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Financial Planning Ltd

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talkingpoints

Welcome to the latest edition of talkingpoints – our regular round up of taxation and legislative changes and how they could affect your personal finances.

The year is drawing to a close following an eventful twelve months for our political and financial systems and for the world at large.

The Chancellor has just delivered his third financial statement of the year – the Autumn Statement. Clearly "the gentleman was for turning" – at least where tax credits and police spending is concerned. Given the recent terror attacks, it is perhaps not surprising that he has promised to spend an extra £3.4 billion on the country's counter-terrorism efforts over the next five years.

It has been a turbulent year on the stock market – the FTSE 100 achieved the highest level ever in May, peaking at 7103, only to drop to below 6000 in September. At the time of going to press it is sitting at around 6300.

Bank of England Governor, Mark Carney, has told the Treasury Committee that UK interest rates are likely to remain low for some time – they have been held at 0.5% since March 2009 and most economists do not expect rates to rise until mid-2016 at the earliest. The Bank of England also say that inflation is unlikely to rise to 1% until the second half of next year, still a way off the 2% target.

As we have detailed in previous issues of Talking Points, we have also seen some major changes in financial legislation – including changes to our taxation system and significant pension reforms. We will continue to provide an overview of these changes and how they may affect you in future issues.

In this issue we will provide:

- **an overview of the headline news from the Autumn Statement, and**
- **details of the new State Pension scheme and the State Pension top-up scheme**

The whole area of pensions remains complex, and there are many issues that need to be considered to ensure that the right decisions are taken. As always, if you need advice or assistance with this or indeed any part of your financial planning we would be delighted to help.

Our experienced and fully independent Financial Advisers are 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.

In the meantime, we would like to take this opportunity to wish you a very Happy Christmas and a prosperous New Year!

The Autumn Statement

Perhaps not surprisingly there were fewer major changes in this, the final financial statement of the year. However, there are several noteworthy issues, which we cover below:

Help for home buyers

People who are struggling to save up for a house deposit will now be able to get a government loan under the Help to Buy equity loan scheme which has been extended to 2021. Those looking to buy in London will now be able to get a loan worth up to 40% of the property value.

The housing budget has been doubled to £2.3 billion – this will contribute to the building of 200,000 new starter homes that will be sold at a discount of 20% to first-time buyers. A relaxation of planning laws should help to build as many as 400,000 starter homes over the next four years.

Although not officially part of the Autumn Statement, we felt it was worth reminding you here that the Help to Buy ISA was launched on 1st December 2015 and a range of banks and building societies have now announced their interest rates. Anyone saving to buy their first home can save money into a Help to Buy ISA and the government will boost their savings by 25%. So, for every £200 you save, you will receive a government bonus of £50. The minimum bonus is £400, meaning that you will need to have saved at least £1,600 into your Help to Buy ISA before you can claim your bonus. The maximum government bonus you can receive is £3,000, for which you will need to have saved £12,000. You will be able to open a Help to Buy ISA until 30 November 2019 and you must claim your bonus by 1 December 2030.

Stamp Duty hit for second home owners and landlords

From April 2016 property investors will face an extra 3% stamp duty surcharge on the purchase of additional residential properties. This is designed to help level the playing field for first-time buyers and attempt to stop the rise of private landlords squeezing out younger buyers. The charge will raise almost £1 billion for the Treasury.

State Pension changes

The state pension age will increase in line with life expectancy in order to maintain a triple lock on the value of the pension. The triple lock ensures that the state pension rises each year by either; 2.5%, inflation or average earnings - whichever of the three is highest.

Next year pensioners will see a 2.9% rise in the basic state pension to match the rise in earnings – this will boost real incomes to their highest level in 15 years. The basic state pension will increase by £3.35 to £119.30 a week. The full rate for the new state pension is set at £155.65.

Pensioners who have permanently left the UK will lose their entitlement to pension credit.

Capital Gains Tax (CGT)

CGT on residential property is currently paid between 10 and 22 months after a property is sold. However, from April 2019, CGT must be paid within 30 days of a completed sale.

Savings

In a hit for savers, the ISA allowance has been frozen and the rate will stay at £15,240 next year (and the Junior ISA limit will remain at £4,080).

An about-turn on tax credits

Following a revolt by the House of Lords, the Chancellor has scrapped plans for £4.4 billion of cuts to tax credits.

Deeds of Variation

The Government has decided against further action into whether deeds of variation are being used to avoid tax. Deeds of variation allow a beneficiary of a will or an intestacy to redirect part or all of the estate to another person. If made within two years of death a deed of variation can result in a change to the amount of inheritance tax or capital gains tax due.

The Government says it will not limit the use of deeds of variation at this stage but will continue to monitor their use.

The New State Pension

The State Pension is changing on 6 April 2016. If you reach State Pension age on or after that date you will be entitled to the new State Pension.

Will the changes affect you?

1) Are you already getting a State Pension?

You will continue to receive your State Pension under the current rules. But you can top up your State Pension by up to £25 a week by either paying National Insurance (NI) contributions or using the new State Pension Top Up Scheme (details below).

2) Are you a woman born before 6 April 1953 or a man born before 6 April 1951?

