Tax FAQs

UK

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Contents

General UK tax queries

1. Do I need to file a UK tax return?

HMRC guidance provides the following instances where a UK tax return may be needed:

An individual is a non-UK resident and receives UK income (but please see question 5 for specific rules) or;

An individual is a UK resident and:

- Has income in excess of £150,000.
- Is in receipt of self-employment/partnership income.
- Currently lets out property or land and receives net rental income in excess of £2,500, or income of £10,000 before deduction of expenses.
- Receives £10,000 in savings or investment income, e.g., interest, dividends. An individual may still need to pay tax should they receive savings or investment income under this amount, to the extent they exceed the allowances for each type of income (see question 3). This can be paid by contacting HMRC.
- Receives income or capital payments from a trust.
- Receives income from overseas.
- Disposes of chargeable assets e.g., property, shares.
- Has made contributions to a pension scheme and exceeds the annual allowance (see question 26).
- Has made tax efficient investments and would like to claim relief e.g., SEIS, EIS, VCT.

This list is not exhaustive and further information can be found at www.gov.uk/check-if-you-need-tax-return. There are also separate filing requirements for CGT that can apply when certain assets are sold, which are discussed below.

Once a notice to file has been sent to an individual from HMRC, they then have the obligation to file annual tax returns, until HMRC removes the individual from self assessment.

2. What are the UK tax year dates and filing deadlines?

The UK tax year runs from 6 April to the following 5 April (e.g., the 2023/24 tax year runs from 6 April 2023 to 5 April 2024). After the end of each tax year an individual typically has until the following 31 January to file their self-assessment tax return with HMRC, if the return can be filed online.

Tax dates to remember are as follows:

- Register with HMRC to complete a tax return:
  31 October following the end of the tax year
- Deadline for submitting a tax return on paper:
  31 October following the end of the tax year
- Submission deadline where the taxpayer would like their income tax to be collected through their PAYE code (where this is outstanding and is below £3,000):
  30 December following the end of the tax year
  - A tax code is used by employers or pension providers to work out how much income tax to withhold from an individual's salary or pension. The deadline may not be applicable to some individuals particularly if they are not part of the UK tax system and do not undertake employment or have a pension in the UK.
- Deadline for submitting a tax return (online):
  31 January following the end of the tax year
- Balancing payment of tax:
  31 January following the end of the tax year
- First payment on account (if required):
  31 January during the tax year
- Second payment on account (if required):
  31 July following the end of the tax year

A payment on account is an advance payment towards an individual's income tax liability for the year. An individual will not have to make a payment on account if their income tax liability for the year is below £1,000 or if 80% of their tax liability is collected at source through PAYE.

3. What basic allowances are available in the UK?

There are many tax-free allowances that may be available, and these will have the effect of reducing an individual's UK tax liability. A few of the more common allowances are as follows:

- **Personal allowance** – a tax free amount of £12,570 (for 2023/24) to set against an individual's income (subject to tapering if their taxable income is over £100,000 per year).
    - The personal allowance is available to most individuals who are resident in the UK as well as British and EEA citizens, including British passport holders. Where this does not apply, an individual may be entitled to the personal allowance if the UK has a DTA in place with the country the individual is resident in. If an individual meets the criteria to qualify for a personal allowance, they are also likely to qualify for the other tax-free allowances available, unless specifically stated.
- **CGT annual exemption** – a tax free amount of £6,000 (2023/24) to set against capital gains made in the year. This is reduced to £3,000 for 2024/25.
- **Blind person's allowance** – an additional tax-free amount of £2,870 if an individual is registered as blind (or severely sight impaired) by their local council. This allowance is not available to non-UK residents.
- **Marriage allowance** – an individual can transfer £1,260 (2023/24) of their personal allowance to their spouse/civil partner if they earn under £12,570 and their spouse/civil partner is a basic rate taxpayer.
- **Trading allowance** – a £1,000 deduction from trading profits available to self-employed individuals as an alternative to claiming actual expenses.
- **Property allowance** – a £1,000 deduction from property income available to landlords earning rental income as an alternative to claiming actual expenses. See question 4 for further information.

It is important that an individual applies their tax allowances effectively each year as they will be unable to carry any unused allowances forward.

It is worth noting that if an individual's income falls below the tax allowance available for that type of income, they may not have to declare it to HMRC.

4. What are the income tax rates in the UK?

Savings and non-savings income

UK income tax for savings income excluding dividends, such as bank interest, and non-savings income, such as employment income, rental income and pension income, is currently charged at marginal rates of tax at 20%, 40% and 45% depending on the overall level of the individual's UK income. The tax rate bands for 2023/24 (after deducting the personal allowance, if available) are:

Tax rate bands	Taxed at	
£0 to £37,700	20%	Basic rate
£37,701 to £125,140	40%	Higher rate
£125,141+	45%	Additional rate

There is a starting rate of 0% for a maximum of £5,000 on savings income where an individual has little or no other income. An individual is not eligible for the starting rate for savings income if their other income is £17,570 or more. If their income is less than £17,570, every £1 of other income an individual has above their personal allowance reduces their starting rate for savings income by £1.

