MAGEE GAMMON
CHARTERED ACCOUNTANTS

Guide to Personal Planning 2016/17

Tax and financial planning may not be the first activity of choice for many people, but if you want to ensure that you are making the most of your hard-earned cash, and that your family will enjoy financial security into the future, it is essential to plan ahead.

As well as helping to minimise your tax liability, and providing for the needs of you and your family in the longer term, effective personal financial planning can help to ensure that you are covered in the event of an accident or change of circumstances.

You should consider the following factors:

- **Your family** – you need to plan for the financial needs of your family, and also to take advantage of the tax-saving opportunities available.
- **Your retirement strategy** – while it's never too late to plan for your retirement, the earlier you start, the more chance you will have to accumulate the funds you will need.
- **Savings and investments** – good planning can help you minimise the tax you have to pay on your savings, and maximise the returns.
- **Your estate** – inheritance tax is a real concern for an increasing number of people. Implement strategies now to minimise your liability.

How we can help

From planning for your children's future, to ensuring that you have adequate funds for your retirement, it is vital that you develop a tax-efficient financial planning strategy.

To make the most of your planning opportunities, you should also involve your family and your financial advisors in the process.

This guide offers basic advice and ideas on tax-efficient personal planning. However, we can provide more detailed advice which is tailored to your own specific needs – so contact us for one-to-one assistance.

Family Financial Planning

The basic principles

Each member of your family is taxed as an individual, with personal allowances and exemptions. With the right circumstances and careful planning, a couple with two children could have income and gains of at least £88,400 tax free, and income up to £172,000 before paying any higher rate tax. Capital gains above the annual exemption and which do not qualify for Entrepreneurs Relief or below exemptions, are taxed at 10% or 20% carried interest and gains, apart from realised on the disposal of residential property, where the rates remain at 18% and 28% respectively.

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The fundamental rules are:

- Make the most of tax-free opportunities
- Keep exposure to marginal tax rate as low as possible
- Maintain a spread between income and capital

Five personal planning pointers

1. Moving capital

Planning is often hindered by the potential for tax charges to arise when assets are moved between family members. We can advise you on how to reduce your overall marginal tax rates by transferring assets between spouses* and children in a tax-efficient manner.

2. Generation skipping

Consider tax-efficient gifts from grandparents. Income from capital gifted by grandparents or more remote relatives will be taxed as the child's. Regular savings through deposit accounts can also help.

3. Marriage breakdown

There are cases for and against making transfers as quickly as possible after separation. Check with us for the most appropriate course of action.

4. Your remuneration package

There are ways to improve your net pay, other than asking for a rise. Are you making the most of current benefits regarding pensions, company cars and expenses, and other benefits such as medical cover?

5. A will and a Living Will

As well as ensuring that you have adequate insurance cover, with life assurance perhaps written into trust, you also need to make a Will. You will need to keep it under regular review, to ensure it reflects changes in your family and financial circumstances. We recommend that you and your spouse also execute a lasting power of attorney and a 'Living Will'.

Pension Planning

The basic annual state pension for a married couple who qualified prior to 6 April 2016 is just over £9,900, which means that you will almost certainly need additional sources of income. For most people, saving to provide for a comfortable and financially secure retirement includes tax-efficient investment in an appropriate form of company pension scheme or private pension policy.

Your personal planning strategy will be determined by a number of factors, including:

- How long you have before retirement
- Whether you are employed or self-employed
- Whether there is a company pension scheme
- How much you are able to invest for your retirement

Company pensions

This may take the form of a final salary scheme, which pays a retirement income related to the amount earned when you stopped working; or a money purchase scheme, which reflects the amount invested and the underlying investment performance. A new auto-enrolment scheme is being phased in from October 2012, starting with the largest employers.

Private pensions

If you are not in a company scheme, you should make your own arrangements, since relying on the state pension is already unwise, and is likely to become increasingly so with every passing year.

Personal pensions

Whether you invest through personal pension policies or retirement's annuity policies, your investment will, subject to limits, qualify for tax relief at up to 50%.

Stakeholder pensions

The minimum contribution to a stakeholder pension cannot be set higher than £20 (schemes may set a lower minimum contribution if they wish), and a 1.5% per annum (1% after 10 years) ceiling on charges. Premiums can be paid on behalf of another person – including perhaps an infant grandchild.

Self directed pension funds

Self Invested Personal Pensions (SIPPs) give the investor greater flexibility over how the funds are invested.

Pension policy is an area that seems to be under constant review by the Government. This may have implications for your pension savings. We would also recommend that you consider a parallel savings strategy to build readily-accessible savings outside your 'pension pot'.

**where applicable, 'spouses' also includes civil partners*

Your Wealth

Investments

Growing your savings and being able to retire when and how you want will probably be one of your most important financial objectives. But achieving this goal takes planning and commitment.

Making the most of your investments

Paying tax on your savings and investment earnings should be minimised or avoided if possible. There are a number of investment products that provide tax-free income, including ISAs and some National Savings products. Other savings options available include investment bonds, bank and building society accounts, stocks and shares, and, of course, bricks and mortar. In certain circumstances some of these investments may be preferable to investment in pension schemes.

Investments under the Enterprise Investment Scheme (EIS) and in Venture Capital Trusts (VCTs) may also be worth considering if you are happy that the tax breaks they offer outweigh the possibly higher investment risk.

Your Estate

Inheritance tax, chargeable on estate assets in excess of £325,000, is a concern for more and more families. Effective estate planning is vital to ensure that your assets will go to your chosen beneficiaries. When making your estate plan consider the following factors:

- **Who do you want to benefit from your wealth?**
  This may include your spouse or partner, children, grandchildren and any charities you may wish to include

- **Should assets be placed into a trust restricting access to income and/or capital?**

- **How will the business be passed on?**

Making the most of gifts

It could be said that the art of inheritance tax planning is to give away as much as possible during your lifetime, while still ensuring that you have enough left for a comfortable lifestyle in retirement. We can help you create a tax-efficient gifting strategy to achieve your personal goals and meet your capital or income requirements.

We can help you work to keep your estate plan tax-efficient and up-to-date – contact us now.

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This guide is for general information only. No responsibility is taken for any action taken or refrained from in consequence of its contents. Always seek professional advice before acting.

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