Wise Words
the latest financial news from Aaron Tawny

New ISA allowances and the myths sometimes associated with them

Apart from Pensions, ISAs are one of the most tax efficient and flexible ways of saving and investing. ISAs can give you tax-free interest, tax- free dividends (except for the non-reclaimable 10% tax credit), tax-free capital gains and tax-free income. The new ISA limit for tax year 2013/14 is £11,520 (Cash ISA limit £5,760) per individual. The Junior ISA allowance has also increased to £3,720 for 2013/14.

If you are interested in utilising this year's ISA allowance please don't hesitate to get in touch as an unused ISA allowance cannot be carried forward to the next tax year. Please remember if you don't use it you will lose it.

There are a few myths surrounding this tax efficient wrapper as listed below:

ISAs are risky – FALSE: An ISA is not an investment, it is just a 'wrapper' in which money is kept to protect it from the taxman – other examples being SIPPs and other types of pensions. You should think of an ISA as a box that prevents the taxman being able to touch your investment returns. Any risk comes from the investments you have chosen to hold within the ISA, not from the ISA itself. Whatever assets you decide to invest in, an ISA should always be the first place any non-pensions savings to go.

The tax advantages of an ISA are not worth it – FALSE: Obviously a pound in one's pocket is much better than in the taxman's. For a £100 investment a basic rate taxpaying investor would save 20% on tax on any non-dividend income received (no saving on dividend income) plus on disposal 18% Capital Gains Tax (CGT) if gains exceeded CGT allowance.

Markets are volatile, so there is no point doing an ISA this year – FALSE: If Stocks and Shares ISAs appeal, but you are unsure where to put your money, then you should 'park' your cash and decide later where to invest it. That way, the ISA allowance is banked without anyone being forced into an immediate decision of where and when to actively invest the money.

Investing in an ISA negates the need to fill out a tax return – TRUE: Any tax savings happen automatically within the ISA and ISAs do not have to be recorded on a tax return. You do not even need to tell HM Revenue & Customs you have an ISA.

Investing in an ISA means the money is locked up – FALSE: There is no minimum term for which the investment must be made and the tax advantages start on day one when investing in an ISA. It is always possible to gain instant access to whole or part of the savings, subject to any specific restrictions that may be imposed on a particular ISA product.

It is best to do an ISA at the begining of the tax year – TRUE: The tax advantages of an ISA start the day the money is invested so by investing earlier in the tax year, you potentially gain more advantage. As soon as this year's allowance is invested, it will start to receive its tax boost but the longer the delay in investing throughout the tax year, the smaller the boost it will receive. By unnecessarily delaying an ISA investment, you are simply agreeing to give the Government some of your investment return over a number of months.

It is best to follow the crowd and jump on the band wagon – FALSE: Once a bandwagon is spotted it is often too late. Usually when there is a popular trend it means a bubble is forming and it is important to remember your own needs and individual circumstances are different. When will you need the money? How much investment risk are you willing to tolerate and what is your capacity for loss? How involved do you want to be in the investment?

If you have any questions about ISAs please don't hesitate to contact us

What goes down can come up !!!

Drawdown to Increase back to 120% of the GAD rates

In April 2011 the GAD (Government Actuary's Department) rate was reduced from 120% to 100% which had a dramatic effect on the retirement income available from Drawdown Pension Plans. However the good news is from 26th March 2013 the limit was increased back to 120% of the GAD rate, effectively allowing for a 20% increase in retirement income.

The individual increase is triggered by the review date, so we will be contacting all our clients who will benefit from the increase in GAD rates.

