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ROAD TO BREXIT

Biggest investment planning challenge over the coming years for all investors

PROTECTING YOUR FINANCES AND WELL-BEING
Millions of Britons face financial fallout should serious illness strike

PENSION FREEDOMS
Retirement savers say they are still confused by the rules

HELLO LISA
Saving for a first home or retirement at the same time

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We focus on achieving and maintaining a thorough understanding of your financial needs and aspirations.

We believe passionately that the best service is provided through personal, face-to-face advice. Our range of services is extensive, supported by a distinctive approach to investment management, enabling you to create financial plans that can adapt to your changing needs and circumstances.

CONTACT US TO DISCUSS YOUR REQUIREMENTS.

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INSIDE THIS ISSUE

Welcome to the latest edition. The news has recently been full of stories about Brexit, Article 50, inflation and how some key announcements from Spring Budget 2017 could impact on our finances.

It can be very confusing with the number of conflicting viewpoints given, so in this issue we aim to bring some clarity to these talking points.

Brexit has created an air of uncertainty, and no one really knows what's coming next or what it could all mean in the long term. The implications of Brexit and its impact on markets is a significant investment planning challenge over the coming years for all investors. Brexit is overshadowing all other investment planning issues and highlighting the need for solutions which can provide protection and the possibility of strong returns. So the road to Brexit has reached another milestone, but what could it mean for UK investors? Turn to page 08 to read the full article.

On 6 April 2017, a new additional main residence nil-rate band (RNRB) was introduced, which allows for less Inheritance Tax to be paid in situations when a family home is left to children, grandchildren or certain other 'qualifying beneficiaries' – including stepchildren and foster children. On page 13, we consider why some people could miss out because they've assigned their sibling to inherit their family home and not a direct descendant.

On the second anniversary of the pension freedoms reforms that took effect from April 2015, some retirement savers say they are still confused by the rules and want no more changes. The changes of April 2015 represented a complete shake-up of the UK's pensions system. There are now more options for using a private pension pot, enabling some people aged over 55 to have greater freedom over how they can access their retirement pot. Turn to page 05.

The full list of the articles featured in this issue appears on page 03 and opposite. To discuss any of the articles featured in this issue, please contact us.

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

CONTENTS

PENSION FREEDOMS

Retirement savers say they are still confused by the rules

ON THE SECOND ANNIVERSARY OF THE PENSION FREEDOMS REFORMS THAT TOOK EFFECT FROM APRIL 2015, SOME RETIREMENT SAVERS SAY THEY ARE STILL CONFUSED BY THE RULES AND WANT NO MORE CHANGES.

The changes of April 2015 represented a complete shake-up of the UK's pensions system, giving people much more control over their defined contribution pension savings than before. There are now more options for using this type of private pension pot, enabling some people aged over 55 to have greater freedom over how they can access their pension pots – the money they've built up during their working life.

STILL CONFUSED BY THE REFORMS

Independent research[1] from Prudential highlights that two out of three over-55s (67%) – the age from which retirement savers can utilise the new rules – say they are still confused by the reforms. More than three quarters (77%) want an end to any further changes to pension rules, and more than four out of ten (42%) say the continual changes to pensions have made them switch off from the topic.

Government figures[2] demonstrate the cost of this confusion for retirement savers, as tax bills related to the pension freedoms are now greater than anticipated. It was initially estimated that the changes would mean a total of £900 million being paid in both tax years 2015/16 and 2016/17. In fact, a total of £2.6 billion in tax is now expected to be paid.

HAVING AN IMPACT IN OTHER WAYS

The new pension freedoms are having an impact in other ways. Nearly one in ten (9%) over-55s say they have made changes to their retirement plans as a result of the reforms. Receiving professional financial advice has also been increasing, with a fifth of retirement savers (21%) saying they are taking advice, while a further 9% are either planning to or have done so for the first time.

However, concerns that pension rules may change again in the future persist, with 81% of over-55s worried that the State Pension might be reduced and 57% concerned it will be abolished. Nearly two out of three (63%) also believe that tax relief on pension contributions will be reduced at some time in the future.

INCREASED FLEXIBILITY BROUGHT ABOUT BY THE REFORMS

Nearly 550,000 people have accessed more than £9.2 billion in funds since the launch of pension freedoms[3], demonstrating that there is popular demand for the increased flexibility brought about by the reforms.

Two years on from the introduction of the new rules, there is also widespread confusion, with two out of three over-55s admitting they don't fully understand the reforms. This lack of understanding may be a contributing factor in pension-related tax paid to the Treasury being higher than originally expected.

IMPORTANCE OF ADVICE AND GUIDANCE

This widespread confusion underlines the importance of advice and guidance in ensuring that the pension freedoms are a long-term success, and it is encouraging that many savers recognise how advice can help them to make the most of their retirement pot. This is a crucial fact, because how you take your pension could have many consequences, including putting you in a higher tax bracket – even if that is not normally the case.

FIRST STEP TOWARDS HAVING SUFFICIENT INCOME FOR A HAPPY RETIREMENT

The pension freedoms provide a framework of rules, but it is down to individuals to seek help where needed to enable them to plan how to meet their financial goals. Saving as much as possible as early as possible during your working life is the first step towards having sufficient income for a happy retirement. If you would like to discuss how to maximise your retirement opportunities, please contact us.

Source data:

[1] Consumer Intelligence conducted research on behalf of Prudential between 17 and 24 February 2017 among a nationally representative sample of 867 people aged 55-plus

[2] https://www.gov.uk/government/publications/spring-budget-2017-documents https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/597335/PU2055_Spring_Budget_2017_web_2.pdf

[3] https://www.gov.uk/government/statistics/flexible-payments-from-pensions

A PENSION IS A LONG-TERM INVESTMENT. THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

YOUR PENSION INCOME COULD ALSO BE AFFECTED BY INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS. THE TAX IMPLICATIONS OF PENSION WITHDRAWALS WILL BE BASED ON YOUR INDIVIDUAL CIRCUMSTANCES, TAX LEGISLATION AND REGULATION, WHICH ARE SUBJECT TO CHANGE IN THE FUTURE.

HELLO LISA

Saving for a first home or retirement at the same time

THE START OF THE NEW TAX YEAR ON 6 APRIL 2017 SAW THE LAUNCH OF THE LIFETIME ISA (LISA), WHICH WAS ANNOUNCED IN THE 2016 BUDGET.

This is a new type of Individual Savings Account (ISA) designed to help you save for a first home or for your retirement at the same time. To be eligible, you have to be aged between 18 and 39 years old (up until your 40th birthday).

SUPPLEMENTED BY A GOVERNMENT BONUS

You can save up to £4,000 a year into a LISA, and this will be supplemented by a government bonus of 25% of the money you put in. After year one, the bonus will be paid into your account monthly based on how much you pay in, but in the first year it will be paid in one lump sum at the end of the tax year.

The maximum bonus that you can receive is £1,000 each year. You'll obtain a bonus on any savings you make up until you reach 50 years of age, at which point you won't be able to make any more payments into your account. You only receive the bonus on the new money that you pay in (or transfer from another ISA) during the tax year, rather than it being based on the overall value of your LISA.

COMBINATION OF DIFFERENT ISA TYPES

You will be able to have any combination of different ISA types and a LISA at the same time. For example, if you have a Cash ISA and a Stocks & Shares ISA already, you can also have a LISA. You can't pay in more than the annual ISA allowance however, which in the 2017/18 tax year (that started on 6 April) is £20,000, with a maximum of £4,000 going into the LISA. The ISA allowance relates to each person and not per household, so two first-time buyers could both receive a bonus when buying their first home together.

