boundless BY CSMA MONEYTALK

The personal finance newsletter for Boundless by CSMA Club published by Lighthouse Financial Advice

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A practical end of year tax-planning check list

Act by 6 April to take advantage of the legitimate tax reliefs and allowances that the government offers to help us take responsibility for our financial futures and that are part and parcel of sound financial planning.

Most people recognise the importance of paying their fair share of tax. After all, it helps fund the NHS, schools and all the other vital services that the state provides. Yet it is equally important to optimise our finances and use the various allowances and tax incentives the government offers.

With the end of the tax year fast approaching, here is a simple, practical check list that could help you optimise the amount of tax you pay in the 2017/18 tax year – and possibly for many years ahead. To be effective for the current tax year, you need to take action before 6 April.

Reducing income tax

This is particularly important for people with income of £50,000 - £60,000 and who could lose child benefit.

- Are you on the right tax code? Even a small change in your circumstances can affect it.
- Have you included charitable donations on your tax return and, if you pay higher rate tax, reclaimed it on gift aid donations?
- Could you contribute more to your pension without going over your annual contribution and lifetime allowance limits? Go to page 3 to find out more.
- Might it make sense to transfer some income-producing assets to your spouse or partner. or vice versa, if one of you does not use your full personal allowance or pays a higher rate of tax?

Use or lose annual allowances

Using your annual allowances each year can help you shelter as much money as possible from tax in the future.

- Have you and your family made the most of your ISA allowances? The annual subscription limit is £20,000 for the 2017/18 tax year. Go to page 2 to find out more.
- Would you like to help your children or grandchildren financially? If so, you could consider paying in to a Lifetime ISA (LISA) on their behalf. Go to page 4 to find out more.

  You could also pay money into your spouse's or children's pensions. Although you won't receive any tax benefits, the person receiving the contribution can, depending on how much they receive, get income tax relief.
- If you have some money to spare and are concerned that you might leave your family with an inheritance bill to pay when you pass away, you might want to give away small amounts of money each tax year, subject to certain limits and conditions. See page 4 to find out more.

As ever, there are pros and cons to these suggestions and it is important to understand the full implications of what you are considering. It therefore makes sense to talk to one of our professional financial advisers before you act.

Optimise the tax you pay

If you would like to find out how you may be able to optimise the amount of tax you pay get in touch now.

Call 08000 85 85 90 or email appointments@lighthousefa.co.uk.
or contact your usual Lighthouse Financial Adviser.

Also in this issue

The value of your investments can go down as well as up, so you could get back less than you invested. Tax advice which contains no investment element is not regulated by the Financial Conduct Authority.

Finding a “nISA” home for your savings

ISAs are an increasingly popular form of savings plan, because they give your money the potential to grow more or less free of tax and there is no tax to pay when you take money out. But it is important to choose an ISA that offers the potential for real growth and suits your particular circumstances.

If you have savings you should consider holding them in an ISA – there is no tax to pay on any income or interest you receive from them or on any gains you have made when you cash them in. This makes them an attractive way of saving for the future – whether to pay for your children or grandchildren’s education, or to boost your income later in life. Plus, you can take money out whenever you want.

Which type of ISA?

There are ISAs to suit most people – cash, investment funds (known as stocks and shares), or a mixture. Cash ISAs are like savings accounts but with the tax advantages of an ISA. However, with interest rates still very low and inflation relatively high, the value of your savings is likely to fall (see article below). In the past, investments in stocks and shares ISAs have provided a better way of achieving growth that outstrips inflation over the longer term.

An ISA designed to help you achieve your financial goals

There is, of course, a risk attached to investing, but choosing a suitable fund and investing for the longer term gives your money more chance to perform as you expect. Funds which invest in a diverse selection of investments have the advantage of giving you instant access to a wide range of holdings within a single fund. It is also important to consider funds that are specifically designed to help you achieve your financial goals.

The value of your investments can go down as well as up, so you could get back less than you invested.

Inflation and the £ in your pocket or savings account

Between Jan 2015 and Jan 2018 average inflation was 2.44% per year. This means that, on average, prices are 7.5% higher now than they were in January 2015*.

Therefore, for your savings to have maintained their value they need to have grown by 7.5% since January 2015 and for their value to have increased they need to have grown by more than 7.5%. To have achieved this you need to have been getting at least 2.44% interest or growth on your savings each year.

If you have savings in cash accounts, even if they are in cash ISAs, they will have fallen in value in recent years, as average interest rates on such accounts have been well below 2%, with some paying less than 1%. The rate of inflation in January 2018 was 3.10%*.

If you have savings of more than three month’s expenditure (“rainy day” money) in cash accounts, irrespective of whether or not it is in an ISA, you should talk to one of our professional financial advisers as soon as possible to discuss whether you should move your hard-earned savings to a more suitable home.

*“£1 in 2015 □ 2018 | UK Inflation Calculator.” FinanceRef Inflation Calculator, Alioth Finance, 29 Jan. 2018, http://www.in2013dollars.com/2015-GBP-in-2018?amount=1.

Find out more

If you have savings in cash accounts or want to make additional savings you should talk to one of our professional financial advisers as soon as possible.

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Imagine living on roughly half your current income

It may come as something of a shock to realise that when you retire, your income could fall – perhaps by nearly half – even if you have been paying in to a pension scheme for all your working life.

