

Plan ahead to avoid tax surprises

As one financial year ends and a new one begins, it is a good time to take stock of your finances to make sure your plans are on track and that you will not face any unexpected tax liabilities.

There are a number of 'annual allowances' that run throughout the financial year, allowing you to save and invest up to a certain amount tax efficiently. This article looks at how these allowances may affect you and how you can plan ahead more effectively next year.

Pension allowances

Recent changes to pension tax legislation mean it is more important than ever to ensure you are still on target to achieve your retirement income goals without getting hit by an unnecessary tax bill.

The most you can save to a pension plan each year without a tax charge is currently £50 000. This includes contributions from both you and your employer. This will fall to £40 000 in the 2014–15 financial year.

It is easier than you think to exceed your annual allowance if both you and your employer are paying into your pension. You could be affected by the yearly increase in your NHS pension, if you have one, and also if you contribute to a private pension plan or pay additional voluntary contributions.

Any amount over the £50 000 annual allowance could be liable to a tax charge at your highest marginal rate of income tax. However, you may be able to use any unused annual allowance from the previous 3 years, known as 'carry forward'.

Assuming the annual allowance for each of those 3 years was £50 000, if you have not used any of them, it means you will have a maximum of £150 000 to carry for-

ward and use in the current tax year. If you are unsure about how much you are saving into your pension each year visit the NHS Business Services Authority website (www.nhsbsa.nhs.uk) or talk to a financial adviser.

There is also a limit on the total amount of pension funds you can build up during your working lifetime before additional tax charges apply. This lifetime allowance is currently £1.5 million, but it will fall to £1.25 million in the 2014–15 tax year. If the total amount saved into your pension exceeds the lifetime allowance, you will be liable to 55% tax if the excess funds are taken as a lump sum or 25% if they are used to purchase a retirement income.

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These tax implications could impact on your pension and retirement planning so you might want to consider alternative savings products such as an individual savings account if it looks like you will exceed these limits.

Capital gains tax

Capital gains is a tax on the profit or gain you make when you sell an asset. You are taxed on the profit you make at the time of sale, not the amount of money you receive for it. For example, if you bought some shares for £2500 in June 1990 and sold them for £12 500 in February 2013, you will be liable for the tax on the £10 000 profit made.

You are able to make gains of up to £10 600 for the 2012–13 financial year before you are taxed. If you have already sold a number of assets over the past year,

you may want to check how close you are to this limit if you plan to dispose of any more assets before 6 April.

Capital gains can be shared between partners, so it might be worth transferring the assets into the name of the person who pays the lower tax rate before selling. This can reduce any capital gains tax charge from 28% for higher tax payers to 18% for those in a lower tax band.

Individual savings accounts and tax-efficient savings

Because you do not pay income or capital gains tax on any growth your money makes within an individual savings account, there is a limit to how much you can invest each year.

From 6 April 2013 the limit increases from £11 280 to £11 520. The full allowance can be invested into a stocks and shares individual savings account, which spreads risk by investing in a range of shares or individual stocks and shares. Alternatively, up to half the allowance can be saved into a cash individual savings account, that often resembles a bank or building society account, with the remainder in a stocks and shares individual savings account.

If you have not yet used up your 2012–13 individual savings account allowance, you have until 5 April to invest. When the new tax year starts you will gain a fresh individual savings account allowance, allowing you to continue building up your funds tax free.

Conclusions

Talk to a financial adviser with understanding of the medical profession to get more information on these tax allowances and their deadlines and to find out how you might be affected in order to keep your tax liabilities to a minimum. **BJHM**

The above information does not constitute financial advice. For further information please speak to your financial adviser.

Wesleyan Medical Sickness provides specialist financial advice for doctors
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