10 top tips for tax-year-end planning 2018

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1. Use your ISA allowance

When it comes to ISA allowances, the message is simple. Use it or lose it. And use it early.

In 2017/18, the annual subscription limit was increased from £15,240 to a generous £20,000. But this large increase won't be followed by another in 2018/19: the £20,000 limit will still apply.

Unlike unused pension allowances, you can't carry forward any unused ISA allowance into the new tax year. So if you don't use your full £20,000 before 5 April 2018, it really is gone forever.

If you have the money available, it pays to put your full allowance in as early in the tax year as possible. Paying in £20,000 at the start of the year, rather than at the end, can give you as much as £1,138 more growth after 10 years*.

If you're aged between 18 and 39, you're also eligible to open a Lifetime ISA. The Lifetime ISA pays a 25% bonus on the money you pay in, and you can pay up to £4,000 of your overall ISA subscription limit of £20,000 into a Lifetime ISA.

*based on 4% annual growth after charges

ISA allowances for 2017/18 and 2018/19:

Overall allowance £20,000

Lifetime ISA allowance: £4,000

2. Dividend allowance cut

In 2018, the dividend allowance is being cut. Are you going to pay more tax this coming tax year? What can you do to mitigate it?

The dividend allowance was introduced in April 2016 as part of a radical shake-up of the way dividends are taxed. It meant you didn't have to pay tax on the first £5,000 of your dividend income, regardless of your income from other sources.

According to government estimates, only a third of investors with dividend income would be adversely affected. So the majority of investors would pay less tax – but investors with large portfolios, or those with a high proportion of income-producing investments, could have found themselves with a higher tax bill at the end of the year.

On 6 April 2018, the tax-free dividend allowance will be cut from £5,000 to £2,000, meaning that some investors could now end up paying more tax.

Keep in mind the dividend allowance only comes into play once you've used your income tax personal allowance of £11,500. Above this, you'll have to pay dividend tax at basic rate 7.5%, higher rate 32.5% or additional rate 38.1%.

In 2018/19, the personal allowance will increase to £11,850. So from April 2018, if you have no other income, you can earn up to £13,850 in dividend income and pay no tax (dividend allowance £2,000 + income tax personal allowance £11,850).

One group that may be particularly affected by this is business owners, who may typically pay themselves a modest salary while making up the difference in share dividends.

If you're in this boat and you want to make the most of current savings (provided the company has enough distributable profits), you could consider bringing forward dividend payments to before 6 April 2018 – to benefit from the current dividend tax-free allowance of £5,000 before it's reduced.

Also, it's worth considering how your existing investments are held. One of the most effective ways of protecting dividend income is to use your ISA or SIPP, so it could be a good idea to review your investments to ensure you're making the most of these accounts' tax advantages.

Case Study: higher rate taxpayer

In the 2018/19 tax year, Nadir receives dividends of £12,000 and an annual gross salary of £50,000. Nadir's entire personal allowance and the basic rate tax band of £34,500 are accounted for by his salary. (Different rates of tax apply in Scotland - please see tip 10 for more details.)

The remaining part of his salary and the whole of the dividend will be subject to tax at higher rate – although the dividend allowance will reduce how much of the dividend is subject to tax. The tax on the dividend is calculated as follows.

Dividend received:	£12,000
Deduct 2018/19 dividend allowance:	(£2,000)
Taxable dividend income:	£10,000

The dividend is taxed at the higher rate of 32.5%, so the total tax payable on the dividend is **£3,250**.

If he had taken the dividend in 2017/18 when the dividend allowance was £5,000, Nadir would only have paid **£2,275** in tax for the same dividends. That's **£975** less on his tax bill compared to the following tax year.

3. Carry forward any unused annual allowance in your SIPP

On top of your annual pension allowance of £40,000, you can also take advantage of unused annual allowances from previous tax years. But this isn't without its pitfalls...

Your annual allowance is a general limit on the amount you can contribute to a pension scheme in a tax year before you incur tax charges. For the 2017/18 tax year, it's set at £40,000, and will stay the same in 2018/19.

