NEWSLETTER

CLAIRVILLE YORK FINANCIAL ADVISERS

Keep calm and carry on.....

Data published by the Investment Association has shown that Brexit resulted in the sharpest ever sell-off of investments by UK savers. £3.5 billion of investments were sold in June as panic took hold and investors let their hearts over-rule their heads.

One month later, the FTSE 100 was trading higher in sterling terms than before the vote, leaving many to regret their impetuosity and proving once again that investment is for the long term. Timing the market rarely produces results. What matters is time in the market, through a well diversified portfolio supervised by an independent financial adviser who can allow not only for market fluctuations, but also the impact of tax.

Balancing the books post Brexit

In her first public statement after assuming office, Prime Minister Theresa May made clear her intention that her government's policies should benefit "ordinary working-class families" rather than "the privileged few". This suggests that any tax changes are likely to impact the better-off.

An increase in the top rate of income tax might be considered, but this would have the undesired effect of discouraging foreign investors. Much more likely for a cash-strapped government would be to return to the question of reducing tax relief on pension contributions, which are currently eligible for tax relief at tax-payers' highest marginal rates.

Only last year the possibility was mooted of introducing a flat rate relief of 30%, which would provide a huge boost to the Treasury as well as giving an additional fillip to standard rate taxpayers. It was suggested that those who lost out could be compensated by removing the Lifetime Limit on pensions savings, which currently stands at £1million and has been criticised as an unnecessary discouragement to younger pension savers.

The message, as always, is where possible to take full advantage of tax concessions for so long as they are available

Also potentially at risk could be the exemption of pension savings from inheritance tax. When the "pension freedoms" were announced, this was one of the most striking innovations, but even then questions were asked as to how long the concession might last.

It follows therefore that it would be rash to opt out of a final salary pension scheme purely on the assumption that a private scheme would provide freedom from IHT.

Nevertheless, the number of such schemes continues to decline. A YouGov survey in 2015 found that over half of the respondents who had already retired are benefiting from a final salary scheme, whereas only 37% of pre-retirees expect to do so. The open-ended liability to provide benefits has become insupportable for many employers.

Annuities: A casualty of Brexit

While the stock market has defied the worst predictions of Brexit, reflecting in part the benefits to exporters of a lower value pound, the reduction in interest rates resulting in the surge in demand for Government bonds has had a severe detrimental effect on annuity rates.

Consequently, commentators are suggesting that this is probably not the best time to buy an annuity, and those approaching retirement should consider delaying, or look for alternative sources of retirement income, such as pension income drawdown.

A benefit of Brexit

Commenting on the effect of Brexit on his own company, the CEO of motor distributors Pendragon has written enthusiastically about the trade deals which will be available to him outside the EU. His message to trading partners is "Let's work something out that benefits both of us, instead of all of the EU".

Stamp Duty Land Tax

One of the issues identified by the previous government is the difficulty which younger people have in getting onto the property ladder; and part of that government's solution has been to introduce a tax on second homes, which came into force on 1 April 2016.

This takes the form of a surcharge of 3% on the existing Stamp Duty Land Tax and Land Building Transaction Tax. So a second property worth £300,000 would incur a whopping extra charge of £9,000!

The surcharge affects holiday homes, buy-to-let and sometimes even a main residence. It even extends to properties abroad. However, homes valued at less than £40,000, caravans, mobile homes and houseboats are exempt.

Gifts by Attorneys and Deputies

New guidance has been issued in relation to gifts made by deputies of the Court of Protection and Attorneys (people acting under a Power of Attorney).

The Court of Protection is the Court which has jurisdiction over the affairs of people who have lost the capacity to make their own decisions, for example about their health and finances. The Office of the Public Guardian (OPG) deals with the registration of Powers of Attorney and the supervision of 'Deputies', such as solicitors, who have been appointed by the Court to act on its behalf.

The rules on the making of gifts of the money or assets of people who fall under the jurisdiction of the Court by Attorneys or Deputies are designed to safeguard the interests of such people when they do not have the mental capacity to enable them to make those gifts themselves.

The OPG's guidance states that gifts can only normally be made to the family or friends of the person on whose behalf the gift is being made, having regard to the views or wishes of that person or to charity. Account must be taken of the likely reactions of other family members or friends and the amount must be reasonable, having regard to the person's overall means. Also, gifts cannot be made for the purpose of avoiding contributing to Care Home costs.

If these conditions are met, it will not usually be necessary for the Deputy or Attorney to apply to the Court for permission to make the gift.

No responsibility can be accepted for the accuracy of the information in this newsletter and no action should be taken in reliance on it without advice. Please remember that past performance is not necessarily a guide to future returns. The value of units and the income from them may fall, as well as rise. Investors may not get back the amount originally invested.

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