

Making the annual allowance work for business owners

Running a successful business is hard work, so it's understandable that most entrepreneurs are much more focussed on the here and now rather than planning for their retirement.

As business fortunes fluctuate, this is where carry forward can come to the rescue. In more prosperous years, it allows clients to play 'catch-up' by paying much larger contributions into their pensions to compensate for underfunding in previous years when available funds were invested in their business. This not only boosts their retirement funds, but could also save them a lot of tax too.

Some clients may see their business as their retirement fund, but not everyone will be able to rely on this; things may not work out as planned. Saving into a private pension alongside their business should prove a less risky strategy.

Why pay in?

Pensions remain the most efficient way to save for retirement and there are strong motivational reasons to do so. These five tips may help clients get the most out of their pension funding.

- **Reducing tax on profits**

Self-employed profits will be taxed when they are made. Unlike the director of a limited company, they cannot be sheltered in the business as undistributed profit, or used in a similar way as director loan accounts. In a good year, tax could be as high as 40% or even 45%. (Paying larger amounts into a pension is one way of reducing the tax charged on profits at higher rates and the carry forward of unused annual allowances is a means of achieving this).

- **Maximising relief at the highest rates**

Where self-employed profit projections are consistently over the higher rate threshold, it may be worth limiting funding so that higher rate relief is given on the whole contribution, particularly where the carry forward of unused relief can all be used in this way.



- **Timing of contributions and relief**

Contributions can be made after the end of the business year to which they relate (but still in the same tax year), which means that profits should be known if the business year is not in line with the tax year. This gives some certainty over how much can be paid in to maximise tax relief. Contrast this to the director of a company, where an employer contribution must be made before the end of the business year to get relief in that year.

- **Retirement certainty**

To provide a more stable income in retirement by carefully selecting funds that spread the investment risk, rather than relying on the notion that "my business is my pension". Can anyone accurately predict where their business will be come retirement and whether it will have a commercial value and a willing buyer?

- **Leaving a legacy**

A modern pension can provide a tax efficient inheritance for loved ones with easy access. Could this be said of a business, even if their partner and/or children did want to take it on as a going concern.

Maturing Child Trust Funds to retain tax-advantaged status

Maturing Child Trust Funds will keep their tax-advantaged status on maturity under draft regulations that have been published for consultation.

A Child Trust Fund (CTF) is a tax-advantaged savings account which provides children born between 1 September 2002 and 2 January 2011 with an asset when they reach adulthood.

CTFs begin maturing in September 2020 when the first children reach 18.

Without legislative change the investments will lose their tax-advantaged status at maturity.

The government has now published draft legislation, together with a tax information and impact note, for technical consultation.

The CTF Regulations will be amended to provide that where a CTF provider has received no instructions on the future of the investments

from the account holder those investments are placed, at maturity, in a 'matured account' pending instructions. The 'matured account' can be a continuing CTF account or a cash ISA or stocks and shares ISA, offered by the original

CTF provider. Funds in either 'matured account' will retain their tax advantaged status, and the terms and conditions which applied before maturity. No subscriptions can be made to the account, which must be retained by the original provider.

The ISA Regulations will be amended to provide that

funds transferred from a CTF or matured CTF account will be disregarded for the purposes of the overall ISA subscription limit. Funds transferred to a Lifetime ISA will be subject to the Lifetime ISA payment limit. This is consistent with the approach taken for maturing Junior ISAs.



Continuing changes to Buy to Let taxation

The changes to how rental income from buy to let properties continues to evolve and has moved into its next phase.

Entry into a new tax year has prompted several questions from clients, so we thought it would be wise to recap on how you may be affected.

As advised in previous newsletters, the deduction of finance costs, including mortgage interest, is being phased out until they can no longer be deducted at all in 2020/21, when calculating taxable income.

In addition to this, the amount of tax relief that you can claim on finance costs will be capped at the basic rate of tax, this is currently 20%, and will be given by a reduction to your tax liabilities.

Orkney rated Britain's best place to live in terms of quality of life

The Halifax's annual quality of life survey shows that Orkney is rated the best place to live in Britain. Not only is employment at 88%, the average house price is just £173,349. Residents also enjoy good health and low crime rates.



