

PLANNING



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The lasting power of peace of mind

More people are now setting up a Lasting Power of Attorney (LPA), not just those in later life.

The growing use of LPAs isn't surprising given the ageing population, but it is a mistake to think that they are just for the elderly or those in failing health. Accident or illness can occur at any time of life.

In England and Wales there are two types of LPA: one covering health and welfare, the other for property and financial affairs. You can set up either or both types, but for LPAs to be legally valid they must be signed, witnessed and registered with the Office of the Public Guardian. In Scotland, Powers of Attorney are slightly different.

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When you choose an ‘attorney’ you can pick a spouse, partner, relative or friend, or even a professional such as a local solicitor, although remember that they are likely to charge for this service. An attorney must be over 18 and mentally capable of making decisions for themselves. Bankrupt individuals cannot be appointed for financial LPAs.

You don't need substantial assets to benefit. At the simplest level, an LPA can allow your designated attorney to access your bank account and ensure that bills get paid. However, you have to give express permission, before an attorney can use the powers granted under a property and financial affairs LPA, or be deemed mentally incapable of making such decisions.

You may set up an LPA and never need it, but should your health fail it can provide peace of mind that a trusted friend or relative would look after your affairs.

✦ *The Financial Conduct Authority does not regulate will writing, trusts and some forms of estate planning.*

TAX

Homing in on capital gains

Draft legislation confirms a further tightening of the rules on capital gains tax (CGT) and your home.

The government has been reforming the tax system to make investment in residential property less attractive. Actions have included increasing stamp duty land tax (mirrored in Scotland and Wales), reducing tax relief for mortgage interest and, from next tax year, creating a 30-day time limit for paying CGT on any residential property sale profits.

There will be two further new changes from April next year:

- A reduction in the ‘final period exemption’. This is the period in which no CGT applies to a former main residence, and it will be halved to nine months in most circumstances – a problem if you buy your new home before selling your old one.
- Letting relief, which exempts up to £40,000 of gain from tax, will only be available if the owner remains in shared occupancy with the tenant. So it won't apply where the owner moves out.

The government's explanatory note says that “These changes are intended to make private residence relief fairer and...better targets...reliefs at owner occupiers, in line with broader tax strategy to promote home ownership”.

If you are thinking of moving home but retaining your current property, both measures provide food for thought.

✦ *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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Simplifying inheritance tax rules?

Major changes proposed to inheritance tax (IHT) could alter your estate planning.

The Office of Tax Simplification (OTS) spent 18 months looking at IHT and has now produced two linked reports. The second contains a wide range of proposals that could have a big effect on your estate planning. These include:

- You should only have to live five years – not seven, as now – before a lifetime gift ceases to be subject to IHT. The little-understood taper relief should also be abolished.
- The rules for IHT business property relief (BPR) should be aligned with those for capital gains tax (CGT), resulting in fewer businesses qualifying for the relief. The CGT rules at death should also be reformed.
- A new single ‘personal gifts allowance’ should replace the current £3,000 annual exemption and the marriage/civil



partnership exemption (up to £5,000 for parents). Inflation-linking would have increased the exemption to around £12,000.

- The level of the small gifts exemption (still £250 as in 1980) should be reconsidered. Again, inflation-linking would have increased the amount to just over £1,000.

- The rules for normal expenditure gifts should be reformed or replaced by a higher personal gifts allowance.
- Pay-outs under term assurance policies should be free of IHT. Currently, it is necessary to write such contracts under trust to keep them out of the policyholder's estate on death.

Like most reforms, the OTS proposals would create winners and losers. To understand which category you would fall into and any pre-emptive actions that can be taken with your financial planning, please talk to us.

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PLANNING

Future-proofing your finances

The unknowns in your financial outlook can always shift, especially when you come up to retirement.



One of the best tools for looking at the future is to use long-term cash flow planning to project your likely long-term expenditure and the income required to meet it.

At this point, you may not be able or wish to continue working to shore up against future financial challenges, so you will need to think about how stopping or reducing work will impact on your lifestyle and spending habits. For example, you may have paid off your mortgage, but you might want to move to another property or settle elsewhere.

Working out what expenditure is essential (such as utility bills) and what could be

dropped if the financial resources dip (such as eating out) is a useful first step. These outgoings will need to be covered by your income and capital resources, including earnings from work, state and other pensions and rental income, as well as total returns from savings and investments.

Cash flow projections pull together these possible expenditure and income outcomes to show whether you are likely to have a deficit or a surplus over your expected lifetime. A surplus could allow you to increase your expenditure, such as making gifts to your family.

A deficit forecast may mean you should reconsider your spending plans and see where you can make cost savings. If you have the choice, you might want to rethink your retirement date and focus on additional pension or other saving. It is hardly surprising that long-term cash flow modelling has grown into one of the most valuable planning tools.

✦ *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.*

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.

PROTECTION

Mind the insurance gender gap

Women generally insure themselves for much smaller sums than men, although both buy life insurance and critical illness cover in roughly equal numbers.

The average level of cover for a man's life insurance policy is around £130,000, but only around £85,000 for women's policies, according to an analysis of policies by software company IRESS. The gap is even larger with critical illness policies, which pay out if you are diagnosed with one of the listed critical conditions. Here, the average cover taken out by women is around half the average cover for men.

On average, women earn less than men, by about 10% according to the latest gender pay gap figures. But that isn't enough to explain the huge difference in levels of cover, which indicate that women seem at higher risk of being under-insured than men.

Insurance experts say couples tend to buy more life insurance for the higher-earner. But both partners should have adequate protection – most families depend on two incomes and a reasonably equal share of childcare.