Add Wealth Management Ltd

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How Individual Savings Accounts (ISAs) Work

You don't pay tax on the interest

A cash ISA works in much the same way as an ordinary savings account, except you do not pay tax on the interest you earn. ISAs are in addition to the new Personal Savings Allowance (PSA), which came into effect on April 6, 2016. With PSA, as a basic rate taxpayer you'll be able to earn up to £1,000 in savings income tax-free and as a higher rate taxpayer will be able to earn up to £500.

Are you making the most of your tax-efficient savings allowances?

Individual Savings Accounts (ISAs) and unit trust investment products can offer value for money, flexibility and a wide choice of investments; in addition, ISAs provide tax efficiency.

The good news is you are not required to include details of your ISAs on your self-assessment tax form. If you complete a tax return, you don't need to declare any ISA interest, income or capital gains on it.

With ISAs you have a maximum annual investment limit of £20,000 in 2018/19 and can use a combination of different types and each having varying terms and conditions.

There are many different types of Individual Savings Accounts (ISAs):

- Cash ISA - you can invest cash in bank and building society accounts
- Stocks and shares ISA - used to invest in stocks and shares (often via collective investments such as unit trusts and OEICs).
- Innovative finance ISA - peer-to-peer lending (high risk)
- Lifetime ISA - £4,000 a year into a Lifetime ISA and receive 25% government funded bonus
- Help to buy ISA - Government will boost your savings by 25% (you can only open a help to buy ISA up to 30th November 2019).
- Junior ISA - under 18s (in the 2018-2019 tax year, the savings limit is £4,260).

Children who are 16 or 17 are allowed to have an adult cash ISA as well as a Junior ISA. That means this age group has a larger ISA allowance than anyone else.

The key benefit is that any money you hold within an Individual Savings Account (ISA) is not subject to tax.

Your ISAs won't close when the tax year finishes. You'll keep your savings on a tax-free basis for as long as you keep the money in your ISA accounts.

Choosing the right Individual Savings Account (ISA)

There are many different types of Individual Savings Accounts (ISAs):

Cash ISA

The cash ISA is a tax wrapper, through which you can invest savings in bank and building society accounts.

There are no general restrictions on when you can withdraw funds, but special terms may apply for individual providers.

Stocks and Shares ISAs

Stocks and shares ISAs can include: shares in companies, unit trusts, investment funds and corporate and government bonds.

Innovative finance ISAs

Innovative finance ISAs include: peer-to-peer loans (loans that you give to other people or businesses without using a bank), crowdfunding and cash. You can't transfer any peer-to-peer loans you've already made or crowdfunding debentures you already hold into an innovative finance ISA.

Whilst Innovative finance ISAs may offer attractive interest rates, they can be higher-risk investments and are not covered by the Financial Services Compensation Scheme.

Lifetime ISA (LISA)

With a Lifetime ISA you can save up to £4,000 each year and receive a government bonus of 25%, but you have to be 18 or over and under 40 when you start the plan and can only make contributions until you're 50.

That's a bonus of up to £1,000 a year. You have the flexibility to use the cash that you're saving towards the purchase of a first home or towards retirement.

It's worth bearing in mind that you need to be 60+ to use the funds in a Lifetime ISA without incurring a penalty if you are not using it to buy a first home.

You need to have the LISA open for a year or more to be able to use it for a first home purchase and you must be buying a residential UK property to live in that costs £450,000 or less

Help to buy ISAs

If you are saving to buy your first home, you can save money into a Help to Buy ISA and the Government will boost your savings by 25%. So, for every £200 you save, you receive a government bonus of £50. The maximum government bonus you can have is £3,000. The home you want to buy must be in the UK and up to £250,000 (or up to £450,000 in London) and you'll only be able to open a Help to Buy ISA until 30 November 2019.

Help to buy ISAs are similar to the newer LISAs, but you cannot generally invest as much. The starting age for help to buy ISA is 16 and 18 for LISAs.

You're allowed to have a Help to Buy ISA and a LISA, though you can't get the first-time buyers' bonus on both. But you could get the Help to Buy ISA bonus for a home and then use the LISA and its bonuses for retirement.

To kickstart a help to buy ISA, you can deposit up to £1,200 into your account in the first month.

Junior ISAs

Junior Individual Savings Accounts (ISAs) are long-term, tax-free savings accounts for children.

There are 2 types of Junior ISA – a cash junior ISA or a stocks and shares Junior ISA. Your child can have one or both type of Junior ISA. Parents and others are able to save up to a total of £4,260 (2018-2019) for a child into a Junior ISA each year and that child cannot withdraw the funds until their 18th birthday.

From 18 a junior ISA can be converted into a regular ISA.

You can contribute to a child's Junior ISA in addition to investing in your own ISA. It can be a good way to help a child build up assets for the future.

Thinking about retirement?

Retirement

There is much to consider as you approach retirement. It's good to start by reviewing your finances to make sure your future income will allow you to enjoy the lifestyle you want.

It's never too early to start saving or thinking about your retirement. Retiring early is the easy part, but making your money last is hard.

Check your savings in your pension pots

A good start to find out where you're placed with your retirement plan is to get the details of all your pension pots. Pensions are a tax-efficient form of saving.