Tax year	Percentage of finance costs that can be deducted from rental income	Percentage of finance costs subject to basic rate tax deduction
2019 - 2020	25%	75%
2020 - 2021	0%	100%

Consultation on new HMRC restrictions on Private Residence Relief

HMRC has launched a consultation on changes to Private Residence Relief (PRR) from capital gains tax (CGT) that were announced at Budget 2018.

As from 6 April 2020, lettings relief will be restricted to owners who share occupancy with a tenant. Lettings relief was introduced in 1980, to allow people to let out spare rooms within their property on a casual basis without losing the benefit of PRR. In practice, however, HMRC has found that lettings relief is being used for purposes beyond the original policy intention, benefitting those who let out a whole dwelling that has, at some stage, been their main residence.

The reforms mean that lettings relief will not be available for periods where an owner has moved out of the property and therefore no longer shares occupation with a tenant or tenants. This effectively abolishes it for buy-to-let purposes. The impact on a typical landlord will be to increase the chargeable gain on disposal by up to £40,000.

The final-period exemption from Capital Gains Tax (CGT) will also be reduced from 18 months to 9

months. This exemption was originally 36 months when first introduced during a property market slump, as a concession for people who were unable to sell their former home after moving to another. It was reduced to the current 18 months by the Finance Bill 2014, although there are special rules to allow disabled homeowners and those who go into residential care to claim the full 36 months' relief. These will not change in the current reforms.

Both changes will come into effect for disposals on or after 6 April 2020, affecting around 40,000 people each year. From that date, only those periods where the owner was in shared occupancy with the tenant will qualify for lettings relief. Periods when it was let out before then will not qualify for any relief.

The government is also considering changing the rules on inter-spouse transfers, so that the receiving spouse always inherits the transferring spouse's period of ownership and the use to which the property was put during that time. This would, for example, prevent a person claiming full PRR on the disposal of a house that their spouse had previously owned and let out.

Pension withdrawals hit record in Q4 2018

Payments made under the pension reforms of 2015 have steadily climbed and hit 628,000 in the final quarter of last year, up from the 121,000 in the second quarter of 2015 when the reforms took effect. Interestingly, the average withdrawal dropped to a record low of £7,197 in Q4, down from £7,597 in the previous quarter. This could be a sign that people are sensibly conserving their pension wealth.



UK Dividends set new high



Whilst 2018 may not have been the best year for share prices, it was a very good year for dividends. A new report shows that UK dividends reached a record high of £99.8bn, the highest level since the global financial crisis. This was due to a number of factors, including soaring company profits, special dividends and a slump in the value of sterling.

Powers of attorney (England and Wales)

What is a power of attorney?

A power of attorney is a document which provides authority for someone, the attorney, to act on behalf of another, the donor. The attorney can be given powers which are:

- General powers that would allow the attorney to do anything that the donor could do, or
- Specific powers that would stipulate exactly what the attorney is allowed to do on behalf of the donor

An ordinary power of attorney will cease upon the mental incapacity of the donor. However, where it is intended that the powers are to continue after the donor has lost mental capacity this can be achieved through a lasting power of attorney (LPA) (the LPA replaced the enduring power of attorney (EPA) on 1st October 2007. New EPAs can no longer be created but if a person had made an EPA before 1st October 2007, either registered or unregistered, it can continue to be used).

What is a lasting power of attorney (LPA)?

The LPA is the statutory form of power of attorney, introduced by the Mental Capacity Act 2005, which allows the attorney to continue to act even after the donor loses mental capacity. It can cover decisions relating to not only the donor's property and affairs but also their personal welfare, e.g. long-term care and medical treatment. The donor can include one or both aspects and can appoint different attorneys for each purpose if they wish.

An LPA attorney cannot act until the power is registered with the Office of the Public Guardian (OPG) (unlike with an EPA this needs to take place prior to the donor becoming mentally incapable). The powers relating to property and affairs can apply regardless of the donor's state of mental capacity or they can be limited to applying only after the donor loses mental capacity. When the LPA is registered with the OPG, an independent third party needs to sign a certificate within each LPA form, stating the person granting the power fully understands the document and is not under any pressure to make an LPA.

What is an enduring power of attorney (EPA)?

An EPA could be made up to 30th September 2007 and can continue to be used after that date. It allows the attorney to make decisions about the donor's finances and property, but not their personal welfare.