In addition, the first £1,000 of interest is tax free for basic rate taxpayers. This is reduced to £500 for higher rate taxpayers and nil for additional rate taxpayers.

The first £1,000 of dividends are received tax free with dividends above the allowance being subject to tax at rates of 8.75% (to the extent they fall within the basic rate band), 33.75% (to the extent they fall within the higher rate band) and 39.35% (to the extent they fall within the additional rate band). Savings and non-savings income utilise the bands in priority to dividend income. Please note that this has reduced further to £500 from 6 April 2024.

Scottish income tax rates apply to Scottish taxpayers (see question 14).

The tax rate bands for 2023/24 (after deducting the personal allowance, if available) are:

Tax rate bands	Taxed at	
£0 to £2,162	19%	Starter rate
£2,163 to £13,118	20%	Basic rate
£13,119 to £31,092	21%	Intermediate rate
£31,093 to £125,140	42%	Higher rate
£125,141+	47%	Top rate

These rates apply to non-savings income such as employment income, pension income and property income. The same allowances as the rest of the UK, discussed in 3. 'What basic allowances are available in the UK?', apply to Scottish taxpayers. The marriage allowance is available where a Scottish taxpayer pays tax at the intermediate rate. In addition, the same tax rates as the rest of the UK apply to dividend and savings income/ interest.

5. Do I need to pay UK tax if I am non-UK resident?

Non-UK residents are generally taxable on their UK sourced income (subject to the provisions outlined in a DTA between the UK and the country the individual is resident in, where applicable).

Specific rules apply to the calculation of income tax for a non-UK resident to potentially limit their UK tax liability. With the exception of income from property in the UK and investment income connected to a trade in the UK through a permanent establishment, the tax charge for non-residents on investment income arising in the UK is restricted to the amount of tax, if any, deducted at source. This is known as 'disregarded income'. If the tax charge is limited in this way, personal allowances will not be given against other income. Disregarded income includes the following:

- Interest and alternative finance receipts from UK banks and building societies.
- Dividends from UK companies.
- Income from UK unit trusts.
- Income from National Savings and Investments.
- Profits from public revenue dividends.
- Profits or gains from transactions in deposits.

There is no upper limit in relation to disregarded income and the claim to exclude this income should be taken into account when an individual considers whether it is necessary to file a UK tax return.

It would generally be necessary to prepare two calculations comparing the two methods to determine whether the treatment would be beneficial for UK tax purposes.

This is only considered for individuals who are non-UK resident for the full year under the UK's Statutory Residence Test (SRT). It does not apply to individuals who are UK tax resident (either full year or split year), nor does it apply to someone who is resident in the UK but treaty resident in another country.

Further, capital gains on the disposal of UK land or property are subject to capital gains tax for non-UK residents. Disposals must be reported to HMRC (and any tax paid) within 60 days of disposal, irrespective of whether a capital gain arises (see question 11).

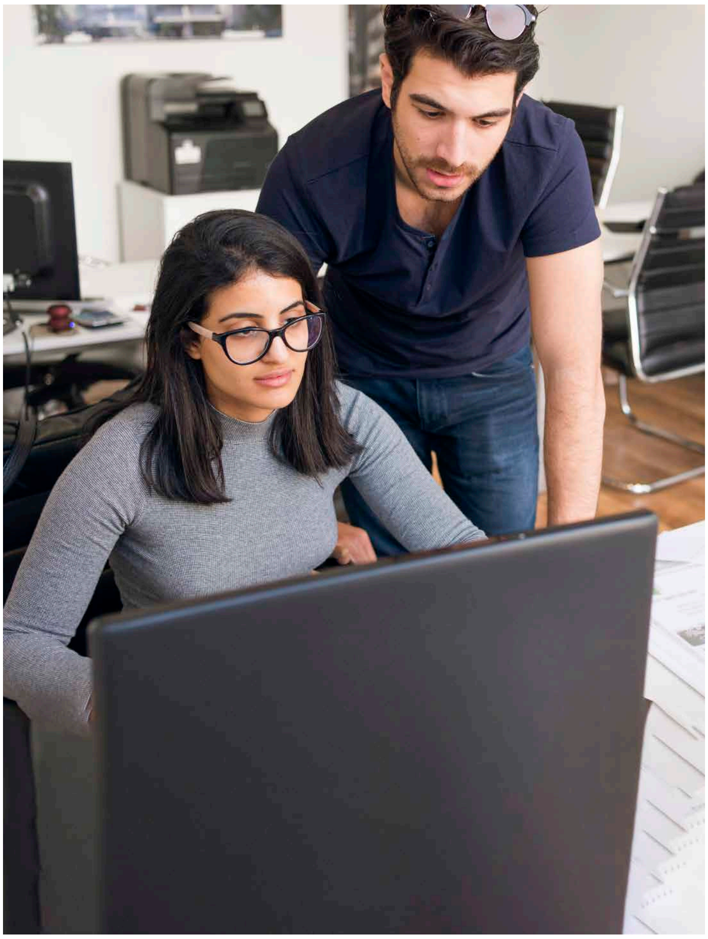
Property income

6. How is my rental income taxed in the UK?

Rental income from UK properties is taxable in the UK regardless of whether the owner is UK tax resident. Overseas rental income is also taxable on UK residents, subject to the terms of any relevant DTA (see question 16), or if a claim for the remittance basis is made (see question 22).

