savings
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2016 Financial Planning Tips for High Earners

For more information call 0800 321 3581

Contents

Introduction

If you find more and more of your income is taxed at over basic rate, you are not alone. More of us are being dragged into the higher rate tax net because the threshold at which you start to pay tax at the higher rate is actually lower for 2015-16 than it was five years ago.

You will start to pay 40% income tax when you have an income of £42,385 and if you have child benefit and earnings over £50,000, you may be feeling the impact of tax even more keenly.

Those earning more than £150,000 will pay the additional rate of 45%, and because of the way the allowances are progressively withdrawn on income over £100,000, there is also a marginal rate of 60% tax that applies to income between £100,000 and £121,000.

This increased tax burden for high earners is a deliberate policy by the Government, which stated: "As a clear result of the government's reforms to tax, welfare and public spending across this parliament, the richest households will make the biggest contribution to reducing the deficit, both in cash terms, and as a proportion of their income."

So how can you help yourself and reduce the impact that these additional tax burdens have on your financial affairs? Well, that is exactly what this guide is designed to tell you, with key financial planning tips to consider to alleviate the increased tax burden and make your personal tax situation as efficient as possible.

As with all financial planning, you should seek professional advice relevant to your specific personal goals and circumstances. We strongly believe this can only be done by a Chartered Independent Financial Adviser who has no ties to product providers and can therefore provide impartial advice.

Here at Savings Champion, we believe we are perfectly placed, along with our sister firm The Private Office (TPO) to help you consider your planning options.

We would encourage you to visit us online or call us to see how we can help you keep more of your own money in your pocket.

Kind regards

Anna Bowes
DIRECTOR, SAVINGS CHAMPION

The who's who of independent advice

Savings Champion

Savings Champion was established in 2011 to fill a void in the personal finance sector, creating a specialist business that focused purely on cash savings accounts.

Since then, Savings Champion has become one of the UK's leading experts in this sector and we are regularly sought for expert opinion from the national media, including the BBC, Radio 4 Moneybox, Channel 4 Dispatches, The Financial Times, The Telegraph and The Daily Mail.

Despite the importance of cash, both as an asset class and its central function in all financial matters, it has not traditionally been an area that financial advisers focus on, primarily because the commercial value was limited in comparison to other financial products.

We believe that this traditional approach has contributed significantly to some of the poor financial advice that individuals have received in the past. The consideration of cash is extremely important and should be a fundamental part of holistic financial planning.

Savings Champion and The Private Office are part of the same group and share a senior board. Both companies are run independently of each other, but crucially the relationship between us means we can serve the millions of savers in the UK, irrespective of whether they wish to take risk or not. We believe that this blend of expertise helps us deliver the best advice for our clients.

Savings Champion has become one of the UK's leading experts in cash savings.

The Private Office

The Private Office was established in 2008 in response to the increasingly impersonal nature of 'mass-market' financial investment advice. TPO is founded on the principles of providing bespoke, personal and thorough financial counsel to all of our clients.

The inception of the firm as a partnership means that you, as a client, become a patron of the partnership, the collective, and not just the individual adviser. This format eliminates many of the risks associated with the typical client-adviser relationship and allows you access to pooled resource, research, time and expertise.

