BREWIN DOLPHIN

End of year tax guide

Making the most of valuable tax reliefs

In this guide we explain:

- Why you should make sure you use your tax-free allowances this year
- How acting now means you can maximise tax-planning opportunities
- The main tax-planning opportunities in the current tax year from pensions to property, inheritance tax to ISAs, dividends to capital gains tax.

The value of investments and any income from them can fall and you may get back less than you invested.

Please note that this document was prepared as a general guide only and does not constitute tax or legal advice. While we believe it to be correct at the time of writing, Brewin Dolphin is not a tax adviser and tax law is subject to frequent change. Tax treatment depends on your individual circumstances; therefore you should not rely on this information without seeking professional advice from a qualified tax adviser.

As the end of the tax year gets closer there is a window of opportunity to make the most of valuable allowances, reliefs and exemptions that can help reduce your tax bill and make sure your finances stay tax efficient.

Some of these allowances will be lost if not used before the tax year end on April 5 - and the sooner you claim them the better.

There are plenty of opportunities out there. Government-endorsed allowances, reliefs and exemptions remain both legally and reputationally safe. The government offers these reliefs to encourage investment and they are designed to be beneficial.

This guide aims to highlight the main tax-planning opportunities in the current 2018/19 tax year. However, while tax efficiency is an important part of financial planning, it is not the only part.

At Brewin Dolphin, our experts can work with you to incorporate tax-efficient investing within a broader tailor-made financial plan to make sure the allowances work best for you. We can help you put the money you save in tax to work harder elsewhere.

The changing tax landscape

The UK's tax system is constantly changing, which means that unless you remain up to date there is always the chance that you could lose out. The important thing is to remain informed.

Building a tax-efficient retirement portfolio

Maximise your annual pension allowance

The annual allowance is the limit on the amount of pension contributions that can be made each year and qualify for tax relief. In the 2018/19 tax year, the standard rule is that you can contribute the lower of £3,600, your annual earned income or £40,000*.

The annual allowance has changed significantly since it was introduced in 2006 at £215,000 and in recent years has been cut sharply. However, the tax breaks on pensions savings remain pretty impressive.

The government adds income tax relief to your investment. Any growth over subsequent years will be free of income and capital gains tax.

The annual allowance isn't necessarily lost at the end of the tax year, as you can 'carry forward' any unused allowance from the three previous years. However, as you can't get tax relief on more than you earn, for most people, putting money aside each year is likely to be the best way to benefit from the available tax breaks.

The lifetime allowance – don't sleepwalk into a 55% tax charge

When you are calculating how much to contribute to your pension this year, you also need to consider the lifetime allowance. This is the maximum amount of pension saving you are allowed to amass over a lifetime without incurring a tax charge.

Currently the lifetime allowance is £1.03m. Any savings above this level when you begin to draw your pension may be subject to a lifetime allowance charge. The rate of tax charged depends on how the excess benefits are taken - 55% is deducted if the excess is paid as a lump sum or 25% if used to pay pension benefits (plus income tax at your marginal rate).

Even if you are some way off retirement it is important to establish whether you could breach the lifetime allowance in the future and whether you need to take action to protect yourself from a possible tax charge.

If you expect to breach the lifetime cap in the future or your pension pot is already worth more than £1m you may be able to apply for protection. Alternatively, it may be

* The annual pension allowance is dependent upon several factors and the £40,000 limit may not apply, depending on individual circumstances.

appropriate to adopt a more conservative investment approach or, if you have already reached your 55th birthday, consider taking your pension now.

The decisions that need to be made are complicated and the most appropriate action will depend on your individual circumstances. So do not hesitate to get in touch with one of our specialist financial planners with any questions.

Minimising tax on your other investments

Make the most of your ISA allowance

In our low interest rate environment, making sure that your savings and investments are not needlessly depleted by tax is more important than ever. Individual savings accounts (ISAs) are at the core of most tax-efficient portfolios, and in April 2017 there was a substantial increase in the annual ISA allowance. If you don't use your annual ISA allowance before the end of the tax year you lose it forever.

In the current tax year, individuals can invest up to £20,000 (£40,000 for a couple).

The tax benefits of ISAs remain the same. With a cash ISA, the interest is tax free. With stocks and shares and other ISAs (including the Lifetime ISA introduced in April 2017), there is no tax to pay on income or capital gains from your investments.

To encourage even wider use of ISAs, the government has introduced several changes in recent years that have potentially made the accounts even more attractive.

- You can transfer ISAs as often as you like, including previous years' ISA savings. Money held in a cash ISA can be transferred into a stocks and shares ISA and vice versa. Be aware, though, that some providers restrict transfers in.
- If your ISA is flexible, you can take cash out then put it back in during the same tax year without reducing your annual ISA allowance. Not all ISA providers offer this flexibility, and strict rules must be followed. However, if you are interested in this facility your Brewin Dolphin adviser will be able to help you establish if it is possible.
- April 2017 saw the introduction of the Lifetime ISA (LISA), which is aimed at helping younger adults to save for retirement or build up funds towards the purchase of a first home.

  A LISA can be opened by anyone between the ages of 18 and 40 and while you can only put in £4,000 a year (which comes out of your full ISA allowance), the government boosts it by 25%, so that for every £4 saved the government adds £1. This means a maximum bonus of £1,000 on the annual £4,000 limit.

