2015

Wise Words

the latest financial news
from Aaron Tawny

Wishing you a very Merry Christmas and a Prosperous 2015

This year's charity nomination – Oxfam's Ebola Crisis Appeal – Oxfam are playing a vital role in preventing the disease – and helping ensure people get treatment, providing water for treatment and isolation centres, protective equipment and hygiene kits. We think you will agree, a good choice for 2014.

Can you unlock the equity in your home?

More than £800 billion worth of property is owned by the over 65's according to recent research. Given that Government figures show the average gross income for Pensioner households is £477 per week, tapping into the value of the home, could be a way of boosting the standard of living for some in retirement.

Is Equity Release safe?

Although the Equity Release market earned itself a poor reputation in the 1990's, providers have worked hard to put this behind them, including setting up the Equity Release Council to improve standards. Equity Release can be a really valuable option for some people in retirement. To give them the confidence to consider taking out a plan, the Equity Release Council have introduced a number of safeguards that provide protection.

These are:

- A "no Negative Equity Guarantee" therefore an individual/couple will never owe more than the value of their property
- The right to remain in the property, during an individual/couples lifetime
- A right to receive fair, simple and complete presentation of the plans considered, including the outline of the costs
- The right to move the plan to another property, without financial penalty
- The right to choose an independent solicitor to carry out the legal work.

In addition the Equity Release market is now regulated by the Financial Conduct Authority, so an individual has access to the Financial Ombudsman Service, if something goes wrong.

For further information on this topic please call us on 01536 512724

The Pension route to Buy-to-Let income

The relaxation of Pension rules - which allows retirees to take their whole Pension as cash - coupled with meteoric increases in house prices, has prompted a great deal of interest in using Pensions to buy property. Rental payments could provide a steady income, while rising property prices provide the potential for capital growth.

However, there are drawbacks to the idea, particularly when it comes to tax. Property is a big ticket item, and whilst you are allowed to take 25% out of your Pension fund tax-free, if you need to withdraw more than that you will have to pay income tax on it. If you buy a property to rent out and later sell it, you may also have to pay Capital Gains Tax on any profits made from the sale.

There could be additional pitfalls in taking more than the 25% tax-free sum. Withdrawing a large sum may push you into a higher income tax bracket and so a basic rate taxpayer could end up paying 40% or even 45% on the money withdrawn. Moving into a higher tax band can impact on the tax you'll pay on your other income and depending on the amounts, you could also lose your personal income tax allowance.

It also means an individual would be taking money out of a tax-efficient environment, paying income tax on it and then investing in a taxable asset. Also on death, the property could be subject to inheritance tax, whereas money in the pension fund would be free of inheritance tax. So purely from a tax perspective, it does not add up.

Also worth a consideration is in effect moving funds from a pension with diversified holdings across multiple stocks and asset classes to a single asset (one property) in a single asset class (residential property) may be deemed as being extremely risky.

Is it all bad?

If you can restrict yourself to only using tax-free cash to fund a deposit on a Buy-to-Let mortgage, the strategy may make more sense. This may be particularly so for those in good health who expect to live for many years and own other diversifying assets – so their overall wealth is not totally tied up in property.

For example, if an individual paid a £40,000 deposit on £100,000 property, borrowing the remaining £60,000 and the market rose by 10% their stake in the property will have risen to £50,000 giving them a 25% boost. Had they only invested £40,000 (i.e. without any borrowing) the same rise would have only boosted their money by £4,000 to £44,000 – a return of just 10%. So by utilising a mortgage, the return is magnified 2.5 times.

These returns may then be compounded over the years, making a Buy-to-Let property one of the few ways investors can grow their capital.

Property as Pension – the pros and the cons

Pros	Cons
Provides a regular income	Tax – Stamp Duty, Income Tax, Capital Gains Tax and Inheritance Tax could be payable
Offers the potential for capital growth	You will have periods when the property is untenanted, meaning you won't obtain rent
Is a tangible asset	House prices may fall
You may enjoy the challenge of managing a property	Managing the property could become a hassle

One challenge for older would-be-landlords has been the difficulty of finding lenders willing to offer mortgages to borrowers of retirement age. However, the landscape is changing and more lenders are now willing to lend to borrowers after their typical retirement age.

It is, however, worth remembering property prices can fall as well as rise (in the shorter term) and if interest rates start to rise, mortgage payments may become more expensive, therefore reducing the surplus income, i.e. the difference between mortgage payments and rental.

