

April 21

ALLOWED AND CLEAR

Tax allowances enable us to keep more of our income than if everything was taxed. Here we look at the most common allowances so you can check you're making the most of what's available.

The figures below are for the 2021/22 tax year.

Personal Allowance

The most flexible and best known of all tax allowances, it means most people receive the first £12,570 of taxable income without paying tax. It's generally used for income from work or pensions (including State Pension) and allocated via the tax code system which determines 'at-source' PAYE tax deductions. It can, however, be used as a tax allowance against most types of income. But if you are lucky enough to have taxable income over £100,000 you'll find your Personal Allowance is reduced, and if income exceeds £125,140 you get none at all.

Blind Person's Allowance (BPA)

BPA gives an additional £2,520 of tax free income, which means a tax saving of up to £504 for a basic rate taxpayer. It is transferable to a spouse or civil partner if the claimant is a non-taxpayer.

You don't have to be completely blind. In England, BPA is available to anyone registered as Severely Sight Impaired and in Scotland and Northern Ireland, to anyone unable to undertake any work for which eyesight is essential. HMRC offers a dedicated helpline for BPA claims and enquiries on 0300 200 3301.

Married Couples Allowance (MCA)

MCA applies for marriages and civil partnerships where at least one of the couple was born before 6th April 1935. You generally need to be living together, but if separated through circumstance rather than a decision to formally separate it can still be claimed. Although the MCA is £9,125 it is only given at 10% so is best viewed as a simple tax reduction of up to £912.50. It can be transferred between the individuals or shared if that works better. It is reduced proportionately for those on incomes above £30,400, but cannot reduce below the minimum allowance which is £3,530 for 2021/22.

Marriage Allowance (MA)

If you're too young for MCA you may qualify for MA (you can't have both, though). MA allows the transfer of 10% of the Personal Allowance from one spouse or civil partner, who is unable to use it, to the other. This usually means that one of the individuals in the marriage or civil partnership will have an income below the personal allowance and the other will be a basic rate tax payer (higher rate taxpayers can't have it). The transferable amount of £1,260 can save up to £252 in tax. It was introduced 6 years ago but still goes unclaimed by some who would qualify, but new claims can be backdated for up to 4 years if appropriate.



Allowances for Savings Interest

Interest payments from or credited to ISAs are not taxable and don't count towards any of the allowances mentioned below. Individuals can put up to £20,000 into ISAs each year.

The Personal Savings Allowance (PSA) permits £1,000 of taxable savings interest to be received tax free by anyone who pays no more than basic rate tax. The PSA for higher rate taxpayers is £500.

For those on modest incomes the "Starting Rate for Savings", currently 0%, may be relevant and if general income is very low then some unused Personal Allowance may also be available. The upshot is that if your total taxable income for the year (including savings interest outside ISAs) comes to less than £18,570 then any part which is interest should be tax free.

Dividend Allowance

Dividends payments from or credited to ISAs are not taxable and don't count towards the separate Dividend Allowance which permits £2,000 of non-ISA dividend income before any tax is due on it. If any Personal Allowance is unused by other incomes the spare could be used to cover further dividend income.

Property Allowance and Trading Allowance

These are separate allowances of £1,000 each which work in a similar way. The allowance means that income up to £1,000 from a property business (rental income) is tax free. Similarly, income up to £1000 from self-employment (trading income) is tax free. Where income is over £1,000 the taxable figure is calculated by deducting either actual expenses or a flat £1,000, whichever produces the best result.

Note: Some of these allowances are allocated automatically – for example, banks and building societies now don't generally deduct tax at-source from interest as most people will be eligible to receive it tax free, but HMRC is sent reports on interest payments which it uses to check if tax might be due. However, some allowances are only given to those who claim them – Marriage Allowance being a prime example. So, if you think you are eligible for a tax allowance that you aren't getting it could be that it's one you need to actively claim from HMRC, either on-line or by ringing 0300 200 3300.

Alternatively, if you are on a low income and you would like some assistance with any of the above, call Tax Help for Older People on 01308 488066.

This article is by Tax Help for Older People Registered Charity no 1102276 (Scotland no SC045819), offering free tax advice to older people on a low income who cannot afford professional help.