BECKETT
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financial FOCUS

Keep up with tax changes

Don’t let tax reforms bring you down

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Avoid the benefits burn

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The range of benefit cuts and changes that took effect in April 2013 will bring the need for protection insurance and an adequate savings safety net into sharper focus. For many who are already struggling, the going is getting even tougher.

The Government insists that it is curbing welfare spending growth rather than being draconian. Further, plenty of people also support welfare reform, claiming costs are out of control while there is a huge deficit and the economy remains fragile.

The changes mean, for example, that there is now a three-year cap at a below-inflation 1% on working-age benefits and tax credit rises. There is a maximum weekly benefit cap of £550 for lone parents and couples and £350 for single adults, which is being phased in to take full effect in September.

In addition, disability living allowance (DLA) is to be replaced by the personal independence payment (PIP), with stringent eligibility tests. Council tax benefit has been replaced by a new system that's run by local authorities with 10% less funding. This follows on from means testing child benefit.

Job uncertainty is rife – and there is no guarantee of finding another job before your savings run out. A well-known coffee shop chain was in the news when 1,700 people applied for just eight positions. Having protection insurance in place can be enormously reassuring – and a review may be useful to see if existing cover is sufficient for you and your family's needs.

Unemployment is obviously one issue, but so is serious illness or disability. Many people will have life cover, but income protection and critical illness insurance should also be considered. It could provide far more generous provision than benefits, while allowing your savings to be maintained.

Income protection insurance typically pays 50% to 65% of a salary if someone is off work long-term because of illness or disability, while critical illness pays an agreed lump sum. This could pay off a mortgage and provide additional funding.

Protection insurance can make self-sufficiency a reality when state help is becoming harder to access. Now is the time to give it serious consideration.

No cheap childcare options

Staying at home to look after children requires more than love – it's also plenty of hard work. One insurer has found it has a value of over £31,000 a year.

Everyone knows that private childcare is expensive, but doing it yourself at home should not be seen as a 'cheap' option.

There are many (often thankless) domestic tasks linked to looking after children, including cleaning up, washing and ironing, shopping and providing transport.

'Value of a Parent'

Legal & General, in its 'Value of a Parent' report for 2013, puts the value of domestic work a mother does each year at £31,627, with that done by fathers at £23,971 – which is 13% higher than in 2011.

Although men are often perceived to do less parenting than women, it should be noted that not all children are brought up primarily by their mothers.

In some families men do all or most of the child-rearing, and the Office of National Statistics found that fathers make up nearly 10% of 'stay-at-home' parents.

The report found the value of a mother's domestic work is more than double the estimate, and for fathers there's a difference of 55% between the work that parents *think* they're carrying out and the amount they *actually* are doing.

Why life cover matters

More worryingly, only 54% of parents questioned had life insurance. Life cover should be an essential for anyone with dependents, but too often only the main breadwinner's income will be considered.

Children are expensive – according to the research, the average family spends £8,580 a year raising its children, which is £154,440 over 18 years.

Meanwhile other forms of protection cover are often discounted, even though a stay-at-home parent may be unable to fulfill childcare duties if they became seriously ill or disabled.

The report found that less than a third of parents have any critical illness cover (29%), income protection (14%), or family income benefit (12%).

> "...Only 54% of parents questioned had life insurance."

Grandparents are the number-one back up plan to maintain a lifestyle if a parent died, but this may not be feasible, or even fair.

What happens when a parent cannot look after their children is something most of us don't want to think about – but these costs still may need funding and having the right protection should be a priority.

Keep up with tax changes

'The devil is in the detail' sums up most Budgets: the Chancellor's speech matters less than the accompanying welter of HMRC and Treasury papers, and 2013 proved to be no exception.

