Wise Words
the latest financial news from Aaron Tawny

Volatility and Brexit

Volatility is all part and parcel of investing in the stock market. 2018 saw the market experience lower volatility, as confidence grew, but in 2019, the bounce back in volatility was pronounced as unease over global events increased.

To help navigate market volatility, it's best to stick to your plan, diversify your holdings and very importantly, expect and accept volatility. Your goal, whether it be retirement, education or a large purchase, will determine your asset allocation and time horizon.

Investors with diversified portfolios, who stay in the market, have historically and consistently experienced steady gains over time. So, ignore the noise and daily market movements, and focus on the long term. It's important to remember that volatility also presents buying opportunities.

It's a good idea to review your investment objectives whenever you have a major change in your life, so keep in touch with us.

If it seems too good to be true...

Financial scams are now widespread and come in a variety of forms. What they offer may look appealing and be presented by people who seem plausible, but scams have resulted in people being used as money mules and risking criminal prosecution or losing substantial amounts of money to bogus or unsound investments, or even being conned out of their entire pension savings. Don't let this happen to you.

Taking financial advice about major transactions such as investments, mortgages and pensions aims to ensure that your interests will always be fully protected, and you will be able to make the right decisions for your financial future.

Scams have resulted in people being used as money mules and risking criminal prosecution...

Pensioners finally get legal protection from cold callers

NATIONAL TRADING STANDARDS
Protecting Consumers
Safeguarding Businesses

The long-awaited measures to curb cold calling are now to take effect. Documents released as part of the Budget include rules to ban pensions-related cold calling, which came into effect in January 2019.

The Government's new rules make it illegal for companies to call people out of the blue and discuss their pension plans. Unsolicited calls are banned, and only companies authorised by the Financial Conduct Authority, who have your prior permission, or a trustee of your workplace scheme, will be allowed to call about your pension.

In addition to the cold calling ban, National Trading Standards are due to receive additional funding to extend the provision of call blocking technology for vulnerable people.

For more information call us on 01536 512724

HMRC returns £38m to Pensioners

Last autumn there was some good news for those withdrawing pension cash. HMRC paid back £38m it had wrongly charged pensioners because their system fails to recognise one-off payments and assumes that the amount will be paid regularly. If you have been affected, visit www.gov.uk to find out how to claim a refund.

Trends in baby boomer retirement plans

Living through decades of increasing prosperity has undoubtedly given baby boomers a lot of advantages, but they can also face a number of challenges. Today, many feel pressured into working past their normal retirement date, often because of the number of demands being made on their finances by their families. If they are unable to work, they can have concerns about outliving their savings.

They may face the need to give emotional and financial support to their elderly parents as well as their children, and sometimes their grandchildren too. All this while also working out how they can best provide for their own retirement and worrying whether they will have sufficient funds saved to pay for their own later-life care.

These concerns have played their part in the growing trend in semi-retirement. The state retirement age is now widely viewed as less of a milestone, with many choosing to work on past that date, for financial reasons or for the mental stimulation that work provides.

Taxation and Allowances

The personal allowance will increase from £11,850 to £12,500 in April 2019, a year earlier than originally planned. The threshold for paying higher rate tax will also rise from £46,350 in 2018-19 to £50,000 in 2019-20.

Although there had been speculation that major changes to pension taxation might be in the offing, these didn't materialise. However, the Lifetime Allowance will increase in line with the Consumer Prices Index to £1,055,000 for 2019-20. The annual ISA limit of £20,000 remains unchanged for 2019-20. The dividend allowance of £2,000 remains unchanged, as does the personal savings allowance of either £1,000, £500 or £0 (according to marginal tax rate).

Number of working women aged 60-64 has doubled

Employment statistics show that more women are staying in the workplace for longer, with 48.5% in this age bracket in employment, compared with just 23.4% back in 1998. This is attributed variously to the short-notice rise in the state pension age from 60 to 65 or 66 currently affecting many women born in the 1950s, higher incidence of divorce later in life, financial necessity, or simply a desire to keep mentally active.