If you already have a Help to Buy: ISA, you'll be able to transfer your balance into a LISA at any time if the amount doesn't exceed £4,000. In the tax year 2017/18 only, you'll be able to transfer the full balance of your Help to Buy: ISA – as it stood on 5 April 2017 – into your LISA without affecting the £4,000 limit. Alternatively, you could keep your Help to Buy: ISA and open a LISA, although you'll only be able to use the bonus from one of these accounts towards buying your first home.

APPROACH TO RISK, INVESTMENT TIME FRAME AND MAKING INVESTMENT DECISIONS

LISAs can hold cash, stocks and shares qualifying investments, or a combination of both. The option that is right for you will depend on your approach to risk, your investment time frame and how confident you are making your own investment decisions.

You will be able to use funds held in a LISA after 12 months to buy a first home valued up to £450,000. You must be buying your home with a mortgage.

Alternatively, after your 60th birthday, you will be able to take out all your savings from your LISA tax-efficiently for use in retirement.

CONTINUING TO SAVE INTO YOUR LISA

A LISA can be accessed like a normal ISA at any time for any reason, but if not used as above, you'll have to pay a withdrawal charge of 25% of the amount you withdraw (being the government bonus plus a penalty of 5%).

However, this withdrawal charge won't apply if you decide to cash in your account during the first 12 months after its launch.

If you want to use your LISA to save for a property as well as for retirement, once you've bought your first home, you will be able to continue saving into your LISA as you did previously. You'll continue to receive the government bonus on your contributions until you reach the age of 50.

GET THE MOST FROM YOUR TAX-EFFICIENT ALLOWANCE

Whatever your investment goals, we will be pleased to talk you through the different investment options available and discuss any which may be suited to your individual requirements, including how you can get the most from your 2017/18 ISA or LISA allowance. Please contact us for further information.

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THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

STOCKS & SHARES ISA INVESTMENTS DO NOT INCLUDE THE SAME SECURITY OF CAPITAL THAT IS AFFORDED WITH A CASH ISA.

UNTYING THE KNOT

Divorcees twice as likely to have no savings

A DAUNTING PART OF A SEPARATION OR DIVORCE FOR MOST COUPLES IS SORTING OUT THE FINANCES. FINANCIAL DISPUTES CAN BE A MAJOR STUMBLING BLOCK IN THE DIVORCE PROCESS AND COULD TAKE LONGER THAN THE DIVORCE ITSELF.

This is the business side of divorce, and it may be the most important financial event of your life. The choices and decisions that you make will have an important influence on your financial well-being for many years to come. Divorced or separated people are twice as likely to have no savings or investments compared with those who are married (32% vs. 14%), according to research by Zurich UK.

POST-DIVORCE FINANCIAL CONSIDERATIONS

1. CREATE A NEW BUDGET

With your household income being impacted, it's essential to go through your finances. Creating a budget sheet will help you to keep track of your incomings and outgoings. It will also help you to spot where you can make cutbacks. If you're unsure about how to get started, there are many tools available online to help.

2. PROTECT YOUR CREDIT SCORE

You'll be surprised at how many financial products and agreements you share with your ex-partner, from utility bills to mortgage repayments and credit cards, so it's worth checking your credit record. Your credit report will list the details of every financial agreement you have. This will help protect your credit score from anomalous payments on the part of your former spouse.

3. CLOSE JOINT ACCOUNTS AND OPEN NEW ONES IN YOUR NAME

It's really important to make sure that all joint credit cards and accounts are closed, paid off in full or at the very least changed to either your name or your former partner's. Not doing so could mean them being able to use your accounts, run up debt or use your savings. This could have a negative impact on your future. Going forward, make sure you open any accounts solely in your name.

4. THINK ABOUT YOUR PENSION

If you've just been through, or are currently going through, a divorce or separation, your pension is probably the last thing on your mind, but it's essential for your future that you plan ahead – your future could depend on it. You and your partner may have built up a strong pension pot, so it's important to pay particular attention to how this is divided, to make sure you are getting the best outcome. It's particularly important for women who may depend on their husband's provisions for their retirement, as they could be in for a nasty shock.

5. DON'T FORGET ABOUT YOUR PROTECTION NEEDS

If you already have life cover in place in the form of a joint policy, make sure you check the policy terms. Some include a 'Joint Life Separation Option', which means that the contract can be amended to cover both parties individually. Many policies also contain options that allow you to increase the amount of cover you have following life events, including divorce or separation, without needing further underwriting. You may want to consider increasing your cover if you have had to take on a new or larger mortgage or other debts.

6. MAKE THE MOST OF YOUR PROTECTION COVER

Once you have changed your policy to protect you individually, it's worth making use of any support that is offered. Many protection policies contain valuable support or counselling benefits that can provide vital help or advice if you are going through a divorce. This support can cover areas from financial to legal to emotional support. Protection can also play a key role in covering any maintenance liabilities for an agreed period, such as when children reach 18, in the event of severe illness or even death.

7. UPDATE YOUR WILL

Now that you are divorced or separated, your existing Will is unlikely to be appropriate to your new circumstances. Make sure you update this as soon as possible to ensure that your wishes are followed.

TAKING A LONG-TERM VIEW

Divorce can be an incredibly challenging time, both emotionally and financially. Understandably, the focus is naturally on splitting immediate assets, but it's important that the long-term is also part of the planning. In fact, after the family home, a pension can actually be the biggest asset at stake, so protecting this in the first instance is crucial.

Source data:

All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 2,073 adults. Fieldwork was undertaken between 25 and 26 October 2016. The survey was carried out online. The figures have been weighted and are representative of all UK adults (aged 18+). 900 adult participants (19–55+) who are representative of the general population took part in the Mindlab experiment in the UK from 25–26 October 2016.

ROAD TO BREXIT

Biggest investment planning challenge over the coming years for all investors

BREXIT HAS CREATED AN AIR OF UNCERTAINTY, AND NO ONE REALLY KNOWS WHAT'S COMING NEXT OR WHAT IT COULD ALL MEAN IN THE LONG TERM. ON 29 MARCH, PRIME MINISTER THERESA MAY TRIGGERED ARTICLE 50 OF THE LISBON TREATY IN A LETTER TO EU COUNCIL PRESIDENT DONALD TUSK, STARTING TWO YEARS OF DIVORCE PROCEEDINGS.

The implications of Brexit and its impact on markets is a significant investment planning challenge over the coming years for all investors. Brexit is overshadowing all other investment planning issues and highlighting the need for solutions which can provide protection and the possibility of strong returns. So the road to Brexit has reached another milestone, but what could it mean for UK investors?

Planning the future of our finances is never easy, and the slow but ongoing global recovery combined with the unknown from Brexit makes this even more challenging. The Brexit referendum in June last year was widely expected to have an immediate negative effect. The Bank of England cut interest rates in half to protect the economy – but events did not unfold as predicted.

BRITAIN'S ECONOMY HAS DEFIED EXPECTATIONS

Some experts predicted markets would collapse along with the pound. But Britain's economy has defied expectations, and subsequently the UK stock market surged ahead with both the FTSE100 and FTSE250 showing record highs, and the UK's economy growing stronger than most developed economies since last summer's referendum.

Sterling will remain a key instrument to watch over the near term, as movements in currency will continue to impact the extent of the wider market response. Political events in the United States and Europe have added an additional twist to the outlook for major global currencies.

STERLING CORRECTION MIGHT HAVE BEEN EXPECTED

The performance of sterling has demonstrated just how predictions can be flawed. It is true that it has weakened, but a falling pound has made UK exports much more attractive to the rest of the world. Prior to the referendum, sterling had risen to a level that some experts believed was unsustainable. Even without the Brexit vote, a correction might have been expected.

