eNews
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TAX

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Forward planning for the Budget

With the next Budget approaching, probably in November, it may be worth reviewing your finances now.

More than the usual changes to tax rates are expected this time, after various consultations were started in the spring. Draft legislation was published in early July which contained no major surprises, but consultations underway could result in some major announcements. For example, the Office of Tax Simplification has been examining the options for simplifying the administration of inheritance tax (IHT), with its report due in the autumn.

One possibility is that elements of IHT business relief will be 'simplified' by being abolished, which could restrict, or even end, the growing use of IHT-relieved AIM-based share portfolios in estate planning.

Potential tax increases

In June, the Prime Minister announced increased NHS funding of £20.5 billion by 2023, saying this will mean taxpayers will contribute a bit more in a fair and balanced way. According to the Institute for Fiscal Studies, adding one penny to all the main rates of income tax, or 1% to VAT, raises around £6 billion a year, so the 'bit more' could imply noticeable tax rises.

We will have to wait until the Budget to see how the Chancellor expects to raise the necessary revenue. In the meantime, in early July the Treasury was reportedly investigating a 25% flat rate of relief for pension contributions, which could net an extra £4 billion for the Exchequer.

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Please get in touch if you would like to discuss your options before any announcements.

✢ *The Financial Conduct Authority does not regulate tax advice and some types of estate planning.*

Levels and bases of taxation and tax reliefs are subject to change and their value depends on individual circumstances.

Tax laws can change.

PENSIONS

Auto enrolment six years on

Pension savings have grown after six years of automatic enrolment, but more progress is required to provide most people with adequate funds for retirement.

Automatic enrolment has sharply reversed the downward trend in workplace pension membership, which hit a low of 55% in 2012. Membership was at 84% in 2017 according to the Department for Work and Pensions.

In April 2018 the overall minimum contribution rate – normally made up of employer and employee contributions – rose from 2% to 5% of band earnings (£6,032 – £46,350 in 2018/19), with another increase to 8% due in April 2019.

The impact of automatic enrolment is welcome, but it is no guarantee of adequate retirement provision. For some, the state pension (up to £164.35 a week in 2018/19) and their auto-enrolled pension may be enough once work stops. But for many others, such as those with patchy employment records or who are already close to retirement, it won't.

If you are worried about your retirement, ask us to project what your current pension arrangements may produce.

✢ *Occupational pension schemes are regulated by The Pensions Regulator.*

The value of your investments, and the income from them, can go down as well as up and you may not get back the full amount you invested.

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TAX

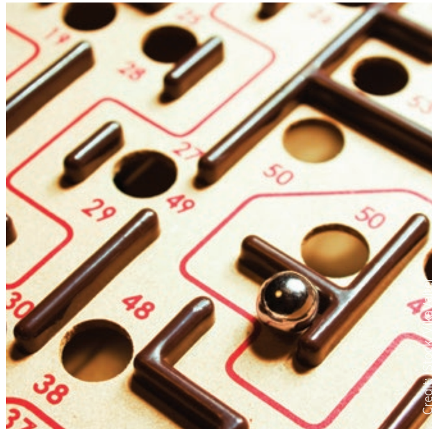
Caught by the pension tax trap?

Those looking to cash in part, or all, of their personal pension need to check they don't pay too much tax.

Pension freedom rules allow anyone aged 55 or over to access their personal pension funds, but there are complex rules on how withdrawals are taxed. Problems can occur if you take a one-off lump sum – an 'uncrystallised fund pension lump sum withdrawal' (UFPLS) – perhaps to re-invest or to pay off debts. This differs from using a personal pension to provide a regular income, through a drawdown plan or annuity.

Your pension provider will apply an emergency tax code, which assumes you are withdrawing the UFPLS on a monthly basis, unless it has an up-to-date tax code for you.

For example, if you take a UFPLS of £10,000 at the start of the tax year, HMRC may assume you will take an income of £120,000 across the year from your pension and tax you



accordingly. If it is a one-off withdrawal, you are likely to pay too much tax.

Avoiding the charge

As emergency tax codes are generally only applied the first time people access their pension funds, one option is to make your first withdrawal a nominal amount, say £100.

The emergency tax code is still applied, but this triggers HMRC to adjust your tax code and send an updated version to your pension provider. Once the new code has been issued, any further, larger withdrawals are taxed correctly.

You may be able to claim a rebate, either through your tax return at the end of the tax year, or by submitting the appropriate form to HMRC if you need the rebate more quickly.

If you are planning to withdraw a lump sum from your pension, or are concerned about a recent withdrawal, please get in touch.

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INVESTMENT

Illuminating fund fees

When comparing fund costs, there are a range of different figures investors need to look out for.

Investor factsheets can contain a mix of acronyms, but the most important figure is the OCF – the Ongoing Charges Figure.

The OCF covers the annual management charges on the fund (also known as AMCs), as well as a variety of other operating and administration costs. All regulated funds now must display their OCF. This charge is applied to the total value of your fund, not just your contributions, which makes it a useful way to compare charges between funds.

The OCF supplanted the Total Expense Ratio (TER) in 2012. The TER was broadly similar, but the OCF includes additional research charges. However, neither of these terms include the costs of buying and selling assets within the fund, such as stockbrokers' commissions, dealing charges and stamp duty.

Transaction costs can vary significantly from fund to fund, partly depending on how frequently the manager buys and sells shares. Since January 2018 fund managers have been obliged to include information on their transactional costs alongside the OCF.

Transactional costs are projected based on previous actual dealing charges and can be a useful way for investors to understand what the additional costs might be. These fund charges won't include any platform costs, nor initial charges.

If you would like to discuss your investment choices further, please get in touch.

✣ *The value of your investments, and the income from them, can go down as well as up and you may not get back the full amount you invested.*

Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.

INVESTMENT

NS&I limits investments

National Savings & Investments (NS&I) have announced a change to the terms of their Guaranteed Income Bonds and Guaranteed Growth Bonds.

Rather than a cut in interest rates in June, NS&I slashed the maximum investment in each issue from £1,000,000 to £10,000 – although the lower limit does not apply to those reinvesting maturing bonds.

The message is clear: NS&I or, more accurately, the Treasury does not want any more savers' money. It is not that the government has stopped needing to borrow – far from it – but for now it is much cheaper and easier to sell government bonds (gilts) to institutional investors. Whereas the NS&I 3-year Guaranteed Income Bond pays 1.9%, the yield on a 3-year gilt is under 1% at the time of writing.

If NS&I's change has hit your savings plans, talk to us about the other options still available.

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