Your State Pension will be paid under the current system. Even if you defer your State Pension to a date after 6 April 2016, it will still be calculated under the current system, and can be topped up by up to £25 a week (details below).

3) Are you a woman born on or after 6 April 1953 or a man born on or after 6 April 1951?

You will get the new State Pension. If you have already started to build up State Pension under the current system, this will be converted into an amount under the new State Pension.

If you haven't built up any State Pension by 6 April 2016, your State Pension will be calculated entirely under the new rules.

Key Changes

The earnings-related part of the current system for people who are employed, called the Additional State Pension, is being abolished.

The new State Pension will be based on your National Insurance (NI) record alone. To receive the maximum new State Pension, you will need 35 years of NI contributions.

From April 2016 the new State Pension will be £155.65 per week.

However, if you have been 'contracted out' of the state scheme at any time in your working life the amount you receive under the new state pension may be reduced. Calculating this is complicated, but you can find out more information at www.gov.uk.

How will the new State Pension be calculated?

Your NI record as at 6 April 2016 will be converted into a "starting amount" under the new State Pension. This won't be lower than the amount you would have under the current system.

- **If your starting amount is higher than the full new State Pension you will get the full new State Pension amount and you will also keep any amount above this as a protected payment which will increase by inflation. You won't be able to build up any more State Pension.**
- **If your starting amount is equal to the full new State Pension you will get the full new State Pension amount. You won't be able to build up any more State Pension.**
- **If your starting amount is lower than the full new State Pension you can continue to build up your State Pension to the full new State Pension amount, up until you reach State Pension age. You can do this even if you already have 35 years of NI contributions or credits but have a starting amount lower than the full new State Pension (this is more likely if you have been contracted out of Additional State Pension).**

Working out how much you will receive is straightforward if you are just starting work and haven't built up any State Pension.

- **To get the full amount, you will need to have 35 years of NI contributions or credits (known as qualifying years) during your working life. These don't have to be consecutive years.**
- **If you have less than 35 years of NI contributions or credits, you will get an amount based on the number of years you have paid or been credited with NI.**
- **If you have less than 10 years, you won't normally qualify for any State Pension.**

- **However, the 10 year minimum qualifying period does not apply to certain women who paid married women and widow's reduced-rate National Insurance contributions. See below.**
- **If you have gained qualifying years in the European Economic Area, Switzerland (or certain bilateral countries which have a social security agreement with the UK), these can be used towards achieving the minimum qualifying period; however, the actual UK State Pension award will normally be based on just the UK qualifying years.**

For example:

If you have 25 years of NI contributions by the time you reach State Pension Age you will receive 25/35ths of the full State Pension amount.

Other new rules which may affect you

- **If you are contracted out of the Additional State Pension, your NI contributions will rise from April 2016. That is because the Additional State Pension is ending and so it will no longer be possible to contract out of it.**
- **You will still be able to defer taking your State Pension. For each year you defer, you will get just under a 5.8% p.a. increase in your State Pension (compared to 10.4% p.a. under the current system). Please note that the increase is applied on a simple rather than compound interest basis. You will no longer be able to take the deferred amount as a lump sum.**

Getting a State Pension statement

You can request a State Pension statement to see how much State Pension you have built up so far.

You can apply online, by phone or by post. You will find details about how to do this at www.gov.uk.

- **If you are over 55 and due to get the new State Pension, your State Pension statement tells you how much your new State Pension will be worth based on your current National Insurance record.**
- **If you are under 55 the government is rolling out State Pension statements based on the new State Pension in waves, so for the time being your statement will show what you would receive under the current system.**
- **Have you paid married women's and widow's reduced rate NI contributions? The new State Pension is normally based on your own NI contributions alone, but you may be able to have your State Pension worked out using different rules that could give you a higher rate if you chose to pay married women and widow's reduced-rate NI contributions (sometimes called "the married woman's stamp").**

How can you top up your State Pension?

There are two ways you can top up your State Pension - the State Pension top up scheme (Class 3A NI contributions) or by paying Class 3 voluntary NI contributions.

State Pension Top Up Scheme (Class 3A National Insurance Contributions)

You can increase your State Pension and get a guaranteed extra income for life with the State Pension top up scheme. You must be entitled to State Pension and reach State Pension age before 6 April 2016 to be eligible for the scheme. Therefore, people claiming the new State Pension will not be entitled to State Pension top up. Use the scheme to increase your State Pension by between £1 and £25 per week if you are either:

- **A man born before 6 April 1951**
- **A woman born before 6 April 1953**

You will need to make a lump sum contribution between 12 October 2015 and 5 April 2017. Use the State Pension top up calculator at www.gov.uk to find out how much you will need to pay.

Class 3 Voluntary National Insurance Contributions

If you have a shortfall in your basic State Pension, making Class 3 National Insurance contributions is likely to be more beneficial than the State Pension top up. Class 3 National Insurance contributions allow people to fill gaps in their record to improve their basic State Pension entitlement. If you are interested in State Pension top up you should first consider Class 3 National Insurance contributions.

Before paying voluntary National Insurance contributions you should also consider the impact on any income related benefits you receive, such as Pension Credit.

As with all financial planning – maximising your State Pension can be a complex area. If you are unsure whether topping up your State Pension is worth doing, you should seek advice.

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