Current UK interest rates restrict its appeal relative to other currencies, especially the dollar, as the US has already begun increasing its own central rate. A low-value pound could therefore continue, with UK exports and the FTSE showing the benefits.

IF BREXIT ANXIETY BECOMES A REAL CONCERN

With the growth of the UK economy continuing, the UK interest rate could also be ready for an increase. Some consider this will not happen until next year. Even if there is strong economic growth, the Bank of England could leave rates alone if Brexit anxiety becomes a real concern.

Savings rates fell to record lows in the wake of the Brexit vote, helped on their way by the Bank Rate decision in August 2016. Again, the triggering of Article 50 is unlikely to make much difference. Savings rates may already be on the way back up, although even the best performers are still struggling to beat inflation.

AMERICAN ECONOMY MAY HAVE A MORE SIGNIFICANT EFFECT

Savings rates do not move as rapidly as stock markets, so they are unlikely to respond until concrete facts emerge about the eventual deal. Other factors, such as the success or otherwise of the American economy under President Trump, may have a more significant effect.

In the short term, Brexit is unlikely to have a significant impact on the legal and regulatory framework for UK pension plans. It does, however, open the door for UK legislation to deviate from EU requirements in the future.

DIVERSIFICATION WILL HELP PROTECT INVESTMENTS

Looking towards the future, diversification will help protect investments from the full impact of market volatility, but it's important that investors don't over-worry about disruptive events or financial crises that are unlikely to happen and play it too safe in their asset allocation.

FT Weekend newspaper headline after Brexit referendum result.

With the pound falling against other currencies, it means that overseas investments produce an additional benefit when they are converted into sterling. People who feel pessimistic about the UK economy or their own personal finances are more likely to plan to save more over the next 12 months to ensure they have a financial safety net, according to a Zurich survey[1].

HOW PEOPLE FEEL ABOUT THE ECONOMY

The findings suggest that current affairs have a significant impact on how people feel about the economy, with the two sides of the Brexit argument currently feeling very different about the future. Six in ten (60%) remain voters said they felt pessimistic about the economic outlook of the UK compared to just over one in five (22%) of those who chose to leave.

This negative attitude is also having an effect on how people view their own finances and how they plan to save. When asked about their personal financial situation, 32% of remain voters feel pessimistic compared to 27% of leave voters.

YOUNGER PEOPLE MORE LIKELY TO FEEL PESSIMISTIC

Over a quarter (26%) of remain voters expect to save more money in the coming year. Meanwhile, less than one in five (19%) leave voters said they planned to save more, while 27% expect to save less in the next year.

Further to this, younger people appear more likely to feel pessimistic about the economy and therefore intend to increase their savings. As such, just under half (49%) of 18 to 24-year-olds say that they are aiming to save more money in the next 12 months, compared to just 13% of 50 to 64-year-olds. ◂

THE NEED FOR SOLUTIONS AND PROFESSIONAL FINANCIAL ADVICE

With Article 50 now triggered and the negotiations beginning, the effects of the next stage of Brexit may be just as difficult to predict. The triggering of Article 50 continues to highlight the need for solutions and professional financial advice that will support you in achieving your investment goals in the short to medium term. To discuss any aspect of your financial plans in the light of Brexit, please contact us.

Source data:
[1] Zurich UK survey of over 4,000 adults across the UK, 24 March 2017

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

PROTECTING YOUR FINANCES AND WELL-BEING

Millions of Britons face financial fallout should serious illness strike

IT'S EASY TO THINK THAT WE WILL NEVER BE DIAGNOSED WITH A CRITICAL ILLNESS, PARTICULARLY WHEN WE FEEL HEALTHY AND ENERGETIC, BUT WE CAN FALL ILL WITH VERY LITTLE WARNING. A CRITICAL ILLNESS CAN HAVE A SERIOUS IMPACT NOT ONLY ON YOUR OWN LIFE, BUT ALSO ON THE LIVES OF YOUR CHILDREN, SPOUSE OR PARTNER. SO IT'S IMPORTANT TO MAKE SURE THAT YOU FINANCIALLY PROTECT YOURSELF AND YOUR FAMILY.

The good news is that the certain illnesses that used to be fatal are now survivable. However, it makes sense to protect yourself and your family from the financial fallout, as you'll need time out to recover – and that can have a big impact on you and your family.

HOUSEHOLD WOULD NOT BE FINANCIALLY SECURE

A fifth of the population (21%) admit that their household would not be financially secure for any length of time if it lost its main income through unforeseen circumstances, according to research from Scottish Widows. And more than a third (36%) would resort to accessing their savings if they were unable to work. Despite this, however, only a third (32%) of people have life insurance, and just one in ten (9%) have taken out critical illness cover.

Three national cancer awareness campaigns took place in March this year: Prostate Cancer, Ovarian Cancer and Brain Tumour.

The statistics about serious illness are also striking. Prostate cancer is the most common cause of cancer in men in the UK, and one in eight men will be diagnosed with this illness during their lifetime, while around 20 women are diagnosed with ovarian cancer every day[1]. In addition, ten people a day die of a brain tumour, and this is the chief cause of cancer deaths in children and young people[2].

£4.5 MILLION IN CRITICAL ILLNESS CLAIMS

Scottish Widows paid out almost £4.5 million in critical illness claims relating to prostate cancer, ovarian cancer and brain tumours in 2015[3], which collectively accounted for almost one in ten (9%) of all cancer claims that year. Almost two thirds (63%) of all critical illness claims were, in fact, due to cancer.

The average age of diagnosis for prostate cancer in 2015 was 57, while the average age for ovarian cancer was 47. More than half (55%) of brain tumour claimants were male, the youngest being 30 years of age.

FORCED TO BORROW MONEY FROM PARENTS

The cancer awareness campaigns coincided with the publication of a new report – No Small Change – by Macmillan Cancer Support, which revealed that thousands of middle-aged people in the UK are being forced to borrow money from their parents because of the cost of having cancer. Macmillan estimates that more than 30,000 people with cancer in their 40s have borrowed money from their elderly parents, and more than 2,000 have moved in with their parents or parents-in-law after having to sell their house.

The charity says that 28% of people with cancer of all age groups – an estimated 700,000 individuals – are vulnerable too because they have no savings to fall back on. And for 83% of cancer patients, lost income and increased expenditure brought about by the disease costs them an average of £570 a month.

FAMILIES WHO ARE STRUGGLING TO COME TO TERMS

At a time when welfare reform is resulting in significant changes to benefits, it is important to take time to consider the arrangements or financial resources available to you for those 'what if...' and 'how would we..' scenarios to help ensure provision is in place to safeguard your financial future and well-being. Whether this is achieved by applying for extra cover, increasing your emergency fund provision and/or by selling-down your assets, a strategy should be in place.

ARE YOU PREPARED IF LIFE THROWS SOMETHING UNEXPECTED YOUR WAY?

Critical illness cover pays out a tax-free lump sum if, during the term that you select, you are diagnosed with one of the specified conditions covered by the policy. It's entirely up to you how you choose to spend the money, but you could use it to pay off your mortgage or other debts, maybe a holiday to help you recuperate, or for home modifications such as building ramps or widening doorways for wheelchair access. Knowing you don't have to worry about your financial commitments if you're unable to work can give you peace of mind. To find out more about the options available to you, contact us for further information.

Source data:

[1] Cancer Research UK

[2] Brain Tumour Research

[3] Based on Scottish Widows and Clerical Medical claims

The Scottish Widows' protection research is based on a survey carried out online by YouGov who interviewed a total of 5,161 adults between 28 January and 4 February 2016.

IF PREMIUMS ARE NOT MAINTAINED, THEN COVER WILL LAPSE. THE POLICY MAY NOT COVER ALL THE DEFINITIONS OF A CRITICAL ILLNESS. FOR DEFINITIONS, PLEASE REFER TO THE KEY FEATURES AND POLICY DOCUMENT.

