

Tax Year End Planning

The tax year end of 5th April is not far away and so now is the time to finalise any end of year tax planning.

Below are a few reminders of several general tax planning matters. If you would like to discuss your individual circumstances please feel free to contact us.

Please be aware this is a generic document and does not make a personal recommendation. Specific rules, limits and calculations apply to all areas below. We advise you to speak to a professional before taking any action.

Pension Tax Relief

There are rules around how much you can pay into a pension to benefit from the tax advantages. The maximum you can pay in to a pension is personal to your circumstances. Benefits of pension contributions include:-

Income Tax Relief

You can receive 20% relief on your personal contributions (subject to contribution limits), e.g. you pay in £8,000 net, your pension is credited with £10,000 gross. (25% immediate increase).

Higher/Additional Rate Income Tax Relief

If you pay more than the basic rate of income tax you can reduce your income tax bill by saving into a pension.

The amount you personally invest (not via employment) is added to your basic rate allowance, increasing the amount of your earned income subject to basic rate income tax and consequently reducing the amount of your income subject to higher rate income tax.

For example, you pay a personal contribution into your pension of £8,000, your pension fund is credited with £10,000 (therefore an immediate £2,000 increase). If you are a higher rate tax payer, the level of pension contribution made is added to your basic rate allowance increasing the amount you can earn before you pay the higher rate of income tax (40%). You can claim this additional tax relief by completing a tax return.

The below example assumes a person with taxable earned income of £60,000 making a £10,000 pension contribution.

Tax rate	Tax payable assuming no pension contribution		Tax payable assuming £10,000 gross pension contribution (which only costs you a net investment of £8,000)	
	Tax band	Tax	Tax band	Tax
0%	£11,500	£0	£11,500	£0
20%	£33,500	£6,700	£33,500	£6,700
20% extension	N/A	-	£10,000	£2,000
40%	£15,000	£6,000	£5,000	£2,000
Total tax		£12,700		£10,700

Gaining back lost Child Benefit

Once you start earning more than £50,000, the child benefit starts to taper away. By making pension contributions you can reduce your calculated income for Child Benefit purposes. For 2 children child benefit is currently £34.40 per week (£1,788.80 per annum).

For example, if your taxable earned income is £60,000, you lose all your child benefit.

However, if you made a £8,000 net pension contribution, the amount invested would be £10,000 gross, resulting in an immediate £2,000 increase to your investment. Your income would now be deemed to be £50,000 for Child Benefit purposes and as a result you would be entitled to the £1,788.80 pa Child Benefit. Additionally, you can claim higher rate income tax relief on your pension contribution.

Gaining back lost Personal Allowance

The Personal Allowance is the amount of income you can earn before starting to pay Income Tax but it will be reduced and potentially lost altogether for those whose total income exceeds £100,000. The Personal Allowance (under age 65) is currently £11,500 (2017/2018) and reduced by £1 for every £2 of income over £100,000. As a result, anyone with income over the £123,000 (£11,500 x 2) loses their full personal allowance.

For example, your total income is £112,000 (£12,000 of income over the £100,000). As a result you lose £6,000 of your Personal Allowance. If you invested a gross amount of £12,000 into a pension it would reduce your income to £100,000, thus restoring your full Personal Allowance. The £12,000 is the gross pension contribution, as a result you only pay £9,600 and this is grossed up to £12,000.

Additionally, again you would be entitled to claim back higher rate tax relief on the contribution on your tax return.

As always, you should take advice and be aware that if it is of interest you need to take action before the end of the Tax Year (5 April 2018).

Business Owner/Employer Pension Contributions

If you own your own Limited company, you can elect to make employer pension contributions for yourself and, subject to conditions, the payment can be deemed a business expense and not subject to Corporation Tax. Additionally, because the money has not been paid out to you as salary or dividend, it has not attracted National Insurance, income tax or dividends tax.

Further Tax Benefits

The value of a pension fund can be deemed outside your Estate for Inheritance Tax purposes. (As a result it is a tax efficient shelter for wealth).

The monies in your pension grow income and Capital Gains Tax free.

As mentioned above, there are limits on how much you can pay into a pension (known as the Annual Allowance "AA"). As a result, it is important you identify what your AA is before making a contribution. If you exceed your AA you will incur a tax charge.

ISAs

The **ISA limit is £20,000** and runs from tax year to tax year. It's a "**use it or lose it**" allowance. You cannot claim back unused ISA allowances. If you are investing in an ISA but not used the full allowance, give some thought to topping up before the end of the tax year.

Monies held in an ISA grow free from Income Tax and Capital Gains Tax. ISA monies can be passed between spouses on death and retain their tax efficiency.

