MORE THAN WORDS

Accountants – investment and retirement articles

Note to readers

We first started writing for accountants in 2016. Some of the articles contained herein may relate to previous years in which tax rates and rules are different from today.

ISA, LISA, or pension? (long form article, 1,350 words)

ISA, LISA, or pension? What's the best vehicle (or combination of vehicles) for you to get the most out of your retirement? In this article, we look at the three dominant saving products on the market at the moment.

As we're comparing ISAs, LISAs, and pension schemes to see which one may be better for your retirement, we're not considering factors in this article like the easy of drawing cash out of your ISA, LISA, or pension and any penalties attached to doing that – we're going to assume that when you put money into these accounts, it's going to stay there until you're at least 55.

What is an ISA?

There are lots of different types of ISAs. For the purposes of this article, we're not going to cover Junior ISAs or Help to Buy ISAs (designed to help people buy their first property).

An ISA is an account which allows you to save or invest money where you pay no tax on the interest you receive or returns on investments you make. An ISA financial year runs from 6th April to the 5th April. On every 6th April, your new allowance takes effect. At time of writing (financial year 2017/18), your allowance is £20,000 per annum. Tax rules are constantly changing and your exposure to particular benefits will depend on your personal circumstances.

In 2017/2018, you can invest up to £20,000 in a combination of three different types of ISA – a cash ISA, an investment ISA, or an innovative finance ISA.

Cash ISA

A cash ISA is provided by banks and building societies. It's like a normal savings account but you don't pay tax on the interest you receive.

Investment ISA

An investment ISA, sometimes called a stocks and shares ISA, as an account provided by fund supermarkets and stockbrokers. In this type of ISA, you can place company shares, unit trusts, investment trusts, government and corporate bonds, and open-ended investment companies.

Wealth warning 1

Your savings may diminish in value if the investments you choose (or the investments your advisor chooses) reduce in value. There is greater risk of loss in investment ISAs than cash ISAs.

Currently, regardless of whether your investment is in an ISA or not, you are allowed to claim the first £5,000 of dividends on your investments tax-free (over £5,000, there is a 7.5% tax for basic rate payers, 32.5% for higher-rate payers, and 38.1% for additional-rate payers).

Wealth warning 2

The £5,000 tax-free dividend allowance may drop to £2,000 from financial year 2018/2019.

However, if your investments are contained within your ISA, you will avoid tax on dividends altogether.

Everyone has a capital gains tax allowance of £11,300 per year (2017/2018 tax year). Capital gains tax only becomes payable when you sell your investment – you don't pay it on rises in value you have not crystallised by selling yet. With an investment ISA, you pay no capital gains tax on investments contained within it.

Many investment ISA holders put their money into interest-bearing assets like bonds and gilts. As they're wrapped up in the ISA, they don't attract tax, meaning a 20% saving for a basic-rate taxpayer (40% for higher-rate payers and 45% for additional rate payers).

Innovative finance ISA

Innovative finance ISAs are investments in peer-to-peer lending, like Funding Circle, Zopa, and Ratesetter. This is a riskier way to make money from interest than, say, government bonds (the UK government has never defaulted on a debt and while that cannot be ruled out in the future, the likelihood of it happening, from an objective point of view looking at the relevant statistics, is much lower than lending money to a company or individual via a peer-to-peer lending site).

Currently, any interest you earn on a peer-to-peer lending platform would be covered by the Personal Savings Allowance. With this, basic-rate tax payers can earn £1,000 a year in interest without paying tax. For higher-rate payers, this figure is £500.

With an Innovative Finance ISA, any interest you receive is tax free.

Wealth warning 3

Companies you invest in via your innovative finance ISA may go bust. While many peer-to-peer sites have compensation funds, you can't rely on the to cover any or all of your investment should a firm you've backed cease trading.

What is a LISA?

A LISA is a Lifetime Individual Savings Account. You can use a LISA to buy a home or to save for retirement. For this article, we're going to look at someone investing in a LISA with the goal of building up their retirement funds.

LISAs can only be opened by those aged from 18 to 40.

You can have cash LISAs or investment LISAs – at time of writing, innovative finance LISAs are not available.

You can allocate up to £4,000 of your £20,000 ISA limit to lifetime ISAs. Over the course of your lifetime, you can contribute a maximum of £128,000 (before bonus payments) to your LISA.

Every time you put £1 into your LISA, the government will add 25p. So, if you invest £4,000 in your LISA in a year, the government will top that up by £1,000. Your first bonus is paid at the end of the first year. From 2018/2019, the bonus is paid every month, allowing you to benefit from compounding.

When you reach 50, you won't be able to pay into your LISA anymore and you will no longer earn the 25% bonus. You can withdraw the money without penalty from the age of 60 with no tax to pay on the withdrawal.

How do pensions work?

Anyone over the aged of 18 can start a pension and contribute up to £40,000 a year to their pension, subject to a lifetime limit of (at time of writing) £1m.

You receive tax relief on every contribution you make – 20% at basic rate (equivalent to LISA), 40% at higher, and 45% at additional. Contributions and growth are both tax free.

Under the new auto enrolment pension rules, your employer will make a contribution of 3% of your salary between £5,876 and £45,000 a year from 2019/2020 – and you'll have to contribute 5% yourself (unless you opt out).

You can withdraw the money from the age of 55 freely but withdrawals will be subject to tax over a certain level.

Confused?

Well, for us, the introduction of LISA is a good thing – it's another way to get Britain saving.

ISAs and the new LISAs are very flexible financial tools however the money you pay into it is money you've already been taxed on. With pensions, you receive tax relief on the contributions you make.