SPRING BUDGET 2017

What did it mean for your financial plans?

THE CHANCELLOR OF THE EXCHEQUER, PHILIP HAMMOND, DELIVERED HIS SPRING BUDGET TO PARLIAMENT ON 8 MARCH 2017. THIS BUDGET WAS THE LAST ONE TO TAKE PLACE IN THE SPRING. THE CHANCELLOR SAID LAST YEAR THAT HE WANTED TO SIMPLIFY THE WHOLE BUSINESS OF SETTING TAXES AND GOVERNMENT SPENDING, WHICH HAD BECOME TOO COMPLICATED.

Key points from the Budget that could impact your personal financial planning:

NEW NATIONAL SAVINGS AND INVESTMENTS BOND LAUNCHED

A new NS&I bond paying 2.2% over a term of three years on deposits of up to £3,000 is now available for 12 months from April 2017.

£5K TAX-FREE DIVIDEND ALLOWANCE CUT

The £5,000 tax-free allowance which commenced in 2016 is being cut to £2,000 from 2018.

INCOME TAX ALLOWANCES CONFIRMED

The personal tax-free allowance has increased to £11,500, with the higher rate tax band rising from £42,385 to £45,000. The Chancellor said the changes 'will make 29 million people better off'.

The additional rate tax band remains at £150,000.

Those in Scotland will have different Income Tax bands for earned income.

NEW INHERITANCE TAX RESIDENCE ALLOWANCE

When you pass on your main family home, you can now receive an additional £100,000 on top of the £325,000 Inheritance Tax allowance via the new main residence nil-rate band allowance.

Each individual can pass on up to £425,000 without paying Inheritance Tax as long as your family home is passed on to either children or grandchildren (and your share is worth at least £100,000 in 2017/18). The higher figure applies where more than one nil-rate band is available.

LIFETIME INDIVIDUAL SAVINGS ACCOUNT (LISA)

This new savings product is available to adults aged 18 to 39. It's designed to support plans to save for retirement or a first home. If you are a first-time house buyer, you can pay up to £4,000 a year into a Lifetime ISA and receive a 25% government bonus.

Contributions can continue up to age 50 and can be used to purchase a first property at any time from 12 months after opening the account, or be withdrawn for retirement from age 60.

£20K ISA ALLOWANCE

Individual Savings Accounts (ISAs) continue to provide a tax-efficient saving option for many. How much you can save into an ISA each year has been increased to £20,000 – an extra £4,760 of tax-efficient savings.

This increase, from April 2017, complements the new dividend allowance and new tax treatment of savings interest.

BUY-TO-LET TAX CHANGES

If you have a buy-to-let property, the amount of mortgage costs you can offset against rental income to assess your profits is being reduced. The reductions will be phased and may impact how much tax you may need to pay.

MONEY PURCHASE ANNUAL ALLOWANCE CUT

If you have accessed a money purchase pension flexibly, how much you can then pay into your money purchase pension under the Money Purchase Annual Allowance (MPAA) and receive tax relief is being reduced from £10,000 to £4,000.

This only affects you if you have flexibly accessed your defined contribution pension.

The reduction doesn't apply if you have only taken your tax-free cash sum or are already in capped drawdown and remain within the capped drawdown rules. ◂

IT'S GOOD TO TALK

The Chancellor resisted making far-reaching tax changes in this last Spring Budget, but some of the announcements could have had an impact on your personal or business situation. If you would like to discuss your situation, or if you have any further questions, please contact us.

LEVELS, BASES OF AND RELIEFS FROM TAXATION MAY BE SUBJECT TO CHANGE, AND THEIR VALUE DEPENDS ON THE INDIVIDUAL CIRCUMSTANCES OF THE INVESTOR.

YOUR HOME OR PROPERTY MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.

THE VALUE OF YOUR INVESTMENTS CAN GO DOWN AS WELL AS UP, AND YOU MAY NOT GET BACK THE FULL AMOUNT INVESTED.

PASSING ON WEALTH WITHOUT FURTHER TAX CHARGES

Over-55s risk falling prey to the inheritance 'sibling tax trap'

ON 6 APRIL 2017, A NEW ADDITIONAL MAIN RESIDENCE NIL-RATE BAND (RNRB) WAS INTRODUCED, WHICH ALLOWS FOR LESS INHERITANCE TAX TO BE PAID IN SITUATIONS WHEN A FAMILY HOME IS LEFT TO CHILDREN, GRANDCHILDREN OR CERTAIN OTHER 'QUALIFYING BENEFICIARIES' – INCLUDING STEPCHILDREN AND FOSTER CHILDREN.

But more than 1.7 million over-55s[1] could miss out because they've assigned their sibling to inherit their family home and not a direct descendant.

PASSING A FAMILY HOME TO SIBLINGS RATHER THAN TO CHILDREN OR OTHER DESCENDANTS

Research from the LV= independent legal service shows that one in ten over-55s (10%) have written their Will to pass their family home to their siblings rather than to their children or other descendants, which would lead them to be ineligible to utilise the additional RNRB. Previously, if an estate of a married couple was left to any descendant, anything above the £650,000 combined threshold (£325,000 allowance per individual) would have been taxed at 40% Inheritance Tax.

INHERITANCE TAX–FREE ALLOWANCE FOR THE FAMILY HOME

However, from 6 April 2017, the RNRB has been introduced with an RNRB of £100,000 per person, taking the total maximum individual personal allowance for Inheritance Tax from the current level of £325,000 to up to £425,000, or a total of up to £850,000 for married couples and registered civil partnerships.

LEAVING THE FAMILY ESTATE WITH AN INHERITANCE TAX LIABILITY

The allowance for the family home is set to increase by £25,000 per tax year, so by 6 April 2020 onwards a couple with a family home may potentially be able to leave their children or other direct descendants a combined estate of up to £1 million without any Inheritance Tax to pay. However, if the same couple were to leave their family estate to a sibling, the Inheritance Tax of 40% would apply on the difference between £650,000 and £1 million, leaving an Inheritance Tax bill of up to £140,000.

YOU MAY NEED TO AMEND YOUR WILL

The majority of the people surveyed (72%) don't know of or understand the changes that have come into force in this new tax year. If appropriate, you may need to amend your Will to ensure your estate can benefit from the increased allowance. Even among those who do know about the changes, half (53%) didn't realise that the increased tax-free amount can apply to cash proceeds from the sale of the home if you downsize or have to go into care.

WELL-THOUGHT-OUT ESTATE PLAN

Worse still, many people living 'as married' with partners – who would want their wealth passed to each other – don't have Wills (44%). Therefore, unless assets are jointly owned as 'joint tenants', their estate will pass to their children who would have no obligation to provide anything to their father or mother's partner. It has never been more important to have a well-thought-out estate plan, complete with an appropriate Will and supporting documentation, to ensure your assets can pass to your loved ones in a tax-efficient manner.

COULD YOU FALL PREY TO THE SIBLING TRAP?

This increased Inheritance Tax allowance is a boost to those who've seen their homes rise in value and want to be able to pass on this wealth without further tax charges, but it's crucial that they don't fall prey to the sibling trap. The RNRB rules can be complex. Getting the right professional advice and amending your Will could take a few hours, but with potential to save a lot of money it's time well spent.

LEVELS, BASES OF AND RELIEFS FROM TAXATION MAY BE SUBJECT TO CHANGE, AND THEIR VALUE DEPENDS ON THE INDIVIDUAL CIRCUMSTANCES OF THE INVESTOR.

