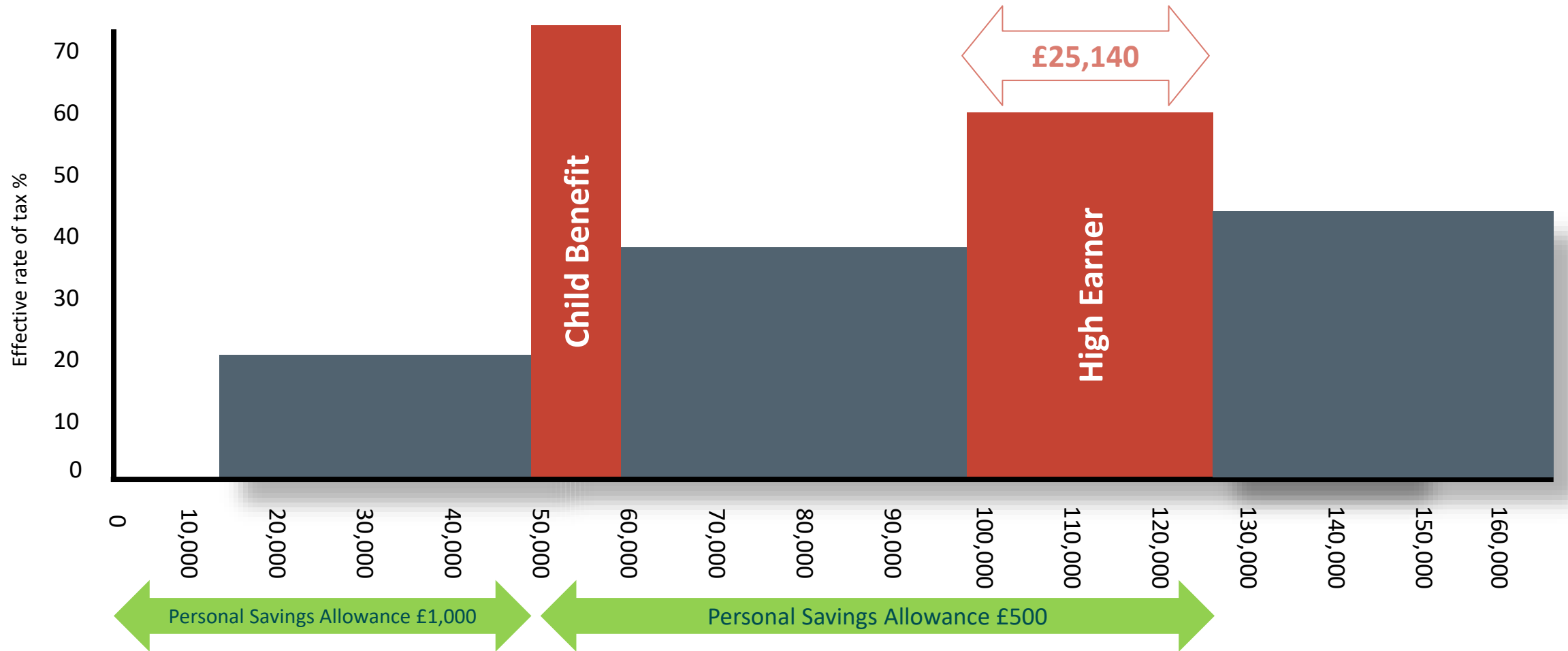
Adjusted Net Income



Adjusted Net Income

Adjusted Net Income
Net Income (after step 2)
<u>Less</u> Relief at Source pension (gross)
<u>Less</u> Gift Aid (gross)
<u>Add</u> Tax relief for certain union / police payments

Tax Traps



Why pension contributions work

John, Kalpana and Lisa are all paid a salary of £120,000 p.a. and have no other income.

	John makes a £20,000 net pay contribution	Kalpana makes a £20,000 RAC contribution	Lisa makes a £16,000 RAS contribution
Step 1 Total income	£100,000	£120,000	£120,000
Step 2 Net income	£100,000	£100,000	£120,000
"Step 2.5" Adjusted Net Income	£100,000	£100,000	£100,000

Step 3

Deduct from the amounts of the components left after Step two any allowances to which the taxpayer is entitled for the tax year...

See section 25 for further provision about the deduction of those allowances.

Personal Allowance

Who gets it?

- UK residents (who are not claiming remittance basis)
- Some non UK residents

How is it applied?

