# Endings and Beginnings – planning around the tax year

As the end of the tax year is racing towards us, it is a good time to remind ourselves of some of the ways to make sure we are making the most of our money.

As you know, using your ISA allowances by parking either cash on deposit or investments into these tax-free beauties, makes complete sense. I also believe that they are now more important than ever.

To explain, let's go back to April 2016.

At that point in time, the government bought in a new dividend tax to try to create a more level playing field between employees, the self-employed and Company Directors/Shareholders in relation to how their earnings were taxed. The government's new tax on dividends meant business owners who paid themselves a low salary topped up by dividends, would now pay tax of 7.5% on dividends they received over £5000; if they were a higher rate tax payer, they would pay 32.5% on anything over the £5,000 allowance.

Unfortunately however, ordinary investors were also caught out under the same rules. Those whose dividend income from shares or unit trusts etc was more than the £5,000 annual allowance, found they too would have to pay either 7.5% or 32.5% .

Cast forward to 6 April 2018, just round the corner. The government, after 2 years of it's introduction, will reduce the £5,000 allowance to just £2,000 a year.

According to the Treasury, this means that a significant number of investors, 7% of whom are pensioners, will be losers.

ISAs to the rescue!

Anita Gatehouse
Your Lifestyle's Financial Expert

By sheltering investments within an ISA, your dividend income will now be tax free. A word of caution however. By moving your existing shares or share based investments into an ISA will be seen as a 'disposal' for capital gains tax. It would therefore be wise to take advice before you take such action to make sure you don't unwittingly create another tax bill.

So, if you have not used your £20,000 ISA allowance this tax year, and you also use the new tax year's ISA allowance early in the year, you will soon be sheltering £40,000 from this dividend tax.

On the subject of ISAs, Lifetime ISAs (LISAs) can be a clever way for parents and grandparents to help their children and grandchildren buy their first home. LISA's can be taken out by those between the age of 18 to 40 and these investments come with a government bonus of 25% on the maximum investment of £4,000 each year. Many of my clients, especially those that know their families will face an inheritance tax liability in the future, often ask me how they might help their children and grandchildren now and how to do so tax efficiently.





One idea is to make a gift of £3,000, known as the annual exemption, without having to worry about inheritance tax. If your resources allow, this can be done each year. Using this in conjunction with a LISA for your children or grandchildren could be a really smart way to maximise tax efficiency. This could also, very importantly, create more control over how the money will be used; after all, not every young person is endowed with self-discipline where money is involved!

As long as the LISA is used towards buying their first home or to help fund their retirement, the government bonus stays in place. If the money is withdrawn for any other reason, the bonus is also withdrawn, a great incentive to use the gift sensibly.

Like all financial decisions, it is important to take advice, so seek some further information to ensure you get everything right.

When it comes to tax planning, in most cases, it is use it or **lose it**.

Another end of year tax planning subject worth considering is pensions. The government has changed how much you can put into a personal pension scheme over the last few years as they recognised what a tax break they are and how much tax relief was costing the Treasury. In the past the limit was £253,000 a year, this reduced to £50,000 then down to the current level of £40,000 a year with really high earning individuals limited to £10,000 a year! Who knows what changes will continue to be brought in but one thing is certain, making the most of these generous tax breaks while they are there makes sense.

**If you are unsure about either your own pension or inheritance tax position you can book a free 30 minute meeting. Just telephone Jo or Sophie on 01562 745730 to book an appointment.**

**Why not have a look at what our clients say about us on our website: www.cre8wm.co.uk.**