JANUARY / FEBRUARY 2016

# Serenity

# NEW YEAR'S RESOLUTIONS

Setting goals for saving and investing


## 2016 TAX MATTERS

Reducing the taxman's take

## ISA RETURNS OF THE YEAR

Finding the right mix of tax-efficient investments

**PENSION TAX RELIEF**
Reaping the benefits of workplace pension savings

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**INCOME PROTECTION**
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# INSIDE THIS ISSUE

Welcome to the first issue of 2016. Have you made your New Year's resolutions? Considering that the most common topics are health and finances, there's a pretty good chance that at least one of them involves a financial goal. On page 10, we look at why the start of a New Year is the perfect time to take stock and think about how you can improve your financial position. Many of us start the year with good intentions, but things often get in the way as the year progresses. Tempting as it may be to put off tackling your finances, giving your money matters a thorough sort through will help you work towards what you want to achieve financially out of life.

To minimise the tax you pay, it's important to be fully aware of the choices you can make before you make them, so planning ahead and taking professional financial advice is essential. With real-terms tax increases a prospect for the foreseeable future, it makes sense to utilise every available tax relief. HM Revenue & Customs (HMRC) creates many legitimate opportunities for you to reduce the amount of tax you pay. However, you may not be aware of them all, or you may be unsure of how to take advantage of them. On page 08, we consider some examples of the ways in which legitimate planning may save you money by reducing a tax bill.

Also inside this issue, we look at tax-efficient Individual Savings Accounts, the new dividend tax regime and how the pension tax relief system is about to be reinvented. The full list of the articles featured in this issue appears opposite.

We hope you enjoy reading this issue and find it informative. To discuss any of the articles featured, please contact us.

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PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

# BUY-TO-LET AND SECOND HOMES

*Higher stamp duty payable from April 2016*

Buy-to-let landlords and people buying second homes from April this year will have to pay a 3% surcharge on the stamp duty charged for the property.

Chancellor George Osborne made the announcement during his Spending Review and Autumn Statement last year. From April, you will have to pay a 3% surcharge on the stamp duty charged for the property, set to raise an extra £1bn extra for the Treasury by 2021.

Buy-to-let landlords are already due to receive a lower rate of tax relief on mortgage payments. In his summer Budget, Mr Osborne said that landlords would only receive the basic rate of tax relief – 20% – on mortgage payments, a change being phased in from 2017.

Up to £60m of the money raised from the stamp duty surcharge will go to help homebuyers in England in places where holiday homes have forced up local prices.


## HELP TO BUY

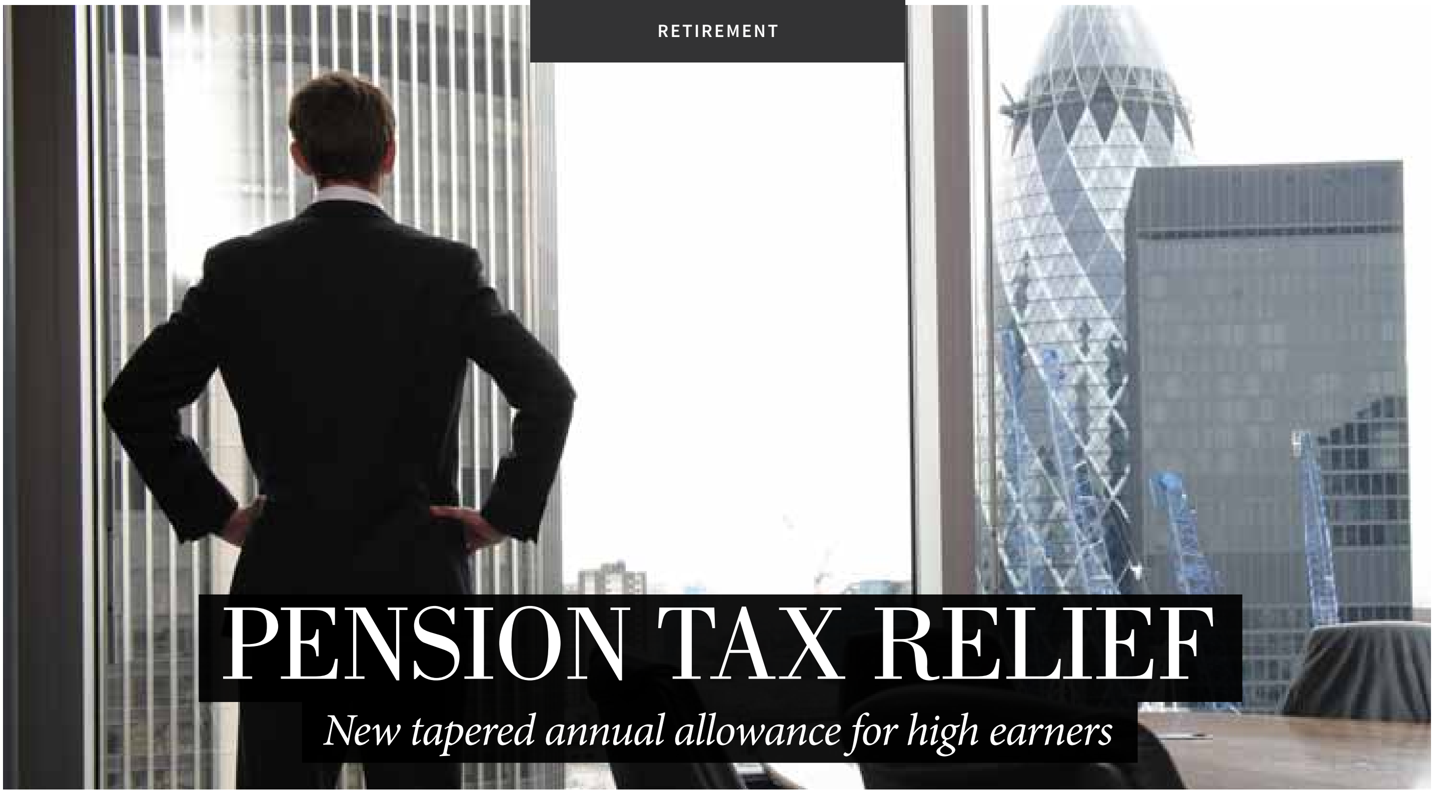
The Help to Buy (equity loan) scheme in England will also be extended to 2021, one year longer than planned.