The powers within the EPA can apply either only after the donor loses mental capacity or both before and after mental capacity is lost. EPAs only need to be registered with the OPG once the attorney believes the donor has begun to lose or has lost mental capacity. The attorney must notify the donor and at least three of the donor's closest relatives of the decision to register the EPA, as part of the registration procedure. Medical and other supporting evidence is only required if there are any objections to the registration. Failure to register the EPA after the donor loses mental capacity will result in any decisions the attorney makes being treated as invalid.

It is not possible to change an existing EPA into an LPA; instead a new LPA has to be drawn up and the EPA revoked.

When is an individual deemed to have lost mental capacity under the Mental Capacity Act 2005?

The legal definition of mental capacity states that an individual is deemed to be of sound mind and responsible for their actions unless there is positive evidence to the contrary, for example, an order under the Mental Health Act 1983. The Mental Capacity Act 2005 was introduced to protect individuals who cannot make decisions for themselves. It states that everyone should be treated as able to make their own decisions until it is shown that they can't. It also aims to enable individuals to make their own decisions for as long as they are capable of doing so. The capacity to make a decision is established at the time that the decision is made.

When determining whether someone has the mental capacity to make a decision the following should be considered. Can the individual:

- Understand the information given to them?
- Retain that information long enough to make a decision?
- Weigh up the information available to make a decision?
- Communicate their decision (by any available means)?

Failure of one or more of the above will typically mean that the individual lacks the mental capacity to make a suitable decision.

Can a donor delegate his trustee duties to an attorney?

Generally trustees are unable to delegate their duties as trustee. However, there are a couple of exceptions:

Powers of attorney (England and Wales) contd.

1. The Trustee Delegation Act 1999 introduced rules which would allow a trustee to delegate his duty as trustee using a power of attorney for a period not exceeding 12 months. This 12 month restriction however, does not apply where the trust involves land in which the donor has a beneficial interest.
2. The Enduring Power of Attorney Act 1985 previously allowed an attorney to carry out trustee duties on behalf of the donor. This ability to delegate was removed by the Trustee Delegation Act 1999 from 1st March 2000. Transitional rules apply to EPAs created before 1st March 2000:
 - EPAs created before 1st March 2000 and registered before 1st March 2001 can continue to delegate their duties
 - EPAs created before 1st March 2000 but not registered before 1st March 2001 cannot delegate

Can attorneys delegate powers?

The attorney must make decisions personally and cannot generally give someone else authority to carry out their duties, if however, the donor wants the attorney to be able to give authority to a specialist to make specific decisions, this must be clearly stated on the LPA document (for example appointing an investment manager to make particular investment decisions).

This applies to LPAs where there is a legal duty to follow the guidance of the Mental Capacity Act 2005 Code of Practice, however, it also remains good practice where enduring powers of attorney are in place. Many investment companies are insisting that express permission is obtained before acting regardless of the type of power of attorney. Where a registered POA does not contain this specific wording the investment company may insist that this is obtained through an amendment. This will involve the attorneys applying to the Court of Protection to add the express permission to the document.

Can attorneys make gifts for IHT planning?

Both EPAs and LPAs have limited powers to make gifts out of the donor's property, which is usually restricted to reasonable seasonal gifts and any donations to charity that the donor supported and does not extend to larger gifts, for example, for IHT planning.

If the attorney wishes to make larger more 'tax efficient' gifts, the attorney must make a formal application to the Court of Protection for a court order. If there are no objections to the

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application, the Court can make a decision without a formal hearing. If the attorney makes gifts without receiving authorisation, legally the gifts will be treated as void. This could have severe tax consequences on the death of the donor, because the gifts are likely to be included in the donor's estate and therefore subject to IHT. This was illustrated in the case of *Brown Shipley Trust Co. (Jersey) Ltd v Holland (2004)*, where the attorney transferred significant assets belonging to his mother (the donor) under trust, without obtaining prior consent of the Court of Protection. The transfer of these assets under trust was held to be void by the court and so the assets still formed part of the donor's estate for IHT purposes. Of course if the donor is still mentally capable, they can make gifts for tax planning purposes themselves, with no restrictions because they can act without the attorney's involvement.

Who can act for an individual who has lost mental capacity but has not completed an enduring or lasting power of attorney?

