Thomas & Co Financial Services

INDEPENDENT FINANCIAL ADVISERS

MoneyMatters

Spring 2016

End of Tax Year PLANNING

Will you have enough pension?

Annuity VS Drawdown

Increase your PENSION

Open an ISA

STEPS TO YOUR FAMILY'S Financial Future

• Lifestyle Protection • Creating Wealth • Tax Rules •

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How to get ahead next tax year

The end of the tax year is a great time to take a look at your financial plans and re-assess how to make the most of your money. Begin by identifying your goals and decide what you might need to keep your portfolio on track to achieve them. There have been significant changes during 2015, which may have adjusted some of your planning points.

Pension freedoms

New pension rules have brought new freedoms. You can now take unlimited pension withdrawals and in most cases pass your pension pot on after death to your beneficiaries free of tax. The new pension landscape could also mean you should consider changing your retirement strategy.

ISA allowance increases

You can shelter up to £15,240 this tax year, which is the highest ISA allowance ever provided by the government. Within a Stocks & Shares ISA you pay no capital gains tax and no further tax on any income, so it is important to think about which investments to hold in your ISA to take full advantage and with the current volatility of the stock market and low cash values, careful consideration is required. Remember tax rules can change and any benefits depend on individual circumstances.

Estate planning

Don't forget this very important area until it's too late. The new pension freedoms have created an opportunity to significantly reduce your beneficiaries' IHT bill; a radical transformation that might mean you view your pension as an IHT wrapper as well as an income in retirement. On top of this, recent rule changes mean that ISA benefits can now be passed onto a surviving spouse on death. With improved planning and time on your side, saving IHT becomes much easier and less stressful.

Low interest rate returns

Many clients contact us for financial advice on ways to gain better returns than those currently available on cash. While interest rates remain at such very low levels, the real year on year value of cash is being eroded by inflation. Searching for higher returns can involve the risk of capital deflation and getting back less than you invested in the first place

Don't put it off

When it comes to planning, there has to be a sensible time line and the earlier you start the better. Your investments and tax shelters might not be working as hard for you as they could be if you simply ignore them. With the end of the tax year just around the corner, now could be a great time to start planning ahead of the 5 April 2016 deadline.

A professional financial adviser can review your current plans and help you plan efficiently for the end of tax year deadline. They can work with you to develop a strategic plan that takes into account your objectives and attitude to risk. As well as helping you map out your financial future, they will show you how to organise your assets to provide financial security and minimise taxes.

The value of your investment and the income from it can go down as well as up and you may not get back the original amount invested. Past performance is not a reliable indicator for future results. Levels, bases and reliefs from taxation are subject to change and their value depends on the individual circumstances of the investor. Please contact us for further information or if you are in any doubt as to the suitability of an investment.

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Increase your pension

With property now becoming a less attractive investment, following the new tax rules, the time seems right to invest and increase your pension.

More freedom to access your money

The goal of any pension is to ensure you save for your retirement, you cannot normally access the money until age 55 (57 from 2028).

Thanks to the new rules you have more choice and flexibility when accessing your pension pot. These new pension freedoms became available in April 2015.

The pension investor can still take up to 25% of their pension tax free, with the remainder taxed as income. But now you have total freedom and brand new options. You can if you wish take the whole lot as a lump sum if you wish, although this could result in a substantial tax bill.

Pass your pension on to your family

New tax rules on how your pension is passed on after your death mean pensions have become a significantly more attractive way of distributing your wealth after death to your future generations.

Your pension can now be passed to your beneficiaries free of tax when you die. Previously a 55% tax charge used to apply in some cases.

Any withdrawals your beneficiaries make will be tax free if you die before age 75. If you die after turning 75, any withdrawals your beneficiaries make will be added to their income and subject to income tax at their normal tax rate.

Pensions are at present exempt from inheritance tax, but pension rules are changing fast so tax rules can change in the near future.

Use pension tax relief whilst you still can

Most pensioners and pensioninvestors have been maximising their contributions before pension tax relief is cut.

Pension contributions currently receive up to 45% tax relief, meaning every £1,000 you invest can in effect cost as little as £550. The exact amount depends on your circumstances and the more tax you pay the more tax relief you receive.

