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MARCH / APRIL 2016

ENTER *the Dragon*

Views from investment company managers on China

NAVIGATING UNCHARTED WATERS

The impact of further pension changes on the horizon from this April

TAX-EFFICIENT INVESTMENTS
Options to minimise how much tax you pay

RETIREMENT BOOSTER
Now is the time to make smart year-end retirement planning decisions

BEAT THE ISA DEADLINE
One of the most valuable tools available

Authorised and regulated by the Financial Conduct Authority.

INDEPENDENT FINANCIAL ADVISER

INSIDE THIS ISSUE

Welcome to our latest issue. Taxes, as we know, are one of the two great inevitables in life. As the UK tax system continues to grow ever more complex, and with more responsibility being placed on the individual to get their own tax right, ensuring that you receive the best professional advice to optimise your tax position is paramount. On page 08, we consider how appropriate tax planning could help you substantially reduce tax liabilities and defer tax payments. We have provided details of a number of tax planning areas you may wish to review, especially as we are now in the run-up to the 2015/16 financial year end on 5 April.

Pensions have been transformed by the arrival of freedom reforms on 6 April 2015 which now give far greater flexibility over what you can do with your pension pot. The new freedoms mean you can enjoy far greater choice on how you spend and generate an income from your pensions, but with further changes on the horizon we look at some of the key changes you need to know on page 06.

The Chinese New Year, also known as 'Spring Festival' in China, is China's most important traditional festival. The 2016 Chinese New Year, 'The Year of the Monkey', commenced on Monday 8 February. Monkeys in the Chinese zodiac are 'clever, mischievous and curious', so we'll have to see if this brings about a luckier year for Chinese financial markets. Certainly, fund managers investing in China are proving sanguine. The Association of Investment Companies (AIC) has collated views from investment company managers on China, and one consistent theme is that the spectacular growth story of the past should not cloud judgement on the China that we see today. Read the full article on page 04.

The full list of the articles featured in this issue appears opposite.

We strive to provide stories that are informative and inspire you to look at your financial plans in a proactive way. To discuss any of the articles featured in this issue, please contact us.

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BEAT THE ISA DEADLINE

One of the most valuable tools available to investors focused on wealth creation for the long term

Individual Savings Accounts (ISAs) are one of the most valuable tools available to investors focused on wealth creation for the long term. There is no tax on interest payments, no higher-rate tax on dividend payments from 6 April 2016, no tax on capital gains to pay and no need to declare ISAs on a tax return.

An ISA is a tax-efficient investment wrapper in which you can hold a range of investments, including bonds, equities, property shares, multi-asset funds and even cash, giving you control over where your money is invested. It is important to remember that an ISA is just a way of sheltering your money from tax – it's not an investment in its own right.

ISA LIMITS

You can put money into one Cash ISA and one Stocks & Shares ISA each tax year. The tax year runs from 6 April to 5 April. Currently, you can save up to £15,240 in one type of account or split the allowance across both types. Your ISAs won't close when the tax year finishes. You'll keep your savings on a tax-efficient basis for as long as you keep the money in your ISA accounts.

JUNIOR ISA LIMITS

With a Junior ISA, you are free to invest up to £4,080 in the current tax year. You can switch from a Cash Junior ISA to a Stocks & Shares Junior ISA and back again.

GENERATE A TAX-EFFICIENT INCOME

When you invest through an ISA, your money is protected from HM Revenue & Customs, so you don't have to pay personal Income Tax on any interest you receive from your investments. In a Stocks & Shares ISA, interest is generated by bond funds, which many investors choose because they offer the potential for a regular lower-risk income compared with equities.

This feature of an ISA is particularly useful in retirement, as it means you can hold your money in bond funds and generate a tax-efficient income on top of the payments you receive from your pension. It is also very beneficial if you want to generate long-term capital growth from your funds but prefer to take a cautious approach to investing.

FLEXIBLE AND INSTANT ACCESS

Unlike a pension or fixed-term investment vehicle, most Stocks & Shares ISA providers offer you flexible and instant access to your money when it suits you, without losing the tax benefits on the rest of your savings held within the wrapper. You can choose to withdraw some or all of your money at your convenience. However, it is worth remembering that once withdrawn, it cannot be returned.

MANAGING A POTENTIAL TAX BURDEN

When your investments are held in ISAs, you don't have to pay any Capital Gains Tax (CGT) on their growth. Of course, this may seem like a minimal benefit if your profits are well within the threshold for CGT, but it's worth remembering that stocks and shares investments are for the long term. If your funds perform particularly well for several years, holding them in ISAs will mean you have full access to your money at all times without having to worry about managing a potential tax burden.