An individual can only complete an LPA while they are of sound mind. Where an individual has lost mental capacity without having completed an EPA or LPA, the Court of Protection will appoint a deputy to look after the individual's financial affairs. Any receivers appointed by the Court of Protection to look after an individual's affairs prior to 1st October 2007 are also treated as deputies. The deputy can be a relative, friend or a professional such as a solicitor.

In order to be appointed the proposed deputy will need to demonstrate their suitability to the Court of Protection and show that they are willing and able to devote the necessary time to looking after the financial affairs of the individual on a regular basis. The Court of Protection will be specific in what powers are granted to the deputy. These powers are often more limited than would typically be available had the individual created a power of attorney.

For more information call us on 01536 512724

Springboard Mortgage Update

One of the biggest mortgage providers have announced a significant improvement to its Family Springboard Mortgage.

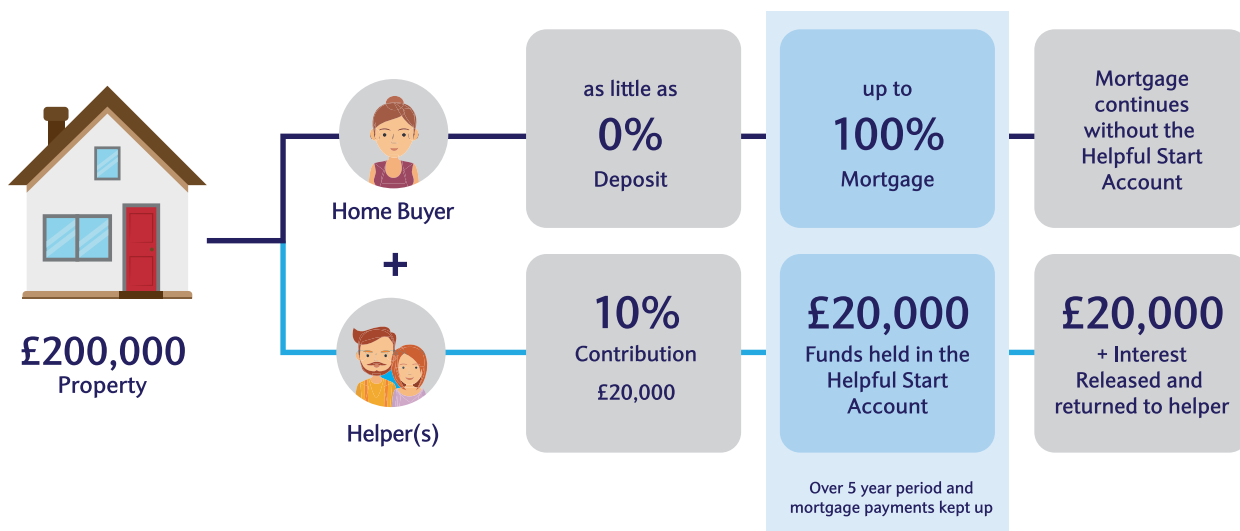
The new changes to the product, that came into effect on June 24th, extend the fixed rate period from three to five years, with the term extending from 25 to 35 years. This means that in addition to first time buyers no longer needing to provide a deposit themselves – (the bank requires a 10% contribution from a relative, family friend or guardian) - they will now also be able to borrow a larger sum due to the extended term.

Recent research conducted by mortgage providers has shown that many first time buyers borrowing

from parents view the money for a deposit as a 'gift' that doesn't need to be paid back, therefore placing a significant strain on the bank of Mum and Dad.

The Family Springboard mortgage has been specifically designed to ensure people who have helped out loved ones, will receive their deposit with interest at the end of the five-year fixed-rate period.

The 10% contribution is placed in a deposit account earning interest for the 5 year fixed period. At the end of the 5 year fixed period the mortgage could be transferred to a traditional product allowing the 10% contribution plus interest to be returned to the original Helper(s).



Spouses unnecessarily paying tax on inherited ISAs

Data shows that six out of seven bereaved partners could be paying tax unnecessarily on ISA savings they inherit.

