money WISE

TAYLOR *and* TAYLOR
FINANCIAL SERVICES LTD

Autumn 2017

In this issue:

Credit: Istock/panco971

Credit: Istock/Ammaitandee

Elections, Budgets and Bills – what's next?

The events of the first half of the year have left many Budget tax measures in limbo.

When Philip Hammond delivered his first Spring Budget on 8 March, the UK political world looked very different from how it looks today. It had not changed by the time the Finance Bill – the longest ever – arrived 12 days after his speech. Then, on 18 April, Theresa May announced a snap general election and with that predictability started to disappear.

One of the first victims was the Chancellor's super-sized Finance Bill. There was no way the Bill could be squeezed through parliament in the time available before Westminster shut down, so about 80% of it was dropped. Among the measures initially cut were:

- The reduction in the **money purchase annual allowance** from £10,000 to £4,000. This could affect your retirement planning if you draw pension benefits and also you (and/or your employer) continue to make pension contributions. Typically, a combination of contributing and drawing benefits happens if retirement is being phased, with working days reduced and pension replacing lost earnings. The measure was originally due to take effect from 6 April 2017 and the government has confirmed this remains the start date to be set in forthcoming legislation.

- The cut in the **dividend allowance** from £5,000 to £2,000, which will almost certainly start from next tax year (2018/19) as originally planned. If you are a higher rate taxpayer, this could cost you nearly £1,000 in extra tax on your dividends.

Clarity pending

The legislation culled from the original Finance Bill has not gone away, however, and will re-emerge in a new Finance Bill, announced alongside the Queen's Speech in June. A subsequent parliamentary statement has confirmed that nearly all the 'lost' measures will reappear with their original start dates. At the time of writing, the Bill's publication was imminent.

Even when the 'new' Finance Bill arrives there is now no guarantee all the measures in it will be passed. The Democratic Unionist Party has agreed to support Budget motions, but the government's thin theoretical majority leaves no scope for errors or backbench rebellions.

As if that were not enough uncertainty, the Chancellor has also confirmed his original schedule of an Autumn Budget. This marks a shift from the previous pattern of Spring Budgets and Autumn Statements and means another Finance Bill should follow late in the year. The Autumn Budget should give the first indication of how government tax policy has changed – if at all – in response to the election result.

The uncertainty about what tax legislation will be introduced and when it will become effective makes it all the more important that you ask for our updated advice before taking any financial action. It could also mean that the only sensible advice we can give in relation to tax-efficient financial planning is 'wait and see'.

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

Are you covered on personal lending?

The boom in personal lending is worrying the Bank of England.

The rate at which people are taking out loans, maximising store credit cards and signing up for car finance is of increasing concern. A recent meeting of the Bank of England's Financial Policy Committee warned that lending is growing rapidly, potentially posing a risk to the UK's financial stability, and to households' own financial wellbeing.

A large number of loans, mortgages and contingent liabilities are not covered by insurance, but they should be. Are *all* your borrowings covered?

Mortgages may be uncovered

Half of UK mortgage holders have no life insurance protection in place, according to a 2016 study by Scottish Widows. These statistics are remarkable. Mortgages are generally people's largest liability. If the main earner in a household dies, the surviving partner might find it impossible to keep making the mortgage repayments. That could mean having to sell the property to move into rented accommodation at a particularly difficult time.

Other loans and credit cards

If you have taken out a loan to buy a car or for some other purpose, it might be covered by payment protection insurance that would pay out if you were ill or lost your job. Check whether you have such cover and what it includes. If it is not your habit to clear credit card balances each month, then you should ask what will happen to any uncovered balance if you should become ill or die.

Contingent liabilities and business debts

You should not forget any unseen liabilities that may occur. For example, what if you are a guarantor for a family member's mortgage and they lose their job or their business fails? If you are self-employed then you will also need to remember your business debts.

What type of protection do you require?

The objective is to make sure that your partner and children especially, but possibly other family members, are not left to deal with your debts if you should die suddenly or suffer from a life-threatening illness.

This is easily dealt with by simple 'term insurance'. Term insurance is not necessarily expensive and can often be put in force without a medical examination. The cost of such cover naturally increases with age, so the sooner you are able to discuss your protection requirements with us the better.

Your home may be repossessed if you do not keep up repayments on a mortgage or other loans secured on it. Think carefully before securing other debts against your home.

Inheritance tax receipts hit a new high

Inheritance tax (IHT) is raising more than ever according to HM Revenue & Customs. How much do you want to contribute?

IHT receipts broke through the £5 billion barrier for the first time in the 12 months to May 2017. In April and May 2017 alone, receipts were up over a third on the previous year.

The record tax take is due to three main factors:

1. The nil rate band (NRB) has been frozen at £325,000 since April 2009.
2. Estate values have been rising, thanks to increasing share and property prices.
3. The tax rate above the nil rate band remains at 40%.

IHT tax payments will continue to grow, according to the Office for Budget Responsibility projections – with £6.2 billion of tax expected to be paid in 2021/22.

Mitigation options

There is little chance that any fresh legislation to dilute IHT's impact will appear any time soon, but two measures do offer some scope for mitigating the impact of IHT:

- The **residence nil rate band (RNRB)**, the first phase of which came into force in April this year at a level of £100,000 for each individual. The RNRB will ultimately mean that from April 2020 a married couple (or civil partners) *may* be able pass on a joint estate of up to £1 million with no IHT payable. The rules that apply to the RNRB are complicated, so it's important to ensure wills are correctly structured.

