A more secure financial future is within reach.

- ISAs
- PENSIONS
- ESTATE PLANNING

ST. JAMES'S PLACE
WEALTH MANAGEMENT

Make the most of your tax-saving opportunities before the 5 April.

There is no shortcut to financial security for you and your family. And the route isn't always easy.

Uncertainty in the markets, about the economy or government tax policy, can all present obstacles. But having a plan, and the discipline to keep taking steps over a number of years, can get you to where you want to be.

That plan includes taking advantage of your tax-saving and investment opportunities before the end of the tax year. Missing a step can mean it takes you longer to get there.

Use your ISA allowance

As the tax year-end nears, so too does the final opportunity for individuals to shelter up to £20,000 from further Income Tax and Capital Gains Tax.

Your annual ISA allowance remains one of the simplest, most flexible and popular ways to invest for your future and shelter money from Income Tax and Capital Gains Tax. Over £608 billion is held in ISAs by over 22 million adults.[1]

Yet despite the tax-saving benefits on offer only one in five ISA subscribers maximise their allowance. What's more, nearly three-quarters of subscriptions are still deposited in Cash ISAs – £39.8 billion in the last tax year.[2]

That's despite the near record-low returns on offer, and the introduction of the Personal Savings Allowance in 2016, which means a basic rate taxpayer could hold around £159,000 on deposit and receive all of their interest tax-free, based on the current average easy access account rate of 0.63%.[3]

Encouragingly though, there was a 28% increase in the amount invested into Stocks & Shares ISAs last tax year,[4] which suggests that more savers are realising their ISA allowance could be working harder for them to create tax-efficient capital growth and income for the future.

As the end of the tax year approaches, individuals yet to use their ISA allowance should consider maximising this valuable opportunity. Those with accumulated ISA savings should also check whether their money could be working harder for them.

OVER £270 BILLION

The total held in Cash ISAs[1] currently failing to achieve inflation-beating returns.[2]

[1] HMRC, September 2018.
[2] Moneyfacts, December 2018.

The value of an investment with St. James's Place will be directly linked to the performance of the funds selected and may fall as well as rise. An investment in a Stocks & Shares ISA will not provide the security of capital associated with a Cash ISA.

The favourable tax treatment of ISAs may be subject to changes in legislation in the future.

[1 2 4] HMRC, September 2018
[3] Moneyfacts, December 2018

Basic	Higher	Additional
£1,000	£500	£Nil

This is the maximum tax-free interest you can earn each year depending on your tax band since the introduction of the Personal Savings Allowance.

KEY POINTS TO CONSIDER

Individuals who are 18 or over can invest up to £20,000 in an ISA this year.

Returns from an ISA are free of Income Tax and Capital Gains Tax.

On death, ISAs can be transferred to a surviving spouse or civil partner.

A Junior ISA allowance of £4,260 this tax year is available for those who are under 18.

IS A CASH ISA THE RIGHT HOME FOR THIS YEAR'S ALLOWANCE?

Non-ISA	Return after one year on £20,000
Best easy access rate	£300
Best one-year rate	£450
Best five-year rate	£540

Cash ISA	Return after one year on £20,000
Best easy access rate	£290
Best one-year rate	£332
Best five-year rate	£454

Difference over one year
-£10
-£118
-£86

Source: Moneyfacts, December 2018

Pay into a pension

Pensions have many advantages that could make your savings grow faster.

While ISAs offer greater flexibility as they allow you to access funds any time, pensions have one clear advantage: tax relief. Everyone automatically receives 20% basic rate tax relief on their pension contributions, which means that for every 80p they pay in, the government adds a further 20p. But many higher and additional rate taxpayers could be eligible to claim even more tax relief via their annual tax return – see right.

The tax breaks associated with pensions are so efficient that they will inevitably remain under government scrutiny; and for this reason change cannot be ruled out in the future. Therefore, those who can should try to make the most of the current reliefs and allowances while they are still available.

This means making the most of this year's annual allowance and carrying forward any unclaimed allowances from the three previous tax years.

The annual allowance

The annual allowance is the most you can save into a pension before you are taxed on the contributions. For the vast majority of working people, it is £40,000 (or 100% of earnings if less).

THE EFFECTIVE COST OF A £100 PENSION CONTRIBUTION

This is based on the assumption that contributions are eligible, and that anything over the basic rate of tax is reclaimed via your annual tax return.