Tax is charged on taxable rental profit, which is the rental income less any allowable deductions such as genuine repairs, agent's fees, etc. Profits relating to an overseas property may need to be recalculated using UK tax rules.

Rental profit from property owned jointly is generally split and taxed on each owner in equal proportions, unless a specific election is made to reflect a different beneficial entitlement.



7. What expenses can be claimed?

Some typical allowable property expenses are:

- Repairs and maintenance
- Advertising
- Ground rent and utility bills
- Commission or letting agent fees

If an expense is incurred wholly and exclusively in relation to an individual's rental business, it should be allowable providing it is not 'capital' in nature. Capital expenditure incurred regarding improvements made to a property (e.g., extensions, or anything that is not replacing like for like) aren't deductible from rental profits but may be deducted from proceeds of sale when the asset is subsequently disposed of.

Prior to 6 April 2017, mortgage interest and other incidental costs of obtaining finance in relation to a rental property could generally be deducted from rental income. However, now taxpayers will only receive a basic rate (20%) tax reduction based on the finance costs incurred from their income tax liability. These rules do not currently affect rental property held through corporate structures.

Individuals also have access to the property allowance. The property allowance allows up to £1,000 of property income to be received tax free each year but cannot be used to generate a loss and an individual cannot deduct any other property expenses if they claim the property allowance.

If an individual's gross property income is less than £1,000, they do not need to tell HMRC or report the income on a tax return, unless they have to file for another reason (although an individual may want to complete a tax return if they have losses to claim, so that these can be carried forward).

CGT

8. How is a capital gain calculated?

CGT can apply when an individual sells an asset such as property or shares for a profit.

In general, the gain is calculated by taking the sale proceeds of the asset and deducting the initial purchase price and any allowable costs; this is known as a capital gain and it is this amount which is subject to tax after the deduction of the CGT annual exemption (£6,000 for 2023/24, reducing to £3,000 for 2024/25).

If an individual sells an asset for less than they bought it for, it may be possible to claim a capital loss. The loss could be used to reduce capital gains made in a tax year, or potentially a later year, and in turn reduce an individual's tax liability.

Where the sale takes place in a non-sterling currency, the purchase price of the asset is the sterling equivalent at the exchange rate on the date of purchase. The sale proceeds for the asset is the sterling equivalent at the exchange rate on the date of sale. Forex fluctuations can mean that the UK chargeable gain or allowable loss is different to the profit made in the base currency.

9. What are the rates of CGT?

CGT is currently chargeable at 10% at standard rate or at 20% at higher rate on the disposals of most chargeable assets. Capital gains arising on the disposal of a residential property interest are chargeable to CGT at 18% standard rate and 28% higher rate. Capital gain based carried interest is chargeable at 28% (regardless of personal income levels). Except for capital gain based carried interest, the rate of CGT charged depends on the individual's personal income levels. If the total income exceeds the basic rate band (£37,700 for 2023/24), then the higher rate is charged on capital gains. If the income levels are lower than the basic rate band, then capital gains are charged at the standard rate (10%/18%) until the threshold is reached, at which point the excess is taxed at the higher rate (20%/28%). Please note that the higher rate of CGT for gains made on residential properties has reduced to 24% from 6 April 2024.

Reliefs may be available on the disposal of certain assets (typically business assets and certain investments provided conditions are met), which serve to tax a larger amount of the gain at 10%, subject to lifetime limits. Investments in EIS, SEIS or VCTs may also receive additional reliefs.

10. How is a UK tax resident taxed in relation to capital gains?

Assets or investments situated both in the UK and overseas, that are disposed of whilst an individual is regarded as UK resident, will be chargeable to CGT unless a specific exemption applies. Non-UK domiciled individuals may be able to elect for the remittance basis of taxation. Under the remittance basis, an individual is taxable on their UK source capital gains as they arise but is only taxable in the UK on their overseas capital gains to the extent that the proceeds are remitted to the UK. (See question 22).

If a UK resident individual is liable to CGT, they have two options in terms of reporting and paying the tax due:

- Submit a tax return to HMRC by 31 January following the end of the relevant tax year.
- Report the gain via HMRC's real-time CGT service immediately (or at least by 31 December following the end of the relevant tax year).

