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YOUR WEALTH SPRING 2018

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TAX-FREE SAVINGS FOR INDIVIDUALS

2018 – 2019

ISA Allowance

£20,000

Junior ISA allowance

£4,260

Lifetime ISA

£4,000
(counts against £20,000 ISA Allowance)

Help to Buy ISA

£2,400
(monthly contributions of £200*)

*Up to an additional £1,000 in first month when account is opened

MILLIONS SET TO RELY ON £7K IN RETIREMENT – DON'T BE ONE OF THEM

The poorest pensioners are relying on the state pension for around three-quarters (78%) of their income in retirement, as reported by research carried out for the Pensions Policy Institute[1]. According to the report, the state pension is a major component of their retirement income for all savers, except for those who have been able to make their own pension arrangements.

The state pension entitlement is currently £164.35 per week, but only for those who have a complete record of National Insurance contributions, meaning that some people receive less. Many people are surprised to learn that the average state pension is only just over £7,000 a year, which equates to less than half the annual salary of a full-time working adult on the minimum wage of £7.83 per hour. On top of that, the government announced last July that the state pension age would be increased to 68 between 2037 and 2039.

PLANNING AHEAD

We'd all like to enjoy a comfortable retirement, but unfortunately many people rely just on their state pension, and don't realise until they reach retirement age that this isn't a generous amount of money to live on. Increasingly, it's up to all of us to think about our retirement as early as possible during our working lives and make adequate provision for our later years.

Whatever stage of your working life you've reached there are various steps you can take. The longer you have before retirement, the more time you'll have to boost your pension pot. If you're employed, and haven't joined your workplace scheme, you should think about doing so. By the end of 2018, all employers will have to provide a pension that they, as well as you, contribute to. If you're already a member of a scheme, you could consider increasing your contributions to improve your pension outlook, or take out a personal pension plan.

It pays to make time to check up on how much pension entitlement you'll receive. If there's likely to be a shortfall in your savings, the earlier you spot it, the easier it should be to fix.

A pension is a long-term investment. The fund value may fluctuate and can go down. Your eventual income may depend on the size of the fund at retirement, future interest rates and tax legislation.

[1]Pensions Policy Institute, 2018

TAX TRAPS THAT THE BANK OF MUM AND DAD NEEDS TO AVOID

The Bank of Mum and Dad now ranks amongst one of the largest lending institutions in the UK, so many more families may find themselves faced with a tax bill.

INCOME TAX

If parents lend children the money, then if they pay interest, this is taxable. If the parents have borrowed the money, they are unlikely to get tax relief on the interest they pay.

CAPITAL GAINS TAX (CGT)

Parents who buy a house with their child, and don't live with them, will find when the property is sold that they could be liable for CGT. The property will not count as the parent's main residence for tax purposes, and so CGT is payable on their part of the proceeds on sale.

ADDITIONAL STAMP DUTY

Helping out with the deposit for a child's property may not pose a problem, but part-owning can mean additional Stamp Duty is payable. If parents buy a property for their child, are named on the deeds and already own a home, this purchase counts as a second home and may be liable to Stamp Duty at the higher rate.

INHERITANCE TAX (IHT)

Giving away more than your annual IHT exemption of £3,000 (that's in total, not per person) means that if you die within seven years of making the gift, the value of the gift will still be included in the estate. This could be liable for Inheritance Tax if the value of the estate, including the gift, exceeds the individual threshold of £325,000. If the estate is liable for IHT, it is payable at 40% on the excess.

However, the year your child gets married you can give them an extra £5,000. In certain circumstances, you can make gifts out of your regular income, but you'd need to show that making these gifts doesn't affect your normal standard of living, so taking professional advice is essential.

WHY DIVERSIFICATION MATTERS

Diversification is the process of spreading your money around different types of investments, so that your exposure to any one of them is limited. Allocating your money around the different asset classes, including cash, equities, bonds and property – helps reduce your exposure to risk and volatility.

The goal of a diversified strategy is not necessarily all about boosting performance, but once you've established the level of investment risk that you're comfortable with, based on your chosen investment goals and time horizon, diversification has the potential to improve returns for your preferred level of risk.

