WINTER 2019

Independent Financial Advice

NEWS AND ADVICE FROM BIRKETT LONG

Welcome to the latest edition of the Birkett Long IFA newsletter which I hope you will find informative.

This time we explore opportunities which are available for investments and pensions, ensuring all available tax reliefs and allowances are used.

Please let me know if there are any financial topics which you would like covered in future editions.

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Pension death benefits

Pension reforms are still not straightforward.

Why do I need a will?

Leaving clear instructions for how you wish your estate to be distributed.

Tax year end opportunities

Ensure you are saving and investing as tax efficiently as possible before it's too late.

Pension death benefits

Pension reforms introduced significant changes to the taxation of pension death benefits, which, of course, are still not straightforward.

The table below explains how pension benefits are taxed on death and highlights the difference between uncrystallised funds (pensions that are not in payment) and crystallised funds (pensions that are in payment). It also details the differences, on death, under and above age 75.

Taxation of pension benefits on death

	Death below age 75	Death above age 75
Uncrystallised Funds - Pensions not in payment	The fund can be paid to any beneficiary completely tax free as a lump sum, annuity or as a drawdown pension. The benefits will be tested against the lifetime allowance.	The fund can be paid to any beneficiary, taxed at their marginal rate, as a lump sum, annuity or as a drawdown pension. The fund can be paid to a Trust as a lump sum less a 45% Tax charge.
Crystallised funds - Pensions in payment	Can pass completely tax free to any beneficiary as a lump sum or drawdown pension. A drawdown fund can be used to buy an annuity at any time.	The fund can be paid to any beneficiary, taxed at their marginal rate, as a lump sum, annuity or as a drawdown pension. The fund can be paid to a Trust as a lump sum less a 45% tax charge.

Why do I need a will?
A will enables you to leave a clear instruction as to how you wish your estate to be distributed, and can ensure provision for family and friends.

The importance of wills and lasting powers of attorney

If you die without a valid will in place, then the law decides who inherits everything you own under the intestacy rules, which can produce undesirable results.

There are many important reasons to make a will, but if you do not have a will, you might like to consider the following:

- Do you want to leave your estate to specific people or charities?

The restriction that income drawdown can only be payable to a dependant no longer applies. This now means any beneficiary can be the recipient of a pension death benefit, and these benefits can pass down through the generations until the fund is used. If the individual dies under the age of 75, the rule that tax free cash lump sum payments must be made within two years of the pension scheme administrator being notified of the member's death still remains. Any lump sum payments made after the two year period will be taxed at the recipient's marginal rate.

It is important to complete a Death Benefit Nomination Form (sometimes known as an Expression of Wish form) to inform the Scheme Administrator of the chosen beneficiaries. These forms should be reviewed regularly, as personal circumstances change. If a beneficiary is not nominated, the benefits could become payable to the deceased's estate.

As the tax year approaches, it is also important to consider using the annual pension allowance, which is up to £40,000 gross. For individuals with an income over £150,000, consideration needs to be given, where appropriate, to any tapering of the annual pension allowance.

There is an upper limit on total pension savings, called the lifetime allowance, which increases from 6 April 2019 to £1.055 million. Any amount above this limit held within pension arrangements will be liable to a Lifetime Allowance Tax charge of either 25% or 55%.

Although reforms provide some important new benefits and flexibility, pensions have not become any simpler. Should you wish to discuss any of these matters in more detail please contact me.

