Money Wise

BROOKS WEALTH MANAGEMENT LLP
Financial Planning and Asset Management

Tel: 0117 962 2962 • www.brookswm.co.uk

SPRING 2018

Preparing for the new tax year

Making the most of your allowances

Inside...

Tax relief reductions affecting landlords

The next instalment of tax changes affecting landlords and investors in buy-to-let properties takes effect from 6 April.

George Osborne's reform of tax relief on buy-to-let residential mortgage interest was announced in the summer 2015 Budget. The change began in April 2017, with the full effect not felt until 2020/21.

Borrowers will get a 20% tax credit on interest under the new scheme, instead of deducting interest against rental income. This is equivalent to basic rate relief, and it increases borrowing costs for higher or additional rate taxpayers. The change is being phased in until 2020/21. The amount of interest deductible against rental income is 75% for 2017/18, reducing by 25% each year after. Borrowers can claim 25% of the tax credit in 2017/18, increasing by 25% a year to reach 100% from 2020/21.

One consequence is that taxable income will increase. This can have unfortunate tax side effects – for example, pushing a borrower over an important tax threshold such as the £100,000 income level at which the personal allowance begins to be tapered away.

> *“Borrowers will get a 20% tax credit on interest under the new scheme, instead of deducting interest against rental income.*

In the longer term, the impact of the reform could be significant for higher and additional rate taxpayers. The switch to a 20% tax credit could even turn a profit into a loss for a higher rate taxpayer, as the simplified example shows.

Example	2016/17 £	2020/21 £
Rent	Nil	8,500
Expenses	12,000	12,000
Deductible interest	(8,500)	Nil
Non-deductible interest	Nil	(8,500)
Taxable income	1,000	9,500
Tax due @ 40%	400	3,800
Tax credit on interest at 20%	Nil	(1,700)
Tax payable	**400**	**2,100**
Net income	**£600 profit**	**£1,100 *loss***

Some buy-to-let investors are planning to sell in the face of the growing tax burden. If that includes you, talk to us about all your options.

✢ *The Financial Conduct Authority does not regulate tax advice. Levels and bases of taxation and tax reliefs are subject to change and their value depends on individual circumstances. Tax laws can change. Business buy-to-let and commercial mortgages are not regulated by the Financial Conduct Authority. Think carefully before securing other debts against your home.*

The lifetime allowance increases at last

Investors can save more into pensions from 6 April 2018, when the lifetime allowance (LTA) increases from £1 million to £1.03 million.

The LTA is a critical part of pension planning. It is the total value of payouts from pension savings at retirement, as a lump sum or income, before additional tax charges apply.


Credit: iStock/andresr

This allowance has been reduced in recent years, but it will now start moving in the opposite direction, with increases due in line with inflation each year.

A holistic approach

Investors need to be aware of the impact of the LTA on their total pension savings. This can include such assets as workplace pensions, so it's important to get up-to-date valuations for your LTA calculations.

If it's possible you could breach the LTA, you may want to consider alternative retirement provision – which could include maximising your ISA allowances or looking at other investments. There are also different 'protection' options available, which effectively allow some savers to 'lock-in' higher pension allowances.

Defined benefit transfers

The LTA can be important when considering transfers out of defined benefit (DB) pensions. Transferring the benefits can sometimes lead to a breach of the LTA, especially with the high transfer values offered by many DB schemes.

To calculate the value of a DB pension, the accrued benefit is multiplied by 20. If you are due to receive a DB pension of £50,000 a year at your scheme's retirement age, this is deemed to be worth £1 million for the purposes of the LTA. This is within the current LTA, but the transfer value may be much higher, and push your total pensions savings over the LTA.

> *Investors need to be aware of the impact of the LTA on their total pension savings.*

✢ *The Financial Conduct Authority does not regulate tax advice. Levels and bases of taxation and tax reliefs are subject to change and their value depends on individual circumstances. Tax laws can change. Occupational pension schemes are regulated by The Pensions Regulator.*

Making plans: The new tax year begins

When the current tax year comes to an end so will some valuable tax planning opportunities. Some of these will survive into 2018/19, but many will finish on 5 April – and if you don't use them, you will lose them.

