pannells
Financial Planning Ltd

January 2015 | Issue Two

talkingpoints

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

We received some very positive feedback following our first edition and are delighted to announce that the winner of our prize draw was Mr W Lockhart of Midlothian.

As we start the New Year, market analysts and forecasters are making many predictions about how the year may play out. We have a general election looming and the Bank of England seems unlikely to raise interest rates before the outcome is decided and fiscal policy agreed.

However, no matter what the forecasters say, a New Year is always a good time to review your personal finances, and with the changes announced in last year's Budget and Autumn Statement opening up new opportunities in the areas of pension funding, inheritance planning and the use of tax efficient savings, there has perhaps never been a better year to do so.

To highlight these changes we have made a review of the Autumn Statement, and specifically those areas that impact on your personal financial situation, the focus of this issue.

In particular:

- the taxation of pension benefits
- the abolition of the Pension Death Tax and the implications for inheritance planning
- a NISA (New Individual Savings Account) update
- Stamp Duty reforms

We will also be looking at

- the challenges facing mortgage seekers following the Mortgage Market Review

As always, we are here to help and have experienced Financial Consultants throughout the UK advising in all areas of financial planning. Please don't hesitate to contact us if you need assistance and we will explain the services we can offer and our charging structure. All contact details are on the back page.

Stop Press … NS&I released their 65+ Guaranteed Growth Bonds on 15th January 2015 – this is a limited edition offer suitable for anyone aged 65 or over wanting a fixed and guaranteed rate of interest. The 1 year bond pays 2.8% gross AER* and the 3 year bond 4.00% gross AER. The bonds are taxable (paid net of 20%). Minimum investment £500. For full details, terms and conditions, visit the NS&I website or contact 0500 007 007.

From everyone at PFPL may we wish you a very happy and prosperous 2015!

*AER (Annual Equivalent Rate) is a notional rate that illustrates what the annual rate of interest would be if the interest was compounded each time it was paid. Where interest is paid annually, the quoted rate and AER are the same.

The Autumn Statement

There was positive news for many in the Autumn Statement as the radical pension changes announced in April's Budget were confirmed. Freedom and choice were the buzzwords. Here we look at the major changes and how they may affect you.

Taxation of Pension Benefits

There were significant changes to the taxation of pension benefits for those in 'defined contribution' (DC) or 'money purchase' schemes.

From 6 April 2015, if you are 55 or over with untouched DC funds you will be able to take as much or as little as you like from your pension, either as a lump sum or as income. 25% of these funds will be tax free, with the remainder taxed at your marginal rate.

You will no longer have to buy an annuity if you don't want to, and you don't have to put the funds into drawdown.

At present there are two types of drawdown, 'capped' and 'flexible'.

If you are already in capped drawdown the current maximum income limit set by the Government will disappear.

If you are in flexible drawdown the guaranteed pension income requirement of £12,000 will be removed.

From April 2015 flexible drawdown will become 'flexi-access drawdown' and will become the norm for those in DC schemes who decide not to buy an annuity.

Already in capped drawdown?

From April 2015 you can either stay in capped drawdown or move to the new flexi access drawdown. However, you should be aware that such a transfer will trigger reduced annual allowance rules.

What is the reduced Annual Allowance?

At the moment you can get tax relief on up to 100% of your earnings up to the annual allowance of £40,000 each tax year, and can top this up with any unused allowance from the previous 3 tax years.

However, from 6th April 2015, a new 'money purchase annual allowance' (MPAA) has been introduced.

Broadly speaking, if you take income from the new flexi-access drawdown scheme whilst continuing to pay into your DC pension scheme, then any contributions over £10,000 will trigger a tax charge at your marginal rate for the tax year.

There will also be no carry forward option for any unused allowance.

For those in capped drawdown the current £40,000 annual allowance limit for contributions remains.

This is a clear 'call to action' for many, who will want to maximise pension funding before accessing the new flexibilities - but it is an area that requires careful handling to ensure opportunities aren't missed and ultimately funds are withdrawn in the most tax efficient manner.

Pension death benefits – tax breaks for beneficiaries

New freedoms were also confirmed surrounding the death benefits from direct contribution (DC) pension schemes, as the 55% death tax charge on pensions is set to be abolished.