- **Pension death benefits** were granted highly favourable IHT treatment as part of the 2015 pensions flexibility reforms. Lump sum and survivor's pension benefits payable on death are normally free of IHT, although the beneficiary will be subject to an income tax charge if death occurs on or after age 75.

If you do not want your estate's beneficiaries to suffer from that increasing IHT tax take, the sooner you start planning the better. If you have already undertaken some planning then you might well need to review matters in the light of the RNRB and pension rules mentioned above.

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate estate planning or tax advice. Occupational pension schemes are regulated by The Pensions Regulator.

When you've used your ISA allowance

With the individual savings account (ISA) allowance now at £20,000 – or £40,000 for a couple – it's difficult for many people to save more than that amount each year.

However, there are times when an investment matures or you receive an inheritance or a lump sum from a pension, or an unexpected generous redundancy payment. Where such money becomes available over and above the ISA allowance, you may need to consider investing into funds or other investments on a direct basis. ISAs are tax-privileged wrappers. Outside them there are potential tax charges, although for many investors they are not punitive. The two main taxes are:

Income tax on the income produced by your non-ISA investments. Investors may qualify for the personal savings allowance of £1,000 (£500 for higher rate taxpayers) and possibly even the nil starting rate of tax of up to £5,000, where non-dividend and non-savings income is less than £16,500.

The first £5,000 of dividends in 2017/18 is covered by a dividend allowance which is taxed at 0% rate. The excess is taxable at 7.5% for a basic rate taxpayer (or 32.5% and 38.1% respectively for higher and additional rate taxpayers). From 6 April 2018 the dividend allowance is due to fall to £2,000.

Capital gains tax (CGT) on the capital gains that you realise. You have an annual CGT exempt amount of £11,300, which means that you only pay tax (at 10% for basic rate or 20% if you are a higher rate taxpayer) on gains in excess of that. Gains on property incur an extra 8%.

Reinvestment

One of the options available is to rebalance your non-ISA portfolio at least annually. Many investors use their annual ISA allowance by selling the investments they hold directly and reinvesting them into their ISAs. In this way you can often realise relatively small gains that may be fully or partially within the annual CGT exempt amount.

So with the increase in the ISA allowance, it might not be long before your directly held investments are transferred into your tax-free ISA account. In the meantime, with care, the tax you need to pay on these other investments can be managed efficiently.

The value of tax reliefs depends on your individual circumstances. The Financial Conduct Authority does not regulate tax advice, and tax laws can change. The value of your investment 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. Investing in shares should be regarded as a long term investment and should fit with your overall attitude to risk and financial circumstances.

Funding a degree in debt?

The new academic year is about to start, with student debt firmly in the political spotlight.

"Students now graduate with average debts of £50,000."

So said the Institute for Fiscal Studies (IFS) in a recent paper examining higher education costs in England. The higher education financing rules differ for the other three constituent parts of the UK, but all rely upon undergraduate borrowing to some extent.

For a student in England starting a course this autumn, their level of debt on graduation is likely to be more than £50,000. In 2017/18, maximum tuition fees will increase to £9,250 a year, and the interest rate charged on loans will jump to 6.1%. The IFS calculates that on average students will accrue a £5,800 interest bill over the duration of their course.

Written off?

In England (and Wales) the loan currently starts to be repayable at the rate of 9% of income above £21,000, so a graduate earning £31,000 would pay £75 a month, which may not even cover the interest accruing on the debt. Fortunately, any outstanding debt is written off, but only after 30 years following the April in which the course ended. The IFS estimates that the government will eventually write off nearly a third of the interest and debt total, with fewer than one in four fully repaying their debt.

If you have children or grandchildren heading off to university at some point, these debt figures can appear daunting. Providing financial assistance by establishing a pre-funding arrangement often makes sense.

However, careful consideration should be given to applying these funds directly to paying tuition fees and/or maintenance rather than initially drawing down the student loan. In the worst scenario, upfront payment may simply reduce the government write-off. In other situations, there could be some logic in clearing the loan and avoiding high interest payments. Your funding plans therefore need flexibility built in.

The value of your investment 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.

Setting sail on pensions transfers?

Thousands of people are giving up guaranteed company pensions in exchange for a cash lump sum. Once the decision is made, however, it can't be reversed, so it is crucial to make sure you get the right advice.

As much as £50 billion has been taken out of final salary pensions since April 2015. Rising 'transfer values' are encouraging the trend. This is the money you receive if you leave your employers' defined benefit (DB) pension. Exacerbated by falling government bond yields, transfer values can now be 30 to 40 times the value of the annual pension being given up.

Should you stay or should you go?

Given the size of these transfer values, it is not hard to see why those aged 55 or over might be tempted to take this cash and either spend it or invest it in another type of pension scheme. But you have to weigh this against the security of receiving a guaranteed inflation-linked income for life. The danger for those who transfer out of these pensions is that they risk running out of money if investment returns are poor, or they live longer than expected.

The importance of advice

It is vital to take advice before making any decision. In fact, it is mandatory to do so if the transfer value exceeds £30,000. The regulator is now consulting on whether the way advice is given could be improved, to ensure people understand the long term implications of this decision.

Remember that once you've taken money out of a final salary scheme you can't move it back at a later date.

Occupational pension schemes are regulated by The Pensions Regulator.

Taylor & Taylor Financial Services Ltd
94 Chorley New Road
Bolton
BL1 4DH
Tel: 01204 365165
Website: www.taylortaylor.co.uk

Managing Director
Chris Taylor DipFA, ACSI

Authorised and Regulated by the Financial Conduct Authority