An extension to the scheme in London will see buyers who can find a 5% deposit given a loan worth up to 40% of the property. The loan will be interest-free for five years. Elsewhere, the existing maximum loan is for 20% of the property's value.

In total, the Government will put an extra £6.9bn into housing. This includes an extra £2.3bn for the Government's starter homes programme, and £4bn given to housing associations and local authorities to build more homes for shared ownership.

Another £200m will be used to build homes for rent, which will allow tenants to save for a deposit.

There will also be a pilot scheme to trial the Government's Right to Buy programme for housing association tenants. Five housing associations will take part to help design the final scheme. ■



# PENSION TAX RELIEF

*New tapered annual allowance for high earners*

The pension tax relief system is about to be reinvented. The Government announced in the Summer 2015 Budget their intention to cut pensions tax relief for high earners by introducing a tapered annual allowance from 6 April 2016 for individuals with income (including the value of any pension contributions) of over £150,000, and who have an income (excluding pension contributions) in excess of £110,000.

The rate of reduction in the standard annual allowance of £40,000 is by £1 for every £2 that the adjusted income exceeds £150,000, up to a maximum reduction of £30,000.

## REPLACING COMPLEX RULES

Although this measure may not directly apply to you, in advance of its implementation, a change is to be made to align 'pension input periods' with the tax year, replacing the complex rules which have applied until now. This change could affect many individuals, and, therefore, transitional rules will operate during tax year 2015/16 to protect savers who might otherwise be affected by the alignment of their pension input periods. The impact of these transitional changes is that it may provide a one-off additional opportunity during tax year 2015/16 to maximise pension savings tax relief.

## EXCESS TAX CHARGE

Individuals who make pension contributions into more than one scheme need to take particular care not to exceed the annual allowance of £40,000, otherwise there is an excess tax charge. This annual maximum applies whether the pension savings are made by the individual or an employer such as the individual's own owner-managed company. Pension contributions for each scheme are measured by a pension input period. A pension input period, although usually of 12 months' duration, did not have to align with the tax year.

However, all pension input periods ending within the tax year should be considered to assess whether the annual allowance has been exceeded. As different schemes can have different pension input periods, careful planning may be required.

## QUALIFYING PENSION CONTRIBUTIONS

The main aim of the transitional rules is to ensure that savers are not adversely affected during the alignment process because of the timing of their original pension input periods. As a result, individuals may be able to have qualifying pension contributions of up to £80,000 rather than £40,000 in tax year 2015/16. The precise position for each individual will be dependent on the type of pension scheme, the pension input periods of each scheme and the timing of contributions.

## PENSION INPUT PERIODS

All pension input periods open on 8 July 2015 closed on that date. The period 6 April 2015 to 8 July 2015 is to be known as the 'pre-alignment tax year'. There will then be a second pension input period running from 9 July 2015 to 5 April 2016. This will be known as the 'post-alignment tax year'. All subsequent pension input periods will be concurrent with the tax year from 2016/17 onwards.

All individuals will have an annual allowance of £80,000 for the pre-alignment tax year. Where this amount has not been used in the pre-alignment tax year, it will be carried forward to the post-alignment tax year, subject to a maximum of £40,000. In addition, any unused annual allowance from the previous three years can be added to these amounts if required. ■

## HAVE YOU MADE SURE THAT ANY OPPORTUNITIES WILL BE FULLY MAXIMISED?

As clients of ours, your individual position will vary depending upon your current pension arrangements and circumstances. We would welcome the opportunity to review your current situation before the end of tax year 2015/16 to ensure that any opportunities are maximised before 5 April 2016, and consideration is made as to whether the tapered annual allowance rules could apply from 6 April 2016. If you would like to discuss your retirement plans, please contact us – we look forward to hearing from you.

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.

