money wise

BECKETT

Mapping your financial future

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Tax saving ahead of the tax year-end

As the austerity programme drags on, with an end date now pushed out to 2018, year-end tax planning for individuals and businesses has become more important than ever.

Tax changes announced in the last couple of years have created many tax saving opportunities you might want to act on in time for the end of the tax year on Friday, 5 April 2013. You may even want to act before the Budget on 20 March, just in case there are some surprise announcements.

Pensions The Chancellor made some important announcements about pensions changes from April 2014 in the Autumn Statement, but they cannot be ignored in terms of 2012/13 planning.

For example, the lifetime allowance – the maximum tax-efficient worth of all your pension benefits – will now fall from £1.5 million to £1.25 million. At the same time, there will be a new transitional protection introduced, which will allow you to retain the £1.5 million, provided you make no further contributions or accrue no further pension benefits. There is therefore an opportunity to maximise your pension fund now before seeking protection by April 2014.

Regardless of whether the lowered lifetime allowance will affect you, 5 April 2013 is the deadline for making a contribution to mop up any of your unused 2009/10 annual allowance and/or to take advantage of 50% tax relief – the 2013/14 additional rate is 45%.

Individual savings account (ISAs) The 2012/13 ISA contribution limit is £11,280, rising to £11,540 from 6 April. There are four good reasons for making the most of your ISA allowances.

- Income from fixed interest securities held in a stocks and shares ISA is free of personal UK tax.
- Interest earned on deposits in a cash ISA is also UK tax-free.
- Gains made within ISAs are free of capital gains tax (CGT).
- There is nothing to report about your ISA on your tax return.

CGT annual exemption 2012 was a more profitable year than 2011 for most major stock markets, so it could be wise to realise some of those gains (and any from earlier years) before 6 April. In 2012/13 you can take gains of up to £10,600 without any CGT liability. The exemption cannot be carried forward: either use it, or lose it.

Inheritance tax (IHT) The IHT nil rate band of £325,000 was frozen on 6 April 2009 and will remain unchanged next year. That freeze makes it all the more vital that you use your annual IHT exemptions. The main £3,000 annual exemption can be carried forward, but only to next tax year (2013/14), and then can only be claimed once the 2013/14 exemption has itself been used up. If you and your partner have not made any gifts since 6 April 2011, you could now jointly give away £12,000 free of IHT.

The value of your investment and the income from it can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Services Authority does not regulate tax advice.

The Chancellor's tax surprises

Last December's Autumn Statement took many of the experts by surprise. It was much more than the gloomy mid-term economic report: George Osborne revealed a raft of changes, some of which are more than two years away.

Income tax The surprise piece of good news was a further £235 increase in the personal allowance for 2013/14, the amount of income that most taxpayers can receive before they start to pay income tax. The personal allowance was already due to jump by £1,100. But at £9,440 next tax year, the new personal allowance will be very close to the Government's goal of £10,000.

The benefit of the increased personal allowance will be partially clawed back from higher rate taxpayers, because the threshold or starting point for 40% tax will remain at the £41,450 announced in the last Budget, down £1,025 from the 2012/13 level. In both 2014/15 and 2015/16 the higher rate threshold will rise by just 1%.

Pensions The annual allowance – the maximum total tax-efficient contribution that can be contributed to pension plans by you or on your behalf during the tax year – will be cut from £50,000 to £40,000 in 2014/15.

There will also be another reduction in the lifetime allowance – the maximum total tax-efficient value of pension benefits – from £1.5 million to £1.25 million.

To ease the pain there will be 'transitional protection' which you can claim if you have, or might have, pension benefits worth more than £1.25 million.

The Chancellor did reveal one private pension increase, effective from 26 March 2013: a 20% rise in the maximum amount that can be taken under capped income drawdown.

Capital gains tax (CGT) The CGT annual exemption was frozen this tax year at £10,600. For 2013/14 it will rise in line with inflation. In the following two years the exemption will increase by 1% a year, taking it up to £11,100 in 2015/16.

Inheritance tax (IHT) The 1% increase appeared on the IHT agenda, too. The nil rate band, which is currently £325,000, will rise by 1% on 6 April 2015, after six years of freeze.

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Time to go east?

China is the world's most populous nation and its second largest economy, so after a rocky 2012, is it now a good time to look at investing there or in other Far East countries?

While it offers unique opportunities in terms of its scale and manufacturing capabilities, China's fortunes have been intertwined with the global economy – if wages rise, it becomes less competitive and if export demand falls, then so do its earnings.

China's performance has disappointed of late, with weaker exports and imports and signs of a property bubble. And, in March 2012, the Chinese Government revised its annual growth target for 2012 down to 7.5%, creating some anxiety.

Despite the slowdown, the HSBC purchasing managers' index for December rose to 51.5 from 50.5 a month earlier, as a result of increased government spending on infrastructure. Meanwhile, predictions vary about what growth China will see in 2013. The official view is 7.5%.

China may suit you if you have predominantly UK and European holdings and favour diversification. What's more, valuations are roughly a third of the peak level reached in 2007. However, China is far from being the only Eastern player, and although Japan has been a disappointment for investors over the last couple of decades, it is suddenly looking a little more promising.

New Japanese prime minister Shinzo Abe has implemented a programme of fiscal stimulus, and, although there have been false dawns before, some commentators believe that Japanese equities are looking good value. There are many funds on offer, so seeking guidance on those likely to outperform could make sense.

