# Wise Words

the latest financial news from Aaron Tawny

## Workplace Pensions - What's occurring?

To help all of us to save for our retirement, Automatic Enrolment has been introduced by the Government and is being rolled out throughout the UK. This means employers are enrolling their employees into a Workplace Pension as an easy way to help them start saving for the future.

### When will this happen?

Some of you will be aware it started on the 1st October 2012. The Auto Enrolment staging date which is specific to the individual employer, is based on employee numbers from PAYE records as at 1st April 2012. All eligible employees have to be auto enrolled into a Workplace Pension on the employers staging date. The Pension Regulator will continue to write to all employers notifying them 12 months before their staging date.

### Who is going to be automatically enrolled?

All employers have to automatically enrol employees into a Workplace Pension, if they meet the following criteria :

- Aged at least 22, but are under State Pension Age
- Earning more than £10,000 a year (£833 a month or £192 a week)
- Not already an active member of a qualifying Workplace Pension scheme
- Working, or usually working, in the UK.

If the employee doesn't meet this criteria on the staging date, but meets them at a later date, the company will have to automatically enrol them into a Workplace Pension then.

### Who will contribute into the Pension?

Once the employee is automatically enrolled on the staging date, they will make contributions towards the pension pot, which will be deducted from their wages. They will normally receive tax relief on these contributions. The employer will also contribute into the pension pot.

### How are contributions calculated?

Within Auto Enrolment regulations, the Government has set the minimum amounts that have to be contributed by the employee and employer.
The pension contributions will be based on a percentage of the employees 'Qualifying Earnings'.

### What is the minimum contribution that will have to be paid?

| Timing | Percentage of your qualifying earnings to be contributed by YOU including tax relief | Minimum percentage of your qualifying earnings to be contributed by your EMPLOYER | Minimum percentage of your qualifying earnings to be contributed in TOTAL |
|---|---|---|---|
| Until 30 Sept 2017 | 1% | 1% | 2% |
| 01 Oct 2017 – 30 Sept 2018 | 3% | 2% | 5% |
| 01 Oct 2018 onwards | 5% | 3% | 8% |

We are actively involved in advising employers how best to comply with the Auto Enrolment legislation in the most cost effective manner. If you require any further information on Auto Enrolment and when the legislation will affect you, please don't hesitate to contact us.

**It is important to remember that doing nothing is not an option as there are penalties for non-compliance.**

# Many higher rate Taxpayers do not claim their higher rate relief on Pension contributions

There are a large number of higher rate taxpayers making pension contributions and only receiving the 20% tax relief given at source as they are failing to reclaim the additional tax relief that they are entitled to. Members of Occupational Pension Schemes receive basic and higher rate tax relief automatically through their payroll. But members of Personal Pension Schemes, including Group Personal Pension Schemes (GPPs), Self-Invested Personal Pensions (SIPPs) and Stakeholder Pensions only receive basic rate 20% tax automatically. They need to claim the additional tax relief through their annual tax return or by informing HM Revenue & Customs (HMRC).

Higher rate taxpayers should check whether they are claiming the maximum they are entitled to and to reclaim any tax relief they have missed out on in the past.

Accurately recording and reporting pension contributions and gift aid payments to HMRC via the Self-Assessment return could mean that the actual rate of tax relief is greater than 40% if this results in the reduction or elimination of the High Income Child Benefit Charge or the reinstatement of or increase in personal allowance or tax credits. Bear in mind that if tax relief has not yet been reclaimed, there is a 4 year time limit from the end of the relevant tax year for a reclaim to be made.

Higher rate taxpayers should check whether they are claiming the maximum they are entitled to and to reclaim any tax relief they have missed out on in the past. Those who do not fill in tax returns can claim as far back as the 2010-11 tax year.

## You won't get your State Pension automatically - *you have to claim it!*

You should get a letter 4 months before you reach State Pension age, telling you what to do.

If you haven't got a letter 3 months before your State Pension age, then you will need to make contact.