Freedom from CGT within an ISA can also be useful if you need to take an income from a portfolio of equity investments. Retirement tends to last longer these days, so it may be worth retaining your portfolio's exposure to the stock market for a longer period.

CONSOLIDATING INVESTMENTS UNDER ONE ROOF

If you feel that your existing ISA provider is no longer appropriate for your needs or you are looking to consolidate your investments under one roof, with an ISA you are free to transfer your investment between providers to suit your individual needs.

Please note: your current provider may apply a charge when you transfer your investment. While your investment is being transferred, it will be out of the market for a short period of time and will not lose or gain in value.

If you withdraw your ISA, you will automatically lose all of its associated tax benefits. So unless you need to liquidate your cash to spend yourself or to gift to someone else, you should always transfer it between providers to retain its tax-efficient status. ■

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A tax-efficient investment wrapper in which you can hold a range of investments

ENTER *the Dragon*

Views from investment company managers on China

The Chinese New Year, also known as 'Spring Festival' in China, is China's most important traditional festival. The 2016 Chinese New Year, 'The Year of the Monkey', commenced on Monday 8 February. Monkeys in the Chinese zodiac are 'clever, mischievous and curious', so we'll have to see if this brings about a luckier year for Chinese financial markets.

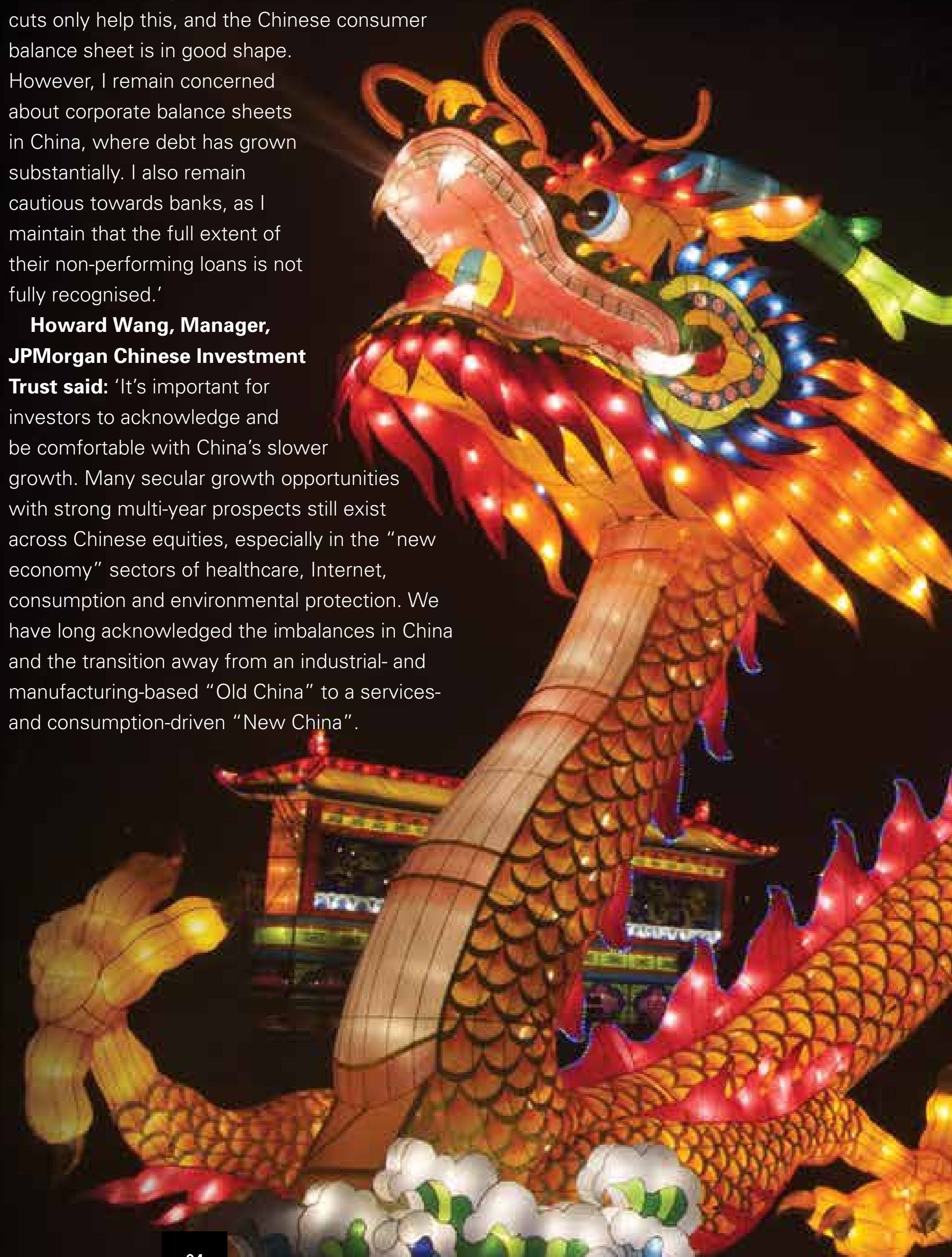
Certainly, fund managers investing in China are proving sanguine. The Association of Investment Companies (AIC) has collated views from investment company managers on China, and one consistent theme is that the spectacular growth story of the past should not cloud judgement on the China that we see today.

