LUCAS FETTES

# Tax planning

## a brief guide

**Paying tax usually means that you are making money and have a certain level of wealth, assets or income. With most clients we identify ways in which they can take advantage of various allowances and limits to help reduce the tax they pay and to achieve their personal financial goals.**

Essentially, tax planning is arranging your affairs in ways that legitimately defer, reduce and remove taxes. By using effective tax planning strategies you have more money available to help you achieve your financial goals and the effect of this over time can be very significant.

Tax planning should not be done in isolation and should be driven by your overall financial goals and integrated within your financial plan. By developing and implementing appropriate strategies to lessen or shift current and future tax liabilities you can improve your prospects of meeting short, medium and long-term objectives.

There are numerous tax planning strategies available to you and it is not unusual for more than one tax planning strategy to be used in order to meet your financial goals. Tax rules can be complex and frequently change so obtaining independent financial advice from Lucas Fettes Financial Planning before making financial decisions is advised.

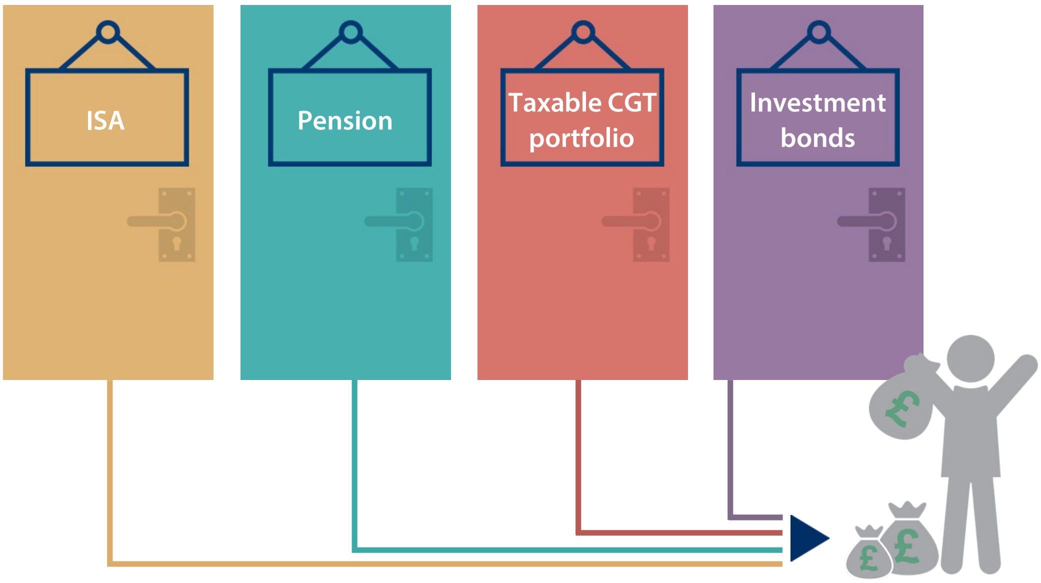
Tax planning is crucial whilst you are building up your savings, as reducing the amount of tax you incur will help your fund grow, and make more income available to assist in achieving your future plans. It is also critical when you look to draw on your assets, as lower tax incurred means you will draw less to meet your net income needs, helping your assets last longer.

**"Careful tax planning is extremely important when you are saving or investing to meet your future objectives"**

## The UK tax landscape – where to start?

The illustration that follows outlines the most common tax wrappers available to you. In addition to the strategies shown here there are also more complex solutions that can be considered during both the growth and income stages of tax planning once the common wrappers have been utilised.

### Tax efficient income




Tax planning can take many different forms depending on an individual's circumstances. It could vary from simply using the ISA allowance available in each tax year, or other allowances such as NS&I Premium Bonds or Savings Certificates, to a more strategic approach where ISA contributions, pension funding, and other investments are utilised to take full advantage of all the tax allowances available.

Having multiple tax wrappers in place in your retirement can be a significant advantage due to the range of tax free allowances available.

