New Tax Year
Reviewing Your Allowances

As we begin the new tax year, now is the opportune moment to check your tax position and establish how you can maximise your allowances via increased contributions and investments. In general terms, allowances operate on a use it or lose it basis with some scope for utilising unused pension contributions from the previous 3 years.

For many during this increased cost of living period it may not have been possible but with inflation and potential interest rate cuts this year may provide more affordability and allow flexibility in utilising your personal allowances.

If you are still working and in the process of building your pension pot, the amount you can contribute with tax -relief is 100% of your earnings, up to £60K per annum. This includes employer and employee contributions. For those in the higher earner zone i.e. circa £260K + then an additional check is required to be undertaken to ensure not caught by the tapered annual allowance – speak to your DAM consultant for further information if you feel this restriction may impact you.

A lot of individuals forget that even if you have no UK relevant earnings you can still contribute up to £3,600 gross (£2,880 net) per annum to a pension. Maybe an ideal opportunity for an individual to pay in whilst at home looking after children or elderly relatives.

Once you earn over £100K + in earnings then you start to lose your personal allowance (£12,570 2025/26). It reduces by £1 for every £2 you are over and once you reach £125,140 you lose the whole amount – in essence effectively taxed at 60%. Increasing or making lump sum (bonus sacrifice) pension contributions can help to reduce or fully mitigate this penalty.

Moving onto savings. The Individual Savings Allowances (ISA) levels have not changed and remain@ £20K per annum across all ISAs and for the Junior ISA, this is £9K per annum for those eligible.

The Lifetime ISA (most commonly used by those purchasing their first property) remains at £4K per annum (with an additional £1K bonus added by HMRC) for those meeting eligibility criteria.

Finally, the personal Savings allowance still set @ the same levels. Whilst not of particular concern in previous years when interest rates were so low, this is now a much greater consideration. Generally speaking, this is the amount you can earn in interest in savings before being subject to tax on the interest:

- For basic rate taxpayers, this is £1,000pa
- For higher rate taxpayers, this drops to £500pa.
- Additional rate tax payers have no savings allowance.

If you are concerned about interest exceeding these amounts, cash ISAs can be a valuable option to consider if you have your ISA allowance, or consider sharing savings with your spouse to increase your savings allowance.

Please note that the information contained in this article is for information purposes only and should not be construed as individual advice. Please contact DAM directly to receive specific advice based on your own personal circumstances.

DAM Community Hub