UK pensioners get a worse deal than Colombians

Pensioners in the UK languish way down the table when it comes to the quality of pension provision offered to the poorest and the self-employed. They're worse off than counterparts in countries like Colombia, Chile, Australia and Germany. However, they do enjoy better benefits than those available in France, Italy, Spain and the US.

A growing role for advice

Research carried out for The London Institute of Banking & Finance* shows that many baby boomers have yet to put plans in place for the years that lie ahead. The findings show that 35% worry about how they will manage financially in retirement, 47% say they know they need to save more for the years ahead, 72% realise that they will have to provide for their own care costs.

Interestingly, only 20% of those aged 50 to 59 who took part in the survey had taken financial advice, despite 44% freely admitting that they don't have sufficient knowledge to make the best decisions for their future.

*The London Institute of Banking & Finance, June 2018

Innovation and flexibility drive equity release growth

- Product options more than double in 2 years: 139 in August 2018, up from 58 in 2016.
- Number of homes in England bought with a gift or loan from family or friends reaches a new high of 1.1m.
- New Customer numbers driven by increased product flexibility and more competition in the market as people seek to meet pressing social needs such as giving help to younger generations and meet mounting care costs.
- For every £1 of savings withdrawn via flexible pension payments in the last 12 months, 50p of housing wealth was unlocked via equity release – up from 40p a year earlier.

Under 35's account for 90% employment growth

Employers should take advantage of annual tax-free allowance of £500 per employee for financial advice and guidance.

The latest Office for National Statistics (ONS) Labour Market figures have highlighted the growing need for employers to provide financial wellness and guidance advice to their staff. According to the ONS, under 35's accounted for 90% of employment growth in the last quarter, while 70% of employees under 34 require regular borrowing to meet their financial obligations.

Seeing the bigger picture

A long-running survey carried out by thinktank the International Longevity Centre found that those who took financial advice between 2001 and 2007 had significantly higher savings than those who did not. If you're approaching retirement, having a financial MOT now could help you put in place the plans you need to provide effectively for your financial future.

Utilising Equity release to purchase a new home

Chris Davies (71) and his wife Ruth (70) have lived in the same property for 34 years. Chris has started to suffer with arthritis and has found that negotiating the stairs in their home and the general maintaining of the property more and more difficult.

Because of this, they have been looking at moving to a bungalow in the same area which they feel will be more manageable for them.

Their property had been valued at £190,000 but the bungalow they had found and fell in love with was on the market for £215,000. They both receive a pension which takes care of their day to day expenses they have, but this hasn't allowed them to add to their current savings.

The savings they have act as an emergency fund for them but was not enough to fund the shortfall and would have left them without any financial safety net if they had used it, which was of concern to them.

Having consulted one of our qualified Equity Release advisers we were able to secure an equity release mortgage on the new property for £25,000 which, with the proceeds from selling their house for £190,000, enabled them to move into their new home without having to use their savings.

As part of the application we arranged a reserve facility of £46,000 which will allow them to draw down additional funds in the future should they ever need to. This gave Mr and Mrs Davies added peace of mind knowing that they had a rainy day fund beyond their savings should they require it in the future.

State Pension changes - *the impact on you*

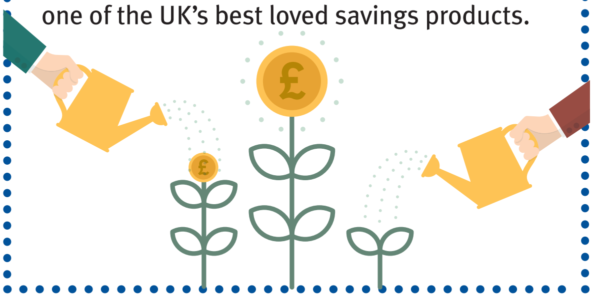
The State Pension is likely to be a key source of income for many people when they retire. The new State Pension was introduced in April 2016, replacing the previous two tier system, and the State Pension age has just been equalised at age 65 for men and women before it immediately starts moving to age 66. So much is changing.

