FINANCE UPDATES
AUGUST 2021

HB Dobbin
FINANCIAL PLANNING

TAX INCENTIVES FOR GETTING MARRIED

The tax breaks that become available when you wed.

It's wedding season and as the chime of church bells becomes more common again after months of lockdown, married couples will be pleased to learn that there's more than just love in the air when you get married.

That's because tying the knot can come with a host of financial benefits too, even something as simple as cheaper car insurance. Here are the main facets of the tax system that help married couples pay less tax over their lifetimes.

INHERITANCE TAX

"Until death do us part" is included in many wedding vows. While for most it may seem a bit early to think about that kind of thing, marriage is advantageous when it comes to inheritance tax.

First, upon death of the first spouse all joint assets automatically pass onto the surviving spouse with no inheritance tax liability and any other assets left to the spouse are also tax-free.

If there was a will, the assets will be distributed accordingly. But if there was no will, the surviving spouse automatically receives the first £270,000 of the estate and then all of the value of the estate in excess of this amount.

That's unless there are surviving children, grandchildren or other descendants, in which case half of the amount in excess of £270,000 goes to the surviving spouse, again free of inheritance tax.

For an unmarried couple or for passing on assets to anyone else inheritance tax will apply, whether through a charge or through using up your nil-rate band.

The headline rate of inheritance tax is 40%. However, we are each given a £325,000 tax-free allowance (nil-rate band).

Any of your nil-rate band you do not use (by bequeathing to people other than your spouse) passes to your spouse if you are married. This means that a surviving spouse can pass on at least £650,000 to beneficiaries free from inheritance tax.

There is an additional allowance of £175,000 per spouse, called the residence nil-rate band, which can again be transferred on the death of the first spouse.

Therefore, it's possible for a married couple to pass on up to £1 million of assets free from inheritance tax – far more than an unmarried couple can.

As an aside on inheritance, marriage also takes away a lot of the uncertainty as to who gets what when a partner dies.

If you die as one half of an unmarried couple, not only does your estate miss out on the potential benefit of transferred allowances, but you also expose yourself to intestacy rules.

These mean that assets, including your main residence, may be distributed in unexpected ways if you do not have a will.

In a worst-case scenario, your surviving partner could be rendered homeless as well as bereaved, depending on how the property was owned and on your family circumstances.

PASSING ON AN ISA

Similarly to inheritance tax allowances, you are uniquely entitled to pass on the tax-free status of your ISA to your spouse, with the value of your tax-free portfolio making a one-off boost to their own ISA.

Given a lifetime of saving, this could represent a major tax benefit and an important component of the surviving spouse's retirement income.

MARRIAGE ALLOWANCE

The marriage allowance may be the most obvious benefit that becomes available, but it is unlikely to be the most valuable.

This allowance lets one person transfer £1,260 of their tax-free personal allowance to their spouse, realising a tax saving of up to £252 per year, based on this year's tax rates.

To benefit, one partner needs to earn less than the personal allowance (£12,570 in 2021/22), and the other pays the basic rate of income tax. It is also possible to backdate claims to include any tax year since 5 April 2017.

Over the duration of your marriage you may make far greater tax savings from other sources, based upon the current rules.

INTERSPOUSAL TRANSFERS

It is also possible to transfer assets between spouses without triggering a tax charge, and effectively share income tax and capital gains tax allowances throughout your marriage.

To achieve this with regards to income tax, you can hold interest and dividend-producing assets in the name of whichever partner pays the lowest tax rate, allowing a married couple to keep more of the income that their assets produce each year.

For example, let's say you are a higher-rate taxpayer and your spouse does not pay income tax; you have both used your ISA allowances and have cash in a savings account generating £2,000 of interest a year.

If the cash is held in your name, £800 of the interest would go in income tax; whereas if it was transferred and held in your spouse's name, there would be no tax liability provided they were under their personal allowance. You would keep the £2,000.

For capital gains tax, everyone can currently make up to £12,300 of tax-free gains when disposing of assets each year. By transferring assets to your spouse or vice versa, you can ensure both your capital gains tax allowances are used each tax year.

Say, for example, that you had £40,000 of shares to sell in your name which included £20,000 worth of gains. If you sold them all in your name, £12,300 of the gain would be tax-free, but you would have to pay either 10% or 20% capital gains tax on the remaining profit, depending on your marginal tax rate.

It can be tax-efficient to make an interspousal transfer for half the shares before you sell and utilise your spouse's capital gains tax allowance and there will be no tax to pay, saving you £770 or £1,540 depending on your tax rate.

STATE & WORKPLACE PENSIONS

It can also pay to be married when it comes to the state pension.

If one of you dies and the other has not built up the full entitlement to the state pension then there is some scope for transferring the built-up rights to top up the lesser pension.

With regard to any workplace or personal pensions, it is sensible to check what provision there is for partners after the death of the plan-holder, as sometimes benefits will only be paid out to a surviving partner if they were married to the plan-holder.

OTHER CONSIDERATIONS

While there are plenty of advantages to being married, there can be potential downsides, too.

In 2019, there were 8.9 divorces per 1,000 married men and women, and as you'll probably be aware divorce can take an extremely heavy financial toll on top of an emotional one.

A potential pitfall to be wary of is the "accidental landlord" trap.

If you and your partner each own a property and then get married, keeping both properties (and renting one out, for example) will qualify you for an additional home stamp duty surcharge of 3% should you ever buy a new main residence.

With average UK house prices currently over £250,000, that could be an unexpected, unwelcome expense to contend with.

And what about the cost of a wedding itself? One poll puts the average cost in the UK at just under £32,000 before COVID-19.

Get in touch to discuss your financial affairs.