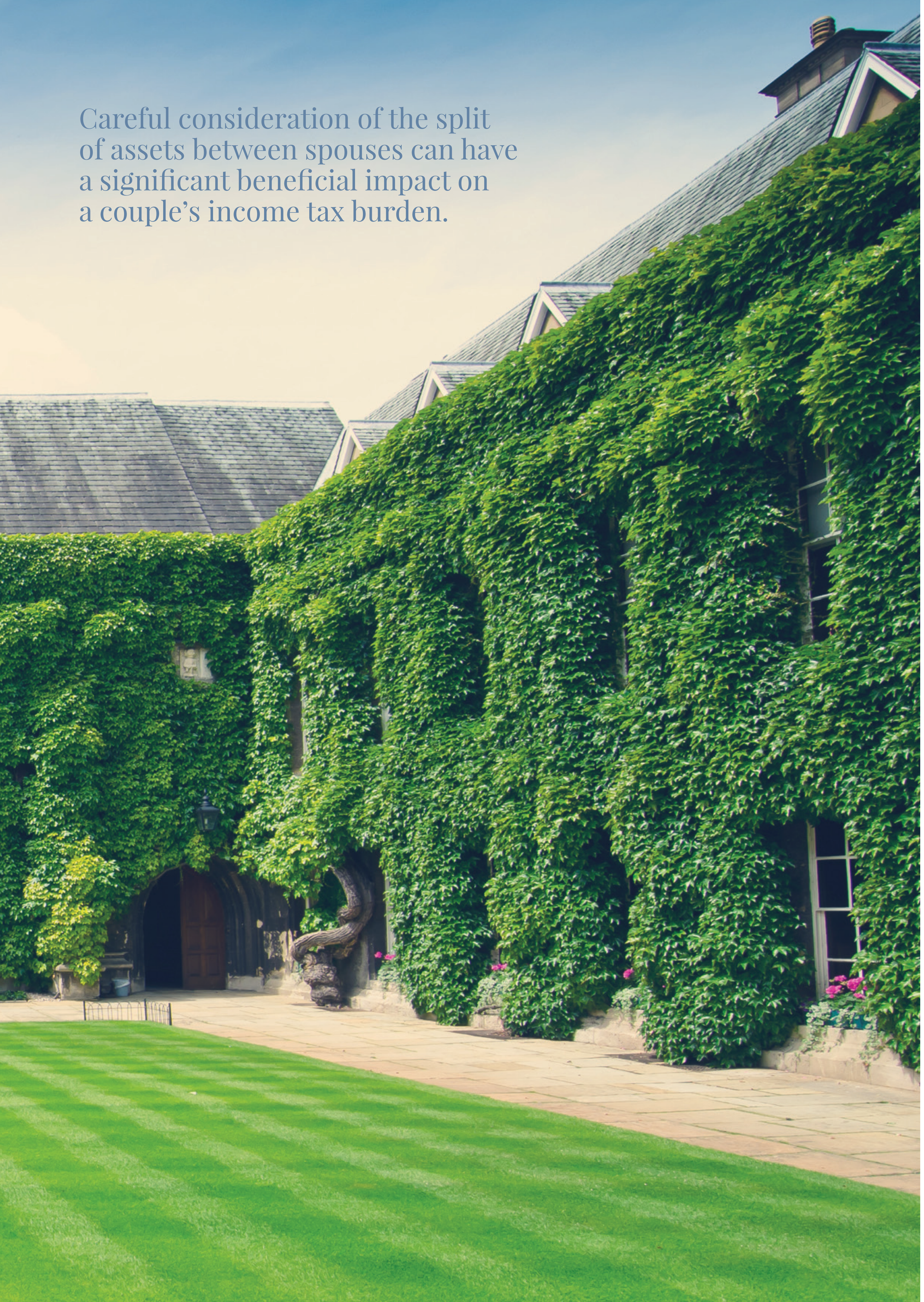
Many of our experienced team have worked together for over 20 years, looking after private clients, families and owner-managed businesses.

We enjoy an enviable reputation, with offices in Leeds and London, alongside very strong links in Scotland, Yorkshire, the North West, the Midlands, South East of England and more recently, the South West.

Our advice is, and always has been, fully independent. This means we operate without restriction and without bias or affiliation to any product or provider on the market.

We are a firm of Chartered Financial Planners, a distinguished title awarded by the Chartered Insurance Institute, or CII, to firms that meet its exacting and rigorous standards. As such, we are recognised by the CII as acting with the highest level of merit, integrity, capability and commitment to ethical practice, with our clients' best interests at the heart of our corporate culture.

With Savings Champion and TPO, the blend of expertise helps deliver the best advice for our clients.



Careful consideration of the split of assets between spouses can have a significant beneficial impact on a couple's income tax burden.

Tax year end sensitive issues

There are a number of the tips in this guide that fall away at the end of this tax year, so you may need to take action now to take advantage of these reliefs, allowances and exemptions.

You may also need to rearrange or restructure the ownership of assets to mitigate tax liabilities or take advantage of beneficial claims and elections. Careful consideration of the split of assets between spouses can have a significant beneficial impact on a couple's income tax burden.

