NEUMONEYTALK

The personal finance newsletter for the NEU published by Lighthouse Financial Advice

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Act now before it is too late to use your allowances

The current tax year ends on 5 April 2020, so you need to act now to take advantage of the various allowances the Government gives us each tax year.

While everyone should pay their fair share of tax – after all the taxes we pay keep the schools, colleges and other public services functioning – the Government gives us a number of allowances each year, many of which were created to help people whatever their income or stage in life. It therefore makes sense to use them if you are eligible, so that you do not pay more tax than you need to. Here we look at income tax in more detail.

TIP
Check that any savings you have are in tax-exempt accounts, such as ISAs. If not and you haven't used your full ISA allowance for the year, consider moving them in to a suitable account before the 5 April.

You do not pay income tax on your first £12,500 of income in this tax year, but you are likely to be taxed on income above this amount, at a starting rate of 20%. That means you only get 80p of every £1 of your taxable income. This goes down to only 60p of every £1 for taxable income over £50,000.

What counts towards your income?

- money you earn from being employed
- other money you make, for instance, a second job
- some state benefits
- most pensions, including the state pension
- rental income, unless you use the rent-a-room scheme
- benefits you get from your job
- interest on savings above your savings allowance.

What don't you pay income tax on?

- the first £1,000 of income from property you rent out (unless you are using the rent-a-room scheme – see below)
- income from tax-exempt accounts, eg ISAs and National Savings Certificates
- some state benefits
- premium bond and national lottery wins.

Using savings to boost income

If your income is over £17,500, your personal savings allowance allows you to earn up to £1,000 interest from your savings each year, without paying any tax. This means that there is no income tax to pay on the first £1,000 (or less) of interest you receive on your savings. This allowance is reduced to £500 for higher-rate taxpayers, and to £0 for additional-rate taxpayers.

Extra income

Some smaller amounts of income are tax-free up to annual limits. Under the Government's rent-a-room scheme, you can earn tax-free income of up to £7,500 a year from letting out a furnished room in your home. This also includes renting out your spare room through Airbnb. If you let property that does not qualify for the rent-a-room scheme, a £1,000 property allowance applies instead.

TIP
It is worth checking that your tax code includes the correct allowances, such as pension contributions, charitable donations and other reliefs. If it is incorrect, you could end up with an unexpected tax bill.

Tax advice with no investment element is not regulated by the Financial Conduct Authority.

Also in this issue

Book a no obligation initial consultation

These are just some of the allowances that help you reduce income tax. To find out more book a no obligation initial consultation with one of our professional financial advisers.

Call 08000 85 85 90 or email appointments@lighthousefa.co.uk

or contact your usual Lighthouse Financial Adviser.

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Make tax-efficiency a family affair

Making the most of tax-efficient opportunities in the context of the wider family – from children through to grandparents – can make a significant difference over time.

Here we explain a few of the ways it might be possible to take advantage of the allowances and opportunities the Government has created for family units.

Use both sets of allowances

As each person is taxed separately, make sure that you and your spouse or civil partner are making best use of both your personal allowances, plus both your basic rate tax bands, savings allowances and dividend allowances.

> **TIP**
> Could grandparents or other relations pay directly into a child's savings account? This is likely to be more tax-efficient than a parent paying in or the money going via the parent.

For instance, putting savings plans in the name of the lowest earner may enable the higher earner to pay less tax. Such transfers must be outright gifts and must be completed by 5 April to count for the current tax year.

Do you pay high income child benefit charge?

If you have children and your or your spouse's or civil partner's income is more than £50,000 you may have to pay the high income child benefit charge. To retain the full allowance you could consider making additional pension contributions to keep your taxable income below this threshold.

While it may seem odd to receive child benefit only to pay some of it back to at the end of the tax year, doing this is preferable to opting out of receiving it. This is because the parent claiming the benefit receives National Insurance contributions (NICs) while the child is under 12 and in order to receive a full state pension an individual needs to have NICs for 35 tax years. Not claiming child benefit could result in an individual failing to accrue their entitlement to a full state pension.

