



Lloyd's Financial Q&A Column

Grantham-based tax and accountancy specialist Lloyd Stubbs gives advice on financial matters to small businesses

What can high earners do to save tax?

Q: I am a high earner and had a large tax liability to pay in January. How can I make changes to reduce my tax liability and save tax?

A: Firstly, what is a high earner? An individual may be a higher rate taxpayer where they earn more than £50,271.

The additional rate comes in at earnings over £125,140.

Furthermore, the personal allowance starts to be tapered off on earnings exceeding £100,000, meaning you lose £1 for every £2 of income above £100,000. At £110,000 your personal allowance will be £7,570, and at £125,140 your personal allowance will be £0.

What are earnings?

Earnings can include salary, self-employed income, property income and investment income.

What can you do to reduce your tax?

1. Contribute to your pension

A pension is an important method of planning for your future and will provide you with income after you retire. Pension contributions are a tax-efficient way to save and prepare for retirement.

- Personal pension contributions attract automatic tax relief whereby your pension provider claims basic rate tax relief (20%) and adds it to your pension pot.
- In a workplace pension, contributions can be made via salary sacrifice meaning your employer can take pension contributions from your pay before you pay tax.

If you pay tax at a higher rate, you can claim additional tax relief through your self-assessment tax return or speak to HMRC.

2. Make charity donations (gift aid)

When you make donations to charity, these are tax-free. Through gift aid, the tax goes to the charity so it receives an additional amount on top of your donation. If you're a higher rate taxpayer, you can claim the difference between the tax you've paid and the amount the charity receives on your self-assessment tax return.

For employees, your tax code will reflect gift aid donations and charity contributions so it's important to check your tax code.

3. Make use of your allowances

ISA allowance

Interest earned in an ISA is tax-free. As a higher rate individual, your savings allowance may be £500 a year, so you could find that your interest income exceeds your allowance and becomes taxable income.

Dividend allowance

Dividends received are taxed at dividend rates. For higher rate taxpayers this is 33.75% and for additional rate taxpayers this is 39.35%. Individuals are entitled to a dividend allowance of £500 for 2024/25, meaning you can receive £500 dividend income tax-free.

What else could you consider?

- High Income child benefit charge - if you're earning over £60,000 you will be subject to the high income child benefit charge. By £80,000 you will be liable to pay tax to HMRC equal to your child benefit income. It may be necessary to mark on your record that you do not want to be paid child benefit to avoid having to pay it back.
- 60% tax trap – you'll be subject to the 60% tax trap as a result of the loss of your personal allowance, managing your income can help you navigate this.
- Make use of your annual capital gains tax exemption – if you're planning on selling an asset that could be liable to Capital Gains Tax, consider getting advice over timing. This can help you make use of your annual exempt amount, as well as planning around whether you'll be paying the higher CGT rate for each year.
- Invest in start-ups – for individuals with surplus income, investing in other businesses through EIS/SEIS/VCT schemes could offer you tax savings and advantages.
- Make gifts – when it comes to Inheritance Tax, making gifts to family earlier could help to mitigate your inheritance tax liability.

Lloyd Stubbs specialises in managing tax and accountancy affairs for small business owners and can be contacted by phone or email

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