# RETIREMENT MATTERS

*Pension changes you need to know*

Chancellor George Osborne delivered his Spending Review and Autumn Statement on Wednesday 25 November 2015. For the first time in this Parliament, he did not announce any further radical changes to the private pensions system, giving the Treasury more time to digest the Green Paper consultation from the summer Budget.

However, the Chancellor did set out his proposals for the new flat-rate State Pension, Pension credit, basic State Pension increase, a tapered reduction to the amount of the annual allowance for high earners and setting up a second-hand annuities market.

He announced a rate of £155.65 for the new flat-rate State Pension, and, for someone working full-time today, it's approximately 60% of the Living Wage.

From tax year 2016/17, a tapered reduction to the amount of the annual allowance of £40,000 is to be introduced for individuals with adjusted income of over £150,000. Adjusted income includes the value of any employer pension contributions in order to prevent avoidance via the use of salary sacrifice arrangements.

The annual allowance of £40,000 will be reduced by £1 for every £2 that adjusted income exceeds £150,000, down to a minimum annual allowance of £10,000. Therefore, anyone with adjusted income of £210,000 or more will only receive the £10,000 minimum.

### YOUR PENSION CONTRIBUTION LIMITS FOR THE CURRENT TAX YEAR 2015/16

- You can contribute as much as you earn in a year, up to £40,000 a year (up to £80,000 for some people)
- You can also use HM Revenue & Customs' 'carry forward' rules to use the past three years' pension contribution limits, if you haven't already
- Once you start drawing from your pension, your annual limit reduces to £10,000. (This is only if accessed 'flexibly'; this doesn't apply to benefits drawn from defined benefit schemes or if only tax-free cash is taken from a drawdown pot)
- The lifetime pension limit is reducing from £1.25m to £1m from 6 April this year
- The lifetime allowance applies to the total funds that can be built up within your pension arrangements, and there will be a tax charge on the funds that exceed this limit. (This will apply whether benefits are drawn or not, i.e. earliest of benefits being drawn, age 75 or death.)

### ACTION POINT

If you have adjusted income over £150,000, your annual pension allowance will gradually be reduced. Those with adjusted income of £210,000 or more will have the minimum annual allowance of £10,000. To discuss the planning options available to you, please contact us.

# INCOME DRAWDOWN

## No Inheritance Tax levy on cash left in savers' pension pots

The Government has also confirmed that it won't levy Inheritance Tax on cash left in savers' income drawdown pension pots when they die.

The Spending Review and Autumn Statement 2015 said: 'The Government will legislate to ensure a charge to Inheritance Tax will not arise when a pension scheme member designates funds for drawdown but does not draw all of the funds before death.

'This will be backdated to apply to deaths on or after 6 April 2011.' ■

### HOW WILL YOU GENERATE AN INCOME FROM YOUR PENSION SAVINGS?

Following the biggest reforms to pensions in recent years, and with the opportunity now to take control of your pensions like never before, the reforms highlight the need to obtain professional financial advice to consider your overall position. To review your situation, please contact us – we look forward to hearing from you.

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# ANNUITIES

*Setting up a second-hand market*

The Government has been investigating the possibility of setting up a second-hand market in annuities.

In the Spending Review and Autumn Statement 2015, the Treasury said: 'The Government will remove the barriers to creating a secondary market for annuities, allowing individuals to sell their annuity income stream.' ■

# NEW DIVIDEND TAX REGIME

*What could the new system mean to you?*

From April this year, the notional 10% tax credit on dividends is to be abolished and will be replaced by a new tax-free Dividend Allowance. The Dividend Allowance means that you won't have to pay tax on the first £5,000 of your dividend income, no matter what non-dividend income you have.

The allowance is available to anyone who has dividend income, and headline rates of dividend tax are also changing.

## INCOME TAX WILL APPLY TO ANY DIVIDENDS RECEIVED OVER £5,000 AT THE FOLLOWING RATES:

- 7.5% on dividend income within the basic rate band
- 32.5% on dividend income within the higher rate band
- 38.1% on dividend income within the additional rate band

This new system will mean that only those with significant dividend income will pay more tax. If you're an investor with modest income from shares, you'll see either a tax cut or no change in the amount of tax you owe.

Dividends received by pension funds that are currently exempt from tax, and dividends received on shares held in an Individual Savings Account (ISA), will continue to be tax-free.

From 6 April 2016, you have to apply the new headline rates on the amount of dividends you actually receive, where the income is over £5,000 (excluding any dividend income paid within an ISA).

The Dividend Allowance will not reduce your total income for tax purposes. However, it will mean that you don't have any tax to pay on the first £5,000 of dividend income you receive.

Dividends within your allowance will still count towards your basic or higher rate bands, and may therefore affect the rate of tax that you pay on dividends you receive in excess of the £5,000 allowance.

## THESE ARE TWO EXAMPLES OF HOW THE NEW DIVIDEND ALLOWANCE WORKS:

You don't need to pay any tax on dividends up to £5,000, no matter what other income you get. That first £5,000 is tax-free under the new rules.

