



MFP News March 2011

Welcome to the March newsletter - hard to believe we are now in Spring with the clocks going forwards this weekend. This newsletter focuses on year end opportunities and I hope there is something in it to help you.

The end of the tax year is less than two weeks away on the 5th of April. Although time is short, if you haven't already done so there is still an opportunity to use some of the allowances which are available.

From a tax perspective there are allowances available each tax year which are there to be used.

Individual Savings Account (ISA)

Currently each individual over the age of 18 has an annual ISA allowance which means that they can shelter the proceeds of their savings or investments from further income and capital gains tax. I say further because dividends from equity (share) investment come with an element of tax paid which cannot be reclaimed. The current ISA allowance is £10,200 and this will increase to £10,680 in the 2011/12 tax year. Once the tax year end has passed, the allowance is lost if it is unused. Therefore, you have as an individual up to 5th April to use this year's allowance.

There are two types of ISA, a Cash ISA which is a deposit account and a Stocks and Shares ISA which is generally for longer term investment and will be invested in assets such as bonds, equities and property. Up to 50% of the allowance can be invested in a Cash ISA and the balance can be invested in a Stocks and Shares ISA.

For more on Cash ISAs follow this link:

<http://www.mowattfp.co.uk/user/files/isa.pdf>

For Stocks and Shares ISAs I can advise on an investment strategy for new or existing investments and set up an ISA for a fixed fee. There are no further initial charges on the funds. For more on Stocks and Shares ISAs follow this link:

<http://www.mowattfp.co.uk/stocks.php>

Pension Contributions

As an individual under age 75, you have the opportunity to invest in a pension and get tax relief on your contributions up to certain limits in each tax year. The limit is up to your annual earnings (salary plus other earned income) subject to an annual allowance of £255,000. For the current tax year there is an added complication if you have been earning more than £130,000 per annum in any of the last 3 tax years. If this affects you, it's too complicated to cover in this newsletter but I would be happy to clarify your limit if you would like to contact me.

The annual allowance is being reduced to £50,000 from the 6th April 2011. There is a quirk of the tax system that means that if you are earning between £100,000 and £112,950 you lose your personal allowance (currently £6,475) at the rate of £1 for every £2 above £100,000 until you have completely lost it at £112,950. The result of this is that for earnings between these amounts the effective rate of tax relief on pension contributions is 60%. A pension contribution in this band gets effective tax relief of 60%. I've already helped some clients benefit from this.

Capital Gains Tax

The annual Capital Gains Tax (CGT) allowance is £10,100. This means that you are able to make an investment gain of up to £10,100 and not pay any tax. Therefore, if you are sitting on capital gains it can be a good tactic to realise some of these gains to make use of the annual allowance and avoid CGT in the future. In the case of a couple it is possible to transfer assets to the other spouse and to use the combined allowance of £20,200.

Inheritance Tax

Inheritance tax is payable on the death of an individual and is payable on the value of the estate. However, only around 94% of estates (based on 2007 data) are subject to inheritance tax as a result of the nil rate band. The nil rate band is currently £325,000 and it is only the value of the estate above this amount that is liable to inheritance tax. In addition the inheritance tax allowance is transferable between spouses. This means that a couple has an effective nil rate band of £650,000.

There is a fair amount of complexity around the application of inheritance tax and it is possible to develop financial plans which aim to minimize the impact of inheritance tax. However, this article is looking solely in terms of the tax year end.

It is possible to give a gift of £3,000 each year and this would be excluded from the estate on death. Equally it is possible to make as many gifts as you want up to £250 in any tax year and again these would be outside the estate on death. Obviously it is important that you have enough to provide for yourself before giving money away.

Personal Allowance

Finally, although it is too late for the current tax year, it's important to make sure that you are using your personal allowance where possible. Currently the personal allowance is £6,475 and this will go up to £7,475 from 6th April 2011. If for example, one member of a couple is currently paying income tax and the other is not; it can make sense to transfer any income producing assets to the non-tax payer to make use of their personal allowance.

Hopefully you can see some reasons why you might take action and use some of these allowances before the 5th of April.

Please contact me if you want to discuss any aspects of your financial planning.

Best wishes,

Will