- Employed – via tax code
- Others – self assessment

Personal Allowance

Who gets it?

- UK residents (who are not claiming remittance basis)
- Some non UK residents

How is it applied?

- Employed – via tax code

Tax code and personal allowance are not the same thing!!

assessment

The UK Income Tax Computation

- 1 work out total income
- 2 deduct allowable reliefs
- 3 deduct personal allowances

= *“Taxable Income”*

Personal Allowance

Who gets it?

- UK residents (who are not
- Some non UK residents

How is it applied?

- Employed – via tax code

(2) At Steps 2 and 3, deduct the reliefs and allowances in the way which will result in the greatest reduction in the taxpayer's liability to income tax.

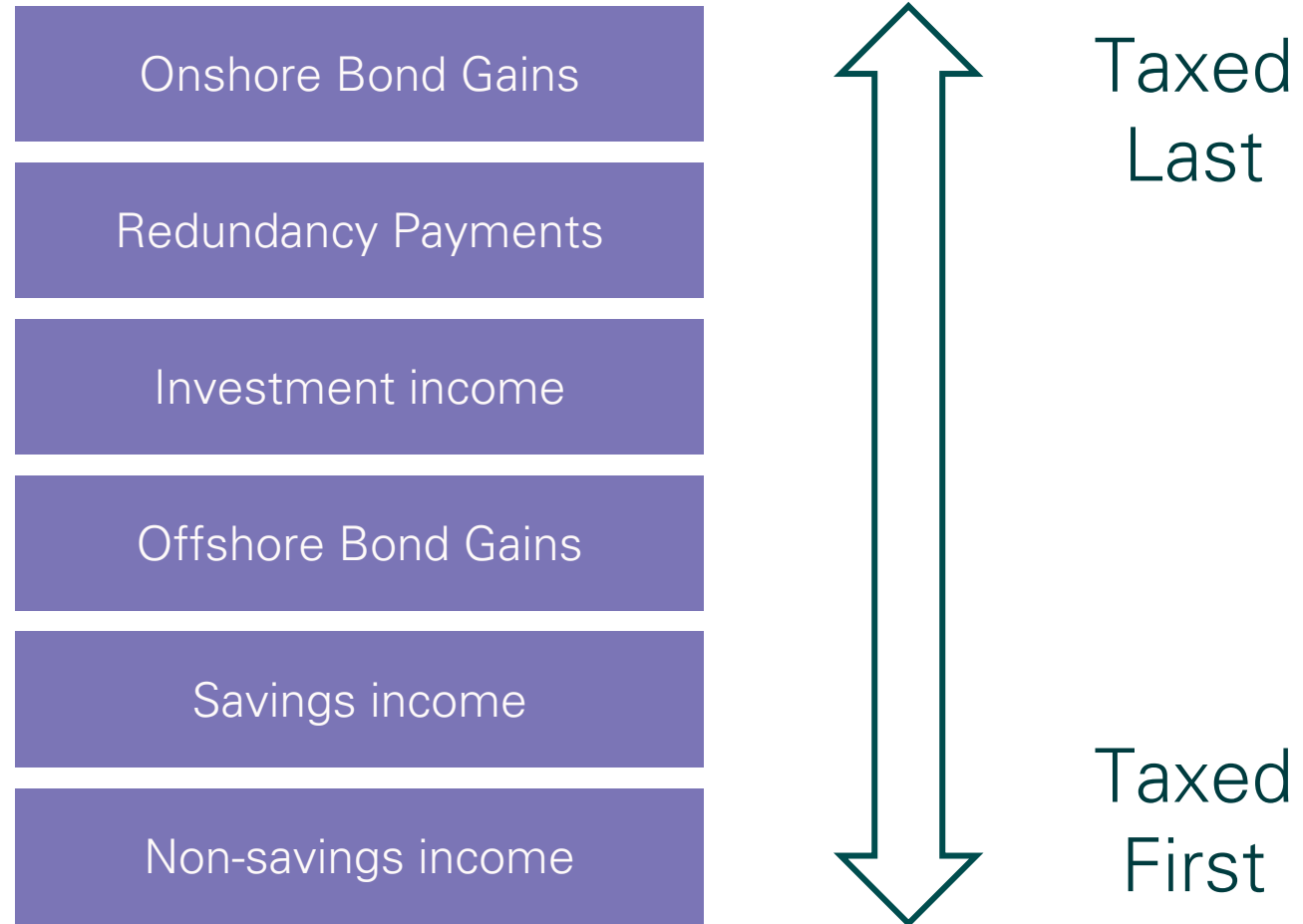
Tax code and the same assessment

Step 4

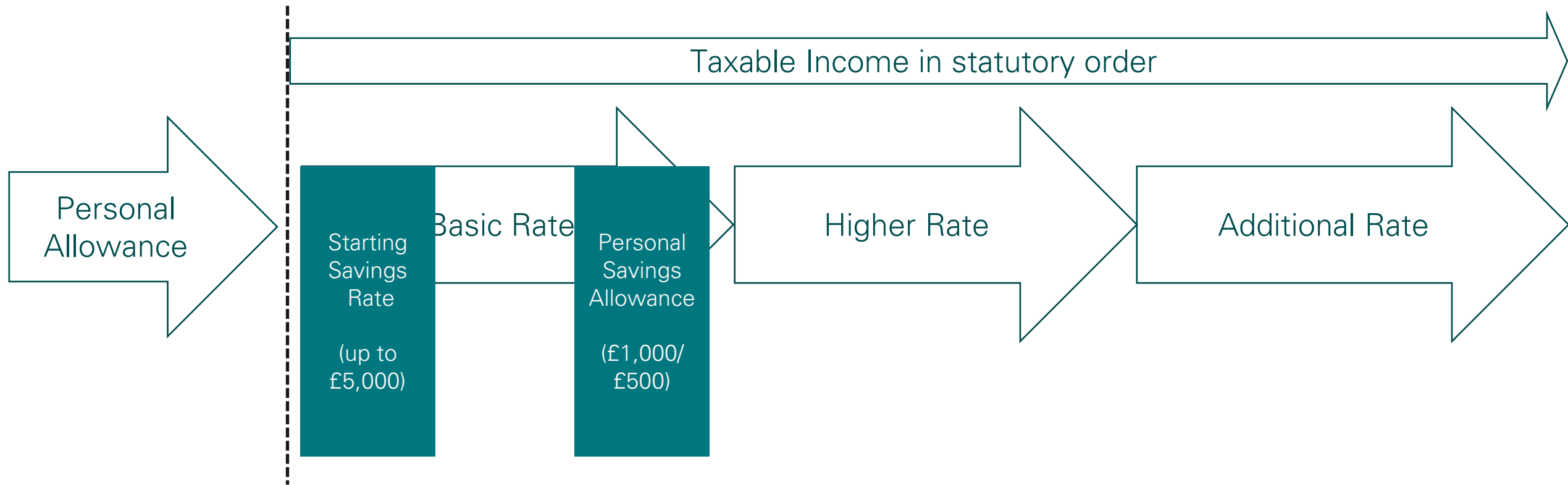
Calculate tax at each applicable rate on the amounts of the components left after Step three.

See Chapter 2 of this Part for the rates at which income tax is charged and the income charged at particular rates

Order of Tax



Savings allowances



Dividend "Allowance"



2022/23

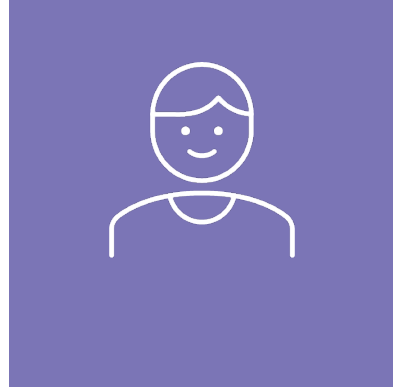


2023/24



2024/25

Beneficial ordering



Two twins Adam and Evie have identical income comprised of:

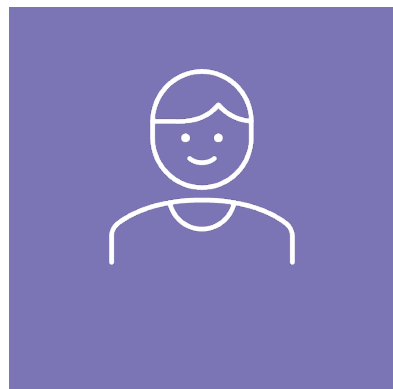
Salary	£10,000
Interest	£ 5,000
Dividends	£ 3,500

