The Origen Guide to Tax Year Planning

Investments | Income | Savings & Dividends | Retirement | Inheritance Tax

Illuminating Advice

Tax Year Planning

Tax allowances are available every year to help you make the most of your money. This guide shows some of the key allowances which are available to you.

Each tax year, if you have not used these allowances they will be lost, so you should take action to avoid missing out.

Have you made the most of these financial planning opportunities:

- ☐ Tax free savings
- ☐ Reducing your Income Tax
- ☐ Maximising returns on your investments
- ☐ Saving for your retirement
- ☐ Passing on your wealth

This guide is intended to be for your information only and not to be taken as financial advice. Before you take any action based upon the information in this guide, you should seek advice regarding suitability and tax consequences.

Tax-free savings

When it comes to investing, an Individual Savings Account (ISA) is one of the most tax efficient ways you can save for the future. It protects your investment from Income Tax and Capital Gains Tax (CGT). An ISA should be an essential part of your financial arrangements; allowing your savings more potential for tax-free growth.

Every UK resident over 18 (age 16 for cash ISAs) has an ISA allowance of £20,000 for the tax year 2017/2018 and another £20,000 ISA allowance for 2018/19, which can be invested in a stocks and shares ISA, a cash ISA or an Innovative Finance ISA.

If you have used your own allowance, you may wish to make payments into an ISA for a spouse, civil partner or family member. Children have a Junior ISA allowance of £4,128 for the tax year 2017/2018 and another £4,260 allowance for 2018/19, which can be an excellent way to save for their future. The Lifetime ISA is available for people aged under 40, with an annual limit of £4,000 which counts towards your overall £20,000 ISA allowance. A Lifetime ISA used for a first time property purchase or retirement receives a 25% bonus from the Government.

Actions you should take

- ✔ Have you used your allowance for this tax year? If you have remaining ISA allowance, you should consider using it, otherwise it will be lost at the end of the tax year.
- ✔ Do you have cash or non-ISA investments which you are willing to hold over the medium to long term of five years or more? Re-investing them into an ISA will mean that they are exempt from future Income Tax and Capital Gains Tax charges.
- ✔ Have you considered making ISA investments for other family members, who have their own ISA allowance?

Reducing your Income Tax

Your income is subject to Income Tax, but you have a personal allowance where income is tax free. There are further tax thresholds where the rate of Income Tax increases from the basic rate of 20% to 40% and 45%.

	2017/18	2018/19
Personal Allowance	£11,500	£11,850
	Taxable Income	
Basic Rate Tax (20%)	Up to £33,500	Up to £34,500
Higher Rate (40%)	£33,501 - £150,000	£34,501 - £150,000
Additional Rate (45%)	Over £150,000	Over £150,000
Please note that in Scotland there are proposals to introduce five new tax bands for 2018/19 and the basic rate tax threshold for 2017/18 is up to £31,500.		

You can reduce your taxable income so that you do not pay more tax than you need to – for example, by making a pension contribution.

As well as tax bands, there are also tax traps which you should consider:

- For taxable income of £50,000 you will lose child allowance at the rate of 1% of the child benefit for each £100 of income you are over the £50,000 threshold. For income over £60,000, no child benefit will be payable.
- Higher earners over £100,000 will lose their personal allowance at the rate of £1 for every £2 over this limit.

Actions you should take

✔ Assess your annual income levels and consider if you can make allowable deductions to reduce your tax band.

✔ If you earn over £50,000 or you are a higher earner, you can take action (such as by making pension contributions) to reduce your taxable income to keep all or some of your child benefit or your personal allowance.

✔ If your spouse / civil partner is a lower band taxpayer you may consider passing income generating assets to them or opting for joint ownership.

Maximising returns on your investments

If you have investments held directly in shares you may receive dividends. In 2016 the Government introduced a dividend allowance of £5,000 which means that you can receive dividends tax free, up to this limit. From April 2018, tax-free this allowance will fall from £5,000 to £2,000.

Interest on savings has an allowance of £1,000 for basic rate taxpayers, reducing to £500 for higher rate taxpayers and there is no allowance for additional rate taxpayers.