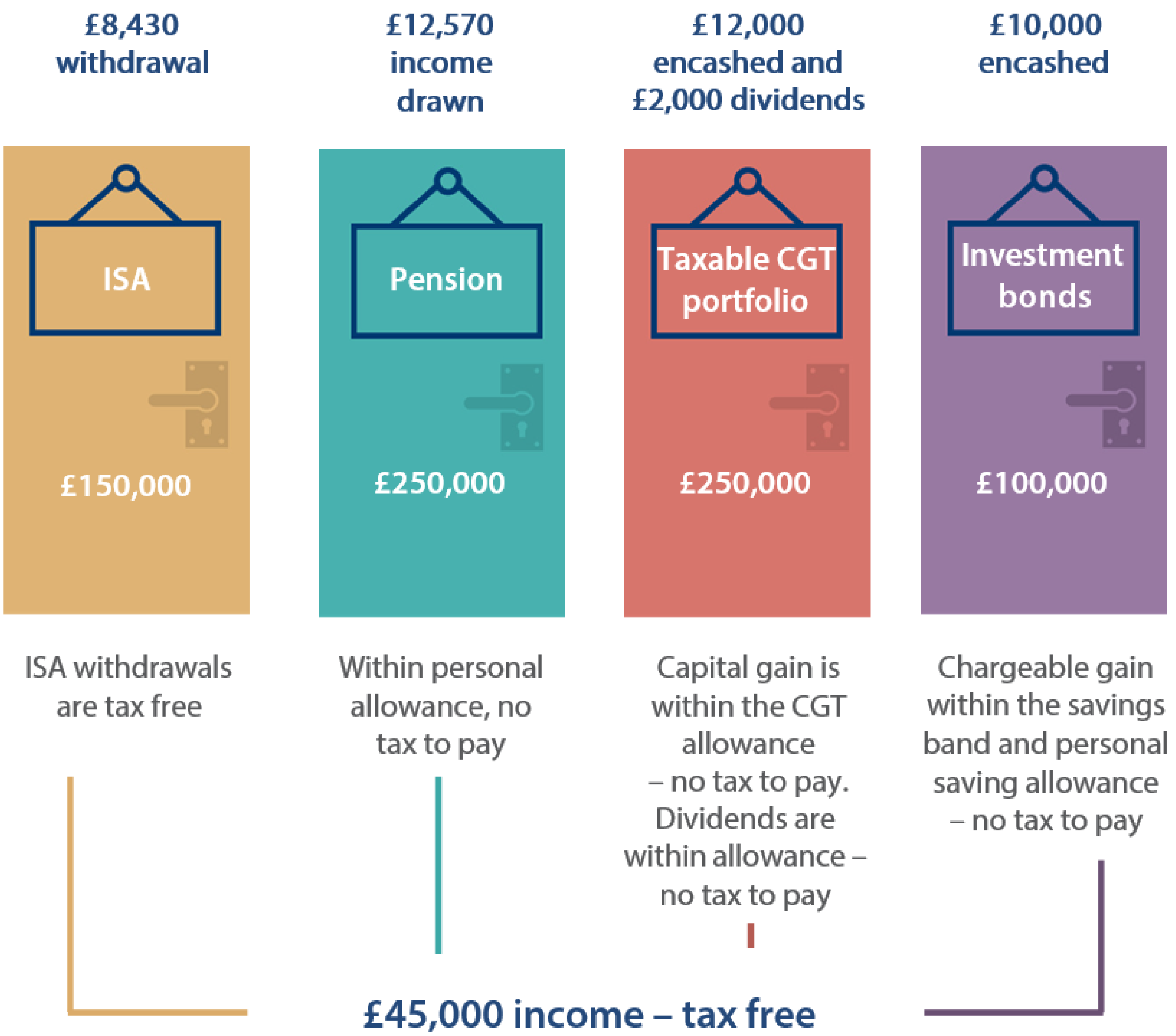
## Case study

Harry has recently retired and would like to begin drawing a net income of £45,000 per annum to meet his financial needs. His overall pension portfolio was valued at
£1,000,000. He withdrew his maximum lump sum tax free, leaving £750,000 to provide his retirement income.

As Harry only made use of the pension tax wrapper in the growth stage of his
tax planning, he would have to withdraw £54,054 gross income from his pension and he would have paid £9054 in tax to meet his income needs.

## With tax planning

Instead of simply saving into a pension, Harry took independent financial planning advice and made use of four different tax wrappers when saving for retirement, making the following withdrawals to meet his retirement income needs:



Harry has now made use of the tax efficient ISA regime, his personal allowance, capital gains allowance, savings rate band, dividend allowance and personal savings allowances, meaning he has no tax to pay – saving £9,054, which can stay invested to assist with his future income needs.

If withdrawals continued at this level over the next 10 years then the total additional savings now available to Harry could equate to as much as £106,908. This assumes investment growth of 3 per cent per year and that withdrawals continue to be taken in the same manner.

The scenario is flexible, so if tax rules change, or an element of his portfolio looks like it is running low, Harry can switch off income, increase capital drawings or reduce/increase income from different sources, depending on his needs.

This demonstrates the importance of careful tax planning when you are saving or investing to meet your future objectives, and demonstrates that obtaining independent financial advice plays a crucial role in helping to reduce the tax you pay, and your ability to get the most out of your assets.

## Contact us

If you would like further information on any of the above services or how we can help you, please do not hesitate to contact your Lucas Fettes Financial Planning planner, call us on **01603 706 820** or email **info@lffp.co.uk**.

www.lffinancialplanning.co.uk