Aaron Tawny's Ongoing Advice/Review Service Levels

We thought we would take this opportunity to revisit our review procedure for those clients we haven't seen recently.

It is based on our experience over the last 15 years, which shows that as the value of clients assets increase, then so does the need for more frequent review discussions. Therefore our five review service levels reflect this approach and are initially based on the value of equity based investments and cash based investments, being within the scope of the review service you require.

Our five ongoing service levels are as follows:

Review Service Category	Value of Assets under Aaron Tawny	Frequency of face to face meetings
Maintenance	£5,000 - £15,000	4 years
Foundation	£15,001 - £40,000	3 years
Intermediate	£40,001 - £100,000	2 years
Comprehensive	£100,001 - £240,000	1 year
Comprehensive Plus	£240,000 plus	Full review every 12 months plus Interim review at 6 months

All service levels feature the following standard benefits when face to face reviews take place:

- File maintenance
- Capacity for loss reviewed
- Claims / Encashment handling
- Review and maintain asset allocation
- Client newsletter
- Portfolio valuation statements
- Mortgage check-up
- Revisit goals and objectives
- Protection policies reviewed
- Attitude to investment risk reviewed

Interim non face to face reviews for Maintenance, Foundation and Intermediate categories

These will take place between the agreed face to face review meeting times via the post, internet or telephone conversations and contain the following:

- Annual portfolio valuation statements
- Attitude towards investment risk, sent out for your completion
- Capacity for loss reviewed
- Review and maintain asset allocation

Investment risk questionnaire once received back reviewed against existing investments.

Ongoing Charges

Our ongoing charges for the review service is either simply an annual investment administration fee of 0.5% of the value of equity and cash based investments, agreed with you, as being within the scope of the advice we deliver. These are typically paid via the investments or alternatively they can be paid for with your cash reserves. They are designed to cover the costs for our ongoing advice / review service, which includes monitoring tax legislation, forward planning of investment and pensions.

For example £40,000 under Aaron Tawny advice would be subject to a 0.5% fee per annum, which equates to £200 per annum and would qualify for the Foundation review service. Additional review meetings can be arranged and we will confirm our charges for these in advance.

Accessibility for Clients

Our team is freely accessible within office hours, by telephone or email access to all clients with mortgages, insurance or investment arrangements administered by Aaron Tawny. We will be happy to answer any queries regarding existing arrangements and discuss how we can assist clients as new issues arise.

Arable land across Great Britain increased more than prime central London property

VS

Savills World Research indicates that the average capital growth for prime arable land across Great Britain increased by 9.8% during the first half of this year compared to prime central London residential property increase of 2.5% during the same period.

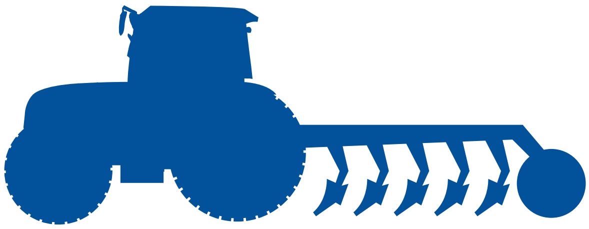
Despite the impressive growth this year, Savills forecasts the annual growth of farmland value to stay around 7% till 2018 as land is in fixed supply, "...they're not making any more of it". The other issue is that land in the UK is in competition for housing and infrastructure, along with other uses and only so much of land is viable farmland.

There has been a trend of more institutional investors flocking to farmland in search of regular returns and diversification away from traditional markets. Savills' analysis of farm transactions shows that there has been a reduction in selling activity from corporate and institutional land owners and an increase of buying.

However The Common Agriculture Policy (CAP) Reform on greening requirements may create issues for farms to remain compliant with crop diversification rules. Also the General Election coming up may have an effect on the tax policy of agricultural land as well.

Over the previous 10 years, English farmland capital growth has kept pace (208%), if not outperformed other asset classes, such as the FTSE 100 (51%), UK house prices (25%) and prime central London residential property (51%).

There has been a trend of more institutional investors flocking to farmland in search of regular returns and diversification away from traditional markets.



France to introduce 20% surcharge tax for owners of second homes in high-demand areas

The annual tax imposed on owners of second homes in France will rise by 20% in high-demand areas in January 2015, under proposals in the Governments latest supplementary budget.

The Taxe d'habitation applies only to unoccupied homes, which have not been rented out – i.e. residences kept by their owners for their own holidays. It applies to both French-resident and non-resident owners.

