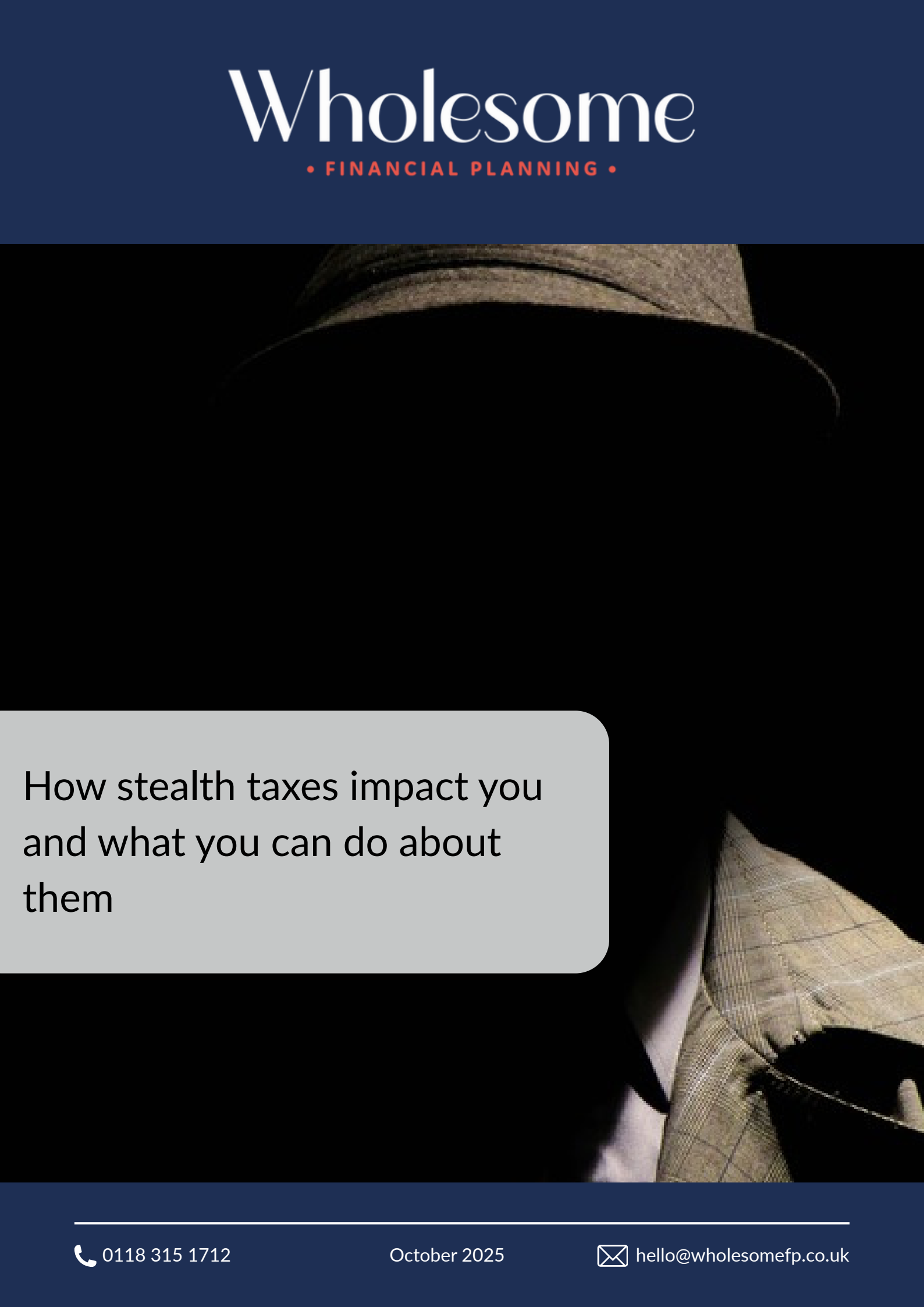


Wholesome

• FINANCIAL PLANNING •



How stealth taxes impact you
and what you can do about
them

Introduction

In recent years, millions of UK taxpayers have found themselves paying more tax. Not because rates have gone up, but because thresholds and allowances have stayed frozen. This phenomenon, often referred to as “stealth tax” or “fiscal drag,” is quietly increasing the tax burden on individuals and families across the country.

