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THE NEW TAX YEAR

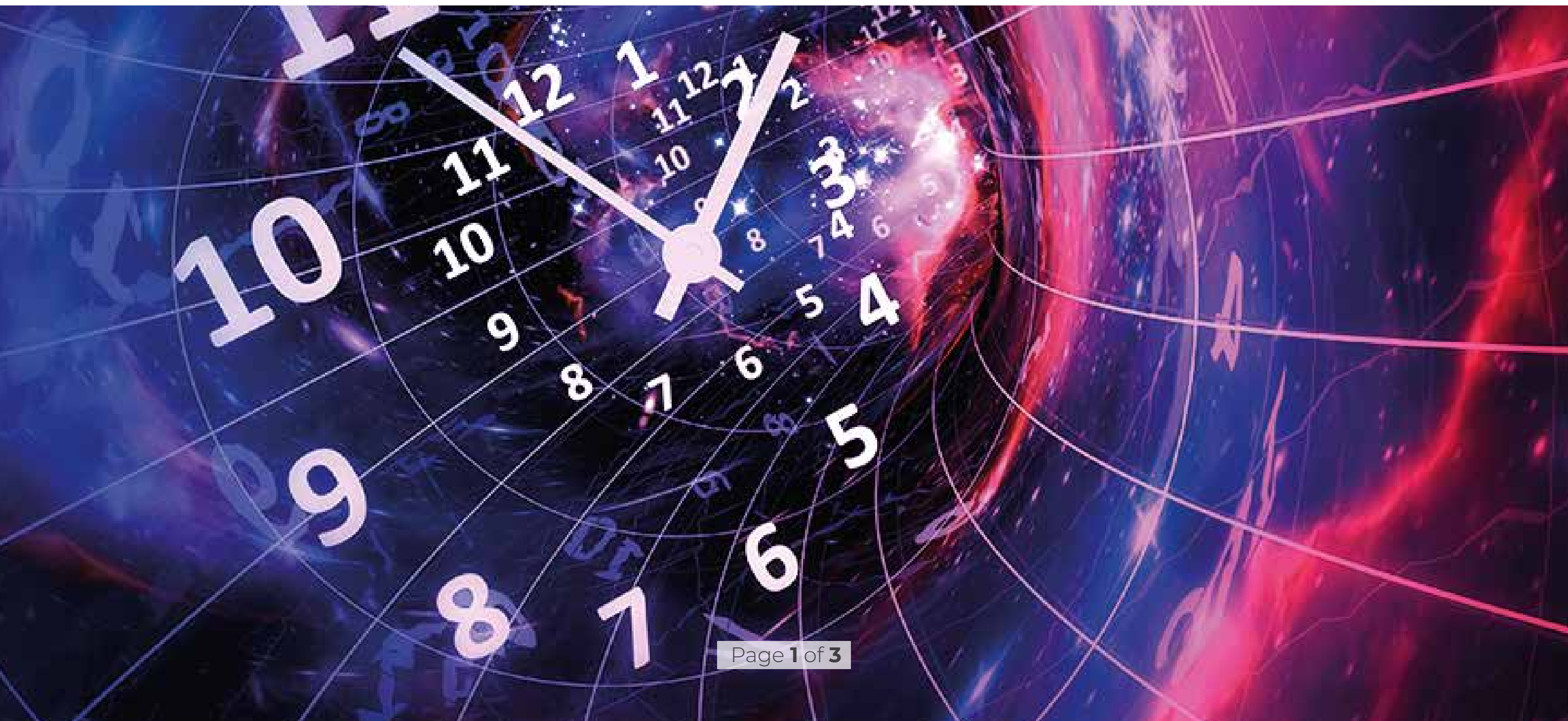
Once again, we find ourselves at the beginning of a new tax year. With everything that has been going on this last year, it is perhaps unsurprising if it has passed you by. Many have seen their finances be ripped apart by the pandemics impact, however a recent Financial Conduct Authority (FCA) report found that 48% of adults have not been affected financially by Covid-19. One in seven (14%) have seen an improvement in their financial situation. *

If you couldn't spend as much time as normal on your finances in the last year, there is no need to panic. This new tax year brings a fresh start and time to plan and make the most of any extra savings you have this time around. With your allowance reset there is plenty you can do to start using it up. We have explored some key things to look out for.

1 IF YOU HAVE AN ISA, CAN YOU USE UP YOUR ISA ALLOWANCE?

A new tax year brings with it a new set of annual allowances, so assess your outgoings and plan to make the most of what you have available this year. Currently, you can save up to £20,000 in ISA products tax-free, making them a tax-efficient option for any extra savings that you may have acquired during lockdown. This limit applies to the total amount that can be saved into ISAs in the current tax year, so you could split your allowance across a combination of different types. However, you cannot open two of the same type of ISA.