THE THEORY BEHIND A MIX OF ASSETS

It tends to be the case that the value of different assets moves independently and for different reasons. In broad terms, the performance of equities is affected by the results and prospects of the company and the economy, bonds are influenced in part by interest rates, whilst property values are more closely aligned with economic performance.

You can further diversify by sector, and you'll find that many managed funds will have a wide spread of differing industry types in their portfolios for this reason. Geographic spread helps too, and means that you're not just affected by the economic conditions applying in one country; exchange rate fluctuations, positive or negative, may also come into play.

THE BENEFITS OF A DIVERSIFIED APPROACH

If one investment in your portfolio performs poorly over a certain period of time, other investments you hold may perform better over the same period, reducing the potential losses that could have arisen if you'd concentrated your capital in one type of investment. Low correlation of assets is desirable. If they were highly correlated they would move in the same way.

Not all investors are in the accumulation phase of life, some are close to or in retirement and diversification can help protect their savings. Investments don't always perform as expected, so if you're taking an income from your portfolio, by holding a spread of investments you're not relying on just one investment to provide it.

The value of investments and income from them may go down. You may not get back the original amount invested.

FINANCES ON DIVORCE – PLANNING FOR A NEW LIFE

There are no hard and fast rules governing how assets should be divided on divorce, although there is a broad starting point of 50:50. If the divorcing couple are unable to come to an agreement on the division of their financial assets, the court will decide how these should be apportioned between them – based on factors such as their age, earnings ability, property and money, and role in the relationship (e.g. breadwinner or primary carer). The needs of any children of the marriage are always paramount.

THE MARITAL HOME

One spouse can buy the other out and keep the house, or the property could be sold and the proceeds divided. If there are children, a parent will often want to remain there with them; in which case, any existing mortgage arrangements will need to be reviewed, especially as the other partner may wish to buy their own property. It's worth exploring all the options, especially if both parties intend to purchase a property after the divorce.

PENSIONS

A pension doesn't belong solely to the party named on the policy, and has to be part of the division of assets. It can be apportioned in various ways, including offsetting the value of one spouse's fund by transferring a lump sum, or other assets, to the other spouse or splitting the pension fund into two separate pensions.

LIFE POLICIES

A decision will need to be reached on whether policies should be surrendered or retained. If they are retained, the name on the policy may need to be altered and the beneficiaries of any life cover may need to be changed. If maintenance is payable and funded from the income of one party, it may be appropriate to take out life insurance in case they die,

or become incapacitated and are unable to continue to make payments.

PLANNING FOR THE FUTURE

Post-divorce, it makes sense to get financial advice on your revised circumstances. You should consider your financial goals and review your mortgage, life insurance, savings and investment plans. You will also need to rewrite your Will – this is essential.

A pension is a long-term investment. The fund value may fluctuate and can go down. Your eventual income may depend on the size of the fund at retirement, future interest rates and tax legislation.

REALITY BITES AS RETURN EXPECTATIONS NORMALISE

Last year was a remarkable one for investors. Markets shrugged off rising interest rates, political events, faltering Brexit negotiations and much more besides to end the year on an upbeat note, with strong growth sending equity prices higher. This momentum carried on into the New Year, with strong gains seeing equity indices around the world soar. This run was halted at the end of January and the market subsequently witnessed a correction with indices retreating from record highs.

The generosity of returns seen in previous years is unlikely to replicate in 2018. Although many predict further growth in equity markets, they do caution that returns over the next few years are likely to be less rewarding. So the overriding message is – if you've become used to double-digit returns on your portfolio over the last decade or so, now is perhaps the right time to temper your return expectations somewhat.

STEADY AS SHE GOES?

Macroeconomic conditions around the world seem to have improved in recent months. The second half of 2017 saw a pick-up in the pace of global economic growth. This improvement in economic prospects is reflected in the latest forecasts published by the International Monetary Fund (IMF) which suggest that economic activity continues to strengthen across the world. With stronger economic growth comes the prospect of higher interest rates and inflation. The expectation that monetary policy is set to be tightened at a quicker pace and to a greater extent than previously envisaged has begun to weigh on market sentiment.

