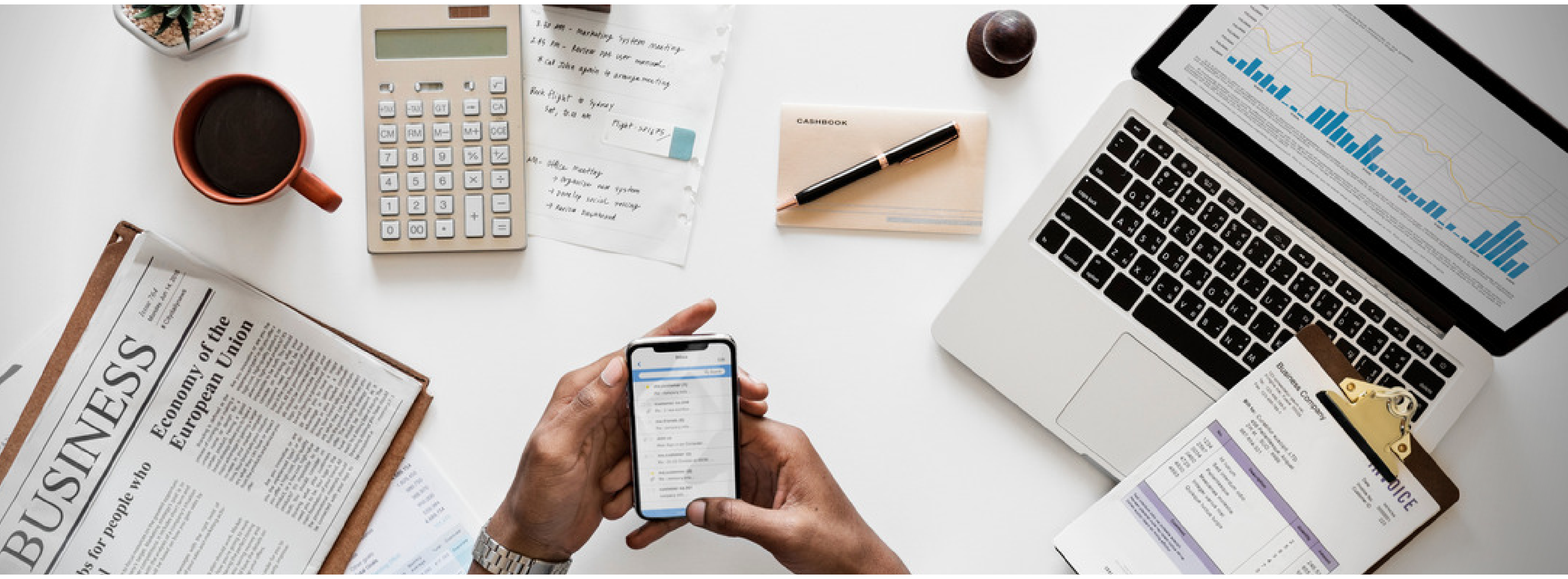
PARTNERS WEALTH MANAGEMENT

Planning your financial freedom - Tax Year End Special (February 2019)



When looking at a tax optimisation strategy it is true to say that when viewed individually, each allowance might not have impact. However, when all these allowances are combined and built together, it is possible to build a strategy that can contribute toward your financial freedom with you suffering very little tax at all.

There are nearly seven weeks from the date of writing to the end of the tax year. Whilst this sounds like plenty of time, from a financial planning perspective, this really is very little time indeed. With this in mind, this newsletter is dedicated to looking at some planning thoughts to make the most of the opportunities, before they are lost.

Get as much pension tax relief now as you can

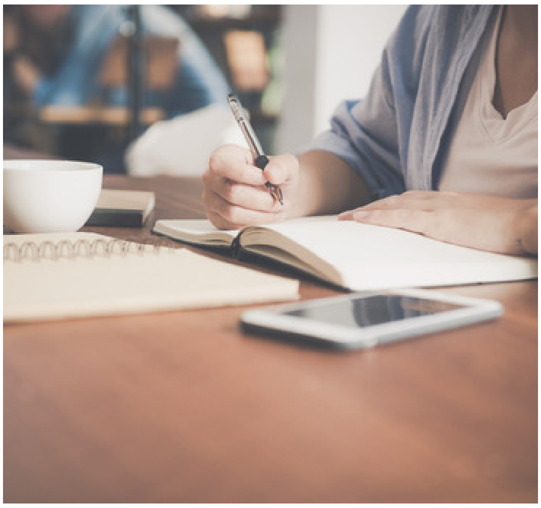
The pensions landscape has continued to evolve, but thankfully, 2018/19 saw no major alterations to the tax rules. However, the possibility that at some point tax relief on contributions will be switched to a flat rate remains real; even the Treasury Select Committee was calling for such a reform last summer. If you pay tax at the higher or additional rates, a move to a flat rate would mean less tax relief (probably no more than 30%) - a good reason to maximise contributions under the current tax rules.

Unused allowances from earlier years

Over the years, the maximum annual allowance that individuals can contribute from all sources to their pension has reduced. Whilst the current limit of £40,000 per tax year has not changed since April 2014, it is scaled back if, very broadly speaking, your total income (not inclusive of earnings only) plus employer pension contributions exceed £150,000. At worst, this cuts the annual allowance to a £10,000 minimum..