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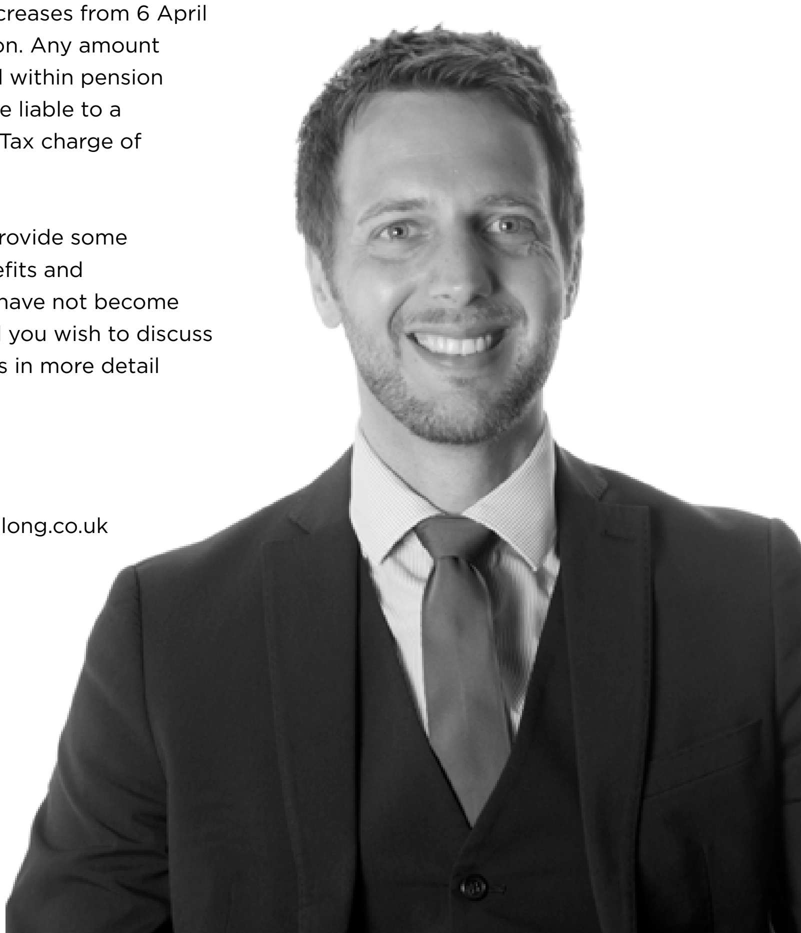

- Are you unmarried and want to ensure that your partner will benefit from your estate?
- Do you have children under 18 for whom you would need to appoint guardians?
- Do you have estranged relatives that you do not wish to benefit from your estate?
- Do you want to leave any specific legacies or gifts to loved ones?
- Do you have pets that you would like to be cared for?
- Do you want to make it easier for your loved ones to administer your estate after your passing?

If the answer to any of the above is yes, the best way to ensure your wishes are followed is to make a will.

What is a lasting power of attorney and why do I need one?
A lasting power of attorney is a legal document which allows you to appoint one or more individuals to make decisions on your behalf, should you ever lose mental capacity or be unable to look after your affairs yourself.

There are two types of LPA:
Property and Financial Affairs LPA – This allows your attorneys to make decisions about your finances and property. This means that your attorneys can manage your bank account and other finances, pay your bills and sell your home on your behalf if necessary. This type of LPA can be used even when you still have mental capacity, but would like assistance in dealing with your affairs.

Health and Welfare Decisions LPA – Under this LPA, your attorneys can make decisions about your health and welfare, which can include the medical treatment you receive and deciding where you live. This type of LPA can only be used if you are unable to make decisions for yourself.

Without a LPA in place, should you lose capacity then it is necessary for an application to be made to the Court of Protection to appoint a deputy to act on your behalf. In this instance, the Court decides who is to be appointed, which is often a long and costly process.

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Tax year end opportunities

Christmas dinner and cheese boards are now a distant memory and 2019 is already in full swing, with the end of the tax year fast approaching.

The tax year finishes on the same date each year, 5 April. But each year there's the same rush to make last minute arrangements to ensure available tax reliefs and allowances are utilised. Most unused allowances are effectively lost at the end of the tax year. In other words they can't be carried forward, so now is a real opportunity to ensure you are saving and investing as tax efficiently as possible, before it's too late.

Here are some of the main tax planning opportunities to bear in mind for individuals:

- Income Tax personal allowance - £11,850
- Capital Gain's Tax allowance - £11,700
- Individual Savings Account (ISA) allowance, Cash and/or Stocks and Shares - £20,000
- Junior ISAs/Child Trust Funds – maximum contribution of £4,260 per child
- Pension allowance - £40,000 (reducing to as low as £10,000 depending on income)
- Personal Savings allowance - up to £1,000 depending on income
- Dividend allowance - £2,000
- Gifting for Inheritance Tax purposes – up to £3,000 a year. NB: one unused tax year can be 'carried forward'.

Making the most of your allowances is important but, in some cases, quite complex, so why rush at the last minute? If you would like further information on how you may be able to take advantage of these tax reliefs and allowances, please contact me.

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