

With inflation running at a 40-year high, pay increases will mean more people are being pushed into the higher rate tax bracket. You pay higher rate tax on the portion of income that falls between £50,271 and £150,000 (or between £43,663 and £150,000 in Scotland). Higher rate tax is charged at 40% (or 41% in Scotland).

Is there anything I can do about it?

Review your salary sacrifice arrangements. If you're currently sacrificing part of your salary into a pension or other benefits, you may want to consider increasing this amount. This will reduce your taxable income and could help offset any increase in tax due to the freeze. Check your tax code. If your tax code is incorrect, you could end up paying more tax than you should. Make sure you check your code and update it if necessary.

Use tax-efficient investments

There are a number of investments that can be held in a tax efficient way, such as Individual Savings Accounts (ISAs). These can help to reduce your overall tax bill. You can allocate your entire allowance of £20,000 (for 2022/23) into a Stocks & Shares ISA, or into a Cash ISA or any combination of these. You pay

no Income Tax on the interest or dividends you receive from an ISA and any profits from investments are free of Capital Gains Tax.

Use your annual allowance.

If you have unused annual allowance from previous years, which applies to all of your private pensions, you could consider carrying it forward and use it to offset any increase in tax due to the freeze. Carry forward allows you to make use of any annual allowance that you might not have used during the three previous tax years, provided that you were a member of a registered pension scheme during the relevant time period. But to use carry forward, there are certain conditions that need to be met.

Want to see how we could help to minimise the impact of the tax freeze?

By taking some time to review your finances and make some key decisions, you can help to minimise the impact of the tax freeze and keep more of your hard-earned money. Whatever your financial goals are, we can help you put the necessary planning in place to make them become a reality. To find out more, please contact us.

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If you're a higher rate taxpayer, the freeze on the Income Tax threshold will have meant an increase in your tax bill. The reason for the increase stems from the Chancellor's decision in April 2021 to freeze the higher rate tax threshold rather than increase it in line with inflation.”

Speak to an IFA

It can be difficult to stay on top of the key tax rates and allowances amid day-to-day living. We look at your wealth and tax planning as a whole. To find out more, please contact us for more information.