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FACTSHEET

Planning opportunities

Making tax saving preparations

At this time of year, it's a good time to start planning our tax affairs before the end of the tax year on 5 April. As you think about your future financial goals, we can help to start you off on the right financial footing. It's well worth spending some time to think about your money so you can achieve your goals as quickly as possible.

Tax planning might not sound very exciting, but it can have a dramatic effect on your personal finances. The Government and HM Revenue & Customs (HMRC) continue to clamp down on what they regard as tax avoidance and unacceptable tax planning. But there is still much that can legitimately be done to save or reduce tax.

MEETING YOUR FINANCIAL GOALS

Tax planning is one part of meeting your financial goals. By taking action now, it may give you the opportunity to take advantage of appropriate reliefs, allowances and exemptions, and consider whether there are any relevant decisions that you need to make sooner rather than later. Many of the tax and investment planning opportunities available require action to be taken before 5 April 2019.

READY TO PUT THE TIPS INTO ACTION?

Here we've provided some of the main areas you may wish to discuss with us, if appropriate to your particular situation.

TOPPING UP YOUR PENSION

Pensions are now more flexible than they have ever been and remain extremely tax-efficient. You'll receive tax relief at the basic rate of 20% on contributions made to personal and workplace pensions. So for every £80 you pay in, HMRC will top it up to £100. If you're a higher or additional rate taxpayer, you can claim back up to an additional 20% or 25% through your self-assessment tax return. However, if you are a Scottish taxpayer, the tax relief you will be entitled to will be at the Scottish Rate of Income Tax, which may differ from the rest of the UK.

But you'll need to watch out for the annual pension allowance. This is the limit on the amount that can be contributed to your pension each year while still getting tax relief. For the 2018/19 tax year, for most people it's £40,000, or the value of your whole earnings – whichever is lower. Lower allowances may apply if you have already started drawing a pension, or if you are a higher earner with income plus pension contributions that total above £150,000.

If you've used your full allowance in the current tax year but not in recent years, you may also (depending on your circumstances) be able to 'carry forward' any annual allowance which you haven't taken advantage of in the three previous tax years. There's also the Lifetime Allowance to consider. If the value of all your pensions is more than £1,030,000, anything over this limit will be taxed when you start using it.

TAKING YOUR ISA TO THE MAX

One of the easiest ways to reduce your tax bill is to shelter any returns above your allowances in an Individual Savings Account (ISA), which is a tax-efficient wrapper. For the 2018/19 tax year, you can put up to £20,000 into an ISA. For a couple with two children, the total ISA allowance available to the family is £48,520, which comprises £20,000 for each adult plus £4,260 of Junior ISA allowance per child.

You can choose to hold all of that in a Cash ISA, or put it into a combination of investments, including funds, shares, gilts and bonds through a Stocks & Shares ISA, or you can invest in peer-to-peer lending through an innovative finance ISA. Alternatively, you can split your allowance between a cash, stocks and shares, innovative finance and a lifetime ISA. However, with a lifetime ISA, you can only allocate up to £4,000 of your £20,000 allowance. You also must be aged between 18 and 39 when you start and can deposit up to £4,000 per year until your 50th birthday. The Government will add an annual bonus of 25% (up to a maximum of £1,000 per year) to any savings.

You won't be taxed on returns from savings or investments held in an ISA, nor will you have to pay Capital Gains Tax (CGT) on any of the profits you make above the annual CGT allowance, which in the 2018/19 tax year is £11,700. The standard CGT rate is 10%, while the higher rate is 20%.

GETTING PERSONAL WITH YOUR ALLOWANCE

Everyone has a certain amount of income they can earn each year without paying Income Tax, known as their 'personal allowance'. For the 2018/19 tax year, this amount is £11,850.

Your personal allowance is in addition to the Personal Savings Allowance (PSA). Since April 2016, savings interest has been paid tax-free, which means that most savers no longer have to pay Income Tax on the savings income they receive.

Your PSA depends on which Income Tax band you are in, with basic rate taxpayers entitled to a £1,000 allowance, while higher rate taxpayers receive a £500 allowance. Additional rate taxpayers are not eligible for a PSA.

Investors also have a dividend allowance which means that individuals receive their first £2,000 in dividends tax-free, but any dividends above this amount will be charged at 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers.

Take advantage of your marriage vows. If one spouse is a higher rate or additional rate taxpayer

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and the other doesn't pay tax at all, it could be more tax-efficient to put the account solely in the non-taxpayer's name. This would give that spouse full ownership of the account, so you'll need to make sure you're both happy with the arrangement.

KEEPING YOUR INHERITANCE IN THE FAMILY

ISAs and pensions are the two big ways to shelter your money from tax, but there are other tools at your disposal. Your estate is valued when you pass away and chargeable to Inheritance Tax (IHT) at 40%, although the first £325,000 nil-rate band (NRB) is exempt. Anything that goes to your spouse is also exempt.

Married couples and those in registered civil partnerships can also benefit from an additional family home allowance, which makes it easier to pass on the family home to direct descendants without incurring IHT charges. This was introduced on 6 April 2017, starting at £100,000, and will be phased in gradually until the total IHT threshold reaches £500,000 per person in 2020/21.

The residence nil-rate band (RNRB) acts as a top-up to the current IHT NRB and works in a similar manner by reducing the value of your estate that is subject to IHT at the full rate of 40%. It is potentially available for deaths on or after 6 April 2017 where, in general terms, an interest in the family home is left under your will to your children, grandchildren or other lineal descendants. The RNRB is set-off against the value of your estate ahead of the NRB, and the maximum RNRB amount allowed on a death in the 2018/19 tax year is £125,000.

Current tax rules also enable you to give away up to £3,000 free of IHT each tax year. You can give away more than this amount if you want to, but you must live for at least seven years from the date of the gift for it to be exempt from IHT. ■

TAKING CONTROL OF YOUR FINANCES

Taking control of your finances is a great feeling, so if you would like to discuss any aspects of your financial plans, please speak to us – we look forward to hearing from you.