Now as of April 2016 anyone with income over £150,000 could face new restrictions on how much they can invest and claim tax relief on. You could also be caught if your income is lower and, as an example, you are in the process of building a sizeable workplace pension, your contribution allowance could fall to as little as £10,000 a year.

The chancellor also stated he may announce additional changes early next year. Whilst you can never be sure, this could signal further cuts to pension tax relief which will affect many people.

Concerned investors have been bringing forward their planned contributions which benefit from the current levels. The annual allowance is currently £40,000 and you can 'carry forward' any unused allowance from the last three tax years as long as certain conditions are met. This means you may be able to invest as much as £180,000 now (£50,000 for 2012/13 and 2013/14, £40,000 for 2014/15 and 2015/16).

Use the extra allowance

There is good news for anyone who has been saving to a pension this year and wants to invest more this year, particularly the higher earners affected by next year's restrictions.

A new £40,000 allowance has been announced which effectively runs from 9 July 2015 to 5 April 2016. If you made contributions earlier this tax year, even if you used your full £40,000 allowance, you may now be able to invest more than you originally thought.

Total contributions this tax year should still not exceed your earnings or £3,600 if you earn less than the allowance or have no earnings at all.

This opportunity is only available this tax year as pension rules are aligned.

We already know the annual allowance (the amount you can save into your pension every year and receive tax relief on) will fall for higher earners from next April. Anyone whose income exceeds £150,000 will see their annual allowance fall, via a sliding scale, from £40,000 to as little as £10,000. The lifetime allowance (the maximum value your pension is allowed to reach at any stage) is also being cut from £1.25m to £1m in April. So higher-rate taxpayers should potentially consider pouring as much money into their pensions as they can in the next four months before the days of generous tax breaks are gone for good. The present lifetime allowance is £40,000 and any unused allowance from the last 3 years can be used as a top up.

End of Tax Year planning

**Good tax and financial planning could lower and defer the tax you pay, which will free up your cash for investing.
With the End of Tax year fast approaching, make sure you taken advantage of all of the tax breaks available to you. There is still time to make provisions to avoid paying any unnecessary tax. As the saying goes; use them or lose them.**

Here we are some tax saving tips, now, and in the new tax year:

Use your ISA allowances

ISAs should be at the top of most people's savings and investment list, these are the reasons why:

- Tax free growth – no capital gains tax
- No need to record your ISA income or profits on your tax return
- Tax free income on corporate bonds and other fixed interest stocks and no further tax on everything else
- The income has no impact on age related allowances making it perfect for supplementing pension income in retirement
- There is an additional allowance increase in the 2016/17 tax year, therefore the overall personal allowance will remain be £20,000 in total, which can be invested into a cash ISA a Stocks and Shares ISA, or both. If you are unhappy where you are invested you can transfer your ISA to another provider.

Use your pensions allowance

Almost everyone can pay into a pension and obtain tax relief on the contributions, even if you are a non-earner. This means a £1,000 contribution costs just £800, the balance being paid by the Government. Most higher rate taxpayers can reclaim up to a further £200 tax relief via their tax returns. You can pay up to 100 per cent of your income into pension or £3,600 if greater every tax year.

With effect from the 2016/17 tax-year, the current annual allowance of £40,000 will be gradually tapered for anyone whose total 'adjusted income', including the value of any pension savings, is above £150,000. Their annual allowance will be reduced by £1 for every £2 of income above £150,000, with a maximum reduction of £30,000. Therefore, if their adjusted income is £210,000 or more, their annual allowance will be reduced to £10,000.

Check your tax code

Having the wrong tax code can be costly. Many pensioners can be on the wrong code as they have not been moved on to the higher personal allowances that kick in at 65 and 75. Savers and investors should also check that HM Revenue & Customs isn't deducting too much tax in respect of interest and dividends. When you receive a coding notice, cross check against any accompanying notes.

Inheritance tax (IHT)

Every tax year you can 'gift' £3,000 which will not count towards your total estate and if you do not use the full exemption in one year, you can carry it forward but for one year only. Gifts of up to £250 a person are also exempt, but you are not permitted to use the two together. If a gift is regular, comes out of your income but does not impact upon your standard of living, any amount can be given away and ignored for IHT. You will need to keep full records of any gifts made, to assist with probate.

You cannot use your 'annual exemption' and your 'small gifts exemption' together to give someone £3,250, but you can use your 'annual exemption' with any other exemption, such as the 'wedding/civil partnership ceremony gift exemption'.