Frozen allowances, tapered thresholds, and shrinking exemptions mean that more of your income, savings, investments, and even your estate may now be subject to tax. These changes rarely make headlines, but they have a real impact; especially when combined with rising wages, inflation, and asset growth.

This guide is designed to help you understand:

- Which allowances have been frozen or reduced
- How these changes affect your finances
- What you can do to plan around them

Whether you're employed, self-employed, retired, or somewhere in between, proactive planning can make a meaningful difference.





The personal allowance

The personal allowance is the amount of income you can earn before paying income tax. For most UK taxpayers, this has been set at £12,570 since April 2021 and it's frozen until April 2028.

By 2028 the personal allowance will have been frozen for 7 years after being increased by £70 from £12,500 in the 2020/21 tax year. This is despite inflation exceeding 20% since the freeze by in the March 2021 budget [1].

Combined with minimum wage and living wage increases more people will start paying income tax. The Office for Budget Responsibility estimate the freeze will pull 4 million more people into paying income tax and push 3 million more people into the higher-rate band. Crucially, it is also anticipated to add £42.9 billion to government revenue by 2027/28 [2].

The 60% tax trap

If your income exceeds £100,000 your personal allowance is gradually tapered. For every £2 of income above £100,000 you lose £1 of personal allowance. Once you earn £125,140 or more your allowance is gone. This creates an effective marginal tax rate of 60% on income between £100,000 and £125,140.

It could be sensible for you to consider ways of decreasing your taxable income, this could include:

- Pension contributions,
- Gift Aid donations,
- Salary sacrifice schemes for childcare, pensions or electric vehicles.

Reviewing your income position each year should help you ensure you don't get caught out unintentionally.





The personal savings allowance

The personal savings allowance (PSA) lets you earn a certain amount of interest on your savings tax-free. It was introduced in April 2016 to simplify savings taxation and encourage individuals to save. However, a combination of frozen tax thresholds and increasing interest rates mean more people are now exceeding their allowance.

Tax Band	Personal savings allowance
Basic Rate (20%)*	£1,000
Higher Rate (40%)	£500
Additional Rate (45%)	£0

*See Starting Savings Rate below.

This can be applied to a variety of interest sources, for example:

- Savings accounts
- Current accounts
- Bonds
- Peer-to-peer lending
- Investment trusts

And remember, the interest on any savings within an ISA do not use up these allowances.

With no changes to the PSA since 2016 fiscal drag has had an impact. When it was introduced interest rates were low. But in the last couple of years they have been around the 4% to 5% mark, meaning:

- A basic-rate taxpayer with £20,000-£21,000 in savings could exceed the PSA.
- A higher-rate taxpayer would only need £10,000-£11,000 to breach their £500 PSA.[3]

Starting Savings Rate

For those that earn less than £17,570 you are also entitled to a Starting Savings Rate which allows you to earn £5,000 in savings interest tax-free. This is in addition to your personal allowance and personal savings allowance.

For every £1 of income above £12,570 you lose £1 of the Starting Savings Rate allowance.



Consider splitting savings with your spouse to take advantage of all available Personal Savings Allowances. You could also consider tax-free options like an ISA or NS&I products.



Dividend allowance

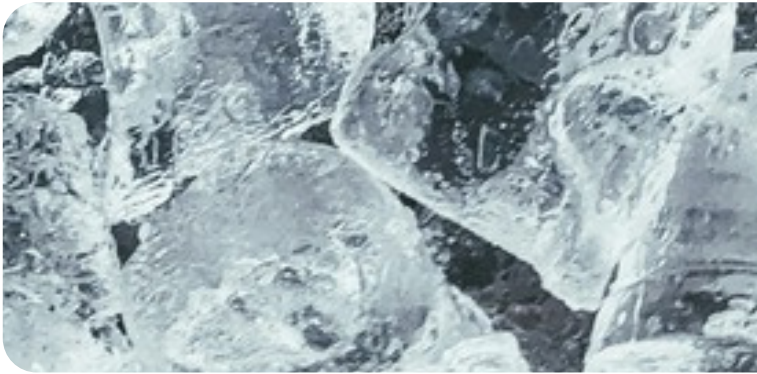
The dividend allowance has had one of the largest decreases since its introduction in 2016 and it doesn't just impact company directors. If you have an investment that isn't within a tax-advantaged wrapper you will likely have interest and dividend income to report.

