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The taxman's coming - so let's use our allowances while we've got them



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WE are coming towards the beginning of a new tax year on April 6, which means that if we want to grow our money as much as we can, we have to take advantage of our tax allowances.


What a year it has been. It started in lockdown, and it is likely to end in lockdown.

The thing is, the government is looking around for ways to save money towards the costs of the past year. Our allowances will no doubt come to their attention.

Emergency measures such as furlough and the Eat Out to Help Out scheme have all depleted Chancellor Rishi Sunak's budget, and he's got to get it back from somewhere. So let's use our allowances, while we've still got them!

Here are a few thoughts about what we could do in the next few weeks, to make our financial year more productive, and more secure.

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:: First: in terms of savings, the main thing to think about is always your Isa – or, if you don't have one yet, then think about opening one. Savings in an Isa grow tax-free, which makes them a better place to hold your money than a bank account. Paying less tax is the key to growing our money. The less we give to the taxman, the more we have for our future. This year you can save up to £20,000 in an Isa, although with the year that was in it, most of us would knock a few zeros off that. However, over the past 20 years, savers have put £870 billion into Isas, and saved an estimated £30 billion from the taxman's clutches. It's as good to us as it is to him.

:: Second: another way to use your tax allowances is by saving into a pension. If you are working, and 22 or older, and earning £10,000 or more you will have been automatically enrolled in a workplace pension. This means that you can have tax relief on the money you pay into your pension, and if you are in the 20 per cent tax band, the government tops up your savings – for every £80 you save, £100 goes into your pension. And before you tell me that £20 is 25 per cent of £80, that's not the way it works. You go by the total. So £20 is 20 per cent of £100. All of this grows over time. The former pensions minister Ros Altmann said that over 30 years, a pension is the only place you can buy £50 notes for £20.

:: Third: did you know that you can decide where your pension money is invested? Having your financial adviser take a look inside your pension, and make changes if needed, can really boost your savings, and therefore your income in retirement.

The pensions researcher Bestinvest have just calculated that if you spent your life paying £100 a month into your workplace pension, and your pension savings were invested where they were only earning 1 per cent a year, you would've had £167,774 after 30 years.

But if you had had your adviser look at it, and he had put your savings into funds that were earning 5 per cent a year, you would have £330,701 at the end of that period.

That means you would have just got paid £163,000 for an hour chatting with your financial adviser. Worth thinking about?

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