With ISAs and LISAs, you're the only person paying money into it. With a pension, the company you own will put money into your pension as will the government. While this will cost your company money (which can be deducted from profit for corporation tax purposes), you are not personally having to make the contributions.

In addition, for higher rate tax payers and additional rate tax payers, government pension contributions are generous. To have £1,000 in your pension pot, a higher rate tax payer needs to put in £600 and an additional rate tax payer £550. In a LISA, you would have to put in £800 to achieve the same.

On the other hand, if you're at the maximum level of contributions for your pension and want to save more, an ISA or LISA could be a better option. Self-employed higher rate taxpayers gain more from a pension because the tax relief is bigger than the lifetime ISA bonus but the picture for self-employed basic rate taxpayers is not straight forward.

The picture is further complicated for everyone depending on whether you'll have taxable income after retirement or not.

Talk to us – we know people

We're bookkeepers – that's what we do and we love doing it. We have lots of friends in the industry who are accountants and tax planners.

If you want to work out the best way to save for your retirement, let us connect you with some brilliant minds on the subject. Please call your account manager or email us for more information on how we can help.

Pensions (1/4) - What is a pension? (long form article, 1,600 words)

Welcome to our brand new four-part guide to pensions.

Over the next two weeks, we'll be looking at:

- how pensions work
- the differences between private/personal pensions and workplace (auto enrolment) pensions (plus salary sacrifice schemes)
- ways to draw down pension income including the Money Purchase Annual Allowance, and
- ensuring that enough cash stays in your pension so that the money doesn't run out.

First of all, and at the risk of stating the blindingly obvious, "what is a pension?"

A pension is a long-term savings and tax-efficient vehicle that you invest in over a number of decades with the goal of providing you with enough earnings when you retire. There are different types of pension and several ways of realising your savings later on.

There are two major types of pension in the UK – a personal pension and a workplace pension. A personal pension is one that you select yourself and into which you pay your savings. A workplace pension is selected by an employer and both you, your employer (which could well be your own company), and the Government makes payments into it.

In this article, how pensions work…

Advantages of a personal pension

For many people, understandably, there is a reluctance to invest in pensions because there is the safety net of the state pension and any contributions towards a pension will reduce your take home pay. Your money is locked away until you're 55 so pensions appear to lack the flexibility needed to cope with a person's sometimes changing financial circumstances.

However the government is encouraging people to take personal responsibility for their retirement savings, because the State pension is struggling to keep up with the demands from a population that is living longer. State retirement age has been pushed back to 67 and is likely to go to 70 within a generation.

There are several important benefits to paying into a pension –

- Tax relief – for example, to invest £100 in a pension, a basic rate tax payer needs to pay in £80 and the Government tops this up by £20. For higher-rate tax payers, you pay in £60 and the Government tops it up by £40. For additional rate, you pay in £55 and receive an additional £45 from the Government. (Higher-rate and additional-rate payers must reclaim tax unless the company puts the money straight in from your pre-tax pay), and
- Employer contributions – with workplace pensions, your employer will top your contribution up by 3% (from tax year 2020/21) of your salary between £5,876 and £45,000.
- At retirement up to 25% of the pension can be taken free of tax. This is known as the "Pension Commencement Lump Sum". Any sums over this limit will be taxed as earned income.

- Your pension fund can be passed to your spouse, children or grandchildren free of Inheritance Tax, making the scheme a means of helping your family by leaving them a legacy to help them towards their own retirement.
- Control your income tax – by making personal pension contributions you can recover lost tax and even reduce the overall rate of tax you pay. 40% taxpayers have the potential to recover their higher rate tax, recover the High Income Child Benefit charge, and even recover the lost Personal Allowance for those earning between £100,000 and £123,000.

In essence, you get some of your tax back on the money you put into your pension and the gains you make from its increases are mainly free of tax as well.

How much can I put in my pension?

You are limited on how much you (or the company you work for which runs the scheme to which you belong) can invest in your pension every year.

You can invest up to the amount that you earn ("earnings limit"). Any amount you invest above what you earn does not qualify for tax relief. So, if you earned £30,000 in a year but invested your entire £50,000 in savings, only the initial £30,000 would get tax relief.

An "annual limit" of £40,000 may be paid into your pension with tax relief for those earning £40,000 or more. You can also add an unused allowance from the preceding three tax years to that figure to maximise your advantage.

Worked example

If you invested £20,000 in your pension each year for the last three years, you would have £60,000 in addition to your annual limit of £40,000 in this tax year.

If you earn more than £150,000 in a year (including salary, your pension contributions, and your employer's pension contributions), your annual limit will reduce by £1 for every £2 you earn over £150,000. So, if you earned £170,000 over the year, your annual limit will shrink from £40,000 to £30,000.

Finally, there is a lifetime limit of, in the current tax year, £1,000,000. If your pension savings (including any interest or capital gains) are above this amount, you don't get relief on any further contributions.
If you run your own company and have subscribed yourself into your own workplace pension (where your company also makes contributions), any contributions from your company count towards your allowance.

Top tip

Any money your company pays into your own pension account reduces profitability and therefore any corporation tax liability.

Final salary pensions

Although many of them are now closed, final salary pension schemes used to be the most common type of pension that people invested in through the companies they worked for.

Essentially, when you come to retire, you are paid a proportion of your "final salary". Each year, your pensionable earnings are calculated to reflect any change in your pay. When you decide to retire, your final pensionable earnings are worked out once and for all.

During the time you've been saving into the pension, you're building up an accrual rate every year – sometimes it can be one fiftieth or one sixtieth. The accrual rate is defined in the rules of the pension scheme.