Adam decides to offset his personal allowance against his salary and interest

Evie decides to offset her personal allowance against her salary and dividends

Beneficial ordering

Adam



Taxable income £5,930

Interest £2,430

Dividends £3,500

Source	Amount £	Band	Rate %	Tax due £
Interest	2,430	SR	0	0
Dividends	1,000	DNR	0	0
	2,500	BR	8.75	218.75
Tax liability				218.75



Evie

Taxable income £5,930

Interest £5,000

Dividends £ 930

Source	Amount £	Band	Rate %	Tax due £
Interest	5,000	SR	0	0
Dividends	930	DNR	0	0
Tax liability				0

Devolved Taxation

Belfast

No income tax powers

Cardiff

Non savings, Non Dividend
only



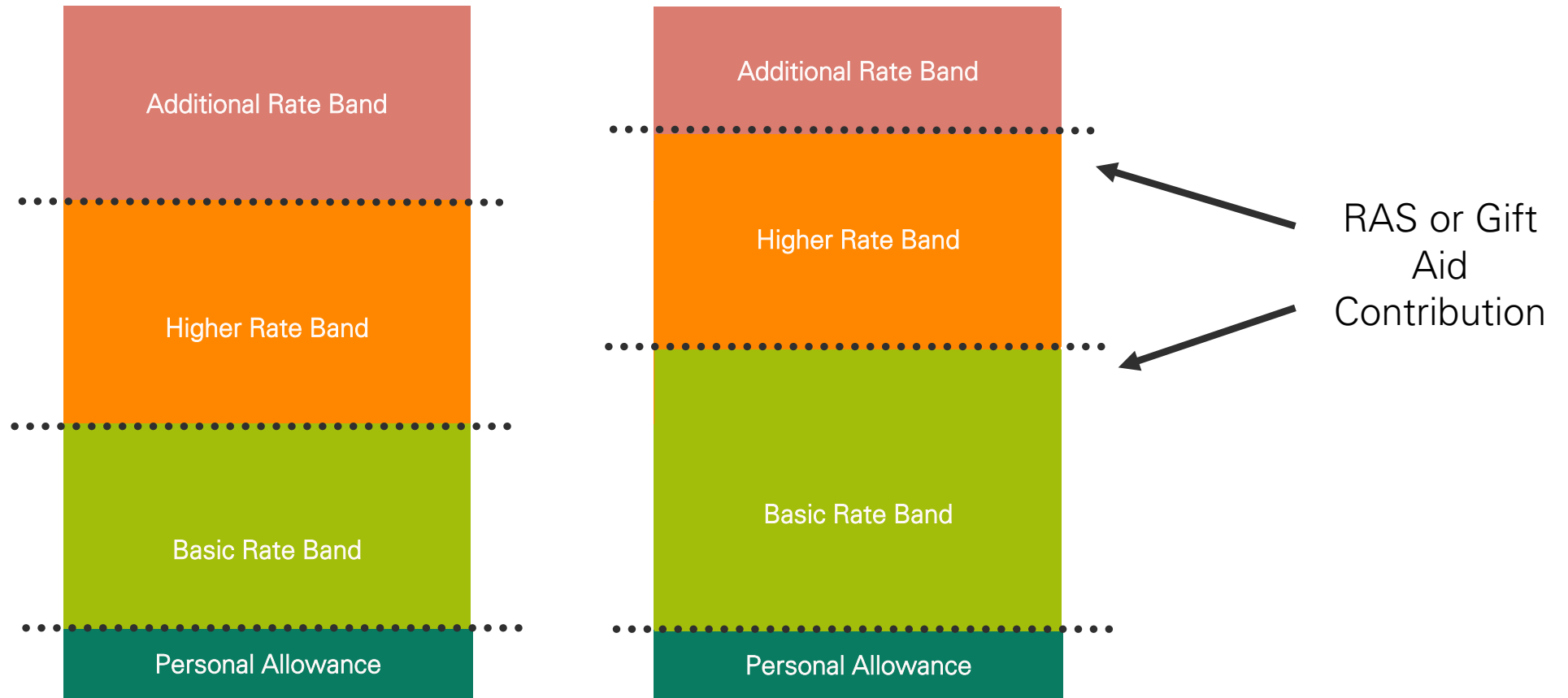
Edinburgh

Non savings, Non Dividend
only

London

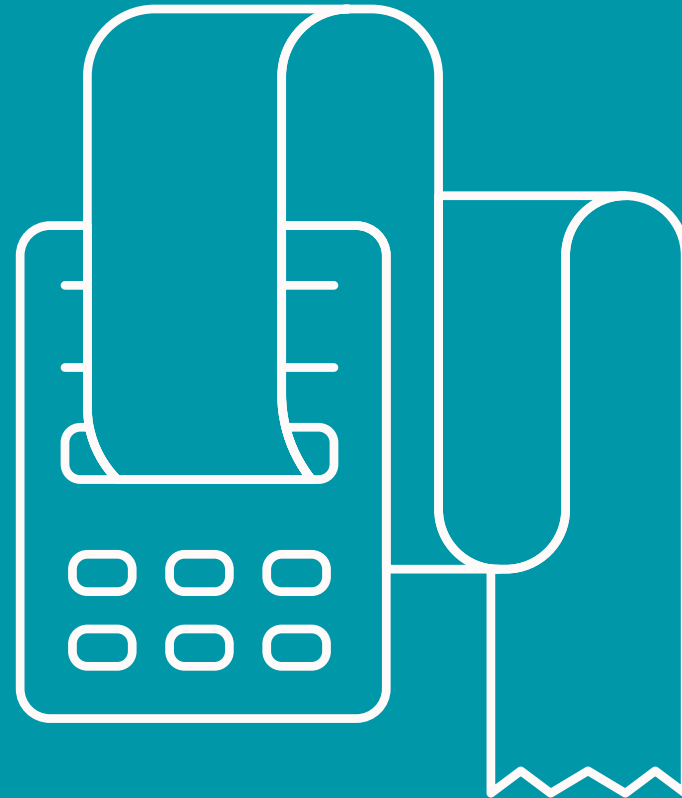
Non savings, Non Dividend (Eng &
NI)
Savings
Dividends
Allowances (tax traps)
National Insurance
Capital Gains Tax
Corporation Tax

Not all tax bands are equal



Step 5

Add together the amounts of tax calculated at step 4.





Step 6

Deduct from the amount of tax calculated at Step five any tax reductions to which the taxpayer is entitled for the tax year...

See sections 27 to 29 for further provision about the deduction of those tax reductions.

Tax reducers

5 things *you need* to know

Variety of reliefs not covered at step 2