Originally the allowance was £5,000 but since 2016 it has had a 90% cut down to just £500 for the 2024/25 tax year onwards.

Tax Year	Dividend allowance
2016/17	£5,000
2018/19	£2,000
2023/24	£1,000
2024/25	£500
2025/26	£500

Any dividends earned outside the allowance are taxed at the following rates in the 2025/26 tax year.

Tax Band	Dividend Tax Rate
Basic Rate	8.75%
Higher Rate	33.75%
Additional Rate	39.35%



Dividend payments are linked more closely to investment returns than inflation. Generally speaking, investment returns outpace inflation which means that more and more people will find themselves paying dividend tax. That would likely be the case, even if the allowance hadn't been reduced.

Here's a few ideas to minimise the impact for you:

- Use your ISA allowance.
- Ensure both spouse's are taking advantage of their dividend allowance.
- If you're in charge of dividend payments, control their timing if possible.
- If you're a company owner consider alphabet shares, using different classes to tailor dividend payment appropriately.



3.7million people are now liable for dividend tax which is up from 2.4million people in 2021[4].

National insurance

National insurance contributions (NICs) may feel like just another line on your payslip but they play a crucial role in funding many benefits – including the State Pension. Like income tax, NICs are subject to thresholds – and many of these have been frozen for years, quietly increasing the tax burden on workers and employers.

The primary threshold, where employees start paying NICs, has been frozen at £12,570 since 2022. The secondary threshold, where employers start paying NICs, was cut from £9,100 to £5,000 in April 2025.

This increased burden on employers will almost certainly have been factored into the prices of their goods and services.

Whilst employee NIC rates were cut in 2025 the frozen thresholds mean more income is subject to NICs creating a steady fiscal drag. For example, the primary threshold used to cover 82% of a minimum wage earner's income in 2015 whereas, a decade later, in 2025 it covers only 53%[5].

If your employer offers salary sacrifice schemes these can be valuable in reducing your income for national insurance contributions but it's important to be careful as the sacrifice should be viewed as non-reversible. It also reduces the employer's NIC burden and they may be open to making additional pension contributions in return.





Capital gains tax

Capital gains tax (CGT) is charged on profit you make when sell or ‘dispose of’ an asset. This could be shares, property or valuable items like artwork. You pay the tax on the gain only, not the total share price, and you can deduct certain costs like legal fees or improvements.

CGT’s impact has increased on two fronts in recent years; the tax-free allowance has been dramatically reduced whilst rates have also increased.

Tax Year	Annual exempt amount
2020/21-2022/23	£12,300
2023/24	£6,000
2024/25 onwards	£3,000

For trusts the allowance is halved [6].

Any gains over this amount are taxed as per the below table [6].

A combination of a 75% decrease to the annual exempt amount alongside increased capital gains tax rates means those with unrealised capital gains may need to plan carefully. Some options include:

- Realising gains gradually across multiple tax years.
- Transferring assets to spouses or civil partners to use their AEA too.
- Realising losses in portfolios at the same time as this can be offset against gains.
- Reporting any losses to HMRC as they can then be carried forward indefinitely.
- Time disposals carefully around your income – if you’re expecting a big bonus this year it might be sensible to realise capital gains in future years.
- Take advantage of ISA and pension accounts which are exempt from CGT.



Also be aware of any reliefs, they are slightly niche but may apply to you. Consider Private Residence Relief, Letting Relief and Business Asset Disposal Relief which may offer reductions in your CGT bill.

Asset Type	Basic Rate Taxpayer	Higher/Additional Rate Taxpayer
Shares & other assets	18%	24%
Residential property	18%	24%
Business assets qualifying for disposal relief	14%	14% (rising to 18% in 2026)



Money purchase annual allowance

The money purchase annual allowance (MPAA) is a reduced limit on how much you can contribute to defined contribution pension once you've accessed it flexibly. Which means, the first time you access your pension you need to be careful!

Introduced in April 2015 it aims to prevent people from recycling pension withdrawals back into their pension to gain extra tax relief.