From 6 April 2020, if an individual is UK resident and sells UK residential property at a gain, and CGT is due, they must use the real-time CGT service to declare the disposal and make a payment on account of the tax due. This should be done within 60 days of completion. Individuals will not need to report the sale using this service if the gain is exempt, or covered by relief, allowances or losses, although they may still be required to report it on a self-assessment tax return.

11. How is a non-UK resident taxed in relation to capital gains?

Individuals who are non-UK resident will generally not be chargeable to CGT except on the disposal of UK land and property. This includes residential and non residential land and property, commercial property and substantial interests in UK property rich entities, also referred to as indirect disposals.

Where UK residential land or property was owned prior to 6 April 2015, the default position is to rebase the base cost for deduction from the proceeds received to the market value at 5 April 2015. Where non-residential land or property, commercial property or a property rich entity was owned prior to 6 April 2019, the default position is to rebase the base cost to their value at 5 April 2019. There are other methods of calculation, depending on the type of property ownership being disposed of.

A non-UK resident who disposes of UK property or land must complete a real-time CGT return and pay any CGT due within 60 days of completion. A return is needed even when there is no CGT due, whether because of a loss arising, the availability of relief or the use of losses and allowances against the gain. This is a notable difference between UK residents and non-UK residents. The only instance in which a CGT return is not required by non-UK residents disposing of UK land and property, is if the disposal occurs at no gain/no loss (e.g., transfers between spouses/civil partners).

12. I am selling my main residence, am I entitled to relief?

Principle Private Residence Relief (PRR) is available when an individual's main home is sold. This is available for a proportion of the gain which relates to periods where an individual has had actual occupation of the property and regarded it as their main home.

Relief for periods of deemed occupation is also available in certain circumstances where the property has been the individual's private residence at some point before the sale. The final nine months of ownership is considered deemed occupation and PRR will be available as long as the property has been the individual's main residence at some point in the ownership period.

A person, or a married couple, can only have one main home for these purposes at any one point.

Where full PRR may not be available, lettings relief may be available where the owner is in shared occupancy with the tenant.

From 6 April 2015, it is only possible to claim PRR in a tax year for a property in a country in which an individual is resident, or where the individual (or their spouse/civil partner) spends at least 90 midnights in that property. Where an individual has more than one property in the same jurisdiction, the 90 midnights can be spread between these properties, so that one property can qualify for the relief for that tax year.

Where an individual qualifies for relief for part of the period of ownership, only part of the gain will be exempt.

These rules apply to UK and non-UK resident individuals. For those who are subject to non-UK resident CGT in respect of their disposal, periods prior to 6 April 2015 will not be counted for the purpose of PRR unless the individual meets certain conditions and makes an election.

13. What are the temporary non-residence rules?

Anti-avoidance rules apply to individuals who are regarded as temporary non-residents. These rules apply to capital gains on assets owned prior to an individual becoming non-UK resident and also to certain sources of income.

An individual is temporarily non-resident if they become non-resident after being resident in the UK for at least four of the previous seven tax years immediately before departure and the period of non-residence is five years or less.

Any gains made during a period of temporary non-residence on disposal of assets owned at the date of departure from the UK, and any income caught by the rules, will be taxed in the tax year the individual returns to the UK.

Residence and international aspects

14. How is my UK tax residence position determined?

An individual's UK tax residence position is determined by the SRT which came into effect from 6 April 2013. The SRT applies on a tax year basis meaning that an individual's residence position can change each year depending on their circumstances.

The SRT is split into three main parts which are applied in the following order:

- **Part one:** conditions for an individual to be conclusively non-UK resident.
- **Part two:** conditions for an individual to be conclusively UK resident.
- **Part three:** a sufficient ties test based on connection factors and days spent in the UK for individuals whose residence position cannot be determined under Part one or Part two.

If one part applies, the following parts do not have to be considered.

In certain circumstances, the tax year of arrival or departure is split into periods of residence and non-residence, however strict conditions must be satisfied for this to apply. It should be noted that domicile is different to residence and needs to be considered separately (see questions 19 and 20).

Scottish taxpayers

A UK resident will be a Scottish taxpayer for the year if:

- They have a 'close connection' to Scotland.
- Where there is no 'close connection' to Scotland, they spend more days in Scotland than in any other part of the UK in that tax year.
- They are a Scottish Parliamentarian for the whole or any part of the tax year.

A 'close connection' to Scotland exists if:

- The individual has only a single place of residence which is in Scotland.
- Where the individual has more than one place of residence in the UK, their main place of residence is in Scotland for at least as much of the tax year as it is in any other part of the UK.

Scottish taxpayer status applies for a whole tax year. Where an individual is entitled to split year treatment under the SRT, the non-UK income/gains relating to the overseas part of the year will generally not be within the scope of UK or Scottish tax.

15. Is it possible to be tax resident in more than one jurisdiction?

It is possible for an individual to be tax resident in more than one jurisdiction at the same time and therefore be regarded as a dual resident during a period.