**Example 1 – You have a (non-dividend) income of £18,000, and receive dividends of £22,000 outside of an ISA**

**Tax you need to pay on the £22,000 dividend income:**

- The Dividend Allowance covers the first £5,000
- The remaining £17,000 of dividends to be taxed at the new basic rate of 7.5%. This would need to be done through a tax return

Had your other non-dividend income been £30,000, the tax due on the £17,000 dividend income would be made up of 7.5% for the amount within the basic rate band, and 32.5% on the balance.

**Example 2 – You receive dividends of £600 from shares invested in an ISA**

As is the case now, no tax is due on dividend income within an ISA, whatever rate of tax you pay.

## SHAREHOLDING DIRECTORS

If you're a company director who takes dividends instead of a salary, you should obtain professional financial advice to find out how you could be affected by the upcoming changes in the next tax year and what steps you can take to be as tax-efficient as possible.

Taking dividends may still be a good option, but there are other tax planning opportunities to explore, such as paying into a pension that might reduce the amount of tax you pay. ■

> FROM 6 APRIL 2016, YOU HAVE TO APPLY THE NEW HEADLINE RATES ON THE AMOUNT OF DIVIDENDS YOU ACTUALLY RECEIVE, WHERE THE INCOME IS OVER £5,000.

# ISA RETURNS OF THE YEAR

*Finding the right mix of tax-efficient investments*

We all have our own financial goals, so it's important to find an approach that suits our current financial situations and future plans by finding the right mix of investments to achieve them.

By understanding which products are the most tax-efficient, you can make the most of your savings and investments, and minimise how much tax you pay.

## TAX-EFFICIENT INVESTMENT WRAPPER

One option to consider is an Individual Savings Account (ISA). An ISA is a tax-efficient investment wrapper in which you can hold a range of investments, including bonds, equities, property shares, multi-asset funds and even cash, giving you control over where your money is invested.

During his Spending Review and Autumn Statement last year, Chancellor George Osborne announced he would also be extending the list of qualifying investments for the new Innovative Finance Individual Savings Account from Autumn 2016 to include debt securities offered via crowdfunding platforms.

ISAs are a highly tax-efficient way to save or invest your money because you don't pay Income Tax on your interest or Capital Gains Tax on any profits.

## TAX YEAR 2015/16 ISA ALLOWANCE

Between 6 April 2015 and 5 April 2016, you have an ISA allowance of £15,240. The rules now mean you can split the ISA allowance as you wish between a Stocks & Shares ISA and a Cash ISA. The ISA allowance limit will remain at £15,240 for tax year 2016/17.

You don't have to declare any investments held in ISAs on your tax return. This may not seem like much, but if you have to file an annual tax return, you'll know that any way of simplifying your financial administration can be very helpful.

## HOW MUCH CAN I SAVE OR INVEST EACH YEAR?

**Cash ISA** – £15,240 less any amount held in a Stocks & Shares ISA.
**Stocks & Shares ISA** – £15,240 less any amount held in a Cash ISA.

## WHO CAN APPLY FOR ONE?

**Cash ISA** – UK residents aged 16 and over.
**Stocks & Shares ISA** – UK residents aged 18 and over.

## IS THERE RISK INVOLVED?

**Cash ISA** – The value of your initial investment cannot decrease. However, the current low rates of interest could mean that the return on your money does not outpace inflation.
**Stocks & Shares ISA** – While the long-term potential returns are greater, the value of your investment can go down as well as up, and you could get back less than you have paid in.

## CAN I SWITCH BETWEEN ISAS?

**Cash ISA** – You can transfer funds between Cash ISAs or from a Cash ISA into a Stocks & Shares ISA.
**Stocks & Shares ISA** – You can transfer funds between Stocks & Shares ISAs or from a Stocks & Shares ISA into a Cash ISA.

**ISAs are becoming an important part of financial planning, and they offer a unique range of benefits. These include:**

- No Income Tax is payable on interest payments which are made by bond funds
- No higher rate tax is payable on dividends, which are paid by equity funds (you can't claim back the 10% dividend tax paid by the fund in an ISA)
- Income from an ISA doesn't affect your personal allowance or age-related allowance
- No Capital Gains Tax is payable on any growth you may achieve, so you could use withdrawals to increase your income when necessary (any losses made in the ISA cannot be used to offset gains made elsewhere)

It is important to remember that an ISA is just a way of sheltering your money from tax – it's not an investment in its own right.

## CHANGE TO ISA INHERITANCE RULES

Under the new rules, additional ISA subscriptions are now available to a surviving spouse or registered civil partner, as long as the ISA holder passed away on or after 3 December 2014.

This comes in the form of an Additional Permitted Subscription (APS) ISA allowance (additional to the personal annual ISA) equal to the amount that was held in the ISA on the day the holder died.

## TRANSFERRING YOUR INVESTMENT BETWEEN PROVIDERS

If you want to change your existing ISA provider or are looking to consolidate your investments under one roof, with an ISA you can transfer your investment between providers to suit your individual needs. However, your current provider may apply a charge when you transfer your investment. While your investment is being transferred, it will be out of the market for a short period of time and will not lose or gain in value.

