Save Smarter:
Take Control

Your guide to tax planning

- The end of the 2016/17 tax year is approaching fast.
- Certain tax allowances and exemptions will be lost in relation to the tax year.
- Make sure you review your personal situation with your financial adviser.

Get in touch

From Acorns Financial Planning
fromacornsfp.com
02886 440475

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Review tax planning with your Adviser now

The end of the tax year is approaching fast, so speaking to your financial adviser and taking action before 6 April 2017 could save you money, allowing you to take full advantage of your tax reliefs and exemptions.

If you haven't taken advantage of your tax allowances, it's not surprising because tax can be complicated. In fact, in recent years UK tax legislation has run to more than 6,000 pages of text.[1]

This guide provides a snapshot of how careful financial planning can make sense.

It provides a very brief outline of what is possible, but not in-depth detail about how specific tax planning methods work. This will depend on your personal situation. However, it should give you the incentive to talk to your financial adviser as soon as possible. Each section also contains general background information, which might be of interest to you.

Wednesday, 5 April 2017 is the final day of the 2016/17 tax year.

If you don't use certain tax allowances and exemptions by then, they will be lost in relation to the tax year.

1 www.gov.uk/government/uploads/system/uploads/attachment_data/file/193496/ots_length_legislation_paper.pdf

Personal pensions

Options to maximise pension tax allowances

The best place for concise guidance is your financial adviser, but here are the key areas for consideration:

- Make full use of your annual tax-free pension allowance of normally £40,000.
- Make use of any unused annual pension allowance available to carry forward from the previous three tax years.
- Make sure you're getting tax relief at the appropriate rate if you're a higher or additional rate taxpayer.
- Consider how to efficiently pass death benefits to your beneficiaries. For example, pension holders can nominate who they wish to receive the benefits in the event of their death by completing an 'expression of wish' form. Pension trustees will usually, but aren't obliged to, take this into account.

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Information about pensions you might find helpful

Personal pensions are often known as defined contribution or 'money purchase' schemes. Your employer may offer you one in the form of a workplace pension and add to or match your regular contributions. Whether you invest in a workplace or personal pension, your money will usually be invested in a mixture of assets including shares and bonds.

Different types of personal pension

Stakeholder pensions are a type of defined contribution personal pension with capped charges and low minimum contributions.

Self-invested personal pensions (SIPPs) offer greater flexibility about where you can invest.

Personal Pensions

Pension tax advantages

The most that can be paid into a pension and receive tax relief is the greater of £3,600 or 100% of your earnings. There is also an annual pension tax-free allowance of normally £40,000. So any contributions over that amount will not attract income tax relief, unless you have any unused annual allowance to carry forward from the previous 3 tax years.

The tax relief means that as a higher rate tax payer looking to invest £8,000 in your personal pension, you would only effectively invest £4,800 of your own money as £3,200 would be added by HMRC as tax relief. Your initial payment would be £6,400, with 20% added by pension tax relief and the other 20% claimed back through the HMRC self-assessment process.

Taking your pension benefits

The money you receive from your pension will depend on a number of factors including the level of contributions over the years and how its investments have performed. When you reach the minimum pension age (currently 55) you may be able to take up to 25% of the money as a tax-free lump sum. The remaining 75% can be taken in several ways. The options include:

- Take it as cash (which is liable to income tax).
- Buy an annuity product that gives a guaranteed income for life (which is also taxable).
- Leave your pension fund invested in a drawdown contract with the potential to take income when you choose.

Each pension provider will have different rules around taking your pension so consult your adviser or provider to get a clear picture.

ISAs (Individual Savings Accounts)

Options to maximise your ISA allowance

The best source of concise guidance on ISAs is your financial adviser, but here are the key areas for consideration:

- Use your full annual ISA allowance if you can - you can't carry it into the next tax year.
- Where possible, transfer existing investments which are subject to tax on any growth into a tax-free ISA.
- Use your annual ISA limit to accumulate a tax-protected investment portfolio.
- Your combined ISA investment for 2016/17 and then 2017/18 could be a maximum of £35,240.
- Having used your ISA allowance for the year, you might want to make sure that any spouse/civil partner uses their allowance too.

Information about ISAs you might find helpful

ISAs and tax

Why invest in a product that has no tax benefits when you can invest in another that offers tax efficient returns? That's the beauty of ISAs. Each year you can save money without any tax being charged on any interest or dividends earned. If you don't use your tax-free allowance within a tax year, that's it. It's a case of 'use it or lose it'.