During a period of dual residence, it is necessary to consider any DTA between the two countries. The DTA will determine whether residence can be awarded to one of the jurisdictions and also how the various sources of income and capital gains should be taxed in accordance with the individual's circumstances. It should be noted that some income may not be covered by the DTA and income or gains arising in other countries may also need to be considered.

16. Is it possible to be taxed on the same income in different jurisdictions?

If an individual is subject to tax on the same income in two different jurisdictions, it should be considered whether there is a DTA in place between the two countries. If there is a DTA in place, the individual may be able to exempt certain income or gains from being taxed in one of the jurisdictions under the specific DTA Articles. In other instances, they may be entitled to some relief for foreign taxes that have been paid, which are commonly known as FTCs. The UK has DTAs with many countries. Sometimes the relief for foreign taxes on certain types of income is restricted for UK residents. For example, foreign tax on foreign dividends is often restricted to 10% or 15%, but this would depend on the terms of the relevant DTA. Where there is no DTA between the relevant countries, some form of relief may still be available.

17. Are the Channel Islands considered an offshore jurisdiction for UK tax purposes?

The Channel Islands are considered as non-UK for UK tax purposes. As such, if an individual is considered to be non-UK resident for UK tax purposes and is in receipt of income or gains originating from the Channel Islands this will usually be outside the scope of UK tax.

Such income and gains will also fall under the remittance basis where an individual is UK resident and non-UK domiciled (and if the individual makes use of the remittance basis, including paying the relevant charges, if applicable).

18. Should I set up a UK or non-UK bank account?

Deciding whether to open a UK or non-UK bank account will depend on an individual's personal circumstances and future intentions.

Generally speaking, a non-UK account could be considered more appropriate for those individuals who are UK resident and non-UK domiciled, and wish to make a claim for the remittance basis of taxation (see question 22).

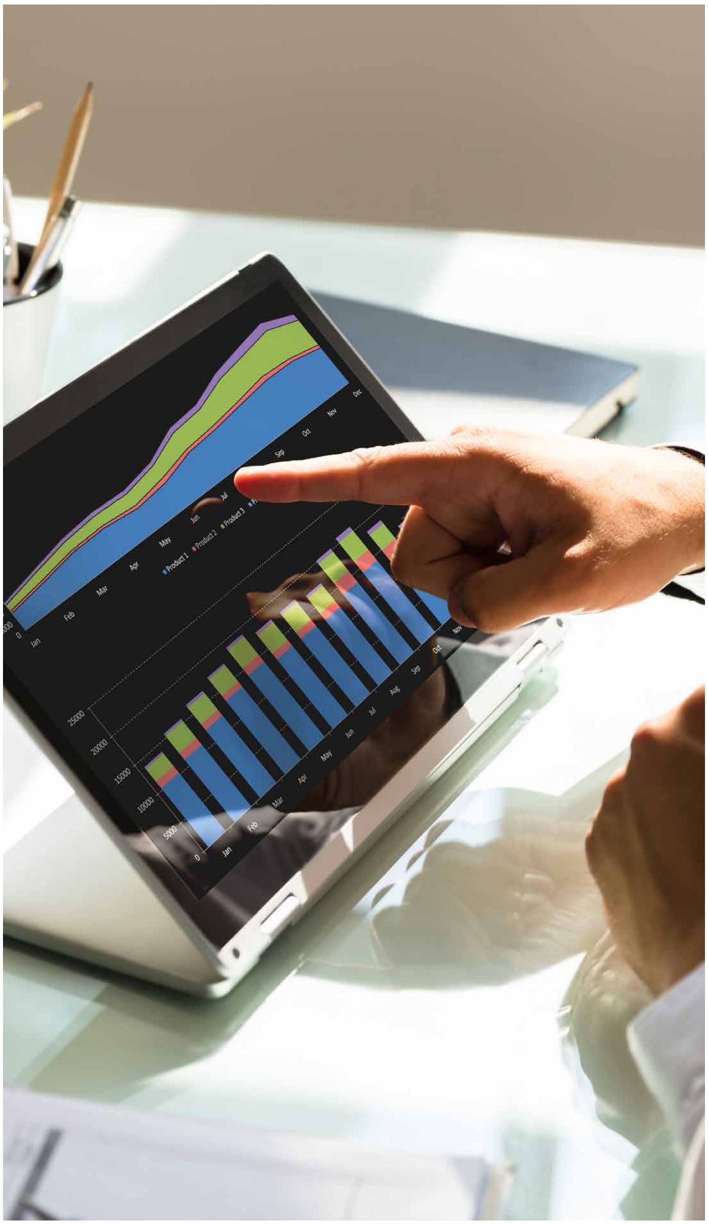
Furthermore, deposits held in a non-UK account are generally sheltered from UK IHT for non-UK domiciled individuals, as these individuals are only subject to UK IHT on their UK situs assets (please see question 24).

A non-UK resident individual may wish to open a non-UK account to shelter any interest arising on the bank account from UK taxation (but see question 5).