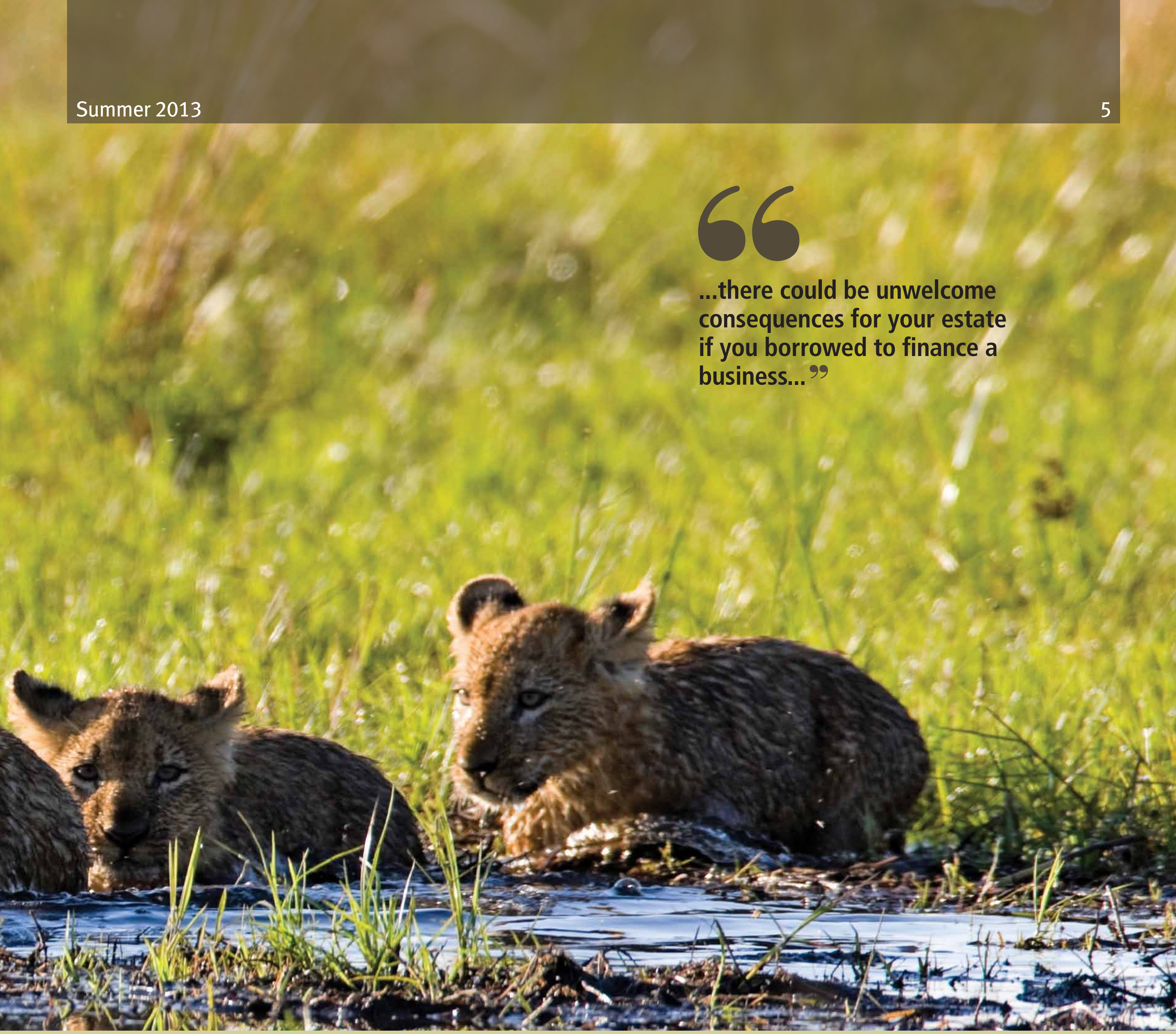
After last December's Autumn Statement, it looked like George Osborne would have little to say in this year's Budget or, for that matter, the Budgets for the following two years. However, the Budget is the year's set piece for any Chancellor and the opportunity to grab the headlines – or at least spring some surprises – is not to be missed.