## CONTROL OVER YOUR RETIREMENT INCOME

ISAs can give you control over your retirement income, as you can take as much money out as you require, whenever you want. Savings in an ISA and withdrawals from an ISA are tax-efficient, but, if you withdraw money and put it back later, it will count towards your ISA annual subscription limit in the year that you re-invested your money (although changing from 6 April 2016 where an ISA chooses to offer the new flexible ISA facility).

## A STRAIGHTFORWARD WAY TO SAVE FOR A CHILD'S FUTURE

Junior ISAs offer investors a straightforward way to save for a child's future and offer similar tax advantages to 'adult' ISAs, but with a lock-in, making the child's investment inaccessible until they turn 18. Like an ISA, Junior ISAs can invest in bonds, equities, cash, property and even multi-asset funds, giving you even more flexibility over the future of your child's long-term savings. Since April 2015, it is possible for existing Child Trust Funds (CTFs) to be transferred into Junior ISA accounts. You can invest up to £4,080 in the current tax year and switch from a Cash Junior ISA to a Stocks & Shares Junior ISA and back again.

Only parents or a guardian with parental responsibility can open a Junior ISA for under 16s. ■

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**only applies to Stocks & Shares ISAs*

# 2016 TAX MATTERS

*Reducing the taxman's take*

To minimise the tax you pay, it's important to be fully aware of the choices you can make before you make them, so planning ahead and taking professional financial advice is essential. With real-terms tax increases a prospect for the foreseeable future, it makes sense to utilise every available tax relief.

HM Revenue & Customs (HMRC) creates many legitimate opportunities for you to reduce the amount of tax you pay. However, you may not be aware of them all, or you may be unsure of how to take advantage of them.

Here are examples of the ways in which legitimate planning may save you money by reducing your tax bills.

## DO YOU HAVE THE CORRECT PAYE TAX CODE?

PAYE tax codes can be incorrect when issued. HMRC may have included an estimate of your unearned income, which means you will pay tax on that income earlier than you would if it was assessed through your self-assessment tax return. You can ask HMRC to remove this estimated income and also correct any other errors.

## COULD YOU USE THE NEW TRANSFERABLE AMOUNT OF PERSONAL ALLOWANCE?

In tax year 2015/16, married couples and registered civil partners can share some of their personal allowance between them. The unused allowance of one partner can be used by the other, meaning an overall tax saving for the couple. The amount you can transfer is capped at £1,060 for tax year 2015/16 (10% of the personal allowance), and a transfer is not permitted if either partner is a higher or additional rate taxpayer.

## ARE YOU OVERPAYING NATIONAL INSURANCE CONTRIBUTIONS (NICS)?

If you have more than one job, you may overpay NICs during the tax year. You can then reclaim any overpaid NICs from HMRC after the end of the tax year. However, you could prevent the overpayment in the first place by deferring payment of NICs on one of your jobs by sending HMRC a completed form CA72A.

## DO YOU AND YOUR NEW SPOUSE BOTH OWN SEPARATE PROPERTIES?

If you are getting married or entering into a civil partnership, and you both own separate properties which you continue to occupy for some periods, you need to nominate one of them as your main home within two years of your marriage or registered civil partnership. Once married, you can have only one main home between you for tax purposes. So nominate the one that is likely to make the best use of your Capital Gains Tax (CGT) property exemption, otherwise HMRC will designate the property that you occupy the most as your main residence.

## IF YOU OWN MORE THAN ONE RESIDENTIAL PROPERTY, HAVE YOU INFORMED HMRC WHICH OF YOUR PROPERTIES SHOULD BE TREATED AS YOUR MAIN HOME FOR TAX PURPOSES?

The property that has always been your main home is free of CGT. Any other property where you have lived for part of the time will attract a tax exemption for the periods you have lived there and have elected for it to be your main home. If a property has been your nominated main home at any time, the gain for the last 18 months of ownership (36 months if moving into care) is free of tax, even if you do not live there during that final period. The position may become even more complicated if you have an overseas property.

## ARE YOU PAYING AN EXTRA CHILD BENEFIT TAX CHARGE?

Child Benefit still continues to be paid to everyone, but if you're a higher-income family, you'll have to pay extra tax if you choose to keep getting it. If your income lies between £50,000 and £60,000, the Child Benefit tax charge will be equivalent to 1% of the child benefit for every £100 of income over £50,000. The tax charge applies to the higher earner, irrespective of who claims the benefit. To avoid the tax charge, you could either stop claiming Child Benefit or reduce your income below £50,000. If your income is over £60,000 a year, you will be subject to a tax charge to claw back the full amount of the benefit.

## HAVE YOU TAKEN ADVANTAGE OF YOUR 2015/16 INDIVIDUAL SAVINGS ACCOUNT (ISA) ALLOWANCE?

The maximum annual amount you can save or invest in an ISA is £15,240 (tax year 2015/16) which is free of income and capital gains. You can put the whole amount into a Cash ISA, a Stocks & Shares ISA or any combination of the two. You may also be eligible for a Help to Buy ISA if you are saving to buy your first home. The Government will boost your savings by 25%, so, for every £200 you save, you'll receive a government bonus of £50. The maximum government bonus you can receive is £3,000. In your first month, you can deposit a lump sum of up to £1,200. The minimum government bonus is £400, meaning that you need to have saved at least £1,600 into your Help to Buy ISA before you can claim your bonus. When you are in the process of buying your first home, your solicitor or conveyancer will apply for your government bonus.

