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CHARTERED FINANCIAL PLANNERS

FINANCIAL GUIDE

GUIDE TO

WEALTH PRESERVATION

OPTIMISING YOUR TAX POSITION IS PARAMOUNT IN THE RUN-UP TO THE FINANCIAL YEAR END

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GUIDE TO WEALTH PRESERVATION

Optimising your tax position is paramount in the run-up to the financial year end

Whether it's the new rules on pensions, savings or taxable dividend income, we have set out what you need to consider in the run-up to the financial year end.

TAX MATTERS

Appropriate tax planning could help you substantially reduce tax liabilities and defer tax payments

Taxes, as we know, are one of the two great inevitables in life. As the UK tax system continues to grow ever more complex, and with more responsibility being placed on the individual to get their own tax right, ensuring that you receive the best professional advice to optimise your tax position is paramount.

Appropriate tax planning could help you substantially reduce tax liabilities and defer tax payments. The tax planning advice you need will depend on your particular circumstances and how complicated your financial affairs are. We have provided details of a number of tax planning areas you may wish to review, especially as we are now in the run-up to the 2015/16 financial year end on 5 April.

IT'S GOOD TO GIVE

Personal income over £150,000 is taxed at 45%. However, because the personal allowance is reduced by £1 for every £2 of net income over £100,000, for income between £100,001 and £121,200 the effective top rate is 60%. Individuals with incomes near these thresholds could potentially reduce their tax liabilities by reducing their taxable income below £100,000 or £150,000. This may be achieved by changing income into non-taxable forms, giving income yielding assets to a spouse with lower income, deferring income, making pension contributions or making payments to charity.

EXCHANGING CASH PAYMENTS

It is already common for employers to offer arrangements allowing employees to exchange a cash payment for approved share options, benefits in kind or pension contributions in lieu of salary. Employees who exchange income (for example, to take them below the £100,000 threshold) in return for a tax-free pension contribution made by their employer would save Income Tax and NIC.

TAXABLE DIVIDEND INCOME

The effective rate of tax on taxable dividend income, for example, from shares not held in an Individual Savings Account (ISA or pension fund), will rise by up to 6% for some taxpayers from 6 April 2016. However, there will also be a new £5,000 nil rate band on dividend income, so the exact rate of tax anyone pays on their dividend income will depend on the amount they receive and their other income in 2016/17.

If you receive a significant amount of dividend income from your own or a family company, there may be advantages in bringing forward dividends into the 2015/16 tax year. However, if you are normally a basic-rate taxpayer, taking a large dividend that pushes your total income into the higher rate of tax or results in a loss of personal allowances could be counter-productive.

Conversely, if you receive relatively low levels of taxable dividend income, it may be beneficial to defer dividends until 2016/17 so that you can benefit from the new dividend nil rate band. You should obtain professional advice on the most appropriate option for your particular situation.

REARRANGING SUBSTANTIAL INVESTMENTS

If you have substantial investments outside an ISA or other tax-efficient wrapper, consider rearranging them so that they produce either a tax-free return or a return of capital taxed at a maximum of only 28%, rather than income taxable at a maximum of 45%.

COMPANY CARS TAX

Each year, the taxable benefits on company cars are effectively increased by reducing the level of CO_2 emissions that trigger each 1% increase in benefit. For example, a car with emissions of 150g/km triggers a 25% taxable benefit in 2015/16, but the same car will give rise to benefits of 27% in 2016/17 and 29% in 2017/18.

It may be worth using your own car for business travel and claiming a tax-free mileage allowance from your employer. If fuel has been provided for private use, consider whether full reimbursement of the cost to the company would be a cheaper option than paying the fuel scale charge, which is based on the car's CO_2 emissions.

SOME FRIENDLY SOCIETIES OFFER REGULAR PREMIUM POLICIES WHICH RUN FOR TEN YEARS OR MORE AND CAN QUALIFY FOR FULL INCOME TAX EXEMPTION ON THE GAINS ACCRUED.

INVESTMENT MATTERS

Options to minimise how much tax you pay

By understanding which investments are the most tax-efficient, you can make the most of your options to minimise how much tax you pay. As well as deciding what to invest in, you need to think about how you're going to hold your investments. Choosing tax-efficient investments will often mean you're able to keep a higher proportion of any returns you make.

You should always bear in mind that tax rules can change in future. What's more, the benefit to you of favourable tax treatment (such as that given to Individual Savings Accounts) will depend on your individual circumstances.

MAXIMISE YOUR ISA ALLOWANCE

UK residents aged 18 and over can invest up to £15,240 each in an Individual Savings Account (16 and over for a Cash ISA), and parents can fund a Junior ISA or child trust fund with up to £4,080 per child – making a total of £38,640 for a family of four before 6 April 2016.

If you have adult children who are planning to buy a home, it would make sense to gift funds to them so that they can invest in the new help-to-buy ISA. This became available for a four-year period from 1 December 2015 to help first-time buyers. Individuals aged 16 or over can save up to £200 per month (up to £1,200 in the first month), to which the Government will add a 25% tax-free bonus, from a minimum bonus of £400 up to a maximum amount of £3,000 on £12,000 of savings. Income and capital gains from ISAs are tax-free, and withdrawals from adult ISAs do not affect tax relief.

