ISSUE 27 ■ WINTER 2019

INFORMED

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by Clayden FINANCIAL
INDEPENDENT FINANCIAL ADVISERS

LANDLORD FINANCE COSTS

How restricted tax relief could affect you

TAX-WISE

Make the most of your valuable allowances, reliefs and exemptions

CLAYDEN FINANCIAL

25 years of giving impartial financial advice

Clayden Financial, 1 Constable Court, The Street, Belstead, Ipswich IP8 3LY
Tel: (01473) 730090 **Fax:** (01473) 730092 **Email:** advice@claydens.com

www.claydens.com

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WELCOME TO OUR **WINTER ISSUE**

It's certainly been an interesting year both politically and financially. Claydens continues to be busy, and I am very pleased to announce two new staff members who have joined the firm to share the increased workload. My son Ashley recently joined the firm as a Trainee Financial Planner, and Kirk Wearne joined us in September as a Senior Administrator.

Unfortunately Adrian Firth was at a client meeting when the group shot on the cover was taken.

If your business has a trading year ending on 31st December, it is important to remember to make employer pension payments prior to the 31st if you wish the contribution to be used to reduce your corporation tax bill in this trading year.

Finally all of us at Clayden Financial send you our best wishes for a wonderful Christmas and a happy and healthy 2020.

Leigh Clayden

Adrian Firth

CHRISTMAS ARRANGEMENTS

Our office will close at 12.30 pm on Christmas Eve, Tuesday 24th December and will re-open for business on Thursday 2nd January 2020. As in previous years we will not be sending out Christmas cards, and instead will be making a donation to Action Medical Research for Children (AMR).

AMR is the leading UK charity funding vital research to help defeat the diseases that devastate the lives of babies, children and young people. The charity was founded in 1952 by Duncan Guthrie in his quest to find a cure for polio, a condition that affected the lives of many thousands of children, including his own daughter, Janet. Early research funded by AMR helped to develop the first oral polio vaccine which eradicated new cases of the disease in the UK.

They have also been involved in other medical breakthroughs including; rubella vaccine, ultrasounds in pregnancy, meningitis vaccine and MRI scanning for unborn babies.

Our IFA Karen Last has been an active AMR voluntary fundraiser for many years and is thrilled to have recently been appointed as a trustee.

ASHLEY CLAYDEN

I joined Claydens as a Trainee Financial Planner at the beginning of October, and I am thrilled to be a part of the family business. Prior to joining the team, I was at Legal & General Investment Management working in their Fund Sales team as a Relationship Manager responsible for Discretionary Wealth Managers across the UK. Prior to Legal & General, I worked at Ignis Asset Management and Seven Investment Management in similar roles.

My interest in the financial services industry came from my studies at Birmingham University, where I achieved a 2:1 in Business Management. I also hold the Investment Management Certificate, and I am currently studying towards my Diploma in Regulated Financial Planning, having just passed two modules of the six required.

Having lived in Ipswich for most of my life, I'm now based in south London with my girlfriend Jessica. My main interests are sport-related, and I am an avid Ipswich Town fan. Over the last few years, I have taken up running, having completed three marathons, and I am planning to take on New York next year.

KIRK WEARNE

Kirk is Ipswich born and bred and has spent the last five years working within pensions administration at Suffolk Life and Willis Towers Watson. Currently revising for exams which will lead to the Diploma in Regulated Financial Planning, Kirk aims to become a paraplanner.

Outside work, Kirk is a football fan, supporting Newcastle United, and likes to watch basketball. Kirk also plays squash and five-a-side football. His music preference is rock music, particularly Arctic Monkeys and Royal Blood!

THE SPLAT QUACK **GO!**

Senior Administrator Daniel Parish and his stepson Noah, aged 7, recently took part in the Splat Quack Go obstacle course at Poplar Park, Hollesley raising money for Fresh Start – New Beginnings. Funds were raised from the entry fees, and each competitor was given a rubber duck to carry through the race, with every duck surviving the journey earning a further 50p for the charity.

The course had over 40 obstacles including the black ditch, boggy swamps, walls, balance beams, cargo nets, monkey bars and space hoppers! Dan said, 'After the race, we weren't allowed back in the house until we had been hosed down – it took quite a few washes to remove all the mud!'

TAX-WISE

Make the most of your valuable allowances, reliefs and exemptions

Once the Christmas and New Year festivities are finished, the end of the 2019/20 tax year will be just over three months away on 5th April. As this date approaches, the window of opportunity reduces if you want to make the most of valuable allowances, reliefs and exemptions that could help reduce your tax bill and make sure your finances stay tax-efficient.

Some of these allowances will be lost forever if they are not used before the tax year end – and the sooner you claim them the better. Every year, some people leave end-of-year tax planning until the last minute. But leaving planning until the eleventh hour increases the risk that you will discover you have left it too late and missed out on the chance to improve your financial position.

