Ellacotts

FINANCIAL PLANNING FOR YOUR FAMILY

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Financial planning for your family

At Ellacotts we can advise on tax and wealth planning strategies for you and your family, ensuring that you meet your financial goals and protect your wealth for future generations.

Know your allowances and exemptions

By using the available Personal Allowances and Capital Gains exemptions, a couple with two children could have income and gains of at least **£98,000 tax-free**, and income up to **£200,000** before paying any higher rate tax.

Your tax planning objectives should include taking advantage of tax-free opportunities; keeping marginal tax rates as low as possible. This may include transferring income producing assets but you would need to consider the relevant taxes and the advice would vary depending on whether or not you are married or in a civil partnership.

Marriage Allowance

Some married couples and civil partnerships can transfer a fixed amount of their Personal Allowance to their partner. This is available where neither pays the higher rate of tax. If eligible, one partner will be able to transfer 10% of their personal allowance to the other, providing a potential benefit of **£250.**

Dividend Allowance

The first £2,000 of dividend income is tax free, this does not change the amount of income that is subject to income tax but subjects the first £2,000 of dividend income to 0% tax.

Personal Savings Allowance and starting rate band

Basic rate tax payers have a Personal Savings Allowance of £1,000 and higher rate tax payers an allowance of £500, a tax saving to both of £200 each year. This allowance is not available for additional rate taxpayers.

There is also a 0% tax rate for savings income dependant on your other level of income and this is capped at £5,000.

Child Benefit

If either partner earns over £50,000 in a tax year, the Child Benefit Charge applies. The charge applies at a rate of 1% of the full Child Benefit award for each £100 where earnings are between £50,000 and £60,000. The charge on taxpayers with income over £60,000 will be equal to the Child Benefit received.

You will need to consider:

- Do you receive rental income? The new restriction to the mortgage interest relief for higher rate tax payers increases your income meaning you could lose your Child Benefit.
- Seek advice on equalising income to prevent one partner exceeding the limit.
- Be aware of family living arrangements. You may have step children living with you and your income exceeding the threshold would prevent Child Benefit being received.

Non UK Domicile

It is worth being aware that your residence and domicile can significantly impact tax and this should be taken into account.

Hidden 45% and 60% rates

Be careful, when your income exceeds £150,000 you pay 45% tax or 38.1% on dividend income. Worse still, when income exceeds £100,000 your Personal Allowance is scaled back by £1 for every £2 over £100,000 and means where your income is £125,000 you will not receive the Personal Allowance at all. In addition, where you have lost your Personal Allowance you could be paying an effective rate of tax over 60%.

Grandparents trust planning

This can be effective for both the grandparents and the children. Where grandparents want to provide for their grandchildren and cut their own Inheritance Tax (IHT) bill coupled with ensuring the children's Personal Allowances are used each year. The type of trust and underlying investment would be considered on a case by case basis, to best suit the family needs.

Life Assurance

- Designed to provide your family with a lump sum or regular income should you die during a predetermined period of time.
- It is also possible to include critical illness cover, which would provide cover should you suffer a critical illness as defined by the insurance company during the policy term.
- Cover can be level, increasing or decreasing – with level or decreasing cover, premiums do not change. Increasing cover does mean premiums increase at the same rate at cover.
- You chose how long you want to be covered for – generally until your children are no longer dependent.

Savings for children

Junior ISA

- Up to £4,368 can be invested in the current tax year.
- Child cannot access savings until age 18.
- Can use stocks and shares or cash ISAs.
- Does not count towards parents ISA allowance.

Regular Savings Unit Trust

- Potential for better returns than cash.
- Gives parent control over when child can access money.
- Parent choses how much or how little risk to take.
- Flexible investment term.
- Ability to increase, decrease, add lump sums or stop altogether.
- Can be accessed at any time if needed.

Pensions

- Up to £2,880 net can be paid into a pension.
- This receives tax relief of £720, so total contribution is £3,600.
- Not normally classed as a gift for IHT purposes.
- Child cannot access money until age 55 (under current legislation).
- Tax-efficient growth.
- Tax-efficient death benefits.

