Wise Words

the latest financial news from Aaron Tawny

NS&I widens the chance to save for young children

Anyone aged 16 or over can now invest in Premium Bonds on behalf of children under the age of 16, meaning these gifts are no longer restricted to parents and grandparents.

Premium Bonds can be bought as gifts online at www.nsandi.com/gift or by post and the purchaser will need to nominate one of the child's parents or guardians to look after the Bonds until the child turns 16 years old. The nominated parent or guardian will then be sent the Bond record, any prizes won and any payment for cashed-in Bonds. If the customer has chosen to have prizes reinvested for a child then prizes will be paid to the child's Premium Bonds account.

This latest improvement to Premium Bonds follows the reduction of the minimum investment to £25 and NS&I being one of the first adopters

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in the banking sector in the UK to use voice applications as customers can now use their voice, through Alexa, to see if they have won any prizes in the Premium Bonds monthly draw.

Since allowing grandparents the ability to gift online last August, over 43,000 have bought Premium Bonds on the internet as a gift.

Tax tips to help the self-employed

The Low Incomes Tax Reform Group (LITRG) has published a guide to help the self-employed understand the tax system better.

The guide comes in response to LITRG's concerns that low income, self-employed people don't fully understand their tax position and the interaction with some benefits. It also addresses worries about the impact of HMRC's reduced guidance and face to face help for taxpayers.

The last ten years have seen a large rise in the number of people who are self-employed, many of whom earn a low income and are unable to afford paid tax advice. LITRG's guide explains some of the less common tax rules affecting the self-employed. It discusses areas such as how to prepare accounts and a self-assessment tax return, tax allowances, partnerships, taking on staff, registering for VAT and the tax responsibilities when a business ceases to trade.

The LITRG website contains a good deal of useful information which, although principally aimed at those on low income, is often relevant to a far wider range of people and is presented in a very readable format.

Auto-enrolment benefitting those in smaller firms

The government reports that auto-enrolment has been an "extraordinary success". A study by the Institute for Fiscal Studies shows that only 26% of small business employees would be saving in a workplace pension if auto-enrolment had not been introduced, whereas the actual figure is now 70%. Auto-enrolment has effectively increased the pension participation rate amongst employees of small firms by 44%.

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Simplifying the design of Inheritance Tax

The Office of Tax Simplification (OTS) publishes second report

This second report makes recommendations to make substantive aspects of the design of Inheritance Tax simpler, more intuitive and easier to operate.

The report contains 11 recommendations to deliver a more coherent and understandable structure of the tax. These are concentrated on three key areas of Inheritance Tax:

1. Lifetime gifts, including liability for paying any tax due on such gifts
2. Interaction with Capital Gains Tax
3. Businesses and Farms

The report recommends:

- Replacing the multiplicity of lifetime gift exemptions with a single personal gift allowance, to be set at a sensible level, and incorporating an increased lower threshold for small gifts. The exemption for regular gifts out of surplus income should be reformed or replaced with a higher personal gift allowance.
- The 7 year period be shortened to 5 years (significantly reducing the workload on executors), taper relief should be abolished (as many find it works in a counter-intuitive way) and the '14 year rule' should end. Data made public for the first time shows the tax paid on gifts 6 or 7 years before death is low.
- Where there is Inheritance Tax to pay on lifetime gifts, the Government should explore options for simplifying and clarifying the rules on who is liable to pay this tax, and how the £325,000 threshold is allocated between different recipients.
- Where a relief or exemption from Inheritance Tax applies, the Government should consider removing the capital gains uplift and instead provide that the recipient is treated as acquiring the assets at the historic base cost of the person who has died.
- Consider whether it continues to be appropriate for the level of trading activity for Business Property Relief (BPR) to be set at a lower level than that for gift holdover relief or entrepreneurs' relief.
- Review the treatment of indirect non-controlling holdings in trading companies.

The Government should explore options for simplifying and clarifying the rules...