The single tier pension is currently is worth £164.35 a week, which is increasing to £168.60 from April. What people will receive is based on their national insurance records, and they will need 35 years national insurance records to qualify for the full amount. Some will receive less, while a few could even receive more.

You can now invest in Premium Bonds with just £25

NS&I have today reduced the minimum initial investment for Premium Bonds from £100 to £25. This is the first time in the 63 years since Premium Bonds launched that the minimum investment has been lowered, and it is the lowest minimum purchase since 1993. The change will allow adults over the age of 16 to purchase or set up a standing order for a minimum of £25, or gift at least £25 to their children or grandchildren.

This change was first announced in the October 2018 Budget, as part of a package of enhancements to Premium Bonds that will be introduced throughout the year and is aimed at encouraging regular saving and gifting in one of the UK's best loved savings products.



Auto Enrolment limits published for 2019/20

The qualifying earnings band and earnings trigger amounts for auto enrolment have been published. The earnings trigger for 2019/20 will remain at £10,000 and the qualifying earnings band will be £6,136 - £50,000.

The automatic enrolment earnings trigger determines who is eligible to be automatically enrolled into a workplace pension by their employer in terms of how much they earn. There is also a qualifying earnings band in respect of which contributions to many auto enrolment schemes are made – the band is defined by the lower earnings limit and the upper earnings limit. The earnings trigger and the qualifying earnings bands are often jointly referred to as the Automatic Enrolment earnings thresholds. They are set in legislation and reviewed annually. It is a statutory requirement that the Secretary of State reviews all three thresholds in each tax year.

The lower earnings level of the band is also relevant to defining who falls into the category of 'non-eligible job-holders'. People in this group can opt-in to their employer's workplace pension and will received a mandatory employer contribution if they earn between the lower earnings limit and the earnings trigger.

Increase of minimum Auto Enrolment Contributions

On 6 April 2019, the minimum amount that will need to be paid into a workplace pension will increase to an overall minimum of 8% with employers contributing at least 3% of this. The Pensions Regulator is contacting all employers to remind them of their duties.

Endings and beginnings - planning around the tax years

In this article, we have summarised some of the principal financial planning issues to consider both in the run up to the end of the current tax year and the start of the new one.

This year the last working day of the tax year is 5 April itself, which falls on a Friday.

Pensions

Carry Forward

If an individual exceeds the standard Annual Allowance (AA) of £40,000 or their tapered annual allowance if applicable, it is possible, if eligible, to look back and consider whether there is any unused AA in the 3 previous tax years (up to £40,000 in each of 2015/16, 2016/17 and 2017/18). As long as an individual has been a member of a registered pension scheme at some point in each year being carried forward from, it doesn't matter whether they actually made any pension contributions in that tax year. Also, the person does not have to make contributions to the pension arrangement that they have been a member of in order to utilise carry forward – they can make contributions to a different pension arrangement. The ability to carry forward from 2015/16 will be lost after 5 April 2019. As 2015/16 was the transitional year with pre and post alignment tax years, there can be more available to carry forward than you might think.

Lifetime allowance

The lifetime allowance will increase on 6 April 2019 to £1,055,000, in line with the Consumer Price Index (CPI) increase. For anyone subject to the standard lifetime allowance and whose pension benefits have the potential to exceed the LTA, it may make sense to postpone any Benefit Crystallisation Events (BCEs) until the new tax year in order to use up a slightly smaller percentage of lifetime allowance, avoid an LTA charge and/or achieve a slightly higher tax free cash figure.

Independent taxation

That is, ensuring assets/income are split (where possible) between married couples and civil partners (and other couples where appropriate) in the most tax effective way to enable maximum use of personal allowances/reduce or eliminate Child Benefit Charge and possibly to move income into a lower tax band (e.g. if one party pays tax at a lower rate than the other). Where assets are transferred, these should be outright and unconditional gifts to ensure HMRC view that there has been a genuine change of beneficial ownership as well as legal ownership.

Investments could be transferred to a spouse/civil partner on a no gain/no loss basis without triggering a CGT disposal (subject to practical considerations and ensuring such transfers are outright and unconditional).