Be aware, parents are taxed on income generated from gifts made by them into some savings, where the income exceeds £100.

Contingency plan

Don't forget to have a contingency plan. Whilst maximising your income and protecting your wealth is important, ensuing your family have a plan should you die or become incapacitated is key. Having Wills and Powers of Attorney in place is therefore vital.

What does everything mean?

Statutory Maternity Pay or Maternity Allowance

Payable by your employer or the government depending on your length of work or National Insurance contributions, and if you're self-employed. Currently paid at a maximum rate of £148.68 per week for 39 weeks. Eligibility only to one, not both.

Maternity leave

You are entitled to 52 weeks leave which you do not have to take, but you must take at least two weeks after the baby is born. You can still get Statutory Maternity leave and pay if your baby is stillborn or dies after being born.

Paternity leave

If your partner is having a baby, adopting a child or having a child through surrogacy, you are entitled to 1 or 2 weeks paid paternity leave.

Adoption leave and pay

Up to 52 weeks leave for one person in a couple. Statutory Adoption pay is paid for 39 weeks up to £148.68 per week.

Shared parental leave

You and your partner can share up to 50 weeks of leave and up to 37 weeks of pay if you're having a baby (including through surrogacy) or adopting a child. Eligibility is different for adopters or birth parents

With the statutory leave and pay – check your eligibility if you are deemed a 'worker' and not an employee. Also check if your employer has an enhanced maternity or adoption leave policy. There are employee rights protecting you.

Child Benefit

Currently payable at a rate of £20.70 per week for the first child and £13.70 for any additional children you are responsible for. If one of you earns over £50,000 per annum, the Child Benefit will start to be clawed back by the the government. However it is still worth completing the eligibility forms but not receiving the benefit as it counts towards your National Insurance contributions.

Tax Credits

Working Tax Credit and Child Tax Credit are payable to low earning workers. There are calculators available on the government website as the amount of entitlement varies on each individuals circumstances.

Tax-Free Childcare

Replacing the childcare vouchers (see below) you can claim up to £2,000 per year, per child to pay for registered nurseries, childminders or registered after school clubs. You pay in £8 and the government pays in £2. You must be working a minimum of 16 hours per week and be paid at least the National Minimum Wage/National Living Wage. If you or your partner earn over £100,000 per year, you will not be eligible. Adopted children are eligible but foster children are not. You also cannot claim Tax-Free Childcare if you claim any of the tax credits (working, child, or universal) or childcare vouchers.

Childcare vouchers

This scheme was closed to new applicants from 4 October 2018. Basic rate taxpayers registered prior to this could salary sacrifice up to £243 per month from their salaries and save the Income Tax and National Insurance (up to £77 per month). This amount reduces for higher rate taxpayers.

30 hours free childcare

Eligible from the term after your child turns 3 and is in registered childcare. This amounts to 1,140 hours per year. You must be working for at least 16 hours a week and earning at least the National Minimum Wage (but not more than £100,000 per year). Foster parents cannot claim online but must speak to their social worker. You can get 30 hours free childcare in addition to Tax Credits and Tax Free Childcare. Regardless of eligibility, all 3 and 4 year olds (and some 2 year olds) are entitled to 15 hours free childcare.

Free school meals

Children attending government funded schools will be eligible for free school meals for Reception, Year 1 and Year 2.

Richard Martin
"I had by chance seen an obscure piece of legislation on the HMRC website regarding the purchase of multiple properties. My solicitor knew nothing about it and doubted it would apply to my farm purchase. An internet search found little except a reference on the Ellacotts website. They guided me, my solicitor and surveyor through the process and I was delighted to save about £15,000."

John Forkun
"Ellacotts responses are prompt, to the point and they are always able to apply their technical knowledge and experience in a practical and simple way to the matter in hand. They were proactive in asking me "What if...?" to give me an idea of other options and issues to consider so that I can keep my tax bills to a minimum."

Meet some of our team

You will have key contacts in our team available to answer queries and develop strategies.

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