But as long as you haven't used any of the pension freedoms to take pension benefits, you can carry forward unused annual allowance from the previous three tax years – as long as you were a member of a pension scheme in that tax year. (You can also carry forward your allowance if you've taken a tax-free lump sum and no other money from your SIPP.)

When making pension contributions, you need to use this year's annual allowance first. Then you can start to carry forward unused previous years' allowances, beginning with three years back, then two, then one. For the tax years 2017/18 (used first), then 2014/15, 2015/16 and 2016/17, most people will have an annual allowance of £40,000. A key point in the run up to the new tax year is that if you didn't use your full 2014/15 annual allowance for pension contributions, this is your last chance to use it.

If you want to use up your annual allowance, you can make a personal contribution of up to 100% of your UK relevant earnings in that tax year. On top of that, your employer can also make contributions – and these aren't restricted by your earnings. But remember that both personal contributions and employer contributions count towards your annual allowance, including any annual allowance you carry forward.

If you're a high earner, with income of above £150,000 in the tax year, then you may be caught by what's known as the tapered annual allowance. This could reduce your annual allowance down as far as £10,000 in 2017/18 and 2016/17. But even if you're caught by the taper, you can still carry forward unused allowances from previous years. So, you could potentially only have £10,000 annual allowance this year, but you may still have £40,000 available from 2014/15.

Case Study:

Lucia is a high earner with income of £160,000 in 2016/17 and £180,000 in 2017/18. She's been a member of a pension scheme for many years. In 2014/15, Lucia paid £30,000 into her pension, but hasn't made any contributions since.

Tax year	2014/15	2015/16	2016/17	2017/18
Annual allowance	£40,000	£40,000	£35,000*	£25,000**
Contribution made	£30,000	£0	£0	£0
Annual allowance available to carry forward to next tax year	£10,000	£40,000	£35,000	n/a
Cumulative annual allowance available	£10,000	£50,000	£85,000	£110,000

*Lucia's annual allowance is tapered from £40,000 to £35,000 because her income is £10,000 above the £150,000 threshold. The taper reduces the annual allowance by £1 for every £2 in excess of £150,000.

** Lucia's annual allowance is tapered from £40,000 to £25,000 because her income is £30,000 above the £150,000 threshold. The taper reduces the annual allowance by £1 for every £2 in excess of £150,000.

As the table shows, Lucia's annual tapered annual allowance in 2017/18 is £25,000. She can then go back to 2014/15 and use her unused annual allowance from the intervening tax years to give her a cumulative annual allowance of £110,000.

It's also worth remembering that if you're using annual allowance from a previous tax year, you don't need to formally notify your pension provider or Her Majesty's Revenue & Customs (HMRC). But make sure you keep good records of what you've used and when – since HMRC may check it in future.

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4. Making contributions after flexibly accessing your SIPP

Taken money out of your SIPP using the new pension freedoms? You may not be able to contribute as much to your SIPP in the future. Here's why.

Most pension savers will have an annual allowance of £40,000 per tax year. But if you've flexibly accessed benefits from your SIPP, your annual allowance will be lower. This is known as the Money Purchase Annual Allowance (MPAA). When the MPAA was introduced in 2015, it was set at £10,000 – and from 6 April 2017, it was reduced to £4,000.