Ie: If one of your children marries or forms a civil partnership you can give them £5,000 under the wedding/civil partnership gift exemption and £3,000 under the annual exemption - a total of £8,000. (It's not just parents who get a gift exemption on marriage, it can be used by others, including Grandparents, but the limits are lower. Check www.hmrc.gov.uk for the current limits).

Capital gains tax (CGT)

You could make use of the capital gains tax annual exemption for 2015/16 of £11,100 for each individual, including your children. For example, it may be worth selling shares if they have delivered losses because these can be set against gains made on other assets this year.

The tax on profits from the sale of a buy-to-let could be cancelled out by losses on equities. If loss making disposals are not made until later they cannot be carried back against gains in previous years.

Main residence relief If you own more than one residence, you can elect which one you want to be treated as your principal private residence (PPR) for CGT purposes.

All of the tax benefits quoted above can be changed and the exact benefit will depend on your circumstances.

Some aspects of Tax Planning are not regulated by the Financial Services Authority.

Tax and National Insurance rates 2016-17 Tables

Income tax and income tax allowances

Income tax personal allowances	2016-17	2015-16
Personal allowance	£11,000	£10,600
Those born on or between 6 April 1938 and 5 April 1948	£11,000	£10,600
Those born before 6 April 1938	£11,000	£10,660
Married couple's allowance (maximum amount)	£8,355	£8,355
Income limit for age-related allowances	Nil	£27,700

In years 2014/15 and 2015/16 only people born before 6 April 1938 are entitled to the age-related personal allowance. Individuals born on or after 6 April 1938 are entitled to the basic personal allowance.

2016/17 - The age allowance ceases to exist.
** The age-related personal allowance reduces where the individual's income in the tax year is above the income limit by £1 for every £2 above the limit until the level of the basic personal allowance is reached.

Bands of taxable earned income	2016-17	2015-16
Starting rate for savings: 10%*	£0 - £5,000	£0 - £5,000
Basic rate 20%	£0 - £32,000	£0 - £31,785
Higher rate 40%	£32,001 - £150,000	£31,786 - £150,000
Additional rate 45%	Over £150,000	Over £150,000

The 10 per cent starting rate applies to savings income only. If, after deducting your Personal Allowance from your total income liable to Income Tax, your non-savings income is above this limit then the 10 per cent starting rate for savings will not apply. Non-savings income includes income from employment, profits from self-employment, pensions, income from property and taxable benefits.

Inheritance tax

Inheritance tax	2016-17	2015-16
Rate	40%	40%
Individual nil-rate band	£325,000	£325,000

Since 9 October 2007, it has been possible to transfer any unused IHT nil-rate band from a late spouse or civil partner to reduce the estate of the surviving spouse or civil partner.

Individual savings accounts (ISAs)

ISA maximum limits	2016-17	2015-16
Cash	£20,000	£15,240
Stocks and Shares (overall limit)	£20,000	£15,240
Junior ISAs	£4,080	£4,080

The 2016/17 JISA allowance has not been increased from the previous tax year.

Lifetime and Annual allowances

Allowance	2016-17	2015-16
Lifetime allowance	£1,000,000	£1,250,000
Annual allowance	£40,000	£40,000

With effect from the 2016/17 tax-year, the current AA of £40,000 will be gradually tapered for anyone whose total 'adjusted income', including the value of any pension savings, is above £150,000. Their AA will be reduced by £1 for every £2 of income above £150,000, with a maximum reduction of £30,000. Therefore, if their adjusted income is £210,000 or more, their AA will be reduced to £10,000.
You will still be able to carry forward any unused tapered annual allowance per the normal rules for 3 years.

How to manage a drawdown plan in a falling market

We are seeing and living in a bear market, falling income and turbulent markets can have a significant impact on drawdown investors, the overall effect on each investor will depend on where they have invested and which drawdown investment strategy they have chosen. With careful planning an investor can help reduce the impact of a falling or bear market.

Drawdown investment strategies

There are generally two investment strategies for taking income from drawdown, investors can go with one strategy or use a combination.

The first strategy is to invest for income. Withdrawals are generally set against the income the investments produce and the capital is left untouched to hopefully grow over time.