Since April 2015, bereaved spouses or civil partners have been entitled to an extra ISA allowance. This is achieved by what's called an Additional Permitted Subscription (APS). If the investor died before 6 April 2018, the APS is equal to the value of the ISA on the date of death. If the investor died on or after 6 April 2018, their ISA will become a continuing ISA. In this case, the APS is equal to the higher value of the ISA on the date of the investor's death,



or the value of the ISA on the date it stops being a continuing ISA (completion of estate administration / third anniversary of date of death / all funds withdrawn). The surviving spouse therefore has the option of having the higher APS value.

Using your APS

You can use the allowance in one go or as separate lump sums. However, time limits do apply.

Pensions: Tapered Annual Allowance Breaches Double

For most people, the Annual Allowance for pension contributions on which tax relief is available is £40,000. However, for those with an annual income of more than £150,000 this figure is tapered.

The taper means that for high income individuals their annual allowance is reduced by £1 for every £2 of adjusted income above £150,000 to a minimum allowance of £10,000. Those affected can choose to reduce the pension contributions made by them or their employers, or face paying an annual charge.

In the 2015-16 tax year, 8,890 individuals reported breaching the allowance and paid £19,933 in average excess. By the following year, this figure had doubled to 18,930 reported cases paying an average charge of £29,6359.

The application of the taper rules can be complex, so it pays to take advice.



Flexible bond helps micro-firm founder maximise excess cash

By investing his £50,000 nest egg through an insurance bond wrapper, one of our clients can access his cash if he needs it whilst also benefiting from tax referral.

The Case

One of our clients is a contractor, providing training services through the limited company he owns. In recent years business has been particularly good.

Being cautious at heart, he has built up a nice nest egg in the company of around £50,000 by being prudent when extracting profits.

He lives a modest lifestyle and accordingly has been happy allowing this surplus cash balance to build up on his balance sheet. He is less happy, however, with the bank interest received on his business deposit account interest, which he refers to as 'underwhelming'.

He explained to us that he was looking to invest the surplus cash with the prospect of obtaining a better return. He has no immediate plans for those funds. But things can change and they could well be required at relatively short notice for business purposes.

The Recommendation

We took our clients concerns on board and identified a fund offering the prospect of smoothed returns, which is available through an insurance bond wrapper. There are no surrender penalties and, although the bond is seen as a medium-to-long-term investment, our client can access it fully or partially rather than having to leave it invested for a fixed term.

His company is the owner and our client is the life assured.

For corporation tax purposes, the chargeable event rules (i.e. 5% etc.) that apply to individuals and trustees are irrelevant. Instead the corporation tax treatment follows from, and depends upon, the accounting treatment.

Micro Management

Our clients Accountant confirms his company is a 'micro-entity', meaning it enjoys less complicated accounting practices than larger companies.

This means the company can use 'historic cost' accounting so the bond remains on the balance sheet at its original cost rather than revalued annually. If the bond is growing, there will be no annual accounting gain, meaning there is no taxable gain since the tax treatment follows the accounting treatment. Therefore, the company, just like an individual, obtains tax deferral.

We explained there will be no annual tax charge while his company holds the bond.

While corporation tax rates remain lower than 20%, there will be no tax to pay on future surrender gains as the basic-rate credit will more than offset the corporation tax liability.

Our client was happy with the simplicity of this solution. He recognises the combination of an investment bond offering an appropriate underlying fund choice is a more compelling proposition than surplus cash sitting on deposit.

State Pension increasing, or not!

The full state pension amount increases each year, under the triple lock guarantee. This means that its rise per year depends on which is the greatest of 2.5%, the percentage growth in prices in the UK as measured by the Consumer Prices Index (CPI), or the average percentage growth in wages in Great Britain. For those with a protected payment, the increase each year is in line with the CPI. The triple lock guarantee is designed to ensure pensioners get significant increases in the state pension each year, allowing them to cope with a gradual increase in the cost of living.

It is possible to claim the new state pension overseas in most countries. That said, the annual increases will only be applied to the state pension

payments of pensioners living in certain countries.

Those who live abroad will only get the rise if they live in the EEA, Gibraltar, Switzerland, and certain countries that have a social security agreement with the UK.

The full list of these countries may be found on the government website, and includes Barbados, Israel, Turkey, and the USA.

While the UK has social security agreements with Canada and New Zealand, the government website states: "You cannot get a yearly increase in your UK State Pension if you live in either of those countries."