You could put all your money into your ISA at the end of the tax year or drip it in bit by bit as the year progresses. With the latter, you will be able to utilise the tax benefits immediately rather than waiting until the end of the tax year. This can also be useful if you want to make investment decisions at a later stage, or perhaps you are uncertain of market conditions and would like to bide your time. However, as you have the whole year ahead of you, it might be best to make some financial saving goals and set up your year the best way you can.



IF YOU ARE LOOKING TO INVEST IN A NEW ISA, HAVE YOU PICKED THE RIGHT ISA FOR YOU?

It is important to know which ISA is right for you and your financial situation, especially if you are considering putting away a large amount of money for the new tax year. Cash ISAs are easily accessible, so can be handy for emergency funds if something were to go wrong. Lifetime ISAs tend to come with a bonus, and if you are looking to save for longer-term goals, a Stocks and Shares ISA can help. They may be able to offer better returns on any savings while interest rates are at an all-time low but do require a certain amount of active investing and come with a certain level of risk. If your ISA is performing badly, it may be wise to leave it where it is, rather than transfer it, however this can depend on different scenarios and circumstances for each individual.

What matters in a stocks and shares ISA is overall growth over time, rather than steady rises every year, however if you do have concerns, talk to your financial adviser.

Many people do not make full use of their personal tax allowances. This is not because people cannot afford to put money in ISAs, but because they have not made saving a part of their daily routine. If you struggle to save, giving your ISA a dedicated purpose or treating it like a regular direct debit could help you feel more positive about the regular payments, and help you picture its growth over the years with the contribution of compound interest.

LOVE YOUR PENSION

Whatever your age, increasing your pension contributions throughout the tax year could help you out a lot in the future. Like an ISA allowance, pensions have an annual contributions allowance. The annual allowance is a limit to the total amount of contributions that can be paid to defined contribution pension schemes and the total amount of benefits that you can build up in defined benefit pension scheme each year, for tax relief purposes. The annual allowance is currently capped at £40,000 although a lower limit of £4,000 may apply if you have already started accessing your pension.

If you exceed your annual allowance, you will normally face an annual allowance tax charge and you won't receive tax relief on any contributions you paid that exceed the limit and you will be faced with an annual allowance charge.

Setting up a private pension or increasing your workplace contributions could be a good way of putting away any extra savings you have built up. Salary sacrifice schemes are another method offered by some companies. These allow employees to reduce their earnings by a certain amount equal to their pension contributions. The employer agrees to pay this amount as pension contributions. These do come with some tax benefits, however, it could affect other financial areas of life, like applying for mortgages, so be aware if that is something you have coming up in your goals.

The amount of tax relief you receive on your pension contributions can be greatly impacted by the amount of income tax you pay. As a basic rate taxpayer, every £800 paid in is topped up to £1,000 by the tax man. If you are a higher or additional rate tax payer pay more, you maybe able to claim an extra 20-25% tax relief on your contribution, through your tax return. If you do not pay tax, you can still receive a basic tax relief on pension contributions. Bear in mind pension tax rules can change in future and their effects will vary depending on your personal circumstances.

THINK ABOUT ANY BONUS – HAVE YOU THOUGHT ABOUT THE TAX IMPLICATIONS?

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There may be smaller or fewer bonuses this year given the current climate, however if you are lucky enough to receive one you could put it towards your ISA allowance. When it comes to tax planning with this extra money, it can become tricky as it could push you into a higher tax bracket, resulting in the loss of some allowances and benefits. In these situations, some people consider redirecting their bonus payments to their pensions, especially if the cash isn't immediately needed.

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HAVE YOU CONSIDERED YOUR CAPITAL GAINS TAX (CGT) ALLOWANCE?

For this tax year the capital gains tax allowance is £12,300 (£6,150 for Trusts). This means you can sell shares or investments, property, or assets without paying tax on this amount of gains. It is important going forward to bear in mind that you do not pay this on assets held in a pension, ISAs or your main residential home.

REMEMBER THAT YOUR CHILDREN PAY TAX.

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All UK resident children under 18 are eligible for a Junior ISA (unless they already have a Child Trust Fund). These work in much the same way as adult ISAs, though the annual limit is restricted in any combination of cash and stocks & shares. However, it is important to remember that the interest on a child's bank account is as vulnerable to tax as an adults.

Start fresh. Plan for next year's end of tax year well ahead of time.

For further information or if you have any questions please contact your adviser.