Smart Tax Practical Tips

2025/26

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SMART TAX: PRACTICAL TIPS

Clear and concise tax guide 2025/26

This guide provides practical tax information to help you navigate through the tax system and plan tax efficiently by providing you with an overview of the key tax rules.

The first part of this guide covers rules potentially impacting you as an individual including certain scenarios which may be relevant such as family matters or working for others. The second part deals with the tax implications of running a business or investing in property.

Throughout this guide you will find a number of tax tips and checklists to help you identify planning opportunities, pitfalls to avoid and areas where you may need to take action. We would be happy to help with advice on your specific position.

Contents

The rules, rates and allowances in this guide relate to the 2025/26 tax year and these may be different for other tax years.

The general effect of the Civil Partnership Act is to treat registered civil partners on a consistent basis with married couples. For the purposes of this guide we have on occasions referred only to spouses.

FAMILY MATTERS

Married couples

Spouses are taxed as independent persons, each of whom is responsible for their own tax affairs. The phrase 'spouse' whenever used in this guide includes a registered civil partner.

For spouses, there is no aggregation of income, no sharing of the tax bands and, except in limited circumstances detailed below, the personal allowance may not be transferred from one spouse to the other.

However, tax can be minimised if spouses equalise their income so that personal allowances, savings allowances and dividend allowances are fully utilised and higher/additional rates of tax are minimised.

Example

In 2025/26 Ian and Angela have savings income of £50,000, dividend income of £50,000 and no other income. If this is split equally between them, the total tax bill for the couple is £6,860. If only one spouse has an income of £100,000 and the other has nothing, the total tax bill leaps to £23,092 - an additional £16,232!

Tax Tip

A donation to charity under the Gift Aid scheme benefits from tax relief. It makes sense for a higher rate/additional rate taxpayer spouse to make such donations so that they can benefit from the extra tax relief.

Equalising assets may also be beneficial from an IHT perspective (see Preserving the inheritance).

Marriage allowance

Married couples and civil partners may be eligible for a Marriage Allowance (MA). The MA enables spouses to transfer a fixed amount of their personal allowance to their spouse. The option to transfer is not available to unmarried couples.

The option to transfer is available to couples where one party has not used all of their personal allowance and the other does not pay tax at the higher or additional rate. If eligible, one spouse will be able to transfer 10% of their personal allowance to the other which means £1,260 for the 2025/26 tax year.

Relief is given as a basic rate tax reducer with a benefit of up to £252 (20% of £1,260).

Tax Tip

It is also possible to backdate a claim Marriage Allowance for up to four years - please contact us if you think this might apply to you.

A Married Couple's Allowance may also be available, but only where one spouse was born before 6 April 1935, so has not been considered further in this guide.

Jointly owned assets

Married couples will often own assets in some form of joint ownership. This can have benefits for income tax, CGT and IHT.

Where assets are owned jointly by spouses, any income is deemed to be shared equally between the spouses unless an election is made to split the income in the same proportion as the ownership of the asset. See Property investment for an example of this.

This does not apply to shares in close companies (almost all small, private, family owned companies will be close companies) where income is always split in the same proportion as the shares are owned.

Clearly there are both advantages and disadvantages of operating through a company rather than holding the properties directly. Which approach is best will depend on your individual circumstances so please do get in touch if you either already have or are thinking of starting a property investment business.

Disposal of buy to let property

Disposing of a buy to let property may result in a chargeable gain subject to CGT (if held directly by an individual) or corporation tax (if held by a company).

Generally, Private Residence Relief (see Disposals and CGT) will not be available on the disposal of buy to let properties unless they have been your main residence at some point during the period of ownership.

Renting a room

There has been an increasing number of individuals seeking to generate income from their own home either by taking on a lodger or through ad-hoc lettings such as Airbnb or Vrbo.

Rent a Room relief

Income from letting a room within your main residence is property income. However, if gross rents for a tax year do not exceed £7,500, no income tax is payable. This relief is known as Rent a Room relief.

If rents exceed £7,500, the taxpayer has a choice whether to deduct actual expenses or £7,500.

The £7,500 limit is a maximum which can apply to either a property or a person, so if two individuals jointly own a property and take in a lodger, they must share the limit at £3,750 each.

Capital gains

Having a single lodger sharing the use of facilities such as the kitchen should not impact a taxpayer's ability to claim Private Residence Relief (see Disposals and CGT).

We can help

Contact us if you:

- Own a second or multiple properties either yourself, jointly with your spouse or others or in a formal partnership arrangement
- Want to buy a second property or start up a property investment business
- Let out a room or part of your own home
- Are increasing the amount of properties you own
- Own a property overseas

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