MONEY view

Autumn/Winter 2016

twp Chartered Financial Planners

Your Pensions, Savings, and Investments newsletter from The Woodham Partnership Limited

The implications of Brexit will obviously have an impact on our lives. However, as it stands, we're still part of the EU, and that'll remain the case for the immediate future.

More importantly at this stage, you should continue focussing on your daily lives and what's in front of you. And as part of that process, **sensible financial planning** can help provide those important things in life, such as a nice home, memorable holidays, delivering the best for your children, along with the opportunity to undertake a wide range of interests and hobbies.

We also recognise that it's most likely you're fairly busy juggling the demands of daily life. However, you probably can't help to have noticed the raft of measures introduced by the government over the last year or so.

Whether you're still working, or enjoying what may be a long retirement, it's important to be aware of what's on offer.

Some recent developments

Taxwise, plenty has happened. On the plus side for many, Capital Gains Tax has been reduced from 18% to 10% for basic rate taxpayers for this tax year on capital gains above the annual exemption level of £11,100. Higher and additional rate taxpayers will enjoy a drop from 28% to 20%. However, the tax applicable to the sale of buy-to-let properties and second homes will remain at the previous levels.

There are also sweeping changes to the way dividends are taxed, with everyone now benefiting from £5,000 of tax-free dividend income. But, the payoff is that any income above this amount will be taxed at 7.5% for basic rate, 32.5% for higher rate, and 38.1% for additional rate taxpayers.

On the **savings** front, there's a new Personal Savings Allowance, delivering £1,000 of tax-free savings interest for basic taxpayers (albeit just £500 for higher, and nothing for additional rate taxpayers).

Taxation is also increasing for buy-to-let landlords in a number of areas.

On the **investment** side, there have been plenty of developments around Individual Savings Accounts (ISAs). For this tax year the individual ISA limit is £15,240, which rises to £20,000 for the 2017/18 tax year. At that stage the new Lifetime ISA will be launched for the 18-40 age group, and designed to assist with either a first home purchase or to help meet retirement needs.

Moving onto the **pensions** arena, the overall amount anyone may save into their pension scheme has now dropped to £1m from this tax year, against £1.25m, previously, which may leave a number of planholders slightly concerned.

And for those in retirement or moving close to it, there's the new single tier State Pension of £155.65 a week - although there are strict rules on who can actually claim the full amount with regard to National Insurance contributions over the years.

For the end of life, there are benefits too (well sort of, aside from the loss of a loved one), as many of the death taxes have been relaxed in areas such as ISAs and pension plans, and there have been positive moves with regard to Inheritance Tax.

Making plans

We expand on some of these issues across the following pages. And whatever your life stage, attitude to risk, and tax position may be, it makes sense to talk. As part of that process we would also factor in the impact of the current economic and geopolitical developments, which could also influence any decision-making.

HM Revenue & Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

Welcome....

to this newsletter, which covers some of the key issues of the moment that may affect your financial wealth.

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Be Tax-Efficient

There are a good number of tax-efficient schemes that the government is more than happy for you to take advantage of.

Individual Savings Accounts (ISAs) are one of the most popular tax-efficient schemes.

An ISA is basically a 'wrapper' into which you can place cash or stocks and shares up to a certain limit each year. For the 2016/17 tax year the total individual limit is £15,240. Which means that a couple, for example, could place just over £30,000 this year!

The way it works is that within the ISA, any interest, income or growth that you receive will be free from any personal liability to income or capital gains tax.

To give you a feel for what this could amount to; had someone used all of their individual ISA allowances since its launch in 1999, this could have added up to over £166,500 of contributions, with any growth on that amount being sheltered from tax!

From this tax year a greater level of flexibility has also been afforded. Savers have now been given the freedom to take money out of their ISA and put it back in later in the year, without losing the ISA tax benefits, as long as the repayment is made in the same financial year as the withdrawal. Do check that your plan provider is already on board with this.

Personal pensions

Paying into a pension scheme will also deliver tax-efficient benefits. Where it differs from ISAs is that there are benefits when making the contribution to your plan through an additional cash top-up from the government, but unlike ISAs it's likely there'll be some tax to pay at the other end against the retirement income.

Basic rate taxpayers would receive 20% tax relief - this means it costs 80p to save each £1 into your pension pot. For higher and additional rate taxpayers the position is even better with 40% tax relief for the former (60p contribution to save £1) and 45% for the latter (55p to save £1). However, the government is starting to erode other benefits enjoyed by the higher earners.