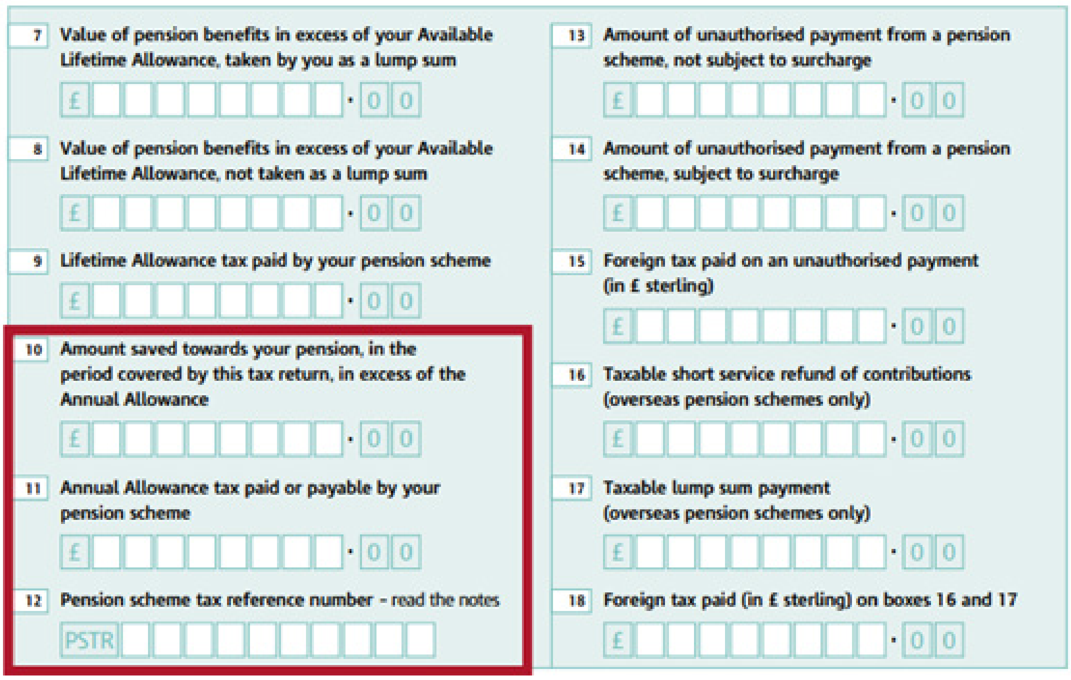
This is important to note, since it limits the amount you can contribute to 'money purchase' pension schemes – such as SIPPs, personal pensions or stakeholder pensions – to £4,000 per tax year.

If you have a defined benefit scheme (also known as a final salary or career average scheme), the overall annual allowance of £40,000 still applies, and you can continue to accrue benefits worth up to £40,000 a year in total. But as far as your money purchase savings are concerned, the limit is £4,000.

To ensure you don't mistakenly over-contribute, you should double-check the amount of your regular direct debits going into pension schemes, as well as any contributions your employer may be paying into a workplace or occupational pension scheme.

If you do contribute more than £4,000 in a tax year, you will be subject to an annual allowance tax charge. Additionally, once you've triggered the MPAA, you can't carry forward unused annual allowance in any money purchase schemes. (See also tip 3.)

The charge itself is levied at your marginal rate of income tax for earned income. You need to report it to HMRC by completing a self-assessment tax return (even if you haven't previously completed one). The boxes that need completing are shown below on the paper version of SA101 form.



7 Value of pension benefits in excess of your Available Lifetime Allowance, taken by you as a lump sum
£ · 0 0

8 Value of pension benefits in excess of your Available Lifetime Allowance, not taken as a lump sum
£ · 0 0

9 Lifetime Allowance tax paid by your pension scheme
£ · 0 0

10 Amount saved towards your pension, in the period covered by this tax return, in excess of the Annual Allowance
£ · 0 0

11 Annual Allowance tax paid or payable by your pension scheme
£ · 0 0

12 Pension scheme tax reference number – read the notes
PSTR

13 Amount of unauthorised payment from a pension scheme, not subject to surcharge
£ · 0 0

14 Amount of unauthorised payment from a pension scheme, subject to surcharge
£ · 0 0

15 Foreign tax paid on an unauthorised payment (in £ sterling)
£ · 0 0

16 Taxable short service refund of contributions (overseas pension schemes only)
£ · 0 0

17 Taxable lump sum payment (overseas pension schemes only)
£ · 0 0

18 Foreign tax paid (in £ sterling) on boxes 16 and 17
£ · 0 0

You can pay the tax charge personally, or you can check if your pension provider offers a facility called 'Scheme Pays'. Scheme Pays lets you pay the annual allowance charge out of your pension scheme, rather than pay it directly. That way, you don't have to find the cash. But keep in mind that paying it out of your pension will, of course, decrease your pension's value, and you won't benefit from tax-free compound growth on the amount taken out to pay the charge.

If you're in this situation, and you want to pay a charge from your SIPP, AJ Bell Youinvest does offer the Scheme Pays facility. Contact us for more information.

