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YOUR WEALTH AUTUMN 2014

PENSIONS – LONG LIVE THE REVOLUTION!

IS IT WORTH MARRYING FOR THE MONEY?

NEW HORIZONS OR FAMILIAR HAUNTS?

GIVING IT AWAY?

4 TOP THINGS YOU SHOULD KNOW

Key stages in portfolio planning

Taking the first steps in investing money may seem a little daunting, but with help from a professional adviser, building up a portfolio of investments is an achievable goal.

Before you begin there are some simple steps that you'll need to take. You should make sure you have access to a cash fund to cover your everyday living expenses and any unforeseen expenditure. Making sure that your will is up-to-date and calculating your current tax position form part of the planning stage too. If you already own savings, investments or shares, these will need to be taken into account.

AGREEING YOUR OBJECTIVES

Developing an effective investment strategy depends on knowing what your aims are. People's investment goals are many and varied. For instance, you may plan to retire early and take your pension, provide for your children's education or repay a mortgage, or cover care costs in old age. This information will help your adviser work to develop the right investment strategy for you.

HOW MUCH AND HOW LONG?

Investment should be viewed as a medium to long-term strategy. You'll need to consider how much you have to invest and how long you want to invest for. Do you have a lump-sum available or do you want to make regular contributions? Do you want to invest for income or growth or a combination of the two? You should bear in mind that the level of return can vary from year to year and that past performance is not a guide or a guarantee of future returns.

UNDERSTANDING RISK

How much risk is right for you? In theory, the higher the investment risk you are prepared to accept, the greater your potential returns. However, a higher return from higher risk is not a certainty; if it were, there would be no risk. While the process of building a portfolio includes strategies to reduce risk, it cannot be eliminated altogether. So, you'll need to establish how much risk you're comfortable with and the impact that has on the rate of return you can realistically expect to earn.

SPREADING THE RISK

A portfolio that includes a range of assets alongside shares, such as bonds, property, and cash, gives your money exposure to a range of investment markets. Spreading your money across different types of investment means that a poorly-performing investment doesn't greatly damage your overall return.

MONITORING PROGRESS

Regular reviews with your adviser are a key component of successful investment planning and will help ensure that your portfolio continues to reflect your needs.

PENSIONS long live the revolution!

The changes began in March 2014, when George Osborne, the Chancellor, disclosed his far-reaching plans to liberalise pensions in his Budget speech.

From April 2015, savers have much more financial freedom at retirement. Those with defined contribution pensions who are aged at least 55 (rising to 57 from 2028) can withdraw all their pension money immediately, leave it invested and take income when required, or buy an annuity – the choice is theirs.

Post-Budget media headlines suggested that pensioners would rush to take their whole pension pot in cash, frittering it all away. However, it seems unlikely those who have conscientiously saved for their later years will act in this way, not least because of the tax implications of doing so.

The first 25% taken will be tax free; the rest will be subject to income tax at their marginal rate. So basic-rate tax payers need to be aware that any drawdown from their pension will be added to their other income and could result in them paying some tax at 40% or even 45%.

WHICH ROUTE TO TAKE?

It seems likely that most pensioners will opt to take money from their pension fund in stages, leaving a proportion of their fund invested, giving their money more opportunity to grow. The rise in life expectancy and the likelihood of needing care in later life means that retirees are more conscious than ever of the need to make their savings last.

Do the new rules mean the demise of the annuity? No. Providing a secure, guaranteed source of income to cover living costs – from food and heating to the cost of running a car and paying council tax – will still be a major financial objective for many. They may choose to purchase an annuity to cover that bit of their regular expenditure which is not covered by their State Pension.

This new freedom of choice means that it's more important than ever to ensure that people make the right choices about their pension fund, as these decisions will affect them for the rest of their lives.

The individual pension guidance promised by the Chancellor will be of limited scope, so it's vitally important that those nearing retirement take professional advice. They should seek guidance not only about their pension fund, but also about other assets they own, to ensure they have a robust financial plan in place. Taking advice as early as possible makes good sense.

