review

WINTER 2017

Ashton House Independent Financial Advisers

Be prepared for new auto-enrolment changes

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Auto-enrolment moves to the next stage in April: are you ready?

Automatic enrolment of employees into workplace pensions has been much more of a success story than predicted. In the last three years, over 8.5 million people have begun saving for their retirement and almost 800,000 employers have successfully complied with their automatic enrolment duties, according to The Pensions Regulator.

A key factor that helped the initial acceptance of auto-enrolment was the low level of employee contributions. Now the regime is moving on to the next, more challenging stage. From 6 April 2018 there will be a big jump in minimum contributions for both employers and employees. At present, the total minimum contribution required is just 2% of band earnings (earnings between £5,876 and £45,000 a year in 2017/18). Of this, the employer must pay at least 1%. So the typical minimum 1% contribution by an employee earning £25,000 a year currently works out at £12.75 a month after basic rate tax relief.

Contribution levels rising From next April the minimum total contribution will rise to 5%, and the employer must pay at least 2% of this total. Most automatically enrolled employees will see their contribution rate triple – from 1% to 3%. A year later, in April 2019, there will be another 3% increase in the minimum total, leaving the employer with a payment of 3% and most employees facing a further increase in contributions to 5%. Based on this year's rates (which may change) that £12.75 a month in March 2017 will have increased to £63.75 a month by May 2019.

The choice of April for the increase date was deliberate because it coincides with the likely revisions to the personal allowance and national insurance contributions at the start of the new tax year. Both of these generally boost employees' net pay and so may help to disguise any increased deductions from earnings. If you are an employer, you would be well advised to alert your employees to their contribution increase before it takes effect. You should also ensure you have budgeted for your contribution increases in 2018/19 and then again in 2019/20. For further advice and information, please talk to us – well before April 2018 arrives.

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Steady ahead – the second Budget of 2017

The Chancellor detailed a long list of tax changes in his Autumn Budget, although he was generally more cautious than he was in his Spring announcements.

Back in March this year, Philip Hammond's Budget debut as Chancellor almost marked his simultaneous finale in the role because of his failed attempt to raise national insurance contributions for the self-employed. This time around seems to have gone more favourably.

Stamp duty land tax (SDLT) and first time buyers For first time buyers (other than in Scotland), from 22 November the first £300,000 slice of their property's purchase price is exempt from SDLT, provided their home does not cost more than £500,000. That could mean a tax saving of up to £5,000.

Income tax The personal allowance will rise to £11,850 and the higher rate tax threshold (excluding that for non-savings, non-dividend income in Scotland) will rise to £46,350 for 2018/19. The missing Scottish threshold awaits finalisation of the Scottish Budget.

Pensions Despite many pre-Budget rumours of cuts to allowances and even the rate of tax relief, the Chancellor made no changes to reduce pension tax benefits. Doing nothing meant that the lifetime allowance will rise by default to £1,030,000 from 6 April 2018.

Credit: Istock/COSPV

ISAs The overall ISA annual subscription limit of £20,000 and the lifetime ISA (LISA) of £4,000 will be unchanged for 2018/19. The Chancellor may have decided that the forthcoming cut in the dividend allowance from £5,000 to £2,000 was enough of an incentive to invest in ISAs.

Capital gains tax The annual exemption will increase to £11,700 for 2018/19 – worth a tax saving of up to £3,276 to a higher rate taxpayer on property-related gains. Buy-to-let investors who use companies to hold their properties were less lucky as, from January 2018, a technical change will mean more of any future capital gain becoming subject to corporation tax. The change will also affect UK life companies and could reduce future returns on UK endowment and single premium policies.

If you have any questions about the financial planning implications, please talk to us as soon as possible.

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

Refresh your New Year resolutions

It is that time of year again, so what financial resolutions should you be making?