As an example, if someone has been on a final salary pension for 30 years, each year they've saved counts as one fiftieth, and this person's final pensionable earnings are £40,000, this is the calculation:

Length of service (30 years) X pensionable earnings (£40,000) = Pension of £24,000 per annum
Accrual fraction (50)

This means that, when this person retires, they will receive £24,000 income per year. In the third article in this series, we'll look at different ways of accessing the cash.

Money purchase pension

This is now the most popular type of pension. With a money purchase pension, you can swap your cash at the end of the pension for an "annuity", or take withdrawals directly from the pension fund, known as "pension drawdown". An annuity is a type of insurance that will pay you a fixed sum (subject in many cases to inflation) for the rest of your life, but the guaranteed income will depend on age when you started the arrangement and cannot be changed. Pension drawdown is a more flexible way of taking withdrawals that can be changed but is not guaranteed to last for the rest of your life.

There are six main types of money purchase pension variations:

- Self-invested personal pensions (SIPP) – do-it-yourself pensions scheme. You decide where you invest. Income from assets within the scheme is not taxed and there is no capital gains tax payable on divestment from a particular asset.
- Trust-based workplace pension schemes – a workplace pension scheme run by a group of trustees that you appoint, not by a large pension provider.
- Contract-based workplace pension schemes – these schemes are managed by a third party (like an insurance provider) on the basis of a contract agreed between the member of the scheme and that provider.
- Trust-based pensions – money is kept away from your company by a board of trustees. These schemes allow benefits to be passed onto your partner or anyone dependent on you
- Group personal pensions – you will normally have the choice of the type of investment you want to make with a group personal pension but an employer chooses the third-party insurance provider.
- Stakeholder pensions – similar to the workplace pensions mentioned above. Their main features are low minimum contributions with capped charges and flexible payments.

What are the types of things my pension can invest in?

Pension companies invest in many different types of asset. It's your decision to choose a pension whose investment strategy and risk profile matches your own.

Most people investing in a pension choose providers offering a diverse portfolio of assets to try to spread the risk. It's always dangerous to put all your eggs in one basket. What may be the darling of investments one year might be toxic next year (think dot-com shares at the turn of the century, complex derivatives around the time of the Financial Crisis or US housing stock at the start of the credit crunch).

If you run a SIPP scheme, you are allowed to invest in and receive the tax benefits on –

- stocks, shares, futures, and options (only on a recognised exchange)
- authorised UK unit trusts
- open-ended investment companies
- UCITS funds
- unauthorised unit trusts as long as they don't invest in residential property
- unlisted shares
- FCA-regulated investment trusts
- unitised insurance funds from EU insurers and IPAs
- deposits and deposit interests
- commercial property (including hotel rooms)
- non-residential ground rents
- traded endowments policies
- derivatives products
- legislatively-approved, investment-grade gold bullion

SIPP schemes are designed for experienced investors comfortable with the risks associated in taking their own decisions.

Next time…

We look in more depth at the different types of pension offered and the salary sacrifice scheme.
If you have any questions on pensions, please call or email us.

Pensions (2/4) - Different types of pension and salary sacrifice (article, 1,200 words)

In our last article, we looked at how pensions worked. We considered personal pensions, the tax relief they attracted, how much you could put into your pension pot, which investments could be included in your pension and the crucial difference between final salary and money purchase schemes.

In this article, we're going to look at the pros and cons of personal pensions and workplace pensions. As ever, every person's situation is unique and while the information contained in this piece is a guide, it does not constitute investment advice. You should not make nor refrain from making a decision based upon the contents of this webpage.

In this article, we're going to consider personal pensions versus workplace investments.

As the majority of our readership are directors/shareholders of their own limited companies, any workplace scheme that you set up for your business is one that, as an employee, you can enrol in to yourself. So, we're going to assume that if you do set up a workplace scheme, it would be that one you'd personally pay into rather than paying into a pension that is different from all your staff members (with the exception of SIPP and SSAS schemes).

Advantages of having a pension

In our previous article, we looked at:

- the tax relief you will enjoy with a pension
- the Pension Commencement Lump Sum which allows you to release up to 25% of your pension free of tax
- how your pension fund can be passed onto your spouse, children or grandchildren free of tax, and
- how pensions can help you recover your higher rate tax, High Income Child Benefit charge, and even the lost personal allowance for those earning between £100,000 and £123,000.

Both personal pensions and workplace pensions enjoy these benefits.

Personal pensions – no employer contributions

With a personal pension, you are responsible for introducing the money into your pension pot and what your pension invests in.

Your pension can match your risk appetite but with all pensions, how much you receive at the end will depend on how well your investments have performed. Your pension provider will also deduct money from your pension account in charges which, over time, may substantially reduce the amount you have left.

You're free to switch between pension plans whenever you want (although there will almost certainly be a fee for switching).

People considering taking out or switching to a different pension provider are advised to seek the advice of a professional. There are thousands of competing pension products available and, for someone without a deeper understanding of the marketplace, selecting the right option for yourself may be challenging and confusing.

Workplace pensions to which employers contribute

From 2018, all employers must provide a workplace pension for eligible staff.

Eligible staff are those between the ages of 22 and the state pension age working in the UK and earning £10,000 a year or more. (Employees can opt-out but we'll cover this in another article later on).

With workplace pensions, both the employee (or director) and the company pay into the scheme. **This will usually mean more money going into your pension pot than a standard personal pension.**

The amount that both have to put in is increasing over the next three years –

Date	Total minimum contribution	Employer minimum contribution
Before 05/04/2018	2% (including 1% staff contribution)	1%
06/04/2018-05/04/2019	5% (including 3% staff contribution)	2%
06/04/2019 onwards	8% (including 5% staff contribution)	3%

Employee salary is defined as salary between £5,876 and £45,000. Salary includes basic wages, commissions, bonuses, overtime, and the various forms of statutory pay (sickness, maternity, ordinary or additional paternity, and adoption).