If the market falls then income from investments falls and the amount that can be withdrawn without having to sell investments will reduce. Withdrawing just the income generated from investments and leaving your underlying investments intact, improves the prospects of capital growth and a rising income over time.

The second strategy is to invest for capital growth. Income is funded by selling these investments, as well as any investment income received.

Investments can perform well when investment growth is strong. However, the drawdown plan can be depleted rapidly if investments continue to be sold to fund withdrawals during a market downturn, making it hard for the portfolio to recover when the market conditions improve.

Top tips

1. Reviewing your investments regularly - drawdown investors should keep their portfolio under regular review and take a long-term view.

A diverse portfolio which has a mixture of different assets classes like, cash, bonds and shares, is likely to be better protected during falls.

2. Limit your income withdrawals - depending on the size of the pension and the income required, it may be wise to limit withdrawals to ensure income remains sustainable over the long term. If you can afford to do so, you may wish to consider stopping withdrawals entirely until values recover.

3. Selling investments to fund withdrawals - Drawing just the income generated from investments won't always be sufficient for everyone's needs, so selling investments to fund withdrawals will be necessary.

However, doing so in falling markets will significantly incur losses, impairing the portfolios' ability to recover and increasing the rate at which your remaining funds erode, therefore jeopardising future income.

4. 'Cash Back Stop' - this could be from savings like an ISA outside of your drawdown plan, or built up within your plan through selling investments when you feel the value of an investment is high.

Such cash may help you continue to take the income you need without having to sell investments when markets are down.

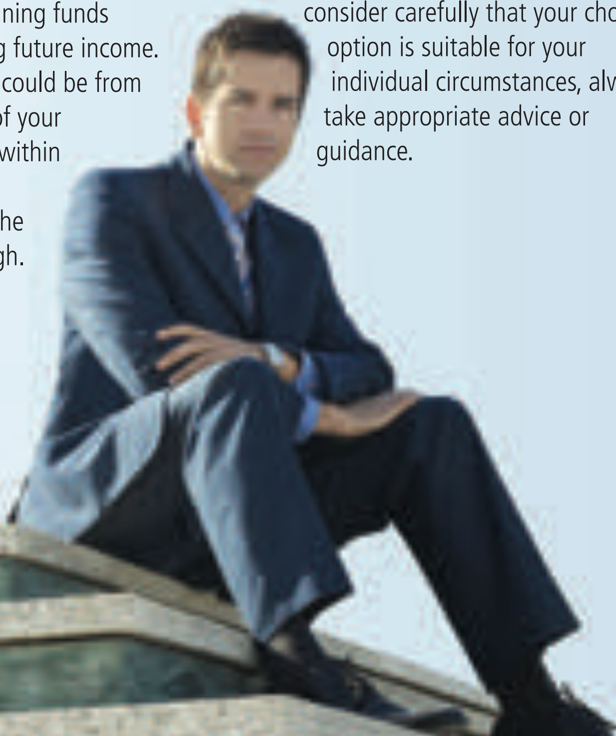
We suggest any drawdown investor should consider holding at least two years' income as cash.

Those who are drawing income from cash should be aware that markets recover in months, sometimes years and if you don't have a cash buffer now, it might be worth considering growing one over an appropriate period of time.

5. Provide other sources of income - income from drawdown is not secure, it could go up, down or even run out depending on how investments and the markets perform, as well as how long you live and the amount you withdraw. Having a safety net in the form of some secure income such as an annuity reduces the risk of not having enough income to cover essential costs.

These tips are not personal advice, but they could be worth considering when you make your drawdown plans.

Always seek professional financial advice as what you do with your pension is an important decision. We strongly recommend you understand all of your options and consider carefully that your chosen option is suitable for your individual circumstances, always take appropriate advice or guidance.



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Will you have enough PENSION?

It is thought that approximately 66% of people expect to continue working beyond age 65, with just 7% of the workforce very confident they will have adequate income in retirement. So what steps could you take to ensure your retirement plans and pension is on track.

Step 1 - How much will you spend?

When our Financial Advisers help a client plan for retirement, the best place to start is calculating typical spending.

Regardless of how you may arrive at a rough figure, every plan needs some kind of target. However, it is not always easy, particularly if retirement is some way off.