£15,000 a year in retirement

Those planning their retirement should try and plan for an income of at least £15,000 a year, according to an industry report. Once people reach that income level, they begin to feel more comfortable and more financially secure. But there is no happiness benefit above £40,000 a year, said the National Employment Savings Trust (NEST).

Bank of England (BoE) requests further powers to control the Mortgage Market

Last month, the Bank of England requested additional powers to cap debt-to-income and loan to value ratios for both Owner-Occupied and Buy-to-Let mortgages.

The Government is now consulting on the matter and will launch a separate consultation next year on the Banks request for powers to cap Buy-to-Let lending.

Last month, the BoE was given power to cap loan to income ratios – meaning that lenders must ensure no more than 15% of new lending is at more than 4.5 times income.

The Chancellor, George Osborne, has offered his backing to the Bank of England's requests for more power.

Speaking on the day of the consultation launch, he said: "Ensuring the stability of the UK housing market is a crucial part of this Government's long-term economic plan and I have been clear that the independent Bank of England should have the tools it needs to do this."

"That's why the Government is consulting on this issue, to ensure that we can bring forward appropriate legislation to give the Bank the powers it needs."

Above inflation rise for National Minimum Wage

New National Minimum Wage (NMW) rates came into force on 1st October, as shown below:

- a 19p (3%) increase in the adult rate (from £6.31 to £6.50 per hour)
- a 10p (2%) increase in the rate for 18 to 20-year-olds (from £5.03 to £5.13 per hour)
- a 7p (2%) increase in the rate for 16 to 17-year-olds (from £3.72 to £3.79 per hour)
- a 5p (2%) increase in the rate for apprentices (from £2.68 to £2.73 per hour)

Good news from the Autumn Statement

Clumsy Stamp Duty system abolished

The old and very clumsy "slab system" has been abolished, meaning that from now on, tax rates will only be paid on the marginal amount by which the sale price exceeds the threshold. (As with income tax, for example.)

The new stamp duty rates are as follows:

- **No stamp duty will be paid on the first £125,000 of a property**
- **2% will be paid on the portion up to £250,000**
- **5% is paid for the portion up to £925,000**
- **10% is paid on the portion up to £1.5m**
- **12% is paid on anything above that**

Therefore with the old way of charging if you were to purchase a property at £350,000 you would of paid £10,500, but with the new way of charging you now pay £7,500.

ISAs – No longer born free and taxed to death!

Another change in the Autumn Statement related to ISAs. From 3 December, if an ISA saver in a marriage or civil partnership dies, their spouse or civil partner will inherit the tax-free status. The savings limit rises to £15,240 during the coming year.

Pensions wealth - keeping it in the family

The latest amendments to the Taxation of Pensions Bill firmly position flexible Pensions as the estate planning vehicle of choice. Tax relief on contributions without the seven year wait for them to be outside the estate and tax-free investment returns were already good reasons to recommend Pension funding for client's and their families.

Now combine these with the new rules where a flexible Pension, such as a SIPP, allows Pension wealth to cascade down the generations within the Pension wrapper and it creates a truly tax-efficient wealth management and inheritance plan with few peers.

Our top tips for clients interested in passing on their accumulated Pension wealth:

1. Wealth transfer vehicle

Retaining Pension wealth within the pension fund and passing it down to future generations is an extremely tax efficient estate planning solution. It combines IHT free inheritance with tax-free investment returns and, potentially for some beneficiaries, tax free withdrawals.

The new rules will allow Pension members to nominate an individual to inherit the remaining pension fund as a 'nominee's flexi-access drawdown account'. This can be anyone at any age and is no longer restricted to our client's 'dependants'. Adult children who have long since flown the nest can now benefit and don't have to wait until 55 to access it.

If the original member dies after age 75, any withdrawals will be taxed at the beneficiary's marginal rate. But if death occurs before age 75, the nominated beneficiary has a pot of money they can access at any time completely tax free. In either case, the funds are outside the beneficiary's estate for IHT while they remain within the drawdown account and will continue to enjoy tax-free growth.

2. And it goes on and on...

The ability to pass on and on, Pension wealth doesn't stop there. The nominated beneficiary can nominate their own successor who will take over the drawdown fund, following their death.

This will allow accumulated Pension wealth to

Retaining Pension wealth within the pension fund and passing it down to future generations is an extremely tax efficient estate planning solution.

cascade down the generations, whilst continuing to enjoy the tax freedoms that the Pension wrapper will provide.