So, if you pay yourself mainly in dividends, you won't get that much benefit as it's only the salary part of your take-home pay that will attract employee and employer contributions.

Any employer contributions your company makes to your pension or your staff member's pensions comes directly off your profits so you will pay less corporation tax.

Your employees will have no choice as to the pension plan you choose for your company but you will. Therefore, as an employer, you theoretically have just as much flexibility in your choice of workplace pension (and the associated risk profile) as if it was your own personal pension.

SSIP and SSAS, both of which allow employer contributions

There are two types of pension plans available for active investors – the SIPP (self invested personal pension) and the SSAS (small self-administered scheme).

In the last article, we covered what you could invest in via your SIPP. SIPPs are a good choice for those who want their own investment portfolio whereas SSASs is an investment portfolio shared between and administered by its members. You can be a member of a SSAS and an SIPP at the same time.

For a SSAS, you can invest in:

- stocks, shares, futures, and options (only on a recognised exchange)

- futures and options traded on recognised futures exchange
- authorised UK unit trusts and OEICs and other UCITS funds
- unauthorised unit trusts as long as they don't invest in residential property
- Investment trusts subject to FCA regulation
- unitised insurance funds from EU insurers and IPAs
- Intangible assets such as intellectual property (IP)
- deposits and deposit interests
- commercial property (including hotel rooms, with certain restrictions)
- traded endowment policies
- derivative products
- legislatively-approved, investment-grade gold bullion
- P2P Lending is also eligible across some platforms

SSAS's are occupational pensions set up by the directors of a business who want a lot more control over the investments made (and that includes s decision for a SSAS to invest in their own business(es)). Each member of an SSAS is usually a trustee meaning that they have to register with The Pensions Regulator, register the scheme with HMRC, among other duties.

A SSAS has one or more sponsoring employer meaning it can both invest in and lend to different sponsoring employers within the scheme. An SSAS can own one of the sponsoring employers in its entirety as long as the value of that employer's shares is not greater than 5% of the value of the SSAS.

SSASs do not pay tax on interest, dividends, and investments.

Personal contributions qualify for full personal tax relief (subject to the information in the "How much can I put in my pension?" chapter in the last article).

The picture with employer contributions is a little less clear. If HMRC deems that your salary is less than someone in your position would expect to be paid and your pension contribution higher, expect HRMC to rule it as unallowable.

Salary sacrifice

Salary sacrifice allows you as a director and your colleagues to forgo some of their gross (before tax) salary and for those savings (tax and National Insurance) to be used to increase the size of the pension contributions you make. As an employer, you do not have to pay National Insurance Employer's Contributions on the salary sacrifice element.

Our advice

Pensions are complicated investment products and we advise that you take professional advice in selecting or switching pensions.

In the next article, we'll look at the various ways in which you can draw down money from your pension, including the topic we're asked about most on this subject – the Money Purchase Annual Allowance.

Pensions (3/4) - Money purchase annual allowance (article, 700 words)

In the first two articles of this series, we looked at the different types of pension available to you and how much you could save in them. For the final two parts, we're looking at your options to take money out. In this article, pension freedom and the money purchase annual allowance.

But first, some background. Before April 2015, most people used their pension to purchase an annuity. An annuity is an insurance product that guarantees a pay-out of money to you at a certain level until you do.

In April 2015, pension freedom was introduced

Then Chancellor George Osborne, in his Budget, allowed defined contribution pension savers to withdraw money from their pension pot once they'd reached 55.

A saver could withdraw 25% of their pension without paying any tax. Any amount over that would be taxed according to whether they paid at basic, higher or additional rate during the financial year in which they took the money out.

What options are open to pensions savers from 55?

You can leave your pension alone – there's no compunction on you to do anything.

You may still withdraw cash at any time you like with only 25% of it being taxed. So, if you had £150,000 in your pension and you withdrew £30,000, the first £7,500 would be tax-free with the remainder taxed at your personal rate.

The second option is to take 25% tax free and then invest the remainder in a flexible income draw-down policy. The situation with this is that you get the first 25% you withdraw and pay no tax. The rest is taxed when you take the money. This option is normally recommended for those savers who believe they'll be taxed at the basic rate in retirement.

The third option is to take the 25% tax free and buy an annuity with the rest to guarantee you a static and predictable income for the rest of your life. We'll be covering annuities in the next part of this series.

If you do take money out of your pension pot, you need to be aware of the Money Purchase Annual Allowance

When the new freedoms were launched, a new pensions tax came into existence called the Money Purchase Annual Allowance.

This was designed to stop savers withdrawing from their pensions and then re-investing it to take advantage of the tax breaks.

For argument's sake, let's say you withdrew £24,000 from your pension in cash and you were a higher-rate taxpayer. As long as you hadn't paid £40,000 or more that financial year into your pension (assuming you had no unused allowance from previous years) and you paid that £24,000 back into your pension, the government would top it up by another £16,000.

The government were very keen for this not to happen.

Initially set at £10,000 per annum and now reduced to £4,000, the Money Purchase Annual Allowance taxes you if you (and/or your employer) contributes more than that to your pension in a financial year. The amount you'll pay will be equivalent to as if you'd been paid the excess as income tax..