5. Tax-free investment opportunities for children

Take advantage of the special rules that apply when Junior ISAs become adult ISAs to shelter more money from the taxman.

The millennial generation has more going for it than any previous generation – what with advances in technology, healthcare and media. But on the flipside, millennials also have to shell out a lot more for things like house deposits and university tuition fees.

Help is at hand, however, from the government in the shape of the Junior ISA (JISA). The child's version of the adult ISA, a JISA has exactly the same tax breaks as an adult ISA (namely, that investments can grow free from capital gains tax and income tax).

There are cash JISAs and stocks and shares JISAs, and for the 2017/18 tax year you can pay in a maximum of £4,128. From 6 April 2018, this allowance will rise to £4,260.

There's also an interesting quirk in the rules for children in the 16-18 age bracket – which is when some of the adult ISA allowances start to become available.

It comes into play in the tax year when your child turns 16. As normal, they can pay in their full JISA allowance – of £4,128 – but from their 16th birthday, they can also pay in the full adult ISA allowance of £20,000 into an adult cash ISA. This means they can shelter a total of £24,128 from the taxman in a single tax year.

You can then repeat the same pattern the following tax year – with money going into both a JISA and an adult cash ISA.

Then, in the tax year the child turns 18, they can again pay money into a JISA as long as they do it before they turn 18. When they turn 18, the JISA converts into a full adult ISA. That same tax year, they can pay the £20,000 adult ISA allowance into their adult cash ISA, or they can pay it into their converted JISA.

Across these three years, a child could invest more than £72,000 tax-free, which is substantially more than an adult could invest over the same period.

Know your allowances

Junior ISA

2017/18: £4,128

2018/19: £4,260

6. Review your SIPP death benefit nominations

"Life is what happens when you're making other plans." Make sure your death benefit nominations keep pace.

It's now three years since the government radically changed the tax charges that apply to pensions after you die and also increased the options for those who can receive death benefits as an ongoing pension.

Since these changes, the tax treatment depends on the age of the pension member at their death.

- Before 75 – there is typically no tax to pay on the resulting death benefits
- After 75 – tax charges apply to the death benefits at the marginal rate of the recipient

Because death benefits are taxed at a marginal rate if you die aged 75 or over, it is often helpful for the beneficiary to keep the funds in a pension scheme and draw income over a number of years.

Otherwise, taking the death benefits as a single lump sum might mean your beneficiaries have to pay tax at 40% or 45%. But being able to draw the funds as a pension means they can control how much they receive over a number of years, potentially keeping their income in the basic rate (20%) tax bracket.

Until these rule changes, only your spouse or people who were dependent on you had the option of receiving death benefits as a pension. Anyone else had to receive death benefits as a lump sum.

Since 2015, anyone you've specifically nominated to receive death benefits can choose to receive the fund as a pension over a number of years, rather than as a lump sum. The pension option is no longer restricted to your spouse or dependants.

As part of your tax-year-end housekeeping, it makes sense to review – and in some cases update – the information you've given to your pension providers about who you'd like to receive funds in the event of your death.

If you have non-dependent beneficiaries (for example adult children) who you'd like to have the option to receive death benefits as a pension, it makes sense to update your nomination. (You can update your nomination using the 'SIPP death benefit nomination and expression of wishes form' on our Useful Forms page.)

7. Use your Inheritance Tax allowances

Feeling generous? When it comes to inheritance tax, it might actually pay to splash some of your cash.

You may already be familiar with the inheritance tax threshold of £325,000. But did you know that each tax year you can make £3,000 worth of gifts that aren't subject to inheritance tax (IHT)? This £3,000 allowance is known as your annual exemption.

You can also carry any unused annual exemption from the last tax year into the current tax year. So if you didn't use your allowance at all in 2017/18, you have an annual exemption for 2018/19 totalling £6,000.

In addition to this, there are a range of other IHT gift exemptions available to investors.