If you sell investments, including shares, your gains will be subject to Capital Gains Tax (CGT) at either 10% or 20% (with an additional 8% on the sale of properties, other than your main residence which is generally CGT exempt). You have a CGT allowance of £11,300 in the current tax year.

Actions you should take

- ✔ So that interest and dividends are exempt from tax, you should consider putting any savings or share investments into an ISA wrapper.
- ✔ If you are making large gains, you should plan when you sell or cash in assets to make use of CGT allowances in each tax year. For example, you could use your CGT allowance of £11,300 for the current tax year and then use your CGT allowance of £11,700 in 2018/19, to enable you to take gains of up to £23,000 tax free.

Saving for your retirement

Saving for your retirement is an important part of financial planning. Putting money aside while you are working is vital if you want to continue a good quality of life in retirement. You may have pension savings with your employer or previous employers – but you can also make your own pension contributions. You have an annual allowance of up to £40,000 and you will receive tax relief on pension contributions up to the value of your annual earnings in each tax year. If you have started to take your retirement benefits flexibly, your annual allowance may be reduced to £4,000 under the Money Purchase Annual Allowance rules.

If you are approaching your annual allowance, you may be able to use the previous three years' allowances using the carry forward rules, provided you have been in a pension scheme. But care should be taken as exceeding allowances will incur a tax charge. If you are earning over £110,000 you should be aware that your annual allowance may be reduced below £40,000.

You can make pension contributions through your employer using Salary Sacrifice. This will reduce your taxable income and therefore your own tax bill. Your employer will also reduce their Corporation Tax and National Insurance payments and you may also benefit from receiving employer pension contributions.

Actions you should take

- ✔ Consider your target retirement income and your existing pension savings, including those from previous employers to identify any shortfall.
- ✔ If you have an employer pension scheme, consider making additional pension contributions to your employer scheme. If you wish to make a large pension contribution, consider whether you have any unused allowances you can carry forward.
- ✔ Complete a State Pension forecast (available at **www.gov.uk**) to assess how much and when you might receive the State Pension.
- ✔ If you are planning to take pension income make sure you understand the rules around the Money Purchase Annual Allowance, as triggering this could severely restrict pension saving.

Passing on your wealth

Inheritance Tax (IHT) is payable at 40% on the value of an estate on death. However, everyone has a nil rate band of £325,000 and an additional residence nil rate band of £100,000, provided the residence is left to a direct descendant. The nil rate band is set to remain at £325,000 until 2020, whereas the residence nil rate band is due to increase by £25,000 each year until it reaches £175,000 in 2020.

To reduce the value of your estate for IHT purposes, you can make lifetime gifts which may be treated as potentially exempt transfers if you survive for seven years after making the gift. However, you can also make gifts up to £3,000 each year or gifts from normal expenditure which will be exempt from Inheritance Tax. Gifts up to £250 are also allowable and will be tax-free gifts. These allowances mean that you can make gifts to family and see the benefits of making these gifts in your lifetime – as well as reducing the potential IHT bill. Before making gifts, you should consider your own future financial requirements.

You can also use trusts to reduce the value of your estate for IHT purposes. Assets in a trust are outside your estate – but they may still be liable to Inheritance Tax either as a Potentially Exempt Transfer (PETs) or Chargeable Lifetime Transfers.

Any investments which you gift or put into trust must be given without reservation, otherwise they will still be treated as part of your estate.

Actions you should take

- ✔ Have you used your £3,000 annual gift allowance? You can use any unused allowance from the previous year – but if you don't use the allowance for tax year 2015/16 before 5th April 2017, then it will be lost.
- ✔ Assess the value of your estate – if you are likely to have an IHT liability, you could consider putting some of your assets into a Trust.
- ✔ Making gifts out of normal expenditure can also reduce the value of your estate. You could make regular gifts directly, to fund a 'whole of life' plan which can be used to meet an IHT bill, or perhaps make pension contributions for children.

Take the time to consider if these tax allowances can help you and your family get your money working harder. Ask your Consultant to see how you can use these tax planning opportunities to keep you on track towards achieving your financial goals.

To discuss your financial plans, please contact your Consultant, or our Client Liaison team on:

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Calls are charged at your phone company's basic rate. All calls are recorded for business purposes.

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