Utilising your Capital Gains Tax (CGT) Allowance

We each have a personal allowance for capital gains before CGT is charged. A valuable tax planning approach is to manage your capital gains and assets that will incur CGT. If you hold assets that are subject to CGT, for example investments outside of an ISA or pension, one approach is to sell down each year to create the capital gain but within the allowance and thus not incur the tax. You can then reinvest the proceeds in a more tax efficient vehicle, for example ISA or pension. Careful planning is required to ensure you are aware of the gain you are creating.

Bed & ISA = This is the term used for selling an investment not held in an ISA and then reinvesting the proceeds in an ISA.

Bed & Pension = Like Bed and ISA, there is no rule to say you can not sell an asset and use the proceeds to make a personal pension contribution and benefit from the tax advantages detailed above.

Gifting to a Spouse

If one of you in a marriage is a high earner and the other is not, you could consider gifting/transferring income generating assets to the spouse with the lower income to mitigate paying higher rate of income tax. For example shares, or rental property income etc.

Invest with your Employer

If your employer offers a Share Save scheme there are usually price discounts and tax breaks for taking part. It may be too late to join in this tax year but it is worthwhile investigating when the next opportunity arises.

Annual Exempt Gifting

You can give away £3,000 worth of gifts each tax year (6 April to 5 April) without them being added to the value of your estate for Inheritance Tax Purposes. This is known as your 'annual exemption'. You can carry any unused annual exemption forward to the next year - but only for one year.

Each tax year, you can also give away:

- wedding or civil ceremony gifts of up to £1,000 per person (£2,500 for a grandchild or great-grandchild, £5,000 for a child)
- normal gifts out of your income, for example Christmas or birthday presents - you must be able to maintain your standard of living after making the gift
- payments to help with another person's living costs, such as an elderly relative or a child under 18
- gifts to charities and political parties

You can use more than one of these exemptions on the same person - for example, you could give your grandchild gifts for her birthday and wedding in the same tax year.

You can give as many gifts of up to £250 per person as you want during the tax year as long as you haven't used another exemption on the same person.

Use the Marriage Allowance

The marriage tax allowance is a way for couples to transfer a proportion of their personal allowance between them. The amount you can transfer is £1,150.

Only people with these specific circumstances will be able to apply for the Marriage Allowance:

- You're married or in a civil partnership (just living together doesn't count).
- One of you needs to be a non-taxpayer, i.e. earning less than the personal allowance (2017-17 £11,500).
- The other needs to be a basic 20% rate taxpayer (higher or additional-rate taxpayers aren't eligible for the marriage allowance). This means normally earning less than £45,000. (Refer to HMRC website for full details)
- You both must have been born on or after 6 April 1935

In summary one of you must be a non-taxpayer and one must be a basic-rate taxpayer. In that case the non-tax payer can transfer £1,150 of their personal allowance to the basic taxpayer and this means the basic tax payer saves 20% income tax on this amount. (£230 tax saved).

As with anything there are conditions and rules around this. For full details please see the HMRC website or contact us.

Review your Will & Estate Planning

You should review your Will regularly and particularly after major changes in life, for example, marriage, separation, divorce, having children or a death in the family. Your choice of executors may change over time, as may your beneficiaries.

Lasting Power of Attorney

A Lasting power of attorney (LPA) is a legal tool that gives another adult the legal authority to make certain decisions for you, if you become unable to make them yourself. The person who is given this authority is known as an 'attorney'. They can manage your finances, or make decisions relating to your health and welfare.

It can be reassuring to know that, if you are unable to make a decision for yourself in the future, the person you choose will make these decisions for you.

- Making an LPA ensures that the person you want to make decisions for you will be able to do so. This prevents a stranger, or someone you may not trust, from having this power.
- Making an LPA now will make things easier for your family and friends in future. It will be more expensive, difficult and time-consuming for them to get the authority to act on your behalf when you are not able to give it.
- Making an LPA can start discussions with your family or others about what you want to happen in future.

If there is no Lasting power of attorney in place:

- You have no say in who the court appoints as your deputy
- You have no say in the scope of power granted to your deputy
- A deputy's application could be refused, so the council may be appointed instead
- Your family will have to pay extra to apply for and maintain a deputyship
- You may not be able to sell jointly held assets until the court appoints a deputy

As a result, from a financial planning perspective it is very important to have an LPA in place, to ensure your assets can be accessed quickly should you lose capacity and funds are required for care or treatment etc.

Paying Down Debt

Not necessarily linked to the tax year end, but if you have debts, such as a mortgage you should ensure you are aware of the rate of interest you are being charged and your options to pay down your debt without financial penalty. You may be better served paying off debt than investing your monies, or indeed doing a combination of the two may be most appropriate.

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