2025-26 TAX PLANNING

Pre year-end points to consider

Child Benefit

If you or your partner is in receipt of child benefit but your income level exceeds the £60,000 threshold, you will be required to pay some of this benefit back.

If you or your partner earns £80,000 or more, the full amount of child benefit received will be clawed back via the self-assessment tax return.

To prevent a partial or full claw back, it is worth considering making personal pension contributions or charitable gift aid donations before the 5 April 2026 as this will help to reduce adjusted income and potentially eliminate the High-Income Child Benefit Charge (HICBC).

Pension contributions

One of the most effective ways to reduce taxable income for higher and additional rate taxpayers is to make pension contributions before the end of the tax year; this is because tax relief will be obtained at your marginal rate. Your pension contribution will be grossed up by a 25% tax relief which extends your basic rate bands, allowing more of your income to be taxed at basic rates.

The annual allowance for pension contributions for 2025/26 is set at £60,000, which is made up of both employer and employee contributions. This is the maximum amount you can save into your pension each tax year before triggering a pension charge, unless you have any unused allowance from the previous three tax years to bring forward.

If your income exceeds £200,000, your annual pension allowance will begin to be tapered, losing £1 for every £2 of adjusted income you earn above £260,000.

Consider withdrawing 25% of your pension pot tax free before the 5 April 2027, at which point your pension becomes taxable under Inheritance Tax (IHT) rules. It is only the first 25% withdrawal that is non-taxable and the rest will be taxed under income tax rules.

Finally, if you have not done so already, now would be a good time to ensure you have nominated your pension beneficiaries.

Inheritance Tax (IHT)

If IHT is starting to become a worry, there are a few things to consider, which may help you to reduce the level of income that is exposed to Inheritance tax.

- Consider using the annual gift allowance of £3,000 before the end of the tax year if you have not already done so. You are entitled to a maximum of £6,000 if you did not make any gifts in the prior tax year.

- Gifts out of surplus income can be very effective in respect of reducing your Inheritance Tax liability, providing the gift meets the following conditions:
  - The gift formed part of your regular expenditure
  - The gift was made from income not capital, for example interest received
  - The gift is regular and leaves you with enough income to maintain a normal standard of living

- Small gifts of £250 per individual, per annum, will be exempt from Inheritance Tax.

- If your child, grandchild or someone you know is getting married, you are able to gift them the following cash sums which will not be subject to Inheritance Tax:
  - Son/Daughter up to £5,000
  - Grandchildren or Great Grandchildren up to £2,500
  - Friends, nieces, nephews or anyone else can be gifted up to £1,000.

Spouse/Civil Partner

Inter-spouse transfers are tax free, which gives scope to consider the following:

- Shift income producing assets to the spouse paying the lower rate of tax; for example, if you jointly own a rental property 50/50 and the rental income pushes one spouse into higher rates, but the other has still got scope to make use of their personal allowance, the legal ownership share could be altered to allow both spouses to pay a lower rate of tax.

- Make use of both of your CGT allowances which are currently £3,000 in 2025/26.

ISAs

Each year you are entitled to put £20,000 into an ISA which will be sheltered from Income Tax on any interest earned in the year. To maximize this tax advantage, it is recommended to put as much into either a Stocks and Shares ISA, to maximize long term investment, or a Cash ISA if you hold large cash savings.

You will have both the 2025/26 and 2026/27 tax year to make use of the £20,000 ISA cash allowance.

However, from 6 April 2027, if you are under 65, you will only be able to put up to £12,000 per year into a Cash ISA, whilst the remaining £8,000 would have to be invested into a Stocks and Shares ISA. This is to encourage more savers to invest money in stocks and shares, rather than keeping everything in low-yield cash savings. If you do not use the allowance, it will not get carried forward and will be lost.

If you are aged 65 or older, the normal £20,000 cash ISA contribution allowance will continue and this will not be restricted as outlined above.

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