Defined Order

Relief with highest saving comes first

Only available to the extent there is a liability

Double Taxation Agreements come last

Tax reducer examples



VCT / EIS



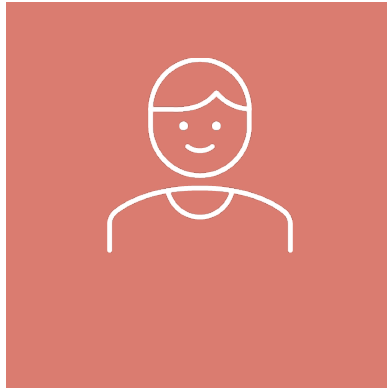
Investment
x
30%

VCT/EIS/SEIS Income Tax Relief

	VCT	EIS	SEIS
Maximum Investment	£200,000	£1,000,000*	£200,000
Income tax relief	30%	30%	50%

*£2,000,000 if at least £1,000,000 is invested in knowledge intensive companies

VCT/EIS/SEIS income tax relief



In the current tax year Ed has taxable salary of £100,000.

Ed subscribes for £100,000 of EIS shares in the same tax year.

What is his income tax liability?

	Source	Amount £	Band	Rate %	Tax due £
Step 4	Salary	37,700	BR	20	7,540
		49,730	HR	40	19,892
Step 5	Total Tax				27,432
Step 6	EIS income tax relief £100,000 x 30%				27,432
	Tax liability				Nil

Carry back excess relief?

Tax reducer examples

VCT / EIS

Marriage
Allowance

Investment
x
30%

Up to 10% of
unused
Personal
Allowance
x
20%

Marriage Allowance



David has pension income of £25,000 and interest of £1,500 from his savings account.

Mary has income of £10,000 and has made a claim to transfer 10% of her personal allowance to David.

After deduction of his **£12,570** personal allowance his taxable income is £13,930 for the tax year.

What is his tax liability?

