

Bulletin

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WELCOME TO ISSUE THREE OF OUR QUARTERLY NEWSLETTER

Spring has begun (even with a cold start earlier this month) with new life appearing in different guises. A time to reflect, take stock and even take a new direction.

If you would like any further information on the topics discussed within this newsletter, or if you would like to register your interest in upcoming briefing events, please do not hesitate to contact me on the details provided.



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New focus on inheritance tax

The government requested, on 19 January 2018, a review of inheritance tax (IHT) focusing on making the system less complicated.

The Chancellor, Philip Hammond, has written to the Office of Tax Simplification (OTS) asking for "proposals... for simplification, to ensure that the system is fit for purpose".

The OTS has been asked to "focus on the technical and administrative issues within IHT," so it is looking for simplification options, not a radical reform. The Chancellor may not reduce IHT revenue, as the OBR Economic and Fiscal Outlook in November 2017 forecasts it will raise £5.4bn in 2018/19.

Appropriately, the OTS did have a look at IHT when developing its 'Complexity Index' in June 2015. The index examined over 100 aspects of UK taxation, assessing their complexity and its impact. Unsurprisingly, IHT ranked third for complexity, behind two sets of capital gains tax computation rules.

If the OTS repeated the exercise today, IHT could well come first because of the extra complexity added by the residence nil rate band (RNRB) and its associated downsizing rules.

You should not defer your estate planning because of the impending OTS review. If you have not reviewed your will since the RNRB started life in April 2017, now is the time to do so. The RNRB could save your estate up to £70,000 in tax (up to £140,000 for a couple) by 2020/21, but the relief is far from straightforward. The end of the tax year also offers opportunities to use your annual IHT exemptions, as covered in our feature article.

➔ *The levels and bases of taxation, and reliefs from taxation, can change at any time. The value of any tax relief depends on individual circumstances.*

Will writing involves the referral to a service that is separate and distinct to those offered by St. James's Place and is not regulated by the Financial Conduct Authority.

INVESTMENT

Tax relief reductions affecting landlords

The next instalment of tax changes affecting landlords and investors in buy-to-let properties takes effect from 6 April.

George Osborne's reform of tax relief on buy-to-let residential mortgage interest was announced in the summer 2015 Budget. The change began in April 2017, with the full effect not felt until 2020/21.

Borrowers will get a 20% tax credit on interest under the new scheme, instead of deducting interest against rental income. This is equivalent to basic rate relief, and it increases borrowing costs for higher or additional rate taxpayers. The change is being phased in until 2020/21. The amount of interest deductible against rental income is 75% for 2017/18, reducing by 25% each year after. Borrowers can claim 25% of the tax credit in 2017/18, increasing by 25% a year to reach 100% from 2020/21.



Credit: iStock/Martin Nancekivill

One consequence is that taxable income will increase. This can have unfortunate tax side effects – for example, pushing a borrower over an important tax threshold such as the £100,000 income level at which the personal allowance begins to be tapered away.

In the longer term, the impact of the reform could be significant for higher and additional rate taxpayers. The switch to a 20% tax credit could even turn a profit into a loss for a higher rate taxpayer.

✦ *Your home or other property may be repossessed if you do not keep up repayments on your mortgage.*

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Business buy to let and commercial mortgages are not regulated by the Financial Conduct Authority.

PENSIONS

The lifetime allowance increases at last

Investors can save more into pensions from 6 April 2018, when the lifetime allowance (LTA) increases from £1 million to £1.03 million.



The LTA is a critical part of pension planning. It is the total amount investors can have in pension savings at retirement, before additional tax charges apply. This allowance has been reduced in recent years, but it will now start increasing in line with inflation each year.

A holistic approach

Investors need to be aware of the impact of the LTA on their total pension savings. This can include such assets as workplace pensions, so it's important to get up-to-date valuations.

If it is possible you could breach the LTA, you may want to consider alternative retirement provision, which could include maximising your ISA allowances or looking at other investments. There are also different 'protection' options

available, which effectively allow some savers to 'lock-in' higher pension allowances.