This year there will be no Spring Budget to complicate year-end tax planning. As the tax calendar turns, there are several areas for you to consider.

Independent tax planning

Most income tax bands and allowances will increase from 6 April – with Scotland poised to implement a new set of bands and rates – but important thresholds are frozen yet again and the dividend allowance will drop from £5,000 to £2,000. If you are a higher rate taxpayer, this could cost you up to an extra £975 tax in 2018/19. This mix of changes makes it important to review your tax affairs jointly if you are married or in a civil partnership, as you could rearrange the ownership of your investments and deposits.

ISAs

The overall ISA contribution limit for 2017/18 (and 2018/19) is £20,000, an increase of £4,760 since 2016/17. The role of ISAs has changed in recent years because of the introduction of the personal savings allowance and dividend allowance, and continued ultra-low interest rates. The drop in the dividend allowance and political uncertainties will add to the attraction of stocks and shares ISAs.

Pension contributions

5 April will be the last day you can make a pension contribution utilising any unused annual allowance you have dating back to 2014/15 – which could be up to £40,000. Maximising pension contributions now could be a wise move because pension tax relief is not guaranteed to exist forever. The cost to the Exchequer in 2017/18 is forecast to be nearly £41 billion.

Capital gains tax (CGT)

2017 was a good year for global share markets. If you made gains, it is worth considering taking some of your profits, even if you immediately reinvest them (for example, using a Bed and ISA). In 2017/18 you can realise gains of up to £11,300 free of CGT and from 6 April the exemption rises to £11,700. Straddle the tax years and you could individually realise up to £23,000 of gains with no tax charge.

Inheritance tax (IHT) planning

Year end is your last chance to use your 2017/18 IHT annual exemptions and unused gifts from your annual exemption limit of £3,000.

> *In 2017/18 you can realise gains of up to £11,300 free of capital gains tax and from 6 April the exemption rises to £11,700.*

Contact us as soon as possible if you want to undertake any of the year-ending/beginning planning outlined above. Some areas can be dealt with quickly, like maximising pension contributions, but others can involve data gathering and complex calculations.

The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances. The Financial Conduct Authority does not regulate tax advice. Levels and bases of taxation and tax reliefs are subject to change and their value depends on individual circumstances. Tax laws can change.

Credit: iStock/Shironosov

Credit: iStock/DNY59

State pension age continues to rise

Do you know when you'll reach your state pension age? When planning for retirement it's crucial to know your entitlements.

The level of the state pension has become more straightforward in some ways since the introduction of a flat-rate pension in 2016. But figuring out when and exactly what you will receive has become more complicated.

Women used to collect their state pension at the age of 60, and men received theirs from age 65, but women's State Pension Age (SPA) has been rising over the last eight years. By the end of this year women's SPA will be the same as for men.

A second phase will then begin which will push up the SPA from 65 to 66 over a period of 16 months. Seven years later, the SPA will be raised again to 67.

Who is affected by these changes?

The SPA changes are complicated, but some key dates could affect you:

- If you were born between 6 October 1954 and 5 April 1960, you will reach your SPA at 66.
- But if you were born after 6 April 1961, you will reach your SPA at 67.

There are two periods when the SPA will rise each month according to your date of birth.

If you were born between 6 December 1953 and 5 October 1954, your exact SPA between 65 and 66 will increase in monthly intervals: e.g. someone born on 30 September 1954 will have a SPA of 65 years 11 months.

If you were born between 6 April 1960 and 5 March 1961, the SPA will also depend on the month of your birth. So, someone born on 28 February 1961 will have a SPA of 66 years 11 months.

Staying informed

This will not be the last increase to the SPA. With people living longer and the baby-boomer generation heading into retirement, the government may be forced to control spiralling pension costs by revisiting this whole area.

Many women who have seen their state pension age rise in recent years have complained they were not given enough warning of these changes.

We can help you understand how these changes will affect you and your retirement planning. For example, we could advise how best to bridge any gap between the time when you expected to get your state pension and when it will actually start to be paid.