You may have paid into more than one pension pot. You'll need to contact each provider separately to find out how much is in each one. If you don't know how much you've got in your whole pension pot, or how many pots you've paid into, there are different ways to find out.

You can look at your **pension statement** - your provider should send you this once a year.

Online – many providers let you track your pension on their website.

Look at your '**wake-up' pack** – you get this from your pension provider between 4 and 6 months before your agreed pension age ('selected retirement age') which is usually between 60 and 65.

Contact your pension provider(s)

If you're less than 4 months away from your agreed pension age and haven't yet received a wake-up pack, you should contact your pension provider.

National Insurance contributions

Your state pension will be useful to have in retirement no matter how much you manage to save elsewhere. But it's essential you don't take it for granted without checking you will qualify.

Don't forget Carry Forward

You usually pay tax if savings in your pension pots go above the annual allowance. This is currently £40,000 a year.

Depending on your circumstances, you may be able to top up your allowance for the current tax year (6 April to 5 April) with any allowance you didn't use from the previous 3 tax years. This is called "carry forward".

Increase your pension contributions

In the years leading up to your retirement it may be worth considering topping up your pension by increasing the amount you pay into

your pension pot. You receive tax relief on contributions that you pay into your pension. If you can put more into your pension it's worth considering, if you receive a pay-rise or a bonus then it could be a good idea to ring-fence that money for your retirement savings. It's worth remembering that you can get tax relief on private pension contributions worth up to 100% of your annual earnings or £3,600 if greater (an annual allowance charge may apply if total contributions exceed the annual allowance plus any carry forward). This could be particularly beneficial if you're self-employed.

Contribution levels can often play an important part in the lifestyle you can access in your retirement.

Ask for help

If you're confused about any aspect of your pension or the rules more generally then it's a good idea to ask for guidance.

Tax relief reductions for landlords racing ahead

The tax relief that landlords of residential properties get for finance costs is being restricted to the basic rate of Income Tax. This was phased in from 6 April 2017 and will be fully in place from 6 April 2020.

How the tax reduction is worked out

The reduction is the basic rate value (which is currently 20%) of the lower of:

- finance costs - costs not deducted from rental income in the tax year (this will be a proportion of finance costs for the transitional years) plus any finance costs brought forward
- property business profits - the profits of the property business in the tax year (after using any brought forward losses)
- adjusted total income - the income (after losses and reliefs, and excluding savings and dividends income) that exceeds your personal allowance

The tax reduction can't be used to create a tax refund.

If the basic rate tax reduction is calculated using the 'property business profits' or 'adjusted total income' then the difference between that figure and 'finance costs' is carried forward to calculate the basic rate tax reduction in the following years.

You'll still be able to deduct some of your finance costs when you work out your taxable property profits during the transitional period. These deductions will be gradually withdrawn and replaced with a basic rate relief tax reduction:

Tax Year	Percentage of finance costs deductible from rental income	Percentage of basic rate tax reduction
2017 to 2018	75 %	25 %
2018 to 2019	50 %	50 %
2019 to 2020	25 %	75 %
2020 to 2021	0 %	100 %

Buy-to-let can still be a good option

Mortgage rates at record lows are helping buy-to-let investors make deals stack up. But be careful of low rates. Rates can rise and you need to know your investment can stand that test.

Property investment can also offer diversification to an investment portfolio, but only when the economy is doing well and house prices are rising.

It can generate an ongoing income and prove a good long-term investment if its value increases over time, but you need to be careful.

One of property's key problems can be its lack of liquidity: it is difficult to sell or buy a property investment quickly and takes time to draw up legal contracts and carry out all the checks involved in the sale or purchase of a property, not to mention the costs involved in moving. Despite low interest rates Buy-to-let is becoming tougher than it once was, with the tax crackdown on buying properties.

For the average investor, buying property over and above the residential home is often beyond their means. And it is worth remembering that investors can use their annual Individual Savings Account (ISA) allowance to invest in relevant funds, ensuring that their capital gains and all income within the ISA will be tax-free.

Typically interest only mortgages are used to purchase buy-to-let properties, but it's not without risk.
The payments for an interest-only mortgage are lower than those on a standard repayment mortgage because they only cover the interest due. But at the end of the mortgage term, you will still owe the original amount you borrowed.

With the buy-to-let market, interest-only mortgages can be popular. When inflation is rising it can erode the real value of the capital sum over time; although, you will still have to find a way to pay back the money you owe at the end of your mortgage term.

There are a number of different options for repaying your loan. Perhaps most obviously of all, you could simply sell the house and use the proceeds to repay it.

It does carry the risk that the price you receive could be lower than the amount you borrowed, leaving you with a shortfall. It might also take time to find a buyer and, once a sale is finally agreed, it can take several weeks, or even months, to complete, especially when the market is stagnant.

Often the most sensible option is to raise a lump sum to pay off your original loan.

The Financial Conduct Authority does not regulate some forms of Buy-to-Let mortgages.

Your property may be repossessed if you do not keep up repayments on your mortgage.

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The value of pensions and investments and the income they produce can fall as well as rise. You may get back less than you invested.

Tax treatment varies according to individual circumstances and is subject to change.

The Financial Conduct Authority does not regulate tax advice or estate planning.

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