But a measure introduced in the 2016/17 tax year means that some high earners can fall foul of a tapered reduction, which gradually restricts pension saving to as little as £10,000 a year - see table below.

However, taxpayers are allowed to carry forward unused annual allowance amounts, with a limit of three years. Consequently, savers have until 5 April this year to make the most of any unused £40,000 annual allowance from 2015/16. This may provide an invaluable opportunity for those affected by the tapered annual allowance to make a significantly larger pension contribution.

THE ANNUAL ALLOWANCE FOR THIS YEAR AND THE PREVIOUS THREE TAX YEARS

ADJUSTED INCOME*	2015/16	2016/17	2017/18	THIS TAX YEAR
Up to £150,000	£40,000	£40,000	£40,000	£40,000
£160,000	£40,000	£35,000	£35,000	£35,000
£170,000	£40,000	£30,000	£30,000	£30,000
£180,000	£40,000	£25,000	£25,000	£25,000
£190,000	£40,000	£20,000	£20,000	£20,000
£200,000	£40,000	£15,000	£15,000	£15,000
More than £210,000	£40,000	£10,000	£10,000	£10,000

* In summary, adjusted income includes your taxable income plus the value of any pension contributions made by your employer, including any paid as a result of salary sacrifice.

YOU MAY BE ABLE TO CONTRIBUTE UP TO

£160,000

TO YOUR PENSION THIS TAX YEAR AND STILL RECEIVE TAX RELIEF

REMEMBER

There is scope for saving in pensions on behalf of children. A maximum contribution of £2,880 a year is topped up to £3,600 thanks to tax relief.

The value of an investment with St. James's Place will be directly linked to the performance of the funds selected and may fall as well as rise. You may get back less than you invested.

The levels and bases of taxation, and reliefs from taxation, can change at any time. The value of ant tax relief depends on individual circumstances.

KEY **POINTS** TO CONSIDER

Personal pension contributions automatically attract tax relief of 20%. Higher and additional rate tax payers can claim a further 20% and 25% respectively through self-assessment tax returns.

Once contributions to your pension are invested, they grow free of taxes until you decide to draw your retirement benefits. However, only 25% of your pension pot can be drawn free of tax, the rest will be taxed at your marginal rate of tax, therefore you should seek advice on how to draw your pension.

Pensions aren't generally counted as part of your estate for Inheritance Tax (IHT) purposes, so saving into one will avoid IHT at 40% were the same funds held elsewhere in your estate.

The government controls how much it pays out in tax relief through the annual allowance. This limits the amount of tax relief available on pension contributions each tax year.

Reduce your potential Inheritance Tax bill

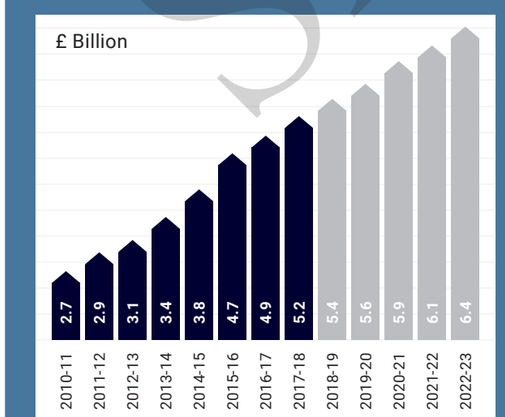
Inheritance Tax can be a major obstacle to families. However there are several ways to reduce what's payable to give the next generation a helping hand.

Inheritance Tax (IHT) is widely viewed as unfair, and even the chancellor agrees it's complex: but effective and early planning can minimise its impact on your estate.

A record £5.2 billion in IHT was collected in the 2017/18 tax year, and the Office for Budget Responsibility forecasts that receipts will increase to £6.4 billion by 2022/23. Yet IHT is often referred to as a 'voluntary tax'; the fact is that ignorance and inertia are largely to blame for wealth ending up in the hands of HMRC rather than the surviving family.

DON'T LET THE TAXMAN DECIDE YOUR LEGACY

HM Treasury expects to receive around 25% extra in IHT revenues over the next five years.