Step 4

Source	Amount £	Band	Rate %	Tax due £
Pension	12,430	BR	20	2,486
Interest	1,000	PSA	0	0
	500	BR	20	100

Step 5

Total Tax	2,586
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Step 6

Less marriage allowance 1,260 x 20%	252
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Tax liability	2,334
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Tax reducer examples

VCT / EIS

Marriage
Allowance

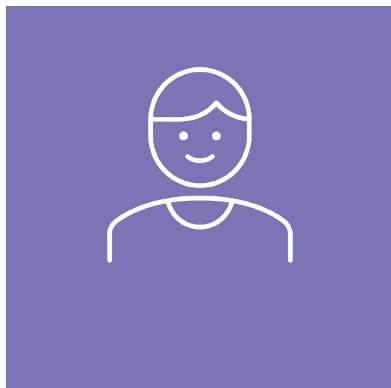
Onshore Bond
Tax Credit

Investment
x
30%

Up to 10% of
unused
Personal
Allowance
x
20%

20% x gain
outside
personal
allowance

Basic Rate Tax Credit



Jimmy has salary of £25,000 and an onshore bond gain of £20,000. After deduction of his personal allowance his taxable income is £32,430 for the tax year.

What is his tax liability?

	Source	Amount £	Band	Rate %	Tax due £
	Salary	12,430	BR	20	2,486
Step 4	Bond Gain	1,000	PSA	0	0
		19,000	BR	20	3,800
Step 5	Total Tax				6,286
Step 6	Less tax credit				4,000
	Tax liability				2,286

Tax reducer examples

VCT / EIS

Investment
x
30%

Marriage
Allowance

Up to 10% of
unused
Personal
Allowance
X
20%

Onshore Bond
Tax Credit

20% x gain
outside
personal
allowance

Top Slicing
Relief

Complicated

Top slicing relief



Janine has salary of £25,000 and an onshore bond gain of £50,000 (over 5 years).

After deduction of her personal allowance her taxable income is £62,430 for the tax year.

What is her tax liability?

Step 4

Source	Amount £	Band	Rate %	Tax due £
Salary	12,430	BR	20	2,486
Bond Gain	500	PSA	0	0
	24,770	BR	20	4954
	24,730	HR	40	9,892
Total Tax				17,332
Less tax credit				10,000
Less top slicing relief				4,846
Tax liability				2,486

Step 5

Step 6

Top Slicing Relief

Taxation of full gain		50,000			
Tax					
Step 1	Personal Allowance	0	@ 0%	0	
	Starting Rate	0	@ 0%	0	
	Personal Savings Allowance	500	@ 0%	0	
	Basic Rate	24,770	@ 20%	4,954	
	Higher Rate	24,730	@ 40%	9,892	
	Additional Rate	0	@ 45%	0	
	Total Liability				14,846
Step 2	Tax Credit				10,000
	Relieved liability on gain				£4,846
Step 3 Taxation of slice		10,000			
Tax					
Step 4	Personal Allowance	0	@ 0%	0	
	Starting Rate	0	@ 0%	0	
	Personal Savings Allowance	1,000	@ 0%	0	
	Basic Rate	9,000	@ 20%	1,800	
	Higher Rate	0	@ 40%	0	
	Additional Rate	0	@ 45%	0	
	Total Liability				1,800
Tax Credit				2,000	
Relieved Liability on Slice				£0	
Derived years (N)				5.00	
Relieved Liability on Slice x N				£0	
Top Slicing Relief					
Step 5	Relieved liability on full gain			4846	a
	Relieved Liability on Slice x N			0	b
	Top Slice Relief (a-b)			£4,846	

Total tax on gain
less 20% tax

MINUS

Total tax on slice
Less 20% tax x "N"

