UNISONMONEYTALK

The personal finance newsletter for members of UNISON published by Lighthouse Financial Advice SPRING 2020

Act now before it is too late to use your allowances

UNISON Living

The current tax year ends on 5 April 2020, so you need to act now to take advantage of the various allowances the Government gives us each tax year.

While everyone should pay their fair share of tax – after all the taxes we pay keep vital public services such as the NHS, the police, and schools functioning – the Government gives us a number of allowances each year, many of which were created to help people on moderate incomes. It therefore makes sense to use them if you are eligible, so that you do not pay more tax than you need to. Here we look at income tax in more detail.

TIP
Check that any savings you have are in tax-exempt accounts, such as ISAs. If not and you haven't used your full ISA allowance for the year, consider moving them in to a suitable account before the 5 April.

You do not pay income tax on your first £12,500 of income in this tax year, but you are likely to be taxed on income above this amount, at a starting rate of 20%. That means you only get 80p of every £1 of your taxable income. This goes down to only 60p of every £1 for taxable income over £50,000.

What counts towards your income?

- money you earn from being employed
- other money you make, for instance, a second job
- some state benefits
- most pensions, including the state pension
- rental income, unless you use the rent-a-room scheme
- benefits you get from your job
- interest on savings above your savings allowance.

What don't you pay income tax on?

- the first £1,000 of income from property you rent out (unless you are using the rent-a-room scheme – see below)
- income from tax-exempt accounts, eg ISAs and National Savings Certificates
- some state benefits
- premium bond and national lottery wins.

Using savings to boost income

If your income is over £17,500, your personal savings allowance allows you to earn up to £1,000 interest from your savings each year, without paying any tax. This means that there is no income tax to pay on the first £1,000 (or less) of interest you receive on your savings. This allowance is reduced to £500 for higher-rate taxpayers, and to £0 for additional-rate taxpayers.

Extra income

Some smaller amounts of income are tax-free up to annual limits. Under the Government's rent-a-room scheme, you can earn tax-free income of up to £7,500 a year from letting out a furnished room in your home. This also includes renting out your spare room through Airbnb. If you let property that does not qualify for the rent-a-room scheme, a £1,000 property allowance applies instead.

TIP
If your income (excluding income from savings) is less than £17,500, you may be entitled to the £5,000 starting rate savings allowance. This means that there is no income tax to pay on the first £5,000 of interest you receive on your savings.

Tax advice with no investment element is not regulated by the Financial Conduct Authority.

Also in this issue

Book a no obligation initial consultation

These are just some of the allowances that help you reduce income tax. To find out more book a no obligation initial consultation with one of our professional financial advisers.

Call 08000 85 85 90 or email appointments@lighthousefa.co.uk

or contact your usual Lighthouse Financial Adviser.

Make tax optimisation a family affair

It makes sense to consider the family finances as a whole, and make the most of the opportunities available to everyone in the family, however much or little they earn.

Here we explain a few of the ways it might be possible to take advantage of the allowances and opportunities the Government has created for family units.

Making the most of both personal allowances

As each person is taxed separately, make sure that you and your spouse or civil partner are making best use of both your personal allowances, plus both your basic rate tax bands, savings allowances and dividend allowances.

TIP
Could grandparents or other relations pay directly into a child's savings account? This is likely to be more tax-efficient than a parent paying in or the money going via the parent.

If either you or your spouse or civil partner are basic rate taxpayers and the other earns less that the personal allowance, you may be able to use the marriage allowance. This enables you to transfer £1,250 of the personal allowance of the person who earns less than the personal allowance to the one that is a basic rate taxpayer. This can reduce the tax bill of the higher earner. Your claim can be backdated for four years.

People who receive the blind person's allowance and who don't pay tax or can't use all the allowance can transfer this to a spouse or civil partner.

Putting savings plans, for instance, in the name of the lowest earner may enable you to make better use of both allowances. Such transfers must be outright gifts and be completed by 5 April to count for the current tax year.

Child benefit tax

If you have children and your spouse's or civil partner's income is more than £50,000 you may have to pay the high income child benefit charge. You have a duty to tell HMRC if you are receiving child benefit and you go over the limit. You can elect to stop receiving Child Benefit if you or your partner prefer not to pay the charge.