So where do you start? Half to two-thirds of your salary is often a good gauge, particularly as mortgage and commuting costs have usually stopped and children might have left home. Everyone is different, you might want exotic holidays or to supplement your children's needs, seeing what other retired people spend could be a useful starting point (see chart).

Step 2 – The rule of thumb

Once you have an idea of what you might spend, how do you know if your pension will be enough?

A broad guide is for every £5,000 of annual retirement income, you need £100,000 in a pension. For example, a £25,000 annual income requires a pension worth £500,000.

This assumes a 5% income rate, which is about the secure income (annuity) a 65-year-old can currently obtain, but could be more or less depending on rates at the time, age, health, lifestyle and options chosen. 5% is also a reasonable income to be taken by a 65-year-old who wants to retain control of their investments (drawdown). You can, of course, withdraw more cash but this may increase the risk of depleting the pension fund before investments can grow.

Additional considerations

Although a personal pension should provide the lion's share of your retirement income, there are additional income factors that can help.

- Many people receive income from other sources, such as work pensions and of course the State Pension (approx £8,000 a year full rate from April 2016).
- A spouse's or partner's pension could help add to the pension income pot for the households overall spending.
- The first £10,600 (2015/16) of income each year is tax free for most, so a couple could receive £21,200 income before paying tax. Tax rules can change.

Pensions are tax efficient and may cost less than you think. Tax relief means a £10,000 pension investment could in effect cost as little as £5,500 depending on individual circumstances. If you are some years away from retirement then the longer you are invested the greater the potential for growth, although there are no guarantees and you could get back less than you invest.

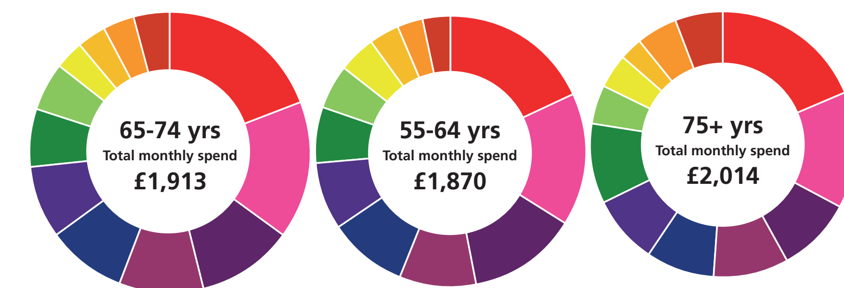
Step 3 – Do it now!

What could you consider doing now to improve your chances of having enough money when you retire?

- Use the government's online State Pension forecast to work out your current benefit in retirement and get the current value of any pensions or investments you already have.
- Top up your pension, consider a lump sum contribution or joining your work pension, especially if your employer will also contribute. In particular, higher earners could consider using their full allowance, with restrictions being imposed from April and tax relief potentially being cut soon.

Consolidate any existing pensions, this makes checking you are on track very easy.

What do retired households typically spend?



Source: Which? Money Magazine

Junior ISAs

Cash or shares?

With the end of the tax year fast approaching, many parents and grandparents will look to Junior ISAs as a tax-efficient way to save some money for a child's future.

Most children under 18 resident in the UK are eligible to hold a child ISA. Even those with a Child Trust Fund , who previously didn't qualify, now have the option of transferring to a Junior ISA.

Junior ISAs (JISAs) have steadily increased in popularity since their launch in 2011. Cash has always taken the lion's share of peoples investments. With inflation and growth slowing is this about to change?

What are Junior ISAs?

Junior ISAs are tax-efficient savings accounts for children. There are two types, Cash and Stocks & Shares. A child can hold both types of account. Only a parent or legal guardian can open a JISA on a child's behalf.

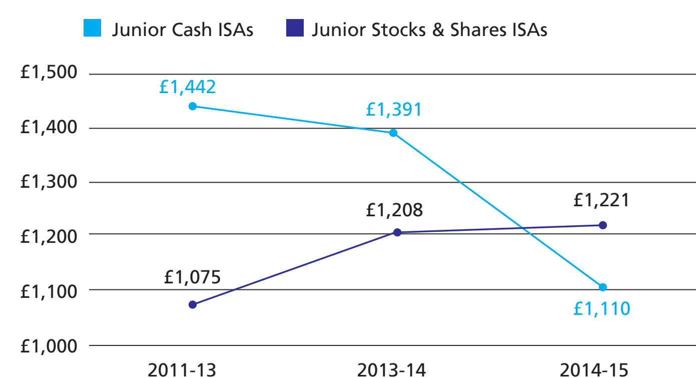
When the child turns 18, their JISA converts to an adult ISA and they can access the funds. Up to that point, the money is locked away, in the JISA.