The Key Budget Points

- Income tax personal allowance to rise by £1,335 from April 2013 to £9,440 and will rise again to £10,000 from April 2014
- Additional rate of income tax will be cut from 50p to 45p from April 2013 (from 42.5% to 37.5% on dividends)
- Pensions lifetime allowance to reduce from £1.5m to £1.25m for 2014-15 and subsequent years
- Pensions annual allowance will reduce from £50,000 to £40,000 for 2014-15 and subsequent years
- Pensions - capped drawdown limit to increase from 100% to 120% of GAD
- Inheritance tax nil-rate band of £325,000 - current freeze until April 2015 extended until April 2018
- Life assurance - cap on premiums into qualifying policies will be £3,600 pa from 6 April 2013
- Life assurance - greater alignment on time apportionment relief between UK and non-UK policies
- Capital gains tax annual exempt amount to increase to £10,900 in April 2013, to £11,000 in April 2014 and £11,100 in April 2015
- Corporation tax (main rate) to reduce from April 2014 to 21%, with a further reduction to 20% from April 2015
- National Insurance Employment Allowance introduced from April 2014 - a £2,000 yearly allowance for businesses and charities to offset against their employer's National Insurance Contributions bill.

Warning:

if the taxman gets your bill wrong it's officially your fault

It's well worth you double-checking your tax code which tells you how much of your income will be tax-free or you may face being landed with shock bills that you may not be able to appeal against as sometimes the combination of letters and numbers can be wrong.

Mistakes typically occur when someone has several sources of income or where they have received a large one-off boost, such as a dividend payment, in the previous year.

This can leave someone paying too much or too little tax in future years. The problem is compounded because a rule that allows taxpayers to fight unfair bills is being quietly thrown out by HM Revenue & Customs.

Tax bosses want to overhaul a special concession used by hundreds of thousands of people each year to contest debts they believe have been caused by mistakes at HMRC.

The new rules make taxpayers themselves directly responsible for checking their code is correct and spotting mistakes. If they fail to do this, their appeal will not be upheld. This will make it all but impossible to claim, since the vast majority rely on their employer or pension provider to take care of tax matters.

Well worth checking.

The most momentous overhaul of the State Pension system in the last 50 years

Long awaited details of the new State Pension system designed to simplify the current complicated system have been unveiled. Listed below are the key points of the proposals:

Amount of Pension

From April 2016, a new single weekly flat rate of £144 (in today's money) for all pensioners reaching State Pension Age from April 2016 onwards (the actual figure will rise to take account of inflation) will replace the current system. The tiers of the graduated, SERPS, basic state and the state second pension will be merged into one, and the means testing complexity of Pensions Credit will be abolished. The single tier will increase in line with the average growth in earnings.

Qualification

To qualify for the full amount, individuals will require 35 qualifying years of national insurance contributions/credits (increased from the current level of 30 years). After 35 years, no further benefits will accrue. Importantly, nobody will be entitled to a penny until they've amassed at least 7 to 10 qualifying years. And those accruing fewer than 35 years but above the minimum number of qualifying years will receive a pro-rated amount.

The focus will be on individual qualification – being able to inherit or receive rights from a spouse or civil partner will cease. Deferral of the single-tier pension will be permitted in return for an increased weekly rate, but the ability to take the deferred payment as a lump sum will stop. There'll be a sharp cut-off point - the new pension won't be available to those 11 million people who have already reached their state pension age by April 2016.

Those who will particularly benefit will be women who have taken time off to care for children; low earners; and the self employed

The proposals also confirm that the state pension age will be increased from 66 to 67 between April 2026 and April 2028. Due to increasing longevity, the age will be reviewed every 5 years.

Contracting Out

Scrapping the state second pension signals an end to defined benefit (DB) contracting out. The downside is that 7 million members (figures issued in the White Paper) of DB schemes (most of these are in the public sector) will face a hike of 1.4% in their National Insurance (NI) contributions. Furthermore, employers sponsoring such schemes will pay an extra 3.4% NI, and this cost increase is likely to accelerate the closure of DB schemes.

Transitional Measures

Due to the inherent complexity of the current state system, transitional measures will address the issues of state pension benefits accrued prior to the implementation of the single tier pension.

These changes should be embraced positively as individuals will understand their state pension entitlement

Who will benefit

Knitting together the diverse components that make up state pension provision won't be straightforward – there'll undoubtedly be winners and losers. Those who will particularly benefit will be women who have taken time off to care for children; low earners; and the self employed who currently are entitled to only a full basic state pension (currently £110.15 a week). The new system will be detrimental to those older employees with long-term membership of SERPS/State Second Pension.