In other words, you lose your BIG annual limit for pension tax relief as soon as you withdraw a lump sum from your pension

No more £40,000 annual limit – it's £4,000 you can now save with tax relief. If you withdraw money at 55 and still intend to work until State Pension age, your pension will not grow in size anywhere near as quickly as it did before you took the money out unless you're prepared to pay in at the same rate as before and be taxed on it.

Even though the Money Purchase Annual Allowance is designed to deter pension money recycling, bear in mind that even if the vast majority of income you could invest into your pension after taking the up to 25% out of your pension pot would come from elsewhere (rental income, company dividends, and so on), the limit is still £4,000 tax-free savings. End of discussion. Be very careful and think through if you really need the money.

In the next article, we'll look at how to make sure you don't run out of your pension when you need it.

Pensions (4/4) - Making sure you don't run out of pension money (article, 650 words)

In the previous article, we considered the advantages and disadvantages of the pensions freedoms rules which allow you to withdraw up to 25% of your pension pot tax-free after the age of 55. The good news is – it's tax free. The bad news is that, if you want to continue to pay into your pension, your annual tax-free limit is £4,000 and not the £40,000 before you took the money out.

In this final article, what do you need to do to make sure your pension pot doesn't dry up when you need it?

Get ready for some sobering statistics…

Drawing down from your pension pot - the four big numbers

There are four hugely important numbers that will determine whether you enjoy the type of comfort you want in retirement, and they are…

- how much is in your pension pot,
- how much you want to draw out of your pension every year,
- the annual growth your pension enjoys, and
- how long you live for

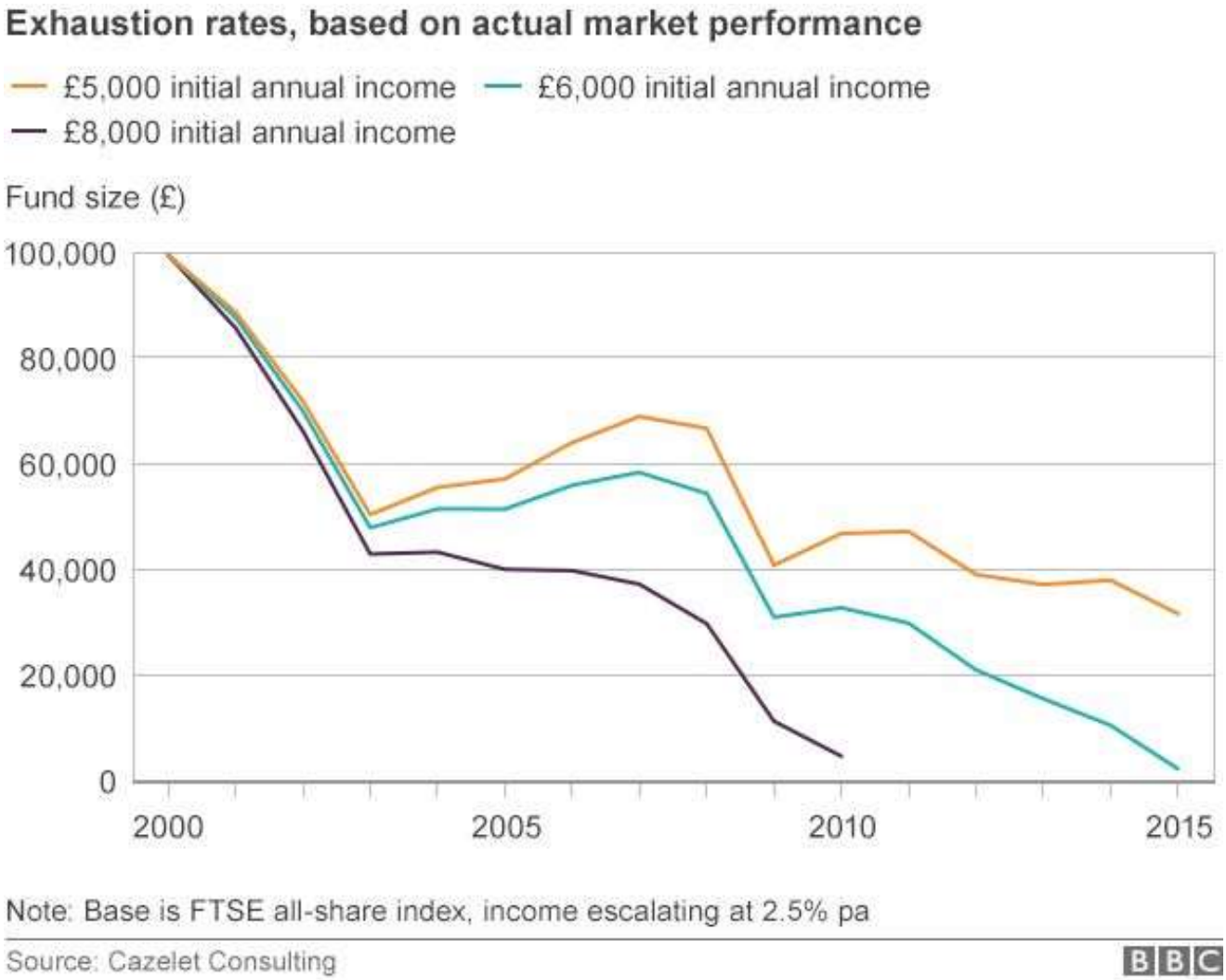
Exhausting your pension pot

In an interview with BBC News Online, Ned Cazelet of Cazelet Consulting showed that someone withdrawing £6,000 a year from their £100,000 pension pot would, in theory, run out of money in 26 years. Someone else taking out £5,000 a year out of the same sized pot could expect, again in theory, 35 years of pay-outs.

These assumptions are based upon 6% growth in your pension fund every year with income escalating at 2.5% per annum.