It presents a big decrease to your pension savings ability, dropping your annual allowance from £60,000 to £10,000 per tax year. And it also means you lose the ability to carry forward unused allowances from previous years.

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What triggers the MPAA?

You trigger the MPAA if you flexibly access your pension. Common triggers include:

- Income from flexi-access drawdown.
- Exceeding your capped drawdown income limit.
- An uncrystallised funds pension lump sum (UFPLS).

Some common pension benefits that don't trigger it include:

- Taking just your tax-free lump sum.
- Taking income from a defined benefit pension.

Once triggered the MPAA is permanent. If you're still working or receiving employed pension contributions this could create an annual issue for you.

If you are still working you could consider using other savings or investment, just your tax-free cash or delaying your spending need.



Tapered annual allowance

The tapered annual allowance (TAA) is another pension linked allowance to consider. The TAA reduces the amount that high earners can contribute to their pensions whilst still receiving tax relief. It's another allowance that has stood still as the years have ticked by.

It was introduced in April 2016 and can reduce your £60,000 standard annual allowance to as low as £10,000. Similarly to the money purchase annual allowance it went as low as £4,000 before being increased back to £10,000 – back to where it began in 2016.

The calculation is complex involving two specific calculations to work out your threshold income and your adjusted income. If your threshold income is over £200,000 and your adjusted income is over £260,000 then tapering applies to your annual allowance. For every £2 of adjusted income over £260,000 you lose £1 of your annual allowance.

It is very easy for high earners to unknowingly exceed their annual allowance and end up facing annual allowance tax charges.



If you think you may be impacted by this it would be wise to speak to an accountant (ask them first if they have experience in this) to have them run the number for you. They should, at the same time, calculate any carry forward from previous tax years that you might be able to set against any excess.



Inheritance tax

Historically viewed as a tax on the wealthy, frozen allowance and rising asset values mean more families are caught in the inheritance tax (IHT) net. IHT is charged at 40% on the value of your estate that exceeds any available tax-free thresholds.

There are two nil-rate bands available. The main nil-rate band is available to everyone on their death and if any proportion is unused, it can be passed onto your surviving spouse or civil partner.

The residence nil-rate band is more complicated. You must leave an interest in a residential property that has been your main residence to a direct descendant on your death. Again, any unused proportion may be passed onto your spouse or civil partner, and they will then have to meet the same rules.

As you can see in the table below, the main nil rate band is planned to be frozen for at least 21 years. It's also important to note that estates valued at over £2million begin to lose the RNRB. It is tapered down by £1 for every £2 over the threshold.

Some simpler strategies to consider:

- Use the annual £3,000 exemption to gift money away.
- Larger gifts deemed as Potentially Exempt Transfers fall outside your estate after 7 years – you should consider professional advice if considering these.
- Gifts from surplus income are immediately exempt but they must be well documented, read up on the detail of these first.

You might also consider using business relief investments, trusts or downsizing and you should consider advice before going down these paths.



From April 2027 pensions will come back into the net for IHT.

In 2024/25 IHT receipts hit a record £8.2 billion, more than double the amount collected a decade ago.[7]

Band	Amount	Frozen Since	Frozen Until
Nil-Rate Band (NRB)	£325,000	2009	2030
Residence Nil-Rate Band (RNRB)	£175,000	2020	2030

Child benefit

Child benefit is a regular payment to help with the cost of raising children. It's not a means-tested benefit, but since January 2013 higher earners have faced the High Income Child Benefit Charge (HICBC). This is a tax that claws back some, or all, of the benefit.

For your eldest or only child you receive £26.05 per week and for additional children this is £17.25 until they are 16 – potentially longer if they stay in education[8].

This is clawed back at a rate of 1% of the benefit for every £200 of adjusted net income over £60,000. Once you earn £80,000 you will lose child benefit entirely[9].

In April 2024 the government increased the thresholds, offering relief to many middle-income families. The starting threshold was increased from £50,000 to £60,000 and the claw back rate was decreased from 1% per £100 to 1% per £200 over the threshold.

To make things easier the option to repay via your PAYE code, rather than via self-assessment only, has been added. However, it still impacts thousands across the country.