Alternative schemes

Dependent on your attitude to risk, there are other tax-efficient schemes that are more specialised which can bring about the possibility of greater returns, but you need to balance that with the greater risk.

Whatever, you opt for, do recognise that it's not just solely about being tax-efficient (as sensible as that may be). You also need to consider the possible income and growth you may want to achieve from your portfolio.

A stocks and shares ISA is a medium to long-term investment, which aims to increase the value of the money you invest for growth or income or both.

The value of investments and the income from them can go down as well as up and you may not get back your original investment.

Past performance is not a guide to future performance.

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ISA news

Schemes where the government will make a contribution, should you meet the required criteria.

Backed by HM Government

Help to Buy ISA

This is available now, and is effectively a tax cut for first-time buyers, as the initiative will see the government deliver a 25% bonus to help towards the deposit.

It would enable the first-time buyer to save up to £200 a month towards their first home, receiving, for example, a £50 bonus for every £200 saved. This 25% boost would be applied up to a maximum overall bonus of £3,000.

Even better, the scheme is linked to one per person, rather than one per home, so those buying together could both benefit. The bonus would be paid out when buying a first home that meets the eligibility criteria - up to £450,000 for a London property, and up to £250,000 elsewhere in the UK.

Lifetime ISA (LISA)

This scheme doesn't launch until April 2017 and will be available to those aged 18-40. It's designed for those buying their first home, or to be held in the ISA until they are 60 years-old, to help assist retirement planning. In these instances the investor will enjoy a tax-free withdrawal of funds from the scheme.

Additionally, the current proposals set out that you can save up to £4,000 each year, and get a government bonus of 25% (to a maximum of £1,000 each year, up to age 50). The bonus can only be realised if it goes towards your retirement, or your first home (which has to be located in the UK, your only residence, and up to a value of £450,000).

There will also be a provision for those who have already started a Help to Buy ISA to roll them into a Lifetime ISA, if wanted.

For those saving for retirement, be aware that you can withdraw the money at any time before you turn 60, but you will lose the government bonus (and any interest or growth on this). You will also have to pay a 5% charge.

Contributions to a Lifetime ISA will count towards the £20,000 2017/18 ISA allowance.

Do get in touch to find out more.

Flexible PENSIONS

Following the complete overhaul of pensions in April 2015, we're now over a year on and can see how planholders responded to the new freedoms.

Since April 2015, planholders, aged 55+, can draw down as much, or as little of their pension, at any time. The expanded range of choices means that they can shop around and either go for one option (see right), or perhaps devise a mix that meets current needs, delivers a guaranteed income for life, yet also leaves some funds invested in the hope of future growth. In short, you're in charge and can decide pretty much what you want to do.

Activity since April 2015

Almost £8.2bn in cash has been taken out of pension pots in the first year, equating to an average individual payout of around £6,200. Interestingly, across the same period, £6.1bn was invested in income drawdown products, with an average fund value of £67,500; and £4.2bn was placed in annuities at an average of £52,500.

(Source: Association of British Insurers, Year to Q1 2016)

So, whilst £8.2bn is a sizeable figure, it does show that more money has actually been placed elsewhere.

The same research also goes on to show that the amount taken out as cash in the most recent quarter is around half of what was removed in Q2 2015 - the first quarter following the freedoms. Conversely, the investment in drawdown and annuities was fairly similar when comparing the same timeframe.

Tax issues

Of course, many would be mindful that taking in excess of 25% as cash could generate a sizeable tax bill, and possibly push some into a higher income tax band.

This is because the first 25% of the pension pot will be tax-free, either as one lump sum, or as the first 25% of multiple lump sums, with the remaining 75% being taxed at the individual's marginal rate.

The main options

1. Uncrystallised Funds Pension Lump Sum

These funds are 'uncrystallised', as they have not yet been used to pay a scheme pension, buy an annuity, or designated to a flexi-access drawdown fund. As it stands, your pension pot would remain as currently invested, or can be taken partly, or all, as cash.

2. Annuities

As with drawdown, you're encouraged to shop around and not just consider your current pension company. As part of that process, should you face a specific health or lifestyle issue such as diabetes, cancer, a heart condition, or from being a smoker, then you may qualify for an **enhanced annuity,** which pays out more. It does this because the product provider has factored in that you're not expected to live as long. It's then down to you to beat the odds!

However, annuity take-up would not have been helped by the recent decision to lower interest rates to 0.25%, along with further quantitative easing measures.