INSURANCE BACKED BONDS

Provided by major insurance companies, life insurance backed bonds offer relatively secure returns to investors (depending on the underlying investments). They have the added tax advantage that up to 5% of the original capital invested can be withdrawn each year with no immediate tax liability. After such withdrawals reach 100% of the original capital, Income Tax is payable on further withdrawals or on surrender of the policy. Individuals whose level of income means that they will lose their personal allowance and/or pay 45% Income Tax may now find the 5% tax-free withdrawals facility particularly attractive.

Some friendly societies offer regular premium policies which run for ten years or more and can qualify for full Income Tax exemption on the gains accrued. However, since 6 April 2013, investment into such qualifying policies has been limited to £3,600 a year for all arrangements set up after 21 March 2012. Any amounts invested in new policies that are in excess of the annual limit will not qualify for the favourable tax treatment. Increases to existing policy premiums will be classed as creating a new non-qualifying policy, but if you have a pre–21 March 2012 policy it should be advantageous to keep the policy going until the existing maturity date.

OFFSHORE BONDS

Offshore life assurance bonds allow income to accumulate virtually tax-free until they are disposed of, at which point they are taxed in full at your marginal rate. As with UK bonds, up to 5% of the original capital invested can be withdrawn each year until the original capital has been withdrawn in full with no immediate tax liability.

While the maximum rate of Capital Gains Tax remains at 28%, alternative collective investments may be more attractive for short-term investment. However, offshore life assurance bonds offer the flexibility to defer tax into a year when other income is lower, or until a year when income losses are available to offset the profits, or a year when you are not tax-resident in the UK.

EMPLOYER TAX BREAKS

If your employer offers a share scheme, there are usually price discounts and tax breaks for taking part. Where you can participate each year, plan carefully to use annual contribution limits and manage share purchases so that there is a steady flow of potential share sales in future tax years, allowing you to maximise use of your annual capital gains exemption.

Shares acquired under share incentive plans (SIPs) or sharesave (SAYE) schemes have minimum holding periods. It may not be possible to hold such shares in an Individual Savings Account, so any dividends received on the holdings will be taxable. However, from April 2016 onwards, a new dividend nil rate band will apply so that the first £5,000 of dividend income is not taxed.

It's important to obtain professional advice before entering such schemes.

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

RETIREMENT MATTERS

Now is the time to make smart year-end retirement planning decisions

Time is ticking away to make smart year-end retirement planning decisions. It's common knowledge that increasing our retirement savings will better prepare us for retirement. But in addition to saving for retirement, it's also important to maximise on other ways to improve our retirement finances in 2016 and beyond. We've provided some year-end retirement planning tips that, if appropriate to your particular situation, you may want to investigate further.

PENSION PLANNING PROVISION

Tax relief on pension contributions will be restricted for higher earners from 6 April 2016. However, transitional rules have been introduced for 2015/16 which give a wider group of taxpayers the opportunity to make extra pension contributions and claim full tax relief.

The annual contribution limit for an individual (the total of personal contributions and those made by an employer) is £40,000 for pension input periods (PIPs) ending after 5 April 2014. For personal contributions to personal pensions (even those to a 'group' personal pension), basic-rate tax relief is given at source, and higher- or additional-rate taxpayers must claim additional relief through their tax returns: the total subsidy can be up to 45p in every pound paid into your pension pot. Personal contributions to occupational pension schemes are often made via the 'net pay' method where full tax relief is given up front and no tax reclaim is necessary.

While the transitional rules are complex, they are also generous: everyone will have two mini tax years for 2015/16, one ending on 8 July 2015, the second ending on 5 April 2016, and a total annual allowance of up to £80,000 for the year. The £80,000 limit is first used against contributions made during any PIPs ending in the period 6 April to 8 July 2015. Any unused balance up to a maximum of £40,000 is carried forward to use in the period 9 July 2015 to 5 April 2016.

Unused allowances in 2012/13, 2013/14 and 2014/15 are also available for carry forward into 2015/16. However, you must have been a member of a registered pension scheme in the tax year giving rise to the unused relief. Maximising contributions in 2015/16 will be advantageous for individuals with an annual income in excess of £150,000, as their tax relief for contributions in future years will be restricted. Depending on your past contribution pattern and current income level, it is theoretically possible to contribute up to £220,000 for 2015/16 and obtain tax relief on the whole sum. It is important to take advice from a professional financial adviser on contribution levels because if the total contributions you make, or that are made on your behalf, exceed your available allowance (including any unused relief brought forward), a tax charge will arise.

IF YOU ARE AGED 55 OR OVER, YOU MAY BE ABLE TO START DRAWING PENSION BENEFITS NOW FROM A PERSONAL PENSION, EVEN IF YOU ARE STILL WORKING. MEMBERS OF DEFINED BENEFIT SCHEMES ARE LIKELY TO FACE MORE RESTRICTIONS AND CHARGES IF A PENSION IS TAKEN EARLY.