Dale Nicholls, Manager, Fidelity China Special Situations said: 'China continues to grow at a better pace than the developed world, and personal consumption is likely to outpace this rate of growth as the economy transitions towards a consumer-led market. I remain positive about the prospects for China. I consider it to be a market with great potential brought down by macroeconomic concerns over the short term. I would agree that the pace of reforms in China has been disappointing, and in some cases, such as currency depreciation, the timing and communication could have been better. Having said this, China's decision to move towards a more flexible currency is a long-term positive. In my view there is potential room for positive surprises going forward, and this prevalent sentiment creates opportunities in areas such as A-shares, where I am finding some large-cap strong businesses at reasonable prices.

'It is interesting to witness changes driven by increasing penetration of the Internet, particularly as a vehicle to reach previously untapped markets. For instance, while traditional retail networks have still to establish a rural footprint in China, e-commerce has already ensured that both goods and services are now accessible to a wider rural and middle-class audience. As people get wealthier, demand for better quality goods and services is also on the rise in areas such as health care and education. This is creating several opportunities for the fund.

'I also think there are fewer reasons to worry about the Chinese property market considering overall affordability trends – recent interest rate cuts only help this, and the Chinese consumer balance sheet is in good shape. However, I remain concerned about corporate balance sheets in China, where debt has grown substantially. I also remain cautious towards banks, as I maintain that the full extent of their non-performing loans is not fully recognised.'

Howard Wang, Manager, JPMorgan Chinese Investment Trust said: 'It's important for investors to acknowledge and be comfortable with China's slower growth. Many secular growth opportunities with strong multi-year prospects still exist across Chinese equities, especially in the "new economy" sectors of healthcare, Internet, consumption and environmental protection. We have long acknowledged the imbalances in China and the transition away from an industrial- and manufacturing-based "Old China" to a services- and consumption-driven "New China".



'Near-term sentiment will therefore remain volatile during this growth transition. While going through market corrections may not be a pleasant experience for investors, we do not believe the corrections are reflective of a wider deterioration in company fundamentals.'

Ian Hargreaves, Manager, Invesco Asia explains: 'I have just returned from a research trip to China and found nothing to suggest that the economy is deteriorating at a more rapid rate than we have seen so far. Neither did I find any evidence of new factors undermining the resilience of the consumer and service sectors.

'Concerns over renminbi (RMB) depreciation have contributed to recent market weakness. Unfortunately, the Chinese Government's decision to change the RMB pricing regime so as to measure it against a trade-weighted basket – which we consider to be a sensible change – was poorly communicated, allowing talk of declining FX reserves and capital flight to heighten investor risk-aversion. The People's Bank of China has now issued clearer guidance, although we should be braced for several months of large declines in reserves as Chinese companies seek to repay unhedged foreign debt. Furthermore, I expect that the RMB market will gradually stabilise, as China's external position appears sound compared to many emerging market countries – foreign debt/GDP is low at 10%, while its trade surplus is currently 5% of GDP.

'Of greater concern is the level of domestic debt-to-GDP in China, which is high and continues to rise. However, I believe we are still some way from reaching the banking system's liquidity limits. This is important as it should buy some time for the Government to begin to deliver on its supply-side reform agenda, which many are sceptical about given the lack of progress in reducing overcapacity in recent years. Such scepticism may be too pessimistic, as we are starting to see some positive developments such as: moves by the Government to prepare for the social consequences of capacity closures; acceptance that some companies will have to go under; and evidence of action in the worst affected sectors like steel, coal and cement.

'However, local governments have a leading role to play in this process, and there is still no clear way for them to be incentivised. Furthermore, progress in reform will do nothing to aid growth in the near term, although if the market believes action to be far-reaching enough then that could be positive for share price valuations. The challenge, as I have found with India in the last 18 months, will be judging what constitutes significant reform and what doesn't.'

