

How to save tax

Arrange your tax affairs as efficiently as possible to make sure you don't pay more than you should

There's a wrong way to save tax – by not paying it. And there's a right way – by using the advice given in the pages that follow.

KNOW WHAT YOU'RE DUE

Did you know that if you're over 64, you may qualify for a higher personal allowance? This could save you nearly £525 a year, so check whether you're eligible. And once you reach state retirement age, you stop paying National Insurance even if you continue to work. For more, see our 'Tax in later years' chapter, p31.

If you have children, our chapters on family tax (p39) and tax credits (p41) tell you what you can claim to help ease the cost of this expensive time. For example, if your employer offers childcare vouchers, the first £55 a week of childcare costs is free of tax and National Insurance, saving you more than £940 a year.

CLAIM YOUR EXPENSES

If you're employed, check whether you're claiming back all the tax you can on any work-related expenses you incur. You could claim back £220 in tax on £1,000 of expenses if you're a basic-rate taxpayer, or £400 if you're in the higher-rate tax band. But unless your employer has a special arrangement with Revenue & Customs, you need to claim this back yourself, otherwise you'll be out of pocket. Our chapter on p14 explains how to do this.

If you are self-employed you can deduct a whole raft of expenses from your takings, reducing your tax liability. Equally, there are expenses you can deduct from your income if you let property. Find out what you can claim by turning to p21 and p45, respectively.

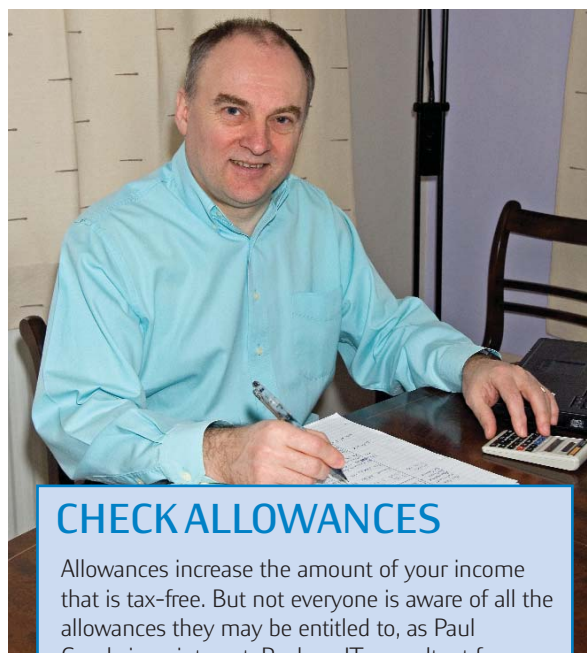
MEET VITAL DEADLINES

If you miss the date for filing your tax return, you'll be fined £100. If it's still outstanding after six months, you'll be hit with another £100 fine. And if you're late paying tax you owe, you'll be charged interest at 6.5 per cent a year. Leave it more than 28 days, and Revenue & Customs can start charging you even more. See p60.

MAKE SOME CHANGES

You can pay less tax by making simple changes to the way you organise your finances, such as:

- making the most of tax-free savings (see p35)
- rewriting your will, to reduce inheritance tax on your estate (see p53)
- spreading assets between you if you're married or in a civil partnership, to maximise your capital gains tax exemptions (see p49)
- taking advantage of any tax-free share scheme your employer offers (see p20)
- choosing a company car with care: one with a low carbon dioxide emission costs less in tax (see p18).



CHECK ALLOWANCES

Allowances increase the amount of your income that is tax-free. But not everyone is aware of all the allowances they may be entitled to, as Paul Goodwin points out. Paul, an IT consultant from Winchester, told us: 'I'm very familiar with tax but I still find your annual guide helpful. I like to spread the word in the coffee room at work so no one pays more tax than they should. Over the years I've come across a lot of people who are unaware that they can claim allowances, for instance.'

It pays to look back and check whether you've missed any allowances you could have claimed. For example, the children's tax credit, which was available in the 2002 to 2003 tax year, was worth £529. Our table on p7 shows what allowances you can still claim for.

If you've paid too much tax because you didn't claim an allowance or you made a mistake in your tax return, tell your tax office. You have until 31 January 2007 to claim for allowances or mistakes from as far back as 2000-2001.