Inheritance tax (IHT) Last December the Chancellor announced that the IHT nil rate band would rise by 1% to £329,000 in 2015/16, ending the freeze at £325,000 that started in April 2009. This minor upgrading was thrown into doubt, however, when the Government revealed its plans for long-term care and said that these would in part be funded by a further freezing of the nil rate band. The Budget confirmed the Chancellor's change of mind: the nil rate band will now be frozen until April 2018.

The Budget also revealed a new stance on how debts are to be treated on death. While the change was primarily aimed at IHT avoidance schemes, it could have unwelcome consequences for your estate's IHT bill if you have borrowed to finance a business or buy farmland.

There were two small pieces of good news on the IHT front. The first appeared in a Treasury consultation paper issued before the Budget, and was confirmation that Alternative Investment Market (AIM) shares would become eligible for inclusion in individual savings accounts (ISAs). More significantly, subject to the normal rules, shares in an ISA could still qualify for 100% IHT business property relief. There was also a long overdue improvement in the IHT treatment of non-domiciled spouses, who can now opt to be treated as UK-domiciled for IHT purposes. The exempt amount a domiciled spouse can transfer to their non-domiciled spouse has also been increased, from £55,000 to £325,000.

Income tax The Chancellor's main 'rabbit out of the hat' was the £560 increase in the personal allowance to £10,000 for 2014/15.



> …there could be unwelcome consequences for your estate if you borrowed to finance a business…

While he made much about the number of people being taken out of tax, there was little fanfare for the future £145 cut in the basic rate band. The combined result is that the higher rate threshold (personal allowance + basic rate band) for 2014/15 will be £41,865, just 1% more than at present and about £2,000 lower than it was in 2009/10. The population of higher rate taxpayers and the amount of tax they pay will therefore continue to grow.

Corporation tax Alongside the £10,000 personal allowance, the Chancellor reached another of his long term goals with the announcement that the main rate of corporation tax would fall to 20% from April 2015. This will mean that the smaller profits rate, currently also 20%, and the complex rules for marginal relief on profits between £300,000 and £1.5 million will disappear.

Sometimes Budgets produce misleading headlines, and the Chancellor's statement on SIPPs and residential property was a case in point. The Chancellor did no more than say that he would "explore with interested parties" the *possibility* of allowing SIPPs to convert unused space in commercial properties to residential use. This was not, as some commentators have suggested, a green light for buy-to-let SIPPs.

If any of these changes are important to you, please contact us for further advice.

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice.

Child benefit tax

Now that the 2013/14 tax year is underway, the full impact of the child benefit tax is starting to be felt. That could mean that you find yourself having to complete a self-assessment tax return for the first time, to catch what is due for the last tax year. You can limit the impact of the tax in a variety of ways and, as a general rule, the sooner any planning is undertaken, the better. If you cannot avoid the tax – and many people are unable to – the simplest solution is to stop receiving Child Benefit.

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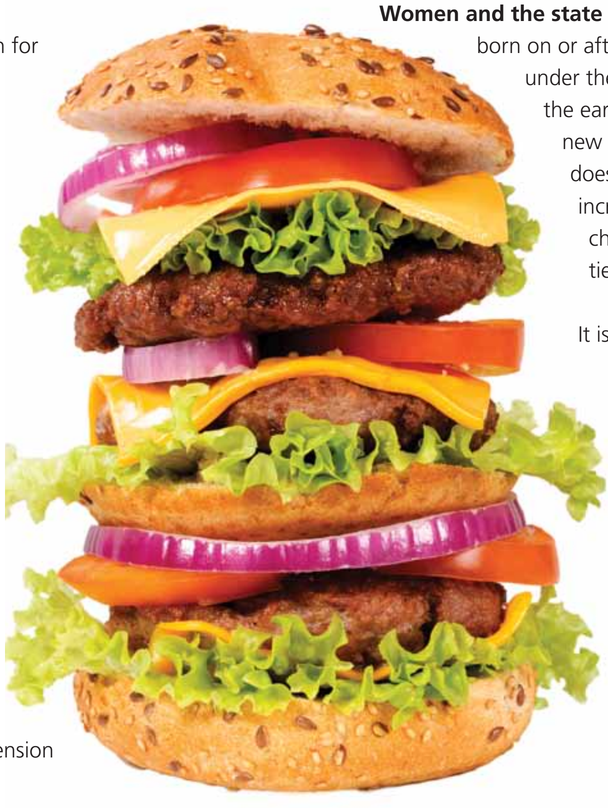
Single-tier, but many layers

