

You might want to look at your savings to take full advantage of this year's Income Tax changes. Following on from last month's article let's look at this tax year, ending April 5th 2017.

Personal Allowance, the amount of income you can have tax free has risen to £11,000. The next, Basic Rate, "band" is £32,000 on which tax is payable at 20%.

The next "band" called Higher Rate is £32,001 to £150,000 which is taxed at 40% and income above that, the Additional Rate "band", is 45% with no upper limit.

The personal allowance is lost if your income exceeds £100,000, so you effectively pay 60% tax on income between £100,000 and £122,000.

A couple of main changes for this tax year are the introduction of personal savings and Dividend allowances. We are all now allowed to earn £1,000 of interest tax free if your total income is below £43,000, or £500 if above. Interest higher than that is added to your other income and taxed accordingly.

The new Dividend Allowance means all income from dividends is tax free up to £5,000 p.a. irrespective of your top rate of tax. Dividend income above that level depends on what tax "band" you fall into. For basic rate tax-payers dividend income above £5,000 is taxed at 7.5%, higher rate taxpayers at 32.5% and additional rate payers 38.1%.

Last month I set the question how much tax would a person pay on "income" of £62,500 last tax year. The answer was £14,403 assuming all the income was salary. Suppose that income was made up of £57,000 salary, £1,500 interest and £4,000 Dividends and you could expect the same amounts this year this tax calculation for 2016/17 would be as follows: -

Income	Tax rate	Tax due	
£ 0 to £11,000	0%	£ 0	Personal allowance
£11,001 to £43,000	20%	£ 6,400	Basic rate band
£43,001 to £57,000	40%	£ 5,600	Higher rate tax
£ 1,500	£500 nil £1,000 at 40%	£ 400	Personal savings
£ 4,000	0%	£ 0	Dividend allowance
£62,500		£12,400	

To be fair on the above income breakdown in 2015/16 the tax bill would have been £14,103 as dividends would only have suffered 32.5% tax last tax year.

This is a staggering reduction in tax payable from one year to the next but to take advantage your savings must be in the right place **now**, it's no good waiting until the year end and then sorting it out!

At 1.5% interest you need £100,000 in a deposit account to produce £1,500 which could suffer £400 tax or more but based on a popular income fund **you may only need** £107,000 to produce **approximately** £4,000 dividend income tax free. Talk to your IFA about your income, savings and tax, as you can see from the above it doesn't have to be taxing!

Julie if you want another quiz what would the tax bill be for someone with £32,000 salary, £750 interest and £1,500 dividend income? Answer £4,200.