Technical Financial Planning
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# Case Study

## Client will see a reduction in Child Benefit and wants to see the impact of paying a pension contribution

- For 2022/23, Child Benefit is £21.80 per week for the oldest child and £14.45 per week for each other child
- Child Benefit Tax Charge offsets Child Benefit for those with 'adjusted net income' in excess of £50,000
- For every £100 of income above threshold tax charge will equal 1% of the total rate of Child Benefit
- Once income reaches £60,000 the value of Child Benefit will be matched by the tax charge

**What will be the effective rate of tax relief if client pays a pension contribution?**

**Solution = Income Tax calculator**

The effective rate of tax relief on the pension contribution is nearly 40%, plus the amount saved due to the reduction of Child Benefit Income Tax Charge.

Client with income of £60,000 who makes a £10,000 gross pension contribution;

| Number of Children | Effective rate of tax relief |
|---|---|
| 1 | 50.80% |
| 2 | 58.31% |
| 3 | 65.82% |
| 4 | 73.34% |
| 5 | 80.85% |

| | | |
|---|---|---|
| Income | £60,000 | |
| Pension contribution | | 10,000 |
| Adjusted Net Income | £50,000 | |
| | | |
| Less pension tax relief | | 3,946* |
| Less Child Benefit for **4** children | | 3,388 |
| Net Cost | | 2,666 |
| **Effective rate of tax relief** | | **73.34%** |

*** (270 x 20% + 9730 x 40%)**

**Assumes UK (excluding Scotland) taxpayer**

# INCOME TAX CALCULATOR

This item is intended for guidance purposes only.

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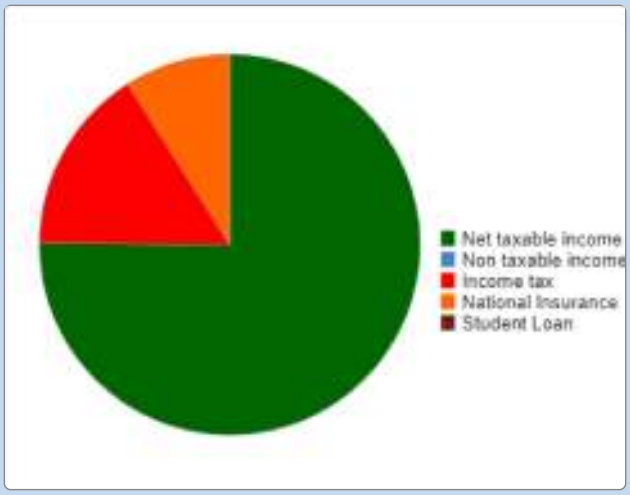
The objective of this calculator is to provide an indication of a client's net income after deducting income tax and national insurance from different sources of non-savings, savings, dividend, taxable redundancy payments and non-taxable income.

| | |
|---|---|
| Tax Year | 2022/23 |
| Name | David |
| Date of Birth (dd/mm/yyyy) | 07/02/1963 |
| Taxpayer in? | UK (Exc S |
| Employed, Self Employed, or Retired? | Employe |
| Do you want to use normal Personal Allowance? | Yes |
| Number of 'qualifying' children for child benefit | 4 |

| | | |
|---|---|---|
| Gross salary | | 60,000 |
| Benefits in Kind | | 0 |
| Pension in payment | | 0 |
| Property rental income (note 1) | | 0 |
| Rental mortgage interest payments | 0 | |
| Property Allowance (note 2) | No | |
| Bank interest (gross) | | 0 |
| Building Society interest (gross) | | 0 |
| Company Share dividends received | | 0 |
| INC UTs / OEICs dividends received | | 0 |
| ACC UTs / OEICs dividends received | | 0 |
| Discretionary Trust income (net of 46.25%) | | 0 |
| IIP Trust - Savings income (net of 20%) | | 0 |
| IIP Trust - Dividend income received (net of 8.7 | | 0 |
| Taxable Redundancy (Note 3) | | 0 |
| Investment Bond "income" (Note 4) | | 0 |
| Discounted Gift Trust (DGT) "income" (Note 4) | | 0 |
| ISA income | | 0 |
| Other non-taxable income | | 0 |
| Investment Bond Chargeable Gain(5) | 0 | |
| Pension arrangement | Personal | Occupati |
| Pension Contribution (gross) | 10,000 | 0 |
| Gift aid payment (net of BRT) | 0 | |
| Student Loan (note 6) | None | |
| **TOTAL GROSS INCOME** | | **£60,000** |




| | |
|---|---|
| Net taxable income | £45,113.88 |
| Non taxable income | £0.00 |
| Income tax | £9,486.00 |
| National Insurance | £5,400.12 |
| Student Loan | £0.00 |

**Notes:**

1. Client's Net Spendable Income after deducting pension cont net of BRT is £37113.88
   Client's income tax after allowing for BRT on pension cont is £7486.00

2. Client also still receives maximum child benefit of £3387.80, and

   The effective rate of tax relief received on the pension contribution is 73.34%.

Notes;

1. Rental income after deducting expenses - but including mortgage interest (input below), on which 0% will be restricted to basic rate tax.
2. Select whether Property Allowance of up to £1,000 will be claimed. Not available if other expenses are deducted.
3. Taxable Redundancy is the amount over and above the £30,000 tax exempt amount.
4. Assumes "Income" from the Investment Bond and Discounted Gift Trust are within the 5% tax deferred withdrawal limit and do not give rise to an income tax charge.
5. Only used to determine individual's Personal Allowance and Personal Savings Allowance. No income tax has been calculated on the chargeable gain.
6. See Government website for repayment calculation details; https://www.gov.uk/repaying-your-student-loan/what-you-pay
7. For 2022/23, assumes an 'Effective' Annual Primary Threshold of £11,901 if the monthly level was applied for a full year

06/04/2022

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| Name; | **David** | Tax Year | **2022/23** |
|---|---|---|---|

| **Source** | **Non Savings** | **Savings** | **Dividends** | **Redundancy** | **Total** |
|---|---|---|---|---|---|
| Gross salary | 60,000 | | | | |
| Benefit in Kind | 0 | | | | |
| Pension | 0 | | | | |
| Taxable rental income | 0 | | | | |
| Mortgage interest not taxable | 0 | | | | |
| DT income | 0 | | | | |
| Banks & B.Soc interest | | 0 | | | |
| IIP Trust savings income | | 0 | | | |
| Dividends from company | | | 0 | | |
| Other dividends | | | 0 | | |
| IIP Trust Dividend income | | | 0 | | |
| Taxable Redundancy | | | | 0 | |
| **Total** | **60,000** | **0** | **0** | **0** | **£60,000** |

| | | | | | |
|---|---|---|---|---|---|
| Personal Allowances | £12,570 | £0 | £0 | £0 | |
| Pension Contribution | £10,000 | | | | |
| Gift aid | £0 | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Non savings tax | 9,486 | | | | |
| Savings Tax | | 0 | | | |
| Dividend Tax | | | 0 | | |
| Redundancy Tax | | | | 0 | |
| **Total income tax** | | | | | £9,486 |
| National Insurance | | | | £5,400 | |
| Less Benefits in Kind | | | | | £0 |
| Less net divi from Acc units | | | | | £0 |
| DGT/Bond | | | | | £0 |
| ISAs/Other non-taxable income | | | | | £0 |
| | | | | | **£45,114** |
| Less pension contribution | | | | | £8,000 |
| Less Student loan repayments | | | | | £0 |
| Less rental mortgage interest | | | | | £0 |
| **TOTAL NET INCOME** | | | | | **£37,114** |

06/04/2022



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