Source data:

[1] There are 17.6 million over-55s in the UK (ONS population maps). Of the over-55s surveyed, 10% said they'd left their home to siblings rather than their children or grandchildren – equivalent to 1.7 million over-55s.

LV= commissioned Opinium Research to conduct bespoke research among a sample of 1,000 UK residents who are over 55 years of age. Surveys were conducted online between 8 and 14 December 2016 and are nationally representative.

GOLDEN YEARS

Key to a positive retirement lifestyle

UNFORTUNATELY, SOME INDIVIDUALS DO NOT REALISE THE IMPORTANCE OF PLANNING FOR THEIR RETIREMENT. THE AMOUNT OF MONEY SAVED FOR RETIREMENT WILL EVENTUALLY HAVE A PROFOUND IMPACT ON HOW WE LIVE OUR LIVES AND OUR STANDARD OF LIVING IN OUR GOLDEN YEARS.

Typically, retirement is the best time to transform the dreams that we had whilst working into reality, and it should also be a time free from money worries, but we can only do this if we are financially prepared. Also, by not properly planning for retirement, it may also put a huge financial burden on your family who will want to ensure that you are well cared for.

RELIANT ON THE STATE PENSION

But nearly one in seven people retiring this year (14%) has made no provision for their retirement, including 11% who will be either totally or somewhat reliant on the State Pension when they stop work, according to research from Prudential[1].

This leaves them embarking on their retirement with an income which is up to £1,400 a year below the Joseph Rowntree Foundation's (JRF) Minimum Income Standard for a single pensioner[2].

RETIREMENT INCOME EXPECTATIONS

There is some good news for women planning to retire in 2017, as they are closing the gap on men when it comes to retirement income expectations. Although this year will see more than double the proportion of women (19%) retiring without a pension than men (9%), it is an improvement on 2016 when women (22%) were more than three times as likely as men (7%) to retire without a pension.

JRF's Minimum Income Standard for a single pensioner of £186.77 a week is a benchmark of the income required to support an acceptable standard of living in retirement. A pensioner retiring after 6 April 2017 and relying solely on the new flat-rate State Pension would have a weekly income of £159.55[3], or nearly £8,300 a year – falling short of the JRF minimum standard by £27.22 a week, or over £1,400 a year.

IMPORTANT COMPONENT OF PENSIONERS' INCOMES

The State Pension is a vitally important component of pensioners' incomes – especially as the 'triple lock' ensures that it increases in value every year. People throughout their working lives should be doing everything they can to ensure that they are entitled to the full amount of State Pension, including making voluntary National Insurance contributions to cover any missing years.

However, for many working people, the State Pension will always be viewed as just one aspect of retirement planning. It is therefore concerning that some pensioners who are due to retire this year will rely solely on the State Pension and will face retirement incomes of £1,400 below the Joseph Rowntree Foundation's minimum level required to live comfortably.

AVOID FINANCIAL STRUGGLES DURING RETIREMENT

While saving is not always easy, especially when the multitude of costs in everyday life get in the way, it is important to try to save as much as you can from as early as you can to help avoid financial struggles during retirement. On average, people expecting to retire this year estimate that the State Pension will account for more than a third (35%) of their income in retirement.

Being able to manage your life in a satisfying and fulfilling way using the financial resources that you have is key to a positive retirement lifestyle. That means having a clear understanding of your sources of income and the future demands on your money, and then building a financial plan accordingly. ◂

WHERE WILL RETIREMENT TAKE YOU?

Your retirement is the opportunity of a lifetime. To find out more about the different options you can utilise to help plan for a more secure future, please contact us – we look forward to hearing from you.

Source data:

[1] Research Plus conducted an independent online survey for Prudential between 8 and 22 November 2016 among 10,605 UK non-retired UK adults, including 1,000 intending to retire in 2017.

[2] Joseph Rowntree Foundation – A Minimum Income Standard for the UK in 2016: www.jrf.org.uk/report/minimum-income-standard-uk-2016

[3] The new State Pension is set to rise in April 2017 – The Pensions Advisory Service: www.pensionsadvisoryservice.org.uk/news/the-new-state-pension-set-to-increase-from-april-2017

A PENSION IS A LONG-TERM INVESTMENT. THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

YOUR PENSION INCOME COULD ALSO BE AFFECTED BY INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS. THE TAX IMPLICATIONS OF PENSION WITHDRAWALS WILL BE BASED ON YOUR INDIVIDUAL CIRCUMSTANCES, TAX LEGISLATION AND REGULATION, WHICH ARE SUBJECT TO CHANGE IN THE FUTURE.

LOOKING FOR AN EXPERT, FLEXIBLE APPROACH TO MANAGING YOUR WEALTH?

Trust, tax and insurance solutions to ensure your financial goals can be achieved.

Whether your wealth comes from building a business, successful investments or family inheritance, robust family and estate planning is essential for protecting your wealth. We'll work to understand your requirements and bring them together as part of a coordinated financial approach.

CONTACT US TO DISCUSS YOUR REQUIREMENTS.

NAVIGATING MARKETS

UK and European investment company managers comment on the outlook post-Brexit

ON WEDNESDAY 29 MARCH, ARTICLE 50 OF THE TREATY OF LISBON WAS TRIGGERED, FORMALLY NOTIFYING THE EU THAT THE UK INTENDS TO WITHDRAW FROM MEMBERSHIP AND STARTING THE CLOCK FOR LEAVING NEGOTIATIONS.

The Association of Investment Companies (AIC) collated the following views of investment company managers on whether this will impact how they manage their portfolios and the outlook for UK and European markets.

UK MANAGER VIEWS

Harry Nimmo, Manager, Standard Life UK Smaller Companies Investment Trust said: 'Essentially I'm indifferent to the triggering of Article 50. Our investment process starts with stock selection. Our focus is on companies exhibiting growth, quality, earnings visibility and business momentum. History has demonstrated that our kind of lower risk growth-orientated companies can generally flourish regardless of the direction of macro-economic change. Indeed, our companies tend to come into their own in uncertain economic times. They are often outward looking with business models that thrive beyond our shores, irrespective of exchange rates and trade barriers.'

Jonathan Brown, Manager, Invesco Perpetual UK Smaller Companies said: 'In simple terms, the UK's vote in favour of Brexit cast us into a period of high political and economic uncertainty, presenting unknowns of a scale we have not experienced in the market for some time. Since then, the UK economy has shown remarkable resilience to the challenges ahead, with fears around consumer spending, recruitment and domestic business proving largely unfounded. Consumer spending and the service sector continue to drive the UK economy, despite some decline in business investment. The jobs market remains robust, although we expect inflation to squeeze discretionary expenditure as we progress through the year. Retail sales volumes fell in January, so there is some evidence of this already and, in spite of higher inflation expectations, the BoE seems unlikely to raise interest rates in the short term.

'Both the stock market and sterling moved very sharply last summer in anticipation of longer-term disruption, but we feel some of these moves have been too sharp, allowing us to reshape our portfolios in areas we perceive to be oversold. Where the market has had concerns about a stock's domestic exposure, business conditions have often remained largely unchanged, presenting longer-term opportunities.

'As the UK Government begins its formal Brexit negotiations with EU members, we remain optimistic about the road ahead; we have a dynamic economy which has adapted to change before – and is now primed to adapt again to whatever change is thrown at us. Sterling will remain a key instrument to watch over the near-term, as movements in currency will continue to impact the extent of the wider market response. Political events in the United States and Europe have added an additional twist to the outlook for major global currencies, and we have observed the market thinking more carefully about currency implications.

'Ultimately, we don't manage money on a three-month view or a six-month view but in the best long-term interests of our clients. We would urge investors to recognise that we will endeavour to make considered judgements on the basis of the facts as they emerge. We will not be making changes to the methodology we have used for many, many years to build our portfolios, nor departing from the processes we deploy to analyse, understand and respond to investment opportunities across UK equity markets.'

