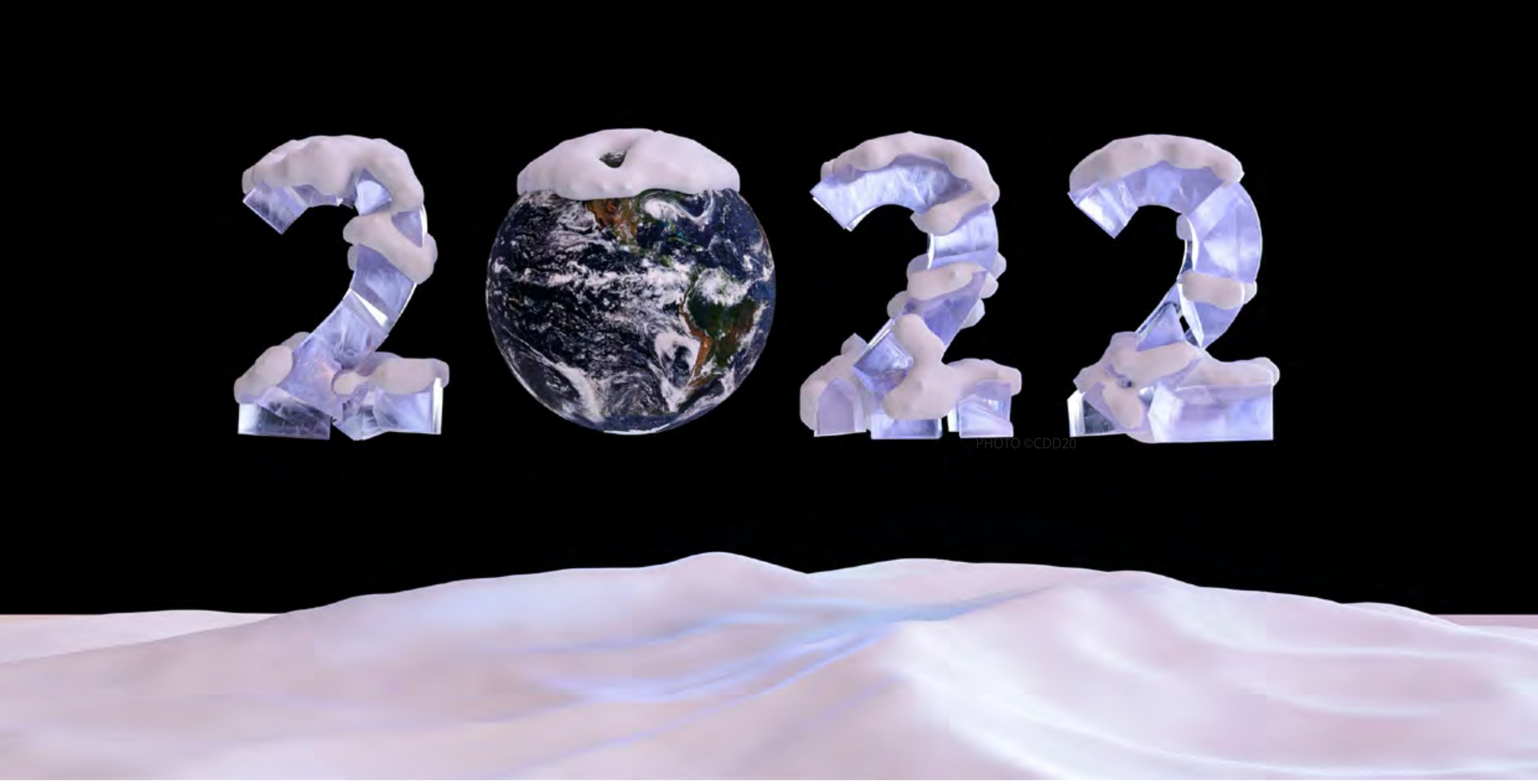
New Year, New Opportunities



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Emma James looks at how to manage your finances

As we welcome in the new year, many of us also welcome with it a set of New Year resolutions. Whether that is to get back in the gym or cut down on alcohol, it can be hard to stick to these promises. When considering your investments as you enter a new US tax year and finish a UK tax year, there can be some easy wins to put in place from a wealth planning perspective; why not add them to your list of resolutions? By ticking these off before April 5, 2022 you can not only feel smug that you have delivered on a resolution, you can also put your investments into a good position for the year ahead.

The 2021 US tax year has already ended, and the end of the UK tax year is just around the corner. So, be sure to get your ducks in a row from a UK perspective as well, to ensure that you make use of the UK tax breaks available. In particular, UK taxpayers are permitted a UK capital gains allowance each tax year, which currently stands at £12,300 per individual. This allowance is a 'use it or lose it' benefit and will reset for the 2022/23 tax year. As such, if you are paying UK tax on the arising basis, it can provide a good opportunity to realise some long-term GBP capital gains within your investment portfolios, with no resulting tax payments due in the UK. When implementing this planning strategy, it can be important however for cross-border individuals to consider how this impacts your US taxes as well. The US will continue to tax US citizens on their worldwide income, regardless of their residency. Foreign currency movement over your period of ownership can have a significant impact on the resulting capital gains and so it is essential to consider this in your calculations as well. One must also be conscious of the 'Bed & Breakfast' rules, whereby repurchasing a liquidated asset within a 30-day period can result in any gains (or losses) not truly being recognised.

When planning for retirement it can also be beneficial to consider a contribution to your UK pension. Qualifying pension assets provide a shield from ongoing taxes and are robust savings vehicles for international individuals, as their tax-deferred nature is generally respected under the UK/US tax treaty. You can contribute up to 100% of your earnings to your pension each year, or up to the annual allowance of £40,000, whichever is lower (tapering down to £4,000 for individuals with earnings between £240,000 and £312,000) but you can also carry forward any unused allowances from the previous 3 years. An added benefit of increasing the value of your UK Pension is that it falls outside of your estate from a UK Inheritance Tax perspective so can pass on to the next generation efficiently.

With the UK tax year drawing to a close, the beginning of a new US tax year has arrived. When considering your US based investments, it can be beneficial to take advantage of planning opportunities early in the year, particularly IRA contributions. By making these contributions as early as possible you are able to benefit from additional tax-deferred earnings within your US based pension, versus waiting until December to contribute. IRA contribution limits are based upon filing status and income limitations, so we recommend you consult a professional regarding the value of contribution you are able to make. One must also begin taking Required Minimum Distributions from your IRAs from the age of 72, and so if you are a 1950 baby, you may need to consider this for the year ahead.

More generally, the start of a new year can provide a good opportunity to review your investment strategy. As circumstances change it is essential to ensure that your portfolios continue to be structured in order to meet your goals. You may be a year closer to retirement, or decide that 2022 is finally the time to purchase that holiday home in Italy, so ensuring that your investments are structured in the most suitable way to meet these achievements continues to be vital. By implementing a few essential planning strategies and continuing to review your overall investment allocation, you can ensure you are on track to meet your goals for 2022, and beyond. ★

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All investments involve risk and may lose value. The value of investments can go down depending upon market conditions and you may not get back the original amount invested. Your capital is always at risk.
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