DT | Blog

2016 Financial Planning Resolutions

January is a month we focus on our objectives for the year ahead. In this blog we cover 10 basic financial planning areas to give consideration to at the start of 2016.

1. Assess your life cover and protection needs

Review any life, critical illness cover and income protection policies in place and the type/level of cover you need. With the cost of protection falling over recent years, it is worthwhile checking if your premiums are still competitive or whether savings can be secured. As circumstances change over the years, alterations to either the basis or level of cover may be appropriate.

2. Review your investments

The investment world and our circumstances change over time so it essential to monitor and regularly review how our wealth is invested. Such reviews can help ensure capital is not stuck in investments that are performing poorly, or that involve an unsuitable level of risk. The investment strategy can then be adjusted and tailored to meet any changing needs as your circumstances and objectives develop over time.

3. Review your existing pensions

Most of us will accrue a number of different pension plans over our working lives. If you have preserved or 'frozen' pensions, it is worth assessing these to ensure they are working hard for you. What are the costs and contract terms (are there any guarantees)? Do you have a protected pension commencement lump sum? Are the investments performing as well as they could be and what investment options are available to you? By reviewing matters, we can ensure your pension capital is allocated effectively and, if beneficial and suitable for you, take action to alter the investments or move capital to an alternative pension arrangement.

4. Pay into a pension

Pensions represent one of the most effective and tax advantageous methods for individuals in the UK to save for the long-term. Aside from the up-front tax relief, tax free income[1] and growth within the pension wrapper, they are also an extremely effective vehicle for estate planning with highly favourable tax treatment on death.

By paying into a pension, individuals can reduce their taxable income below the higher rate or additional rate tax thresholds. Those earning between £100,000 and £121,200 could obtain tax relief of 60% by making a pension contribution.

From 6 April, the ability for high earners (typically those with adjusted income over £150,000) to fund pensions will be greatly diminished. Opportunities do exist though to take effective action ahead and after these changes. See our recent article covering this topic **here**. With the use of carry forward, many individuals (not just high earners) will have scope to pay more than the £40,000 annual allowance by carrying forward unused allowances from the previous three years (up to £180,000 conceivably).[2]

---

[1] At present 10% tax is deducted at source from dividends but dividends will become tax free from 6 April 2016.

[2] The amount individuals can personally contribute to pension in any one year is limited to their earnings in that year.

It is widely anticipated that the government will abolish higher and additional rate tax relief in the March budget. We could see a lower flat rate introduced or a complete overhaul of the system with tax relief disappearing altogether. There is an argument to bring forward funding and make pension payments ahead of the budget in order to secure the current rates of tax relief available.

For many individuals, it will also be relevant to review Lifetime Allowance aspects when considering such funding.

5. Make third party pension contributions for loved ones

Such contributions do not count towards an individual's own annual allowance and recipients (e.g. spouse, children or grandchildren) enjoy basic rate tax relief even if they pay no income tax i.e. an amount of £3,600 will go into the pension for a net cost of £2,880. Inheritance tax gift exemptions can be used here making this a highly tax advantageous method of passing wealth to future generations.

6. Use your ISA allowances

ISAs are simple, flexible and with no tax on income[3] or gains, highly tax advantageous. Capital is not locked away like pensions and could be accessed if needed (although we would always advocate sufficient cash reserves are maintained and that investments in risk assets are held for the medium to long–term to be most effective). There is also no need to maintain any records or report dividends/gains to HMRC.

The current ISA allowance is £15,240 per adult and £4,080 per child (in a JISA). If a child has a Child Trust Fund (CTF), the CTF can now be transferred into a JISA and, in many cases, this will be a desirable course of action.

We advise clients to build long-term wealth in both ISAs and pensions. If you do not have surplus cash to earmark for ISAs, consider redirecting non-ISA investments into ISAs to shelter more of your capital from income tax and capital gains tax.

7. Use your capital gains tax exemptions

Each individual has an annual capital gains tax (CGT) exemption of £11,100. Gains up to this amount (£22,200 for jointly held assets) can be crystallised each year with no tax to pay. The proceeds can then be reinvested back into the same or similar investments. Consider transferring assets between spouses, if appropriate, to take maximum advantage of each CGT exemption or redirecting capital into ISAs where future gains will be tax free.

8. Review ownership of assets

I have just touched on this but transferring assets between spouses could offer tax benefits. Transfers between spouses are exempt from CGT and inheritance tax. Consider moving assets to the spouse with lower income to reduce tax on interest, dividends, rental income. From April, each individual will have their own tax free dividend allowance of £5,000 so couples should look to rebalance investments to maximise the benefit of this allowance. Similarly, where investments are showing meaningful gains, it may be beneficial to move assets between spouses to maximise use of each individual's annual CGT exemption.

9. Consider other tax incentivised saving schemes – EIS and VCTs

EIS (Enterprise Investment Schemes) and VCTs (Venture Capital Trusts) are specialist, higher risk investments, which can also be illiquid so they are not suitable for all but they do offer considerable tax advantages. EIS provide 30% income tax relief on contributions, exemption from CGT on gains, the ability

[3] From 6 April 2016.

to defer CGT on previous gains, and exemption from inheritance tax after two years. VCTs provide income tax relief of 30%, exemption from CGT on gains and tax free dividends. I will focus on these structures in more depth in a future article.

10. Review your estate planning and inheritance tax

If your estate is of a size where inheritance tax (IHT) may become an issue there are various steps that can be taken to mitigate the eventual liability for your beneficiaries. Most simply, numerous exemptions exist that enable lifetime gifts to be free of IHT from day one. The annual gift exemption for instance, allows each individual to gift £3,000 each tax year (£6,000 if the exemption was not used in the previous year). The normal expenditure out of income exemption permits gifts out of income, provided such gifts leave you with sufficient income to cover your normal living expenses. Such exemptions can effectively be used to fund savings for children, grandchildren (e.g. third party pension or JISA contributions).

There are numerous aspects to assess when considering estate planning and a full review should be carried out to look at the various gifting options, use of trusts etc. as part of any process.

Summary

This is a simplistic overview but it covers some key financial planning areas for individuals to consider. Many of the tax reliefs and exemptions referred to are on a 'use it or lose it' basis so it is worth revisiting these each year. Clearly, the relevance or suitability of the points made here will depend on individual circumstances. If you would like to explore how they may apply to your own position, feel free to contact us to discuss further.

Stephen Hughes

January 2016

Issued by Dewhurst Torevell & Co Ltd, 5 Oxford Court, Manchester M2 3WQ. Tel 0161 281 6400. www.dewhurst-torevell.co.uk. Dewhurst Torevell & Co Ltd is a company registered in England 3279315 and is authorised and regulated by the Financial Conduct Authority (FCA number 183210).