money wise

BECKETT

Mapping your financial future

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Don’t become prey to 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.

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. While he made much of 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.

Self-invested personal pensions (SIPPs) and property

Sometimes Budgets produce misleading headlines and Mr Osborne’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.

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.

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 do, 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.

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%).

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.

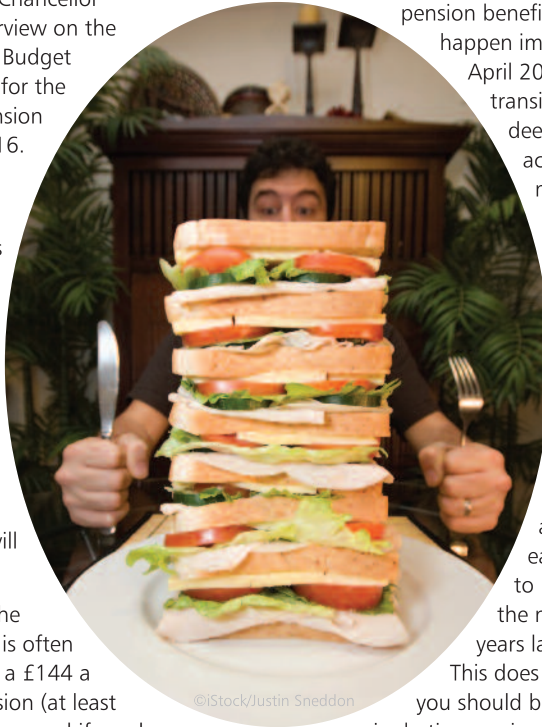
What happens when a parent cannot look after their children is something most of us don't want to think about – but these costs still may need funding and having the right protection should be a priority.

Many layers to single-tier pension

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

Given the Government's patchy record on implementing new IT projects, it was 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.

Until then, the Department for Work and Pensions (DWP) had said "2017 at the earliest." In any event, the basic legislation is now before Parliament and more information is emerging about how the scheme will operate.



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'£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 national insurance contributions (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.

The DWP has supplied limited information about how transitional adjustments 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 with a 35-year 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.

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 you should benefit from the single-tier pension if you have had two SPA increases because of legislative changes.

It is not possible to circumvent the April 2016 date by deferring the start of your state pension.

The new single-tier pension is no 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.

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 provides exposure to the BRICS and, in some cases, newer emerging economies. These include the countries dubbed by Goldman Sachs as the 'Next 11' emerging economies of Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, South Korea, Turkey, the Philippines 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 potential 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.

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0.5% base rate for a fifth year

Base rates have been stuck at the historic low of 0.5% for over four years.

It was on 5 March 2009 that the Bank of England halved base rates to 0.5%. At the time, it was seen as a temporary measure and few would have expected 0.5% to still apply more than four years later, with no sign of any increase on the horizon.

Until recently deposit rates had held up quite well, with instant access rates of over 3% available last summer. However, the Government's Funding for Lending Scheme (FLS) has given the banks a cheap source of funds and as a result the best instant access accounts now pay around 2%. After tax and inflation, that means cash on deposit is steadily losing purchasing power.

One of the aims of the ultra-low interest rate policy is to encourage those with deposits to remove their cash and invest elsewhere, for example in shares and bonds. The income motive for doing so is clear. For example, on average UK shares currently pay an income of around 3.5%, and that is after basic rate tax.

In contrast with most recent experience, UK shares are now paying a much higher income than UK government bonds (gilts), even before tax is taken into account.

If you want to improve your income, however, just buying a few shares is a risky solution. Lack of diversification is a major issue, as some private investors found to their cost when their high yielding bank shares stopped paying any dividends after the financial dramas of 2008.

A managed, diversified portfolio is important, as is choosing the right investment structure. We can advise you on both suitable income funds and the most tax-efficient ways of owning them. The alternative could be a protracted wait for interest rates to rise.

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. Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.

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Avoid the benefits burn

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.

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. 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.

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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.

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.

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