In Summary

Despite these new proposals having some flaws, these changes should be embraced positively as individuals will understand their state pension entitlement and will be in a far better position to prepare for their retirement and plug any shortfalls with private pension provision. At a time when auto-enrolment is being rolled out across the workforce, and individuals are being encouraged to make additional provision for their retirement, abolishing means testing creates far more of an incentive to save.

Stamp Duty Liabilities on a Mortgage balance - I don't believe it!

When working with clients to either add a name/ names to a property that is subject to a mortgage, we make them aware the transfer to the person or persons taking responsibility for the mortgage can be treated as being a monetary consideration. Therefore if the mortgage is above £125,000 stamp duty land tax may be payable on the mortgage balance not the property value. If the mortgage is below £125,000 then there shouldn't be a problem. The only way a "no monetary consideration" exemption can be claimed in such a situation is if the party making the transfer retains responsibility for the debt, not a likely situation unless perhaps it's a gift being made to a family member!

A transfer between spouses which is made via a court order in divorce proceedings, is however exempt. This also extends to a transfer carried out between a married couple, which governs the division of their property as part of their separation.

Stamp Duty Land Tax guidance can be found on the HMRC website.

Help is on hand for First Time Buyers and Home Movers

A common conundrum we are presented with is that many people we speak to have sufficient income to afford monthly repayments on a mortgage, but lack the all important deposit.

We can now offer a solution – the Family Springboard Mortgage.

The Family Springboard Mortgage comes in two parts. A borrower takes out a Family Springboard Mortgage, while a helper opens a Helpful Start Account. The helper then puts 10% of the house purchase price into a deposit account called the Helpful Start Account.

This means the borrower gets a 95% mortgage; and only requires a 5% deposit.

After three years, the helper gets their money back with interest as long as the repayments are kept up.

Key points:

- 3 yr fixed rate loan @ 4.69% - which is a brilliant rate for a 95% deal
- 1.5% above Base Rate on savings element
- Maximum term is 25 years
- Can't be used as part of the Newbuy scheme
- Helper is not a Guarantor and has no rights over the property
- Available to First Time Buyers and Home Movers

This could represent a great opportunity for both the borrower and helper, as rather than simply asking for a gift or loan, borrowers could now approach potential helpers and offer them an opportunity where they could get an attractive return on any surplus funds they have, and the helper gives their loved ones a boost at the same time.

The actual rate available will depend upon your circumstances. Ask for a personalised illustration.

Did you know Solar Panels may affect your ability to get a Mortgage or an Equity Release?

Homeowners who have signed up to solar panel deals may have difficulty taking out a new mortgage. Schemes where they rent out their roof by having solar panels installed for nothing, with the household benefiting from the energy produced. The solar energy company pockets the profit from any extra energy, which is sold back to the grid through so called feed-in tariffs. Most rent-a-roof companies keep ownership of the panels and tie householders into 25-year contracts. But problems can arise if the solar power company is not accredited by the Microgeneration Certification Scheme. In these circumstances, some home loan firms will refuse to grant a mortgage. Anyone wanting to rent their roof must get permission from their mortgage company first. The solar panel company must also meet the Council of Mortgage Lenders' requirements.

Farming & Inheritance Tax

Unlike other occupations, farmers are under an obligation to work up until two years prior to their death in order to ensure they qualify for 100% of 'their' IHT relief.

These rules really do mean an 80 year old who has made prudent IHT planning must continue to work otherwise their plans may be worthless. It is therefore essential that farmers receive legal and financial advice.

Different tax reliefs

Inheritance tax reliefs for farmers fall into two broad areas: Agricultural Property Relief (APR), which only covers the 'farming' element of the farm, including land, the farmhouse and buildings, and equipment used for farming; and Business Property Relief (BPR) which can cover other activity or potential activity, such as, say, a riding school or livery.

For example, a field that is used for arable farming which has development potential and has a market value of £90,000. The agricultural value of the land is say £10,000. In order to secure 100% relief, APR will need to be claimed on the agricultural value and, separately, BPR of £80,000 will need to be claimed against the development value.