Saving for children

Did you know that children have their own allowances and tax bands? This can be helpful if you want to give money to your children or grandchildren. There are also a number of tax-efficient ways of saving for children.

For example, Junior ISAs are available to children under the age of 18 who live in the UK and do not have a Child Trust Find. Parents, other family members and friends can pay in up to £4,368 in the current tax year. They can pay the same amount in to a Child Trust Fund (a similar account which preceded Junior ISAs). Also, it is possible to transfer Child Trust Funds into Junior ISAs, which can give more choice and flexibility in terms of investment options.

Strange as it may sound, setting up a pension for a child is another useful tool for family financial planning. Up to £2,880 a year can be paid in to a child's pension each year and, as it qualifies for tax relief, this is topped up to £3,600 by HMRC (or the equivalent if a lower amount is paid in). Not only does this give the child a head start in the funding of their pension, it also enables grandparents to pass on money without the beneficiary being able to access it for a good few years. Of course, they can contribute to pension schemes of people of any age, not just children) within the annual limits.

While it makes sense to make your finances as tax-efficient as possible, a decision should rarely be made on the basis of tax alone – it must also make sound financial sense and you should always take professional financial advice before acting.

The value of your investments, and the income you receive from them, can go down as well as up, so you could get back less than you put in. A pension is a long-term investment and inflation will reduce how much your income is worth over the years. Your eventual income may depend upon the size of the fund at retirement, future interest rates and tax legislation. Tax advice with no investment element is not regulated by the Financial Conduct Authority.

Tax and divorce

There can be significant tax consequences when you separate or divorce. Often assets such as the family home or share of a pension fund are transferred between spouses or civil partners. The timing of these transfers needs to be carefully thought through in order to avoid potentially costly tax consequences.

If an asset is transferred between spouses or civil partners up to the end of the tax year in which marital separation occurs no capital gains tax is payable. However, if the transfer takes place after the end of the tax year of separation, capital gains tax may be payable.

Book a review of the family finances

To book a review of your family finances with one of our professional financial advisers

call 08000 85 85 90 or email appointments@lighthousefa.co.uk

or contact your usual Lighthouse Financial Adviser.

How we helped Jane and Peter make the most of an inheritance

Whatever your circumstances and financial goals, we can help you achieve them. Here is how we helped Peter and Jane.

Jane, an NEU member in her late 40s, teaches chemistry at a large secondary school. She earns a reasonable salary, as does Peter, her husband, who is a few years older than her and works for a local accountancy practice.

Financial seminar for NEU members

Jane happened to see one of our financial planning seminars advertised at school and signed up. The seminar gave her a good overview of what to think about in terms of general financial planning, covering topics ranging from savings and pensions, to retirement planning. As Peter had recently inherited £150,000 from his mother (sadly, his father had passed away a couple of years previously), and they were unsure of how they should make the most of it, she booked a financial review with one of our advisers.

"I was relieved when Stuart immediately set us at ease. He asked what had prompted us to see him and a few questions about our income, expenditure, work, family and financial goals.

"We explained that we would like to use the money to help our children through university – the eldest will be going in three years' time and the youngest in five. We also wanted to help them get on the property ladder in due course."

Little left over at the end of the month

Stuart takes up the story. "Both Jane and Peter have, very sensibly, been topping up their pensions and, all being well, are on track for a comfortable retirement. They are keen to maintain their current, active lifestyle while the boys are still at home, with a skiing holiday in the winter, a beach-based activity holiday in the summer and plenty of days out and city breaks in-between. This leaves them with next-to-no spare cash at the end of each month.

Flexible tax-free savings

"I recommended that they place £40,000 of the inheritance in a suitable ISA (one each) this tax year and do the same thing at the start of the next tax year. That way they will have £80,000 invested with no tax to pay when they withdraw any money. I suggested that they put the remaining £70,000 into similar investment funds and that they could then, if appropriate, move this money into ISA wrappers over the following two tax years.