There are 4 ways to claim:

- On line State Pension claims
- Over the phone
- Download the State Pension claim form and send it to your local Pension centre
- Claim from abroad including the Channel Islands

### State Pension Claim Line

Telephone: 0800 731 7898

Textphone: 0800 731 7339

Monday to Friday, 8am to 6pm (except public holidays)

### You want to keep working

You can claim your State Pension even if you carry on working. However, you have the option to defer, which can increase the amount you get.

# Government to cap Payday Loan costs

The Chancellor of the Exchequer has announced that the Government will legislate to introduce a cap on the cost of payday loans. The cap will be formally established through amendments to the Banking Reform Bill, which is currently going through Parliament.

The announcement builds on the steps that the Government has already taken to help consumers. It has created a new regulator, the Financial Conduct Authority (FCA), with much stronger powers to protect consumers in financial services, and has given the FCA powers to cap the cost of payday loans. This amendment will put a duty on the FCA to use those powers to impose a cap.

**The FCA will have much stronger powers to protect consumers in financial services and to cap the cost of payday loans.**

The Government has always kept the case for a cap under review, as the market has evolved. With growing evidence in support of a cap and emerging lessons from other countries - especially the cap on costs introduced in Australia this year - the Government believes it is right to use the opportunity of this legislation for Parliament to be clear on its intention.

The Government has discussed and agreed this with the FCA. To ensure that there is an evidence-based approach to designing the cap, the Government is asking the FCA, as regulator, to use its existing planned work to report on its proposed approach.

Meanwhile, payday lenders are already on notice following the announcement by the FCA of tough new rules they will have to meet next year.

## Capital Gains Tax (CGT) Private Residence Relief disallowed where property purchased, with a view to profit

There has been a recent court case (Paul Gibson v HMRC (2013) which confirms that Principal Private Residence relief will not be allowed if a property is purchased for the purpose of selling it on for a profit (s224(3) Taxation of Chargeable Gains Act 1992).

In this case, Mr Gibson sold a house which he had demolished and rebuilt and then lived in as his main residence for four months.

HMRC refused CGT relief on the sale as they deemed that the house had been acquired wholly or partly for the purpose of realising a gain.

The First Tier Tax Tribunal did not accept that Mr Gibson had ever intended to occupy the property permanently despite his claims to the contrary.

# Government Backed Help to Buy Mortgages

More than 17,000 households bought homes under the Government's Help to Buy scheme in its first nine months. They also showed that 88% of the 17,395 were first-time buyers.

We have had 17 enquiries and 6 successful completions, so it seems to be working. If you are interested and want to know more, please give us a call as this is available to First Time Buyers and Home Movers with only a 5% deposit required.

## Good News - Arrears are Down!

**New figures from the Bank of England and the Financial Conduct Authority reveal that the number of households facing mortgage arrears has fallen to a six-year low in the final three months of last year. The total number of homes behind on repayments was at 264,862 in the quarter, down by 5.3% on a year before. The data also showed there were 29,208 new arrears cases, a six year low and 3% fewer than a year before. The number of repossessions also fell by 21% to 6,137. The Bank's figures also showed the gross mortgage amounts advanced were at their highest level since 2008.**

## Launch of new Website - take a peek!

Well, you will be pleased to hear that we have been busy updating our website. We felt we needed to optimise our website for mobile and tablet users, which are becoming increasingly popular in many households.

It is not only for this reason, we decided we needed a more fresher, brighter and modern theme, which we feel we have managed to pull together with a fair amount of help from professionals, as website designers we are not!

If you would like to see our team, understand a little more about what we can do, then please feel free to cast your eye over **www.atawny.co.uk**

Your opinions, (obviously only agreeable ones;-) on our site, would be gratefully received.

Our site will also have a blog facility, where we shall look forward to sharing with you informative and educational articles.

# Establishing a new Small Self-administered Scheme (SSAS)

*There are many good reasons to establish a SSAS for a small business, and one of them is its ability to provide a 'Loan back' to the employer, at a rate of just 1% above base rate...yes, currently that's just 1.5%.*

## SSAS Loan backs - the basics

There are five basic rules for SSAS Loan backs, which are as follows:

1. The maximum loan is 50% of the SSAS nett asset value
2. Loan terms can't exceed 5 years
3. Loan must be repaid by equal capital & interest payments
4. The loan must be secured by a 1st legal charge
5. The interest rate must be at least bank base rate plus 1%.