The potential savings from relevant life policies

A little-known type of life assurance policy could provide you – or your employees – with highly tax-efficient life cover

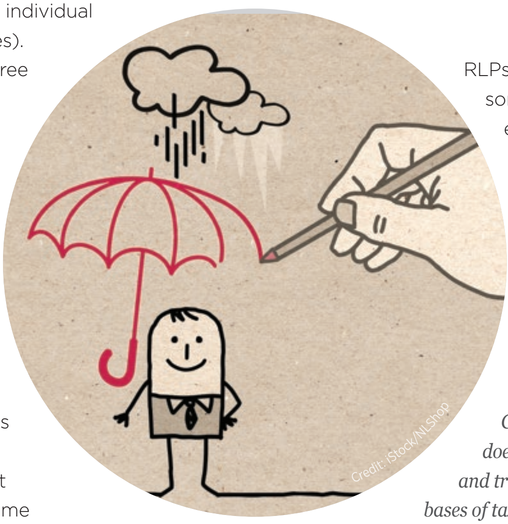
It is easy to understand the appeal of life assurance with:

- The premiums paid by your employer.
- No income tax or national insurance contributions to pay on the premiums by the employer or employee.
- No pension lifetime allowance limits to worry about.
- No pension annual allowance issues.
- Benefits on death or diagnosis of a terminal illness payable under a flexible discretionary trust to your nominated individual beneficiaries (or charities).
- All payments normally free of inheritance tax.

These are all features of a special type of life assurance policy known as a 'relevant life policy' (RLP). RLPs are especially useful for: small companies that do not have enough employees to set up a group life scheme; directors and senior employees who require life cover that won't eat into their available lifetime allowance; employees who wish to top up benefits from their existing employer's scheme, and; directors who want to set up an employer-financed shareholder protection arrangement.

The savings from using an RLP rather than setting up personal cover and funding premiums from net pay can be significant. For example, a higher rate taxpaying director who needs £500,000 of cover costing £1,000 a year in premiums could almost halve the employer's cost.

> *The savings from using an RLP rather than setting up personal cover and funding premiums from net pay can be significant.*



RLPs are subject to some special rules. For example, the policy cannot run beyond the employee's 75th birthday.

For more details of RLPs please contact us.

✢ *The Financial Conduct Authority does not regulate tax and trust advice. Levels and bases of taxation and tax reliefs are subject to change and their value depends on individual circumstances. Tax laws can change. Occupational pension schemes are regulated by The Pensions Regulator.*

Simplifying inheritance tax?

The government has requested a review of inheritance tax (IHT), focusing on making the system less complicated.

The Chancellor, Philip Hammond, has asked the Office of Tax Simplification (OTS) for "proposals... for simplification, to ensure that the system is fit for purpose".

The OTS has been asked to "focus on the technical and administrative issues within IHT," so it is looking for simplification options, not a radical reform. The Chancellor is unlikely to reduce IHT revenue, as the tax is forecast to raise £5.4bn in 2018/19.

The OTS did have a look at IHT when developing its 'Complexity Index' in 2015. The index examined over 100 aspects of UK taxation, assessing their complexity and its impact. Unsurprisingly, IHT ranked third for complexity, behind two sets of capital gains tax computation rules.

If the OTS repeated the exercise today, IHT could well come first because of the extra complexity added by the residence nil rate band (RNRB) and its associated downsizing rules.

You should not defer your estate planning because of the impending OTS review. If you have not reviewed your will since the RNRB started life in April 2017, now is the time to do so. The RNRB could save your estate up to £70,000 in tax (up to £140,000 for a couple) by 2020/21, but the relief is far from straightforward. The end of the tax year also offers opportunities to use your annual IHT exemptions, as covered in our feature article.

✢ *The Financial Conduct Authority does not regulate tax advice. Levels and bases of taxation and tax reliefs are subject to change and their value depends on individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate will writing, trusts and some forms of estate planning.*

Brooks Wealth Management LLP
10 Radnor Road
Henleaze
Bristol
BS9 4DX

t: 0117 962 2962
w: www.brookswm.co.uk