What you can invest in

The investment can be in cash or shares or a combination of both. But it is important to remember that what you do invest in an ISA each year will continue to accumulate interest or capital growth tax free for as many years as it remains inside your ISA wrapper.

How much you can invest

In the 2016-17 tax year, the maximum that can be saved per person in an ISA is £15,240. This can be held in a cash ISA or a stocks and shares ISA (or a combination of both) but the total invested cannot exceed £15,240.

ISAs (Individual Savings Accounts)

Different types of ISA

There are currently five types of ISA:

- **Cash ISAs** can include savings in bank and building society accounts and some NS&I (National Savings and Investments) products.
- A **Help to Buy ISA** is designed for people saving to buy a first home. Depending on how much you save, it could provide a maximum bonus of £3,000.
- A **Junior ISA** is a tax-efficient children's savings account into which you can make contributions on your child's behalf, subject to an annual allowance. Junior ISAs replaced the Child Trust Fund (CTF), but there is no government payment into Junior ISAs.
- **Stocks and Shares ISAs** can include unit trusts, investment trusts, shares in companies, and corporate bonds. However, non-ISA shares that you already own cannot be transferred to an ISA.
- **Innovative Finance ISAs** are a recent arrival. Innovative finance ISAs can include peer-to-peer loans (loans that you provide to other people or businesses without using a bank). However, pre-existing peer-to-peer loans cannot be transferred to an ISA.

How the ISA's tax-free wrapper works

An ISA is a tax-free wrapper which can be put around a host of investment products that themselves are not tax free. For example, there are thousands of collective funds (unit trusts, OEICs, corporate bonds and investment trusts) that can sit within your ISA and provide tax-free returns. However, you could invest in precisely the same funds outside of an ISA and might be subject to tax on any dividends or capital gains. However, certain investment returns may be received by the ISA Manager with tax credits or after-tax deductions which cannot be reclaimed.

The benefits of collective investments within an ISA

Collective investments pool your money with that of other investors to give you a stake in a ready-made portfolio, allowing investment in lots of different asset classes. The two most popular types of investment fund are unit trusts and open-ended investment companies (OEICs).

Income Tax

Options to reduce income tax

Income tax can be applied widely - not just to your salary. However, there are ways to reduce your annual income tax bill. The best source of guidance is your financial adviser, but here are some of the options you might consider:

- Make a pension contribution to reduce your taxable income.
- Escape the child benefit tax charge by making a pension contribution to reduce your income below the £50,000 threshold.
- Move funds to your spouse/civil partner.
- Review strategies to invest for capital growth instead of income.

Information on income tax you might find helpful

Although it is primarily associated with money you earn from employment, income tax can also be applied to: some state benefits; pensions; annuities; rental income from property; employee benefits; dividends; savings (above your annual allowance); and income from trusts. Here are the current rates and bands:

Income tax now

- Personal allowance: Up to £11,000, tax rate 0%
- Basic rate: £11,001 to £43,000, tax rate 20%
- Higher rate: £43,001 to £150,000, tax rate 40%
- Additional rate: Over £150,000, tax rate 45%

Your personal allowance decreases by £1 for every £2 that your adjusted net income is above £100,000. So if your income is £122,000 or above, your personal allowance is zero.

Income Tax

Personal savings allowance

In April 2016, the Treasury introduced a new personal savings allowance. Basic rate tax payers can now earn up to £1,000 interest in their savings account each tax year without having to pay tax and higher-rate tax payers can earn up to £500 of interest. Those in the highest tax bracket, earning over £150,000 a year, do not benefit from the allowance.

When it comes to dividends from shares-based investments, you have a dividend allowance and so won't pay tax on the first £5,000 of dividends that you get in any tax year. If you exceed this allowance, the tax you pay on the excess depends on your income tax band.

Income tax on savings accounts

Tax is no longer deducted at source by your building society or bank. Interest is now paid to you gross and if this interest exceeds your yearly allowance, tax will be collected through your self-assessment tax return or via an adjustment in your tax code. You'll pay tax on any interest over the yearly allowance at your usual rate of income tax - that is 20% for a basic rate taxpayer, 40% for higher rate and 45% for those in the additional rate band (with an annual taxable income over £150,000).

Income tax on dividends

You may be subject to income tax on the dividends paid from companies you have shares in. Your tax charge will depend on the level of dividend income you receive within the tax year, with the first £5,000 usually free of income tax, and on whether you are in the basic, higher or additional rate tax band. The rates currently applied to these bands are 7.5%, 32.5% and 38.1% respectively.