LARGER PENSION POTS

Although funds invested within a pension can grow tax-free, there is a limit (the lifetime allowance) on the total amount you can hold in pension pots, with funds in excess of the limit being subject to penalty tax charges when you take pension benefits that exceed the limit.

The lifetime allowance reduced from £1.5 million to £1.25 million from 6 April 2014. However, affected individuals can now elect for 'individual protection 2014' (IP14) to preserve their individual lifetime allowance at the lower of £1.5 million and the actual value of their pension fund at 5 April 2014 (the standard lifetime allowance will apply if it becomes greater than the IP4 figure). The option to make the IP14 election will end on 5 April 2017.

If the total of all your pension funds is likely to be at or near £1.25 million by the time you retire, you should seek immediate professional financial advice on whether opting for IP14 is appropriate. To be eligible for IP14, total pension benefits must have exceeded £1.25m on 5 April 2014. The lifetime allowance will reduce further to £1 million for 2016/17, and a similar protection option will be available.

Individual Protection is also available to individuals with enhanced protection and fixed protection (FP12 or FP14). In all cases where the individual has enhanced protection, FP12 or FP14, this will take precedence over Individual Protection, with Individual Protection being the fall-back position should the other form of protection be lost.

PENSION DRAWDOWN

If you are aged 55 or over, you may be able to start drawing pension benefits now from a personal pension, even if you are still working. Members of defined benefit schemes are likely to face more restrictions and charges if a pension is taken early.

It may not even be necessary to start taking a full pension income immediately. For example, it may be possible if appropriate to just take your tax-free cash entitlement (entirely or in part) and designate funds for income drawdown. Once all your tax-free cash is taken, further drawings are liable to tax at your marginal rate and will trigger the money purchase annual allowance (MPAA), so a phased approach is likely to be most tax-efficient.

Alternatively, you can take an 'uncrystallised funds pension lump sum' (25% of which is tax-free with the rest taxed at your marginal rate) if appropriate – either the whole fund or a series of payments if the product allows – but this may not be the best option if you or an employer may make contributions to your pension fund at a later date. Most individuals with a defined contribution pension can also now take their whole pension fund via flexi-access drawdown (in one lump sum if appropriate). Funds taken this way above the usual 25% tax-free cash entitlement will be taxed at the individual's marginal rate of tax for the year.

Anyone who is entitled to flexi-access drawdown and who is considering retiring overseas should seek professional financial advice on the potential tax savings of taking such income while outside the UK tax net.

Individuals in defined benefit (final salary schemes) may not have these flexible options and may want to consider switching out of their current scheme and into a personal pension to achieve this flexibility. However, depending on the terms of the particular defined benefit scheme concerned, the cost of such a switch could be prohibitive. Anyone considering this issue is required by law to prove that they have taken financial advice from an independent financial adviser before such a transfer can take place (if the transfer value is £30k or more).

TAX-FREE PENSION CONTRIBUTIONS

For employees, particularly those paying basic-rate tax, pension contributions made by your employer are tax-efficient, as there is no tax to pay on this benefit and the employer can claim a business tax deduction. If you own the company, this can be a tax-efficient way to extract value.

It is often worth setting up arrangements where employees exchange some of their salary in return for a larger pension contribution made by the employer. This saves on National Insurance Contributions that would have been paid by both employer and employee, and the savings can be passed on as higher pension contributions. However, for 2016/17 and later years, this may not be effective for high earners. With regards to pension contributions made on their behalf by employers as a result of salary sacrifice arrangements started after 8 July 2015, the income sacrificed will be added back on as part of threshold income to establish whether threshold income exceeds £110,000. Tax relief on personal contributions is restricted if threshold income exceeds £110,000 and adjusted income exceeds £150,000.

A PENSION IS A LONG-TERM INVESTMENT. THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

YOUR PENSION INCOME COULD ALSO BE AFFECTED BY INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS. THE TAX IMPLICATIONS OF PENSION WITHDRAWALS WILL BE BASED ON YOUR INDIVIDUAL CIRCUMSTANCES, TAX LEGISLATION AND REGULATION, WHICH ARE SUBJECT TO CHANGE IN THE FUTURE

FOR EMPLOYEES, PARTICULARLY THOSE PAYING BASIC-RATE TAX, PENSION CONTRIBUTIONS MADE BY YOUR EMPLOYER ARE TAX-EFFICIENT, AS THERE IS NO TAX TO PAY ON THIS BENEFIT AND THE EMPLOYER CAN CLAIM A BUSINESS TAX DEDUCTION.

LOOKING TO MITIGATE TAX, INVEST MORE TAX-EFFICIENTLY OR PRESERVE YOUR WEALTH FOR FUTURE GENERATIONS?

Creating and maintaining the right approach to your wealth preservation plays a vital role in securing your financial future. Whether you are looking to mitigate tax, invest more tax-efficiently or preserve your wealth for future generations, we can provide the quality advice, comprehensive solutions and ongoing service to help you achieve your financial goals.

To find out more, please contact us.

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