The annual amount that can be invested into a JISA is £4,080 for the 2015/16 tax year and this allowance will remain the same for the next tax year. Parents can choose how they split their allowance between a Cash JISA and a Stocks & Shares JISA.

Cash vs the markets

It's widely considered that stock market investments have the potential to deliver significantly higher returns than cash over the long term. Investments are not guaranteed and unlike cash they can fall as well as rise in value, so your child could get back less than you invest.

Cash vs. stocks & shares JISAs



Although cash is guaranteed not to fall in value, it is disproportionately affected by inflation, as an example, £3,600 invested into a Cash JISA in January 2011 would need to grow by 2.7% per year, just to have kept pace with inflation over this period.

Cash may no longer be king

In 2014-15, £582 million was paid into Junior ISAs. 70% of this was subscribed to cash JISAs, down from 75% the year before.

While there was an increase of 18% in the overall number of subscribed Cash JISAs, there was a decrease in the total value of funds subscribed to them. For the second year running, the average subscription per account dropped to £1,110, down 23% from 2012-13.

This is in stark comparison to Stocks & Shares JISAs, where the average subscription has increased 14% in the same period to £1,221. *Source HMRC*

Is this the start of a trend where stock market investments become the preferred shelter for children's savings? Or will market volatility see cash forge a comeback in the near future?

Standing out from the crowd.

The combined average subscriptions for Cash and Stocks & Shares JISAs totalled £2,331, well below the annual allowance (£4,000 in the 2014-15 tax year). If parents and grandparents can afford to give the money and lock it away, they should maximise the benefits of this generous tax shelter.

Will Child Trust Fund transfers improve the situation?

The influx of Child Trust Fund (CTF) transfers is going to impact 2015-16 figures dramatically. In the first six months that transfers were possible, many parents and grandparents made the switch to Junior Stocks & Shares ISAs.

83% of the six million CTFs opened were invested in the stock market, mostly within accounts where the provider made investment decisions on the parent's behalf. If parents have seen their child's savings grow through stock market exposure, they may decide that transferring to a Stocks & Shares JISA is preferable to the cash alternative at this moment in time.

Start a Junior ISA with as little as £25 per month

You can start investing from just £25 per month or a lump sum from as little as £100, and you can open a Junior ISA in minutes online with a debit card.

The value of your investment and the income from it can go down as well as up and you may not get back the original amount invested. Past performance is not a reliable indicator for future results. Levels, bases and reliefs from taxation are subject to change and their value depends on the individual circumstances of the investor. Please contact us for further information or if you are in any doubt as to the suitability of an investment.

Steps to your family's financial future

What action might you need to take to ensure your family is financially secure in the future?

1. Be financially secure yourself

We all want to help our children as much as we can but our biggest financial worry is that we may run out of money if we don't plan.

Therefore it is very important to make sure that you are financially secure during your retirement before considering making large gifts to the family. A professional financial adviser can help you plan and work out the amount you may have surplus during retirement to gift away.

2. Keep things simple

Dealing with your estate is a tough task at a difficult time. You can make matters easier for those you leave behind, by drawing up your Will. A professionally drafted Will is the first step to making life easier for those you leave behind and could save you tax. Additionally, a Will avoids your beneficiaries having to face the complex rules, such as the rules of intestacy.

3. Put in place your LPA

A Lasting Power of Attorney (LPA) gives someone you appoint the legal right to make decisions on your behalf if you are unable to. Without this, the courts appoint someone to make the decisions. Most people over the age of 50 should have an LPA, if you are yet to appoint one this should be something you should consider.

4. Consider consolidating investments

Many loved ones may not have the experience with investments. If so, to help them and to make matters simple consider having all your investments in one place where you can track your investments easily, access your accounts at any time as well as taking advantage of the resources, research and guides available. Before transferring any investments you must check that you will not suffer excessive penalties from transferring.