## COULD YOU CONTRIBUTE TOWARDS A TAX-EFFICIENT JUNIOR ISA?

During tax year 2015/16, you can contribute up to £4,080 into your child's Junior ISA (JISA). The fund builds up free of tax on investment income and capital gains until the child reaches 18, when the funds can either be withdrawn or rolled into an adult tax-efficient ISA. Relatives and friends can also contribute to the child's Junior ISA, as long as the £4,080 limit is not exceeded. Any child aged under 18 who lives in the UK can have a Junior ISA if they were not entitled to a Child Trust Fund (CTF) account, although a CTF can be switched to a Junior ISA.

## WILL YOUR ISA BALANCE PASS TO YOUR SPOUSE OR REGISTERED CIVIL PARTNER ON YOUR DEATH?

For deaths on or after 3 December 2014, a surviving spouse can increase their tax-exempt ISA savings by the value of the deceased partner's ISA balances. For example, if a husband died on 5 December 2014 leaving ISA balances of £100,000, his wife can invest up to £115,240 in an ISA for tax year 2015/16 (£100,000 plus the normal ISA limit of £15,240). Previously, savings in ISAs lost their tax-efficient wrapper on death.

## HAVE YOU MADE A WILL, AND, IF SO, WHEN WAS THE LAST TIME YOU REVIEWED IT?

If you die without making a Will, your assets will be divided between your relatives according to the intestacy rules. This will be after Inheritance Tax (IHT) is paid at 40% on any value above £325,000 (or up to £650,000 if a transferable nil rate band is available) that goes to anyone other than your spouse or registered civil partner (an additional exemption will be available from 6 April 2017 if your main residence passes to your children or grandchildren). If you have no surviving relatives, the whole of your estate will go to the Crown.

## ARE YOU PLANNING TO LEAVE ANY OF YOUR ESTATE TO CHARITY?

By leaving at least 10% of your net estate to charity, after the deduction of the £325,000 nil rate band, this will reduce the IHT rate on your taxable estate from 40% to 36%. The exact calculation of your net estate may be complicated, so it's important to obtain professional financial advice when drawing up or amending your Will.

## COULD YOU MAKE MONETARY GIFTS FROM YOUR CAPITAL RESOURCES?

If you make gifts totalling £3,000 each tax year from your capital resources, these gifts are free of IHT. In the event that you forget to make your £3,000 gift one year, you can catch up in the next tax year by giving a total of £6,000. Both you and your spouse or registered civil partner can each give £3,000 every tax year in addition to gifts you make out of your regular income.

## COULD YOU MAKE USE OF THE IHT MARRIAGE EXEMPTION FOR GIFTS?

If your son or daughter is about to marry or register a civil partnership, then you and your spouse or civil partner can each give them £5,000 in consideration of the marriage, and the gift will be free of IHT. This is in addition to any smaller gifts you make out of your regular income each year. The marriage exemption can also be combined with your £3,000 a year exemption to allow you to make larger exempt gifts. The IHT-free gift you can make on the occasion of a grandchild's wedding is £2,500, and registered civil partnerships benefit from the same exemptions.

## ARE YOU CONTRIBUTING TO YOUR EMPLOYER'S PENSION CONTRIBUTIONS TO SAVE NICs?

If your employer pays a contribution directly into your pension scheme, they receive tax relief for the

contribution and there are no NICs to pay – saving both your employer and you NICs. You could arrange with your employer to cover the cost of the contributions by foregoing part of your salary or bonus.

## ARE YOU TAKING ADVANTAGE OF YOUR ANNUAL ALLOWANCE FOR MAKING PENSION CONTRIBUTIONS?

Your annual allowance for tax year 2015/16 is £40,000 (up to £80,000 for some people) plus any unused allowance brought forward from the previous three tax years. This allowance must cover any pension contributions you make yourself and any contributions paid for you by your employer. Contributions made in excess of your annual allowance will attract a tax charge at your marginal tax rate. Commencing from tax year 2016/17, the annual allowance for those with income above £150,000 is to be reduced on a tapering basis so that it reduces to £10,000 for those with income above £210,000. For every £2 of income above £150,000, an individual's annual allowance will reduce by £1 down to a minimum of £10,000.

## COULD YOU CARRY FORWARD ANY UNUSED ANNUAL PENSION ALLOWANCES?

You can carry forward unused allowances from the three previous tax years and use these to cover pension contributions greater than the current year's annual allowance. The allowance in tax year 2012/13 and 2013/14 was £50,000, and in tax year 2014/15 it was £40,000. The carry forward of unused annual allowances will continue to be available when the tapered reduction is introduced, but carry forward in future years will be based on the unused tapered annual allowance.