Wealth divide between the generations widens further

More evidence has emerged highlighting the difference in wealth between young and old in the UK.

It's also a welcome indication that employers acknowledge the benefits of retaining the skills of older employees within the workplace, though most employers can no longer force retirement. Analysis shows that one in five baby boomers are now millionaires, with their wealth nearly doubling over the last ten years. The total wealth owned by over 65s has grown from £2.4 trillion to £4.7 trillion in the decade between 2006 and 2016. In comparison, those aged between 25 and 54 saw their wealth increase by just 9% in real terms over the same period.



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FCA confirms increase to FOS award limit

The FCA has confirmed it is increasing the Financial Ombudsman Service's award limit.

The FCA is increasing the current FOS award limit to:

- £350K for complaints about acts or omissions by firms which take place on or after 1 April 2019
- £160K for complaints about acts or omissions by firms which take place before 1 April 2019 and which are referred to the FOS on or after 1 April 2019.

The FCA has also confirmed:

- From 1 April 2019 onwards, both of the award limits will be automatically adjusted each year in line with inflation, using the Consumer Prices Index for the preceding January.
- The award limit of £150K will continue to apply to any complaint referred to the FOS before 1 April 2019.

Staying out of the dog house

You may have seen articles in the financial press referring to 'dog' funds, and wondered what the term means. If so, don't be concerned, put simply, a 'dog' fund is one that is regarded as an under-performing fund.

Meaningful comparisons

All investment funds fall into sectors – for example, UK All Companies, Global Equity Income, Japan, UK Smaller Companies or Global Emerging Markets. By classifying funds under these headings, it makes it much easier to make meaningful comparisons. As well as being compared against each other, they can also be compared against the average performance for all the funds in that sector. If a fund is consistently 10% below the sector average, it can earn the 'dog' tag.

By keeping a close eye on the performance of your assets, under-performing funds can be quickly identified and monitored and if necessary, changes made to your portfolio.

The value of investments and income from them may go down. You may not get back the original amount invested.



If a fund is consistently 10% below the sector average, it can earn the 'dog' tag.

Women risk becoming pension poor on divorce

There are no hard and fast rules governing how assets should be divided when a couple divorces, although there is a broad starting point of 50:50. However, new research shows that women who divorce can often end up with less than half the property wealth of married couples and less than one third of the average pension wealth. The study showed that the average divorced woman over 50 has pension wealth of £131,000 compared with £454,000 for the average married couple.

Dividing pension assets

Many people think that on divorce a pension solely belongs to the party who is named on the policy, but that's not the case. A pension has to be considered along with other financial assets owned by the couple when reaching a financial settlement. Pension assets can be apportioned in various ways:

- offsetting the value of one spouse's fund by transferring a lump sum, or other assets, to the other spouse

- splitting the pension fund into two separate pensions
- arranging that when a pension comes to be paid, a portion goes to the other spouse.

Getting the right advice at the right time

The findings underline the need to get advice when considering how marital assets should be divided on divorce. A pension pot can often represent a substantial sum of money and needs to be considered alongside other major assets such as property.

Post-divorce, it makes sense to discuss your revised circumstances with us. You'll need to reconsider your financial goals, and review your mortgage, pension and investment plans, plus remake your Will. Reorganising your finances can represent a major step in moving forward to a new life.

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

Lite Relief

Bob was in trouble as he had forgotten their anniversary.

His partner was really angry and told him "Tomorrow morning, I expect to find a gift in the driveway that goes from 0 to 200 in 6 seconds AND IT BETTER BE THERE!"

The next morning Bob got up early and left for work.

When his partner woke up, she looked out the window and sure enough there was a box gift-wrapped in the middle of the driveway.

Confused, she ran out on to the driveway brought the box back in the house, opened it and found a brand new set of bathroom scales.

Bob has been missing since Friday.



Changes to the Team

We are delighted to inform you that we have a new member of the team – Debra Hance has joined the Administration team and has a background of working with mortgages, so we welcome Debra and say a temporary goodbye to Beth Etheridge who has just had a little boy Jaxon and is on maternity leave for a year – we all wish Beth and her family all the best.

There is a very easy way to return from a casino with a small fortune: go there with a large one.

Quotes of the week...

A father is someone who carries pictures in his wallet where his money used to be.

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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