EUROPEAN MANAGER VIEWS

Stephen Macklow-Smith, Manager, JPMorgan European Investment Trust said: 'A huge amount depends on the type of agreement that can be reached. In the short-term nothing has changed, nor will it until 30 March 2019, two years after the triggering of Article 50. In the medium term, however, companies are likely to take a precautionary approach to ensure they are not blindsided by any collapse in negotiations. We have already seen, for instance, signs that banks are beefing up their presence in the Eurozone which, in the short term, will add modestly to their costs relative to the situation without the uncertainty of the negotiations.

'The bottom line is that if no deal is possible, that will have a negative impact on growth in both the UK and the EU. Although the impact will be that much less for the EU given that they will all remain members of the Single Market and will continue to enjoy an uninterrupted trade relationship with other countries outside the EU which have an existing trade agreement.

'We continue to find a number of opportunities in the more cyclical areas of the stock market and believe that as global reflation is increasingly evident, the tailwinds for growth will improve and earnings in more cyclical sectors will benefit.'

The European Equities Desk at Henderson Global Investors, which includes Henderson European Focus Trust, Henderson EuroTrust and TR European Growth Trust said: 'In Europe signs of an improving economy, emerging inflationary pressures, and a long-overdue recovery in corporate earnings have been overshadowed by the UK's vote to leave the European single market. While the referendum result takes the EU into uncharted territory, nothing has yet changed and little is known of how negotiations will proceed. Political concerns more broadly remain one of the more significant risks to the future of the EU, with important elections in France and Germany this year and far right anti-Europe parties expected to poll a significant number of votes.

'The uncertain impact of politics aside, the recovery in Europe seems to be on track, reflected in a consensus forecast of 1.5% economic growth this year. The European Central Bank is unlikely to pull back from its accommodative monetary stance over the short term and an improving economic climate may lead to more relaxed government spending. Unemployment in the euro area also fell to its lowest level since 2009 in January 2017. This tightening in the labour market makes it more difficult for firms to recruit workers but should support consumer confidence. European equities remain attractively priced relative to other regions, particularly the US. Any improvement in earnings growth in Europe is also likely to be a catalyst for gains.'

HOW COULD BREXIT AFFECT YOUR FINANCIAL FUTURE?

The triggering of Article 50 has started the process but it will still be a while before we fully understand the implications of the decision to leave the EU. Don't make any uninformed decisions. To discuss your situation, or for advice on the overall implications of your possible choices, please contact us.

INSIDE THE MIND OF A SCAMMER

Tactics investment fraudsters use to deceive over-55s

THE FINANCIAL CONDUCT AUTHORITY (FCA) IS URGING OVER-55s TO CHECK THAT INVESTMENT OPPORTUNITIES ARE GENUINE BEFORE THEY PART WITH THEIR MONEY.

This comes as new research[1], commissioned as part of the FCA's ScamSmart campaign, reveals that only two in five (42%) think they know how to spot a fraudulent investment opportunity. Fraudsters are targeting the growing over-55 population because they are more likely to have money to invest.

ADVANCED PSYCHOLOGICAL TACTICS

In 2016, victims of investment fraud lost on average £32,000[2] as fraudsters employed increasingly advanced psychological tactics to persuade victims to invest. One of the most common methods used by fraudsters is to pressurise potential investors to make a quick decision on a time-limited investment offer. This new research found that more than half (53%) of the over-55s surveyed believed acting quickly can be key to getting a good deal, demonstrating how many could be vulnerable to this tactic.

A third (34%) said it is best not to discuss investment decisions with others, and fewer than half (48%) said they would be likely to seek impartial advice before making an investment. These attitudes are seized on by fraudsters, who often urge their target to keep the offer a secret in order to prevent others from dissuading them from investing.

MORE ATTRACTIVE INVESTMENT OPPORTUNITIES

45% of over-55s surveyed agreed that investment opportunities are more attractive if you know of others who have made similar investments. Fraudsters may exploit this by saying that others want in on the deal or have already benefitted.

Interestingly, those surveyed were more aware of certain signs of investment fraud, but less aware of others. For example, 92% agreed being contacted out of the blue could be a warning sign, but 19 per cent were unaware that being promised returns above the market rate could also be a tactic.

The common tactics used by fraudsters include:

- Offering lucrative returns above the market rate and downplaying the risks of the investment
- Using flattery to make potential victims feel good, such as praising them for being a knowledgeable investor
- Saying that the deal is only available to the target and asking them to keep it a secret
- Saying that other clients have invested or want in on the deal (known as 'social proof')
- Putting them under pressure to invest in a time-limited offer

The FCA is urging consumers to be sceptical and cautious before they invest their money. If someone invests their money with an unauthorised firm, they will have no protection from the Financial Ombudsman Service or Financial Services Compensation Scheme if things go wrong.

Nick Hewer, who is supporting the campaign, added:

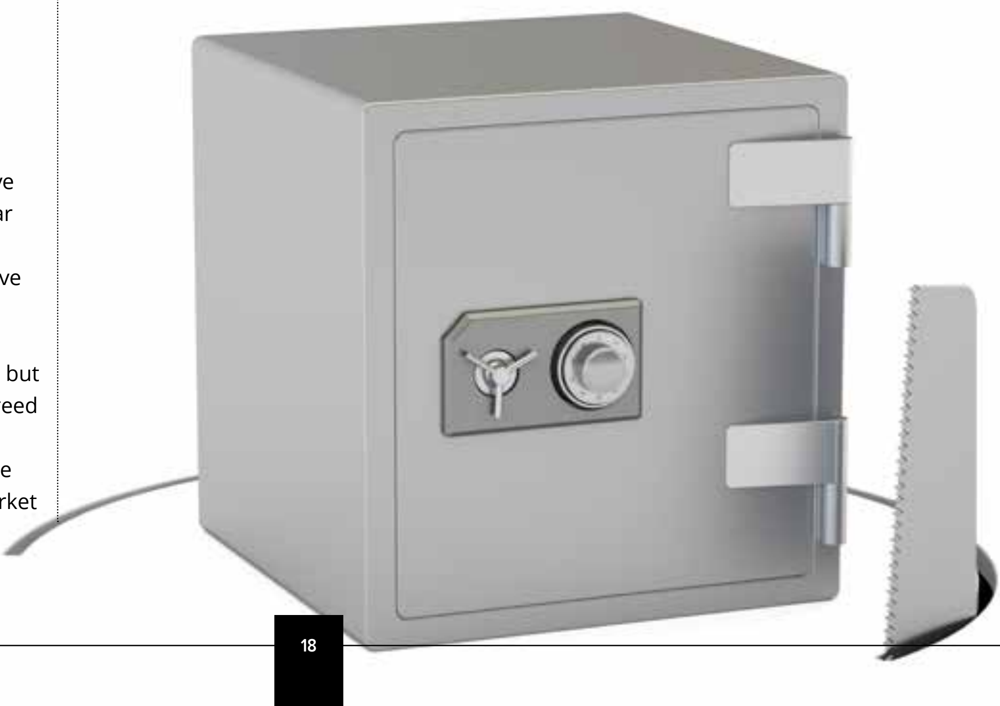
'As someone who has been approached by scammers myself, I know how hard it is to identify whether an investment offer is legitimate. They're very clever these people, playing psychological games to win over the trust of often vulnerable victims and that's why I'm working with the FCA to raise awareness of this troubling issue.

'Remember, if it sounds too good to be true then it probably is. If you are offered an attractive investment out of the blue, be suspicious, check the FCA's Warning List and seek impartial advice. Better still, if you get a cold call, just put the phone down!'