- Consider whether to align the Inheritance Tax treatment of furnished holiday lets with that of Income Tax and Capital Gains Tax, where they are treated as trading providing that certain conditions are met.
- The Government should consider ensuring that death benefit payments from term life insurance are Inheritance Tax free on the death of the life assured without the need for them to be written in trust.
- The Government should review the Pre-Owned Assets Tax (POAT) rules and their interaction with other Inheritance Tax anti-avoidance legislation to consider whether they function as intended and whether they are still necessary.
- Since the residence nil rate band is still relatively new, more time is needed to evaluate its effectiveness before recommendations can be made on how best to simplify it. Chapter 10 of the report sets out respondents' suggestions for simplification, which the OTS invites the Government to consider when reviewing this area of policy.
- The OTS has received comments suggesting that the Inheritance Tax regime for trusts is too complicated. These are set out in Chapter 11 of the report for the Government to consider in the context of that broader consultation.
- Since 2012, where a person leaves 10% or more of their net estate to a charity, the rate of Inheritance Tax payable on their estate is reduced to 36%. As this relief will take time to fully embed itself, no recommendations have been made on changes to the 36% rate.

PLSA launch ESG and stewardship guide for pension fund trustees

The Pensions and Lifetime Savings Association (PLSA) has published a guide to help occupational pension scheme funds comply with new Environmental, Social and Governance (ESG) requirements which came into force on 1 October 2019.

Recent changes to the Occupational Pension Schemes (Investment) Regulations 2005 mean it's now vital trustees of all occupational schemes understand and include ESG factors and stewardship approaches in their investment decision-making. Trustees are at significant risk of breaching their legal and regulatory duties if they do not do so.

Under the new requirements introduced by the Department for Work and Pensions, if trustees disregard long-term financial risks or opportunities from ESG, climate change and stewardship factors, they will need to justify why this does not harm investment returns or outcomes for their members.

> It's now vital trustees of all occupational schemes understand and include ESG factors and stewardship approaches in their investment decision-making.

The guide is designed to support trustees of around 30,000 DB and DC pension schemes responsible for managing nearly two trillion pounds. It's structured to reflect the typical journey that trustees take to ensure ESG, climate change and stewardship factors are properly understood, formalised in a relevant policy and, where appropriate, reflected in broader decision-making.

New pensioners aren't splashing the cash

When the new pension rules came into force in April 2015, fears were expressed that pensioners might raid their pension pots to go on a spending spree. The former Pensions Minister Steve Webb famously remarked at the time that pensioners could choose to spend their savings on buying a Lamborghini if they wished. However, the evidence suggests that this hasn't happened.

Whilst the total value of pension withdrawals made since April 2015 is over £25bn, the average withdrawal made between July and September 2018 was £7,597, the lowest level recorded by HMRC since their records began in Q2 2015.

Volatility playing a part

The lower level of withdrawals could be a sign that pensioners were reacting to market volatility and concerned to preserve their wealth. Managing withdrawals from pension funds can be a challenge for those unfamiliar with the stock market; that's why taking advice is so worthwhile. Ensuring their pension funds last as long as they do themselves is a concern often expressed by those approaching retirement; we can help ensure retirees make the right choices at the right time.

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Trusts -
not just the preserve of the rich and famous

Today, you don't have to be incredibly rich for your family to benefit from the creation of a trust. They can offer long-term asset protection and have a variety of uses as part of financial planning strategies. A family trust can help protect your family's assets for the benefit of future generations and may be used to protect the family home.

What is a trust?

A trust is a legal arrangement which allows assets, usually property or money, to be looked after by a trustee for the good of one or more beneficiaries. Those beneficiaries can be named individuals, such as your children, or can be children who are yet to be born.

Why set up a trust?

They can have a variety of uses such as:

- Protecting the financial interests of a young beneficiary by retaining control of the assets until they reach the age of 18 (16 in Scotland)
- Looking after the interests of somebody who can't handle their own financial affairs through incapacity
- Providing for a husband or wife, while keeping the assets intact for the benefit of children
- Reducing Inheritance Tax (IHT) liability by taking assets out of an estate, thereby reducing the amount on which IHT might otherwise be payable
- Protecting assets on marriage
- Ensuring that the proceeds from a life insurance policy go to the beneficiary without waiting for probate, and don't form part of the estate for IHT purposes

Setting up a trust

The choice of trust will depend on who the beneficiaries are, what the assets are, and how and when you want them distributed. Taking advice on the type of trust that is most suitable for your circumstances is best.

