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FINANCIAL SERVICES LTD

Spring 2015

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Wake up to year end tax planning

This time around there is more reason than ever to undertake some early tax year end planning.

The first half of 2015 has more than the usual number of trigger dates for tax planning.

First off is the Budget, which is due on 18 March. Next comes the tax year end, as ever on 5 April (Easter Sunday in 2015) followed by the general election, which will be on 7 May. A second 'summer' Budget is also possible as happened after the 2011 election.

The 2014/15 year end tax checklist is thus a combination of the familiar March exercises, together with a round of pre-election planning, some of which may be put in place after 5 April:

Pensions

The year end planning focus for pensions is traditionally on you maximising contributions and tax relief. In 2015 this aspect is especially important because of the recent reduction in the annual allowance and the threat of a post-election cut to tax relief.

If you want to top up your pension, make sure you talk to us first: there are bear traps amidst the tax-saving opportunities.

ISAs

The current ISA contribution limit is £15,000, which will rise to £15,240 from 6 April. The changes introduced last July have further improved the attraction of ISAs:

- The full contribution can be divided between the cash and stocks and shares components as you wish.
- All income within ISAs is free of personal UK tax.
- There are no restrictions on switching between the stocks and shares component and the cash component or vice versa.

Capital gains tax annual exemption

In 2014/15 you can realise gains of up to £11,000 without CGT liability. From 6 April you could crystallise another £11,100. Washing out gains – and perhaps reinvesting via two years of ISA – could prove to be a wise move before the general election.

Inheritance tax (IHT)

The IHT nil rate band of £325,000 has been frozen since 6 April 2009, making it all the more important that you use your annual IHT exemptions. For example, if you and your partner have not made any gifts since 6 April 2013, you could now jointly give away £12,000 free of IHT using this allowance.

The value of your investment and the income from it can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice.

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Some Autumn Statement surprises

Mr Osborne's autumn/winter set piece contained a few unexpected announcements.

The 2014 Autumn Statement was even more like a mini-Budget than its recent predecessors, probably because the next Budget will be so close to the election. The main features of the Autumn Statement/Budget were:

Stamp Duty Land Tax (SDLT) reform The Chancellor scrapped the widely criticised 'slab' approach to SDLT, under which one rate of tax applied to the entire property value. From 4 December 2014 this was replaced by tiered rates which apply to the portion of the purchase price within each of a set of five bands – similar to the income tax structure (see table below). 98% of homebuyers will pay less or the same SDLT than under the old rules. However, in Scotland the picture will change again on 1 April 2015, when the new Land and Buildings Transaction Tax (LBTT) replaces SDLT.

Slice of property value £	SDLT Rate %
Up to 125,000	0
125,001 – 250,000	2
250,001 – 925,000	5
925,001 – 1,500,000	10
Over 1,500,000	12

Personal allowance The Chancellor added £100 to the previously announced figure for 2015/16 personal allowance, taking it up to £10,600. If you are a higher rate taxpayer, for once you will fully benefit from this rise as there was no corresponding downward adjustment in the basic rate band (which will anyway fall by

£80 in 2015/16). As a general rule the income tax changes will mean a tax cut of £120 in 2015/16 if you are a basic rate taxpayer and £224 if you are a higher rate taxpayer with income of up to £120,000.

ISAs If you are married or in a civil partnership, your surviving partner can now effectively inherit your ISA tax benefits if you die first. The change adds to the attraction of using ISAs to provide retirement income, although the potential issue of inheritance tax will remain on second death unless the ISA is invested in suitable AIM-listed securities.

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Inter-generational pension plans

Pension reforms could mean that your pension plan can pass down from generation to generation.

It may sound far-fetched, but legislation currently going through parliament makes the option possible. If it remains unchanged, then for death benefits paid from money purchase pension schemes after 5 April 2015 the rules will be the following:

On your death before age 75

The value of your remaining pension fund can be paid as a tax-free lump sum on your death before age 75 regardless of whether you have started to take income using the new 'flexi-access' drawdown rules, provided you have sufficient lifetime allowance available. As an alternative, the fund will be able to provide drawdown for a dependant or other nominated beneficiary. Income payments will be tax free to all recipients. Annuities will also escape income tax, following an announcement in the Autumn Statement.

On your death on or after your 75th birthday

The same options for dependants and nominees will apply, but the tax treatment will be different. The lump sum will be subject to a flat rate tax charge of 45% in 2015/16 (and at the recipient's marginal income tax rates thereafter). Any income is fully taxable on the recipient.

On the death of a dependant or nominee using flexi-access drawdown

If your dependant or nominee (after you die) chooses flexi-access drawdown to take the income from your pension fund, then on their death the same rules based on their age when they die will apply to their residual fund; but the only way they will be able to take income from the fund will be flexi-access drawdown. The rules will then apply to their successors and so on until your original fund is exhausted.

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The key point is that after your death, if funds are to pass down through generations then beneficiaries must choose flexi-access drawdown, rather than a lump sum or other income option.

These new rules mean that your pension planning is more than ever linked to your estate planning. Indeed, once the legislative dust has settled, a combined review of your retirement and estate planning is likely to be necessary.