Source data:

[1] All figures, unless otherwise stated, are from YouGov Plc. The total sample size was 1,004 GB adults aged 55+, in social grade ABC1, with a gross household income of £30,000+ and/ or savings of £5,000+. Fieldwork was undertaken between 27 January and 6 February 2017. The survey was carried out online.

[2] Figures from Action Fraud released in October 2016. In the last six months (July 2016 – January 2017), the FCA received 2,748 reports of scams or unauthorised firms to its website. In 2016, the FCA received 261,547 visitors to the ScamSmart website.



YOU'VE PROTECTED YOUR MOST VALUABLE ASSETS.

But how financially secure are your dependants?

Timely decisions on how jointly owned assets are held, the mitigation of Inheritance Tax, the preparation of a will and the creation of trusts can all help ensure your dependants are financially secure.

CONTACT US TO DISCUSS HOW TO SAFEGUARD YOUR DEPENDANTS, WEALTH AND ASSETS – DON'T LEAVE IT UNTIL IT'S TOO LATE.

ADVICE MATTERS

Do you have the time to keep fully up to speed with everything that's going on?

WITH A BURGEONING CHOICE OF PRODUCTS ON THE MARKET, AND CONSIDERING THE BUSY LIVES WE ALL LEAD, IT CAN BE DIFFICULT TO FIND THE TIME TO KEEP FULLY UP TO SPEED WITH EVERYTHING THAT'S GOING ON – ESPECIALLY WHEN YOU CONSIDER THAT FINANCIAL PRODUCTS ARE UNLIKELY TO REMAIN THE SAME THROUGHOUT YOUR LIFETIME.

Obtaining professional financial advice enables you to discuss your objectives, understand which products are available and identify which will best suit your investment needs.

KEEPING A REGULAR CHECK ON FINANCIAL PLANS

Lifestyles change as time passes, and it's important to keep a regular check on our financial plans. It is likely that the balance of investments in your portfolio will need to evolve, not only in line with changing market conditions but also with factors such as your investment goals, your personal circumstances and perhaps most notably your age. Obtaining professional financial advice will ensure that your plans remain on track, especially when the time comes to retire.

LOSING OUT ON THOUSANDS OF POUNDS

However, a worrying number of people aged over 55 are not planning to take financial advice when they retire. This means people risk losing out on thousands of pounds over the course of their retirement, leaving the UK on the cusp of a 'mis-buying' crisis, according to research from LV=.

INCREASE THE TAKE UP OF ADVICE

It is a year since the final Financial Advice Market Review (FAMR) report published 28 recommendations to help make financial advice more accessible and affordable for people. While progress is being made to increase the take up of advice, it is currently worryingly low. Six in ten (61%) approaching retirement still say they don't plan on using a professional adviser, and half (52%) think they can make the right decisions without advice.

DIFFERENCE BETWEEN GUIDANCE AND ADVICE

One of the reasons for not taking financial advice appears to be a lack of understanding of what it offers, with a third (33%) not certain they know the difference between guidance and advice, and just one in five (22%) thinking it is good value for money. Other reasons given include: people relying on their own research (23%), not thinking they have enough money to make it worthwhile (22%), and advice being too expensive (15%).

BETTER PROMOTION OF THE REFORMS

This demonstrates an urgent need for government, regulators and industry to do more

to show the value of advice, including better promotion of the FAMR reforms. Two of the recommendations from the report came into effect in April: the Pension Advice Allowance and the tax-break for employer arranged advice[1]. However, knowledge of them is low. Two thirds (68%) of over-55s are completely unaware of the Pension Advice Allowance, and eight in ten (80%) don't know about the tax break for employer arranged advice.

FLEXIBILITY OVER RETIREMENT OPTIONS

The pension freedoms have given welcome flexibility over retirement options, but this has also created greater complexity; without financial advice, people are at risk of making the wrong decision. The FAMR recommendations help make advice more suitable for the mass market, but much more needs to be done to promote the value of advice, as those who do use an adviser often get more from their money[2].

MAKE THE MOST OF YOUR HARD-EARNED SAVINGS

The poor understanding of financial advice is particularly worrying at a time when people are faced with more complex decisions about retirement than ever before. Taking professional financial advice is vital to ensure you are equipped to make the most of your hard-earned savings and receive the income you need in retirement. If you are approaching retirement and would like to discuss your options, don't leave it to chance – please speak to us.

Source data:

LV= research among 1,008 UK adults aged 55+ who are retired or plan to do so within 10 years, conducted online by Opinium from 16–21 February 2017.

[1] The Pension Advice Allowance will allow people to take up to £1,500 from their pension pot tax-free to pay for advice. The tax-break for employer-arranged advice will enable advice up the value of £500 arranged by an employer isn't classed as a taxable benefit.

[2] LV= research has previously shown that people who buy an annuity and don't take advice or shop around could lose out on nearly £1 billion over their retirements. According to ONS 2012 data, 600,000 people retire in the UK each year. ABI data shows that in Q4 2015 51% of retirement income products purchased were annuities (21,200 annuities compared to 19,700 drawdown products). 51% of 600,000 is 306,000. 80% of people shopping around for an annuity could have got a better deal (source FCA – February 2014). 80% of 306,000 people who buy an annuity equates to 244,800 a year. The difference between the best and worst annuity quote for a healthy 60-year-old is £192 (analysis of MAS annuity tables November 2016). 244,800 x £192 equals £47 million a year. £47 million x 20 years (assumed life expectancy after retirement) equals £940 million over 20 years for one year's worth of retirees.

TARGETING SUPPORT FOR INVESTORS

Income Tax dividend allowance reduction

ON 8 MARCH, THE CHANCELLOR OF THE EXCHEQUER, PHILIP HAMMOND, DELIVERED WHAT PEOPLE HAD EXPECTED – A BUDGET OF FEW SURPRISES TO PROVIDE A 'STRONG, STABLE PLATFORM FOR BREXIT'. HOWEVER, HE DID REVEAL THE TAX-FREE DIVIDEND ALLOWANCE WILL BE REDUCED FROM £5,000 TO £2,000 FROM APRIL 2018.

The Treasury Budget document stated that this was intended to 'reduce the tax differential between the self-employed and employed, and those working through a company, to raise revenue to invest in public services, and to ensure that support for investors is more effectively targeted.'

REDUCING THE ATTRACTIVENESS OF TAKING DIVIDENDS

Many people have opted to work through a personal company, taking remuneration as a mix of dividends and salary, and this change will reduce the attractiveness of taking dividends from a company. According to the Budget statement, about half of those affected will be those using personal companies in this way.

REFORMED DIVIDEND TAXATION FROM APRIL 2016

Under existing rules, which were announced in the Summer Budget 2015, the Government reformed dividend taxation from April 2016 by replacing the dividend tax credit with a £5,000 dividend allowance, and increasing the rates of tax paid by 7.5 percentage points in each band to 7.5% for basic rate, 32.5% for higher rate and 38.1% for additional rate.

SUPPORT FOR INVESTORS MORE EFFECTIVELY TARGETED

This reduction is forecast to raise the Treasury £930m in 2021/22. The Treasury Budget document stated: 'The policy objective of this new measure is to ensure that support for investors is more effectively targeted and that the total amount of income they can receive tax-free is fairer and more affordable, in light of increases to the tax-efficient personal allowance and the Individual Savings Accounts (ISA) allowance.'

IMPACT ON INDIVIDUALS, HOUSEHOLDS AND FAMILIES

Individuals and households who receive dividend income in excess of £2,000 will be affected. Around two thirds of all those with dividend income will be unaffected by this measure. It is estimated that this will have an impact on around 2.27 million individuals in 2018 to 2019, with an average loss of around £315.