The Financial Conduct Authority does not regulate some forms of taxation advice.

Savings - do you need a nudge?

According to data from the Office for National Statistics, the UK is losing the savings habit. In the last couple of years, the savings ratio has been at about 4%, whereas in the 1990s it was closer to 15%. Statistics show that half of 20-somethings have no savings at all, and research carried out by the Money Advice Service in 2016 found that 16 million people in the UK had savings of less than £100.

New prompts planned

Nudging, using psychological techniques to influence behaviour, might just help us all to get into the savings habit.

Technology in the form of savings apps can help savers see the bigger picture, literally. They work by allowing savers to load images of something they are saving for, such as a car, a home or holiday. The more money they transfer into their savings account, the clearer the image becomes, but if they withdraw money, the picture starts to disappear.

Another prompt is being trialled at supermarket checkouts. The shopper will receive a message asking them if they want an amount equivalent to their store discounts to be diverted to their savings accounts.

Inheritance Tax - frequently asked questions

Who pays it?

Inheritance Tax (IHT) is payable on a person's death if their estate exceeds the IHT threshold, also known as the nil-rate band. IHT is charged at 40%, although the rate may be reduced to 36% if 10% or more of the estate over the threshold is left to charity.

What is the threshold?

The current threshold is £325,000 for an individual and £650,000 for a married couple or civil partners. An inheritance from husband, wife or civil partner is exempt from IHT and the survivor can claim their spouse's unused nil-rate band upon their death.

What is the main residence nil-rate band?

This allowance applies if you want to pass your main residence to a direct descendant, such as a child or grandchild, therefore it isn't available to everyone. For the tax year 2019-20 the figure is £150,000 and will rise to £175,000 in 2020-21. When its fully introduced in April 2020, this could potentially mean that a single person has an overall allowance of £500,000, or £1m for those who are married or in a civil partnership. From 2021/22 onwards both the Nil Rate Band and Residence Nil Rate Band are expected to increase with the Consumer Price Index, so these figures should continue to rise.

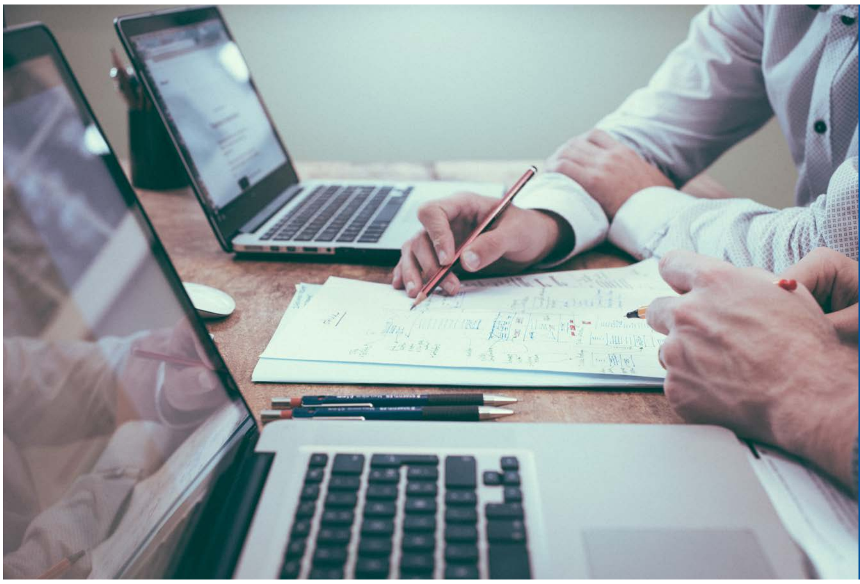
What is the seven-year rule?