TIP
Could you keep each parent's income below £50,000? If one income is just above the threshold, maybe they could consider paying a bit more into their pension to reduce their taxable income. If both parents' income is £50,000 or less, the household can receive full Child Benefit.

Saving for children

Did you know that children have their own allowances and tax bands? This can be helpful if you want to give money to your children or grandchildren.

Also, the Government has created a number of tax-optimised plans for children. For instance, Junior ISAs are available to children under the age of 18 who live in the UK and do not have a Child Trust Fund. Parents, other family members or friends can pay in up to £4,368 in the current tax year.

Tax and divorce

Often assets such as the family home or share of a pension fund are transferred between spouses or civil partners. The timings of transfers such as these needs to be carefully thought through in order to avoid potentially costly tax bills. If the transfer takes place before the end of the tax year in which the separation occurs no capital gains tax is payable. However, if it takes place after the end of the tax year of separation, capital gains tax may be payable.

TIP
If practical, couples separating during the tax year should consider transferring assets before 5 April.

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Update your Will

Hopefully it won't be needed for a very long time, but you and your partner should nevertheless write or update your Wills so that your wishes are carried out should you die prematurely. Among other things, your Will should specify who will be your child's guardians, any financial arrangements you have made for them, and who you want to receive your assets (eg savings, home and other belongings).

UNISON Free Wills Service

One free standard Will (including a standard mirror Will for partners) is available to UNISON members through UNISON's online wills service. For more complex circumstances a discounted fee is payable. Call UNISON Direct on 0800 0 857 857.

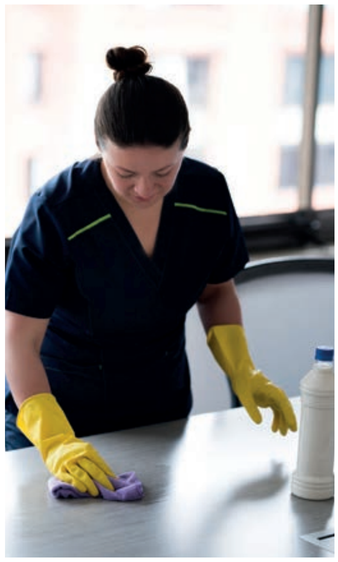
Book a review of the family finances

To book a review of the family finances with one of our professional financial advisers

call 08000 85 85 90 or email appointments@lighthousefa.co.uk

or contact your usual Lighthouse Financial Adviser.

Saving plans for people with low or moderate incomes



The Government actively encourages us to take advantage of savings accounts that are tax-efficient and even pays a bonus in to some accounts. We look at a few of the main ones to consider if your income is relatively modest.

The Government encourages everyone to take responsibility for saving for their financial futures. That is why it has, over the years, created a diverse range of savings schemes, some offering bonuses and others offering tax benefits.

If you receive working tax credits or universal credit, you can open a Help to Save account. You can pay in up to £50 a month, to which the Government adds a bonus of 50%.

TIP
Help to Save only affects your benefits if you or your partner already have more than £6,000 in savings and don't receive working tax credit.

If you pay in just half the maximum each month, £25, and add the £600 free government top up, you would have a savings pot of £1,800 or more after four years. The accounts are individual, so if you and your partner both qualify and each of you pays in the full amount you would receive £2,400 extra from the Government.

Make sure you have some "rainy day" money

As a rule of thumb, everyone should have the equivalent of three months' income in a suitable easy access account, in case the unexpected happens. You could start by each paying in a small amount each month, eg £25, and build up your "rainy day" fund over a few years.

Can you make your savings work harder?

Do you pay income tax on interest on your savings? If so, you should consider moving them to an ISA, where there is no tax to pay on interest or any capital gains you receive. The current ISA allowance is £20,000 per UK adult each year.

If you already have savings in cash ISAs you could be losing money, as interest rates are so low. A better option might be to transfer them to a low-risk investment fund. However, there are hundreds available and it is important to choose one that matches your particular needs.

TIP
You can withdraw funds from your ISA and if you replace them during the same tax year the replacement funds won't count towards your ISA allowance for that year.