Acting well before the tax year end means you can also be sure that you are maximising your opportunities and minimising your stress. The list that follows isn't exhaustive, but highlights some of the main areas to consider if appropriate to your particular situation. If you would like to discuss your own financial position, please contact us.

INCOME TAX

Consider making use of lower-rate tax bands. It's important to review the tax implications of transferring income-producing assets and taking note of anti-avoidance and settlements legislation.

The way you receive an income, and the rates and allowances that apply, should be at the front of your mind. How much you pay depends on where you live in the UK, with Scotland in receipt of devolved powers to set its own Income Tax bands on

DON'T LOSE IT, USE IT

As we make our way towards the end of the tax year, now is the ideal time to review your tax affairs to ensure that you have taken advantage of all the valuable allowances, reliefs and exemptions available to you. To discuss the planning opportunities available to help you, your family and business, please contact us.

top of the personal allowance.

The annual dividend allowance remains at £2,000 for 2019/20. The 2019/20 personal allowance is £12,500 and when added to the dividend allowance, the maximum tax-free income you can receive through dividends is £14,500 in 2019/20.

Some smaller amounts of income are tax-free up to annual limits. Under the Government's rent-a-room scheme, you can continue to earn tax-free income of up to £7,500 a year from letting out a furnished room in your home.

INDIVIDUAL SAVINGS ACCOUNT (ISA) ALLOWANCE

With a Cash ISA or a Stocks & Shares ISA (or a combination of the two), you can save or invest up to £20,000 a year tax-efficiently.

If you are in a position to, it makes sense for you and your spouse to take advantage of the ISA allowances, particularly if one of you has more financial resources than the other. That way, you can save (in the case of Cash ISAs) or invest (in the case of Stocks & Shares ISAs) up to £40,000 tax-efficiently in 2019/20.

Currently, 16 and 17-year-olds actually get two ISA allowances, as they're able to open a Junior ISA (which for 2019/20 has a limit of £4,368) and an adult Cash ISA. This means that you can put away up to £24,368 in your child's name tax-efficiently this tax year.

People aged 18–39 can open a Lifetime ISA (LISA), which entitles them to save up to £4,000 a year until they're 50. The Government will top up the savings by 25%, up to a maximum of £1,000 a year. £4,000 contributed to a LISA counts towards the total £20,000 annual ISA allowance.

PENSION CONTRIBUTIONS

The annual pensions allowance enables you to contribute up to £40,000 in 2019/20. If your adjusted income exceeds £150,000 in 2019/20, your annual allowance will be reduced by £1 for every £2 that exceeds this threshold down to a limit of £10,000.

The annual pensions allowance can be carried forward for three tax years providing you were a member of a registered pension scheme during that period. Any unused annual allowance for the three previous tax years (2016/17, 2017/18 and 2018/19) can be added to your 2019/20 allowance (giving a maximum contribution of £160,000) and will attract tax relief at your marginal rate. Please note a lower limit of £4,000 may apply if you have already started accessing your pension.

You can also increase your basic State Pension by paying voluntary Class 3 National Insurance Contributions (NICs).

Consider contributing up to £2,880 towards a pension for your non-earning spouse or children. Tax relief is added to your contribution, so if you contribute £2,880, a total of £3,600 a year will be paid into your pension scheme, even if you earn less than this or have no income at all.

You begin to lose your tax-free personal allowance when you earn over £100,000 (and you don't receive anything if you earn £123,000 or more). By increasing your pension contributions, you could receive some of your allowance back, as the income on your tax return will be lower to take your extra pension contributions into account.

INHERITANCE TAX

You can act at any time to help reduce a potential Inheritance Tax (IHT) bill when you're no longer around.

Gifts of up to £3,000 per year can be made on an IHT-free basis. The limit increases to £6,000 if the previous year's annual exemption was not used.

A married couple can therefore make IHT-exempt gifts totalling £12,000 per tax year. This simple technique could save a possible IHT bill of £4,800 in the event of your untimely death.

You should also consider using the wedding/civil partnership gift allowance and the small gifts exemption of £250.

Business Relief (BR) is a valuable IHT relief which may apply to exempt or partially exempt business property on death. BR is an important part of succession planning, but due to the complexity of the BR rules, the relief may not be due even though you expect to meet the conditions.

It is important to regularly review your BR position to ensure that it continues to apply and that your business activities do not jeopardise your BR position.

CAPITAL GAINS TAX ALLOWANCE

Capital Gains Tax (CGT) is a tax on the gains and profits you make when you sell something, such as an investment portfolio or second home.