Your personal allowance

You can use your personal allowance (up to £11,000) to earn interest tax-free if you haven't used it up on your wages, pension or other income. You may also get up to £5,000 of interest tax-free. This is your starting rate for savings. However, you will not be eligible for this if your other income is £16,000 or more.

Capital gains tax (CGT)

Options to reduce CGT

There are ways to reduce a CGT liability. Your financial adviser can give you more information about the options shown below.

- Make the most of your £11,100 annual CGT exemption.
- A reported loss on a chargeable asset can be deducted from the capital gains you made in the same tax year.
- Pay less tax by using losses from previous years to reduce this year's gains.
- Consider making a pension contribution to bring your CGT liability down from 20% to the 10% applied to basic rate tax payers.
- Use the 'Bed and ISA' or 'Bed and SIPP (Self-invested Personal Pension)' planning to realise gains up to the annual exemption by selling assets and then immediately buying them back within an ISA or SIPP.

Information about CGT you might find helpful

CGT in brief

CGT is a tax charge when you dispose of an asset that has increased in value.

You don't necessarily have to sell the asset, because CGT can also apply to gifts.

The tax is on the profit you make - the gain - and not on the total amount you receive for the asset. Some assets don't attract the tax and you don't pay it if all the gains are under your annual tax-free allowance.

How CGT works

CGT is a tax on the profit when you dispose of an asset that has increased in value. The tax only applies to the gain and you don't have to pay anything if all your gains in a year are below your tax-free allowance which currently stands at £11,100 in 2016-17. There are also some exemptions to CGT, for instance you don't usually pay tax on gifts to your spouse, civil partner or a charity.

Currently those who pay basic-rate income tax will pay CGT at 10% and higher-rate taxpayers will be charged CGT at 20% or 28% if gains are from residential property (for basic rate taxpayers the charge is 18%).

With CGT there is some leeway too. You might have profited handsomely by selling an antique you picked up at auction, but your CGT liability will be based only on the profit above any unused part of your annual CGT allowance.

Inheritance Tax (IHT)

There are several ways to reduce an IHT liability. Your financial adviser can give you more information about the options shown below.

Options to reduce IHT

- Make lifetime gifts to reduce your taxable estate
- Use the annual exemption, small gifts and regular gifts from income
- Plan for the new residence nil rate band taking effect from April 2017

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Information about IHT you might find helpful

IHT in brief

IHT is a tax on the estate (the property, money and possessions) of someone who is dead. If your taxable estate is worth more than £325,000, you should think about IHT planning. When you die, your estate could face a tax bill that your loved ones will have to pay. By planning ahead, you could make that less of an issue for them, either by acting to reduce your tax bill or by setting up a way for them to pay it easily.

IHT can be payable on the value of your assets when you die. It covers your estate, which can include: your house; savings and investments; jewellery; cars; art; other properties, including holiday homes abroad; and payouts from life insurance policies. The level of IHT your estate will pay will depend on the amount your taxable estate is worth and the tax allowances in place at the time

Inheritance Tax (IHT)

The IHT threshold

An IHT charge only applies if the value of the estate is above the IHT threshold - which is currently £325,000. This is often referred to as the 'nil rate band'.

You will not pay any IHT if you leave everything to your spouse or civil partner, a charity or sports club. These are just some examples of exemptions.

If you're married or in a civil partnership and your estate is worth less than £325,000, the unused percentage can be added to your partner's threshold on their death. This means the threshold can be as much as £650,000.

IHT and the next generation

When the inheritors are the children rather than the spouse, on the death of both parents a potential IHT charge may apply. The inheritors will pay IHT of 40% of anything over the threshold. However, as we previously established in relation to unused thresholds, the potential maximum nil rate band available to offset against their combined assets will be £650,000.

Gifts and IHT

You can give away £3,000 worth of gifts each tax year without them being added to the value of your estate. This is known as your 'annual exemption'. You can carry any unused annual exemption forward to the next year - but only for one year. You can also give as many gifts of up to £250 per person as you want during the tax year so long as you haven't used another exemption on the same person.

IHT changes from the next tax year

From 6 April 2017, you'll get a larger IHT threshold if you give away your home to your children or grandchildren. A new residence allowance (the residence nil rate band or 'RNRB') was announced in the 2016 Budget. The allowance is set to increase by £25,000 each year, from £100,000 in April 2017 to £175,000 per person by 2020/21. This is in addition to the main nil-rate band.

Get in touch

From Acorns Financial Planning

fromacornsfp.com

02886 440475

Ciaran Scullion DipFA

Financial Planner & Mortgage Adviser

ciaran@fromacornsfp.com

07782 502052

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