## Security - what's acceptable?

We're regularly asked what assets are acceptable as security for the loan.

Generally commercial property is used but this isn't always possible where a bank has first charge over the property or where the company does not own any property.

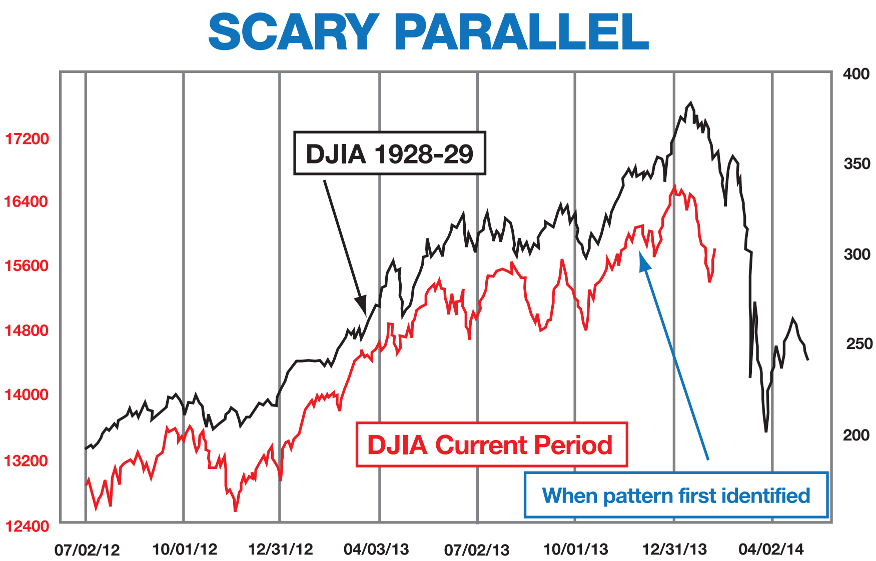
In theory, as long as an asset receives an independent valuation at least equal to the loan plus interest, any asset can be used. However, it is worth considering the implications of using an asset which is deemed "taxable property" (such as residential property or tangible moveable property) should the borrower default and the security be called in.

If this may be of interest and you want to set the ball rolling, simply give us a call.

# 1929 Market Chart Gains Traction

Look at the scary parallels between the current market conditions and what happened in the run up to the stock market crash of 1929.

I guess most conversations this year have generally been around the positive gains from the stock market over the past few years. This optimism has probably been fuelled also by the press and news coverage suggesting things are on the up. However, this also means that any warnings / concerns that are being aired can tend to be ignored.




Source: McClellan Market Report, based on pattern discovered by Tom DeMark

This may well be the better time to secure some or all of the gains to your pension and investments. Not a bad idea to ensure that today's value is their new lowest possible value and be protected from the next, inevitable market correction. There are lots of options to ensure your fund growth is protected.

Please do not hesitate to contact us, as always, should you wish to discuss the options further and how we can provide the certainty you may be looking for.

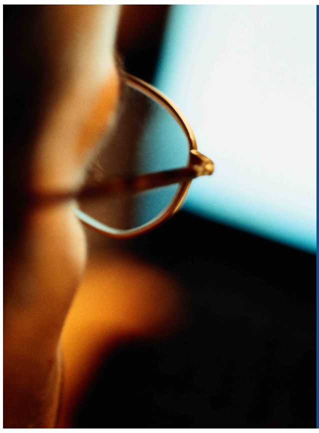
# Budget 2014 - Changes Ahead!

## It's a NISA ISA would you say?

From 1st July 2014 ISAs will be reformed into a simpler product, the 'New ISA' (NISA), and all existing ISAs will become NISAs. From that date the overall annual subscription limit for these accounts will be increased from £11,880 to £15,000 for 2014/15. For the first time, ISA savers will be able to subscribe this full amount to a Cash NISA (currently only 50% of the overall ISA limit can be saved in cash). Investors are able to open one Cash NISA and one Stocks and Shares NISA each tax-year. However, once open, the Cash or Stocks and Shares NISA can be transferred between providers unlimited times.