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Time to think about overseas income?

There is a great demand for attractive and sustainable levels of income, but now could be a good time to diversify overseas if you are currently just invested in the UK.

The UK's significant reliance on the eurozone is already making itself felt in slowing manufacturing and export data and then there is the uncertainty of an election.

Global equities

While the UK is well known for paying dividends, other countries are increasingly recognising their importance. Companies that are able to pay strong dividends typically have good earnings and cash flow.

There is a growing choice of funds which invest overseas for income. There are currently 14 UK regulated global equity income funds available with a yield in excess of 3.5%. Global dividends are at record highs according to the latest Henderson Global Dividend Index. On an underlying basis, the US, Europe, Emerging Markets and Asia Pacific excluding Japan all achieved impressive double-digit dividend increases during 2014, while the UK, Canada and Japan lagged behind.

The US is the main engine of global dividend growth with 29 out of 33 US sectors showing dividend growth. As we head into 2015, interest rates and inflationary pressures remain suppressed, meaning that equities continue to provide a good place to find income. One surprising area of the equity income market for many people is Asia, which has a broad universe of investable stocks for equity income investors.

Global bonds

The global bond market, looking into 2015, is overshadowed by a global deflation scare. The new aim for central bankers is to raise inflation up to 2%, rather than driving it down as before. This is good news for bond markets. There are currently 11 UK regulated global bond funds with a yield of over 3.5%.

Something investors should look out for when choosing overseas bond funds is the extent to which a fund operates a currency hedge. When a fund hedges the currency, this eliminates the impact of currency changes on bond returns. Global bonds add an additional source of potential return (and risk) from currency exposure. If you are currently relying on your investments to provide you with income, we can help you to obtain a level of yield that is both attractive and sustainable.

The value of your investments and the income from it can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. The value of foreign currency denominated assets can rise or fall against sterling's value.

The new state pension on the horizon

How much do you know about the new state pension?

In less than 15 months' time the UK state pension system will undergo its most radical overhaul in decades. Unless you have reached the moving target that is state pension age by 5 April 2016, your existing entitlements to various benefits will disappear on 6 April 2016. These are:

- **the basic state pension;**
- **graduated pension (which ran from 1961 to 1975);**
- **state earnings related pension scheme (SERPS); and**
- **state second pension (S2P).**

In their place you will become entitled to a 'Foundation Amount' under the new single tier pension. The calculation of the Foundation Amount is complicated. It could amount to more than the state pension benefits you have earned up to the end of 2015/16, but it can never amount to less than these entitlements.

Late last year the Department for Work and Pensions (DWP) launched a "new multi-channel advertising campaign" aimed at explaining the new system. The need to increase people's awareness of the new system was made clear in some research the DWP published alongside the press release announcing the campaign. Only 22% of those questioned agreed with the statement that "I know how the changes to the State Pension will affect me, if at all".

When asked whether anyone already getting a state pension would see the amount change as a result of the new state pension reform, 44% (wrongly) believed there would be a revision. Of those aged 65 and over, 37% said their pension would change. The pollsters did not ask the obvious corollary – what will the change be?

One problem for the DWP is that much of the media coverage of the new single tier scheme has talked of the pension being "around £150 a week" – a phrase even the DWP used in its press release. However, that figure is the full rate of the new single tier pension and if you have ever been contracted out of the additional state pension (SERPS and/or S2P) you may well receive less.

The DWP is urging everyone – and the over-55s in particular – to request a detailed state pension statement so that they "can plan accurately for retirement." It is advice we would thoroughly endorse. The new scheme sounds like a bigger state pension, but in the long term the new pensioner benefits will cost the government less than today's pension combination would have, so there will always be winners and losers.

Tax never stands still…

There are important income tax changes due in April.

Would you like to have up to £5,000 of savings income, free of tax, and also effectively increase your tax-free personal allowance to £11,660 (rather than the normal £10,600) in the coming tax year? In theory, both will be possible from next 6 April 2015, however the various rules may make it difficult.

The opportunity to enjoy £5,000 tax-free income, announced in the 2014 Budget, stems from a change to the starting rate band. At present that band is £2,880 wide and savings income within it is taxed at 10%. From 2015/16 the band will expand to £5,000 and will be taxed at a 0% rate. However, you can only take advantage of this starting rate band if it has not already been taken up with earnings and/or pension. So your earnings or pension should be no more than your personal allowance. You must also have the right type of investment income – generally interest rather than dividends or rental income.

The extra £1,060 of allowance is the result of the introduction of the transferable tax allowance (TTA) for married couples and civil partners, which allows a fixed 10% of the personal allowance to be transferred. The TTA is easier to access than the starting rate band: both you and your partner must pay tax at no more than basic rate in 2015/16. The maximum tax saving from the TTA will be £212 if one of the couple is a non-taxpayer and the other is a basic rate taxpayer.

These changes to the income tax rules add further complications to an already complex system. In the words of the former US Treasury Secretary William Simon, a country should have a tax system that looks "like someone designed it on purpose." While the UK fails to meet that seemingly modest benchmark, it is almost inevitable that you will need advice to minimise your income tax bill.

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice.

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