pannells Financial Planning Ltd

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talkingpoints

Welcome to the Spring edition of talkingpoints – the newsletter from Pannells Financial Planning Ltd (PFPL) – formerly PKF Financial Planning Ltd.

Shortly before going to press the Chancellor, George Osborne, delivered the final budget of the coalition government. There were few surprises and the overall message centred on the state of the economy, with growth figures up, employment high and the deficit reducing.

In this edition we provide a summary of the main budget highlights, with the caveat that as a general election is looming and with the opinion polls on the potential outcome being too close to call, nothing is set in stone. Should there be a new administration in May, it is likely that we will see another budget before the year is out, bringing further fiscal and legislative change.

Some of the main announcements in the budget concerned the New Individual Savings Accounts (NISAs). Like Pensions, the NISA regime has seen considerable change in recent months, and so as well as looking at the recent budgetary changes we will also be taking a closer look at:

- **Switching funds in a NISA**
- **Inheritability**

Finally, as the new pension flexibilities are now upon us, we remind you of warnings from The Pensions Regulator concerning scammers and the need to ensure that you are dealing with a reputable adviser who is authorised and regulated by the Financial Conduct Authority (FCA) before making any irreversible, and costly, decisions with your own pension funds.

If you would like advice or assistance with any area of your financial life we would be delighted to help.

We have a team of highly experienced and fully independent Financial Advisers situated throughout the UK advising both individuals and businesses in all areas of financial planning.

Please don't hesitate to contact us and we will explain the services we can offer and our charging structure.

All contact details are on the back page.

Budget 2015 - The Headlines

George Osborne's sixth budget delivered few surprises, but there was positive news for savers and some help for first time buyers. Here we highlight the main changes that may affect your own personal financial situation. Some of the changes will take effect immediately, some will be subject to change post election.

Pensions

Reduced Lifetime Allowance

The Lifetime Allowance (LTA) – which is the maximum amount that an individual can accumulate in their pension pot before tax charges are applied – will be reduced again from £1.25 million to £1 million from 6 April 2016 (subject to a future Finance Bill). This amount will be indexed in line with the consumer price index (CPI) from April 2018.

Transitional Protection will be available for those whose pension savings on 5th April 2016 are up to £1.25 million. If you think that you may be affected by the change please seek advice as this subject can be quite complex.

Those who already hold transitional protection, either from when the Lifetime Allowance was first introduced, or from previous reductions, will not be affected by this reduction of the Lifetime Allowance.

Access to Annuities

From April 2016 it is proposed that those pensioners who have an annuity which is in payment will be given the option to sell their annuity income (again subject to a future Finance Bill), allowing them to use the proceeds as they wish – either taking them as a lump sum or placing them into drawdown to use more gradually. The proceeds of the sale will be taxed at their marginal rate.

The actual annuity contract would continue for as long as the original owner is alive, with the payments going to the new purchaser.

The government is consulting on how the potential risks to any annuity holders who wish to take this course of action can be managed and how the process will actually work in practice.

New ISAs (NISAs)

Introducing the "Help to Buy" NISA

From Autumn 2015 a "Help to Buy" cash NISA is being introduced for first time buyers in the UK and will be available to anyone aged 16 or over.

You can save up to £200 a month, plus an initial deposit of £1,000 when the account is opened, and the government will boost your savings by 25% (up to a maximum of £3,000). You do not have to save the full £12,000, but must save at least £1,600 to be eligible under the scheme.

The new deposit accounts will be available for 4 years, but once opened there's no limit on how you long you can save for.

Accounts are limited to one per person rather than one per home – so those buying together can all receive a bonus.

The bonus will be available on home purchases of up to £450,000 in London and up to £250,000 outside London. The bonus is calculated and paid when the home is bought. Money can be withdrawn, but the bonus can only be used to purchase a home.

The "Help to Buy" NISA falls under the current NISA rules - meaning an account holder cannot open or pay into another cash NISA in the same tax year.

Increased flexibility for withdrawals

From Autumn 2015 it will be possible to take money out of a NISA and put it back into the same NISA without losing the tax benefits - as long as the repayment is made within the same financial year as the withdrawal.

Annual Allowance

The NISA allowance for the 2015-16 tax year will be £15,240 per person.

Increased investment options

There will be an expanded range of eligible investments for stocks and shares NISAs including listed bonds issued by a co-operative society and community benefit society and Small and Medium-Sized Enterprises (SME) securities issued by companies trading on a recognised stock exchange. The government will also explore further extending the list and will consult in summer 2015.

In addition to these budgetary changes, there have been other significant changes to the NISA regime in recent months, which we feel are worthy of mention:

Switching funds

In the past you could only switch money from a cash NISA into a stocks and shares NISA, but not the reverse. That has changed and you can now move from cash to stocks and shares and back again, in part or in full, as often as you like.

Despite the new flexibility which allows you to withdraw funds and repay them within one tax year, it is important to remember that for savings from previous tax years you will still need to switch your funds "within" the NISA wrapper as you will lose their tax advantaged status if they are withdrawn.