5. Inheritance Tax – plan it wisely

We all want to ensure we pass our hard earned money to our lower generations, partners & spouses. This is done through careful estate planning by reducing the amount of inheritance tax (IHT) they will have to pay. Anything valued above £325,000 of your estate is typically taxed at 40% on death.

There are many ways to reduce your IHT liability and in some cases, avoid it altogether. Many are easy enough to implement yourself, such as using your annual gift exemption or investing in exempt commodities. However as estates grow larger and more complicated, advice from a professional will help you steer your way through this complicated are and find the best combination for you. Tax rules can change and benefits depend on individual circumstances.

6. The value of an adviser

A professional financial adviser can and will help you plan out your financial future, showing you how best to organise your assets and provide you and your loved ones with the financial security you deserve. This might include arranging both the income and capital you need, while also minimising taxes.

If you would like a financial adviser to assess your personal circumstances and give you advice on the best way to structure your portfolio, please contact us for a free initial consultation.

Open an ISA every year

It makes financial sense for investors to use the tax savings vehicles available to them.

For years, the first place for many looking to save tax has been to contribute to a Stocks & Shares ISA. Millions of people have opened and contributed to these simple, flexible and tax-efficient accounts.

While every investor will have their own reasons for contributing to an ISA, below are reasons why an ISA should be considered every year.

1. Generous allowances

Investors can shelter up to £15,240 (£20,000 in 2016/17) this tax year in an ISA meaning couples can contribute over £30,000 and protect their savings from the taxman immediately.

Every year your ISA allowances accumulate into substantial sums. If you'd fully invested in an ISA since they started in 1999, you would have contributed a total of £151,320.

Assuming 5% growth per year from your investments (minus yearly charges of 1%), you would have protected £208,894.87 free from any further tax. Please remember, investments can fall as well as rise in value so you could get back less than you invest. Equally, past performance should not be seen as guide to future returns.

2. Cumulative tax benefits

As shown above, large balances can be accumulated very quickly and with the ISA allowance at its highest rate of £15,240 (£20,000 in 2016/17), the rate of accumulation has never been faster. The more your pot grows, the more attractive the tax benefits.

The If you take our pot of £208,894.87 above, a stocks and shares ISA could generate over £8,000 of income over the course of a year, depending on share values. Within an ISA, there's no further tax to pay on this income. Outside an ISA, as of April 6, under the new dividend tax regime (where the first £5,000 of dividend income will be tax-free) all investors would face a tax bill on more than £3,000 of that income. Remember however, tax rules can change and the value of any benefits will depend on your individual circumstances.

3. Avoid the tax man

It wouldn't be too hard to imagine the current or a future Chancellor decreasing or even abolishing the dividend allowance, raising the headline rate of income tax or perhaps increasing the number of people who pay capital gains tax by cutting the capital gains tax allowance. Money in an ISA is primarily sheltered from tax but remember taxes change, and frequently.

4. Decisions, decisions

ISAs allow investors to make investment decisions free from the burden of tax. Often people with large taxable portfolios don't sell when they should due to the capital gains tax implications. This can lead to poor and costly financial decisions. When held in an ISA, investments are completely free from capital gains tax and don't need to be declared on tax returns. When it comes to investments, having full control to sell when you want is important.

5. Flexibility

ISAs are one of the most accessible tools to benefit from generous tax breaks offered by the government. Unlike other tax-efficient accounts, savers and investors have complete access to their ISAs and can withdraw their money at any time.

Additionally, ISA savers and investors can now transfer their accounts without restriction or tax charge. A cash ISA can now be transferred to a stocks and shares ISA, and vice versa, giving savers and investors the full flexibility to move their ISA savings into the account which suits them best.

- ISAs are one of the most popular and accessible ways to save tax and give you complete access to your capital.
- ISAs – over time, the tax benefits of ISAs can become extremely attractive – especially for higher and additional rate taxpayers.

The value of your investment and the income from it can go down as well as up and you may not get back the original amount invested. Past performance is not a reliable indicator for future results. Levels, bases and reliefs from taxation are subject to change and their value depends on the individual circumstances of the investor. Please contact us for further information or if you are in any doubt as to the suitability of an investment.