Tips

- Use your Capital Gains Tax (CGT) annual exemption – it will be lost otherwise.
- Use your Inheritance Tax (IHT) annual exemption of £3,000 and the prior year's exemption, if it remains available.
- Use your full annual ISA allowance of £15,240.
- Is the ownership of your business or company structured to ensure that Entrepreneurs' Relief will be available on a future disposal?
- Can you accelerate your dividend payments from your business before the new tax regime comes into force on 6 April 2016?
- Make pension contributions - taking advantage of unused relief from earlier years, if available - which will reduce your 2015-16 tax liabilities and boost your pension pot.

Pension planning

Whether you are about to retire or still working towards putting your fund together for retirement, there are many things that you should consider when it comes to planning your pension.

Pensions – less tax now, more income later

Generous tax reliefs have been given to pensions by successive governments and as a result they have played an important role in tax planning for high earners.

Unfortunately, in the last six years even tighter restrictions have been placed on these reliefs, just as the income tax burden has become greater, making them more valuable than ever.

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The amounts you can pay in and take out without suffering heavy tax charges have been reduced significantly, and we are expecting even more fundamental changes in the next few years. Until then, pensions continue to offer significant tax benefits that should not be ignored.

This is particularly important for those with annual earnings in excess of £150,000, because from April 2016, the annual pension contributions limit of £40,000 will be reduced by £1 for every £2 of earnings in excess of £150,000.

This is subject to a maximum contributions limit of £10,000 for those earning £210,000 or more. No personal tax relief will be available for contributions in excess of this figure and, where contributions are paid by an employer, the contribution will be deemed to be additional income and the individual taxed accordingly.

For the current 2015-16 tax year, contributions to pension funds continue to attract relief at your marginal rate of tax. The lifetime limit for pension savings of £1.25 million will be reduced to £1 million with effect from 6 April 2016.

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The annual allowance can be carried forward for three tax years. Any unused annual allowance for the three previous years (£50,000 for 2012-13 and 2013-14 and £40,000 for 2014-15) can be added to your allowance for 2015-16 and will attract full relief. This is subject to your level of pensionable earnings and your pension input period. To be able to use carry forward you must have been a member of a pension plan at some point in each year being carried forward from.

If you are 55 or over, new rules were introduced on 6 April 2015 which allow access to your pension fund with no restrictions on the amount you can withdraw. You can draw down the entire pension fund if you choose, but we would strongly suggest you speak to us or ask for our Pension Guide before doing so as there are consequences for doing this.

More new rules mean that pension funds can now normally pass to your beneficiaries, completely tax-free, on death before the age of 75.

For death after the age of 75, there is still usually no IHT, but your beneficiaries inherit the pension fund and are charged their marginal rate of income tax on any withdrawals they make (or 45% on lump sum death benefits paid out before 6th April 2016).

✎ Tips

- Consider making additional contributions to your pension scheme before the end of the tax year to obtain relief at 40% or 45%, depending on whether you are a higher rate or additional rate taxpayer, taking care not to breach your available annual allowance or the lifetime allowance.
- If your relevant earnings are sufficient tax relief is available at 60% on income falling between £100,000 and £121,200.
- If you earn over £150,000, consider making additional contributions before new restrictions are introduced on 6 April 2016.
- Review the availability of any unused allowance for the 2012-13 tax year, as this will expire on 5 April 2016.
- Consider making contributions of up to £3,600 into a pension scheme for a spouse, civil partner or child, if they have no earnings of their own, to obtain basic rate tax relief on the contributions. For example, if you contribute £2,880, HMRC will pay in £720, giving a gross contribution of £3,600.
- If you are approaching retirement and are considering drawing benefits from your pension fund, take advice to ensure that you understand the tax implications of accessing your pension fund.
- If you have sufficient income, consider not drawing your pension at all and treating it instead as an IHT planning tool.

Under the new rules, you can take a 25% tax-free lump sum as before. Alternatively, you can take 25% of every payment tax-free, with the remainder being taxed at your marginal rate.

Capital Gains Tax

Capital Gains Tax (CGT) is one of those taxes that, providing you plan very carefully, can reduce your tax liabilities considerably, if not remove them altogether, and all completely legally. There are a variety of ways to do this, but you should take advice rather than undertaking this yourself, to ensure you do not fall foul of the rules.

Capital Gains Tax planning considerations

Capital gains up to the annual CGT exemption of £11,100 (2015-16) are free from tax and this allowance should be used if possible.