Lifetime ISAs

These enable people aged between 18 and 40 to save up to £4,000 each year. The Government pays in a bonus of 25%. The money can be invested in stocks and shares or cash. Like normal ISAs, stocks and shares Lifetime ISAs have the potential to grow more than cash Lifetime ISAs over the longer term. When you withdraw money you must use it to buy a first home or for retirement, subject to meeting certain conditions.

Top up your pension

If you work in the public sector you are probably a member of a defined benefits pension scheme based either on your final salary or career average earnings. Making contributions to your pension fund is the most tax-efficient way of investing, as contributions benefit from income tax relief at your highest rate. You may therefore want to make additional contributions, subject to the annual limit.

TIP
If you earn less than £3,600 a year, you can pay up to £2,880 a year in to your pension. Tax relief is added to your contribution, giving a total of £3,600 paid in to your pension.

You can use up unused allowances from up to the three previous tax years, although you do need to have been a member of the pension scheme during that time.

TIP
If you have already accessed your pension other than to take the 25% tax-free lump sum, you can only pay in up to £4,000 a year.

The value of your investments, and the income you receive from them, can go down as well as up, so you could get back less than you put in. A pension is a long-term investment and inflation will reduce how much your income is worth over the years. Your eventual income may depend upon the size of the fund at retirement, future interest rates and tax legislation. Tax advice with no investment element is not regulated by the Financial Conduct Authority.

A brighter financial future for Melanie and her children

Melanie was worried about money following her separation. So when she saw that we were offering UNISON members financial consultations at her hospital she immediately booked a slot just after her shift ended.

Melanie, a UNISON member in her early 40s, is a health auxiliary at her local NHS trust. She separated from her husband of 16 years last summer and was still getting to grips with being a working single mother of three young children.

"I wasn't sure what to expect. After all, I don't earn much, and I didn't think that a financial adviser would be able to help me. I was relieved when Stuart, my adviser, immediately set me at ease. He asked what had prompted me to see him, and then asked a few questions about my income, expenditure, work and family."

Melanie's main concern was whether she could afford to stay in the small house the family was renting. It is close to the hospital and the children's school. Plus, her parents lived a short bus ride away.

She was also worried about what would happen if she fell ill or lost her job, or if her husband fell behind with the maintenance payments. He is self-employed so his income varies and he doesn't get any sick pay if he is off work. Also, as they hadn't agreed the financial settlement, she was unsure how much she would get.

Claiming the various benefits

Stuart explained that the first step was to make sure that she was claiming all the benefits to which she is entitled as a single mother on a low income. He mentioned that Melanie might be entitled to a share of her husband's pension from his old employer when he was a bus driver.

"I have been putting away a small amount each month since I went back to work. Stuart told me he could recommend a low-risk account where it would have the potential to grow faster. I mentioned that I had always dreamt of owning our own place and he said that there were various schemes for people like me and that with a bit of careful planning I may be able to buy something in five years' time.

"He also said that I might have pensions from when I worked full time before getting married and that these, combined with the share of my husband's pension I might be entitled to, would give me a bit of a cushion in the future.

A brighter future

"Stuart gave me hope that the future could be brighter than I realised. By the end of the consultation I had a clear idea of the kind of things I needed to do to get my finances on track. He explained that he could give me specific recommendations and advice, for which I would have to pay him a fee.

"After thinking about it for a couple of days I decided to go ahead. Thanks to Stuart I have confidence that I can manage as a single mum and give my children the life they deserve."

We can help

We can help you get your finances on track whatever your circumstances.

To book a no-obligation initial consultation call 08000 85 85 90 or email appointments@lighthousefa.co.uk

or contact your usual Lighthouse Financial Adviser.

The value of your investments, and the income you receive from them, can go down as well as up. A pension is a long-term investment and inflation will reduce how much your income is worth over the years. Your eventual income may depend upon the size of the fund at retirement, future interest rates and tax legislation.

Terms and conditions

Following the initial consultation if you wish to appoint Lighthouse Financial Advice as your financial adviser we will explain and agree any charges with you before undertaking any work on your behalf.

* We have changed real names and other details to preserve anonymity. All financial details reflect the circumstances.

Financial planning seminars and surgeries for UNISON members

Each year we run hundreds of financial planning seminars on topics ranging from redundancy to retirement that give UNISON members practical help with securing their financial futures.

To find out about arranging a seminar or surgery for UNISON members at your place of work please contact one of our regional representatives:

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