The new state pension system is now less than three years away.

When the Department for Work and Pensions (DWP) launched its White Paper on the single-tier state pension in January, it said the new scheme would begin "in April 2017 at the earliest." Given the Government's patchy record on implementing major IT projects, the four years-plus timeframe looked understandable, if not slightly optimistic.

It was therefore a surprise when the Chancellor revealed in an interview on the Sunday before the Budget that the start date for the new single-tier pension would be April 2016. It took a couple of days for the DWP to catch up with Mr Osborne and issue a press release confirming the revised date. Some experts reckoned the change had more to do with bringing forward the Treasury's increase in income from national insurance contributions (NICs) than from any desire to rationalise the current pension system.

Either way, the basic legislation for the new single-tier pension is now working its way through parliament in the Pensions Bill 2013. At the same time, more information is emerging about how it will operate.



'£144 a week' The single-tier pension is often described as being a £144 a week flat-rate pension (at least in 2012/13 terms), earned if you have a satisfactory NICs or credits record covering 35 years. However, matters are not that simple. There are complex rules covering the transition from the current pension regime to the new system. These are designed to take account of the state pension you have accrued to April 2016 and, if you were contracted out of the additional state pension (SERPS and/or S2P), the replacement pension you earned as a result.

The DWP has supplied only limited information about how the contracted out adjustment will be made, but it does look as if contracting out will mean many people close to retirement may not receive a £144 a week single-tier state pension, even if they have a 35-year plus NICs record.

NICs for nothing The end of the state second pension (S2P) will mean that once you have accrued a single-tier pension of £144 a week, you will continue to pay full NICs but earn not a penny extra in state pension benefit. This could happen immediately from April 2016 if the transitional calculation deems you to have accrued £144 or more. The older you are, and the longer you have been a member of SERPS/S2P rather than contracted out, the more likely such a situation is.

Women and the state pension age (SPA) If you are a man born on or after 6 April 1951 you will reach your SPA under the single-tier regime. If you are a woman, the earliest date of birth to reach SPA under the new rules is two years later – 6 April 1953. This does at least mean that if you have had two increases to your SPA as a result of legislative changes, you should benefit from the single-tier pension.

It is not possible to circumvent the April 2016 date by deferring the start of your state pension: what counts is your SPA, not when your pension payment begins.

The new single-tier pension is not a retirement panacea – because it is designed to cost no more than the current system, it cannot be more generous to some without being meaner to others. Private provision is still needed for a comfortable retirement.

Nudge, nudge…

The auto-enrolment regime for pensions is now well underway, with over 300,000 employees enrolled in pension arrangements by the end of March. Auto-enrolment is a product of behavioural finance, which offers insights into the psychology behind investment. In the context of pensions, behavioural finance has shown that by nudging people to join schemes, take up – and ultimately retirement benefits – can be significantly improved. Once auto-enrolled, inertia will often mean people do not opt out, even though they can do so at any time. Government policy is looking to use behavioural finance in other areas too, for example chasing up unpaid tax.

Still carnival time for the BRICS?

So-called emerging economies are high risk but may provide some thrills – and potential spills – for those seeking exposure to new markets.

Over a decade ago, Jim O'Neill, the retiring chairman of investment bank Goldman Sachs coined the term 'BRICS,' referring initially to Brazil, Russia, India, China and, more recently, South Africa.

