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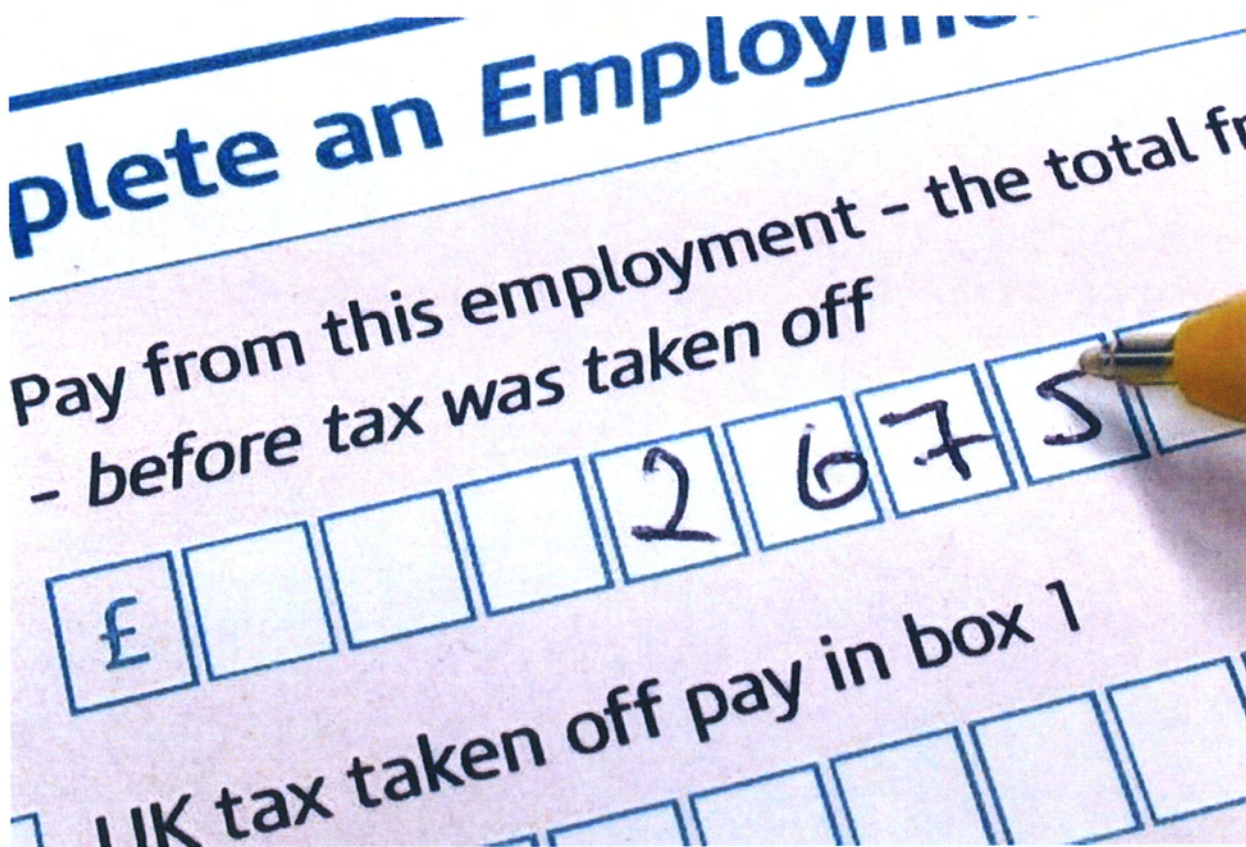
► The Avios merger means flights are no longer free

THE SUNDAY TIMES

Tax tips for the new year

Max out allowances and shield your pension to make every pound count as major changes to the tax system are set for 2012

Alexandra Goss Published: 30 October 2011



Make sure you save every penny as tax rules change (PA)

Taxpayers facing an income squeeze should make the most of allowances and ensure their finances are prepared for significant tax changes next year, experts have warned.

People with substantial retirement savings could lose tax relief on up to £300,000 if they do not act, while holiday home owners have only a few months to claim tax breaks.

David Kilshaw at KPMG, the accountant, said: "New tax laws get introduced at very short notice and often out of the blue. So the message to taxpayers is don't wait — you should use reliefs and planning opportunities while you can."

1 Secure your pension pot

Savers with large retirement pots could face a 55% tax charge when the lifetime limit for pensions is cut from £1.8m to £1.5m on April 6.

This allowance is the maximum amount of pension savings that can be accumulated over a lifetime and benefit from tax relief. Anything above this lifetime allowance will be taxed depending on how you take it: a lump sum is taxed at 55%, while any excess used to provide income is taxed at 25%.

You can ringfence the higher £1.8m limit if you have already exceeded £1.5m — or if you think that growth in your fund will push it over that threshold. If you apply for this “fixed protection”, you will not be able to make any further pension contributions after April 5.

The application form, available on the HM Revenue & Customs website (hmrc.gov.uk/pensionschemes/apss227.pdf), must arrive by April 5.

