

## **An IFA can help you fight back against the taxman**

### **Introduction**

Whether we're talking about the money we earn or the money our savings earn for us, the taxman takes as much as £4 in every £10. But while most of us dislike paying tax, over four in every five of us bury our heads in the sand instead of doing anything to cut our rising personal tax bills. In fact as a nation we waste a staggering £9.3 billion each year by not taking TaxAction.

And yet, when it comes to your savings and investments, a few easy tax-planning measures can dramatically cut the tax you pay, giving a healthy boost to the returns you and your family get.

Each year we waste an average £294 per taxpayer in unnecessary payment and missed opportunities. So if we were prepared to squander this much through our own lack of planning – and high rate of taxpayers will waste even more – why do we get so wound up about paying our TV licence, car tax and other similar levies? The answer is simple – we can see these taxes going out, but it's often much harder to identify the areas where we're wasting money ourselves.

This brief guide will help you get to grips with the main issues involved in saving tax, everything from the benefits of Individual Savings Accounts (ISAs) to planning for your income in retirement tax-efficiently. You don't need to be a financial genius to understand the basic principles, but by seeing a qualified independent financial adviser (IFA) you can see in detail how they apply to your unique financial situation, now and in the future - and ultimately decide what's right for you.

### **Life insurance**

#### **Life policy payouts**

The payouts from the majority of life insurance policies are free of personal tax. But that doesn't mean you can forget about the issue of tax altogether where your life cover is concerned.

When you die, the proceeds of your life insurance policy are paid to your beneficiaries, and may be subject to inheritance tax (IHT). This tax is charged at 40% on assets over £312,000 (2008/2009) if you are single, and assets over £624,000 (2008/2009) if you are married or in a civil partnership. The assets which form the value of the deceased's estate includes the value of their home, car, jewellery and any other possessions which could land heirs with a big tax bill. For every £312,000 of taxable assets you leave behind could create an IHT bill of £124,800 for your heirs to pay.

An IFA is best-placed to advise you on how to mitigate inheritance tax and to make sure your financial planning is as tax efficient as possible.

Transfers and gifts between spouses and civil partners are currently free of IHT, and so IHT will not be due if you leave your assets to your partner. Tax will be due eventually when the surviving partner dies if the value of their estate is more than the IHT tax threshold of £624,000.

There are a whole host of ways in which an IFA can help you minimise the amount of IHT your heirs will face. For example, it may be possible to arrange your life insurance in such a way that the proceeds remain outside your estate, and can be used to meet the IHT liability arising from other assets.

### **Tax advantages**

Life insurance is not only a way of protecting your family, but can also be a tax-efficient way to save for the future.

Some life policies are structured as bonds, which allow you to fund the policy with a single lump-sum investment and if you want you can draw a regular income. Within certain limits this income is free of immediate tax and if you are a basic rate tax payer, may remain free of all tax.

Offshore life insurance bonds, based in tax havens like Jersey or the Isle of Man, can be used to defer UK residents income tax until the investor falls to a lower tax bracket. Although not suitable for everyone, these products can be used by investors with £5,000 or more to invest.

**Due to the additional complexities of offshore taxation, should you decide to use offshore bonds, it is vital that you get all the details of the arrangement right, so be sure to ask Inshore IFA Ltd to help you.**

### **Personal pensions**

Pensions are a particularly good product for tax-conscious investors, because they boost the value of every £1 you invest - as you receive tax relief of at least 20%. Many other products make you wait until your first income payment – or even until the plan matures – before you see any tax benefits.

Pension contributions give you tax relief at the highest rate you pay. For a 40% taxpayer, that means for every £100 invested, the net cost to you is only £60. All pension policy holders can take at least 25% tax free cash regardless of what type of pension you may have.

You and your employer are about to pay up to one annual allowance for that tax year. This amount is up to 100% of your relevant earnings and for the tax year

2008/2009 this allowance is capped at £235,000 with the limit set at £3,600 for low or non earners paying into a personal and stakeholder pensions.

There is now a limit on the money built up within your pension called the Lifetime allowance. In the tax year 2008/2009 this amount is £1.65 million.

Contribution annual allowances

2008/2009 £235,000

2009/2010 £245,000

2010/2011 £255,000

Lifetime allowance limits

2008/2009 £1.65 million

2009/2010 £1.75 million

2010/2011 £1.80 million

### **Don't delay starting a pension plan**

If you feel confident enough, you also have the option of a Self-Invested Personal Pension (SIPP), where you can manage your own investments such as stocks, shares, bonds, unit trusts or even other assets such as property within a tax-efficient pension wrapper.

Every £1 you commit to a pension scheme now is particularly valuable, because that is the money which will have the most time to grow before you reach retirement age. Every month you delay starting a pension plan increases the amount you will need to save in the future to provide yourself with a reasonable income in old age.

### **What type of pension scheme should I invest in?**

There are a number of different types of pension plans and scheme to choose from, and the plan appropriate to you will depend on your circumstances.

With few exceptions, employers with five or more workers on the payroll have to provide workplace access to a Stakeholder pension or an equivalent type of pension scheme and have a system to ensure contributions to the plan can be deducted directly from pay.

If you are employed and your employer runs an Occupational or Company pension scheme, it almost always makes sense to join it, especially if your employer makes contributions to your fund as well as you.