- ✓ **Spouse or civil partner exemptions** – lifetime gifts and bequests on death to a UK-domiciled spouse or civil partner are exempt.
- ✓ **Charity exemptions** – lifetime gifts and bequests on death to qualifying charities are exempt.
- ✓ **Wedding and civil partnership gifts** – gifts for marriage and civil partnerships are exempt. Keep in mind that your relationship with the recipient affects the exempt amount: you can give your children £5,000, grandchildren and great-grandchildren £2,500, and anyone else £1,000.
- ✓ **Small gift exemption** – an individual can make small gifts of up to £250 to as many individuals as they wish. This exemption can't be combined with any other exemption, or used to cover transfers into trust or as part of a larger gift.
- ✓ **Normal expenditure of income** – regular gifts made out of after-tax income, rather than capital, are also exempt. The total amount of the gift mustn't affect your ability to maintain your normal lifestyle.

If you're feeling generous, it's important you keep records of these regular gifts, as well as proof of your regular income.

2017/18 tax year: IHT update

The government has also introduced a new additional nil-rate tax threshold that applies specifically when your main residence passes on death to a direct descendant. Its objective is to reduce the burden of IHT on the family home, and it applies as well as the normal £325,000 threshold.

When it was introduced, this additional threshold stood at £100,000 – allowing you an extra £100,000 on top of the normal £325,000 threshold – and in the 2018/19 tax year, it's rising to £125,000. For estates with a net value over £2,000,000, this additional band will be reduced at a rate of £1 for every £2 over £2,000,000.

8. Do you need to claim back overpaid tax on income payments?

If you've made withdrawals from your SIPP since April 2015, there's a chance you could've paid more tax than you were expecting. Here's how to claim it back.

When you first start taking pension payments from your SIPP using the pensions freedoms, your pension provider will generally be required to deduct income tax on what is called a 'Month 1' basis.

As a result, you'll only receive 1/12th of your annual tax-free income tax personal allowance, and you may end up paying more tax than you were expecting.

Many pension scheme members won't be aware of this – so it's worth checking the payslips you receive from your pension provider. If you're in this situation, you have a number of options for recovering the overpaid tax.

First, if you complete a tax return each year, you can use it to reclaim your overpaid tax. Second, if you don't complete a tax return each year, then HMRC should amend your tax code for the following year – to ensure you recover any overpaid tax.

Both of those options, however, involve waiting until the tax year after you receive your pension payment before you recover your overpaid tax. But if you don't want to wait that long, the government has introduced another option. It lets you reclaim your overpaid tax almost immediately, but it's up to you to take action:

Specifically, you'll need to complete one of three forms: P50Z, P53Z or P55. Which one you need to complete depends on your particular circumstances.

- If you've taken all of your pension pot and have stopped working (meaning you have no other income in the tax year) – complete the P50Z form.
- If you've taken all of your pension pot but are receiving an income from employment or another pension – complete the P53Z form.
- Or if you haven't emptied your pension pot – complete the P55 form.

You should then receive any tax you've overpaid within four to six weeks.

9. Lifetime ISA – the new kid on the block

Government bonuses are on offer for first-time house buyers. However, some investors may need to take action before April 2018.

April 2017 saw the introduction of a new type of ISA: the Lifetime ISA (LISA). Its main purpose is to help people save for a deposit for their first home.

You need to be aged 18 to 39 to open a LISA. The key benefit is the 25% bonus you receive from the government on the money you pay in. The most you can pay in during a tax year is £4,000 (which counts towards your overall £20,000 ISA allowance) and you can invest it in cash, or in stocks and shares.

And on top of that, investors with an existing Help to Buy ISA can gain an extra bonus if they transfer the Help to Buy ISA into a LISA.

Why is that? Because the value of a Help to Buy ISA as at 5 April 2017 – when transferred into a LISA – also qualifies for the LISA bonus. And it doesn't use up any of your standard £4,000 LISA allowance.

Just keep in mind this is a one-time-only offer, and to get the extra bonus, you'll need to transfer your Help to Buy ISA into your LISA soon: by 5 April 2018.

From 6 April 2018, you can still transfer a Help to Buy into a LISA, but the transfer value will count towards the £4,000 LISA allowance. Similarly, if you've accrued interest or made payments into your Help to Buy ISA after 5 April 2017, you can still transfer it, but it'll count towards your LISA allowance.

