

How Your Family Can Help Save You Tax

Bryan Regan - general practice partner discusses ways your family can save you money.

- *Children*
- *Spouse*
- *Grandparents*

1. Children

- Savings Account

Open a savings account for your child. The Inland Revenue allows children to earn £100 tax-free interest each year from money given to them by parents.

Therefore, assuming an interest rate of 4%, each parent can save £2,500 a year for each child and pick up the interest tax-free. If interest is earned above £100 you must pay tax on the whole amount at the same rate as on your earnings. Children can earn up to £4,615 a year in tax-free interest from money given to them by other people, such as grandparents.

- Open an ISA for teenagers.

Children over the age of 16 will be able to open a cash ISA from April this year. The account allows them to save up to £3,000 a year and earn interest tax-free.

- Buy a house for your children.

Buying a home for your children is a good way to reduce income and capital gains tax, particularly for older children going to university. If you own more than one home, you will normally have to pay capital-gains tax at up to 40% on any profit over £7,900 when you sell.

Furthermore, you will be taxed on any income earned from tenants.

However, offspring aged over 18 can apply for a mortgage and you can act as a guarantor. Any profit made from a rise in the property's value is then tax-free.

Your son or daughter could earn £4,615 each year from tenants before paying income tax, assuming they have no other income.

In addition, they could take advantage of the government's rent-a-room scheme to take in a lodger and earn up to £4,250 a year tax-free.

Buying a home in the name of a younger child is far more complicated. You will have to set up a formal trust and the child will have to become what is known as a "life tenant" of the property. Advice from an accountant is essential.

2. Spouse

- Give your spouse your money

Put savings in lowest taxpayer's name. Interest on savings and investments is taxed at the highest tax rate you incur on your income. Therefore, higher-rate taxpayers lose 40% of their interest to the taxman. Couples should always put all their savings in the name of a basic-rate or non-taxpayer. They will then be taxed at 20%, rather than 40%.

Non wage earners can receive £4,615 before they have to pay income tax.

A second home rented out for all or part of the year should also be put in the name of the person paying the lowest rate of tax.

- Use capital gains tax allowances

Everybody can make a tax-free profit of £7,900 a year from investments. Any profit above this allowance is taxed at up to 40%. However, spouses can transfer assets to one another without incurring tax. For example, if the husband is set to make a profit of £10,000, he could transfer part of his investments to his wife before selling and so possibly avoid capital-gains tax.

3. Grandparents

- Use your personal allowances

People over 65 can earn £6,610 tax free, compared with £4,615 for younger people. If you are over 75, the allowance is £6,720. But it is cut if your income exceeds £18,300. Couples should try to split their income to use both allowances.

- Give money to your children or other relatives

When you die, only the first £255,000 of your estate including the value of your home can be passed on tax free. Everything above that is taxed at 40%. Married couples can pass on all their assets to their husband or wife on death, tax free.

Although you can give away all your assets before you die, you must survive for seven years after the gift is made to avoid inheritance tax.

A less risky way to avoid inheritance tax is to split assets between husband and wife. When the first dies, rather than transfer everything to the survivor, give £255,000 of assets to your children or other relatives.

When the other spouse dies, they can pass on another £255,000 of assets tax free. You can each also give away £3,000 a year.

- Set up a Trust

If you die within seven years of setting up a trust, your original investment will attract tax, although subsequent growth will not. The trust pays an income to beneficiaries on your death. Once you have put money into a trust you cannot take it back, although you can change the beneficiaries.

- Buy life insurance to cover inheritance tax

Buy a "whole of life" insurance policy to cover and reduce any inheritance tax liability. It pays out to your children when you die. Payouts should be assigned to a trust.

The above advice is given in good faith. Individual circumstances differ, no action should be taken without regard to these personal circumstances. Accordingly, please consult your professional adviser. If you wish to talk to one of our partners or tax consultants, please do so. The first hour is free and without obligation.