Mark Mobius, Executive Chairman, Templeton Emerging Markets Group and Co-Manager of Templeton Emerging Markets Investment Trust said: 'We think the type of market volatility we have seen is likely to continue this year, and not only in China. Volatility is increasing in many markets, and it's something investors will likely need to learn to live with. We view periods of heightened volatility with the lens of potential investment opportunities, allowing us to pick up shares we feel have been unduly punished. In the case of China, the Government's efforts to maintain stability on the one hand and to allow a freer market on the other is a difficult balance to achieve.

'That said, we are not terribly concerned about growth in China, nor its long-term investment prospects. We would dub current 2016 projections of about 6% in gross domestic product growth as quite strong, given that the size of the economy has grown tremendously in dollar terms from that of a few years ago when growth rates were stronger but with a smaller base. This is an aspect we think many investors may be missing when they see growth slowing. The fundamentals in China are still excellent, in our view. It is one of the fastest-growing economies in the world, even if the growth rate has decelerated.'

Ewan Markson-Brown, Manager of Pacific Horizon said: 'China is amidst its great transition from an investment-led economy to a service-led economy, with services growth accounting for 80–90% of recent GDP growth (Sept 2015), which is being driven by the smartphone revolution that is allowing the online economy to boom. However, the cost of this technological disruption is severe and is creating permanent relative price destruction within the industrial and commodity sectors of the Chinese and the world economy. Currently, the market is focusing on the losers of this transition where the majority of the recent growth in Chinese debt has gone; we expect in time the market to turn back its attention to the long-term service-oriented winners.' ■

REVIEWING YOUR PORTFOLIO ANNUALLY WILL ENSURE YOUR HOLDINGS ARE STILL RIGHT FOR YOU

It's important to monitor or review your investments, especially if your personal circumstances or the nature of the investments themselves have changed. Reviewing your portfolio annually will ensure your holdings are still right for you and that they are performing as expected. It may also be appropriate to look at rebalancing – taking some profits in asset classes or sectors that have performed well and topping up those that have lagged.

If you would like to review your particular situation, please contact us for further information.

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NAVIGATING UNCHARTED WATERS

The impact of further pension changes on the horizon from this April

Pensions have been transformed by the arrival of freedom reforms on 6 April 2015 which now give much greater flexibility over what you can do with your pension pot. The new freedoms mean you can enjoy far greater choice on how you spend and generate an income from your pensions, but with further changes on the horizon these are some of the key points you need to know.

STATE PENSION

The new State Pension will be a regular payment from the Government that you can claim if you reach State Pension age on or after 6 April 2016. If you reach State Pension age on or after that date, you'll get the new State Pension under the new rules.

The new State Pension is designed to be simpler. But there are some complicated changeover arrangements which you need to know about if you've already made contributions under the current system.

You'll be able to get the new State Pension if you're eligible and:

- A man born on or after 6 April 1951
- A woman born on or after 6 April 1953

If you reach State Pension age before 6 April 2016, you'll get the State Pension under the current scheme instead.

You can still get a State Pension if you have other income such as a personal pension or a workplace pension.

HOW MUCH YOU CAN RECEIVE

The full new State Pension will be starting at £155.65 per week. Your National Insurance record is used to calculate your new State Pension.

You'll usually need ten qualifying years to get any new State Pension. The amount you receive can be higher or lower depending on your National Insurance record. It will only be higher if you have over a certain amount of Additional State Pension. You may have to pay tax on your State Pension.

LIFETIME ALLOWANCE

The lifetime allowance will be cut from £1.25 million to £1 million from 6 April 2016 – the maximum amount people can build up in their pension pot during their lives. This is the third reduction in four years, leaving the allowance at less than half the level originally intended, when it was to be inflation-linked from 2011/12 onwards.

The lifetime allowance reduction means you need to plan carefully. After April 2016, anyone who breaks through the £1 million threshold may be liable to 55% tax on any amount over the limit if the excess is taken as a lump sum. If any of the excess is instead taken as income, the tax charge is 25%, although the income itself will still be subject to Income Tax at the recipient's marginal rate.

ANNUAL ALLOWANCE

The Annual Allowance is the amount you can pay into a pension fund each year and get tax relief. From 6 April 2016, the Annual Allowance will be tapered from £40,000 for those with earnings of £150,000 or less down to £10,000 for those with income of £210,000 or more.

For this purpose, income isn't just comprised of someone's salary. It is 'adjusted' to ensure it includes personal and employer pension contributions or any other income including savings, bonuses or even an individual's buy-to-let property rental – taking many more people into a higher earnings bracket. The annual allowance will reduce by £1 for each £2 of adjusted income above £150,000 until it reaches £10,000.