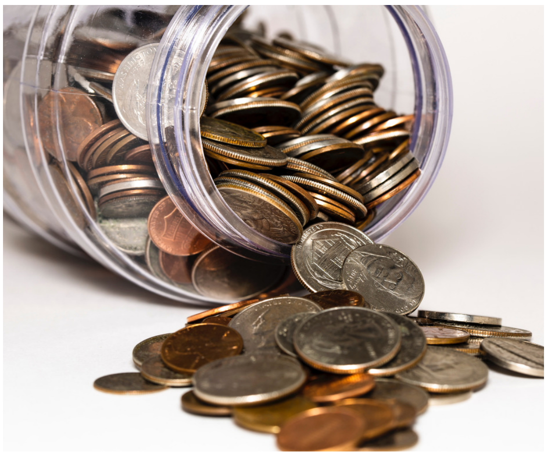
For many who have not maximised the last three years of contributions, there is scope to catch these up (under carry forward rules). In 2018/19, theoretically you and/or your employer could contribute as much as £160,000 without incurring any tax penalties. This being said, carry forward, can involve some complex calculations, particularly if you are or were an employed member of a final salary pension scheme during that period. Obtaining the necessary data can be a slow exercise, so the sooner you start the better.

Careful with the consequences of over-contributing to pensions…..



Carry forward could also be useful for many people who have contributed more than the annual allowance to their pensions. We have increasingly seen instances of individuals having more money paid toward their pension provision, and at this point, tax is due on the over-contribution. Those with final salary schemes are at particular risk, as often they are not aware of the position, or their obligations to report. Combined with the reducing annual allowance for higher earners, this can result in a lot of tax being due, and potential for penalties being applied if not reported correctly.

It is possible to have the pension pay any tax to HM Revenue & Customs (HMRC), but there are strict time limits and rules applicable here. If you have any doubts at all, please do get in touch and we would be happy to advise.



Over 55s caught by pensions tax trap

Perhaps not tax year sensitive, but this is something that has been prevalent in the press.

For individuals wishing to dip into their retirement pots using the pension freedom rules, tax relief is available on contributions up to £40,000 a year, but those who have already made a flexible withdrawal, instead become subject to the Money Purchase Annual Allowance (MPAA) of £4,000 a year. The MPAA has trapped almost one million over-55s, who must now live with a permanent reduction to the amount they can put into their pension tax free.

Experts fear that many savers who took cash from their pensions are unaware that their tax relief limits have been slashed. Data from HMRC has revealed 980,000 over 55s who used the pension freedoms between 2015 and 2019 have been caught by the MPAA, the Financial Times reports. As a result, their annual allowance has been cut from £40,000 to £4,000.

If you are thinking of taking money from your pension, please do get in touch with us, as we are seeing more and more make uninformed, irrevocable choices that can cause harm in the longer term.

Don't forget Individual Savings Accounts (ISAs)

Individual Savings Accounts (ISAs) remain one of the most tax efficient main stream investment solutions, and they have come a long way since their birth 20 years ago. It is only possible to contribute a maximum total of £20,000 to ISAs, and there are now five types of ISA available (although this will drop to four by December when Help to Buy ISAs will close to new investors).

There are four important tax benefits which are common across the different types of ISA:

- Interest earned on cash or fixed interest securities is free of UK income tax.
- Dividends are also free of UK income tax.
- Capital gains are free of UK capital gains tax (CGT).
- There is nothing to report on your tax return.

ISA contributions operate on a simple tax year basis. If you do not contribute up to the maximum, you cannot carry forward your shortfall to future tax years. To gain the most from ISAs, you should aim to invest as much as you can afford each and every tax year. For example, had you placed the maximum in ISAs since they first were available, and assuming zero growth, you would now have sheltered contributions of over £200,000 from UK income tax and capital gains tax.

Plug any state pension gaps before the price increases

According to former pensions minister Steve Webb, thousands of people are being urged to consider topping up their state pension by paying subsidised voluntary National Insurance Contributions (NICs) to fill past gaps in their NI records before the price increases in April. Someone who pays in £600 - £700 could now potentially end up receiving £4,000 - £5,000 of extra state pension over the course of their retirement. The price of voluntary NICs will rise in April, so if you feel you might have gaps in your NI record, it is worth exploring this before the end of the tax year.

Away from the “main stream” pensions and ISAs

The effects of the reducing the pensions annual allowance has led an increasing number to seek further diversification in their tax efficient savings planning. Venture Capital Trusts and Enterprise Investment Schemes are vehicles people are turning toward more frequently to obtain tax relief on their savings.

There are rules relating to the time period these investments must be held for to obtain the full benefit of the 30% tax credit. Despite this, we are seeing more high earners turn to this type of investment once their pension contributions have been maximised (especially if these have been limited).

Many companies have already launched their tax year end offerings in this space, with several already reaching the full capacity of the offering. If this is an area of interest, fast action is required before there is no further availability.

Seven weeks ...

As mentioned, trying to maximise tax efficiencies in seven weeks until the end of the tax year is really very little time.

Please do call us today to arrange for a comprehensive tax planning review.

The sooner you make contact, the sooner we can begin work on your strategy - a step closer to achieving your financial freedom.

I hope that this update is useful and informative, if you have any questions regarding any part of this, please contact me or your usual Partners Wealth Management adviser.

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