Example

Martin has saved £3,600 into a Help to Buy ISA. He transfers this into a new LISA in February 2018, and gains a bonus of £900 on the transfer value. He then pays in the full £4,000 LISA allowance, for which he gets the maximum bonus of £1,000.

In total, Martin has put aside £7,600 for a house deposit. The government has also helped him out with bonuses totalling £1,900, giving him a total investment of £9,500, all of which can grow tax-free in his LISA.

Once he's into the new tax year, he can then pay in another £4,000, meaning a further bonus of £1,000.

It's worth noting that if you've already bought a house, you can still open a LISA and get the bonus. But you need to be aware that if you make a withdrawal before age 60 (unless you're terminally ill, with less than twelve months to live), you'll face a 25% penalty charge on the withdrawal.

Also, you should think carefully before opting out of a workplace pension to use a LISA to save for your retirement. This can mean missing out on employer contributions. Investing in a Lifetime ISA can also affect your eligibility for means-tested benefits.

Of course, the value of investments can go down as well as up. So although a LISA can give you exposure to the stock market, a cash Help to Buy ISA may be more appropriate if you're very close to purchasing a house and don't want to risk any of your money.

10. You take the high rate, and I'll take the low rate

Income tax in Scotland is changing. You could make it work to your advantage by timing the contributions and income payments in your SIPP.

Since 2016/17, the Scottish Government has had the power to set the amount of income tax that Scottish taxpayers pay. Until now, the only changes made were minimal and applied to the higher-rate tax threshold.

However, in December 2017, it was announced in the Scottish Budget that the government will add additional tax bands for 2018/19, bringing the total to five. These bands will only apply if your sole or main residence is in Scotland. The new bands, and the tax rates that apply to those bands, are detailed below.*

Band	Income	Rate
Personal Allowance	£00,001 - £11,850	0%
Starter Rate	£11,851 - £13,850	19%
Basic Rate	£13,851 - £24,000	20%
Intermediate Rate	£24,001 - £43,430	21%
Higher Rate	£43,431 - £150,000	41%
Top Rate	Above £150,000	46%

The tax-free personal allowance of £11,850 will remain the same as the rest of the UK. This will reduce by £1 for every £2 earned over £100,000.

These changes have implications for your SIPP. Specifically, on the amount of additional tax relief you can claim on pension contributions, and the amount of tax that you pay on any income you withdraw.

Tax relief on personal contributions

First and foremost, higher tax rates mean more tax relief. If you're a Scottish taxpayer and are considering making a large contribution, you will get more tax relief on it in 2018/19 than in 2017/18 (although you'll have paid more tax on that money in the first place).

It's also important to know how the tax relief will work so you can reclaim all the contribution tax relief that you are entitled to.

- **Starter Rate and Basic Rate taxpayers** – Personal contributions into a pension will continue to benefit from 20% basic rate tax relief. This applies to all Scottish taxpayers, including those whose only taxable income is in the 19% Starter Rate band. HMRC will not claim back the 1% difference.
- **Intermediate Rate taxpayers** – If you complete a Self Assessment tax return, you can reclaim the extra 1% in your tax return. If you don't complete a tax return, you can contact HMRC via their online income tax portal. They will then adjust your tax code.
- **Higher Rate and Top Rate taxpayers** – If you are in these brackets, you may already be familiar with claiming back tax relief via Self Assessment. For you, the process remains the same.

Income tax on pension income

Income payments from your SIPP will be taxed based on your residency status and your total earnings for the tax year. So if you're a Scottish taxpayer, the above tax rates that will apply on any income you take out in 2018/19.

If you're thinking about taking a large income payment in the near future, it's worth considering which tax rates would be most beneficial.

For example, a Scottish taxpayer taking an income payment of £45,000 in the current tax year will only be taxed at up to 20%, meaning a total tax bill of £6,700. Next tax year, however, the same amount of income will fall in the intermediate rate and higher-rate bands, meaning up to 41% tax on some of their income, and a total tax bill of £6,933.

On the other hand, if you were thinking about taking an income payment of £15,000, you would pay £70 less tax next year than this year – because some of the income will fall in the starter rate band of 19%.

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