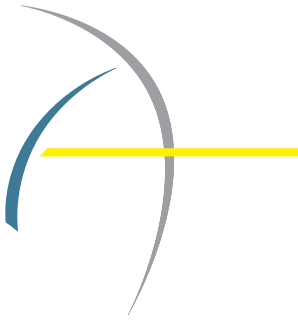


review

SPRING 2015

Ashton House Independent Financial Advisers

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. In practice you may find yourself prevented from taking advantage of these potential tax savings by the various rules that surround them.

The opportunity to enjoy £5,000 tax-free income stems from a change to the starting rate band, and was announced by the Chancellor in the 2014 Budget. 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 broadly speaking, your earnings or pension should be no more than your personal allowance. You must also have the right type of investment income, which in most instances means 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.

In this issue:

Time for year end tax planning

Some Autumn Statement surprises

Inter-generational pension plans

New state pension on the horizon

Time to think about overseas income?

Residential care costs changes

Ashton House IFA Ltd
87 High Street South
Dunstable
Bedfordshire LU6 3SF
Tel: 01582 478877
Fax: 01582 475552
www.ashtonhouse.co.uk
enquiries@ashtonhouse.co.uk

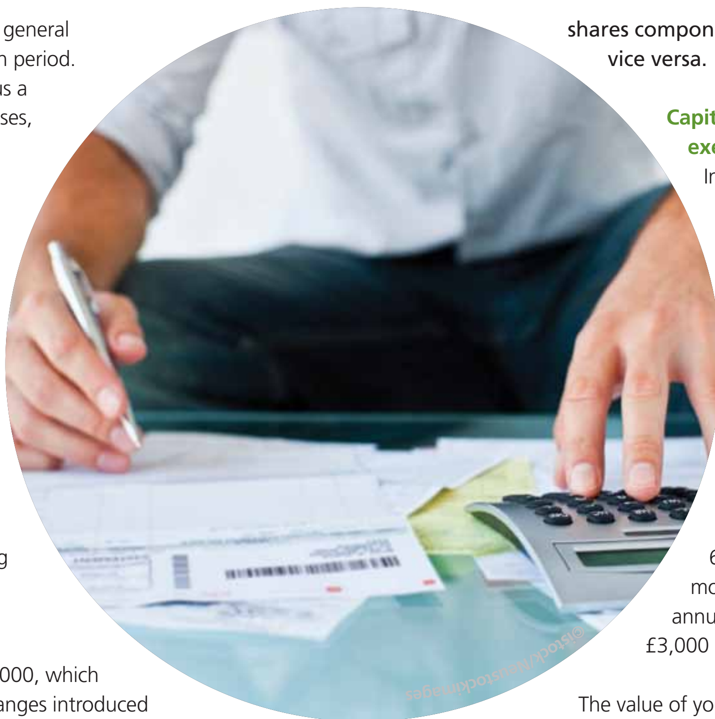
Ashton House IFA Ltd is authorised and regulated by the Financial Conduct Authority

This newsletter is for general information only and is not intended to be advice to any specific person. You are recommended to seek competent professional advice before taking or refraining from taking any action on the basis of the contents of this publication. The FCA does not regulate tax advice, so it is outside the investment protection rules of the Financial Services and Markets Act and the Financial Services Compensation Scheme. The newsletter represents our understanding of law and HM Revenue & Customs practice as at 28 January 2015.

Time for year end tax planning

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

This year the Budget, tax year end and a general election will all occur within a two month period. 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 (CGT) 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, in particular the £3,000 annual exemption.

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.

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). 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. This 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.

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

Inter-generational pension plans

Would you like your great-grandchildren to draw on your pension fund to cover their university fees or a deposit on their first home? 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. And the rules will then apply to their successors and so on down the line until your original fund is exhausted.

The key point is that after your death, if funds are to pass down through

©istock/bradbsa

generations then beneficiaries must choose flexi-access drawdown, rather than a lump sum or other income option.

The new death benefit 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.

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 and pensions laws can change. The Financial Conduct Authority does not regulate tax advice.

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:

- the basic state pension;
- graduated pension;
- state earnings related pension scheme (SERPS); and
- state second pension (S2P)

will be replaced on 6 April 2016 by 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 that date, but it can never be less.

Late last year the Department for Work and Pensions (DWP) launched a "new multi-channel advertising campaign" aimed at explaining the new system. In research published alongside the campaign launch material the DWP revealed 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.

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 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.

Time to think about overseas income?

If you have a need for income but you only invest in the UK, now could be a good time to diversify.

While the UK is well known for paying dividends, other countries are increasingly recognising their importance. There is a growing choice of funds which invest overseas for income.

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. As we head into 2015 we have a backdrop of interest rates and inflationary pressures remaining suppressed, which means that equities continue to be a good place to find income.

For the global bond market as we look into 2015, we have a global deflation scare – the new aim for central bankers is to get inflation up to 2%, rather than driving it down as before. This is good news for bond markets.

One thing for investors to be aware of when using overseas bond funds is to what extent, if any, the fund operates a currency hedge. Unhedged funds add an additional source of potential return (and risk).

Let us help you to obtain a level of income 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 opening up of China's investment markets took another step in November 2014 with the launch of the Shanghai-Hong Kong stock connect scheme. This allows non-Chinese investors to access China's mainland shares through the Hong Kong stock exchange and gives corresponding access for Chinese investors to Hong Kong shares via Shanghai. At this stage quotas apply, but the move, together with a cut in Chinese interest rates, saw the Shanghai market index rise.

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 foreign currency denominated assets can rise or fall against sterling's value.

Residential care costs changes

There will be major changes from April 2015 in the way that local authorities decide what support they can provide if you need care.

However, the biggest changes will arrive a year later from April 2016 when there will be a cap of £72,000 (currently) on your care funding costs for your 'eligible care needs'.

This will be monitored by a 'care account' which the council will set up for you.

Although this is very welcome news, it is not quite as generous as it seems. The cap will not include ineligible care needs such as hiring a cleaner or gardener.

Care costs accumulated before April 2016 are excluded from the cap. More importantly, if you decide to go for a more expensive care or housing option than the council is offering, you will need to top up the extra money yourself and this will not count towards the care cap.

© iStock/Mark Bowden

Furthermore if you go into a care home, you will be expected to pay around £12,000 a year towards your daily living costs if you can afford it, over and above the £72,000 cap.

When it comes to planning for your care funding or a loved one's you cant afford to take chances.

We can provide help in this planning.