"I explained that I would recommend appropriate, diversified investment funds that matched their attitude to risk and investment time-frame for these investments.

"In due course they could use the money for whatever they want, for instance, as deposits on properties for their children, treating themselves to the holiday of a lifetime when they retire, or even to generate additional retirement income.

Build up a rainy day fund

"I also suggested that Peter stops topping up his pension. He was recently made a partner at his firm and could be close to exceeding the lifetime allowance for pension savings by the time he turns 55. I recommended that, instead, he puts the money into suitable easy access account, so that they can build up a fund that would cushion them against unexpected expenditure or loss of income for whatever reason."

The value of your investments, and the income you receive from them, can go down as well as up, so you could get back less than you put in. A pension is a long-term investment and inflation will reduce how much your income is worth over the years. Your eventual income may depend upon the size of the fund at retirement, future interest rates and tax legislation. Tax advice with no investment element is not regulated by the Financial Conduct Authority.

* We have changed real names and other details to preserve anonymity. All financial details reflect the circumstances.

TIP
You can withdraw funds from your ISA and if you replace them during the same tax year the replacement funds won't count towards your ISA allowance for that year.

Financial review

This is just one example of how we can help. Everyone's circumstances and goals are different and therefore the advice we give tends to differ accordingly. To find out how we may be able to help you, book a complimentary initial consultation with one of our professional financial advisers.

Call 08000 85 85 90 or email appointments@lighthousefa.co.uk

or contact your usual Lighthouse Financial Adviser.

Are you paying unnecessary tax on your savings?

The Government actively encourages us to take advantage of savings accounts that are tax-efficient and even pays a bonus in to some accounts. We look at a few of the main ones to consider.

The Government encourages everyone to take responsibility for saving for their financial futures. That is why it has, over the years, created a diverse range of savings schemes, some offering bonuses and others offering tax benefits.

Make sure you have some "rainy day" money

As a rule of thumb, everyone should have the equivalent of three months' income in a suitable easy access account, in case the unexpected happens. You could start by each paying in a small amount every month, eg £25, and build up your "rainy day" fund over a few years.

Are you paying income tax on savings interest?

Do you pay income tax on interest on your savings? Basic rate income tax is usually deducted at source, so you may not even know that you are paying it! If you are, you should consider moving the money to an ISA, where there is no tax to pay on interest or any capital gains you receive. The current ISA allowance is £20,000 per UK adult each year.

If you already have savings in cash ISAs you could be losing money, as interest rates are so low. A better option might be to transfer them to a low-risk investment fund. However, there are hundreds available and it is important to choose one that matches your particular needs.

Lifetime ISAs

These enable people aged between 18 and 40 to save up to £4,000 each year. The Government pays in a bonus of 25%. The money can be invested in stocks and shares or cash. Like normal ISAs, stocks and shares Lifetime ISAs have the potential to grow more than cash Lifetime ISAs over the longer term. When you withdraw money you must use it to buy a first home or for retirement, subject to meeting certain conditions.

Top up your pension

If you are a teacher, you are probably a member of the Teachers' Pension Scheme based either on your final salary or career average earnings. Making contributions to your pension fund is the most tax-efficient way of investing, as contributions benefit from income tax relief at your highest rate. You may therefore want to make additional contributions, subject to the annual limit.

You can use unused allowances from up to the three previous tax years, although you do need to have been a member of the pension scheme during that time.

Book a no obligation savings review

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Terms and conditions

Following the initial consultation if you wish to appoint Lighthouse Financial Advice as your financial adviser we will explain and agree any charges with you before undertaking any work on your behalf.

Helping NEU members secure their financial futures

Each year we run hundreds of seminars on topics including retirement planning that give people practical help with securing their financial futures.

To find out about arranging a seminar or surgery for members at your school or college please contact one of our regional representatives:

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