APR has many caveats built into its rules to guarantee that land is used for farming, but the overriding rule is that the land must have been actively farmed by the current owner or the new owner (typically the children), particularly if it's a gift within seven years of death. The complexity of farming inheritance was highlighted in the McCall v HMRC [2009] case, where a grazing arrangement was in place that qualified the land for APR. The land also had a large development value (£5.8 million). However, to obtain inheritance tax relief on the development value, the land needed to qualify for BPR. While the grazing agreement meant the land qualified as agricultural use, it did not qualify for BPR as the courts decided that the land was held as an investment rather than a business. So, in short, a farm must be owned and actively farmed for the two years prior to death (or lifetime gift) by the farmer to qualify for 100% APR. The claim for BPR will need to be considered separately. This could include the likes of running an independent farm shop.

However, if the land is owned by the 'farmer' for seven years prior to death (or transfer) and let to someone throughout the seven year period, who uses it for agricultural purposes, the farmer may be able to claim 50% APR.

If you feel IHT may be a concern, please do not hesitate to contact us.

Why is the Public Service Pensions Bill being introduced?

The Public Service Pensions Bill will legislate for changes that aim to balance the cost risks more fairly between members and employers. New schemes will be implemented that offer a fairer distribution of benefits across scheme membership. The Bill's aim is to establish a common framework across the schemes.

What are the key things that the Bill will enact?

The main changes are:

- Retaining a defined benefit pension scheme but moving from final salary to career average (with the exception of those schemes that are already career average schemes).
- Removing a scheme specific normal pension age and linking normal pension ages to State pension age (except for firefighters, police and the armed forces, where normal pension age will be age 60, subject to regular reviews).
- Introducing an employer cost cap to ensure unforeseen changes in cost are controlled to protect the taxpayer.
- Those ten years from their normal pension age on 1 April 2012 will not see any change in when they can retire nor any decrease in pension they receive on retirement.

You can find copies of the announcements of each scheme design by visiting the relevant website.

- NHS Pension Scheme
- Teachers Pension Scheme
- Principal Civil Service Pension Scheme
- Firefighters' Pension Scheme
- Local Government Pension Scheme
- Armed Forces Pension Scheme
- Police Pension Scheme

Continued Overleaf

What are the main differences between a final salary and a career average pension scheme?

A final salary pension scheme uses the member's final pensionable earnings when calculating pension benefits while a career average pension scheme looks at earnings throughout the member's career. Both are defined benefit pension schemes.

When will the new schemes be in place?

Members will start earning benefits in the new scheme from April 2015 (2014 for the Local Government Pension Scheme).

Will employees have to work to their State Pension age?

Members will be able choose when they wish to retire. Pension benefits earned from April 2015 (2014 for the Local Government Pension Scheme) will be calculated on the assumption that the member works until their State Pension age; the pension will be adjusted if they retire before or after their scheme's normal pension age. Most schemes offer online calculators to help members work out how much pension benefits they might receive at different retirement ages.

Normal pension ages will be set at age 60 in the police, firefighters' and armed forces schemes, subject to regular review.

What will happen to the benefits members have earned up to the implementation of the new schemes?

The pension benefits members have already earned will be protected. At retirement, pension benefits will be worked out in two parts:

1. The benefits earned in the original scheme and;
2. The benefits earned after the proposed changes are introduced.

Members will keep all the pension benefits already earned for the years worked before April 2015 (2014 for the Local Government Pension Scheme):

- These benefits will be worked out in the same way as they are now;
- Members will be able to take them at the same normal pension age as now;
- Benefits earned in a final salary scheme will be based on the member's final pensionable earnings at the date they retire or leave the pension scheme (not the salary at the point they move to the new scheme).
- For current Local Government Pension Scheme members any remaining 'Rule of 85' protection will still apply. A leaflet has been produced by the Local Government Pension Scheme which gives more information: LGPS Rule of 85 protection leaflet

Members will be able choose when they wish to retire.

Why was the Local Government Pension Scheme subject to a separate process to the other public service schemes?