Pension contributions and gift aid donations may be viable options for individuals to decrease their adjusted net income and restore child benefit payments.

Take care over who makes the claim for child benefit. Whoever makes the claim will receive national insurance credits, so if one of you is a lower earner this could be valuable. Regardless of who makes the claim, the higher earner will have to repay any reclaimed child benefit.

Your state pension entitlement depends on your national insurance credit record.





Other allowances

Trading and property allowances

Since April 2017 individuals in the UK have been able to earn £1,000 per year tax-free from:

- Trading income – e.g. side hustles, online selling
- Property income – e.g. renting a driveway, short term lets

These are designed to simplify tax for people who may have ad-hoc or small income streams. However, like most allowances, these remain frozen.

Blind person's allowance

A rare allowance that has increased over time, the blind person's allowance is an additional amount of income that can be earned tax free. In 2025/26 it is £3,130 having risen gradually from £2,600 in 2022/23[10].

This must be claimed, it's not automatic. Any unused allowance can be transferred to a spouse or civil partner.



Marriage allowance

The marriage allowance allows you to transfer £1,260 of your personal allowance to your spouse. You must both be basic-rate taxpayers with one having unused personal allowance. This could save up to £252 in tax.

Linked to the personal allowance this also remains frozen.

ISA allowance

The ISA allowance is £20,000 and has been since April 2017. It will continue to be frozen until April 2030. For context, had it been indexed it would now be £26,000+.

The allowance is a 'use it or lose it' allowance with no option for carry forward. There are various accounts including cash, stocks and shares, innovative finance and lifetime ISAs.

Junior ISA

Junior ISAs are available for children under age 18 with a £9,000 annual limit, frozen since April 2020.

You can claim backdated Blind Person's Allowance for up to 4 years.





Planning strategies

Stealth taxes, through frozen and tapered allowances, quietly increase the tax burden as time ticks by. They rarely hit the headlines but they do impact your take-home pay, savings returns and estate tax liabilities.

Doing nothing means you could pay more tax, miss out on allowances and leave smaller legacies to your heirs.

But, whilst frozen and tapered allowances are unavoidable, there are practical steps you can take to reduce your tax burden and make the most of what's available.

At least once a year you should review your finances, and when you do so consider the following questions.

- Is there an opportunity to reduce your taxable income? Consider pension contributions and gift aid donations.
- What about salary sacrifice? Speak to HR and see if there is anything you could benefit from.
- Have you used your ISA allowance? This helps shelters savings and investments from income tax, dividend tax and CGT.
- What about your pension annual allowance?
- Do you have the options to split assets between you and a spouse? This is useful for CGT, dividend and savings interest.
- Can you wait to dispose of part of an asset? This could spread your capital gain across multiple tax years and allowances.
- Can you delay accessing your pension to avoid triggered the MPAA?
- Do you have the option to make gifts or do other inheritance tax planning?



About Wholesome Financial Planning

Wholesome Financial Planning is an evidence-based and fixed fee independent financial planning and advice firm situated in Reading, Berkshire.

As an independent financial planning business, we can help with a range of financial services, including financial advice, pension advice, retirement planning, inheritance tax planning and investment advice.

Our financial plans are based on responsible investment solutions that consider future generations and sustainability. They are delivered entirely remotely in line with our values which keeps costs down for you too.

If you'd like to learn more about our services schedule a free call with Wholesome Financial Planning today.

Meet Lucy



Lucy's biggest passion is travelling. She loves exploring new places in the UK and abroad, and she is happiest by the sea. Other hobbies include reading and crafting. She also has a season ticket for Reading F.C. and enjoys watching live comedy and music.

Meet Matt



Matt loves football, also holding a Reading F.C. season ticket. He enjoys holidays with his dogs in the UK, particularly the Borders as well as travelling further afield with Lucy. Other hobbies include reading, watching live comedy and gaming.



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Please note: This guide is for general information only and does not constitute advice. The information is aimed at retail clients only.

The tax treatment is dependent on individual circumstances and may be subject to change in future.

The value of units can fall as well as rise, and you may not get back all of your original investment. A pension is a long-term investment. The fund value may fluctuate and can go down. Your eventual income may depend upon the size of the fund at retirement, future interest rates and tax legislation.

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