Under the current rules if a member dies before age 75 their fund can be paid out either as a lump sum with no tax liability from uncrystallised funds (ie when the pension had not yet been accessed); or net of 55% tax if they were in drawdown.

From April 2015 the lump sum will be free of tax in both situations.

Additionally, as an alternative, income will be able to be drawn from the fund free of tax by the nominated beneficiaries and passed on in turn to anyone of any age that they wish to nominate; these beneficiaries will again be able to take a lump sum or income.

Currently, anyone who dies over the age of 75 can only pass on their pension tax free to a spouse or dependant under the age of 23.

From April 2015 if a person dies aged 75 or over, the person who receives the pension pot will only pay their marginal tax rate as they draw money from the pension. *(For 2015/16* only *non-drawdown lump sums will be taxed at a flat rate of 45%. Income tax will apply to death benefits from 2016/17 onwards.)* Funds that remain invested will continue to benefit from the potential for tax efficient growth.

Although the new rules come into force in April 2015, those who inherit pensions before that date can still benefit so long as payment is delayed until April 2015.

Any individual beneficiary of a flexible pension can choose to keep their inherited pension pot in the drawdown wrapper and decide when (or even if) they draw on it.

These changes are likely to place flexible pensions at the heart of inheritance planning going forward, opening up new opportunities for many to pass pension wealth tax efficiently through the generations.

How might these changes benefit you or your family?

If you already have sufficient income you may choose to leave your pension invested so that it can be passed down to your beneficiaries without tax or Inheritance Tax (IHT) implications.

If you are getting close to retirement or thinking of drawing from a pension pot in the near future you should consider using up any unused allowance from the previous three years to ensure that you benefit from the tax relief. Also consider how any funds you draw will impact on your overall income tax status – spreading the payments over a number of years may help to limit tax payable, depending on your individual circumstances.

For those still some way from retirement there has perhaps never been a better time to maximise your pension contributions – building your pension fund in the knowledge that you can draw on your savings without restriction from age 55 (rising to age 57 from 2028) and any unused savings can be passed on to your inheritors tax free on death before age 75.

Don't forget that you will receive tax relief on contributions, so a basic rate tax payer paying in £800 will actually be making a gross pension contribution of £1000 – and can subsequently take 25% of this tax free – with the balance taxed at your marginal rate.

If you need assistance in these or any other area of your retirement planning, please contact us and we will put you in touch with one of our local pension specialists.

Please note, the value of investments and any income from them can fall and you may get back less than you invested.

The value of tax benefits depends on individual circumstances and may change in future.

New Individual Savings Accounts (NISAs)

The annual ISA allowance is increasing from £15,000 to £15,240 in April 2015.

There was a surprise announcement for those who are married or in civil partnerships as with effect from 4th December 2014 you are now able to inherit your deceased partner's ISA funds and maintain the tax advantages of the ISA wrapper - previously the tax benefits ceased on death.

The surviving spouse will receive an additional one-off ISA allowance, equal to the total amount that the deceased held in their ISA at the date of death. This additional ISA allowance can be used from 6th April 2015.

Stamp Duty

On 4th December 2014 Stamp Duty Land Tax (SDLT) was changed dramatically, bringing welcome news to all but the highest value property purchasers – which HM Treasury say will benefit 98% of people who pay it.

Under the old rules SDLT was paid at a single, escalating, rate on the entire property price (for example if your property cost £185,000 you'd pay 1% Stamp Duty on the total amount – ie £1,850). Going forwards you will pay tax only on the part of your property which falls into each of the following tax bands:

Property Price	Tax Rate
£0 to £125,000	**No tax payable**
£125,001 to £250,000	**2% on portion falling into this bracket**
£250,001 to £925,000	**5% on portion falling into this bracket**
£925,001 to £1,500,000	**10% on portion falling into this bracket**
£1,500,001 upwards	**12% on portion falling into this bracket**

So, if you purchase a property for £185,000 there would be nothing to pay on the first £125,000 then 2% on the balance of £60,000 – totalling £1,200 – compared to the old rules this makes a saving of £650.