Defined benefit transfers

The LTA can be important when considering transfers out of defined benefit (DB) pensions. Transferring the benefits can sometimes lead to a breach of the LTA.

To calculate the value of a DB pension, the accrued benefit is multiplied by 20. If you are due to receive a DB pension of £50,000 a year at your scheme's retirement age, this is deemed to be worth £1 million for the purposes of the LTA. This is within the current LTA, but the transfer value may be much higher and push your total pension savings over the LTA.

✦ *The value of an investment with St. James's Place will be directly linked to the performance of the funds you select and the value can therefore go down as well as up. You may get back less than you invested.*

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Occupational pension schemes are regulated by The Pensions Regulator.

ESTATES

Don't forget lasting power of attorney

Most families know about the importance of writing a will, but a lasting power of attorney (LPA) should also be part of the discussion about estate planning.

An LPA is a legal document that allows you to nominate one or more representatives to look after your financial affairs or make decisions about your care if you are no longer able to do so.

You can set up your LPA years before you expect to need this kind of help. It will not give the appointed attorney any immediate powers or access to your financial information without your approval. It should, however, provide you with peace of mind that a trusted friend or family member will step in if you are unable to make these decisions for yourself.

In England and Wales you need to register an LPA with the Office of the Public Guardian. This can take up to ten weeks. Different rules apply in Scotland and Northern Ireland.

✦ *Will writing and Powers of Attorney involves the referral to a service that is separate and distinct to those offered by St. James's Place and are not regulated by the Financial Conduct Authority.*

TAXATION

Making plans: The new tax year begins

When the current tax year comes to an end so will some valuable tax planning opportunities. Some of these will survive into 2018/19, but many will finish on 5 April – and if you don't use them, you will lose them.

On this turn of the tax calendar, there are several areas for you to consider. This year there will be no Spring Budget to complicate year-end tax planning.

Independent tax planning

Most income tax bands and allowances will increase from 6 April – with Scotland poised to implement a new set of bands and rates – but important thresholds are frozen yet again and the dividend allowance will drop from £5,000 to £2,000. If you are a higher rate taxpayer, this could cost you up to an extra £975 tax in 2018/19. This mix of changes makes it important to review your tax affairs jointly if you are married or in a civil partnership, as you could rearrange the ownership of your investments and deposits.

ISAs

The overall ISA contribution limit for 2017/18 (and 2018/19) is £20,000, an increase of £4,760 since 2016/17. The role of ISAs has changed in recent years because of the introduction of the personal savings allowance and dividend allowance, and continued ultra-low interest rates. The drop in the dividend allowance and political uncertainties could add to the attraction of stocks and shares ISAs.

Pension contributions

5 April will be the last day you can make a pension contribution utilising any unused annual allowance you have dating back to 2014/15 – which, subject to eligibility, could be up to £40,000. Maximising pension contributions now can be a wise move because pension tax relief is not guaranteed to exist forever: the cost in 2017/18 is forecast – by the government in their Estimated Costs of Principle Tax Reliefs (January 2018) – to be nearly £41 billion.

Capital gains tax (CGT)

2017 was a good year for global share markets. If you made gains, it is worth considering taking some of your profits, even if you immediately reinvest them (for example, using a Bed and ISA). In 2017/18 you can realise gains of up to £11,300 free of CGT and from 6 April the exemption rises to £11,700. Straddle the tax years and you could individually realise up to £23,000 of gains with no tax charge.

Inheritance tax planning (IHT)

Tax year end is the final day for using your 2017/18 IHT annual exemptions and any unused gifts from your annual exemption limit of £3,000.

Contact us as soon as possible if you want to undertake any of the tax year-ending/beginning planning outlined above. Some areas can be dealt with quickly, like maximising pension contributions, but others can involve data gathering and complex calculations.

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Tax laws can change.



INVESTMENT



Shaky start to 2018 for stock markets

Global markets were hitting new all-times highs repeatedly in 2017 before encountering some turbulence in 2018.