EQUALS

Top Slicing relief

Tax reducer examples

VCT / EIS

Investment
x
30%

Marriage
Allowance

Up to 10% of
unused
Personal
Allowance
x
20%

Top Slicing
Relief

Complicated

Onshore Bond
Tax Credit

20% x gain
outside
personal
allowance

Double
Taxation
Agreements

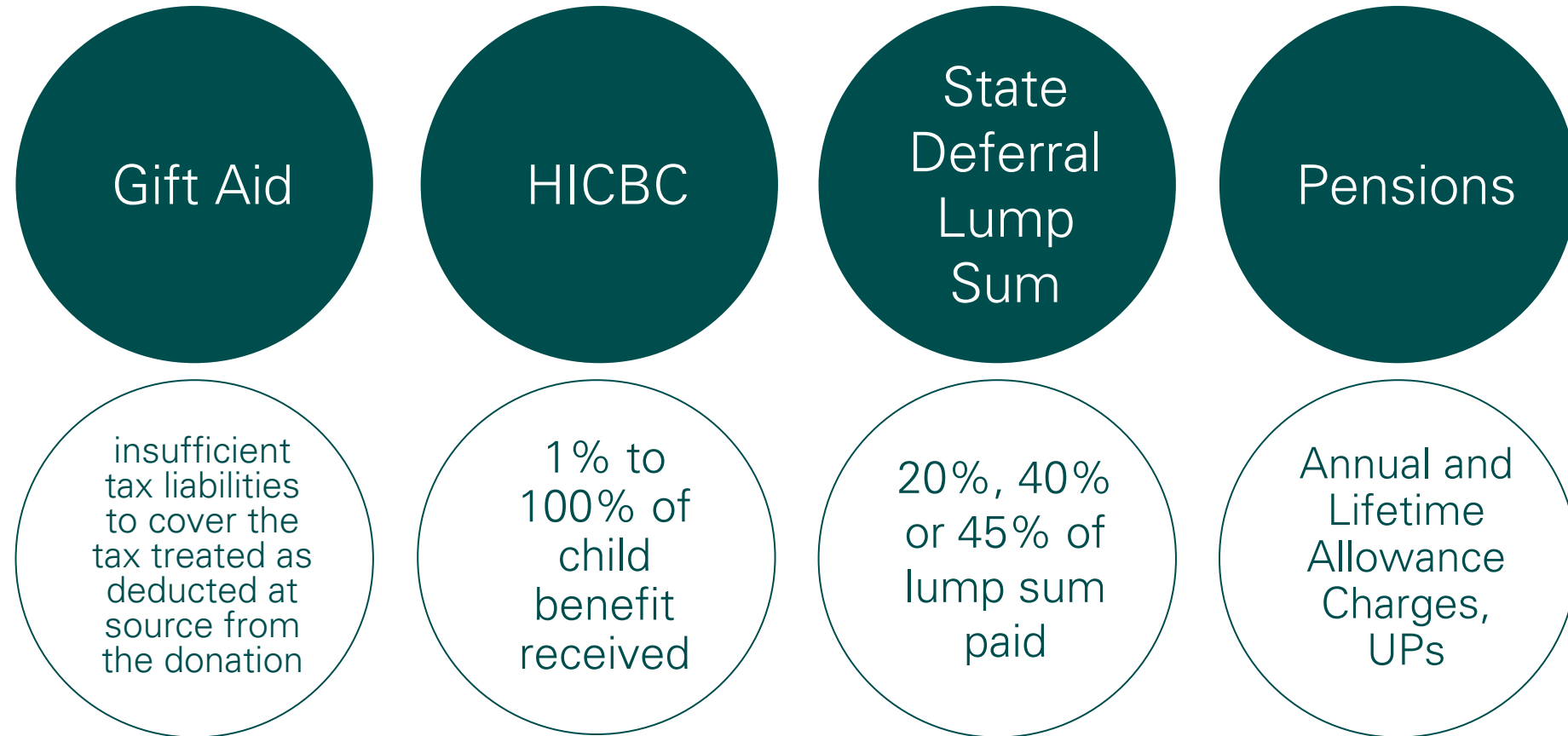
Various

Step 7

Add to the amount of tax left after Step 6 any amounts of tax for which the taxpayer is liable for the tax year under any provision listed in relation to the taxpayer in section 30.

The result is the taxpayer's liability to income tax for the tax year.

Standalone tax charges



This tool is for UK financial advisers only.

Important information about this tool

This calculator is designed to give an estimation of a person's tax liability and also how pension contributions can have an effect on someone's tax position.

It does not take into account all the possible individual circumstances that may impact on the tax position of the individual.

It should not be taken as offering advice or any recommendation.

You should be satisfied that the information you have entered into the calculator is correct, for example this tool will assume that any pension contributions and/or gift aid contributions are valid. You should ensure that the outputs are correct for your client.

Please note: This tool will not calculate the liability if there are transitional profits from the basis period alignment to tax years from 2023/24 to 2027/28.

The information in this modeller is based on our current understanding of legislation and HMRC practice as at March 2023 all which is subject to change without notice.

Please note that this tool will cease to operate at the end of the tax year displayed above.

Every care has been taken as to its accuracy, but it must be appreciated that neither M&G nor its representatives can accept any responsibility for loss, however caused, suffered by any person who has acted or refrained from acting as a result of material contained in this tool. Certain areas have been omitted from this model for simplicity and ease of use including National Insurance, some sources of income and other reliefs, allowances and tax charges.