Growth is tax free and you can access the money whenever you want. However, to keep the bonus you need to put the money towards buying a first home worth up to £450,000 or wait until you reach the age of 60, after which you can use the money for any reason.

Dividend allowance

In the current tax year, the first £2,000 of dividend income you receive a year is tax free. This is on top of the existing personal allowance for income (£11,850 in 2018/19). Dividends over £2,000 are taxed at 7.5% (for basic-rate taxpayers), 32.5% (higher-rate taxpayers), or 38.1% (additional-rate taxpayers).

Personal savings allowance

The personal savings allowance means that basic-rate taxpayers can earn up to £1,000 of interest on savings without having to pay any income tax. Higher-rate taxpayers can earn up to £500 interest tax free.

Reducing tax on your gains

One allowance that many investors forget is their 'Annual Exempt Amount' for capital gains tax (£11,700 in 2018/19). You don't pay tax on any profits from the sale of eligible assets (such as shares you hold directly) until you have gone over this level.

If you have a large portfolio of shares outside an ISA, it's worth using as much of this allowance as possible each year – by selling assets that have risen in value – or you could be storing up a large exposure to capital gains tax for the future. Sharing the ownership of assets with a spouse or civil partner can also enable couples to make significant capital gains tax (and income tax) savings.

Your Brewin Dolphin financial planner or investment manager can help you decide whether it is time to take action. Contacting them now will mean there is enough time to make the necessary decisions.

Rollover relief, helping you to defer capital gains tax, may be available when the proceeds from the disposal of an existing asset are invested in a new one. However, strict rules apply so you must take advice.

Inheritance tax – the power of annual giving

Most people wait until death before passing on their wealth through their wills. But, transferring wealth while you are alive can have a transformative effect on your family's life and reduce an inheritance tax (IHT) liability.

There are a number of annual gift allowances, which you lose if you don't make use of them before the tax year end.

- You can give away £3,000 each year and this will not be subject to IHT.
- You can give as many gifts of up to £250 per person as you want during a tax year, as long as you haven't used another exemption on the same person.

These are just some of the gifts that are available. In addition, parents can give £5,000 to each of their children as a wedding gift, while grandparents can give £2,500.

Gifts of any size to charities or political parties are also tax free. If a gift is regular, comes out of your income and does not affect your standard of living, any amount of money can be given away and ignored for IHT.

It is possible to make further tax-free gifts – potentially exempt transfers - but you have to survive for seven years after making the gift to get the full benefit of it being outside of your estate for IHT purposes.

If you would like to learn more about how to reduce an inheritance tax bill, our financial planners can work with you to build a tax-efficient estate plan.

Don’t get caught out by recent property taxes

Recent tax reforms have made buy-to-let look distinctly less attractive from a tax perspective. If you already own a rental property or are considering becoming a landlord this could affect the profitability of your buy-to-let.

Annual ‘wear and tear’ allowance

Landlords used to be able to automatically claim 10% tax relief each year on their rental income from furnished accommodation to cover ‘wear and tear’. Since April 2016 landlords have only been able to claim for the costs they actually incur when they replace furniture, furnishings, appliances and kitchenware.

Mortgage tax relief

Landlords used to be able to claim tax relief on 100% of mortgage interest costs at their marginal rate (40% for higher-rate taxpayers; 45% for additional-rate taxpayers). That meant all landlords only paid tax on the difference between their expenses and income, their profit.

That changed on 6 April 2017. In the 2018/19 tax year landlords can only claim relief at their marginal rate on 50% of mortgage interest costs. On the remaining 50%, tax relief is restricted to the basic rate of income tax of 20%.

Further restrictions on tax relief will be phased in over the next two years, which means if you are a landlord it may be time for a rethink. Our investment managers can help you explore alternatives to buy-to-let that are more liquid and tax efficient.

Give your children a financial leg up

Finally, it’s worth remembering you can also save tax efficiently for your children and grandchildren. With a Junior ISA, you can put aside up to the maximum subscription limit (£4,260 for 2018/19) each year, and there are the same tax benefits as an adult ISA. You just have to remember the money is locked away until the child is 18 at which point they can start withdrawing money.

People with no earnings can also get 20% tax relief on pension contributions of up to £2,880 per year (which boosts the value to £3,600). This includes children. Under current legislation, money in children’s pensions can’t be accessed until they are 55, but can then be used to boost their retirement savings.

How we can help

The use of allowances is a deceptively complex area, and professional advice can help you to maximise the potential of the various tax savings on offer.

Brewin Dolphin's financial planners can help you to build a tax-efficient financial plan that ensures you are making the most of the reliefs and allowances available to maximise returns on pensions, savings and other investments. Our experts can also introduce you to tax specialists where appropriate.

If you are comfortable selecting your own risk profile and portfolio without our formal advice, our Brewin Portfolio Service could be for you. It allows you to choose from one of six portfolios designed to meet a range of risk appetites, dynamically diversified across a range of different investments. For clients with smaller portfolios (£2,000 to £150,000) looking to benefit from our research and investment expertise, the Brewin Portfolio Service is a good place to start.

If you would like to discuss any of the issues raised in this guide please call 020 3201 3900 or contact your local Brewin Dolphin office. Remember, don't leave it too late or you could lose out.

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