NEWSLETTER – NEWSLETTER

The Dogs That Didn't Bark

Journalists looking for a story had suggested that the Chancellor, in his Autumn statement, might place a cap on the total size of ISA savings pots or reduce the amount of tax-free cash available from pension funds. Happily, neither fear was realised.

On the other hand, the Chancellor failed to oblige those who had argued for higher income limits for 'capped' income drawdown schemes and a level playing field between Child Trust funds and Junior ISAs (CTFs currently offer far fewer investment options than Junior ISAs).

One anticipated change which was announced was the closing with effect from April 2015 of the loophole which has allowed a series of 'pilot' trusts to be set up, each avoiding a charge to inheritance tax by claiming a separate 'nil rate band'.

More positively, the Treasury indicated that it would be considering extending the range of fixed interest securities eligible for ISA investment, and committed to removing the stamp duty charge on Exchange Traded Funds as from April 2014.

Meanwhile, the proposed deferment of State pension benefits for younger people underlines the argument for augmenting retirement provision by taking full advantage of the benefits of both ISAs and pensions, either of which may yet fall prey to a cash-strapped government in the future.

ISAs and Inheritance Tax

The tax-efficiency of ISAs makes them the obvious medium for non-pension investment in stocks and shares. However, ISAs cannot be transferred by the holder or held in trust, and consequently they will suffer the full impact of inheritance tax on the death of the holder.

The exception to this generalisation became effective in August 2013, when the list of stocks and shares investments which qualify for ISA (and Junior ISA) investment was extended to include shares traded on the small and medium-sized enterprise markets.

Consequently, shares quoted on the 'AIM' Alternative Investment Market can now be held in ISAs; and those shares which qualify for Business Property Relief, as many do, will be eligible for 100% relief from inheritance tax in addition to the freedom from income tax and capital gains tax which all ISAs enjoy.

Unfortunately, it is not possible to transfer existing AIM holdings into an ISA so the investor would need to sell and reinvest, which would trigger tax charges. So in practice the new concession is likely to be confined to new purchases of AIM shares.

Protecting Pension

The 'Lifetime Allowance', which limits the total sum that can be saved in a pension scheme while retaining the tax advantages, is to be reduced from £1.5 million to £1.25 million with effect from April 2014. However, investors whose funds already exceed £1.25 million in value or could do so by the time they retire can apply to HMRC to lock in to an allowance of up to £1.5 million.

One of the available forms of protection involves the pension saver committing to making no further contributions, and it has been pointed out that accidentally enrolling in a new Auto Enrolment ('AE') workplace pension scheme could have the effect of removing the protection and resulting in up to £250,000 of the pension value being hit by a 55% tax charge.

The essence of Auto Enrolment, as the name suggests, is that employees are enrolled automatically unless they specifically opt out; and those who do opt out are automatically re-enrolled every three years.

Applicants for protection would therefore be well advised to take immediate action to opt out when enrolled into an AE scheme; and those who may have retired and then returned to part-time work should be vigilant in continuing to opt-out. Potential members of AE schemes have only 30 days in which to do so.

Personal Financial Budgeting

The question on many people's minds is *"How long will the money last?"* Among them are those facing the cost of long-term care; those trying to maintain a standard of living following divorce; recipients of personal injury claims; and redundant executives wondering how long their severance pay will last.

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The question takes a different form for those considering the financing of their retirement: "*how much do I need to put away to supplement my State pension?"*

The answer to all these questions is personal financial budgeting, sometimes referred to as cashflow forecasting – a service offered by many professional financial advisers with the aid of specialist computer software.

The starting point is a detailed 'factfinding' process, as a result of which income, outgoings, savings and investments, tax liabilities and time frames are fed into the system and account is taken, as appropriate, of considerations such as anticipated investment returns, mortgage rates and repayment dates, inflation, inheritances, life insurances and retirement dates.

The output from the system is accompanied by a series of coloured charts showing the possible outcome based on existing arrangements and the possible different outcomes assuming the adoption of alternative strategies suggested by the adviser.

Events may change, and there can be no certainty that predictions will be fulfilled, so the scenarios should be reviewed periodically. However, without a plan the outcome is bound to be uncertain.

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On the subject of budgeting….

We didn't actually overspend our budget. The allocation simply fell short of our expenditure.

Keith Davis

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