IS IT WORTH MARRYING FOR THE MONEY? A look at the financial implications of marriage

Tax and pensions are probably the least romantic reasons for getting married. When it comes to your finances, it really can be worth it. Many people believe that those who co-habit have the same rights as those who marry, but in fact this isn't the case.

PAYING LESS INCOME TAX

The government is proposing a married person's tax break. Rather than rewarding all married people with a higher tax allowance, the marriage transferable tax allowance will allow married couples and civil partners to transfer up to £1,050 of their personal allowance to their partner from April 2015. It will only be available where neither person is a higher-rate tax payer.

Some married people already benefit from an income tax break. If either person was born before April 1935 they are entitled to the married couple's allowance. The maximum allowance in tax year 2014-2015 is £8,165.

CGT ADVANTAGES

There are Capital Gains Tax (CGT) advantages too. CGT is payable at 18%, or 28% if your income pushes you into the higher rate tax band, on gains you make in excess of the annual exempt amount (£11,000 in tax year 2014-2015). Married couples and civil partners can transfer assets to each other without triggering a CGT charge. This means they can take advantage of both their annual allowances to reduce a tax liability.

INHERITANCE TAX

Arguably, the biggest advantage of being married is the ability to pass on assets after your death without incurring Inheritance Tax (IHT). The threshold for IHT is £325,000 (tax year 2014-2015). If you are married or in a registered civil partnership, all assets can be passed to a surviving spouse without incurring an IHT charge, along with any unused IHT nil-rate entitlement of the deceased. This usually means that married couples can, in effect, pass on £650,000 before IHT becomes payable.

PENSION PERKS

Although a spouse will be eligible for a widow's or widower's pension, this isn't automatically the case if the couple aren't married.

There are often conditions that apply. It's particularly advantageous to be married or in a civil partnership if your partner uses drawdown to access their pension. A pension fund can pass tax-free to anyone at all on death before retirement but, once income is being drawn from it, it will be subject to a tax charge on death unless it passes as pension income to a surviving spouse or civil partner.

NEW HORIZONS OR FAMILIAR HAUNTS?

Property in retirement

When you decide to retire you may wish to move to a smaller home, this can be for a variety of reasons, but should be thought about carefully as you plan for your future.

With property prices seldom out of the news, many people nearing retirement are considering the financial and practical benefits that downsizing to a smaller property can bring.

Maintaining a large home can be both costly and time-consuming. A smaller property can be easier to look after and means saving on household running costs such as heating bills and council tax. The surplus cash can be invested tax-efficiently to help boost your retirement income.

With the annual allowance for tax year 2014-2015 standing at £15,000, a New Individual Savings Account (NISA) could be a great place to deposit a lump sum or make regular payments of smaller amounts and get tax benefits.

UNFAMILIAR GROUND

However, what seems like an easy financial decision from a practical perspective is often in reality a huge emotional wrench that people are keen to avoid. There is an alternative way of raising cash against the value of your property that means you continue to live in it and avoid upheaval. Equity release allows you to benefit from the value tied up in your property, referred to as your 'equity', in the form of a loan.

As this arrangement might result in your relatives inheriting less than they'd anticipated, it makes good sense to discuss your plans and their implications with your family. Of course if you don't have dependants or your family doesn't need or expect to inherit from you, then you will be able to enjoy the cash released safe in the knowledge that the loan will be repaid from your estate on your death.

NOTHING BEATS PROPER PLANNING

It's important to remember that your property shouldn't also be your pension plan. Downsizing should never be viewed as an alternative to proper retirement planning; it would be foolhardy to assume that property prices will continue to rise for years to come.

NISAs REALLY ARE NICER

New Individual Savings Accounts (NISAs) received a warm welcome when they were launched on 1 July. According to figures from the British Bankers' Association (BBA), the cash saved in July 2014 nearly matches the total for the previous six months, with savers being quick to take advantage of the new benefits on offer. The new accounts, outlined by Chancellor George Osborne in his March 2014 Budget, offer fewer restrictions and a higher allowance. The BBA hailed the figures as an encouraging sign that Britain's savings culture is being rebuilt.

