canada life

New tax year, new opportunities

Start planning early

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[Technical Eye]

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As we approach the end of this tax year, now is the time to ensure the plans you have made with your clients are up to date and meeting their requirements. Here are some important considerations to help you make sure your clients' savings are managed in the most tax efficient manner.

Managing tax allowances

With the right planning, your clients can make the most of their tax allowances. Here are a few reminders of the key changes and factors to consider:

Income Tax

- Dividend allowances, personal tax allowances and higher rate thresholds for England, Wales, and Northern Ireland (Scottish tax rates will differ) are frozen. However, National Insurance contribution rates and the tax rates applied to dividends are temporarily increasing by 1.25 percentage points (AT) from 6th April to fund the NHS and Social Care Levy. As a result, your client could pay more tax on their income. Equalising income producing assets (such as unwrapped collectives or shares) between spouses and registered civil partners could help if there is a lower tax paying spouse.
- If a client's annual income is over £100,000, they lose £1 of their personal allowance for every £2 they are over. If they earn over £50,000 a year, they lose child benefit. Clients could regain some or all their personal allowance or child benefit by contributing to a pension (depending on UK relevant earnings and any carry forward) or applying gift aid when gifting to a charity and extending the basic rate band. This is also key if their income pushes into higher rate tax.

Income and gains from Individual Savings Accounts (ISAs) are tax free, making them an important part of a client's financial plan

- Where there is a basic rate and a non-tax paying spouse, there could be a claim made under the Marriage Allowance where the spouse can transfer up to 10% of their personal tax allowance. It's also possible to back date the claim for the previous four years. Check the government website for more details: apply for **Marriage Allowance - www.gov.uk/apply-marriage-allowance**

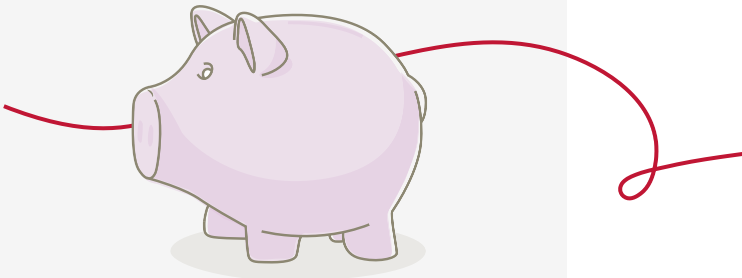
- If your client has a requirement for capital or they can assign to a lower-rate or non-taxpayer, it might be useful to use the 'starting rate for savings income allowance' (0% for the first £5,000) and, the 'personal savings allowance' (£1,000 for basic rate, £500 for higher rate taxpayers) to take gains from investment bonds. Calculations will need to be completed to ensure client suitability.

- Income and gains from Individual Savings Accounts (ISAs) are tax free, making them an important part of a client's financial plan. However, they will be subject to inheritance tax (IHT) upon death of the account holder.

It's so important to ensure clients are getting the basics right when it comes to managing tax within their financial planning

Capital Gains Tax (CGT)

- CGT exemption is now frozen at £12,300 until 2026 and as this cannot be carried forward, it should be used each tax year.
- Passing assets between spouses and registered civil partners is exempt from CGT, meaning there's scope to use both exemptions against any gains (if available).
- Using the CGT exemptions regularly pushes up the average price of that asset, meaning more could be taken out in future years without paying tax. Working with an investment manager could help ensure the CGT management of your client's accounts while fully funding ISAs, if suitable for them.
- Losses on any investments subject to CGT can be used to offset gains made. The losses in the current tax year must be used first. Losses must be registered with HMRC within four years of the end of the tax year in which they arose, so they can be carried forward indefinitely.



Inheritance Tax (IHT)

- The annual exempt gift(s) of £3,000 each should be made before the end of the tax year. If the client has not used their previous tax years' allowance, then up to £12,000 per couple can be gifted. Gifted money can be invested in a designated account or a pension for a minor, subject to contribution limits and bearing in mind parental settlement rules for the designated accounts. Or it can be gifted to help fund school or university fees. Other exempt gifts should be explored to see if more IHT savings can be made, including small gifts, gifts for marriage and gifts out of normal expenditure, subject to certain rules.

- In general, ISAs will be subject to IHT when the account holder dies and they are not permitted as trust investments. However, ISAs invested in AIM shares can be used by clients to help with their potential IHT liability, if they are held for a minimum of two years and held at death. Clients will need to accept a high level of investment risk for these investments.