Gifts of wealth can be totally exempt if you survive for seven years after making them. Should you die within this period, the beneficiaries would potentially be liable for IHT, which is charged at 40% on gifts above the nil-rate band and given in the three years before the donor dies. The amount of IHT due gradually reduces ('taper relief') following the third year after the gift was made and every subsequent year until after the seventh year. Gifts are therefore not counted towards the value of your estate after seven years.

What can I do to tackle my IHT liability?

It pays to take advice. Putting off making plans can limit your options. For example, a substantial gift made to a beneficiary could potentially reduce or eliminate your IHT bill. However, you would need to survive seven years after making the gift for this to take full effect.

The Financial Conduct Authority does not regulate some forms of taxation advice.



It pays to take advice. Putting off making plans can limit your options.

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Investment jargon made simple

Commonly used words and phrases in connection with investing can often seem confusing, but the good news is that we are well-versed in providing plain-English explanations of technical terms.

Volatility

You will probably have heard this term quite a lot recently. Volatility refers to the rate at which the price of an investment moves up and down. If the price moves up and down rapidly over a short period, it is described as having high volatility. If the price remains relatively stable, it is said to be a low volatility stock. Needless to say, investors generally prefer lower volatility.

Asset allocation

This is the process of deciding what proportion of your investment portfolio should be invested in different types of investment.

There are four main categories of assets – cash, equities, bonds and property. Determining which mix of assets you should hold in your portfolio will depend on personal factors including your investment time horizon and your attitude to risk. Asset allocation helps to spread risk through diversification, which in simple terms, means not putting all your eggs in one basket.

Index

An index, and there are several, is a combined measure of fluctuating market prices of shares in a selection of companies that have similar characteristics, such as size. Some indices are designed to reflect the overall performance of a particular market, while others follow a specific sector.

So, for example, the FTSE 100 is made up of the UK's 100 largest quoted companies, the FTSE 250 includes the next largest 250 companies, and the FTSE Small Cap includes companies smaller than that. In the US, the Dow Jones Industrial Average consists of 30 large American companies across various sectors.

Pensions - don't leave money to the wrong people

A pension nomination form allows pension plan holders to give instructions as to who should receive their pension on death. But if it isn't updated when circumstances change, there's a risk that the pension could pass to the wrong person, for example an ex-partner.

Are 'slashies' the future of work?

A study by the Association of Independent Professionals and the Self-Employed reports that more than 320,000 self-employed people in the UK have two or more jobs. The term used to describe this is 'slashie', as in "I'm a writer/dog-walker/gardener".

Huge rise in protection policy take-up

If you were unable to work due to accident, injury, sickness or redundancy, you would still need to support yourself and your family financially. Whilst you might have enough savings to tide you over for a short period off work, if it went on for longer, it could be a struggle to meet mortgage costs and other household bills; this is where an income protection policy can really help.

It could be a struggle to meet mortgage costs and other household bills...

Photo by Markus Spiske temporausch.com from Pexels

Policies are designed to pay out if you're not able to work and earn money due to illness or injury, and, in some cases, forced unemployment. They can meet the needs of families who want to protect their regular expenditure, homeowners with monthly mortgage payments, self-employed people whose incomes depend on their ability to work, and employees who receive limited or no sick pay from their employers.

More policies taken out

Figures from technology provider Iress, show income protection sales via its software increased 50% in the first quarter of the year, indicating that more and more people are planning for their family's financial future and protecting themselves against life's unexpected and unwelcome events.

As a mortgage is secured against your home or property, it could be repossessed if you do not keep up mortgage repayments.

Generation X top the pensions savings chart

Information from HMRC shows that those aged 43 to 54, often referred to as Generation X, account for the largest proportion of the UK's personal pension contributions, equating to 43% of the total contributions made in the 2015-16 tax year, the latest year for which data is available.

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Process in place while new probate fee structure established

Whilst the Government introduces its change to the current probate fee structure, a temporary process has been put in place to continue making applications.