Source: Office for Budget Responsibility, March 2018

The good news is there are plenty of things you can do to keep any potential IHT tax bill to a minimum. For example, there are several allowances available which enable you to pass on some of your wealth free of IHT:

- You can give away up to £3,000 free of IHT each tax year. You can also carry forward any unused allowance from the previous year, meaning a couple could potentially remove £12,000 from their estate immediately. You can only carry forward unused allowances for one year, and need to use the current years annual exemption first.
- You can make any number of small individual gifts worth up to £250 per person in any one tax year in addition to your £3,000 allowance and no IHT will be due on them.
- Regular gifts from taxable income are free from IHT, as long as you can demonstrate that giving away the money did not affect your standard of living.
- If you wish to give away larger sums, you must live for at least seven years from the date of the gift for it to be free of IHT. These gifts are known as 'potentially exempt transfers'.

With the end of the tax year looming, you only have a short window of opportunity to use allowances that might otherwise be lost. It's a chance to put your family first.

The levels and bases of taxation, and reliefs from taxation, can change at any time and are generally dependent on individual circumstances.

Inertia and IGNORANCE?

FIFTY-FIVE PER CENT OF PEOPLE do not know the rate at which assets above their nil rate band are taxed.[1]

Over a third of over-55s say they find the subject too hard to broach with their loved ones.[2]

More than a third of over-55s are concerned about paying IHT on their estate.

But fewer than a fifth have taken action to reduce their potential bill.[3]

Nearly 40% of people do not think their main residence is liable for IHT.[4]

[1 4] Canada Life, January 2018.
[2] Sanlam, October 2018.
[3] Prudential, May 2017.

£190,000

AVERAGE BILL FOR ESTATES LIABLE FOR IHT

Source: HMRC – Inheritance Tax statistics: 2015-16, July 2018

KEY POINTS TO CONSIDER

The Inheritance Tax (IHT) nil rate band is £325,000 for single people or £650,000 for married couples or civil partners. IHT is due on death at a rate of 40% above this threshold.

There is currently an additional £125,000 'residence nil rate band' that can be used against the value of your property, although certain restrictions apply.

Unused elements of both allowances are transferable to a surviving spouse or registered civil partner, allowing to double up the nil rate band applicable at the date of the second death.

YOUR TAX YEAR-END CHECKLIST

As the 5 April deadline approaches, so does the last chance to use the reliefs and allowances that would otherwise be lost. Here are some ideas to consider.

- ✓ Make use of your ISA allowance of £20,000.
- ✓ Check your spouse or partner has maximised their ISA allowance to fully utilise the combined allowance of £40,000.
- ✓ Make contributions of up to £4,260 per child into Junior ISAs to help them get a head start.
- ✓ Those wishing to maximise pension saving should consider fully utilising their annual allowance. Unused allowances can be carried forward, but only from the three previous tax years. If your 2018/19 allowance is fully utilised, you should review whether you have any unused allowances from the 2015/16 tax year first.
- ✓ High earners could take steps to bring their taxable income down by making pension contributions or charitable donations. These can help individuals:
  - Bring their income to below the additional rate tax band, which starts at £150,000.
  - Regain their Personal Allowance, which starts to be withdrawn for incomes over £100,000.
  - Avoid losing Child Benefit, which is gradually removed if one parent in the household earns more than £50,000.
- ✓ Take advantage of your annual Capital Gains Tax (CGT) exemption by realising gains of £11,700 in this tax year. Those with larger liabilities might look to take gains over two tax years and make use of tax-free inter-spouse transfers.
- ✓ Use your IHT gifting exemption of £3,000 for this year.
- ✓ If you're thinking of making a large pension withdrawal, it could make sense to spread the withdrawal over two or more tax years to minimise your Income Tax liability.
- ✓ If you own a business and depending on your earnings, consider taking dividend income instead of salary to avoid National Insurance contributions (NICs). The first £2,000 of dividend income is tax-free.
- ✓ Divert your company's pre-tax profits into a personal pension to reduce your company's liability to Corporation Tax, Income Tax (including on dividends) and NICs. Contributions will need to be paid before your company's financial year-end in order for the business to qualify for the deduction in that accounting period. In many cases, that deadline will be 31 March 2019.

CONTACT YOUR ST. JAMES'S PLACE PARTNER FOR MORE INFORMATION.

The value of an investment with St. James's Place will be directly linked to the funds you select and the value can therefore go down as well as up. You may get back less than you invested.

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