EXTREMELY GENEROUS TAX BREAKS FOR INVESTORS

Mr Hammond said that the cut to £2,000 was meant to 'address the unfairness' around the dividend allowance, which he described as 'an extremely generous tax break for investors with substantial share portfolios'. He said about half the people affected by this measure were directors and shareholders of private companies. ◂

FINANCIAL ADVICE IS OUR BUSINESS.

We're passionate about making sure your finances are in good shape.

Our range of financial planning services is extensive, covering areas from pensions to inheritance matters and tax-efficient investments.

CONTACT US TO DISCUSS YOUR REQUIREMENTS. OUR DETAILS APPEAR ON THE FRONT COVER.

QUALIFYING RECOGNISED OVERSEAS PENSION SCHEMES

Tax rate charge on transfers on or after 9 March 2017

QUALIFYING RECOGNISED OVERSEAS PENSION SCHEMES (QROPS) TRANSFERRED ON OR AFTER 9 MARCH 2017 ARE NOW SUBJECT TO TAX CHARGE AT A RATE OF 25% ON THE TRANSFER. THE MEASURE TOOK EFFECT WITH RESPECT TO RELEVANT PAYMENTS FROM QROPS FROM 6 APRIL 2017.

A QROPS is an overseas pension scheme that meets certain requirements set by HM Revenue & Customs and must have a beneficial owner and trustees, and it can receive transfers of UK Pension Benefits.

Those affected will be UK and QROPS pension scheme administrators and pension scheme members who are considering moving funds from a UK registered pension scheme.

MOVING PENSION WEALTH TO ANOTHER JURISDICTION

The charge is aimed at those seeking to reduce the tax payable by moving their pension wealth to another jurisdiction – that is unless both the individual and the pension savings are in the same country, both are within the EEA, or the QROPS is provided by the individual's employer. The tax charge will apply if, within five years, the transfer no longer qualifies. When the tax charge is made, it will be deducted before the transfer by the scheme administrator or scheme manager of the pension scheme making the transfer.

GENUINE NEED TO TRANSFER PENSIONS EXEMPT

Exceptions apply to the charge, allowing transfers to be made tax-free where people have a genuine need to transfer their pension, including when the individual and the pension are both located within the European Economic Area or the QROPS is provided by the individual's employer.

PROMOTING FAIRNESS IN THE TAX SYSTEM

The Government said this charge supports its objective of promoting fairness in the tax system, and it continues to allow overseas transfers from pension schemes that have had UK tax relief that are made when people leave the UK and take their pension savings with them. The Government expects to raise £315m through the regime by 2021/22. ◄

SAVERS 'BANKING ON ISAs'

Weighing up the tax-efficiency versus flexibility

MORE THAN ONE IN THREE RETIREMENT SAVERS[1] ARE PLANNING TO RELY ON INDIVIDUAL SAVINGS ACCOUNTS (ISAS) FOR THE MAJORITY OF THEIR RETIREMENT INCOME.

ISAs don't attract the upfront tax relief that pensions enjoy. However, unlike retirement savings plans, there is no tax to pay when you cash them in. With pensions up to 25% can be taken as tax-free cash.

EXPLORING A WIDE RANGE OF OPTIONS

Even so, according to a study from MetLife, 34% of savers are looking to ISAs to deliver the majority of their guaranteed income in retirement, highlighting the growing interest in exploring a wide range of options to deliver certainty and flexibility over funds. Even among the over-55s, who are in the run-up to retirement, more than a quarter (28%) are considering using ISAs.

The findings highlight the lack of awareness of available options for ISA savers – with more than two thirds (66%) saving into a Cash ISA, and just 10% saying they are happy with the rates they receive. More than half of Cash ISA savers (55%) are dissatisfied with their rates. Best fixed-rate cash ISAs currently pay around 1.75%[2] – just above inflation.

MAKING MORE USE OF ISAS FOR RETIREMENT

The study[3] found around 21% of pension savers say they are making more use of ISAs for retirement planning following pension freedoms. But the lack of savings choice could mean that some people are unaware of the options available to boost their pensions. The increase in annual ISA tax-efficient subscription limits from £15,240 to £20,000 from April this year makes them a complimentary vehicle for retirement planning.

A significant amount of ISA savings is focused on Cash ISAs. Few savers are happy with the rates they are earning; however, it's also understandable that some are nervous about investing their money in a traditional Stocks & Shares ISA when markets are uncertain.

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

TAX-EFFICIENCY OF PENSIONS VERSUS THE FLEXIBILITY OF ISAs

It's important to think about the tax-efficiency of pensions versus the flexibility of ISAs. Retirement savings should predominantly be in pensions, but once they start being cashed in you could consider reinvesting the proceeds back into ISAs in retirement. To discuss your requirements, please contact us to review your situation.

Source data:

[1] Research carried out by Consumer Intelligence using an online methodology to question 1,071 employed adults aged 18-plus. Fieldwork was carried out between 30 January and 2 February 2017

[2] https://moneyfacts.co.uk/isa/fixed-rate-isa/

[3] Research carried out by Pollright among a sample of 107 specialist retirement advisers in February 2017.

MONEY PURCHASE ANNUAL ALLOWANCE REDUCTION

Discouraging individuals who seek to abuse the flexible pension rules

THE MONEY PURCHASE ANNUAL ALLOWANCE (MPAA) REDUCED FROM £10,000 TO £4,000 FROM APRIL 2017. INDIVIDUALS AFFECTED WILL BE THOSE WHO HAVE ENTERED INTO FLEXIBLE ACCESS ARRANGEMENTS (IF THEY HAVE TAKEN BENEFITS ABOVE AND BEYOND THEIR TAX-FREE CASH FLEXIBLY) TO DRAW FUNDS FROM THEIR PENSION SAVINGS AND CONTINUE TO MAKE CONTRIBUTIONS TO MONEY PURCHASE PENSION SCHEMES.

The MPAA was introduced by the Taxation of Pensions Act 2014 on 6 April 2015. It is designed to discourage individuals who seek to abuse the flexible pension rules to avoid tax and potentially National Insurance contributions by introducing a lower alternative annual allowance where flexibility has been accessed.

TAX CHARGE AT THE INDIVIDUAL'S HIGHEST MARGINAL RATE

More than 500,000 people who have accessed pension freedoms since April 2015 will see this applied. Contributions above the annual allowance to a money purchase (defined contribution) scheme will attract a tax charge at the individual's highest marginal rate. The Government estimates the yield from this restriction will be £70 million in 2017/18, rising to £75 million in 2021/22.

SIGNALLING THE END OF THE NOTION OF PENSION FREEDOMS

This reduction signals the end of the notion of pension freedoms, facilitating a gradual shift from work to retirement where individuals over age 55 facing challenges accessing the labour market could dip into their pension and then return to work and build more pension value.

Individuals considering withdrawals will have to decide whether they are prepared to sacrifice the majority of their pension allowance for doing so. ◂

WE CAN HELP YOU MAKE THE MOST OF YOUR RETIREMENT OPTIONS

Regardless of the life stage you have arrived at, it is important to receive expert and professional advice on your pension plans and requirements. Whether you need to set up or review existing retirement planning strategies, we can help you make the most of your retirement opportunities. For further information, please contact us – we look forward to hearing from you.

A PENSION IS A LONG-TERM INVESTMENT. THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

YOUR PENSION INCOME COULD ALSO BE AFFECTED BY INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS. THE TAX IMPLICATIONS OF PENSION WITHDRAWALS WILL BE BASED ON YOUR INDIVIDUAL CIRCUMSTANCES, TAX LEGISLATION AND REGULATION, WHICH ARE SUBJECT TO CHANGE IN THE FUTURE.

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