If appropriate, some people if they act now could reduce their tax liability by carrying forward any leftover pension allowance from previous years or taking advantage of the transitional Pension Input Period (PIP) which will provide the opportunity of making a total payment of up to £80,000 into their pension pot this year.

WORKING AFTER STATE PENSION AGE

You don't have to stop working when you reach State Pension age, but you'll no longer have to pay National Insurance. You can also request flexible working arrangements.

DEFER YOUR NEW STATE PENSION

You don't have to claim the new State Pension as soon as you reach State Pension age. Deferring the new State Pension means that you may get extra State Pension when you do claim it. The extra amount is paid with your State Pension (for example, every four weeks) and may be taxable. After you claim, the extra amount you get because you deferred will usually increase each year.

WHAT THIS MEANS FOR YOUR PENSION

Your State Pension will be lower if you've ever been contracted out of the Additional State Pension.

How this affects you depends on whether you reach State Pension age:

- Before 6 April 2016
- On or after 6 April 2016

CHANGES TO CONTRACTING OUT FROM 6 APRIL 2016

On 6 April 2016, the contracting-out rules will change so that if you're currently contracted out*:

- You'll no longer be contracted out
- You'll pay more National Insurance (the standard amount of National Insurance)

**only applies to members of contracted-out defined benefit pension schemes*

BASIC AND ADDITIONAL STATE PENSION

If you reach State Pension age before 6 April 2016, you can apply for both:

- The basic State Pension
- The Additional State Pension

The basic State Pension isn't affected by being contracted out. However, your Additional State Pension will be reduced according to how long you were contracted out.

YOU HAVE A WORKPLACE, PERSONAL OR STAKEHOLDER PENSION

If you were contracted out of the Additional State Pension in the past through a workplace, personal or stakeholder pension, you either:

- Paid lower National Insurance contributions
- Had some of your National Insurance contributions put towards your workplace, personal or stakeholder pension

Your starting amount for the new State Pension may include a deduction if you were contracted out in certain:

- Earnings-related pension schemes at work (for example, a final salary or career average pension) before 6 April 2016
- Workplace, personal or stakeholder pensions before 6 April 2012

You may not receive the full new State Pension when you reach State Pension age if you were contracted out.

DO YOU HAVE THE RIGHT RETIREMENT PLANS IN PLACE?

If you're reaching retirement and need to make sure you have the right plans in place, the countdown is on. To review your situation, please contact us – we look forward to hearing from you.

A PENSION IS A LONG-TERM INVESTMENT. THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

YOUR PENSION INCOME COULD ALSO BE AFFECTED BY INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS. THE TAX IMPLICATIONS OF PENSION WITHDRAWALS WILL BE BASED ON YOUR INDIVIDUAL CIRCUMSTANCES, TAX LEGISLATION AND REGULATION, WHICH ARE SUBJECT TO CHANGE IN THE FUTURE

TAX *Planning*

Optimising your tax position is paramount in the run-up to the financial year end

Taxes, as we know, are one of the two great inevitables in life. As the UK tax system continues to grow ever more complex, and with more responsibility being placed on the individual to get their own tax right, ensuring that you receive the best professional advice to optimise your tax position is paramount.

Appropriate tax planning could help you substantially reduce tax liabilities and defer tax payments. The tax planning advice you need will depend on your particular circumstances and how complicated your financial affairs are. We have provided details of a number of tax planning areas you may wish to review, especially as we are now in the run-up to the 2015/16 financial year end on 5 April.

IT'S GOOD TO GIVE

Personal income over £150,000 is taxed at 45%. However, because the personal allowance is reduced by £1 for every £2 of net income over £100,000, for income between £100,001 and £121,200 the effective top rate is 60%. Individuals with incomes near these thresholds could potentially reduce their tax liabilities by reducing their taxable income below £100,000 or £150,000. This may be achieved by changing income into non-taxable forms, giving income yielding assets to a spouse with lower income, deferring income, making pension contributions or making payments to charity.

EXCHANGING CASH PAYMENTS

It is already common for employers to offer arrangements allowing employees to exchange a cash payment for approved share options, benefits in kind or pension contributions in lieu of salary. Employees who exchange income (for example, to take them below the £100,000 threshold) in return for a tax-free pension contribution made by their employer would save Income Tax and NIC.