Mr O'Neill remains bullish and said recently: "The BRIC countries have the potential to avert a global recession and to grow faster than the rest of the world and to pull all of us along with them as a growth engine."

With the UK, much of Europe and the US stagnating, it is not surprising that more investors are looking further afield for their investment choices. However, these countries have already shown they can turn in a disappointing performance. For example, the MSCI BRIC Index was recently shown to be stuck 37% below its 2007 peak. In Brazil, specifically, trading by individual investors has dropped to its lowest level since 1999.

Russia has also proved a disappointment and seen net outflows. In China, meanwhile, the number of Chinese stock accounts has dropped by about 2.3 million over the past 12 months. And India has seen considerable stock market volatility recently, which has shown that it too carries no certainty. The ups and downs with emerging economies can be far more marked than those with longer investment track records.

And, when growth slows, prices come down and some investors will move in. For those who do want to dip a toe in the water, there is now a wide range of funds available, which provide exposure to the BRICS and, in some cases, newer emerging economies.

These include countries dubbed by Goldman Sachs as the 'Next 11' emerging economies of Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, the Philippines, South Korea, Turkey and Vietnam.

Investors must accept that standards of transparency and corporate governance tend to be lower in emerging economies, and economic growth does not always translate into rising stock markets. By all means consider the BRICS and other emerging markets, but certainly the key is to see everything in moderation.

Some funds will carry greater risks in return for potentially higher rewards. Investment in emerging market funds can involve greater risk than is customarily associated with funds that invest in developed, more established markets. Above average price movements can be expected and the value of these funds may change suddenly.

Don't be in the missing 50%

You could be eligible for an enhanced annuity rate.

Up to 70% of people buying an annuity could qualify for enhanced rates because of medical or lifestyle conditions, according to recent research by a life company specialising in the field.

The same research showed that for a 65 year-old, the average enhanced annuity was 16% higher than its non-enhanced counterpart. Over a retirement lifetime that can add up to thousands of pounds of extra income.

You might think that the high level of eligibility and the greater income on offer would mean that enhanced annuities dominated the market. However, another piece of research, this time from a leading firm of benefit consultants, tells a different story. They examined all pension annuity purchases in 2012 and concluded that "enhanced annuities are still only around 20% of the total annuity policies sold."

The two sets of research suggest that up to half of all annuity purchasers are missing out on enhanced rates. Often that will happen because people fail to shop around for an annuity and merely accept what their pension provider offers. To avoid losing out, make sure you talk to us before buying an annuity.

No island escape for tax avoiders

The Channel Islands and the Isle of Man have long resisted an automatic exchange of information with the UK tax authorities.

However, when the US set in train its latest tax avoidance measures, Jersey, Guernsey and the Isle of Man found themselves in a difficult position. As Crown Dependencies, the islands needed the consent of the UK Government to reach an agreement with Uncle Sam.

The Treasury took advantage of this, effectively insisting that if the islands were to make automatic disclosures to the US under the Foreign Account Tax Compliance Act (FATCA), then the UK authorities were equally entitled to a similar flow of information. The islands could not afford to ignore FATCA and say goodbye to US business, so they all agreed to automatic disclosure with the UK.

As a result, HMRC has launched 'disclosure facilities' covering Guernsey, Jersey and the Isle of Man to "provide an opportunity for eligible customers with assets or investments held in British Crown dependencies…to bring their UK tax affairs up to date."

An agreement with the Cayman Islands and British Virgin Islands is due shortly.

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Tarnished sterling

Two of the main credit rating agencies have stripped the UK of its AAA-rating, inflation is above target and the economy is little more than flat-lining. Sterling's value has fallen as a result. Whereas the pound bought $1.6255 or €1.2330 at the start of 2013, now it is languishing around $1.53 and €1.175. All of this is a reminder that diversifying investment internationally is good practice.

The value of your investment and the income from it can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.

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