

Year-end tax planning

The tax year end is approaching and calls for a review of personal finances:

• Pension contributions

The maximum pension contribution on which tax relief can be claimed in any one year is £40,000, but if funds are being withdrawn under a flexible drawdown arrangement, then the limit reduces to £10,000 and is set to reduce again to £4,000 with effect from 6 April 2017. This is intended to stop people recycling funds by claiming tax relief twice on the same contribution.

In order to qualify for tax relief, the maximum personal contribution must not exceed 100% of pensionable earnings, though employer contributions would permit this limit to be exceeded.

• Carry forward

Provided that the annual allowance for pension contributions has been used in full in any one year, it is permitted to carry forward any unused allowance from up to three previous years. The oldest unused relief must be carried forward first, and no allowance can be carried forward from years in which the scheme member was not a member of a registered pension scheme.

• Pension lifetime allowance

The maximum sum which can be saved in a pension scheme over the course of a lifetime without incurring tax charges is currently £1 million, having been reduced from £1.25 million on 6 April 2016. However, in the same way as with previous reductions in the lifetime allowance, it is possible within strictly defined limits to preserve larger sums by applying to HM Revenue & Customs for 'protection' before the tax year end.

• ISA allowance

The maximum amount which can be contributed to an ISA in 2016/17 is £15,240, but this will increase to £20,000 as from 6 April 2017. Both spouses are entitled to their own allowance, but unlike the situation with pensions, an unused ISA allowance cannot be carried forward. So it's a case of 'use it or lose it'!

Some providers now permit money to be withdrawn from an ISA and replaced in the same tax year without the payment being treated as a fresh contribution.

• Capital gains tax

It is worth checking to ensure that the £11,100 exemption from capital gains tax is used each year by both members of a married couple to shield gains on investments which are not held within a tax-protected 'wrapper' such as an ISA.

• Child benefit

The value of child benefit begins to reduce when recipients' 'adjusted net income' exceeds £50,000 a year, and ceases to be available when it reaches £60,000. However, the value of adjusted net income will be reduced by the amount of any pension contribution, thus enabling child benefit to be reclaimed.

• Personal allowance

A similar principle applies to the personal tax allowance, currently £11,000 p.a. and increasing to £11,500 p.a. as from 6 April 2017. When a taxpayer's income exceeds £100,000 p.a., the personal allowance starts to be reduced, and it ceases to be available when income reaches £122,000. The effect is that income between these two levels is taxed at up to 60%. However, in the same way as with child benefit, the thresholds will be reduced by the amount of any pension contributions.

• Inheritance tax

Gifts can be made each tax year which will reduce the value of an estate for the purposes of inheritance tax. The annual exemption is £3,000, and if this is not fully used in one year the balance can be carried forward to the next. In addition, gifts up to £5,000 can be made by parents on the marriage of children, and £2,500 by grandparents. Furthermore, any number of gifts of £250 can be made without attracting tax.

The most valuable exemption applies to outright gifts of unlimited value which are made more than seven years before the death of the donor. Thereafter, these 'potentially exempt transfers' become wholly exempt from inheritance tax.

Longevity

Greg McClymont, the Pensions Minister in the coalition government, has produced an interesting report on an academic study of longevity. It was Mr McClymont who, when asked in an interview what it anything kept him awake at night, replied "*Andy Murray's second serve*".

The conclusion reached by the academics is that longevity is being significantly underestimated and that many people will need to review their financial provision for retirement.

History suggests that life expectancy has risen in a straight line since the year 1800, and current estimates of an average life span in developed countries range between the ages of 80 and 85. However, the academics concluded that a child born today is likely to live to the age of 100.

The assumption that lives will follow the sequence of education, work and retirement is being called into question, and a more fluid progression is envisaged, partly as a result of individuals demanding greater flexibility in the way they work. People no longer expect to have a job for life, but instead to change jobs several times.

Meanwhile, the increased use of technology is not only relieving workers of more mundane tasks, but is also assisting them to work for themselves. The legal profession is seeing a marked growth in the number of 'virtual' law firms, consisting of self-employed lawyers working under an administrative umbrella, at times to suit themselves. This is proving particularly attractive to women lawyers wishing to combine work and parental responsibilities.

Equally technology is equipping individuals to keep on working beyond traditional perceptions of retirement age. The stoic politician Gordon Brown once adapted the quotation "*I have seen the future and it works*" to say "*I have seen the future and it is work*".

With ever-increasing longevity, financial planning will rightly come to be seen as more important than financial advice in maintaining savers' standards of living.