

TIP OF THE MONTH - “DEAR DEDUCTIBLE”



Was that old film starring Cary Grant or Rock Hudson? I can't quite remember and you don't quite care, but you or somebody you know could benefit from the tax “marriage allowance”.

As we've noted on our Facebook page in the past, many couples are overlooking the entitlement to transfer unused personal allowances between spouses.



The allowance was born out of a past Election Manifesto (!) to support traditional family values, although by the time the Treasury got a hold of it, family value wasn't all that great. It allows either partner to transfer 10% of their allowances to the other, so for last year £1100 could be transferred, creating a potential tax saving at 20%, or £220.



When last we checked, HMRC's guidance was not quite right in that they say one spouse has to have income of less than the personal allowance (£11,500 this year) and the other income of less than £45,000. In fact all that is legally required is that the recipient must not be a higher rate taxpayer, and in practice it is the lower earner's income that is key. This has to be below the personal allowance, but excluding dividend and savings income ... the way those are being taxed has changed and will change again with the next budget, so it's probably easiest to think of £11,500 as the cut-off point.

This is an “all or nothing” claim, so if, for example, one spouse has an income of £11,000 and wishes to transfer the unused portion of their personal allowance, they can only transfer the lot, in this example the personal allowance would be £11,500 - £1150 = £10,350 and since they earn £11,000 they'd pay 20% tax on £650, or £130. The recipient spouse would save £1150 x 20% = £230. If the first spouse was well below the personal allowance there would be a straight saving of £230, of course.



You have to be careful about claiming, and we generally advise that you claim each year, after the year end when the incomes are known. Aside from the ability to plan, there are several reasons why we suggest this:

If you claim during the year, this triggers a “recurring claim” whether you want it or not, so long as you are eligible; even then, only the transferor can cancel the arrangement. We understand that if the recipient says they don't want the transfer, HMRC will cancel every year, going back 4 years.



This is only worth a little over £200 a year (you can claim for previous years, though) and may not act to cement wedded bliss, but if it works for you why not let the taxman buy you a romantic dinner?