

Adam would like advice on recent changes in tax law which affect his investment planning.

Adam:

- Is UK resident and domiciled.
- Is 42 years old.
- Is an additional rate taxpayer, with adjusted income (for the purpose of calculating Adam's annual allowance for pension contributions) of £200,000 per year, which he expects to continue for the foreseeable future.
- Uses his annual exempt amount for capital gains tax purposes each year.
- Is in full-time employment and will lease Eastwick Farm to a tenant farmer.

Adam – investments:

- Adam has regularly contributed £40,000 into a personal pension scheme to use his annual allowance.
- Adam has invested the maximum amount each year in an individual savings account (ISA).

Adam – thoughts on investments:

- 'I have been advised that my annual allowance for pension contributions was reduced to £15,000 for the tax year 2016/17, so I have incurred an additional tax charge. Please can you explain this reduction in my annual allowance?'
- 'Is there now any point in investing in either a cash or a stocks and shares ISA as savings income and dividends are now exempt from tax anyway up to £5,000 per year?'

Required:

(b) Comment on the thoughts expressed by Adam in relation to his personal pension contributions and investment in individual savings accounts (ISAs). (6 marks)