TAXABLE DIVIDEND INCOME

The effective rate of tax on taxable dividend income, for example, from shares not held in an Individual Savings Account (ISA) or pension fund, will rise by up to 6% for some taxpayers from 6 April 2016. However, there will also be a new £5,000 nil rate band on dividend income, so the exact rate of tax anyone pays on their dividend income will depend on the amount they receive and their other income in 2016/17.

If you receive a significant amount of dividend income from your own or a family company, there may be advantages in bringing forward dividends into the 2015/16 tax year. However, if you are normally a basic-rate taxpayer, taking a large dividend that pushes your total income into the higher rate of tax or results in a loss of personal allowances could be counter-productive.

Conversely, if you receive relatively low levels of taxable dividend income, it may be beneficial to defer dividends until 2016/17 so that you can benefit from the new dividend nil rate band. You should obtain professional advice on the most appropriate option for your particular situation.

REARRANGING SUBSTANTIAL INVESTMENTS

If you have substantial investments outside an ISA or other tax-efficient wrapper, consider rearranging them so that they produce either a tax-free return or a return of capital taxed at a maximum of only 28%, rather than income taxable at a maximum of 45%.

COMPANY CARS TAX

Each year, the taxable benefits on company cars are effectively increased by reducing the level of CO_2 emissions that trigger each 1% increase in benefit. For example, a car with emissions of 150g/km triggers a 25% taxable benefit in 2015/16, but the same car will give rise to benefits of 27% in 2016/17 and 29% in 2017/18.

It may be worth using your own car for business travel and claiming a tax-free mileage allowance from your employer. If fuel has been provided for private use, consider whether full reimbursement of the cost to the company would be a cheaper option than paying the fuel scale charge, which is based on the car's CO_2 emissions. ■

TAX-EFFICIENT INVESTMENTS

Options to minimise how much tax you pay

By understanding which investments are the most tax-efficient, you can make the most of your options to minimise how much tax you pay. As well as deciding what to invest in, you need to think about how you're going to hold your investments. Choosing tax-efficient investments will often mean you're able to keep a higher proportion of any returns you make.

You should always bear in mind that tax rules can change in future. What's more, the benefit to you of favourable tax treatment (such as that given to Individual Savings Accounts) will depend on your individual circumstances.

MAXIMISE YOUR ISA ALLOWANCE

UK residents aged 18 and over can invest up to £15,240 each in an Individual Savings Account (16 and over for a Cash ISA), and parents can fund a Junior ISA or child trust fund with up to £4,080 per child – making a total of £38,640 for a family of four before 6 April 2016.

If you have adult children who are planning to buy a home, it would make sense to gift funds to them so that they can invest in the new help-to-buy ISA. This became available for a four-year period from 1 December 2015 to help first-time buyers. Individuals aged 16 or over can save up to £200 per month (up to £1,200 in the first month), to which the Government will add a 25% tax-free bonus, from a minimum bonus of £400 up to a maximum amount of £3,000 on £12,000 of savings. Income and capital gains from ISAs are tax-free, and withdrawals from adult ISAs do not affect tax relief.

INSURANCE BACKED BONDS

Provided by major insurance companies, life insurance backed bonds offer relatively secure returns to investors (depending on the underlying investments). They have the added tax advantage that up to 5% of the original capital invested can be withdrawn each year with no immediate tax liability. After such withdrawals reach 100% of the original capital, Income Tax is payable on further withdrawals or on surrender of the policy. Individuals whose level of income means that they will lose their personal allowance and/or pay 45% Income Tax may now find the 5% tax-free withdrawals facility particularly attractive.

Some friendly societies offer regular premium policies which run for ten years or more and can qualify for full Income Tax exemption on the gains accrued. However, since 6 April 2013, investment into such qualifying policies has been limited to £3,600 a year for all arrangements set up after 21 March 2012. Any amounts invested in new policies that are in excess of the annual limit will not qualify for the favourable tax treatment. Increases to existing policy premiums will be classed as creating a new non-qualifying policy, but if you have a pre-21 March 2012 policy it should be advantageous to keep the policy going until the existing maturity date.

OFFSHORE BONDS

Offshore life assurance bonds allow income to accumulate virtually tax-free until they are disposed of, at which point they are taxed in full at your marginal rate. As with UK bonds, up to 5% of the original capital invested can be withdrawn each year until the original capital has been withdrawn in full with no immediate tax liability.

While the maximum rate of Capital Gains Tax remains at 28%, alternative collective investments may be more attractive for short-term investment. However, offshore life assurance bonds offer the flexibility to defer tax into a year when other income is lower, or until a year when income losses are available to offset the profits, or a year when you are not tax-resident in the UK.