Annuity vs Drawdown

Recent pension reforms offer today's retirees complete freedom of choice over how they draw money from their pensions, they can now take the full amount of their pension in one go, if they want. But for those who want a regular income, the main options are still to buy a secure income via an annuity or invest for a flexible income via drawdown. Even though drawdown provides investors with the potential of an increasing income through investment growth, the very recent market volatility demonstrates the important role annuities can still offer.

So how do the two options compare?

Annuities are guaranteed for as long as you live, but lack any flexibility if circumstances change. Your pension, health and lifestyle can mean you qualify for a higher income (gauged over a shorter expected lifespan) but these have to be declared when you take out the policy.

Drawdown offers the chance of growing income if investments perform well, but that can be reversed if investments perform badly. If you withdraw too much out, you live longer than expected or your investments don't perform well, your pension fund and the income you can withdraw could fall or even disappear completely. Always worth remembering is that tax rules can and do change.

How to get the best of both worlds

Investors could consider a mixing both options to make the most out of their pension benefits.

For example, part of your pension could be used to secure an annuity which covers your essential bills and living costs. The remainder, with which you could potentially afford to take more risk, could then be placed into drawdown to provide a more flexible income to draw upon as and when you require it.

The pension decisions you make will depend on various factors, including the size of your pension, your lifestyle and living costs, how much income you require, and what you want to happen to your pension when you die.

An annuity provides financial safety, securing a part of your pension means knowing your essential income won't be affected, no matter how much the market falls, which could provide a less stressful retirement.

Using the remaining pension for drawdown allows you to keep in control, meaning you can more easily accommodate any changing circumstances, as well as benefit from any investment growth. Remember, you can still purchase an annuity with drawdown funds at any time or if you prefer to begin with drawdown and move to include and annuity at a later stage of your retirement, the flexibility is there.

	Drawdown	Annuity
Tax-free cash?	Yes, usually up to 25%	Yes , usually up to 25%
Income guaranteed?	No, income is not secure. It can fall as well as rise or even run out altogether.	Yes, income is secure and will provide a taxable income for life.
Financial control?	Yes, you decide where to invest and how much to withdraw, but this requires regular review.	No, once set up an annuity cannot normally be changed. Income is paid automatically.
Death benefits?	Death benefits are flexible and can be changed at any time. You should consider nominating your beneficiaries and keeping these up to date.	Death benefits are chosen at the outset and cannot be changed thereafter.

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When the market drops, MAKE SAVINGS

It's not all bad news when the stock market slumps, with the FTSE 100 more than 20% lower than its all-time high last April, there could be a silver lining. You could save tax on the shares you already own by combining market dips with a Bed & ISA.

A Bed & ISA is simply the process of using your existing shares to open or top up your ISA. If you hold shares outside an ISA, you could put them into your ISA and shelter them from future capital gains tax and further tax on any income.

The silver lining is that when share prices are lower, you can get more of your shares into the ISA, increasing the potential future tax saving.

How to Bed & ISA shares

It's not possible to transfer existing shares directly into your ISA. First they need to be sold and then repurchased. To help make things easier, you just need to inform your professional financial adviser and they will be able to undertake the transaction for you.

The proceeds, up to the £15,240 allowance, will be used to open or top up an ISA and the same shares bought back as soon as possible. If you still have any unused allowance, you can always buy another investment . The value of investments can rise and fall, so you could get back less than you invest.

If your shares are sold when in profit, they will realise a capital gain. Everyone can realise a total gain of up to £11,100 this tax year without having to pay capital gains tax. However, if your shares have suffered heavily from the market falls, and are sold at a loss, once declared it is possible to carry these losses forward indefinitely and offset them against any future gains.

If selling and buying back the same shares there will be a small difference in price due to the bid-offer spread. Therefore, together with charges, you will not buy back the same number of shares as you sell.

Please remember, tax rules can change and any benefits will depend on your personal circumstances.

Three ways you could benefit

- **No further tax to pay**
  Investments held in an ISA or SIPP are free of capital gains tax and there is no further tax to pay on income paid from an ISA.
- **Tax Relief**
  If you invest in a SIPP you will also receive tax relief. You could turn £8,000 worth of shares in to £10,000 in your SIPP.
- **Use your allowances**
  When selling shares outside of an ISA or SIPP, you realise a capital gain or loss. Most people have an annual capital gain exemption of £11,100 for the 2015/2016 tax year) below which there is no capital gains charge. If you happen to make a loss, you may use this to offset future capital gains.

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