If you invested in world stock markets last year, you may have enjoyed some healthy returns, although markets have experienced a much bumpier ride of late.

The US epitomised the strength of global share markets, with the Dow Jones Index closing at a new high 70 times in the year, itself a record.

Unpredictable futures

Despite this, markets have proven their unpredictability at the start of 2018.

If you are a long-term investor, it's generally unwise to suddenly turn into a short-term trader because of market volatility. In any case, holding cash can be seen as an unattractive option when the base rate is 0.5% and the ONS calculated inflation to be 3% in December 2017, guaranteeing a post-inflation loss. A compromise for fresh investment could be to drip feed sums into funds regularly, rather than make a single purchase.

We are happy to discuss your investment options.

✦ *An investment with St. James's Place will be directly linked to the performance of the funds selected and the value may therefore fall as well as rise. You may get back less than you invested.*

An investment in equities does not provide the security of capital associated with a deposit account with a bank or building society, as the value & income may fall as well as rise.

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PENSIONS

State pension age continues to rise

When planning for retirement it is crucial to know what state pension you are entitled to, and when you will get it.

The level of the state pension has become more straightforward thanks to the introduction of a flat-rate pension in 2016. But figuring out when you will receive your pension has become more complex.

Women used to collect their state pension at the age of 60 and men received theirs from age 65, but the state pension age (SPA) for women has been rising. By the end of this year it will be equal with men.

This will not be the end of the increases, because from December 2018 the SPA will start to be increased to 66. It will then ratchet up to 67 from 2026.

Who is affected by these changes?

If you were born between 6 October 1954 and 5 April 1960 you will reach your SPA at 66. If you were born after 6 April 1961 you won't reach your SPA until your 67th birthday.



There are two periods when the SPA will rise each month according to your date of birth.

The first affects those born between 6 December 1953 and 5 October 1954. The second (increasing SPA from 66 to 67) affects those born between 6 April 1960 and 5 March 1961.

Staying informed

Many women who have seen their state pension age rise in recent years have complained they were not given sufficient warning about these changes, including the WASPI campaign.

We can help you understand how these changes will affect you and your retirement planning. In particular, we can advise you how to bridge the gap between the time when you expected to get your state pension and when it will actually be paid.

PROTECTION

The potential savings from relevant life policies

A little-known type of life assurance policy could provide you – or your employees – with highly tax-efficient life cover.

It is easy to see the appeal of life assurance with:

- The premiums paid by your employer.
- No income tax or national insurance contributions to pay on the premiums by the employer or employee.
- No pension lifetime allowance limits to worry about.
- No pension annual allowance issues.
- Benefits on death or diagnosis of a terminal illness payable under a flexible discretionary trust to your nominated beneficiaries.
- All payments normally free of inheritance tax.

These are all features of a special type of life assurance policy known as a 'relevant life policy' (RLP). RLPs are especially useful for: small companies that do not have enough employees to set up a group life scheme; directors and senior employees who require life cover that won't eat into their available lifetime allowance; employees who wish to top up benefits from their existing employer's scheme, and; directors



who want to set up an employer-financed shareholder protection arrangement.

The savings from using an RLP rather than setting up personal cover and funding premiums from net pay can be significant. For example, a higher rate taxpaying director who needs £500,000 of cover costing £1,000 a year in premiums could almost halve the employer's cost. RLPs are subject to some special rules. For example, the policy cannot run beyond the employee's 75th birthday.

For more details of RLPs please contact us.

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Trusts are not regulated by the Financial Conduct Authority.

PENSIONS

Auto-enrolment increases

Since 2012 employer and employee automatic enrolment contributions have totalled 2% of 'band earnings', with the employer having to pay at least 1%.

From 6 April this year, the minimum contributions will rise to 5%, with 2% from the employer. Taking someone earning £26,000 a year as an example, the employer contributions will increase 98% from £16.77 a month to £33.28. The employee contributions will rise 198% from £13.42 a month to £39.94.

In April 2019 the total rises to 8% with 3% from the employer. Each April there are generally also tax and NIC changes, so the impact on employees will be cushioned marginally.

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