The need for people, and especially younger people, to take personal responsibility for building their pension pot is becoming ever greater. This is particularly true for people in public sector pension schemes that have moved from final salary to career average benefits.

A recent survey by BlackRock* found that the average person in the UK says they would like an income of around £26,000 a year when they retire. What many don't realise is that to generate this they will need a pension pot of £525,000, even when the state pension is taken into account.

The truth is that if you don't make additional contributions you are likely to see your income drop significantly when you retire.

Pension – a highly tax-efficient way of saving

Pensions are one of the most tax-efficient ways of saving. Your employer pays into your pension on your behalf (unless you have opted out, which is generally not a sensible thing to do), your statutory contributions are deducted directly from your salary at source and the government tops them up.

The government tops up your contributions

You receive tax relief on the money you pay into your pension scheme. What this means is that the government gives back the tax you have paid on your contributions, paying the equivalent of basic rate tax directly into your pension pot. So if you are a basic rate tax-payer it only costs you £80 to save £100. Higher rate tax-payers can reclaim the additional tax they have paid via their self-assessment tax return.

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How much can you pay in?

The most you can pay in to a defined contribution pension in the current tax year is £40,000. However, if you have already started drawing your pension you can only pay in up to £10,000.

Start boosting your pension pot now

- Do not opt out of your employers' scheme.
- Try to pay in more than the minimum contribution each month. Set up a standing order. Even paying in just £5 or £10 a month can make a considerable difference over the years.
- Work out how much you need in your pension when you retire to give you the income you want.
- If your pension scheme is investment-based and offers a choice of investment options make sure your money is invested in funds aligned with your circumstances and objectives.
- Get professional advice - one of our professional financial advisers can help you work out how much income you are on track to get from your pension and how much more you need to save to give you the chance to achieve your target income. They will look at all options, beginning with your workplace pension. Also, if you are in an investment-based pension that offers a choice of funds, they can recommend funds that are suitable for your specific requirements.

Find out more

To review your pension provision please get in touch.

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or contact your usual Lighthouse Financial Adviser.

The value of your investments, and the income you receive from them, can go down as well as up, so you could get back less than you put in. A pension is a long-term investment and inflation will reduce how much your income is worth over the years. Your eventual income may depend upon the size of the fund at retirement, future interest rates and tax legislation.

*https://www.blackrock.com/uk/individual/insights/investor-pulse/retirement?siteEntryPassthrough=true&locale=en_GB&userType=individual

How we can help Boundless members

To arrange a financial planning seminar in your place of work or to find out more about how we can help Boundless members make the most of their money please get in touch with Alan Riches on 07943 018191 or email Alan.Riches@lighthousegroup.plc.uk.

Helping your family financially

Did you know that when you help your family financially you could also be reducing the inheritance tax that may be payable when you pass away?

With the inheritance tax threshold, which includes the value of your home, currently £650,000 for married couples and £325,000 for single people, many families are now finding that there is inheritance tax to pay when their loved ones pass away. However, it is possible to reduce the likely bill.

The annual gift allowance

You can give away cash and items worth up to a total of £3,000 a year and the amount will immediately be exempt from inheritance tax. You can carry forward up to £3,000 of unused allowances from the previous year. If you give away more than £3,000 a year, the excess amount will only be exempt from inheritance tax if you live for a further seven years.

Other gifts that are exempt:

- Gifts of up to £250 to as many people as you want, although not to anyone to whom you have given the £3,000 gift allowance in that year.
- Wedding gifts to your child worth £5,000 or less, to your grandchild or great-grandchild worth £2,500 or less, or to another relative or friend worth £1,000 or less.
- Money that pays the living costs of an ex-spouse, elderly dependant or a child under 18 or in full-time education.
- Excess income, over and above your normal outgoings, that you give away.

Tax advice which contains no investment element is not regulated by the FCA.

Find out more

There are many ways you may be able to reduce the amount of inheritance payable when you pass away. This is a complex area and it is easy to get things wrong. If you are concerned that you may leave your loved ones with an unnecessary tax bill

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ISAs, Lifetime ISAs (LISA) and Junior ISAs – what's the difference?

	ISAs	LISAs	Junior ISAs
Age criteria	Anyone over the age of 18 (over 16 for cash ISAs)	Anyone aged between 18 and 40	Anyone under 18.
Allowance for 17/18 tax year	£20,000	£4,000. The amount paid into a LISA counts towards the account-holder's ISA allowance.	£4,128
Bonus	None	The government adds a bonus of 25% to the amount paid in each year until the account holder turns 50.	None
Conditions	You do not have to keep an ISA for a specific duration, although some accounts have a fixed or minimum term.	Account holders can continue paying in until they are 50. They can use the money at any time as a deposit for their first home costing less than £450,000. They can withdraw money for retirement purposes at age 60.	The child can take control of the account when they reach the age of 16 but can't withdraw the money until they are 18.

ISA facts

Transfer savings or investments you have

If you have investments or savings that are not already tax-efficient you should consider cashing them in and transferring the proceeds into an ISA. However, it is essential to consult a professional financial adviser before you do so.

One ISA every tax year

You can take out one ISA every tax year, so if you don't take out an ISA by 5 April 2017 you will lose the opportunity to shelter up to £20,000 from tax. The allowance applies to all adults resident in the UK for tax purposes, so a couple can shelter up to £40,000 from tax in this tax year.