Similar considerations apply to holding other types of investment on a non-UK platform.

Generally, from a UK tax perspective, for a UK resident and UK domiciled individual, there are no particular tax benefits to opening a non-UK account, as they would be subject to UK tax on their worldwide income and gains as they arise. Furthermore, a UK domiciled individual would be subject to UK IHT on their worldwide estate and thus any deposits held in a non-UK bank account would be within the scope of UK IHT.

We recommend individuals take independent financial advice when setting up either UK or non-UK bank accounts and/or holding investments in the UK or overseas. Tax advice should also be taken for remittance basis users, to ensure non-UK accounts are structured efficiently.



Domicile and the remittance basis in the UK

Please note, the below guidance is based on current legislation as at 6 April 2024. In the 2024 Spring budget, the UK Government announced reforms to the domicile regime to come into effect from 6 April 2025. As a result of the announcement and the complexities of the domicile and remittance basis rules, professional advice should be sought from the outset to understand how the changes may impact you.

19. How is my domicile position determined?

Domicile is a separate concept from residence and is a complex area. There is no strict definition of domicile, however, it is generally regarded as the country where an individual intends to remain for the rest of their life.

An individual has a domicile of origin which is usually the domicile of their father at the time of their birth. This can change under certain circumstances.

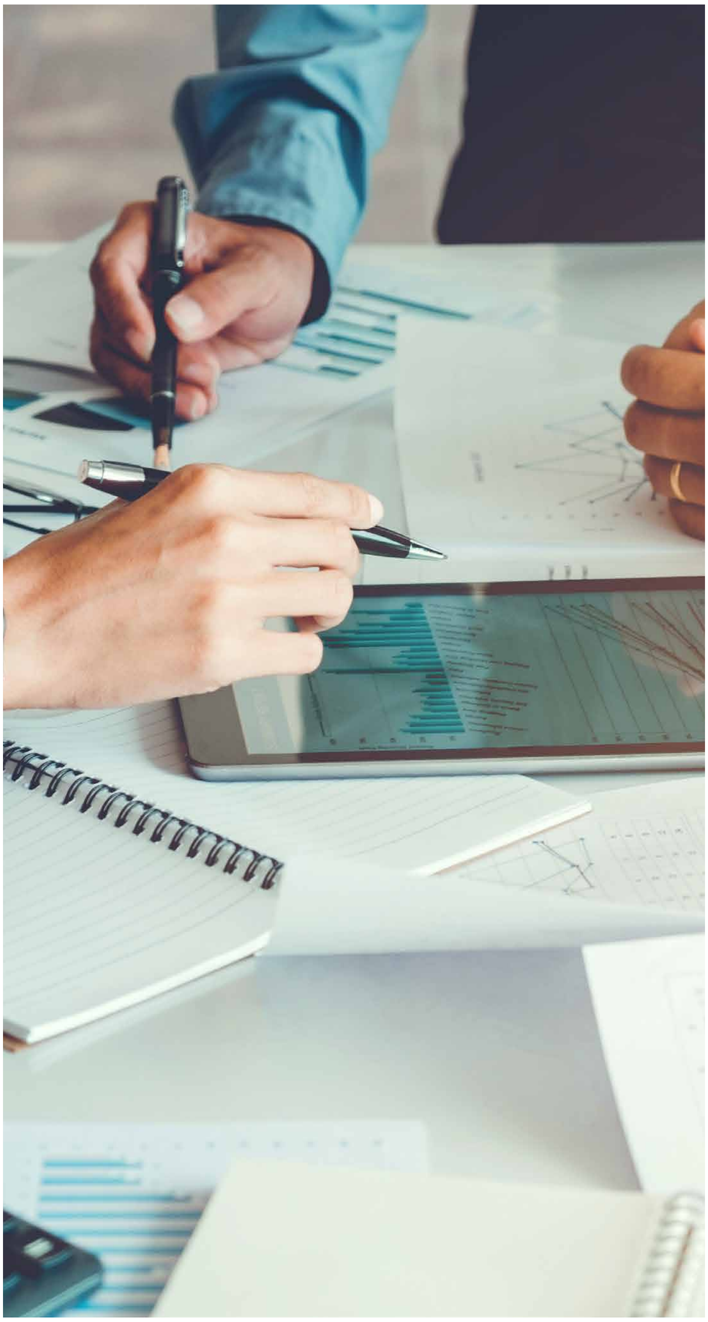
An individual living in the UK who considers they have a non-UK domicile should ensure that the position has been reviewed and documented.

Legislation regarding the taxation of non-UK domiciles was introduced in the UK effective from 6 April 2017. Under these rules, a non-UK domiciled individual will be deemed domiciled for UK tax purposes in the following circumstances:

- Individuals who were born in the UK and have a UK domicile of origin but acquired a domicile of choice elsewhere will be deemed domiciled whenever they are tax resident in the UK. A short grace period will apply for UK inheritance tax purposes.
- Individuals who are non-UK domiciled will be deemed domiciled for all UK tax purposes if they have been resident in the UK in at least 15 out of the previous 20 tax years (including split years).

