Ch-Ch-Ch-Ch-Changes

This line from the David Bowie song sums up the year ahead and anyone who wants to minimise their future contribution to the UK's debt reduction should make a New Year resolution to ensure they maximise the new tax free dividend and savings allowances.

To put it into perspective, ignoring Capital Gains Tax (CGT) Exemptions, a basic rate tax payer could have tax free income of £17,000 a year and a higher rate tax payer £16,500!

For the tax year 2016/2017 this consists of the increased personal tax allowance of £11,000 (threshold for higher rate tax starts at £43,000), a new £5,000 tax free dividend allowance and the £1,000 tax free personal savings allowance (for higher rate taxpayers the personal savings allowance is restricted to £500).

Add to this your annual £11,100 CGT exemption and you are then up to £28,100 of tax free income (£56,200 for a married couple!) These figures ignore any extra tax free income that could be available from ISAs and pensions.

Making use of all the available tax exemptions takes careful planning to ensure that you use them in the most efficient way. The "how" you invest, i.e. through which product or "wrapper", is now just as important as fund selection i.e. where you invest. To maximise the tax reliefs available will require you to have capital in both deposit and investment accounts.

If Inheritance tax is a concern then the new tax-free 'main residence' band for married couples or those in a civil partnership which starts in 2017might help! However, it is only valid on a main residence and where the recipient of a home is a direct descendant (classed as children, step-children and grandchildren). It is being phased in gradually starting at £100,000 from April 2017 rising by £25,000 each year till it reaches £175,000 in 2020.

Not only are tax allowances changing, but also from the 1st January 2016 the FSCS limit for deposit accounts is reducing to £75,000 per banking licence. This makes it very important to review your cash accounts to ensure that you are not unnecessarily placing your money at risk from a bank default.

On the subject of changes, one rate that has not changed and is not currently predicted to until late 2016 or potentially 2017 is the Bank of England Base Rate. In our view cash is an important part of any investment portfolio however with all of the above changes and the correction seen in the equity markets over the last few months, now may be time to review your savings portfolio to ensure you have the right balance between cash and investments.

Don't let these changes pass you by and if you need help understanding how the new allowances could work for you, a good IFA will be able to help.

A Happy New Year to you all from all of us at the Advice Centre