Under the NISA, investors will also have new rights to transfer their investments from a Stocks and Shares to a cash account (currently only the opposite is possible). There will be consequential changes to the rules on the investments that can be held in a NISA, so that a wider range of securities (including certain retail bonds with less than five years before maturity) can be invested. In addition, Core Capital Deferred Shares issued by Building Societies will become eligible to be held in a NISA, Junior ISA or Child Trust Fund (CTF).

Between 6th April and 1st July 2014, the total amount that can be paid into a Cash ISA is £5,940 and the combined amount paid into Cash and Stocks and Shares ISAs must not exceed £11,880. From 1st July 2014, existing ISAs will automatically become NISAs, with a higher limit and more flexibility. Thereafter an investor can add further money to either their Cash or Stocks and Shares NISA, up to the new £15,000 limit. From 1st July 2014, any money held in a Stocks and Shares NISA can be transferred to a Cash NISA.

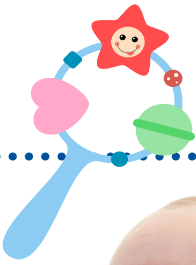


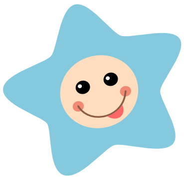
Under the NISA, investors will also have new rights to transfer their investments from a Stocks and Shares to a Cash account - currently only the opposite is possible.

Different transfer rules will apply depending when funds were paid into the Stocks and Shares account. If money is invested between April and July 2014, this sum must be transferred as a whole. Other amounts from previous years may be transferred as a whole or in parts, if the provider permits.

## Child Trust Fund (CTF)/Junior ISA

The amount that can be subscribed to a child's Junior ISA or CTF in 2014/15 will also be increased to £4,000.





# Budget 2014 - Changes Ahead!

## Pensions

In the most fundamental change to how people can access their pension in nearly a century, the Chancellor has announced a number of changes to the Drawdown, Trivial Commutation and small pots limits. The intention is to make the tax system fairer by providing a greater number of people with flexibility to access their pension savings.

These changes will clearly offer increased flexibility and added opportunities for Defined Contribution Pension scheme members and will widen eligibility for trivial and small pension pot payments, as well as Flexible Drawdown.

The changes will make high quality financial advice more important than ever as greater choice in terms of retirement income and pension decumulation makes these decisions even more crucial. Just because a particular course of action has now become available to an individual, doesn't of course mean it's the most suitable for them.

For the majority of people the right choice for retirement is based on the individuals personal circumstances and most importantly their income need and advice that allows for flexibility without risk. Hopefully the changes will encourage new improved Annuity products, which can provide the foundation for retirement income requirements. Interestingly despite the changes announced, there has been no requirement to purchase an Annuity at any age, since 6th April 2011.

**The changes will make high quality financial advice more important than ever, as greater choice in terms of retirement income and pension decumulation makes these decisions even more crucial.**

Although some changes take place more or less immediately, the remainder won't take effect until April 2015 and a number of issues are being consulted on, so it is possible that changes will be made before they become law.

### Retirement Options

The following changes take effect from 27th March (which is the date that the Finance Bill 2014 is published):

The Minimum Income Requirement (MIR) for flexible Drawdown is reducing from £20,000 pa to £12,000pa - applies to all individuals who apply for flexible access to their Drawdown Pension on or after 27th March 2014.

Capped Drawdown maximum income is increasing to 150% from 120% - applies for all Drawdown pension years starting on or after 27th March 2014.

The triviality limit is increasing from £18,000 to £30,000 - applies to all commutation periods starting on or after 27th March 2014.

The maximum size of a small pension pot which can be taken as a lump sum (regardless of total pension wealth) is increasing from £2,000 to £10,000 and the number of personal pots that can be taken under these rules is increasing from two to three - applies to all payments made on or after 27th March 2014.