Over this level, gains are subject to:

- 10% if the gains qualify for Entrepreneurs' Relief, up to a lifetime limit of £10 million;
- 18% if the gains fall within the unused basic rate band; and
- 28% for gains above the basic rate band.

Remember that assets transferred between married couples or civil partners do not normally give rise to a CGT charge.

✎ Tips

- Use any unused CGT exemption for 2015-16 by making disposals before 6 April 2016.
- Transfer assets to your spouse or civil partner, if they have any unused annual exemption or capital losses. Important: these transfers must be made outright with no preconditions or they will be challenged.
- If you are separated from your spouse or civil partner, you can transfer assets to them before the end of the tax year of separation (but not afterwards) on this basis.
- Be careful of 'Bed and breakfasting' shares. If you are planning to sell and repurchase shortly afterwards to crystallise gains within the annual exemption, this will not work if the repurchase takes place within 30 days.
- Use 'bed and spousing' rather, where the sale is made by one spouse or civil partner and the repurchase by the other. This is not subject to the 30-day rule.
- Losses on assets or shares that have become of negligible value can be claimed against gains, without any need for an actual disposal of the loss-producing asset.
- Investing in assets which produce capital gains rather than income, will result in the profits being taxed at a maximum rate of 28%, as against income tax rates of up to 45%.

Cash savings

Cash is an integral part of all financial planning and even more so for high earners, however many overlook the value of active cash management.

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The pricing model of banks and building societies is based on savers being apathetic and reluctant to move accounts, so you should ensure that you do not fall into this bracket and make the most of the deals on offer. Banks typically create savings accounts designed to attract savers initially, yet after a period of time the rate is reduced, often to a rate that is no longer competitive and the savers are effectively penalised for being loyal to the bank.

In the UK there are over 5,000 savings accounts and 17,000 individual interest rates, so the time it would take to monitor accounts, research the market and action changes further exacerbates the apathy of investors. But monitoring the savings market is not something that you have to do for yourself, if you accept the help of Savings Champion.

✎ Tips

- **Active Account Management**
  If you hold in excess of £100,000 in cash savings, you may benefit from Savings Champion's Concierge service, which helps open and monitor accounts on your behalf. For more information, please call 0800 321 3581. Typically, we can double your rate of interest after charges.
- **Financial Services Compensation Scheme (FSCS) protection reduction**
  The Financial Services Compensation Scheme compensation limit on deposits reduced from £85,000 to £75,000 from 1 January 2016. So, if you have dealt with your deposits based on the previous limits for protection, these will need to be revisited.
- **Personal Savings Allowance (PSA)**
  The Personal Savings Allowance will be introduced on 6 April 2016 where higher rate taxpayers will not have to pay tax on the first £500 of interest earned on their savings (£1,000 for basic rate taxpayers). Additional rate taxpayers have no allowance. Although the PSA does not start until the new tax year, savers can actually take advantage immediately if they choose an account that does not pay out any interest until the new tax year.
- **Flexible ISAs**
  New rules are being introduced at the beginning of the new tax year to make ISAs more flexible. Under the current rules, a saver is only able to save a maximum of the annual limit (currently £15,240) in an ISA each tax year. If you were to withdraw sums from that ISA (in the current tax year) you cannot replace it unless you have not used all of your allowance, as the replacement counts as a new subscription for the purposes of the annual ISA limit.
- The new rules will allow savers to replace cash they have withdrawn from their ISA earlier in a tax year, without this replacement counting towards the limit on how much they can save in an ISA for that year. This flexibility will be available to savers, subject to the terms and conditions of their ISA.

Although the PSA does not start until the new tax year, savers can actually take advantage immediately if they choose an account that does not pay out any interest until the new tax year.

Tax efficient investments

There are a number of tax-efficient investments available to those who want to hold cash, depending on your age and your life stage. Individual savings accounts (ISAs) remain the cornerstone of the Government's offering to savers, but the rules are changing to make these even more appealing.

ISAs

Every resident in the UK who is over the age of 18 (or 16 if only looking at cash) can invest up to £15,240 in an ISA in 2015-16 and it can be invested in any combination of stocks and shares or cash ISAs.

The main benefit to using an ISA wrapper for your savings is that any income and gains arising are free of Income Tax and Capital Gains Tax, but you are not able to reclaim the tax credits on UK dividends, which is why ISAs are described as 'tax efficient' rather than 'tax free'.