Important information about the calculations

Personal allowance is allocated to taxable income following the statutory order of income taxation, more beneficial ordering may be possible in some cases. Beneficial ordering is not applied to the top-slicing calculations.

The tool assumes any pension contributions and/or gift aid payments made are valid. Annual Allowance is not taken into account.

Gross pension contributions include net pay and relief on making a claim. They are allocated to any relevant earnings first and then allocated to redundancy payments.

Where the number of children is added the calculator assumes that child benefit is claimed. Child benefit is calculated using 52 weeks of child benefit claimed.

The "total income" displayed is based on the total inputs, the full amount of child benefit and before tax, gift aid and pension contributions.

The "bank balance" displayed is based on total inputs (excluding benefits in kind) less taxation, gift aid and pension contributions.

**USE
THE
TOOL**

Tax Relief Modeller Tool

built by M&G

Tax Year 2023/24

ABOUT YOUR CLIENT

What is the client's age?	<input type="text" value="Under 75"/>
Scottish Tax Payer?	<input type="text" value="No"/>
Number of Children	<input type="text"/>
Gift Aid (Gross amt)	<input type="text"/>

CHARGEABLE EVENTS - BOND GAINS

Onshore Gain 1	<input type="text" value="50,000"/>	Years Gain 1 (N)	<input type="text" value="5"/>	Slice 1	<input type="text" value="10,000"/>
Onshore Gain 2	<input type="text"/>	Years Gain 2 (N)	<input type="text"/>	Slice 2	<input type="text"/>
Onshore Gain 3	<input type="text"/>	Years Gain 3 (N)	<input type="text"/>	Slice 3	<input type="text"/>
Onshore Gain 4	<input type="text"/>	Years Gain 4 (N)	<input type="text"/>	Slice 4	<input type="text"/>
Offshore Gain 1	<input type="text" value="10,000"/>	Years Gain 1 (N)	<input type="text" value="2"/>	Slice 1	<input type="text" value="5,000"/>
Offshore Gain 2	<input type="text"/>	Years Gain 2 (N)	<input type="text"/>	Slice 2	<input type="text"/>
Offshore Gain 3	<input type="text"/>	Years Gain 3 (N)	<input type="text"/>	Slice 3	<input type="text"/>
Offshore Gain 4	<input type="text"/>	Years Gain 4 (N)	<input type="text"/>	Slice 4	<input type="text"/>

INCOME SOURCES

Employment Income	<input type="text" value="25,000"/>	Gross Savings Interest	<input type="text" value="2,500"/>
Benefits in Kind	<input type="text"/>	Dividends	<input type="text" value="5,000"/>
Taxable Self Employed Profits	<input type="text"/>	Taxable Capital Gains (10%/20%)	<input type="text"/>
UFPLS (taxable element)	<input type="text"/>	Taxable Capital Gains (18%/28%)	<input type="text"/>
Drawdown / Annuity Income	<input type="text"/>	Taxable Redundancy Payment	<input type="text"/>
State Pension Income	<input type="text"/>	Rental Income - Relevant	<input type="text"/>
Purchased Life Annuity Income	<input type="text"/>	Rental Income - Not relevant	<input type="text"/>

EXISTING PENSION CONTRIBUTIONS

Relief at Source (Net Amount)

Contributions paid gross

NEW PENSION CONTRIBUTIONS

Relief at Source (Net Amount)

Contributions paid gross

R
E
S
E
T

BEFORE NEW CONTRIBUTIONS

"Total Income"	£92,500
Adjusted Net Income	£92,500
Personal Allowance	£12,570
Personal Savings Allowance	£500
Child Benefit Charge	£0
Capital Gains Tax	£0
Tax Liability	£5,236

AFTER NEW CONTRIBUTIONS

"Total Income"	£92,500
Adjusted Net Income	£82,500
Personal Allowance	£12,570
Personal Savings Allowance	£500
Child Benefit Charge	£0
Capital Gains Tax	£0
Tax Liability	£5,236

DIFFERENCE

£0
£0
£0
£0
£0
£0
£0

PENSION SUMMARY

Relevant Earnings	£25,000
Contributions: Existing	£0
New	£10,000
Total	£10,000

Effective Rate
of
Tax Relief

20.00%

Learning objectives

Describe the key elements of an individual's UK income tax calculation

Calculate the income tax liability for a UK individual

Explain how clients could take steps to reduce their tax liability

Thanks for your time

Get in touch with your usual contact if you need further help.





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