If you had £200,000 in your pension pot and took 6% a year, you'd receive £12,000 a year for 26 years. However, had you withdrawn 25% of the cash tax free earlier on, that £12,000 would now be £9,000 a year.

Ned Cazelet called these predictions "fantasy" because, if the fund requires the return to come from stocks and shares (and their resulting dividends), someone investing in the year 2000 would have seen the following –



In 2000 and 2001, stock markets plunged. Instead of lasting 26 years, the person taking £6,000 out would only see 15 years of payout before their pension pot disappeared.

Speaking on the same BBC news article, Richard Parkin, the head of retirement at Fidelity Worldwide Investment said, "taking around 4% per annum is relatively safe, and gives you a good chance of not using up your capital".

Other experts however disagree with Mr Parkin. Researchers at Morningstar, the data firm, told the Daily Telegraph that the real figure could be as low as 2.5%, based upon a calculation of a safe initial withdrawal rate in each year from 1900 to 1986.

What about buying an annuity?

One way of guaranteeing you won't run out of money is by taking out an annuity.

It's a form of insurance policy that guarantees you will receive pay-outs until you die. As you'd expect, this certainty of receiving cash comes at a cost later on for many.

According to Retirement IQ, a pensions consultancy, the best buys in April 2017 for a single, healthy person retiring at the age of 65 came from L&G offering a £5,084 a year pay-out on every £100,000 invested.

Annuity rates are priced against government debt (gilts) and have plummeted from an average of around 15% in 1990 to around 5% in 2017.

So, which is better?

With a drawdown pension, you can decide the level of payout but you may run out of money faster than you think.

With an annuity, you'll be paid a lot less but be guaranteed that payout for as long as you live. Remember that once you're invested in an annuity, you're invested. Your pension pot now belongs to the annuity provider and they're going to give it (or sell it) back to you.

The answer comes down to a combination of the level of comfort you're prepared to accept in retirement, how long you think you (and your partner/spouse) will live, and your appetite for risk.

SEIS and EIS (long form article, 1,350 words)

Looking for people to invest in your business? If you can make your investment opportunity SEIS or EIS compliant, you'll be offering potential investors the chance to benefit from very generous tax incentives. Here's what you need to know…

SEIS and EIS – the Seed Enterprise Investment Scheme (SEIS)

SEIS is for smaller companies. If you have fewer than 25 staff, are less than 2 years old, and have less than £200,000 in gross assets, your business can qualify under the scheme.

SEIS shares are also exempt for inheritance tax as long as your investors have owned the shares for two years or more.

There's a cap of £100,000 worth of investment into SEIS schemes a person can make within one year.

SEIS and EIS – income tax relief for SEIS investors

Let's say that you've set up a brand new online start-up offering the latest fashionwear on mobile phones, "FVictim".

Any investor putting their own money into it would get 50% income tax relief on their investment. So, if your investor put £15,000 of his or her own money into your SEIS-qualifying investment, they could deduct £7,500 from their income tax bill as long as they keep their shares for a 3-year period.

What if your investor had only paid £5,000 income tax in that year? They could claim all of that £5,000 back but they wouldn't be able to claim the remaining £7,500.

For your investor to claim, they must do so within 5 years after the 31st January following the financial year that they put their money into your company. They can also take the option to treat the shares in your business as having been issued in the previous financial year to use up any income tax relief they're entitled to from that period.

Note – income tax relief is not applicable to your investor if they own more than 30% of your company's share capital or voting rights.

SEIS and EIS – SEIS capital gains tax (CGT) exemption relief

Your investor also has the option of deferring 50% of their CGT up to the amount of their investment.

Your investor has put in £15,000 into FVictim. So, their CGT exemption will save them £2,100 in tax. This is because CGT for additional rate taxpayers is at 28% and 28% of £15,000 is £4,200. 50% of that £4,200 is £2,100.

CGT is 10% for basic rate tax payers means they can claim back £750. CGT for higher-rate tax payers is 20% so the relief would be £1,500.

If your investor disposes of the SEIS shares, ceases to be a UK resident, or the SEIS shares cease to be eligible within three years of their investment, the exempted CGT will have to be paid back to HMRC.

SEIS and EIS – SEIS capital gains tax (CGT) exemption

If, for whatever reason, your investor in FVictim loses the belief and disposes of his or her shares within three years of purchase, they can claim exemption from CGT for the shares which they could initially claim income tax relief on.

In cases where income tax relief was not given on the full amount your investor put in, they can claim the proportionate gain back with their CGT exemption.

SEIS and EIS – relief for losses with SEIS

Let's say that FVictim didn't make it, leaving disappointed investors nursing their losses. One of the major attractions of SEIS is that if your investor's losses are greater than the amount they claimed in income tax relief, they can benefit from even more tax relief at the rate they pay income tax at.

How would this £15,000 loss look at SEIS relief for basic, higher, and additional rate tax payers?

	20%	40%	45%
Your original investment	£15,000	£15,000	£15,000
Income tax relief	£7,500	£7,500	£7,500
CGT relief	£2,100	£2,100	£2,100
Loss incurred	£5,400	£5,400	£5,400
Loss relief	£3,375	£3,000	£1,500
Net loss	£2,025	£2,400	£3,900

Let's now look at SEIS's big brother, EIS.

SEIS and EIS – the Enterprise Investment Scheme

What are the big differences between SEIS and EIS? Mainly, it's down to scale.

Individual investment in SEIS schemes are capped at £100,000 a year. For EIS schemes, that figure is £1,000,000.

Note – in addition, after being invested for two years, an investor's EIS investment qualifies for Business Property Relief and thereby becomes exempt from inheritance tax.

