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WEALTH KNOWLEDGE

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Contractors urged to seek advice on loan schemes

Contractors whose employers paid them through loans from offshore trusts are being urged to speak to HMRC as soon as possible or risk receiving huge tax bills.

Up to 50,000 contractors in the UK are believed to have benefitted from the lower income tax rates applied under loan advances, instead of being paid salaries.

Those yet to have settled outstanding loans dating back to when the schemes first arose in 1999 could be facing a hefty tax bill.

Anyone who is affected by these loan arrangements will need to pay a loan charge to the Revenue on the outstanding balance by 5 April 2019.

Since the charge was announced in Budget 2016, HMRC has agreed settlements with employers and individuals worth more than £1 billion in total.

The majority (65%) of those affected work in the business services sector, including management consultants and IT consultants.

A further 10% work in construction, while less than 3% work in medical services and teaching.

The Revenue has confirmed that payment arrangements are available for those who would struggle to pay back what is owed.

Younger people 'address protection needs too late'

Younger consumers are being encouraged to consider their insurance needs earlier in life, with three-quarters of advisers warning that they leave it too late.

A survey by Royal London of 205 independent financial advisors found that 74% believe younger consumers are addressing their protection needs too late in life.

Income protection was a particular area of concern, with 87% saying this product is "massively undersold".

Income protection is a type of insurance that covers people who are unable to work due to illness or injury.

Policies can either be short-term or long-term, and successful income protection claims pay out a monthly income for people up to the age of 70 if they are unable to work.

According to the research, the main barriers preventing people from accessing income protection are a lack of awareness (52%) and concerns about affordability (51%).

Jennifer Gilchrist, protection specialist at Royal London, said:

"It's clear from the research that we need to raise awareness of the benefits of income protection, especially among younger consumers.

"As part of this, we need to tackle the perception of protection being expensive."

Retirees could face tax bill after court ruling

Pensioners could be facing six-figure tax bills following a High Court case that ruled in favour of tinkering existing company pension schemes.

In December 2018, the High Court ruled that pension funds needed to eliminate gender inequalities to comply with rules on guaranteed minimum pensions.

That ruling jeopardised some savers' fixed protection from cuts to the lifetime allowance, which is the maximum amount people can save towards their pension without being liable for tax.

There are three fixed protections in place for this allowance – one at £1.8 million in 2012, another at £1.5m in 2014, and the other at £1.25m in 2016.

According to a Freedom of Information request submitted by Royal London, more than 100,000 people have fixed protection against previous cuts to the lifetime allowance.

This enabled those savers to protect their lifetime allowance from further reductions, on the condition they did not make more contributions towards their pension.

Steve Webb, director of policy at Royal London, has urged HMRC to resolve the matter urgently to avoid savers landing an unexpected tax charge.

Webb, the pensions minister between 2010 and 2015, said:

"This issue combines two of the more complex areas of pensions: guaranteed minimum pensions and pension tax relief limits, which could result in a catastrophic tax bill for someone who acted in good faith.

"It would be absurd if a small and unrequested pension boost in response to a court judgement meant that a [pension] scheme member suddenly faced a huge tax bill.

"Taxpayers need to know where they stand as a matter of urgency."

Parents slow to embrace tax-free childcare

Only around 91,000 families in the UK took advantage of tax-free childcare in December 2018, government statistics have revealed.

Tax-free childcare provides help with childcare costs for working parents who earn more than £120 a week and less than £100,000 a year.

For every £8 a parent pays into their tax-free childcare account, the Government adds an extra £2 – up to a maximum of £2,000 per child a year or a maximum of £4,000 a year for disabled children.

To be eligible for the scheme, which began its phased rollout in April 2017, children must be aged 12 and under or under 16 for children with a disability.

In the months following completion of the phased rollout in February 2018, the number of children registered with the scheme rose to 109,000.

Parents can open an online account for savings which can be used to cover childcare costs including nurseries, childminders, after-school activities and holiday clubs.

Nadhim Zahawi, children and families minister, said:

"We want every child to get the best start in life.

"We are supporting as many families as possible with access to high-quality, affordable childcare, helping to put more money in their pockets and balancing work and family lives."

The previous childcare vouchers regime closed to new applicants on 4 October 2018, but these figures show that only around 7% of eligible families are embracing the new system.

Consequently, the Childcare Vouchers Providers' Association is canvassing opinion on the old regime with a view to lobbying Parliament for its swift return.