THE MAIN CHANGES

- The annual allowance from 1 July 2014 is £15,000
- You can choose to put up to £15,000 in either a cash NISA or a stocks and shares NISA, or any combination up to the £15,000 limit
- Savers can hold cash and investments within their stocks and shares ISA – no need for two separate accounts (if the provider allows this)
- More flexibility to earn tax-free interest (with freedom to switch NISA investments and ISAs from earlier years – from stocks and shares to cash and vice versa, subject to provider terms)
- Junior ISAs – from 1 July the annual limit was raised to £4,000.

The tax benefits mean that for a basic-rate taxpayer, the return in a NISA is worth 25% more because of the tax effect; for higher-rate taxpayers, it is worth 67% more. With stocks and shares NISAs the tax treatment is slightly different. Whilst investments inside a NISA aren't completely tax-free, there are advantages.

- No tax on gains. Invest outside an ISA and any realised profits above the annual capital gains tax exempt amount (£11,000 for tax year 2014-15) would be subject to tax at 18% for basic-rate taxpayers and 28% for higher-rate and additional-rate taxpayers.
- Income earned from any share investments is taxed at 10% at source. So while basic-rate taxpayers would pay the same outside a NISA, this is a significant saving for higher and additional-rate taxpayers who would otherwise pay 32.5% and 37.5% respectively (tax year 2014-2015).

So, not only do NISAs save tax, they offer greater flexibility that has been warmly welcomed by savers and investors alike.

GIVING IT AWAY

How making gifts out of income can help reduce IHT

Many people want to give significant financial gifts to their children, grandchildren or other relatives during their lifetime. Whilst you can gift up to £3,000 in any one year free of Inheritance Tax (IHT) concerns, it's important to bear in mind that this is the total annual exemption, not the amount you can give each beneficiary each year.

Some donors want to make more generous gifts. If these are made from surplus income, they can help reduce IHT liability. With more estates passing the IHT threshold (£325,000 in 2014-2015) it makes sense to think about giving tax-efficiently.

In the normal course of events, for a gift outside the annual, small gift (up to £250 per beneficiary per year) or wedding exemptions to be fully effective for IHT planning purposes, the donor must survive the gift by seven years (the liability reduces during the seven years). If a lifetime gift is put into a trust it may give rise to an immediate 20% charge to IHT.

The 'surplus income exemption' as it's referred to, if used correctly can mean that a gift is immediately exempt from IHT and that if it's put into a trust there will be no upfront IHT charge.

ESTABLISHING A PATTERN OF GIVING

There are several conditions that apply. For instance, you must make gifts from your income, not from your capital. In addition, you can't part with so much cash that you're unable to maintain your usual standard of living. It's important to establish a pattern of giving, so gifts made on an occasional basis wouldn't be considered eligible. Whilst the gifts don't have to be for the same amount each time, they do need to be made regularly. There is no minimum period of time required to qualify for the exemption.

The first gift made in a series of gifts can qualify for the exemption provided there is a clear intention from the outset to establish a regular pattern of giving. This is where good financial record keeping is a must.

On your death, the exemption won't be applied automatically. It will be up to your executors to make a claim. In order to do that, they will have to show that each of the gifts you made met the required conditions.

Tax planning is a complex area that is liable to change from time to time; taking professional advice makes good sense.

It is important to take professional advice before making any decision relating to your personal finances. Information within this newsletter is based on our current understanding of taxation and can be subject to change in future. It does not provide individual tailored investment advice and is for guidance only. Some rules may vary in different parts of the UK; please ask for details. We cannot assume legal liability for any errors or omissions it might contain. Levels and bases of, and reliefs from taxation are those currently applying or proposed and are subject to change; their value depends on the individual circumstances of the investor.
Equity release may involve a lifetime mortgage or a home reversion plan. It is not right for everyone, may affect your entitlement to state benefits and will reduce the value of your estate. To understand the features and risks, ask for a personalised illustration.
The value of investments can fall as well as rise. You may not get back what you invest.
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