EMPLOYER TAX BREAKS

If your employer offers a share scheme, there are usually price discounts and tax breaks for taking part. Where you can participate each year, plan carefully to use annual contribution limits and manage share purchases so that there is a steady flow of potential share sales in future tax years, allowing you to maximise use of your annual capital gains exemption.

Shares acquired under share incentive plans (SIPs) or sharesave (SAYE) schemes have minimum holding periods. It may not be possible to hold such shares in an Individual Savings Account, so any dividends received on the holdings will be taxable. However, from April 2016 onwards, a new dividend nil rate band will apply so that the first £5,000 of dividend income is not taxed.

It's important to obtain professional advice before entering such schemes. ■

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RETIREMENT BOOSTER

Now is the time to make smart year-end retirement planning decisions

Time is ticking away to make smart year-end retirement planning decisions. It's common knowledge that increasing our retirement savings will better prepare us for retirement. But in addition to saving for retirement, it's also important to maximise on other ways to improve our retirement finances in 2016 and beyond.

We've provided some year-end retirement planning tips that, if appropriate to your particular situation, you may want to investigate further.

Tax relief on pension contributions will be restricted for higher earners from 6 April 2016. However, transitional rules have been introduced for 2015/16 which give a wider group of taxpayers the opportunity to make extra pension contributions and claim full tax relief.

The annual contribution limit for an individual (the total of personal contributions and those made by an employer) is £40,000 for pension input periods (PIPs) ending after 5 April 2014. For personal contributions to personal pensions (even those to a 'group' personal pension), basic-rate tax relief is given at source, and higher- or additional-rate taxpayers must claim additional relief through their tax returns: the total subsidy can be up to 45p in every pound paid into your pension pot. Personal contributions to occupational pension schemes are often made via the 'net pay' method, where full tax relief is given up front and no tax reclaim is necessary.

While the transitional rules are complex, they are also generous: everyone will have two mini tax years for 2015/16, one ending on 8 July 2015, the second ending on 5 April 2016, and a total annual allowance of up to £80,000 for the year. The £80,000 limit is first used against contributions made during any PIPs ending in the period 6 April to 8 July 2015. Any unused balance up to a maximum of £40,000 is carried forward to use in the period 9 July 2015 to 5 April 2016.

Unused allowances in 2012/13, 2013/14 and 2014/15 are also available for carry forward into 2015/16. However, you must have been a member of a registered pension scheme in the tax year giving rise to the unused relief.

Maximising contributions in 2015/16 will be advantageous for individuals with an annual income in excess of £150,000, as their tax relief for contributions in future years will be restricted. Depending on your past contribution pattern and current income level, it is theoretically possible to contribute up to £220,000 for 2015/16 and obtain tax relief on the whole sum. It is important to take advice from a professional financial adviser on contribution levels because if the total contributions you make, or that are made on your behalf, exceed your available allowance (including any unused relief brought forward), a tax charge will arise.

LARGER PENSION POTS

Although funds invested within a pension can grow tax-free, there is a limit (the lifetime allowance) on the total amount you can hold in pension pots, with funds in excess of the limit being subject to penalty tax charges when you take pension benefits that exceed the limit.

The lifetime allowance reduced from £1.5 million to £1.25 million from 6 April 2014. However, affected individuals can now elect for 'individual protection 2014' (IP14) to preserve their individual lifetime allowance at the lower of £1.5 million and the actual value of their pension fund at 5 April 2014 (the standard lifetime allowance will apply if it becomes greater than the IP14 figure). The option to make the IP14 election will end on 5 April 2017.

If the total of all your pension funds is likely to be at or near £1.25 million by the time you retire, you should seek immediate professional financial advice on whether opting for IP14 is appropriate. To be eligible for IP14, total pension benefits must have exceeded £1.25m on 5 April 2014.

Tax relief on pension contributions will be restricted for higher earners from 6 April 2016.

The lifetime allowance will reduce further to £1 million for 2016/17, and a similar protection option will be available.

Individual Protection is also available to individuals with enhanced protection and fixed protection (FP12 or FP14). In all cases where the individual has enhanced protection, FP12 or FP14, this will take precedence over Individual Protection, with Individual Protection being the fall-back position should the other form of protection be lost.

PENSION DRAWDOWN

If you are aged 55 or over, you may be able to start drawing pension benefits now from a personal pension, even if you are still working. Members of defined benefit schemes are likely to face more restrictions and charges if a pension is taken early.

It may not even be necessary to start taking a full pension income immediately. For example, it may be possible if appropriate to just take your tax-free cash entitlement (entirely or in part) and designate funds for income drawdown. Once all your tax-free cash is taken, further drawings are liable to tax at your marginal rate and will trigger the money purchase annual allowance (MPAA), so a phased approach is likely to be most tax-efficient.