The provider to whom you want to transfer your funds will be able to provide information about how to do this.

Please note, the value of a stocks and shares NISA and any income from it can rise and fall and you may get back less than you invested.

Inheritability

Another updated feature of NISAs is that the value of the NISA wrapper can now be passed on to a spouse or civil partner on death.

It used to be the case that the tax advantages of NISAs ceased on death, but this was changed in the 2014 Autumn Statement.

With effect from 3 December 2014, when a NISA saver in a marriage or civil partnership dies, their partner will inherit their NISA tax advantages, in addition to their own annual allowance. They will be able to utilise this allowance from 6 April 2015.

In final rules published on 12th March 2015 HMRC also confirmed that the spouse or civil partner will have the option to change to a different type of NISA than their spouse (cash or stocks and shares) and change providers if they wish.

This does not mean that the NISA itself is transferred to the surviving spouse or civil partner on death, the treatment of the assets within the NISA remains unchanged and will be distributed in the usual way according to the will and the NISA value will still form part of the deceased estate for inheritance tax (IHT) purposes.

However, spouses will be given an additional, one-off NISA allowance equivalent to the value of the deceased's NISA savings (known as the additional permitted subscription) to enable them to move assets into an account in their own name.

Deaths should continue to be registered with the NISA provider as normal. From the date of death to the distribution of the value at probate, the NISA tax wrapper status is lost and becomes subject to income tax on any interest or dividend income generated or capital gains tax where gains are made.

The value of the NISA may increase or decrease from the date of death to the date of distribution, but the special one off NISA allowance will be for the value of the deceased's NISA at the date of death.

From 6 April 2015 the spouse can then make payments into their NISA as they see fit, either:

- with their own cash (whether inherited or not)
- with non-cash assets that were held in the deceased's NISA on the date of death and which have been distributed to the spouse

These rules do not apply to unmarried couples or single people and the additional permitted subscription cannot be used by anyone other than the spouse or registered civil partner.

Savings

- A personal savings allowance will be introduced from 6 April 2016. Basic Rate taxpayers will be able to earn up to £1,000 in savings income before paying tax and Higher Rate taxpayers will be able to earn £500 before paying tax. Additional-rate taxpayers will not benefit. This is subject to a future Finance Bill.
- The Premium Bond investment limit is to be increased to £50,000.
- In other savings news, prior to the budget the Chancellor announced that he was extending the deadline for over 65s to apply for The Pensioners Bond by three months, to May 2015.

Personal Taxation

- The personal tax allowance for 2015/16 will remain at £10,600. However, the Government plans to increase the allowance to £10,800 in 2016/17 and to £11,000 in 2017/18.
- Although the basic rate tax band will shrink to £31,785 in 2015/16, the Government has announced that it will rise to £31,900 in 2016/17 and then £32,300 in 2017/18.
- 2015/16 will be the first year that married couples or civil partners can transfer unused personal allowances between themselves. This relief is only available where both individuals are taxed at the basic rate (20%) and only £1,060 can be transferred – giving a maximum potential tax saving of £212.
- The Higher Rate tax band will climb to £43,300 in 2017/18.

Inheritance Tax (IHT) - Deeds of Variation

The Government announced that they intend to look at the use of Deeds of Variation for tax purposes. Using Deeds of Variation within two years of death enables the beneficiaries and personal representatives of a Will to jointly agree and distribute the assets in a different manner from that set out in the Will. The law currently allows this rearrangement of some legacies, even though it may lead to a reduction in the IHT due. As this option may be removed, it becomes more important than ever to make a will and ensure it is reviewed regularly to ensure that your assets go to your chosen beneficiaries and, importantly, remain tax efficient. The consultation document will be issued later this year.

Digital Tax Returns – Modernising the UK Tax System

Ambitious plans were set out to introduce digital tax accounts. The intention is that these accounts will be rolled out to five million small businesses and ten million individuals by early 2016, and to all such individuals by the end of the next parliament – removing the need to submit an annual tax return. The theory is that taxpayers will be able to view and manage their tax affairs online in one secure place. Information held by HMRC will be populated automatically into the digital accounts and it will be possible to feed data from business accounting software into the account.

Protect yourself from the pension scammers

As the new flexibilities for pensions are now upon us The Pensions Regulator has once again warned that pension scams are on the increase in the UK. Scammers may try to entice you with a 'free pension review', 'one-off investment opportunity' or 'legal loophole'.

You should be aware that if you're under age 55, you cannot release your pension unless you are in ill health. If you are over 55, you can release funds from your pension from April 2015, however you should be aware that you may still be at risk from scammers.

The pension scams booklet – which can be downloaded from the Pensions Advisory Service (TPAS) website (www.thepensionsregulator.gov.uk/pension-scams) - includes examples of real life pension scams.

If you think you're being targeted by a pension scam TPAS advises:

- **Never be rushed into making a decision.**
- **Before you sign anything, call TPAS on 0300 123 1047.**
- **If you have already accepted an offer report it to Action Fraud on 0300 123 2040.**
- **Before you agree to anything, make sure the adviser is authorised and regulated by the Financial Conduct Authority.**

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