### Premium Bonds

Cap increasing from £30,000 to £40,000 in June, with a further increase to £50,000 planned.

# Budget 2014 - Changes Ahead!

# Taxation

## Starting Rate for Savings from 6th April 2015

From 6th April 2015 the starting rate of tax for savings income (such as Bank or Building Society interest) will be reduced from 10% to nil, and the maximum amount of taxable savings income that can be eligible for this starting rate will be increased from £2,880 to £5,000.

Savers will not be liable for tax on any interest they receive if their total taxable income for 2015/16 is less than £15,500.

One of the effects of this change, when combined with changes to the tax-free personal allowance, is that savers will not be liable for tax on any interest they receive if their total taxable income for 2015/16 is less than £15,500. This figure will be £15,660 for people born before 6th April 1938. It may also be higher for people entitled to the Married Couple's Allowance (for those born before 6th April 1935) and people entitled to the Blind Person's Allowance. In addition, a different figure may be relevant where married couples and civil partners transfer part of their personal allowance. Further details of how these will affect eligibility for the starting rate will be published nearer 6th April 2015, when this change comes into effect.

The eligibility rules for completing a form R85 will also change from 6th April 2015, to enable more savers to register to receive interest payments without tax deducted. Currently an R85 can be completed by a saver whose total taxable income for the tax year will be below their tax-free personal allowance. From 6th April 2015, a saver who is unlikely to be liable to tax on any of their savings income in the tax year can complete an R85 and register to receive interest without tax deducted – even if they pay tax on other (non-savings) income.

In practice, this means if a saver's total taxable income will be below the total of their tax-free personal allowance plus the £5,000 starting rate limit for savings, from 6th April 2015 they can register to have interest paid on their accounts without tax deducted, using form R85.

**Income Tax**

The Personal Allowance will increase to £10,500 in 2015/16 (it increases to £10,000 from 6th April 2014 as we already know).

The threshold for 40p income tax rises from £41,450 to £41,865 next month and by a further 1% to £42,285 in 2015/16.

# Equity Release gathering momentum?

Equity Release has been gathering momentum as figures from the Equity Release Council for the third quarter of 2013 have shown. According to the results, the total value of Equity Release plans agreed in the third quarter of 2013 reached £284.1m.

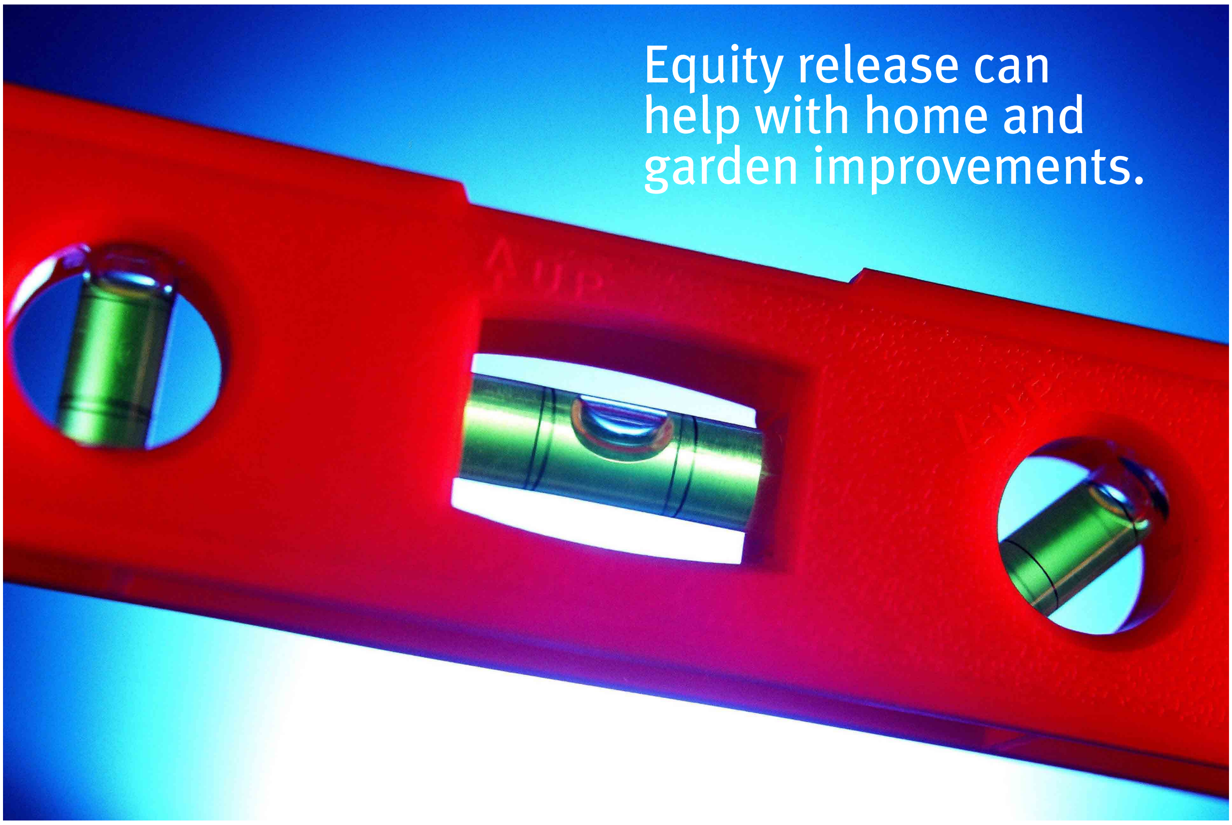
It has increased by 14% year-on-year and is up 15% compared to the previous quarter, representing "the greatest quarterly jump seen since 2004 (Q2-Q3 - 30.15% increase) and the biggest single quarter since Q3 2008".

