

Planning for you and your family

What are your planning objectives?

Key financial planning goals include:

- Making the most of your tax-free allowances
- Keeping your marginal tax rates as low as possible
- Maintaining a spread between your income and capital.

Remember that all tax planning must:

- Save tax overall
- Not cost more than the tax you will save
- Be flexible enough to cope if tax law changes, and
- Not impose conditions or restrictions that you find unacceptable.

Create opportunities to save tax

We can help you to create opportunities to reduce your marginal tax rates by careful identification of appropriate strategies.

Situation	Possible strategy	Possible result
Income from assets taxed at 40%/45%*	Transfer to spouse if he/she pays tax at lower rates Transfer into joint names	Tax @ 40%/45% reduced to 20% or less Half of income taxed at 20% or less
Proposed sale will give sizeable capital gain	Transfer to spouse if he/she can use his/her annual CGT exemption or spouse has unused CGT losses Transfer into joint names Defer sale of 50% until after the end of the tax year	Additional £11,700 (maximum) of gain tax free Cover part or all of gain with losses Double exemptions and deferring some tax by 12 months
One spouse rich in assets - wish to make gifts within CGT and IHT limits	Transfer to the other spouse, who can then make gifts in parallel	Double exemptions

* Rates of tax and the higher rate threshold in Scotland are different to those elsewhere in the UK. There is a starting rate of 19% applying to the first £2,000 of taxable income, then the UK basic rate applies up to total income of £24,000, above which a rate of 21% applies. The higher rate (which applies from total income of £43,430) is 41% and the additional rate on income over £150,000 is 46%. This makes tax planning more challenging, but slightly more beneficial when dealing with Scottish taxpayers.

Gifts must be outright to be effective for tax, and must not comprise a right only to income.

Transfers on or within 7 years of death to a spouse domiciled outside the UK are exempt only to the extent of £325,000 plus the exemption in respect of the residence nil-rate band (£125,000 per individual up to and including the current tax year).

Planning strategies

A debt free start for your children

For younger children, ongoing payments into a Junior ISA may create the opportunity for parents, grandparents and other family members to build a fund to help offset university expenses and minimise debt at the start of your child's working life.

Remember that all children have their own personal allowances meaning that their income up to £11,850 escapes tax this year provided the capital does not originate from parental gifts. If income arising on parental gifts exceeds £100, the parent is taxed on it unless the child has reached 18, or is married. Thus parental gifts in excess of, roughly, £10,000 (assuming an interest rate of 1%) in total should perhaps be invested in something which produces tax-free income, or which accumulate income, or in a Junior ISA. The £100 limit on income does not apply to income on gifts into a National Savings Children's Bonus Bond.

Income from capital gifted by grandparents or other relatives is taxed as the child's, as will income distributions from a trust funded by such capital.

Marriage breakdown

Tax relief worth up to £336 this year is given on maintenance paid to a former spouse under orders or enforceable agreements, so long as at least one of the former parties to the marriage was born before 6 April 1935. Otherwise, maintenance payments do not qualify for tax relief. Maintenance payments received under orders or agreements are not taxable.

The special CGT/IHT treatment for transfers between spouses applies throughout the tax year in which separation occurs. Transfers in subsequent years are dealt with under the rules for disposals between connected persons, with the disposal treated as a sale at market value until the date of decree absolute, after which former spouses are no longer regarded as connected.

There are, therefore, arguments for and against making transfers as quickly as possible after separation, or for delaying them until after the decree absolute. Contact us if you are not sure which course to take.

In particular, the potential tax burden on the disposal of the former marital home as a result of separation and divorce can be significant, and may be something about which you need specific advice.

Arranging a Will

How would your spouse and children manage if you died or were incapacitated tomorrow?

Beyond taking the obvious step of ensuring you have adequate insurance cover, with life assurance written into trust for your spouse or children to ensure quick access to funds, you need to make a Will. Despite repeated campaigns, it is believed that three-quarters of adults still do not have an up-to-date Will. If you die without a Will, the law determines who receives your estate.

We would also strongly recommend that you:

- Make a living Will - so you can make clear your wishes in the event that, for example, you are pronounced clinically dead following an accident
- Execute a lasting power of attorney - so that if, whether as a result of an accident or illness, you become incapable of managing your affairs, you can be reassured that responsibility will pass to someone you choose and trust.
- Review your nominated beneficiary in respect of your pension savings. If you die before the age of 75 and before drawing your benefits there is potential for the entire fund to be passed on tax-free.

Of course all this also applies for your spouse, and to those who are in civil partnerships. You should also consider the possibility that both parents may be simultaneously killed or incapacitated.

Tips to consider when writing a Will

- A Will should be reviewed regularly. Beneficiaries may die; new beneficiaries may have been born. Your wishes and values may have changed.
- Remember that marriage usually revokes any Will you have made. Divorce usually excludes your former partner as a beneficiary. These are occasions when you may wish to consider updating your Will.
- On a practical note, tell your spouse and executors where your Will and any related documents are kept - it is still up to you whether or not you tell them what the documents contain, but if you are passing responsibility for managing your affairs on to others, it would be advisable to talk matters through with them now.

It is also advisable to tell your family members whenever you change your Will. Should you tell them what assets you have and how they can be located?

Here's where we can advise

- Understanding your tax allowances and rates
- Making the most of tax free opportunities
- Keeping tax rates as low as possible across the family
- Using savings, capital and the Junior ISA and/or the Lifetime ISA to give your children a better start in life
- Making a Will
- Making a living Will and giving someone you trust a lasting power of attorney over your affairs
- Insuring your life and obtaining disability and critical illness insurance
- Investing for capital growth