There is also a wide range of funds focused on the Asia Pacific sector. Some may be heavily influenced by China, but others may be investing in less promoted countries such as Malaysia, Thailand and Indonesia.

The region has also been bolstered by improved relationships with the United States – US President Obama described the region as a 'top priority' in terms of its importance as a leading trading partner and in having a pivotal role in the United States recovery.

With many western countries being in the doldrums, it is no wonder eastern markets are receiving increasing attention.

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Inflation: making difficult times harder

2013 is going to be another tough year as inflation is likely to remain stubbornly above target, according to the Bank of England's chief economist Spencer Dale.

Mr Dale was stating the obvious when he said many households and families were 'much worse off'.

Rising food prices, the fact all the 'big six' energy firms have hiked bills, rail fare rises and higher tuition fees are all having an impact.

Many accounts pay interest below the rate of inflation. A glimmer of better news is that the amount that can be invested into an ISA is to rise by £240 from £11,280 to £11,520 from April 2013. Further, the annual gains you can bank before paying tax is rising by 1% in 2014 and 2015 to £11,100.

If you are saving for a pension, however, there was some bad news in the Chancellor's Autumn Statement, with the annual allowance for tax-incentivised pension saving cut from £50,000 to £40,000 and the lifetime allowance reduced from £1.5 million to £1.25 million, both in 2014/15.

The basic state pension will rise by 2.5%, but when inflation is taken into account, pensioners are likely to be worse off.

Those funding retirement through pension drawdown will be able to take 20% more of their fund each year under rules that will take effect from 26 March 2013.

The Government has also announced that rises to tax credits and child benefit will be pegged back to 1%, rather than inflation. The change to tax credits comes into effect in April 2013 and will last three years; the change to child benefit comes into force in 2014 and will last two years.

However, the amount that can put into a child's junior ISA or child trust fund will increase from £3,600 to £3,720 from April 2013.

The news is not all bleak – unemployment is lower than anticipated and the Bank of England has predicted modest growth for 2013.

But, given that inflation will be sticking around, taking expert guidance remains crucial.

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State pension changes unveiled

The Government has published its much-delayed White Paper on the future shape of state pensions.

The United Kingdom has one of the most complex state pension systems in the world. There is the basic state pension and, for employees only, an additional earnings-related pension. Both are overlaid with two means-tested benefits; Pension Credit and Savings Credit.

To quote the White Paper, the structure means 'that many people do not have a clear starting point from which to plan and save for their retirement'.

The solution proposed by the White Paper is in five parts.

- Introduce a single tier pension of £144 a week in today's terms, marginally above the level at which any Pension Credit is payable.
- End accrual to the additional pension (the state second pension [S2P]) and contracting out.
- Base entitlement on the individual, ending the right to inherit or take credit for the pension of a spouse/civil partner.
- Scrap the Savings Credit for new pensioners.
- Review (and probably increase) the state pension age (SPA) every five years.

To gain the full £144 a week pension you would need a 35-year record of national insurance contributions and/or credits, compared with the 30 years currently required for the basic state pension. A minimum period to receive any pension will be set – probably at ten years. At present just one year's record will earn some state pension.

The proposed starting date for the new pension regime is April 2017, 'at the earliest', and if you reach your SPA before then, you will be unaffected. Given the intricacies of the existing system, it is not surprising that there are complex transitional rules to deal with state pension benefits accrued before the start date.

The White Paper admits that 'single-tier reforms have been designed to cost no more overall compared to the existing pension system' and the Department for Work and Pensions' own projections suggest that in the long-term the cost will be less.

While there will be many people, particularly those who are low paid, who will gain from a single-tier pension, the lower overall expenditure means there may be more losers than winners.

So while the proposals are a simplification, they are no substitutes for private provision.

Looking back at the 2012 markets

2012 was not a vintage year for our economy. The full picture has not yet been revealed, but it seems likely that while consumer prices rose at a comfortable rate close to 2.5%, gross domestic product failed to gain any ground.

In the light of such little growth it is surprising that the level of unemployment is currently lower rather than higher than it was at the beginning of 2012.

For the financial markets, 2012 proved volatile but broadly positive. The FTSE 100 Index gained 10%, though gains made in the first quarter were wiped out in what proved to be a difficult second quarter – from peak to subsequent trough, the FTSE 100 lost 11%.

Both domestically and internationally, smaller companies outperformed their larger peers and while value stocks outperformed growth stocks on a global basis, that trend was reversed in the UK with those stocks in the growth category providing almost double the return of those in the value category. UK investors with exposure to Asia Pacific equities saw terrific returns in this section of their portfolio, with strong gains too from a remarkably volatile Europe.

Bond investors were also rewarded with relatively solid returns. UK conventional government bonds gained nearly 3%, with

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inflation-linked bonds returning a little under 1%. Investment-grade corporate bond holders saw capital values rise by around 13%, while lower-quality, higher-yielding bonds rose by a whopping 19%.

Property investors endured further disappointing returns from bricks and mortar (1.2% for the ABI sector average), while property securities such as REITs motored ahead closer to 20%. Those investors seeking greater diversity saw 'absolute returns' averaging 3.4%. Please talk to us about how you can make the most out of your investments this year.

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