For EIS, the company may have up to 250 staff, be listed (although not on a major stock exchange) and have gross assets pre-investment of £16,000,000.

Wealth warning – as with SEIS, EIS investments are illiquid, even if listed on a non-major exchange. Selling your shareholding at any point may be exceptionally difficult and in times of low demand, the value of your investment may drop through the floor.

So, what incentives are there for investors with EIS?

SEIS and EIS – income tax relief for EIS investors

Let's consider the investment landscape for "Eurovision Forever", a mobile app which deliver direct to users' phones 6 different radio stations based upon Eurovision song contest entries segregated by decade.

Now, don't get your hopes up. This investment does not yet exist but let's pretend it does! 😊

Income tax relief is set at 30%. So, if your investor put £150,000 into Eurovision Forever, they'd be able to claim back £45,000 in income tax for the year in which you made their investment.

As with SEIS, if your investor paid less than £45,000 in the year of investment, they would only be able to claim up to the amount of income tax they actually paid. Also, if your investor has more than 30% of their shares or voting rights two years before EIS shares were issued and ending three years after their issuance, income tax relief cannot be claimed. Your investor may not be employed by the company (or its parents or subsidiaries) in any capacity, including as a director.

Heads-up – EIS investor involvement is based around the complicated notion of "connectedness". Before you or your investor commits, please talk to us about what you want and we'll give you our professional opinion.

SEIS and EIS – EIS capital gains tax (CGT) deferral relief

It's possible for your investor to defer CGT on the disposal of their shareholding if they make their EIS investment in a period that starts one year before and ends there years after they benefited from their gain.

As with SEIS, if your investor disposes of their EIS shares, they cease to be a UK resident, or the EIS shares become ineligible for the scheme, HMRC will want your investor's money back.

Tax tip – please take to us about how to minimise tax with these types of investments as this is one of the few times that deferment of tax may actually work to your detriment.

SEIS and EIS – EIS capital gains tax (CGT) exemption

Your investor can claim exemption from CGT for shares which qualified for income tax relief. They need to hold onto their shares for three years minimum however.

And if income tax relief was not given on the full amount your investor put in, they can claim a proportion of that gain back with their CGT exemption.

SEIS and EIS – relief for losses with SEIS

Sadly, Eurovision Forever didn't really get close to their two million subscribers they had needed to provide a return for investors. They had big trouble getting their subscriber base past 2,000 and had to shut up shop.

As with SEIS, there is tax relief that its investors can use to mitigate much of their losses and shown here –

	20%	40%	45%
Your original investment	£15,000	£15,000	£15,000

Income tax relief	£4,500	£4,500	£4,500
Net cost to investor	£10,500	£10,500	£10,500
Loss relief	£3,150	£4,200	£4,725
Cost to investor after tax	£7,350	£6,300	£5,775

SEIS and EIS – get in touch with us

We work with tech start-ups and help with management accounting for growth. Our MD, Gareth, is also a veteran of Silicon Valley and has seen many a deal done with both angels and VC funds.

We can help you structure your business for both SEIS and EIS investment. To find out how, please call or email us.

Should you incorporate your buy-to-let business? (article, 775 words)

If you are currently a landlord or considering becoming one, you may already be aware of the recent changes in the buy-to-let sector. With a now much less generous tax system in operation when personally buying property and letting it out, many landlords are considering incorporating their buy-to-let businesses.

Essentially, it means your properties would belong to your company instead of you personally. This is a big decision for any investor to make so please make sure you talk to an understanding and experienced colleague here at our company before proceeding.

We can then help you decide if incorporating is the right decision for you and how to go about it.

What is wrong with the old system?

It's no secret that the government has had a very public change of heart regarding buy-to-let investors. Where decades' worth of effort and initiatives went into fuelling the sector, new rules and regulations are a clear sign that attitudes have changed.

Buying a property that will not be your primary residence now carries an additional £7,000 extra in tax on the average-priced UK home. The new 3% hike in stamp duty means many investors are now having to find more actual cash than ever before for their new investment properties.

You can no longer deduct your mortgage interest before arriving at your profit figure when paying your tax, and the automatic 10% wear and tear allowance is a thing of the past.

If you choose to sell your buy-to-let property, you'll soon no longer be able to wait until your next self-assessment date to pay the capital gains tax. As of April 2019, you'll be liable to pay it within just 30 days of the sale.

The hike in stamp duty means that building your portfolio costs you considerably more and the new rules on rental income make turning a profit much more difficult. Against this backdrop, many landlords are looking for alternative options.

Incorporating your business

Evidence suggests that the landlords are moving en masse to incorporation.

According to the UK's largest estate agency group, Countrywide, a record high 20% of all rented homes in the first quarter of 2017 were owned by companies rather than individual landlords. Data from MoneyFacts suggested that the number of buy to let mortgages available to limited company borrowers had increased by 10% in the year since last April.

Why?

When you hold properties personally, you may have to pay as much as 45% on your profits, however as a limited company, you'll pay corporation tax instead which applies at just 19%.

You'll also get to choose whether you receive income from your limited business as dividends. You have a £5,000 personal allowance this tax year which will reduce to £2,000 from 2018/19.

If you have a very large portfolio, the market value of your shares in your incorporated property business could greatly increase when you pass away. However, if you owned the properties personally, you won't be able to benefit from Business Property Relief and your loved ones could be left with a large inheritance tax bill.

Are there any drawbacks?

Yes.

When you incorporate your buy to let business into a limited company, you essentially sell your property portfolio to your company. In HMRC's eyes, two transactions per property are taking place.

