Demo Financial Services

The Adviser - Autumn 2015

In this issue we focus on some of the savings and investment changes taking place in April 2016:

Tax free Savings accounts

Tax Free Personal Savings Allowance - April 2016

To be eligible for the £1,000 tax-free Personal Savings Allowance your taxable income needs to be less than £42,700 a year.

To be eligible for the £500 tax-free Personal Savings Allowance your taxable income needs to be between £42,701 and £150,000 a year.

From April 2016, you won't have to pay tax on your interest if your taxable income is less than £16,800 (£15,600 April 2015 - April 2016).

What will happen in April 2016?

From April 6, 2016, banks and building societies will stop automatically deducting interest from your savings. It will all be paid tax-free.

Those who earn below £16,800 a year won't have to pay any tax on savings interest.

This is because they'll benefit from the £10,800 personal allowance (2016-2017) , the abolition of 10 per cent tax on the first £5,000 income for low earners and tax-free interest up to £1,000.

Meanwhile, anyone earning below £42,700 — the point at which higher-rate tax starts — will be allowed to have £1,000 in savings interest tax-free.

Those with earnings from £42,701 to £150,000 will have a £500 Allowance.

Anyone earning more than this, and paying the 45 per cent tax band has to pay tax on their savings interest.

Tax free personal savings allowance :

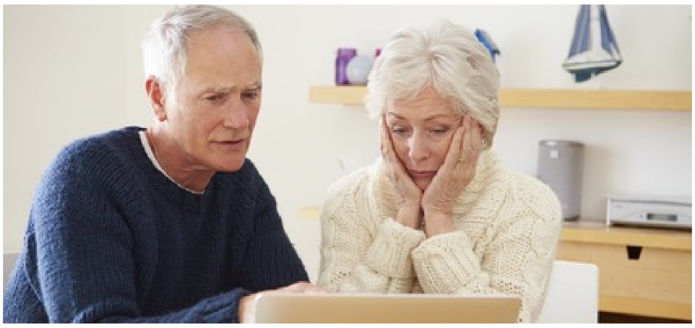
First £1,000 of savings interest tax free for basic tax payers

£500 tax free for 40% rate tax payers

Tax free saving accounts, is this the end of the ISA?

Cash ISAs, for all but the wealthiest?

Abolishing tax on first £1k of savings income will mean that the majority of savers will pay no tax on their savings whatsoever.



To be eligible for the £1,000 tax-free Personal Savings Allowance your taxable income needs to be less than £42,700 a year.

However it is likely to help those with large savings deposits considerably more than those with more modest savings as no tax is payable on interest earned on the first £15,240 saved already when the cash is put into an ISA.

It could render cash ISAs effectively redundant for all but the wealthiest as from now on most savings deposits will already be sheltered from tax.

Watch out if interest rates go up!

You may see a difference between an ISA account and a savings account if interest rates do go up.

When that happens — which may not be for some time — £1,000 of interest tax free may suddenly seem less generous.

Comment from George Osborne (on planned changes for April 2016)

George Osborne said savers have paid tax already on the money when it was earned – they shouldn't have to pay it again.

He added that it means 'tax free banking for almost the entire population – and building the economy on savings and not on debt'.

Comment from Kevin Mountford (MoneySuperMarket)

Kevin Mountford, head of banking at MoneySuperMarket, said:

'The measures announced should be applauded and it's great to see that the Government is incentivising the nation to put more money away, especially in the current low interest rate environment where savers have been hit particularly hard.'

Cash ISAs : If the interest rates go up then savers may want to invest as much as possible

Tax on savings interest

Currently you don't pay tax on tax-free savings accounts like:

Individual Savings Accounts (ISAs)

Some National Savings and Investements (eg. Saving certificates or Premium bonds.

Current rates and allowances

How much Income Tax you pay in each tax year depends on:

How much of your income is above your personal allowance
How much of this falls within each tax band

Your tax-free personal allowance

The standard Personal Allowance (April 2015-2016) is £10,600, which is the amount of income you don't have to pay tax on.

(Your Personal Allowance may be bigger if you were born before 6 April 1938 or if you get Blind Person's Allowance. It's smaller if your income is over £100,000.)

Income Tax Personal Allowance in 2016 and 2017

The personal allowance will be increased to £10,800 for 2016/2017 and £11,000 in 2017/2018.

The basic rate limit will be increased to £31,900 for 2016/2017 and £32,300 for 2017/2018.

As a result, the higher rate threshold will be £42,700 in 2016/2017 and £43,300 in 2017/2018.

From 2016/2017, there will be one Income Tax personal allowance regardless of an individual's date of birth.

The current tax year runs from 6th April 2015 to 5th April 2016

First £5,000 tax free

New dividend tax - April 2016

At the moment basic-rate tax payers are not required to pay tax on dividends. But under the new rules that will change.

Danny Cox, chartered financial planner, Hargreaves Lansdown (July 2015), said: “The new dividend taxation rules are definitely simpler but are also costly for some.

"Investors need to navigate their way around the new rules carefully to avoid tax rises.

How the new system will work

The first £5,000 of dividend income in each tax year will be tax-free. Sums above that will be taxed at 7.5 per cent for basic-rate taxpayers, 32.5 per cent for higher-rate taxpayers and 38.1 per cent for additional-rate taxpayers. The new tax takes effect on April 6, 2016. No tax will be deducted at source; taxpayers must use self-assessment to pay any tax due.

What if some of your dividend income is within the tax free allowance?

Dividend income is still eligible for the personal allowance. So if in 2016-2017 year you had £15,800 in dividend income (and no other income), the first £10,800 would be covered by your personal tax allowance and the other £5,000 by the new dividend allowance. As a result, you would pay no tax.

From April 2016, notional 10% tax credit on dividends will be abolished. A £5,000 tax free dividend allowance will be introduced. Dividends above this level will be taxed at 7.5% (basic rate), 32.5% (higher rate), and 38.1% (additional rate)

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The value of your investments can go down as well as up, so you could get back less than you invested.

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

Past performance is no guide of future performance.