## WILL YOU REALISE CAPITAL GAINS OR LOSSES IN THIS TAX YEAR?

If you realise capital gains and losses in the same tax year, the losses are offset against the gains before the capital gains exempt amount (£11,100 tax year 2015/16) is deducted. So losses will be wasted if gains would otherwise be covered by the exempt amount. It may be appropriate to consider postponing losses until the following tax year or, alternatively, realising more gains in the current year. ■

## WANT TO DISCUSS ANY OF THESE OPPORTUNITIES?

Tax planning can be a complex area, especially if you have several sources of income. Different approaches will suit different individuals. The start of a New Year is the perfect time to review your current situation, so, if you would like to discuss any of these opportunities, please contact us for further information. We'll take the time to understand your needs and wishes, and recommend appropriate solutions that are tailored to your needs.


# NEW YEAR'S RESOLUTIONS

*Setting goals for saving and investing*

Have you made your New Year's resolutions? Considering that the most common topics are health and finances, there's a pretty good chance that at least one of them involves a financial goal.

The start of a New Year is the perfect time to take stock and think about how you can improve your financial position. Many of us start the year with good intentions, but things often get in the way as the year progresses.

One way to make 2016 a year of real financial achievement is to set up a few small, regular changes and reap the benefits over time. Tempting as it may be to put off tackling your finances, giving your money matters a thorough sort through will help you work towards what you want to achieve financially out of life.

## BE PRACTICAL AND REALISTIC

Once you've made your resolution, it's important to be practical and realistic in working out how to stick to it and achieve your goals. If you have multiple financial goals, it can be useful to try to prioritise them – from what you feel is the most important goal through to goals you may not be as concerned about. For example, protecting your finances and income initially may be most important, before you start thinking about saving or investing.

In order to make plans for the future, you need to know where you are today and where you want to be in the future. Goal setting is very much like creating a business plan. You need to know a starting point and ending point, the time frame for 'exiting' (or reaching your goals), and the estimated cost involved.

## CONSIDER AND PLAN YOUR GOALS

- Retirement planning or property purchase over the very long term (15 years or more)
- Life events, such as school fees over the medium term (10–15 years)
- Rainy day or lifestyle funds to finance goals such as a dream sports car over the medium to shorter term (5-10 years).

## WHAT REALLY MATTERS MOST?

Many people muddle through their financial lives, spending to meet the day-to-day expenses that dominate their attention. That's why to get what you want most, you must decide which goals will take priority and work toward the lesser goals only after the really important ones are well provided for.

## MINIMUM TIME HORIZON

The minimum time horizon for all types of investing should be at least five years. Whatever your personal goals may be, it is important to consider the time horizon at the outset, as this will impact on your approach to achieving your goals. It also makes sense to revisit your goals at regular intervals to account for any changes to your personal circumstances, for example, the arrival of a new member of the family, or as you enter retirement.

## REFLECT ON WHAT WORKED

As a starting point, consider the goals you set previously, and reflect on what worked and what didn't and why. Once you've done this, it's time to define your specific goals clearly. Most people tend

> ONCE YOU'VE MADE YOUR RESOLUTION, IT'S IMPORTANT TO BE PRACTICAL AND REALISTIC IN WORKING OUT HOW TO STICK TO IT AND ACHIEVE YOUR GOALS.

to set goals that are more about money than about objectives that motivate them emotionally.

## SMART RESOLUTIONS YOU TRULY VALUE

Goals that are tied to what you truly value are often easier to achieve than goals that are simply tied to money. Part of what gives this type of goal its power is that it's SMART: it is Specific, Measurable, Attainable, Relevant and has a Timeline.

**The first step sets you on a path and should also be:**

- **Specific** – 'To get wealthier' is not a specific or clear goal, but 'to achieve two thirds of your previous working lifetime income at 55 when you retire' is
- **Measurable** – Set deadlines for your financial goals, such as the age at which you want to retire, or the timeline for buying a holiday home
- **Achievable** – Use your own income (and expected income) to set your financial goals for the future. Don't count on inheriting money
- **Relevant** – Create a personal financial bucket list of goals, but always view it as a flexible document that will change with time as your interests and life situation changes
- **Timeline** – Identify your time frame by categorising your objectives by short-term, medium-term and long-term financial goals to provide focus and to help match your goals with appropriate savings and investments

## TIME TO TAKE STOCK AND THINK ABOUT HOW TO IMPROVE YOUR FINANCIAL POSITION?

We all have dreams for the future, and many of those dreams require wealth to make them come true. Reaching those milestones starts with setting clear financial goals. Saving and investing with a goal delivers its own reward: the purchase or life change that you've dreamt of and worked to achieve. We're committed to our clients' financial success and would like to have an opportunity to review your situation. To find out more, please contact us – we look forward to hearing from you.

# OPEN-HANDED GRANDPARENTS

*Generosity shows no sign of stopping*

Forget the headlines about post–pension freedoms with retirees spending their nest egg on a Lamborghini – new research shows that 2.4 million UK grandparents[1] have either withdrawn money from their pension to support their grandchildren or plan to in the future.

According to new research from LV=, a quarter of generous grandparents (25%) who have already given away money to their grandchildren[2] have taken the funds from their pension. A further one in six (16%) plan to use their pension for this reason once they reach retirement age.