The average amount released by customers has also reached its highest level at £57,107. The Council said, "This amount is the largest since quarterly records began in 2002, potentially sparked by the ever increasing cost of living, coupled with the dwindling saving pots of the over-55s."

Equity Release can sometimes be viewed as a product of last resort, but many also turn to it for positive reasons, such as helping family and friends, home and garden improvements, assistance with regular bills and paying loans/credit cards, funding care costs, home help, allowing you to stay put and for treating yourselves.

Releasing equity from your home, may deliver the additional income required to help you through the retirement years.  After all its your wealth!

Although sometimes viewed as a product of last resort, Equity Release has positive benefits too, such as helping family and friends, home and garden improvements, assistance with regular bills and paying loans/credit cards, funding care costs or home help.



# Keeping it Lite!

## You’ve got to love the Irish Mammy!

Young Paddy invited his mother for dinner. During the course of the meal his mother couldn’t help but notice how lovely Paddy’s flat mate, Joanne, was.

She had long been suspicious of a relationship between the two, and this only made her more curious.

Over the course of the evening, while watching the two interact, she started to wonder if there was more between young Paddy and his flat mate than met the eye.

Reading his mum’s thoughts, Paddy volunteered, ‘I know what you must be thinking, but I assure you, Joanne & I are just flat mates’.

About a week later, Joanne came to Paddy saying, ‘Ever since your mother came to dinner I’ve been unable to find the frying pan, you don’t suppose she took it do you?’

‘Well I doubt it, but I’ll e-mail her just to be sure’ said Paddy.

So he sat down and wrote:

DEAR MOTHER,

I’M NOT SAYING THAT YOU ‘DID’ TAKE THE FRYING PAN FROM MY HOUSE. I’M NOT SAYING THAT YOU ‘DID NOT’ TAKE THE FRYING PAN BUT THE FACT REMAINS THAT IT HAS BEEN MISSING EVER SINCE YOU WERE HERE FOR DINNER.

LOVE PADDY

Several days later, Paddy received an email from his mother which read;

DEAR SON,

I’M NOT SAYING THAT YOU ‘DO’ SLEEP WITH JOANNE, AND I’M NOT SAYING THAT YOU ‘DO NOT’ SLEEP WITH JOANNE,

BUT THE FACT REMAINS THAT IF SHE WAS SLEEPING IN HER OWN BED, SHE WOULD HAVE FOUND THE FRYING PAN BY NOW!

LOVE MAM

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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