New Year resolutions have a tendency not to last very long. By the time the festive season ends and the decorations are put away, the eat less/drink less/exercise more resolutions have often also disappeared. For 2018, try adopting a different type of resolution – a financial one. Here are four possibilities:

1. **I will review my will** Ensuring your will is up to date is one way to make sure your assets are dealt with in the way that you want when you are not around. If – as many people do – you have no will and assume the laws of intestacy will resolve everything, you could be seriously mistaken. Intestacy does not always mean everything passes to a surviving spouse or civil partner, which is especially hazardous if you are in an informal relationship.

2. **I will complete a Lasting Power of Attorney** In many respects no will is complete without a matching pair of Lasting Powers of Attorney (LPAs) or the equivalents in Scotland or Northern Ireland. LPAs allow you to appoint one or more people to make decisions for you if your health – mental and/or physical – prevents you from doing so.

3. **We will review our ownership of investments** The past few years have seen a steady flow of changes to the tax treatment of investment income, such as the introduction of the personal savings allowance and the reform of dividend taxation. It is now more important than ever for couples to review who owns which investment.

4. **I will obtain an estimate of my current pension benefits** The recent changes to pension rules, across both state and private pension provision, could well have altered your retirement income, how you can draw benefits and even when you will receive some of your pension .

In personal financial planning, as in many other aspects of life, putting things off is seldom wise. All the resolutions listed here don't require regular commitment, so why not call us now and start 2018 the right way?

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax, will writing, trust advice and some forms of estate planning.

Time to update your life insurance?

Most homeowners buy some life insurance when they purchase their first home. These insurance policies are typically designed to cover the term of the mortgage. But what happens once that term is over?

If you took out a life insurance policy when you first stepped onto the property ladder, the chances are it was a 25-year term, linked to the mortgage. But many people in their fifties and sixties still have mortgage debts and will continue to work. In fact, a recent report showed 1.2 million people continue to work beyond the age of 65.

If your family relies on your working income to maintain living standards, it's worth checking you have adequate insurance in place. Life or health insurance can provide financial security for your family, should you die or be unable to work through ill-health – a real possibility in later life.

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Don't be afraid of insurance costs

The cost of life insurance increases with age, but this doesn't mean it is prohibitively expensive for those in their fifties. A 50-year old with no health problems could pay less than £15 a month for a 10-year policy with £100,000 of cover. A 25-year old could buy the same cover for under £5 a month. Insurers will ask older applicants more in-depth health questions and some will need a medical.

Some insurers also sell 'Over 50s' life insurance – you may have seen TV or newspaper advertisements about these policies. They can look attractive: most claim to accept all applicants without a medical. However, they are designed to cover smaller sums, typically to help with funeral costs. There is no fixed-term, so the insurance remains in place for as long as the policyholder pays the premiums. This means people who live longer than expected can pay far more in premiums than the policy eventually pays out. It pays to shop around and take advice.

Cover for ill-health

Even if you are in your fifties, the chance of dying within the next ten years remains relatively small. But there's a more significant chance of suffering ill-health, affecting your ability to work. Talk to us about whether critical illness or income protection insurance might be appropriate. These can be more expensive, but may provide greater peace of mind.

We can help you ensure that you have the right protection in place.

Asset allocation in a world of rising inflation

Prices are rising at their fastest rate for five years. Annual inflation rose to 3% in September, and stayed at this rate in October. This led to the Bank of England increasing interest rates in early November for the first time in a decade.

Rising prices can be challenging for savers and investors, because it reduces the spending power of your money over time. So how can you help counter the effects of rising inflation and low interest rates in your investment choices?

Boost cash returns

Savers may welcome the interest rate rise if banks and building societies increase savings rates in line. But further rises are likely to be small and slow, and gains could be wiped out by still higher inflation. Be prepared to switch accounts to take advantage of better deals that appear in the market over the next few months.