Someone with a £1.8m fund who did not apply for fixed protection would be able to take tax-free cash of only 25% of the reduced lifetime allowance (£1.5m), or £375,000. They would have £1.125m to provide a pension income and would face a £165,000 tax charge on the £300,000 excess above £1.5m, if taken as a lump sum.

If, however, they applied for fixed protection, they would be able to take 25% of the £1.8m tax free, so £450,000 — £75,000 more than above. They would also have £1.35m available to provide an income and would face no tax charge.

Mattioli Woods, the pension consultant, said employees in final salary schemes are likely to exceed the £1.5m limit if they are entitled to a pension of £75,000 a year or their scheme gives them a separate lump sum (typically three times their annual pension) and a pension of about £65,000 a year.

This is because the value for the purposes of calculating the lifetime allowance is 20 times the pension you expect, plus any separate lump sum.

If you apply for fixed protection, increases in the value of defined benefit (final salary) pensions are permitted, provided they do not stray above either inflation as measured by the consumer prices index or the scheme’s own inflation indexation measure. People in money purchase schemes, such as a stakeholder, personal or self-invested personal pension, will have to stop paying contributions on April 5.

2 Make a pension contribution

John Richardson at Towry, the adviser, said: “Those who are planning to apply for fixed protection may want to make substantial pension contributions in the 2011-12 tax year.”

The annual allowance for pension contributions fell from a maximum £255,000 to £50,000 on April 6. However, investors can carry forward any unused £50,000 allowance from the previous three years.

So, provided you have sufficient earnings in the year, you could invest up to £200,000 into your pension — the current year’s £50,000 allowance plus unused allowances of up to £50,000 from each of the previous three years.

Check your scheme’s “pension input period” — the year for the purpose of pension contributions —

before doing so as it does not always fall in line with the tax year.

3 Claim holiday home reliefs

Until April 6 this year, anyone with a second home in the UK or Europe that qualifies as a furnished holiday let could offset any losses — such as mortgage and maintenance costs in excess of the rent — against their personal income.

Now, they can only offset losses against profits from the same furnished holiday lettings business, ie other properties they own in the same country.

However, those who qualified for the relief in the 2010-11 tax year, and made losses, have until January 31 to make a claim to offset them against their other income on their tax return. January 31 is the deadline for submitting online tax returns (paper returns have to be with HMRC by tomorrow).

Mark Tighe at CA Tax Solutions, the adviser, said: “Anyone with a furnished holiday let in the UK or Europe should act immediately to ensure they do not miss out on the highly valuable tax relief.”

Also, from April owners of furnished holiday lets must let the property and make it available to let for longer. Under the new rules, it must be available to let for at least 210 days in any 12-month period, compared with 140 days at present and must actually be let for 105 days, up from 70.

Ronnie Ludwig at Saffery Champness, the accountant, said: “Owners of holiday lets will continue to be able to benefit from entrepreneurs’ relief — the lower 10% rate of capital gains tax on gains from trading businesses of up to £10m. This compares with a rate of 28% if the total amount of your taxable income and gains pushes you into the higher-rate tax bracket.”

4 Use your spouse

The personal allowance — the income you can receive without paying tax — will rise £630 from £7,475 to £8,105 a year on April 6. The threshold for higher-rate tax will effectively stay the same, at £42,475.

Ludwig said: “Married couples should make the most of their personal allowances by moving taxable savings and investments into the name of the spouse paying the lowest amount of tax. There is no capital gains tax on inter-spouse transfers of assets, or between those in civil partnerships.”

Hannah Edwards at BRI Asset Management, the adviser, said sharing assets in this way is particularly important for taxpayers over 65, who have their higher personal allowance reduced if their net annual income tops £24,000.

5 Use allowances — or lose them

The capital gains tax allowance is expected to rise from £10,600 to £11,200 on April 6, though this is yet to be confirmed.

A couple can realise gains of £21,200 this tax year without any liability to tax. Anyone sitting on a loss can offset it against gains made in the current tax year or carry it forward to set against future gains.

Mike Warburton at Grant Thornton, the accountant, said taxpayers should look at using inheritance tax allowances: "You can make tax-free gifts of £3,000 a year — £6,000 for a couple — and carry this allowance forward for one year only. You can also make any number of small gifts of £250 to different beneficiaries."



In
excess

Andy
Pyne,
58, a

The Pynes, with daughter Nicky, will exceed the lifetime pension allowance (Dwayne Senior)

consultant anaesthetist, and wife Pippa, 52, a consultant radiologist, will exceed the lifetime pension allowance when it falls to £1.5m in April. The couple, who live in Tunbridge Wells with daughter Nicky, 13, are advised by Mattioli Woods.

Switch from your old plan

Advisers said those with pension savings near the £1.5m limit, who are paying hefty annual performance fees on old-style plans, could transfer and reduce their tax liability in terms of the lifetime allowance.

Personal pensions used to levy high charges through "initial" units, meaning contributions paid early on are charged at a higher rate until retirement, irrespective of performance.

These fees could amount to as much as £10,000 a year on a £100,000 fund. However, FF&P Wealth Planning said if investors transfer they could crystallise the £10,000 as a loss, leading to a reduction in their overall pension pot.