

financial update

Hacker Young
Financial Planning

Tax year end planning

Although some people prefer not to think about tax, it's a good idea to review your affairs at least once a year, and now, with the tax year end looming, is a good time to do it. A year end review can be very wide ranging. Detailed below are examples of issues to consider, prior to the end of the tax year:

Capital Gains Tax (CGT)

Capital losses can be used to offset any capital gains. It may also be possible to arrange your affairs so that if your spouse is paying tax at a lower rate, any chargeable gains are charged at the lower rate.

Deferring asset disposals until after 6th April will give twelve months breathing space before the tax payment is due.

Alternatively, selling part of your asset this tax year and the balance next year will allow the utilisation of two annual CGT exemptions.

Tax Efficient Investments

Individual Savings Accounts (ISAs)

You can invest up to £7,000 each year in a Maxi ISA, or £3,000 into a Mini ISA. All proceeds are tax free. If you haven't used your allowance this year, consider doing so.

Venture Capital Trusts (VCTs)

You can subscribe up to £100,000 of new money annually. 20% income

tax relief is available on new subscriptions.

In addition, reinvesting gains of up to £100,000 before taper relief allows CGT liabilities to be deferred. All gains arising from a VCT are tax free, as are any qualifying distributions.

Enterprise Investment Schemes (EISs)

You can subscribe up to £150,000 of new money in EISs annually. 20%

income tax relief is available on such new subscriptions.

In addition, reinvesting gains allows CGT liabilities to be

deferred. There is no limit on the amount that can be reinvested.

However, such reinvestment must take place either one year prior, or within three years of a gain being realised.

Film Schemes

Film schemes potentially provide a flexible tax shelter for both income and capital gains.

You can use the tax relief generated in various permutations to shelter your

income of the current and previous three years, and capital gains of the current and previous year. There is no limit to the amount you can invest. These schemes would only be attractive if you have income or capital gains taxed at the higher rate.

Inheritance Tax (IHT) Planning

There are a number of standard IHT measures you can take including:

- reviewing the payees of the proceeds of your insurance and pension policies - if your executors are entitled to the money on death, there may be unnecessary IHT to pay;
- make regular gifts during your lifetime rather than saving up for a big legacy on death. You are entitled to make gifts of up to £3,000 per annum, which are completely free of IHT. You can also make larger gifts of unlimited amounts using the 'normal expenditure/out of income' exemption.

Pension Planning

Make pension payments before 5 April to ensure unused relief is utilised.

Of course, your precise circumstances have to be taken into account in deciding whether any particular plan is suitable or advantageous - but these suggestions may give you some ideas to discuss with Peter Miller or your Hacker Young partner.

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Inheritance tax: a simple answer to a complicated problem

Inheritance Tax (IHT) was once considered to be a tax that applied only to the very wealthy. The rapid increase in residential property values in recent years has far outstripped the rise in the IHT nil rate threshold, currently £255,000, beyond which tax is payable at a rate of 40%. As a result, the taxman now takes a share of the estates of many individuals who have simply invested in the family home.

The transfer of an estate between spouses is exempt from IHT, however the tax position differs significantly when the remaining partner dies. If the majority of your assets are tied up in property, as is commonly the case in London, there may be insufficient liquid assets to settle the IHT liability on your estate. This can make for difficult decisions for your beneficiaries, including the possible sale of the family home.

One solution to this problem is to calculate the potential tax liability on the estate and then affect the equivalent amount of life assurance cover.

To cover the tax in this way you and your spouse will need to take out a suitable joint life assurance plan, with a sum assured equal to the potential tax liability and place it in trust for your beneficiaries. Putting it in trust places it outside of your estate. Assuming you maintain the premiums, the policy will pay out the sum assured to settle the tax bill immediately after death. The need for probate is avoided and there would be no other Income or Capital Gains Tax liability.

There are a number of strategies for reducing the impact of IHT, but it's important not to overlook a simple

life assurance product that can offer valuable peace of mind, without raising the concern of future potential challenges by the Inland Revenue.

Don't count the years, make the years count

Not only does serious illness bring emotional and physical stress, it can also cause severe financial problems.

Many individuals affected are unable to work either because they themselves are suffering or because they are caring for a dependant with a serious medical condition. Meeting financial commitments such as mortgage repayments, when affected in this way, may become increasingly difficult, especially as additional expenditure may be needed to pay for ongoing medical attention or nursing care.

Critical Illness Insurance is one possible solution. It provides financial assistance at the onset of a life threatening illness in the form of a tax-free cash lump sum.

When choosing your policy there are a number of factors that you should be

taking into consideration.

Consider the type of cover you require. There are often lengthy recovery periods associated with critical illness. Certain conditions can prevent a return to work meaning any claim may have to compensate for the loss of income for a prolonged period. You will also need to consider your provider carefully; the illnesses covered vary from one provider to another. Most contracts will cover a core range of conditions, such as strokes and heart attacks. Some, however also provide cover for additional conditions including loss of sight and benign tumours.

To discuss your individual situation and the various types of policy and provider available to you, call Peter Miller on 020 7216 4600 to arrange a meeting.

For more information

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Peter can meet you at our offices, or at your home or business premises.

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