The Local Government Pension Scheme is different from other public service pension schemes in that it is a funded scheme where benefits are paid from the investments of contributions from members and employers. In recognition of this, the Government gave the Local Government Pension Scheme greater flexibility in how it achieves the cost savings sought.

What about increased member contribution rates?

Contribution increases are not legislated for in this Bill.

The Government announced at the 2010 Spending Review that it planned to increase contributions by an average of 3.2 percentage points over the three years up to 2015 saving £1.2bn in 2012-13, £2.3bn in 2013-14 and £2.8bn in 2014-15.

The Government will review the impact of the 2012-13 contribution increases, including opt-outs, before taking final decisions on how future increases will be delivered.

Have full valuations taken place?

Scheme valuations are undertaken every three or four years by qualified Actuaries. They establish the cost of the pension promises being made to the workforce and the contributions needed to meet those commitments.

A valuation of each scheme will take place before their implementation in 2015 (2014 for the Local Government Pension Scheme).

If you have any questions please don't hesitate to contact us on 01536 512724

Keeping the toys in the pram

Child Benefit will be gradually withdrawn where a claimant, or their partner, has ‘adjusted net income’ over £50,000 in the respective tax year. Partners include husband, wife or civil partner (unless separated) and those living together as if husband, wife or civil partner.

This will be done by imposing a Child Benefit Income Tax Charge of 1% on the total amount of Child Benefit being claimed, for every £100 of ‘adjusted net income’ the individual, or their partner, has above £50,000. Where ‘adjusted net income’ reaches £60,000 or more, the tax charge will be equal to 100% of the level of Child Benefit being claimed.

The partner with the higher income above £50,000 will be liable to pay the tax charge and this will be collected via self assessment. Child Benefit can continue to be paid to the claimant even if they, or their partner, are subject to the new tax charge. Alternatively the claimants can elect not to receive Child Benefit to avoid the tax charge, online via

www.hmrc.gov.uk/stopchbpayments

For tax year 2013/14 onwards, the full amount of Child Benefit paid in the tax year will be taxable.

Child Benefit is currently paid at the rate of £1,055.60 per year for the first child, with an additional £696.80 per year for the second and any subsequent children. For a family with three children the loss could be up to £2,449.20 per year.

As part of the overall financial planning service we are able play a key role in tax planning through the use of pension contributions. Depending on the level of a client’s adjusted net income and their ability to make such a payment, it may be appropriate to pay a personal contribution to a registered pension scheme to reduce ‘adjusted net income’ and retain an existing entitlement to Child Benefit. Alternatively salary sacrifice may be an appropriate method of achieving the same result, with a possible additional boost to pension savings from the employer’s National Insurance saving.

As part of the overall financial planning service we are able play a key role in tax planning through the use of pension contributions.

You will notice a change in Pension and Investment Projections

The range of projection rates will be cut from 5%, 7% and 9% to 2%, 5% and 8% to give clients a more realistic idea of potential returns. It is however important to remember that these are just projections; they will have no impact on what you will actually get back from your savings. The one thing we can guarantee is that whatever projection rates are used, they will be wrong, simply because they are only projections - reality will be different.”

As part of our ongoing review service we will look at your investments, how they have performed, how much you are investing and what it might grow to.

By doing this we can make sure they remain on track and avoid nasty surprises. There are, however, more often than not, at the review stage, nice surprises where investments are ahead of the game. For example at a recent review meeting where a client had invested via Aaron Tawny an approximate fund of £440,000, spread across several investment companies, after a year the initial investment had rose to £475 ,000.

Mind the gap!!

Within our day to day business we often hear the term 'Protection gap' and some of you may be familiar with the saying too, but what does it actually mean?

Whilst we see many people that have too much in the way of Life Insurance, we also see many people who are massively under insured and if anything was to happen to them or their loved ones, it would leave a large shortfall in meeting their commitments – 'the Protection Gap'.

Many of you will have basic Life Insurance and others may have Critical Illness cover, but not many of you will have an Income Protection policy. An Income Protection policy is designed to provide you with a replacement income if you are unable to work through accident or illness. The benefit is usually paid monthly and can be used to cover day to day living expenses such as mortgage and rent payments, food and utility bills etc.