The rules regarding the passing on of ISAs on death have been amended, so for deaths on or after 3 December 2014, a one-off ISA allowance can be inherited by a spouse or civil partner and the recipient benefits from an allowance up to the value of their deceased spouse's or civil partner's ISA savings at the date of their death. This is in addition to their normal annual ISA subscription limit.

Junior ISAs are available for all children under 18 years of age who are resident in the UK and do not already have a Child Trust Fund. Up to £4,080 can be invested in 2015-16 on behalf of a child (by parents, grandparents or other relatives or friends) in cash, stocks or shares.

No withdrawals are permitted until the child reaches 18, when they can roll the Junior ISA into an adult ISA or take the cash. They have the right to take control of the JISA from age 16.

In general, the interest earned on the funds given to children by parents must not exceed £100 per tax year, otherwise the parent will pay tax on it. However, a Junior ISA is specifically excluded from the £100 interest rule, which is its key advantage.

In addition to any existing Junior ISA they may already have, 16 and 17-year-olds can open a cash ISA and invest up to £15,240 in it for 2015-16 - but the £100 interest rule does apply to this ISA. Overall, the ISA savings limit for this age group is £19,320, if they hold a Junior ISA and an Adult Cash ISA, for the 2015-16 tax year.

Junior ISAs are available for all children under 18 years of age who are resident in the UK and do not already have a Child Trust Fund.

The Government has also launched a new 'Help to Buy' ISA which is designed to help first-time buyers saving for a deposit to get a foot up onto the property ladder.

Help to Buy ISA

The Government has also launched a new 'Help to Buy' ISA which is designed to help first-time buyers saving for a deposit to get a foot up onto the property ladder. You can make an initial deposit of up to £1,000, and then monthly deposits of up to £200. The account holder will receive a bonus of 25% (with a minimum of £400 and maximum of £3,000) if used towards the purchase of property worth up to £450,000 in London or £250,000 outside London.

The Help to Buy ISA will only be available for a period of four years until 31 November 2019, but once an account is opened, the bonus doesn't have to be claimed until 1 December 2030. The account is available to individuals who are aged 16 or over and have never owned a property before. Where properties are purchased jointly, more than one ISA (and bonus) can be used if both parties qualify.

✎ Tips

- Make sure you top up your ISA subscriptions before the end of the tax year.
- Consider investing in a Junior ISA for your children or grandchildren, or topping up existing Junior ISAs to the annual investment limit.
- Consider paying into Help to Buy ISA accounts for children aged 16 or over.

For more information, you can download our Help to Buy ISA Factsheet on our website **https://www.savingschampion.co.uk/news/psa-factsheet-signup/ or call us**.

Other tax-efficient investments

While ISAs offer a range of benefits for investors, there are other tax efficient investments available like directly investing in small businesses, however these are generally only suitable for the more sophisticated investor who can afford to take substantial risks with their money.

Enterprise Investment Scheme

The Enterprise Investment Scheme (EIS) gives tax relief on investments in qualifying trading companies.

The tax reliefs offered by an EIS investment include:

- Income tax relief at 30% on amounts invested up to £1 million in 2015-16, provided the shares are held for at least three years.
- Investments made during a tax year can also be carried back and treated as made in the previous tax year.
- Capital gains on the disposal of any asset can be deferred by re-investing the gain in qualifying EIS shares, provided reinvestment is made within the period, starting one year before and ending three years after the date of disposal.
- All capital gains (other than monies invested to defer CGT) on the EIS shares are free from CGT after three years.
- Losses from an EIS can be used against income or gains.

Seed Enterprise Investment Scheme

The Seed Enterprise Investment Scheme (SEIS) gives tax relief on investments into qualifying trading companies less than two years old. It is designed to encourage investment in small start-up companies.

The tax reliefs offered by an SEIS investment include:

- Tax relief at 50% on amounts invested up to £100,000 in 2015-16,
- Must be held for three years.
- Investments during a tax year can also be carried back and treated as made in the previous tax year.
- Capital gains on the disposal of any asset can be 50% exempt by re-investing the gain in qualifying SEIS shares, provided reinvestment is made in the same tax year.
- Capital gains on SEIS shares are not subject to CGT after three years.
- Losses on SEIS can be used against gains or income.