3. Tax rate determined by age at last death

Each time a Pension fund is inherited by a nominee or successor, the tax rate will be reset by the age at death of the last drawdown account holder.

For example Joe, a widower, dies age 82 and nominated his son John to receive his flexi-access drawdown fund. As Joe died after age 75, John is taxable at his marginal rate on any income withdrawals. John sadly dies age 70 and leaves the remaining fund to his daughter Jenny. Jenny can take withdrawals from her successor's drawdown account tax-free as John died before 75.

On death before 75, it's worth considering skipping a generation with at least some of the pot to ensure a tax-free inheritance for the kids. With a 94% chance that at least one of a 65 year old couple will live to at least 80, routing all the wealth via the surviving spouse means it's likely any subsequent inheritance to the kids will be taxable.

Continued overleaf

Pensions wealth - keeping it in the family - *continued*

4. Crystallised or Uncrystallised what's the difference?

Previously, those concerned with passing on their Pension wealth to future generations would delay crystallising benefits to avoid a potential 55% tax charge should they die before age 75. This is no longer the case as both crystallised and uncrystallised benefits will have the same death benefit options and tax charges.

5. The new 2 year rule

Death benefits will only be tax-free for deaths before age 75 if they distribute or the nominee flexi-access account is set up within two years of death.

Failure to designate the funds for drawdown within this two year window, will see benefits taxable as income.

6. Reviewing nominations

The new death benefit rules have changed the dynamics for those looking to pass on any remaining Pension fund on death.

A nomination doesn't have to be all or nothing. It's possible to nominate a number of different beneficiaries and to perhaps skip a generation with some of the fund.

7. Bypass Trust - when you still might want one

Each time a Pension fund is inherited it's the new owner that has control over the eventual destination of those funds. Not only can they nominate who benefits on their death but, under the new flexibility, they could withdraw the whole fund themselves leaving nothing left to pass on.

This may be an issue where there are children from previous marriages or concerns about a beneficiary's ability to manage their own financial affairs, either through a lack of capacity or their own reckless spending habits.

Where control is an issue, there are two potential solutions:

- **Nominate a split share of the Pension fund, for example, 50% to the spouse with the remaining 50% split equally among the children. This gives all parties their own fund which they can manage themselves and when it's gone, it's gone.**
- **Pay a lump sum death benefit to a Trust which will put the control into the hands of the member's chosen trustees. The trustees can determine when and how much to distribute to beneficiaries. Choosing this option means only a lump sum can be paid to the trustees - there's no option for them to be a drawdown holder.**

8. Should I take my tax-free cash?

Currently, some Pension savers delay taking their tax-free cash until 75 to escape the 55% tax charge on crystallised funds. Now with the 55% tax charge gone and equal treatment between uncrystallised and crystallised funds.

There's no longer any reason to delay taking tax-free cash if it can be gifted and outside the estate after seven years. But if the tax-free cash remains in the estate and suffers IHT at 40%, it may be better to leave the cash within the Pension fund if the beneficiary is able to draw on it at basic rate or less.

Christmas Brain Teaser - What happened to the missing pound?

Three men go into their local cafe to have a pre-Christmas full english breakfast.

When they have finished the waiter brings the bill over for £30. Each man pays £10 towards it.

As the waiter hands the money over, the owner of the cafe says as its Christmas and they are regular customers, charge them £25 and give them £5 back.

On the way to the table the waiter thinks that splitting the £5 between the 3 men isn't going to be easy, so decides to take £2 for himself and give the three men £1 each. Therefore each breakfast ends up costing £9.

As 3 x £9 = £27 and the waiter had £2.
£27+£2= £29
What happened to the missing £1?

How to cook a turkey

Step 1. Buy a turkey

Step 2. Have a glass of wine

Step 3. Stuff the turkey

Step 4. Have a glass of wine

Step 5. Put turkey in the oven

Step 6. Relax and have a glass of wine

Step 7. Turk the bastey

Step 8. Wine of glass another get

Step 9. Hunt for meat thermometer

Step 10. Glass yourself another pour of wine

Step 11. Bake the wine for 4 hours

Step 12. Take the oven out of the turkey

Step 13. Tet the sable

Step 14. Grab another wottle of bine

Step 15. Turk the carvey!

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

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

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

- [ ] Aaron Tawnys Ongoing Advice / Reviews
- [ ] Pensions
- [ ] Equity Release
- [ ] Buy to Let Mortgages

Name: .... Address: ....

....

Telephone: .... Email: ....