(Source: Bank of England, 4 August 2016)

3. Flexi-access Drawdown

At the other end of the scale are drawdown products, which could potentially offer a better return but do come with a higher degree of risk, as you'll still be investing in the stock markets, etc.

Previously, this offering was more appropriate to those who had sizeable pension pots, and were less averse to risk. Under the new reforms, this sector has also expanded with the introduction of flexi-access drawdown funds (the format for all new drawdown plans).

These are designed to cater for more needs on the risk scale/fund size; with the previous restrictive rules affecting how much you can take out, being swept away.

Whatever you opt for, it's essential that you take advice before you act. HM Revenue & Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

PENSION ISSUES

Lifetime Allowance

This is the maximum amount of pension savings that you can build up without a tax charge. This figure has just been cut to £1m from this tax year. Your pension pot would then be tested against the lifetime allowance once you start to draw your benefits.

Annual Allowance taper

From this tax year the annual allowance that can be paid into your scheme is £40,000. However, the government is introducing a taper system which means that the limit will be reduced for most people whose income exceeds £150,000. The rate of reduction is set at £1 for every £2 of income, bringing the annual allowance down to just £10,000 for anyone with an income of £120,000+.

Estate planning for all...

Don't just think that estate planning is purely for people in - or moving towards - their retirement years.

Wills

A massive 58%* of all UK adults don't have one. So, for example, consider this situation: A family with young children, where both parents sadly perish in a car accident (and a Will or Guardianship arrangement isn't in place); the children are likely to be initially put into Care - irrespective of a loving family that may be around them.

In general, not having a Will in place would mean that a person dies intestate. And whilst their spouse (or registered civil partner) will be the first person entitled to the estate, they may not inherit all of it. If a couple aren't married, then the situation could be even more problematic!

Also, without a Will the whole process is slowed down dramatically, often meaning that the family may face financial worries, at the same time as having to cope with the loss of a loved one.

*(Source: *Survey by unbiased.co.uk, October 2015)*

Trusts

There are various types and these can be complicated, but may deliver support to help meet certain outcomes or concerns.

Inheritance Tax (IHT)

Currently, no IHT will be charged on the first £325,000 of an individual's estate. Thereafter, a hefty 40% tax bill on the remainder is applicable. However, if you're married or in a civil partnership, then any part of the estate that passes onto your spouse on death does so without any IHT liability. And this also effectively doubles the tax-free threshold to £650,000.

From April 2017 it may get even better, as each individual will be offered a further 'family home allowance' to help pass their home onto their children or grandchildren tax-free after their death.

This will be phased in from 2017/18. The family home allowance will be added to the existing £325,000 IHT threshold, meaning the total tax-free allowance for a surviving spouse or civil partner could be up to £1m by 2020/21. Although do check if any Trust arrangements, that may be in place, could affect this.

Anyone with a home worth more than £2m would receive only some, or none, of the benefits of this ruling.

Additionally, do be aware of the seven year rule which will deliver beneficial tax exemptions if the donor lives for a further seven years after passing on a gift.

Please get in touch to find out more.

The Financial Conduct Authority does not regulate taxation and trust advice or will writing.

Death & ISAs

According to HM Revenue & Customs, 150,000 married ISA savers die each year. Rule changes mean that ISAs can now be passed onto the surviving spouse, or civil partner tax-free on death.

Previously the ISA tax 'wrapper' passed away with its owner, and the money that had been sheltered became liable for income and capital gains tax.

The surviving partner will now be able to invest as much into their own ISA as their spouse/civil partner had at death, on top of their usual allowance.

However, the tax-efficient wrapper of an ISA does not apply if, for example, the surviving partner then dies and the ISA was left to another family member or beneficiary. In this instance, it would be subject to 40% tax, if the IHT threshold for the estate was exceeded.

Death & Pensions

Prior to the changes, pensions that were still invested could be passed on at death, but a sizeable 55% tax was applied.

With the changes, the retirement pot of someone who dies before the age of 75 will, generally, no longer be taxed when passed on. Similar rules now apply to annuities, if it's a joint life one, or an annuity with a guaranteed term.

A pension pot passed on after the age of 75 will, generally, be taxed at the beneficiaries marginal rate. Again annuities are treated similarly.

However, there are various caveats that may apply, so it's wise to discuss your own specific position.

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■ The information in this newsletter is of a general nature and does not constitute advice. You should seek professional advice tailored to your needs and circumstances before making any decisions.

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