Bad news for bonds

Higher interest rates and rising inflation are bad news for those with fixed-interest investments – like corporate bonds and gilts. These investments pay a fixed return, which can look less attractive if interest rates rise significantly. Higher inflation can also reduce the value of fixed income over time. Both can weaken demand, causing prices to fall.

Bonds do offer reliable income streams, however, so don't avoid them completely. Diversify where possible, and be aware that market conditions could mean valuations slip in the short term.

Stick with the stock market

Shares can be a good hedge against inflation, because companies have the potential to grow their profits broadly in line with inflation. However, share prices can be volatile, particularly over shorter timeframes, so it's essential to diversify.

In periods of higher inflation investors tend to favour secure companies with consistent earnings that pay reliable dividends. Some equities can be adversely affected by higher inflation. For example, retailers can find that their margins come under pressure if the prices of wholesale goods rise. Similarly, higher interest rates will be bad news for companies with high levels of debt, although it may benefit banks.

Credit: Istock/whitemay

Investors should be wary about making too many changes based on predictions or short-term market movements. Concentrate on longer-term goals and ensuring you have a balanced and diversified portfolio. If you'd like to review your investments, please let us know.

The value of your investment 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.

Investing for children – not just for Christmas

National Savings has closed one option, but there are many more possibilities to consider.

Credit: Istock/PeopleImages

In September National Savings & Investments (NS&I) withdrew the Children's Bond from sale and launched its first online-only Junior ISA (JISA). The new cash JISA is hardly league table topping: it currently offers only a 2% variable interest rate compared with 3% available from some High Street names.

While interest rates for cash JISAs are generally higher than those available on adult cash ISAs, a cash JISA may not be the best option for a child or grandchild (or anyone else under 18):

- It is arguable that putting capital on a short-term deposit may not be the most sensible option to maximise returns if the investment is going to be locked away for many years until the child reaches age 18.
- At age 18, the JISA funds become immediately available to the new adult.

Some families may feel that making a full JISA fund available to an 18-year old is not always advisable. If you're uncertain about how a young adult might handle their sudden windfall, there are other options.

One is to contribute to a personal pension instead of a JISA, which will effectively lock money away until maybe around the age of 60 for today's child.

In between the two age extremes, it is possible to use trusts to make gifts to children while still retaining some control as a trustee over when and how funds can be accessed. If you choose the trust route, there are no constraints on the size or type of investment, but the tax treatment may not be as favourable.

For more information on all the options for children's investments, do get in touch – this is an area with some tricky tax traps for the unwary.

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Wednesday 31 January is the deadline for submitting your 2016/17 self-assessment tax return online – the paper return deadline was 31 October. Miss the deadline and you could face an immediate £100 penalty, even if HMRC owes you money.

Since September HMRC has started to remove some taxpayers – mainly pensioners – from the self-assessment return regime by the introduction of 'simple assessment'. Under this system, HMRC uses data it already holds to calculate the tax due and issues the taxpayer with a tax calculation. Be warned: if you receive an HMRC calculation, you have only 60 days to raise any queries.

The Financial Conduct Authority does not regulate tax advice and tax laws may change.

Planning for long term care

The UK care system is complex, fragmented and expensive, with many elderly people funding care costs themselves.

Those worried that they – or a close relative – might need care in future should arm themselves with as much information as possible. Discuss options with family early to avoid making rushed decisions at a potentially traumatic time.

Your local council is a good place to start. They have a duty to assess care needs, and provide information on local services and funding options. Councils also assess an individual's ability to pay. This will look at people's income and assets. In England, those with assets of more than £23,250 pay care costs in full. This 'means-test' typically includes the value of any property, although it is excluded if a spouse or partner continues to live there. Even those without savings but with good pensions can end up paying care fees themselves.

Those needing care should also look at annuity options. These pay a fixed sum for life, meaning it's less likely you'll have to move somewhere cheaper if funds are exhausted.

With residential care costing hundreds of pounds a week, financial planning can help. It isn't possible to insure against this cost, so save what you can and, if necessary, take specialist advice.