On the sale of a property from you to your company, if you're a basic rate tax payer, you'll have to pay 18% of your profits in capital gains. As a higher or additional tax payer, you'll be liable to hand over 28%.

As your company is buying the home from you, it will be charged the enhanced stamp duty rate.

If you have 10 properties you wish to transfer, that's 10 lots of capital gains tax and 10 lots of the increased rate of stamp duty land tax. Depending on your personal situation, you may have to have a significant amount of cash available to perform your incorporation.

If any of the properties in your portfolio are of particularly high value, worth £500,000 or more, you'll also have to pay an annual charge on ownership (as well as domestic rates when the house is unoccupied). Properties between £500,001 and £1,000,000 carry a charge of £3,500 a year in tax. Anything between £2m and £5m will cost you as much as £23,550.

This charge does not apply to personally held properties. Click here to read HMRC's regulations on annual tax on enveloped dwellings.

Incorporating your buy-to-let business – talk to our team

Depending on the value and size of your portfolio, incorporating needs careful planning not just for capital gains tax and stamp duty considerations – this brings up inheritance tax issues too. Please call or email us.

Buy-to-let landlord tax (article, 775 words)

For 20 years, buy-to-let investment boomed in the UK, stoked up by a favourable tax regime and generous lending criteria. There are still plenty of finance companies happy to lend to buy-to-let investors however the government's attitude towards the sector has changed.

In the article, we report on the new regime. We've crunched the numbers to see how it will affect you when buying, renting out, and selling buy-to-let houses.

This article discusses the situation in England only. There is a different system in Scotland and the Welsh Assembly are considering launching a separate system in 2019.

Buy to let tax changes – when you buy a home

Those looking to get onto the housing ladder are set to benefit from stamp duty being abolished for first time buyers on purchases of £300,000 or under. For purchases over £500,000, the first £300,000 will not be considered when calculating the stamp duty payable.

For homes under £500,001, this is the new three-tier stamp duty land tax regime:

Band	Normal Rate	First time buyer rate	Additional Property
£0-£39,999	0%	0%	0%
£40,000-£124,999	0%	0%	3%
£125,000-£249,999	2%	0%	5%
£250,000-£300,000	5%	0%	8%
£300,001-£500,000	5%	5%	8%

Once the purchase price goes over £500,000, there is a two-tier system:

Band	Normal Rate	Additional Property
£500,001-£924,999	5%	8%
£925,000-£1,499,999	10%	13%
£1,500,000 and above	12%	15%

At the time of writing, the current average house price in England is £243,220.

If you buy a home at this price and it's your primary residence, the first £125,000 would not attract any STLD. The other £118,220 would attract STLD at 2%. Therefore, you would need to pay £2,364.40 to cover STLD.

If you were buying this home to let it out, the first £125,000 would attract STLD at 3% (£3,750). The £118,220 would result in a charge of 5% (£5,911). Your total STLD bill would come to £9,661.

In other words, you're pay an additional tax premium of £7,296.60 as it's not your primary residence.

Buy to let tax changes – the tax on rent has changed completely

Before the law changed, you could claim back both expenses and mortgage interest before you calculated the profit you needed to pay your tax on.

Under the old system, this is how it worked out for a higher rate tax payer.

Income from renting	£10,000
Mortgage interest costs	£3,750
Other deductible costs	£2,000
Taxable income	**£4,250**
Tax due at 40%	£1,700
Profit from BTL	**£2,550**

That's all changed. You can claim back expenses still but you can only deduce mortgage interest after working out the level of profit. It comes into full force in 2020/2021 so how do the numbers look for the same property with the same mortgage and same rent payments in that year?

Income from renting	£10,000
Other deductible costs	£2,000
Taxable income	**£8,000**
Tax due at 40%	£3,200
Mortgage Interest Relief @ 20% of £3,750	£750
Tax due	**£2,450**
Profit from BTL	**£1,800**

As you can see, your tax (at the 40% band) has soared from £1,700 in 2015/2106 to £2,450 in 2020/2021.

The new system is being brought in between now and FY20/21 and here's how the calculations look for the same example for each year.

40% taxpayer	YR 16/17	YR 17/18	YR 18/19	YR 19/20	YR 20/21
Rental Income	£10,000	£10,000	£10,000	£10,000	£10,000
Mortgage	£3,750	£3,750	£3,750	£3,750	£3,750
Costs	£2,000	£2,000	£2,000	£2,000	£2,000
Reduction in mortgage interest allowance	£0	-£938	-£1,875	-£2,813	-£3,750
Taxable Income	£4,250	£5,188	£6,125	£7,063	£8,000

Tax at 40%	£1,700	£2,075	£2,450	£2,825	£3,200
Mortgage Relief Due	£0	£188	£375	£563	£750
Tax Due	£1,700	£1,888	£2,075	£2,263	£2,450

If you're a basic rate taxpayer, you won't notice any difference unless what you earn from your buy-to-let properties pushes your earning into the 40% rate category.

If you're a higher rate tax payer and your mortgage interest payments are 75% or more of the rent you receive, your profit disappears. For additional rate tax payers, that level is 68%.

Buy to let tax – what else has changed?

Your 10% wear-and-tear allowance has also disappeared. From now on, you need to keep receipts for every item of expenditure on wear-and-tear to claim it back.

Before the changes, you paid CGT on property you'd sold when you did your self-assessment. Now, you've got 30 days to pay your CGT to HMRC. The rules regarding limited company disposal of property haven't changed – settlement is still made nine months and one day after year end through corporation tax.

Buy to let tax – want help?

We can help with all aspects of the financial and tax management of your buy-to-let portfolio. To find out how we can work together, call or email us.