If your employer does not offer a Company pension scheme, or if you are self-employed, you should consider first a Stakeholder or Personal pension plan. If

employed, you may be able to persuade your employer to make contributions too.

## Savings

### Individual Savings Accounts (ISAs)

Every UK resident adult should consider taking out a tax-efficient Individual Savings Account (ISA).

ISAs allow you to save up to £7,200 in the 2008/2009 tax year without you having to pay tax on either the income the investment generates or its capital growth. For this tax year you can invest up to £3,600, which can be saved in a Cash ISA with one provider. The balance of the £7,200 limit can be invested in stocks and shares with another ISA provider.

ISAs come in two different forms. You can choose ISAs that invest your money in a bank or building society account known as a Cash ISA or a collection of stocks and shares known as a Stocks and Shares ISA. Some ISAs meet stakeholder standards indicating that they meet minimum terms on charges, access and terms. It is important to understand that a stakeholder ISA is neither approved, nor its performance guaranteed, by the government.

Each type of ISA brings its own risks, and each will be suitable for a different type of investor. An IFA can help you sort out which type of ISA is right for you, and help you to avoid the many pitfalls which the choice of ISAs present.

**Table 2: Your Choice of ISAs**

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Type of plan	Examples where your cash goes	Current maximum* investment allowed in the 2008/2009 tax year
Cash ISA	Bank or building society deposit account	Up to £3,600
Stocks and Shares ISA	Equities, bonds, unit trusts, OEICs, investment trusts, life assurance	Up to £7,200 (deducting any Cash ISA already made for the tax year)

\*In future years maximum levels may reduce or increase.

**What about the ISAs, PEPs and TESSAs I have previously invested in?**

If you have invested previously in Mini Cash ISAs, TESSA-only ISAs (TOISAs) or the cash component of a Maxi ISA, these will automatically from the start of the new tax year on 6<sup>th</sup> April 2008 become Cash ISAs. You may have invested in Mini Stocks and Shares ISAs and the stocks and shares component of a Maxi ISA which will automatically become stocks and shares ISAs. All Personal Equity Plans (PEPs) will automatically become Stocks and Shares ISAs.

## **Bonds**

When you buy a bond, you are lending money either to the UK Government or to a company in return for a fixed rate of interest.

Government bonds – known as ‘gilts’ – are a particularly safe form of investment, because you know you will get your capital back at the end of the gilts term, plus regular income payments at a predictable rate. Your money is at risk only if the UK government defaults on its loans, which is very unlikely.

The Bonds issued by individual companies work in the same way. If you select a big company with sound finances, the risk involved should be only a little higher than when buying a Government bond. Both corporate bonds and gilts can be wrapped inside an ISA to save tax. Investments like these are available as part of your equity ISA allocation for the year.

## **Investment**

### **Capital Gains Tax (CGT)**

The return you get from many investments divides neatly into two parts.

First, there are the income payments which the investment produces and, secondly, its capital growth. With an equity investment, for example, the shares you own will produce both income from the dividends and - with luck - capital growth from a rising share price. The Government taxes both elements of this gain, the first through income tax, the second through CGT.

For the 2008/2009 tax year CGT is charged at a flat rate of 18% on chargeable gains over £9,600 and taper relief and indexation allowance is no longer applied.

There are financial products available that can help you minimise or defer your capital gains tax liability. Investing through Individual Savings Accounts is an ideal way to minimise the tax as no capital gains tax is paid on any profits made. There are other products available which offer capital gains tax breaks and an IFA can discuss the options with you.

Please note: Thresholds, percentage rates and tax legislation may change in subsequent finance acts.

Check out the tips below to see the kinds of areas where you could be saving tax.

1. A pension can be relief – Max up your pension contributions before the end of the tax year to gain generous tax relief and then benefit from the tax efficient treatment of pension funds.
2. An ISA's nicer – Individual Savings Accounts are great for tax breaks if you're saving or investing.
3. Use your other half – A higher rate taxpayer can save tax by transferring money into a lower earning – or non-earning – spouse's name.
4. Make a will – It's the only way to be sure your loved ones don't miss out on their inheritance, and limit the tax paid on your estate.
5. Check your code – Make sure you have the right tax code or you could be paying tax at the wrong rate.
6. Rent out your spare room – Many people raise extra income tax-free by renting out a spare room in their home.
7. Don't get stamped on – You can save literally thousands in stamp duty by buying in a disadvantaged area or by negotiating the purchase price below stamp duty thresholds.
8. Company car? – Fill in a form to declare it as a taxable perk. Broadly speaking, the smaller the vehicle, the less tax you will pay.
9. Made a gain? – Make sure you take full advantage of your annual capital gains tax exemption limit.
10. Keep it in the family – The kids get their own personal tax allowance too, and you can set up tax-efficient trusts for children or grandchildren.

Don't pay income tax if you don't have to – if you're under 65 and will earn less than £5,435 in the tax year 2008/2009, click [here](#) to download the R85 form and claim back your overpaid income tax.

For further information on the subject contained in this guide, please contact Inshore IFA.

We can help for advice or further information please call **01425 282181** or email us at [info@inshoreifa.com](mailto:info@inshoreifa.com).

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