Spring Clean Your Mortgage Finances in 2015

For many, the start of a New Year signals a time to review existing mortgage arrangements and possibly:

- **move to a larger property or extend the current home**
- **get on to the property ladder for the first time**
- **purchase a second property**
- **simply get a better mortgage deal**

However, there have been some major developments around lending criteria in the mortgage market following the Financial Conduct Authority's 'Mortgage Market Review' (MMR) in April 2014 which, in part, have had an impact on the amount that can be borrowed and the availability of interest only mortgages or mortgages into retirement.

On the next page, John Studman, our Mortgage Consultant and expert in all things mortgage-related looks at the state of affairs post-MMR.

Competitive Rates

The good news is that current mortgage rates are about the lowest the market has ever seen and, subject to the requirements of the new MMR regime, lenders are now extremely keen to lend - the current headline rates are very competitive.

Rates are subject to criteria and availability and other fees and charges may be payable therefore advice is required.

Delays Getting Advice From Lenders

One requirement of MMR was that the majority of clients should receive formal advice from a qualified mortgage adviser. This makes complete sense in what for many is the largest financial commitment of their lives. However, this was not standard practice throughout the market place prior to MMR and the resulting lack of qualified mortgage advisers within the industry means potential borrowers may have to wait weeks for an appointment to discuss their mortgage requirements. Having secured a property, many cannot afford such a time delay, as the property market can move very quickly and they could potentially lose the sale.

As an independent mortgage adviser who has been working on a 'full advice' basis long before MMR came into effect John can deal with clients immediately. He also usually has online access into most lenders' mortgage systems which can speed up the process considerably.

Affordability Based Lending

As has been widely publicised, lenders must now establish that any proposed mortgage remains affordable throughout its term. Again, this makes complete sense but the guidance from the regulator has been interpreted differently by different lenders, and the variation in how much you can borrow can be considerable.

All clients will now have to provide details of their typical monthly household expenditure. With certain lenders the level of analysis has been described as 'forensic'. Other lenders use national expenditure statistics based on the number of household occupants.

There is also a big difference in how lenders assess monthly costs. For example a deduction on your payslip for a personal pension contribution means certain lenders will reduce the amount of mortgage they will offer you. Other deductions on payslips or bank statements, such as payments into share save accounts or regular savings into children's accounts, are also treated as 'committed' expenditure with some lenders whereas others will view this as 'discretionary' expenditure and will disregard it.

In the post-MMR world the variation in the amount of mortgage that different lenders deem to be 'affordable' for clients with the same income and expenditure can be substantial.

Lending Beyond Age 65 / Interest Only Borrowing

As the average age of first-time buyers creeps upward and the state pension age rises, MMR may have an adverse affect on clients who wish to extend the term of their mortgage beyond 65.

Statistics from the Council of Mortgage Lenders show that a growing number of us are taking out mortgages for longer than the traditional 25 year term to make things more affordable. However, as lenders must now confirm affordability for the *entire term of the mortgage*, this can mean some insist that clients have adequate pension provision in place if the term of the mortgage extends beyond age 65.

For example, someone in their mid to late 40s who wants a 25 year mortgage will have to demonstrate that they will have sufficient pension provision in place to meet the mortgage repayments when they are over 65 – this may prove difficult for some.

Similarly, the requirement to have a 'credible repayment strategy' for interest only borrowing has also resulted in many lenders simply refusing to arrange *any* interest only loans - irrespective of whether there is a perfectly credible repayment strategy in place such as ISAs, endowments, pension plans or other properties. It is fair to say that interest only borrowing is now only deemed to be appropriate in the minority of situations.

An independent adviser will be able to provide advice on these issues.

Conclusion

With lenders returning to the market with a greater appetite to lend and with mortgage rates at an all time low, then 2015 may well be a great year to fulfil your financial New Year resolutions.

However, in the post-MMR world, taking the advice of a qualified, independent, whole of market mortgage adviser, such as John Studman of PFPL, may be the best decision you make!

pannells
Financial Planning Ltd

www.pannellsfp.co.uk

Contact us

For Newsletter and General Enquiries:
Sarah Cook on 0121 609 3210
Email: sarah.cook@pannellsfp.com

For Mortgage and Equity Release Enquiries:
John Studman on 0121 609 3247
Email: john.studman@pannellsfp.com