Alternatively, you can take an 'uncrystallised funds pension lump sum' (25% of which is tax-free with the rest taxed at your marginal rate) if appropriate – either the whole fund or a series of payments if the product allows – but this may not be the best option if you or an employer may make contributions to your pension fund at a later date. Most individuals with a defined contribution pension can also now take their whole pension fund via flexi-access drawdown (in one lump sum if appropriate). Funds taken this way above the usual 25% tax-free cash entitlement will be taxed at the individual's marginal rate of tax for the year.

Anyone who is entitled to flexi-access drawdown and who is considering retiring overseas should seek professional financial advice on the potential tax savings of taking such income while outside the UK tax net.

Individuals in defined benefit (final salary schemes) may not have these flexible options and may want to consider switching out of their current scheme and into a personal pension to achieve this flexibility. However, depending on the terms of the particular defined benefit scheme concerned, the cost of such a switch could be prohibitive. Anyone considering this issue is required by law to prove that they have taken financial advice from an independent financial adviser before such a transfer can take place (if the transfer value is £30k or more).

TAX-FREE PENSION CONTRIBUTIONS

For employees, particularly those paying basic-rate tax, pension contributions made by your employer are tax-efficient, as there is no tax to pay on this benefit and the employer can claim a business tax deduction. If you own the company, this can be a tax-efficient way to extract value.

It is often worth setting up arrangements where employees exchange some of their salary in return for a larger pension contribution made by the employer. This saves on National Insurance Contributions that would have been paid by both employer and employee, and the savings can be passed on as higher pension contributions. However, for 2016/17 and later years, this may not be effective for high earners. With regards to pension contributions made on their behalf by employers as a result of salary sacrifice arrangements started after 8 July 2015, the income sacrificed will be added back on as part of threshold income to establish whether threshold income exceeds £110,000. Tax relief on personal contributions is restricted if threshold income exceeds £110,000 and adjusted income exceeds £150,000. ■

A PENSION IS A LONG-TERM INVESTMENT. THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

YOUR PENSION INCOME COULD ALSO BE AFFECTED BY INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS. THE TAX IMPLICATIONS OF PENSION WITHDRAWALS WILL BE BASED ON YOUR INDIVIDUAL CIRCUMSTANCES, TAX LEGISLATION AND REGULATION, WHICH ARE SUBJECT TO CHANGE IN THE FUTURE

IN THE NEWS

TAXING TIMES FOR ONE IN FIVE PEOPLE WHO FULLY ENCASHED A PENSION POT

On 7 January this year, the Financial Conduct Authority published Retirement Income Market Data for the period from July to September 2015. The figures show that one in five people who fully encashed a pension pot of £250k or above used neither a regulated adviser nor Pension Wise for advice or guidance.

This is concerning as they would likely have been subject to a substantial tax hit on the withdrawal, and there is the possibility that they did not fully understand the tax implications of their decision. ■

NEW TAX RULES FOR BANK DEPOSITS

New rules for taxing dividends and allowing payment of ordinary bank deposit interest tax-free commence from 6 April this year. The new tax rules for bank deposits will see banks pay interest gross, rather than after a deduction of 20% Income Tax. Under a new personal savings allowance, the first £1,000 of interest will be tax-free for basic-rate taxpayers and the first £500 for higher-rate taxpayers. Additional-rate taxpayers will receive no allowance. Non-taxpayers will no longer need to fill out the R85 form to receive interest without tax deducted. ■

THE DIVIDEND'S IN THE DETAIL

The new dividend tax rules that commence from 6 April this year will change the basis of taxing dividends from direct shareholdings and from collectives such as Open-Ended Investment Companies (OEICs) and unit trusts. The first £5,000 of dividend income is received tax-free for basic-rate, higher-rate and additional-rate income taxpayers. Dividends above this level will be taxed at 7.5% (basic rate), 32.5% (higher rate) and 38.1% (additional rate). Dividends received by pensions and Individual Savings Accounts (ISAs) will be unaffected. Individuals who are basic-rate payers who receive dividends of more than £5,000 will need to complete self-assessment returns from 6 April 2016. ■

FINANCIAL ADVICE IS OUR BUSINESS.

We're passionate about making sure your finances are in good shape.

Our range of financial planning services is extensive, covering areas from pensions to inheritance matters and tax-efficient investments.

CONTACT US TO DISCUSS YOUR REQUIREMENTS. OUR DETAILS APPEAR ON THE FRONT COVER.

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