Venture Capital Trusts

Venture Capital Trusts (VCTs) are quoted investment trusts that invest in a range of relatively small trading companies.

You can obtain income tax relief of 30% by subscribing up to £200,000 for shares in VCTs in 2015-16. Gains are generally exempt from CGT after five years and dividends are paid free of tax.

✎ Tips

Remember that EIS, SEIS and VCT investments are generally high risk and so may be difficult to sell. You should always seek your own independent investment advice from a Chartered Independent Financial Adviser before making such an investment.

- Carefully consider investing in a qualifying EIS or SEIS company before the end of the tax year in order to secure income tax relief at 30% or 50% respectively during 2015-16.
- Look at a carry-back claim to 2014-15, if EIS or SEIS investments have been made in 2015-16, but the 2014-15 limit has not been fully utilised.
- Consider deferring capital gains realised in the past three years by making a qualifying EIS investment.
- Where a gain qualifying for Entrepreneurs' Relief is deferred into an EIS investment, the benefit of Entrepreneurs' Relief will be preserved when the gain comes back into charge, provided the original gain arose on or after 3 December 2014. Bear in mind that CGT rates may rise in the future, and so there is a risk that deferred gains may become liable to CGT at a higher rate, when they eventually come into charge.
- If chargeable assets have been disposed of during 2015-16, consider reinvesting the proceeds into qualifying SEIS shares before 6 April 2016, in order to secure exemption from tax on half of the gains.

Charitable giving

Giving money to good causes makes a lot of sense, especially for higher rate taxpayers who are able to reduce their overall liability, while doing good for others.

But the benefits of charitable giving are not exclusive to higher rate taxpayers as, providing you have done the right paperwork, charities can get a significant boost from basic rate taxpayers too.

Gift aid

When you make a gift out of taxed income, the charity benefits by claiming back basic rate tax on the value of the gift. Higher rate taxpayers can reclaim the additional amount of tax relief depending on their marginal rate, which could be an extra relief of 20% for those who pay 40% tax or 25% for those who pay the additional rate of tax.

For example, an £80 donation to a charity is worth £100 to that charity with Gift Aid. A higher rate tax payer can claim an additional 20% tax relief on the gross value of the donation, reducing the net cost of a £100 overall donation to just £60 that they pay.

For a donation to qualify for tax relief, the charity must be located in an EU member state (plus Iceland, Norway and Liechtenstein) and must be recognised as a qualifying charity by HM Revenue & Customs (HMRC).

There is no cap on the amount which can qualify for Gift Aid relief, provided sufficient tax has been paid during the tax year to cover the charity's reclaim from HMRC.

Tips

- Make any planned Gift Aid donations before the end of the tax year.
- Provide a Gift Aid declaration to the charity, so both parties can claim the relevant tax relief.
- Elect for your donations made in one tax year to be treated for tax purposes as made in the prior year. This benefits you if you are a higher or additional rate taxpayer in 2014-15, but not in 2015-16. In other cases it can purely accelerate the higher/additional rate relief.
- Consider other assets as a donation (such as shares, land and property) as they attract tax relief and provide a deduction from total income. Any gain arising on the disposal of such assets is exempt from CGT and the gift itself is not chargeable to inheritance tax.

Useful dates

2 March 2016

First automatic 5% late payment penalty will apply to any outstanding 2014-15 tax.

31 July 2016

Due date for the second payment on account for 2015-16.

5 October 2016

If you have not been issued with a return (or a notice to file a return) and you have an income tax or CGT liability for 2015-16, you are required to notify HMRC of your chargeability to tax by 5 October 2016.

31 October 2016

Deadline for submitting 2015-16 paper returns, unless there is no facility available from HMRC to file an electronic tax return, in which case the deadline for a paper return is 31 January 2017. For paper returns filed by 31 October 2016, HMRC should be able to:

- Calculate your tax for you.
- Tell you what you owe by the following 31 January.
- Collect tax through your tax code where you owe less than £3,000.

If the paper return is submitted after this deadline you will charged an automatic £100 penalty.

30 December 2016

If you file your tax return online, you must do so by this date if you want HMRC to collect tax through your tax code ,where you owe less than £3,000. Otherwise, you can file up to 31 January 2017.

31 January 2017

Filing deadline for 2015-16 electronic returns and payment date for balancing tax payment due in respect of 2015-16 and first payment on account due for 2016-17.

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