LONG-TERM GAME PLAN

Stock market performance is unpredictable and investing is all about adopting a longer-term view, diversifying risk and allowing your money time to grow. Even though political and economic concerns exist, so too do investment opportunities. The value of financial advice includes clearly outlining your financial objectives and identifying investment opportunities, with the aim of enhancing returns in line with your attitude to risk. We aim to manage the inherent volatility of markets, so your savings have the best chance of growing for the future – without giving you sleepless nights in the process and whilst ensuring you aren't taking too much, or too little, risk with your money.

The value of investments and income from them may go down. You may not get back the original amount invested.

INHERITANCE TAX – KNOW YOUR NUMBERS

IHT is a tax payable on money, savings or any other assets in your estate, and potentially on some gifts you make during your lifetime. If the estate is liable for IHT, it is payable at 40% on assets above a set threshold.

The current individual threshold is £325,000, and any unused nil rate band can be passed to the surviving spouse or civil partner on death. In addition, there's a residential nil rate band that applies (£125,000 in tax year 2018-19 rising to £175,000 in April 2020) if you want to pass your main residence to a direct descendant, like a child or grandchild.

In the 2016–17 tax year, HMRC raised a hefty £4.84bn in IHT, brought about largely by rising property and prices that are seeing more and more families drawn into the tax net, despite doing nothing more than owning their own home.

GIVE MONEY AWAY

To reduce the amount of IHT payable, families can consider giving assets away during their lifetime. Such gifts are called 'potentially exempt transfers'. For these gifts not to be counted as part of your estate on your death, you must outlive the gift by seven years. If you die within seven years and the gift was in excess of the nil rate band, taper relief applies, reducing the tax payable, the longer you survive.

MAKE GIFTS THAT ARE EXEMPT FROM IHT

Each financial year you can make gifts of up to £3,000 (in total, not per recipient) and you can

carry any unused allowance over to the next year, which means you could give away up to £6,000. Gifts of £250 per recipient per tax year to any number of people are exempt.

Weddings are another opportunity to make tax-free gifts. Each parent of a bride or groom can give up to £5,000; grandparents or other relatives can give up to £2,500 and any well-wisher can give £1,000.

CHANGES MAY LIE AHEAD

Many families will be encouraged to hear that the Chancellor, Philip Hammond, has written to the Office of Tax Simplification (OTS) asking them to put forward proposals for the reform of IHT "to ensure that the system is fit for purpose and makes the experience of those who interact with it as smooth as possible."

His letter asked the OTS to look at the technical and administrative aspects of IHT and the process of submitting returns and paying the tax. He also called for a review of the issues surrounding estate planning, and whether the current framework causes 'distortions' to taxpayers' decisions regarding investments and transfers.

TAKE PROFESSIONAL ADVICE

These days, many more estates are likely to be subject to IHT, so taking expert advice could save your beneficiaries substantial amounts of tax.

FEELING POSITIVE ABOUT YOUR PERSONAL FINANCES? YOU'RE NOT ALONE

Despite concerns about major issues such as Brexit, a poll carried out by Opinium[1] in January found that more Britons report feeling positive about their personal finances than they did last year. The survey found that workers think that their disposable incomes will increase by 3% on average, from £349 a month to £360 a month.

When asked about their spending priorities for the coming year, the list includes holidays (39%), house renovations (16%), and paying down personal debt (14%). However, savings figured too, with respondents expecting to save more at an average of £221 per month, up 13% on last year.

If you're looking for a home for your savings, an ISA is a simple, tax-free way to save or invest. The advantage of these types of account is that you don't pay tax on the interest or dividends you earn, or the increase in value of your investments. There are several different types of ISA available, designed to help you save for the important things in life like family trips, a deposit for a home, or for your retirement years.

[1]Opinium, 2018

IF YOU WOULD LIKE ANY ADVICE OR INFORMATION ON ANY OF THE AREAS HIGHLIGHTED IN THIS NEWSLETTER, PLEASE GET IN TOUCH.

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