Marriage allowance

Allows 10% of the personal allowance to be given by one spouse/civil partner to the other where the giver is a non-taxpayer and the receiver pays tax at no more than basic rate. The amount is £1,190 in 2018/19 and increases to £1,250 in 2019/20. Once applied for, HMRC will continue to allocate 10% additional personal allowance to the receiving spouse (and 10% less to the other spouse) each tax year until told otherwise.

Employers/business owners

Could consider paying salary/bonuses/dividends before 5 April 2019 to use up any unused personal allowances, basic rate band or dividend allowances; and/or using one of the share option schemes available. Alternatively, the employer could consider postponing payments of bonuses/dividends etc until after 6 April 2019 if personal allowances, basic rate bands or dividend allowances have already been used up. Guidance should always be taken from the company's accountant.

Endings and beginnings - continued.

ISAs

Principal method of tax favoured investing with exemption from any personal income tax or CGT; ensure 2018/19 ISA allowance has been fully utilised (if appropriate) up to £20,000 (which can be fully invested in cash if required). On 6 April 2019 the new ISA year begins and a new annual subscription limit becomes available, again at £20,000. A cash ISA can be transferred to a stocks and shares ISA and vice versa these days. Eligible investors aged 16 or 17 can invest £20,000 into a cash ISA before 6th April 2019 and £20,000 in 2019/20.

Help-to-buy ISAs

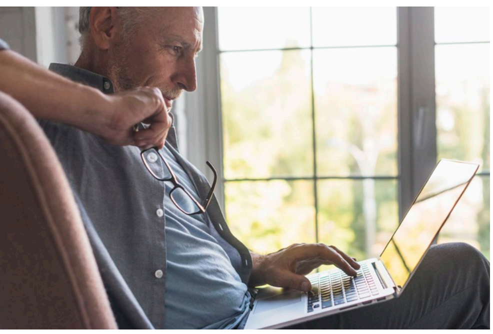
Those with adult children who are planning to buy a home might consider gifting funds to their children so that they can invest in a help-to-buy ISA. This ISA is available to first time buyers over the age of 16. Savings of up to £200 per month and a one-off £1,000 at the start (forming part of the £20k overall ISA subscription limit) attract a 25% tax-free bonus from the Government, providing £3,000 cashback on a maximum saving of £12,000.

Lifetime ISAs (LISAs)

Between the ages of 18 and 40, it is now possible to open a Lifetime ISA. This ISA enables you to save up to £4,000 each year (forming part of the £20k overall ISA subscription limit) and receive a government bonus of 25% on any savings put in before your 50th birthday.

Tax relief for residential landlords

The tax relief that landlords of residential properties get for finance costs is gradually being restricted. The restriction is being phased in gradually from 6 April 2017 and will be fully in place from 6 April 2020. Landlords can still deduct some of their finance costs when they work out their taxable property profits during the transitional period. These deductions will be gradually withdrawn and replaced with a basic rate relief tax reduction.



Venture Capital Trust

£200,000 investment per tax year with 30% tax relief (or such amount as would reduce the investor's income tax bill to zero). Tax free dividends and no CGT.

Enterprise Investment Scheme

£1,000,000 investment per tax year with 30% tax relief (or such amount as would reduce the investor's income tax bill to zero). Unlimited CGT deferral also potentially available as long as the investment is made within the period 1 year before and 3 years after the disposal (the amount of the gain needs to be reinvested for full CGT deferral). An additional £1,000,000 investment is possible in tax year 2018/19 onwards if invested in 'knowledge intensive' companies.

Capital Gains Tax

Consider realising gains (or losses to reduce gains to the level of the CGT annual exempt amount) before the tax year end in order to make use of the CGT annual exempt amount (£11,700 per person this year and a maximum of £5,850 for trustees – the figure for 2019/20 is £12,000 (£6,000 for most trusts – but shared between trusts where the settlor has created more than one trust subject to a minimum of £1,200 per trust).

Both husband and wife have their own CGT annual exempt amount so ensure assets are held in such a way as to maximise use of both allowances and make maximum use of the basic rate band (meaning gains are taxed at 10% instead of 20% (18% and 28% for taxable gains on residential property)).