Everyone has an annual allowance of £12,000 (in 2019/20) before CGT applies. Like the ISA allowance, it doesn't roll over – so if you don't use it, you'll lose out, and you may have to pay more CGT in the future.

Also, it's worth remembering the allowance is for individuals, so couples have a joint allowance for 2019/20 of £24,000. In some situations, it may be appropriate to transfer assets into your joint names so you both stay within your individual allowances.

Not every investment portfolio is subject to CGT. If you're looking for a tax-efficient way to invest, a Stocks & Shares ISA could be for you. Just like any investment, it carries risk – meaning you could lose some or all of your money – but if you do make a gain due to share price increases, you won't be required to pay CGT on it.

A Bed & ISA will allow you to utilise the current year's ISA allowance by moving investments from an unwrapped environment to the ISA tax-efficient wrapper. This is achieved by disposing of the unwrapped investment and repurchasing it via an ISA. The disposal of the unwrapped investments may be liable to CGT, but once inside the ISA, the investments are sheltered from CGT in the future.

WHAT YOU NEED TO KNOW

Winners and losers under the new State Pension

You can claim the new State Pension at State Pension age if you have at least ten years' National Insurance contributions and are a man born on or after 6 April 1951, or a woman born on or after 6 April 1953. The earliest you can receive the basic State Pension is when you reach State Pension age.

The number of people qualifying for the full new State Pension following its introduction in April 2016 reveal almost two in five pensioners (365,290 people, or 38% of claimants) receive less than £150 a week, while a further 62% receive more than £150 a week – of these, 282,447 are receiving a new State Pension[1].

BENEFITS BUILT UP OVER THE OLD AND NEW SYSTEMS

The full amount you can get under the new State Pension is £168.60 per week (in 2019/20), but this depends on your National Insurance (NI) record. If you have 35 years or more of NI contributions, you will get the full amount; between 10 and 34 years of contributions, you will receive a proportion of the pension. You are not eligible for the new State Pension if you have less than 10 years' NI contributions.

The data also shows 282,447 pensioners (29% of claimants) are receiving a new State Pension from April 2016 with a 'protected payment', which essentially means they receive more than the new full State Pension, as benefits built up over the old and new systems are worth more than the new flat rate.

People can receive less than the full flat rate State Pension when their NI record is incomplete or they have paid less than the 35 qualifying years required under the new rules (usually through periods of contracting out).

FOUNDATION OF MOST PEOPLES' RETIREMENT PLANS

The State Pension is the foundation of most peoples' retirement plans and yet this data shows more than half of those eligible to claim the State Pension under the new flat rate system receive less than the full amount. Given the various changes that have been introduced over the years, it's not surprising people find the whole system difficult to understand.

STATE PENSION TIPS

- Go online or contact DWP for an up-to-date State Pension forecast. DWP will use your NI record under old and new State Pension rules to calculate your State Pension
- Your 'starting amount' can be less than, more than or equal to the new full State Pension
- Consider paying voluntary NI contributions if there are gaps in your records (you can only usually go back six years)
- There is no benefit in paying voluntary NI contributions if you've built up 30 years under the old system before April 2016
- Ensure you've claimed credits for periods where you've not worked, for example, when unemployed or looking after children. This should happen automatically, but mistakes can and do happen, especially if you are self-employed
- You can claim for NI credits if you are caring for parents or grandchildren
- If you've been contracted out for any period before April 2016, you will have paid lower NI and therefore receive a smaller State Pension. Your private pension will have an element of 'Contracted Out Pension Equivalent', or COPE, which will allow for this
- Consider deferring your State Pension (although this is less financially generous than previously)

SPEND THE LONGEST TIME ON PREPARING FOR RETIREMENT

The State Pension can be a minefield. And remember, it is only really there to provide a basic standard of living when you retire. Of all the life events to plan for, you should spend the longest time on preparing for retirement.

If you're in your 50s or early 60s, you may increasingly be thinking more about retirement and how to plan for it. One of the most common dilemmas for people of this age is how to best fund their lifestyle once they've stopped work and maintain their pre-retirement standard of living.

Source data

[1] Freedom of Information request, Canada Life – 6 June 2019

THE SOONER YOU TRACE A LOST PENSION, THE BETTER?

It's not always easy to keep track of a pension, especially if you've been in more than one scheme or have changed employer throughout your career. But it's important that you do claim your pension, so the sooner you trace a lost pension, the better. If you would like to discuss any concerns you may have, please contact us.

LANDLORD FINANCE COSTS

How restricted tax relief could affect you

The 2019/20 tax year is the third year of a four-year phased implementation of the Government's strategy to restrict the tax relief residential landlords receive on finance costs to the value enjoyed by basic-rate taxpayers.

Prior to the 2017/18 tax year, landlords were able to deduct 100% of finance costs against property income, therefore benefitting from tax relief at all tax rates (for example, 40% for higher-rate taxpayers).