Probate registries will accept applications for probate before the account has been processed by HMRC, even though getting probate usually means HMRC first confirming it has processed the Inheritance Tax account. The application must include a note to say that the appropriate Inheritance Tax forms will follow shortly.

Saving £2,880 a year could provide a retirement windfall for your child

Planning ahead and starting early can really help when it comes to building up wealth for children.

Current pension rules, which could change in the future, allow a parent to put up to £2,880 a year into a pension for a child. Tax relief means that this is then topped up to £3,600. If a parent starts this once a child is born, the contributions would cost about £52,000 over 18 years, and this, under current rules would be topped up by around £13,000 in tax relief.

Assuming growth in investments over the period, when the child reaches age 55 currently, they could have a sizable pension pot, the spending power of which will of course depend on the passage of inflation over the intervening years.

Junior ISAs

Maximising the Junior ISA allowance could also produce a valuable nest egg. You can save up to £4,368 on behalf of a child in the 2019-20 tax year.

If you're unable to afford the full subscription each tax year, small regular sums build up over time, so don't be dissuaded.

Photo by Janko Ferlic from Pexels

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated.

Top NHS doctors to get more flexible Pensions

Senior doctors have said that pension tax charges are discouraging them from taking extra work to support patients and causing them to question whether to remain in the NHS Pension scheme.

In response, the Government will consult on proposals to offer senior clinicians a new pensions option, allowing them to build their NHS Pension more gradually over their career, making steadier contributions and avoiding regular, significant annual allowance tax charges.

Gifting money for a deposit
- *what you need to know*

Parents and grandparents keen to help their offspring get onto the housing ladder are increasingly helping them out with the money they need for their deposit. This can help reduce Inheritance Tax (IHT) too, but you need to be aware of the rules.

Everyone has a yearly 'gift' allowance for IHT and can give away up to £3,000 each year. If you don't use it, you can carry over any unused allowance from one tax year to the next.

Wedding gifts

Weddings are another opportunity to hand over cash to loved ones – parents can each give children £5,000 as wedding presents, and £2,500 to grandchildren or great-grandchildren, or £1,000 to anyone else, all free of IHT.

You can make more significant gifts above and beyond those listed above, known as 'potentially exempt transfers'. You need to live for at least seven years after making the gift for it to be outside the estate for IHT.

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Celebrating 20 years of the ISA

The Individual Savings Account (ISA) was launched on 6th April 1999 and it hasn't looked back. Today it's estimated that 42% of adults hold one, which is hardly surprising considering how simple and tax-efficient they are.

When the ISA was launched, the annual allowance was £7,000 and it has risen steadily over the years. In this tax year, you can contribute up to £20,000 to an ISA or ISAs. Those who have made use of their stocks and shares annual allowances over the years could by now have put just over £226,560 into their ISA accounts.

A range of tax-free options

At the beginning there were a limited amount of accounts on offer, including the Cash ISA and the Stocks and Shares ISA. Since then, the range has increased to include the Junior ISA for children, the Help to Buy ISA for first-time buyers, and the Lifetime ISA for those looking to save for a deposit on a property or for retirement.

If you're planning to save this tax year, it's a good idea to put plans in place as early as possible. The longer your money is saved or invested, the more time it has to produce tax-efficient returns.

For more information call us on 01536 512724

Lite Relief

Three women, two younger and one senior citizen, were sitting naked in a sauna.

Suddenly there was a beeping sound. The younger woman pressed her forearm and the beep stopped.

The others looked at her questioningly. "That was my pager" she said. "I have a microchip under the skin of my arm".

A few minutes later, a phone rang. The second young woman lifted her palm to her ear. When she finished, she explained "That was my mobile phone. I have a microchip in my hand".

The older woman felt very low-tech. Not to be outdone, she decided she had to do something just as impressive. She stepped out of the sauna and went to the bathroom. She returned with a piece of toilet paper hanging from her rear end.

The others raised their eyebrows and stared at her.

The older woman finally said..."Well, will you look at that...I'm getting a fax!!"

We hope you find this a useful and informative read. With our constant strive for excellence in customer service we always appreciate your feedback, whether good or bad.

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