20. Is it possible to change your domicile position?

An individual may be able to change their domicile position by forming a domicile of choice in another jurisdiction, and a number of factors need to be considered. It is key to live in the new domicile country with an intention of remaining there indefinitely. As domicile is a complex area, it is important that an individual obtains professional advice if seeking to change their domicile status.



21. What does my domicile position mean for me in relation to the UK tax system?

Individuals who are UK tax resident are all initially liable to UK income tax on their worldwide income and CGT on worldwide gains. Individuals who are UK tax resident and non- UK domiciled may be able to access the remittance basis to protect non-UK income and capital gains from UK tax. Domicile is also important in determining an individual's exposure to IHT, which is discussed in a separate section.

22. What is the remittance basis of taxation?

Individuals who are regarded as resident in the UK are generally taxable on their worldwide income and capital gains, called the arising basis of taxation. The remittance basis of taxation is available to individuals who are regarded as resident but not domiciled and not deemed domiciled in the UK. Under the remittance basis, an individual is taxable on their UK source income and capital gains but is only taxable in the UK on their overseas income and capital gains to the extent that the funds are remitted to the UK. The meaning of 'remitted to the UK' is broad and care should be taken.

There are certain 'costs' for an individual claiming the remittance basis and therefore it must be determined whether the claim would be worthwhile. An individual will lose the availability of the personal allowance against UK income tax and the annual exemption against CGT. There is also a cost associated with claiming the remittance basis which starts at £30,000 per year where the taxpayer has been resident in the UK for at least seven out of the last nine years and then rises to £60,000 per year once the taxpayer has been resident in the UK for at least 12 out of the last 14 tax years.

If an individual has unremitted overseas income and gains of less than £2,000 in the tax year, the remittance basis is applied automatically, and a claim is not required.

When an individual becomes deemed domiciled in the UK (see question 19), they will lose the ability to use the remittance basis.

23. Are there any tax implications of bringing funds to the UK?

Generally speaking, an individual who is UK tax resident is taxable on their worldwide income and gains as they arise, and there is no further tax on amounts brought into the UK (subject to their domicile status and the remittance basis, if available).

Individuals who are regarded as non-UK resident are only taxable on UK sourced income (although please see question 5), as well as gains from the disposal of UK property and land (see question 11). On this basis, funds remitted to the UK which relate to foreign income and gains earned during a non-UK resident period would not be taxable in the UK upon remittance.

If an individual has made use of the remittance basis, the funds on which the remittance basis was applied will be taxable if they are remitted to the UK, even if the individual is no longer using the remittance basis.

Where a remittance is made by a current or historic remittance basis user, it is important to identify what is being remitted. If a remittance takes place from a 'mixed fund', then a complex set of ordering rules are invoked to determine what part of the mixed fund are deemed to be remitted. It is therefore beneficial for a remittance basis user to structure the ownership of their non-UK assets and bank accounts to make this efficient from a UK tax perspective.

IHT

Please note, the below guidance is based on current legislation as at 6 April 2024. In the 2024 Spring budget, the UK Government announced reforms to the domicile regime to come into effect from 6 April 2025. As a result of the announcement and the complexities of the domicile and IHT rules, professional advice should be sought from the outset to understand how the changes may impact you.

24. Who is subject to IHT?

An individual who is domiciled or deemed domiciled in the UK will be chargeable to IHT on their worldwide assets. An individual who is not domiciled in the UK is chargeable to IHT on their UK sited assets only. Domicile is not the same as residence and has a much longer-term context. See question 19 for further details.

If an asset is transferred to a spouse, the transfer will usually be exempt from IHT. If, however, a transfer is made by a UK domiciled or deemed domiciled spouse to a non-UK domiciled spouse, there is a restriction on this exemption.

25. What are the rates of IHT?

Under current rules all individuals are entitled to the NRB, currently £325,000, which is available for the total of all chargeable lifetime transfers and transfers on death. For spouses, any unused NRB can be transferred to the surviving spouse upon the first death. If the NRB is exceeded then IHT will be payable, currently at the rates of 20% on chargeable lifetime transfers (typically to trusts) and 40% on the value of transfers on death (together with the value of any gifts made in the seven years prior to death).

An additional allowance of £175,000 will apply when an individual's main residence is transferred on death to a direct descendant. The enhanced NRB will be tapered in respect of estates worth more than £2m. Any unused enhanced NRB can be transferred to the surviving spouse upon the first death. The NRB and the enhanced NRB are set at these levels until April 2026.

There are certain ways in which an individual can reduce their taxable estate during their lifetime and specific advice should be taken to consider any suitable planning.