After the 2020/21 tax year, individuals will only be able to claim a basic-rate tax reduction from their Income Tax liability, on the portion of finance costs not deducted in calculating the profit.

THIS TAX REDUCTION WILL BE CALCULATED AS 20% OF THE LOWER OF:

- Finance costs not deducted from income in the tax year
- Profits of the property business in the tax year
- Total income of the individual (excluding savings income and dividend income) that exceeds the personal allowance in the tax year

The percentage of finance costs not deductible from property income within the phased implementation is:

2018/19	2019/20	2020/21
50%	75%	100%

In the 2018/19 tax year, 50% of finance costs were fully deductible from property income to arrive at rental profits, and a basic-rate tax reduction is needed for the remaining 50% not deductible from property income. By 2020/21, no finance costs will be deductible from property income, and the tax reduction will need to be calculated on the full amount of finance costs.

Where relief is restricted to 20%, but the tax reduction cannot be deducted due to the above restriction, it may be carried forward to future years.

PROPERTY ALLOWANCE

From 6 April 2017, HMRC introduced a Property Allowance, allowing up to £1,000 each tax year in tax-free allowances to claim against property income.

If annual gross property income exceeds £1,000, the tax-free allowance of £1,000 can be used instead of deducting any expenses or other allowances. This is a useful way of reducing taxable property income.

Up to £1,000 of Property Allowance can be claimed, limited to property income. This is known as 'partial relief'. If expenses are more than property income or more than £1,000, claiming actual expenses will be preferable to claiming the £1,000 allowance.

WHAT CAN YOU DO TO MINIMISE YOUR TAX LIABILITIES?

- If a basic-rate and higher-rate taxpayer jointly own property, think about changing the ownership proportions
- Consider whether your borrowings can be rearranged

JOINT RENTAL INCOME FOR MARRIED COUPLES OR CIVIL PARTNERS

Rental income is normally split according to the legal ownership of a property. However, for married couples or civil partners who own a property as joint tenants or tenants-in-common, the income for tax purposes is split 50:50 by default, regardless of actual ownership.

Property can be owned in unequal shares as tenants-in-common either by actual or beneficial ownership. If you wish to vary the beneficial ownership proportions, you need to make a joint election on HMRC's Form 17.

Please contact us if you would like more information on any of the above.

RENEWABLE ENERGY TECHNOLOGY IN YOUR HOME

ryan's
YOU CAN BE SURE IT'S RIGHT

With a firm focus on being more environmentally friendly, we're all looking at various ways to make a difference. Generating your own green energy can be a great way of lowering your carbon footprint and saving money. Solar, wind, water or ground-sourced though? Which is right for your home?

There are many aspects involved in your choice of renewable energy system, including location and budget. You'll need to do your research to ensure you've factored everything in. Your renewable energy specialist will be able to advise you, but it's a great start to have an idea of what might be available to you.

SOLAR PHOTOVOLTAICS

Probably the most common in homes, solar photovoltaics, or solar PV, are solar panels that convert the sun's energy into electricity. These can be placed on suitable roofs – ideally facing to the south and not shaded – or on a suitable piece of land.

SOLAR THERMAL

Solar thermal panels also use the sun's heat, but instead of creating electricity, they solely heat water. So, they can be used for your hot water needs, including central heating, but not other energy uses. These can be more affordable.

WIND TURBINES

Wind turbines work to transform the wind's kinetic energy into electricity. More popular in commercial settings and with different planning requirements, these can still be effective for homes in rural, windy areas.

HYDRO POWER

Hydro is another technology using a kinetic turbine, great for large scale generation, but less common for domestic settings as properties need to be located by water.

HEAT PUMPS

Heat pumps using the ground, air or water extract thermal energy from outside and use it for central heating and/or hot water systems. Ground source heat pumps require a larger area for installation. Air source alternatives are smaller and more affordable, although less efficient. Water source heat pumps, as their name suggests, need a body of water to work.

PREPARING YOUR PROPERTY

As we can see, space and the location of your home are the main considerations when selecting renewable energy technology for your home, while weather and orientation are also factors. Planning may also be an issue, especially if your home is listed. Before installing onto your roof, you'll need to arrange a building inspection to ensure your roof is structurally sound and able to bear the heavy panels. You will probably also need to provide your installer with planning documentation and an electrical inspection may be needed.

You'll also need to consider your insurance. You'll need to check that your property insurance covers renewable technologies, and that your sums insured are adequate. It's a good idea to keep your insurer up to date, and your insurance broker can advise you on any additional cover you may require.

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If you would like to talk to one of our advisers about our range of personal or business insurance solutions please call the Ryan's team on 01473 343300 or visit our website www.ryans.co.uk

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