This type of policy is very popular amongst our clients that live in rented accommodation, as it gives peace of mind that if anything should happen their rent will be covered, giving them one less thing to worry about.

If you're the sole carer and breadwinner, what happens to the family if you can't work?

The right protection for you depends on your personal situation

Independent Person
As an independent individual with no children, you might think that you don't need protection, but who would look after you financially, if you were unable to work due to sickness or disability?

Mums
How would the family keep going if you were too ill to run the household? Whilst mums may not get paid an explicit wage for the vital job they do, if they were unable to do it, it could have dire financial consequences as things such as child care may need to be paid for.

Single Parents
If you're the sole carer and breadwinner, what happens to the family if you can't work?

Main breadwinner
Even if you do have life cover in place and you sadly became too ill to work, how would your family cope?

Contact us on 01536 512724 for any further information

Enhanced Annuities at a turning point?

The use of individualised underwriting based on health and lifestyle related factors is gaining further traction as we work with retirees who quite rightly strive to make the most of whatever pension savings they may have.

By helping clients navigate the market, enabling them to find the most suitable form of retirement income solution and the best annuity rates available, if applicable.

Putting our clients at the heart of the service we provide, we have two important must do's as we look at all the options available for them. The first is to collect detailed health and lifestyle information. The second is to engage with a number of enhanced annuity providers so we can be confident of offering the "best of breed options" to all our clients.

March saw the introduction of the Association of British Insurers new code of conduct which in a nutshell forces pension providers to filter for heath issues before selling an annuity to their existing clients. Also make clients aware they have an Open Market Option, which enables them to purchase an annuity from another provider, which may give a greater source of income. As well, the pension providers have to clearly show how their customers can gain sources of advice similar to the service we currently offer at Aaron Tawny to all our clients.

Basically the aim of this new code of conduct is to stop thousands of people each year missing out on the best deals by staying with their existing pension provider.

Keeping it lite!!! - Wisdom comes with age...

A group of guys were on a bike tour. No one wanted to room with Mick, because he snored so badly. They decided it wasn't fair to make one of them stay with him the whole time, so they voted to take turns.

The first guy slept with Mick and comes to breakfast the next morning with his hair a mess and his eyes all bloodshot.

They said, "Man, what happened to you? He said, "Mick snored so loudly, I just sat up and watched him all night."

The next night it was a different guy's turn.. In the morning, same thing, hair all standing up, eyes all bloodshot.

They said, "Man, what happened to you? You look awful! He said, 'Man, that Mick shakes the roof with his snoring. I watched him all night."

The third night was Bill's turn. He was a tanned, older biker, a man's man...The next morning he came to breakfast bright-eyed and bushy-tailed.

"Good morning!" he said. They couldn't believe it.. They said, "Man, what happened?" He said, "Well, we got ready for bed. I went and tucked Mick into bed, patted him on the derriere, and kissed him good night on the lips...

Mick sat up and watched me all night."

With age comes wisdom!!!

Investing in cash can be a guaranteed loss?

Choosing where to invest your hard earned money is never easy. Especially when you combine the negative impact the recent financial crisis has had on jobs and growth, with volatile stock markets, falling yields on fixed interest investments and record low interest rates. Making an investment decision has never been more difficult. More importantly is the real rate of return you can make on your investment after taking inflation into consideration. If you're looking for a secure investment to guarantee either your income or capital which also offers the potential for your investment to grow, then please get in touch as we have several options available that may suit your needs.

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

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

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To detach please cut along dotted line

If you would like more information on any of the following areas, please tick the relevant section, fill in your details and send this back to us at:

Aaron Tawny Mortgages Ltd. 6 Market Place, Kettering, Northants, NN16 0AL

- ☐ ISAs
- ☐ Drawdown to Increase
- ☐ Overhaul of State Pension
- ☐ Farming & IHT
- ☐ Child Benefit Changes
- ☐ Enahanced Annuities
- ☐ Help for First Time Buyers
- ☐ Protection
- ☐ Budget

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