Assets can be transferred between spouses on a no-gain no-loss basis in order to make use of both exemptions/basic rate bands or to offset one spouse's loss against the other's gain (transfers must be outright and unconditional).

Seed Enterprise Investment Scheme (SEIS)

A version of the EIS applying to smaller companies carrying on a new business; 50% income tax relief on up to £100k per annum per investor, carry back available, as under EIS; exemption from CGT on gains on shares within the SEIS; and, provides for a complete exemption (not just a deferral) from CGT on half the gains realised from disposals of assets, where the gains are reinvested through the new SEIS in the same tax year.

Inheritance tax

The IHT nil rate band remains at £325,000 in 2019/20 (and is frozen at that level until April 2021). This can present opportunities in terms of continued IHT planning using a variety of methods including insurance-based solutions if there is a need to retain access to capital and/or income (discounted gift trusts, loan trusts etc) as appropriate.

The main residence nil rate band (RNRB), introduced on 6 April 2017 at £100,000, increases to £150,000 on 6 April 2019 and continues to increase by £25,000 each year to reach £175,000 on 6 April 2020. This can be used against the value of the main residence as long as the residence (or assets of equivalent value if the property is sold after 8 July 2015) is passed to direct descendants of the deceased (eg. children, grandchildren, their spouses). If not fully used, it is transferable between spouses in the same way as the standard nil rate band. It is reduced once the net estate value exceeds £2m.

Make maximum use of IHT gifting (where appropriate) before the tax year end and in the new tax year.

Make maximum use of IHT gifting (where appropriate) before the tax year end and in the new tax year. The £3,000 annual exemption can be carried forward one tax year if unused as long as the donor fully uses the current year's exemption first. Regular gifts out of surplus income can be established, perhaps by way of payment of premiums into a regular savings vehicle in trust.

The £250 small gifts exemption can be made to an unlimited number of different people as long as no other gifts are made to the same people in the same tax year. All these exempt gifts are immediately outside the donor's estate for IHT purposes.

For more information call us on 01536 512724

Investing for Children

Although it is no longer possible for new Child Trust Funds (CTF) to be set up, it is still possible for payments to be made to existing CTF accounts. The maximum annual amount is £4,260 in 2018/19 and £4,368 in 2019/20. Accounts continue to benefit from tax free growth. The CTF was available to children born between 1 September 2002 and 2 January 2011.

The Junior ISA is available to children under 18 who do not have a CTF account. The annual maximum subscription is the same as the CTF (£4,260 in 2018/19 and £4,368 in 2019/20) and funds grow in a tax free environment. Transfers from CTFs to JISAs are allowable (since April 2015). The CTF must be closed and the funds transferred direct from the CTF provider to the JISA provider before further contributions can be added to the JISA. This may offer a wider range of products.

The Junior ISA is available to children under 18 who do not have a CTF account.

Keeping it Lite!

A class of adults taking a computer science course were split into two groups, comprising one of men and the other of women. They were given a project to determine which gender computers should be referred to as.

After 10 mins of deliberation, the male group voted unanimously, that computers should be referred to in the female gender due to the following reasons.

1. *No one but their creator understands their internal logic.*
2. *When computers communicate with each other they speak in a coded language, that only they understand.*
3. *Every mistake you make, is stored on their hard drive for their later retrieval.*
4. *As soon as you commit to one, you spend half your income on accessorising it.*

The women however voted unanimously that computers should be referred to in the male gender. For the following reasons.

1. *To get their attention you have to turn them on.*
2. *They have a lot of data, but still cannot think for themselves.*
3. *They are supposed to help solve problems, but half the time they are the problem*
4. *As soon as you commit to one, you realise, if you had waited a bit longer you could have got a better model.*

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.

If you would prefer to receive the newsletter via email, please email us at: enquiries@atawny.co.uk

6 Market Place
Kettering
Northants
NN16 0AL
T: 01536 512724
F: 01536 312232
E: enquiries@atawny.co.uk
W: www.atawny.co.uk

Aaron Tawny
Established since 2000