## SUBSTANTIAL AMOUNTS

Open-handed grandparents are willing to give away substantial amounts to their grandchildren, whether from their pensions, savings or wages, with the average grandparent having already spent £1,633. More than one in twenty (6%) have given gifts of more than £10,000.

The generosity shows no sign of stopping, with many grandparents (56%) planning to give away even more money in the future. The average grandparent expects to give away £2,938 in the coming years, with charitable grandmas expecting to give away £173 more than grandads on average.

## 'LIVING INHERITANCE'

Pension savings are used to help with a wide range of things, from helping grandchildren get on the housing ladder (21%) to other high-ticket items such as university fees (20%) or cars (17%). A similar number would help out with more day-to-day expenses like bills (21%) and hobbies (19%).

Grandparents often view the financial gifts they make as a 'living inheritance', with more than a third (37%) wanting to be around to see their grandchildren enjoy the money[3].

With one in five retirees using their pension to help out, it's important to plan for retirement and have enough money left for yourself, as even smaller outgoings such as bills can become harder to meet later in life, as well as the flexibility to access your money. ■

## BEING THE GENEROUS GENERATION CAN HAVE ITS DOWNSIDES

The desire for grandparents to help grandchildren is part of human nature. But being the generous generation can have its downsides – with greater longevity and increasing costs of care in later life, some retirees may find they have given away too much. If this is something you are considering, speak to us first to review your options.

**Source:**

*[1] According to ONS Population Pyramid, there are 49,533,900 people aged over 18 in the UK. The research found that 39% of a sample of 2,002 adults were grandparents, indicating there are 19,318,221 grandparents in the UK. 56% of grandparents have helped or plan to help their grandchildren, and 22% of these would use their pension to do so. Therefore, 2.38 million grandparents have helped or plan to help their grandchildren, using their pension.*

*[2] According to research carried out by Opinium Research on behalf of LV=, 25% of grandparents have already taken money from their pension to give to their grandchildren.*

*[3] Statistics from research carried out on behalf of LV= by Opinium Research in June 2014 (total sample size = 2,043). The press release for this research was issued on 20 June 2014.*

*The research was carried out by Opinium Research from 13–16 October 2015. The total sample size was 786 British grandparents over the age of 30, and the survey was conducted online. Results are weighted to a nationally representative criteria.*

# PENSION CREDIT

*Cuts for people who go abroad for over a month*

People who go abroad for over a month will no longer be eligible for pension credit. At present, housing benefit and pension credit recipients can go abroad for up to 13 weeks while continuing to receive payouts.

The spending review says: 'The benefit system should not subsidise those on benefits to go abroad for extended periods. This reform will ensure the benefit system is not paying the rent of people who go abroad for more than four weeks at a time.'

## BASIC STATE PENSION INCREASE

### RISING IN LINE WITH THE HIGHEST OUT OF CPI INFLATION, AVERAGE EARNINGS INCREASE OR 2.5%

The basic State Pension will increase in tax year 2016/17 by £3.35 to £119.30 per week. Chancellor George Osborne stated this will make pensioners £1,125 a year better off.

Meanwhile, the 'triple lock', which ensures the State Pension rises in line with whichever is highest out of CPI inflation, average earnings increase or 2.5%, will be maintained.

## NEW STATE PENSION RATE

### HIGHER RATE THAN MEANS TESTED BENEFITS FOR THE LOWEST EARNERS IN SOCIETY

The full State Pension rate for people reaching their State Pension age from 6 April 2016 will be set at £155.65 pw. Mr Osborne says this is a higher rate than means tested benefits for the lowest earners in society.

People who contracted out of the top-up S2P and Serps schemes over the years may get less than this.

## STATE PENSION – WHAT YOU NEED TO KNOW

The basic State Pension is currently £115.95 a week, and it will rise to £119.30 from April (applies to those reaching their State Pension age before 6 April 2016). It is currently topped up by additional State Pension entitlements – S2P and Serps – accrued during working years.

This two-tier system will change from 6 April 2016 and be entirely replaced for those reaching their State Pension age on or after that date by a 'flat rate' pension. George Osborne announced that the starting rate will be £155.65 a week.

Workers need to have 30 years of qualifying National Insurance contributions to get the current full State Pension, but will need 35 years of contributions to get the full flat rate State Pension in future.

Even if you paid in full for a whole 35 years, if you contracted out for some years, it might still reduce what you get.

Rises in the State Pension are presently calculated on the basis of what is known as the 'triple lock'. This means that payouts always increase by whatever is the highest of inflation, average earnings or 2.5%. ■

## ACTION POINT

If you can afford it, delaying drawing the State Pension may boost your income in the future. Deferring for just one year could make you more than £10,000 better off if you live for 24 and a half years – an average of the life expectancy of men and women. To discuss the planning options available to you, please contact us.

> "THE BASIC STATE PENSION WILL INCREASE IN TAX YEAR 2016/17 BY £3.35 TO £119.30 PER WEEK. CHANCELLOR GEORGE OSBORNE STATED THIS WILL MAKE PENSIONERS £1,125 A YEAR BETTER OFF."

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