UK pensions

26. How much can I contribute to my UK pension?

The maximum gross amount an individual can save into a pension scheme and on which they can receive tax relief is the greater of £3,600[1] or 100% of their 'relevant UK earnings'. HMRC broadly define relevant UK earnings as:

- Employment income and benefits
- Self-employment or partnership income
- Income from a furnished holiday let (but not rental income)
- Patent income and royalties

Pension income, dividends and rental income (unless a furnished holiday let) are not relevant UK earnings.

The pension annual allowance restricts the amount of tax-relieved contributions that an individual can make in a tax year. The annual allowance for the 2023/24 tax year is £60,000 (gross pension contributions), subject to tapering.

The annual allowance is tapered if an individual has both 'threshold income' and 'adjusted income' above the applicable limits. The limits are £200,000 and £260,000 respectively.

The annual allowance is reduced by £1 for every £2 that the adjusted income exceeds the limit, subject to a minimum of £10,000.

Specific rules apply to calculate an individual's adjusted income and threshold income taking into account net taxable income and certain pension contributions. Any excess contributions over the allowable limits are taxed at an individual's marginal tax rate. This does not affect the brought forward balances from the years before these provisions were introduced. Subject to an individual's historic pension contributions, they may be able to carry forward the available annual allowance from each of the previous three tax years.

If an individual has flexibly withdrawn taxable income from a defined contribution pension scheme but still wishes to contribute to a defined contribution pension scheme, the Money Purchase Annual Allowance (MPAA) restricts the annual allowance to £10,000 per annum. It is not possible to carry forward unused annual allowance against the MPAA, therefore money purchase contributions must be limited to £10,000 to avoid an MPAA tax charge. Any contributions made above the annual allowance, tapered annual allowance or MPAA will be subject to an annual allowance charge at an individual's marginal tax rate.

It is important that an individual correctly reports the annual allowance charge on their tax return, if applicable. This is a complex area where mistakes can easily be made. The above is a high-level indication of the tax treatment only and should not be relied upon. An individual should seek professional advice if they have any queries.

27. What is the pensions lifetime allowance?

The lifetime allowance (LTA) was a limit on the total amount of pensions savings an individual could build up without incurrung a tax charge.

From 6 April 2023 to 5 April 2024, the LTA charge no longer applied and instead the charge was reduced to the individual's marginal tax rate on any benefits that exceeded the LTA. The Government abolished the lifetime allowance from 6 April 2024.

28. What is the lump sum allowance?

From 6 April 2024 a new 'lump sum allowance (LSA)' and 'lump sum and death benefit allowance (LSDBA)' replaced the lifetime allowance. The LSA and LSDBA cap the amounts that can be taken tax-free in your lifetime (LSA) and life and death combined (LSDBA). The standard LSA and LSDBA are £268,275 and £1,073,000 respectively. Existing protections should not be affected.

1 if an individual is eligible for UK tax relief but has 'relevant UK earnings' subject to UK tax of less than £3,600, they will be able to claim relief on contributions of up to £3,600 (gross), but only to the extent that the scheme operates on a 'relief at source' basis. Under 'relief at source', contributions are made to the pension scheme after deduction for tax at the basic rate, and the scheme administrator claims from HMRC a repayment in respect of the deduction. In addition, to be eligible for UK tax relief for a particular tax year, an individual must also be a 'relevant UK individual', which in broad terms means that the individual has earnings subject to UK income tax in the tax year of contribution, is tax resident in the UK at some point in that tax year, or is tax resident in the UK at some point in the five tax years prior to the tax year of contribution and when they became a member of the scheme.

29. How and when can I take my UK pension?

Generally, when an individual reaches the normal minimum pension age of 55 (this is rising to 57 on 6 April 2028), they can start withdrawing money from their UK pension scheme. Each pension plan may also set their own age limit for when participants can start taking money, so it is always advisable to check with the pension provider.

An individual can usually take up to 25% of the amount built up in their pension fund as a tax-free lump sum. The most an individual can take tax-free is £268,275 (see 'What is the lump sum allowance?'). On the remaining 75%, an individual will be required to pay income tax at their marginal tax rate.

Generally, an individual has options in terms of taking the money from their defined contribution pension pot, as follows:

- Withdrawing all or part of their pension in cash.
- Purchasing a product which can give a guaranteed income for life (usually referred to as an 'annuity').
- Investing the income to provide flexible retirement income (usually referred to as 'flexi-access drawdown').

Most pension providers will allow an individual to adopt various combinations of the above, however it is best to ask pension providers what they offer in advance as they may not provide all options.

Index of terms

CGT	Capital gains tax
DTA	Double taxation agreement
EEA	European Economic Area
EIS	Enterprise Investment Scheme
FTC	Foreign tax credit
HMRC	His Majesty's Revenue and Customs
IHT	Inheritance tax
NRB	Nil rate band
PAYE	Pay As You Earn
PRR	Private residence relief
SEIS	Seed Enterprise Investment Scheme
SRT	Statutory residence test
UK	United Kingdom
VCT	Venture Capital Trust

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