- Utilising trusts with life assurance and whole of life policies is a simple way to help reduce IHT. Because the assets will not be subject to probate, they will pay out if the family needs funds to pay any IHT liability or funeral expenses.

- Gifting investment bonds to trusts could also help reduce potential IHT liability. The type of trust chosen will depend on the client and, discussion around access to capital and income plus potential reporting requirements will be vital as most trusts are irrevocable.

- Consider taking retirement income from other sources rather than a pension fund, as pension assets pass down through generations free of IHT.

Recommending tax efficient investments

We've looked at how clients can make the most of their tax allowances. But what about their investments?

Pensions

- Because pensions are free from income, capital gains and in most cases inheritance tax, they're one of the most tax efficient vehicles available. The annual allowance of £40,000 (plus any carry forward), which applies to most individuals, means we should be looking to maximise pension savings for all clients where possible. However, if your client's adjusted income (generally, their total taxable income plus employer pension contributions) is over £240,000, then the annual allowance is tapered by £1 for every £2 of income until the minimum amount of £4,000 is achieved.

- Clients receiving income from their defined contribution pension can still make contributions to their pensions, but this is subject to the Money Purchase Annual Allowance (MPAA), currently £4,000. More information on what triggers the MPAA can be found here: **www.canadalife.co.uk/mpaa**

- The lifetime allowance (LTA) is frozen at £1,073,100 until tax year 2026 so there will be no uplift by CPI when the new tax year arrives. Thought should be given to whether other taxable assets could be used first to provide income or capital, depending on the client's circumstances.

- Clients who are higher or additional rate taxpayers can claim further tax relief on their pension contributions via their self-assessment.

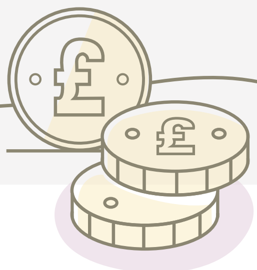
- There could be scope for a parent/ grandparent to start contributing to a pension for their children/ grandchildren. These contributions would receive tax relief and control would pass to the child when they reach 18, knowing they would likely not be able to access the money until age 57 or later.

Individual Savings Accounts (ISAs)

- Maximising the ISA allowance should be done by the end of the tax year otherwise the opportunity disappears. However, if your client has a large IHT liability, an ISA could be detrimental to their plan. Other investment wrappers should also be considered.
- If your client has taken money out of their flexible ISA this tax year, they can reinvest this amount back into their flexible ISA by 5 April without affecting their ISA allowance.

Investment Bonds

- Both onshore and offshore bonds are tax efficient wrappers. They offer 5% tax deferred withdrawals and the potential to use tax allowances plus, top slicing relief when chargeable gains do occur.
- Offshore bonds benefit from “gross roll-up” minus any withholding taxes on some foreign dividends, meaning the growth isn’t taxed during accumulation. On surrender however, money repatriated to the UK will be taxed at the marginal rate of income tax.
- Onshore bonds are taxed within the fund, so any chargeable gain will come with a 20% tax credit, which could mean that basic rate taxpayers have no further tax to pay.
- As investment bonds are non-income producing assets, they can be ideal for trust funds, so long as the trust deed does not state a real income needs to be supplied for a life tenant for their life and the capital to the remaindermen. In this case, an investment bond might not be appropriate. As there are no reporting requirements to HMRC until a chargeable event, they are easy to administer from a trustee’s point of view and this could mean they won’t have to pay professional fees for ongoing management of the trust fund.



Venture Capital Trusts (VCTs) and Enterprise investment Schemes (EIS)

+ Clients who have a larger risk appetite could invest in VCTs or EIS subject to the limits and rules governing them. Investing in these types of schemes could give the investors some significant income tax savings, but these need to be weighed up against the level of risk associated with investing in start-up companies.
+ Professional tax advice should be sought if clients are looking at investing in these types of schemes.

Summary

It's so important to ensure clients are getting the basics right when it comes to managing tax within their financial planning. At Canada Life, our technical team are always on hand if you need help. And we have a range of different investment products and services that can help your clients plan for their retirement, school fees, manage different pots of money for specific goals or help with estate and inheritance planning.

Legal disclaimer

This document is based on Canada Life's understanding of applicable UK tax legislation and current HM Revenue & Custom's practice, as at March 2022 and could be subject to change in the future.

It is provided for professional advisers only. Any recommendations are the adviser's sole responsibility.

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