Financial Spring Cleaning – No Duster Required

Employee Benefits
& Financial Planning
Investments ♥ Protection ♥ Advice

ABOUT EBCAM

EBCam Ltd is a specialist Employee Benefits and Independent Financial Advisory firm focusing on providing comprehensive, engaging and rewarding benefits to companies and their employees, and tailored financial advice to individuals.

We work with employers to design, manage, and support a range of employee benefits to aid in the attraction of new, and retention of existing employees.

We work with individuals to understand their objectives and create a plan to help them meet these.

CONTACT

PHONE:

01223 297 060

WEBSITE:

www.ebcam.co.uk

EMAIL:

info@ebcam.co.uk

What better time to do some 'financial spring cleaning' than the start of a new tax year.

In the UK, as we take our first, tentative steps out of lockdown and focus on reopening the country (and hopefully the economy), the fact we have entered a new tax year may have passed unnoticed. However, thinking longer-term and beyond the end of the cycle of lockdowns, making early use of the investing tax breaks available to individuals each tax year offers the potential to put you in a better position when markets do eventually recover. Take time out to review the allowances available to you, or to undertake a wider review of your financial circumstances.

Given the pace and magnitude of recent events, last month's Budget already feels like a very long time ago so here is a reminder of the main tax exemptions and allowance available and what has (or has not) changed for the new tax year, along with some other points to consider.

Review your finances

Sometimes, starting a review of where you are financially can be the hardest part. Start small, reviewing your outgoings (for example your home energy bills or phone contract), before moving onto wider financial matters such as savings and investments, or reviewing the level of investment risk being taken with your portfolio.

Pension allowances

Adding money to your pension helps you save for retirement and can also reduce the amount of income tax you have to pay. This can be particularly useful if you are on the cusp of paying a higher rate of income tax.

If you are a UK resident, under the age of 75, the general rule is you can contribute as much as you earn to pensions each tax year and receive tax relief. This is usually capped at £40,000 however, you may be able to take advantage of unused allowances from previous tax years to contribute more than this (known as the carry forward rule). For high-earners, where total income from all sources is above £200,000, a calculation will need to be completed to determine whether you are subject to a Tapered Annual Allowance, a restriction on the amount that could be paid into a pension scheme with tax relief. The minimum that the annual allowance can taper down is £4,000.

Over your lifetime, there is also a cap on the amount that could be saved into a pension scheme before triggering extra taxes. The Lifetime Allowance is £1,073,100 for 2021/22.

It is however important to remember that money in a pension cannot normally be withdrawn until you are 55 (57 from 2028).

ISA allowances

In many ways, ISAs are the simplest way of saving money; whilst there is no tax relief up front, once invested, there is no UK income tax or capital gains tax, and you don't need to complete a tax return to declare your investment. Junior ISAs, available to those aged under 18, are a great way to help give children a financial headstart. The ISA and Junior ISA allowances remain unchanged at £20,000 and £9,000 respectively.

Financial Spring Cleaning – No Duster Required

Cash ISA rates continue to provide low interest rates and, whilst the current volatility in markets can be off-putting, investing into stocks and shares is likely to remain the best option for longer-term savings.

It makes sense to use your ISA allowance as soon as possible in the tax year; the sooner money is invested into an ISA, the more quickly it gains the tax advantages described above. It also means it has more time to grow tax-efficiently.

Income Tax

The personal allowance (the amount you can earn before starting to pay income tax) has increased to £12,570. The higher-rate threshold, the point at which the 40% income tax rate will start to apply, has risen to £37,700 of taxable income (meaning that, in total, you can earn £50,270 gross per annum before the 40% rate begins to apply). Both the personal allowance and higher-rate threshold have been frozen for the next five years.

The additional rate threshold (the point at which the 45% income tax rate starts to apply) remains unchanged at £150,000.

Capital Gains Tax

The annual capital gains tax (CGT) allowance will remain at £12,300 for individuals until 2026. Effective and repeated use of your CGT annual exempt amount is a great way to transfer assets into ISAs or pensions to provide a shelter from any future tax liability on income or gains.

You do not normally have to pay CGT on gifts or transfers to a spouse or civil partner which means that couples can have a combined CGT allowance of £24,600, and share assets between them without triggering a CGT bill, further increasing the tax-efficiency of your overall assets.

Inheritance Tax

The Inheritance Tax (IHT) nil-rate band for 2021/22 is unchanged at £325,000. This will be frozen until 2026. The residence nil-rate band remains at £175,000.

A review of the IHT regime remains on the Government's agenda so now may be a good time to review making substantial gifts before the rules are 'simplified' into something less generous.

Please note, all of the above is based on English Law; there have been some changes in relation to Scottish taxpayers which can be found on HMRC's website. Nothing we have written here constitutes financial advice.

Past performance is not a reliable guide to future returns. The value of investments can fall as well as rise, and you may get back less than originally invested.

EBCam
Employee Benefits
& Financial Planning
Investments ♥ Protection ♥ Advice

ABOUT EBCAM

EBCam Ltd is a specialist Employee Benefits and Independent Financial Advisory firm focusing on providing comprehensive, engaging and rewarding benefits to companies and their employees, and tailored financial advice to individuals.

We work with employers to design, manage, and support a range of employee benefits to aid in the attraction of new, and retention of existing employees.

We work with individuals to understand their objectives and create a plan to help them meet these.

CONTACT

PHONE:

01223 297 060

WEBSITE:

www.ebcam.co.uk

EMAIL:

info@ebcam.co.uk