Viewpoint

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FINANCIAL SERVICES

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A handy guide to tax allowances and reliefs.

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Investment advice – what a relief!

Every client we meet has a unique and varied range of financial planning needs, so it's important to establish priorities as the first step towards creating a meaningful and relevant financial plan.

When it comes to investment planning, one such priority is making sure you're in a position to maximise the tax reliefs and allowances that are available. Here's a useful summary:

Earn up to **£1,000** interest on your personal savings tax free, higher rate taxpayers will be able to earn up to £500

Pay no tax on the first **£5,000** of dividend income from your investments (This allowance reduces to £2,000 in the 2018/19 tax year)

Invest up to £3,600 or 100% of UK relevant earnings, whichever is the greater,up to a maximum of **£40,000** in your pension every tax year and receive tax relief on those contributions

Review your potential Inheritance Tax liability with the introduction of the Residence Nil Rate Band

Make the most of your ISA allowance every year and invest up to **£20,000** (in 2017/18)

Consider whether you could take advantage of the tax efficiencies available from investing in an Enterprise Investment Scheme or Venture Capital Trust. Please note these are specialist investment options that carry higher risk and not suitable for all investors

Make the most of your **£11,300** Capital Gains Tax CGT allowance when selling an asset or investment that has increased in value. Transfer between spouses is currently exempt from CGT. By gifting assets to your spouse or Civil Partner you effectively double your allowance

To find out more about how we can plan a tax efficient investment strategy please get in touch.

This information is based on our current understanding of the rules for the 2017-18 tax year.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

The value of investments and any income from them can go down as well as up and you may not get back the original amount invested.

Pension death benefits

There's a range of options when it comes to deciding how to fund retirement, but few of us stop to think about what might happen to pension savings in the event of death.

Please contact me if you'd like to discuss the rules and explore whether and how you and your loved ones could benefit from them.

Alongside the more familiar changes to retirement choices that happened back in 2015, 'Pension Freedoms' heralded significant changes in how pension death benefits are taxed; bringing with them new inheritance-planning opportunities.

Passing on wealth

Since April 2015 it has been possible for the plan holder to pass their pension on to any nominee(s) through something called Nominee Flexi-Access Drawdown. Further, when the nominee dies, a successor - or successors - can also inherit a drawdown pension through a Successor Flexi-Access Drawdown.

In turn, each nominee or successor can pass the assets on to other nominees or successors, retaining the tax efficiency of the plan through multiple generations.

The key benefit lies in retaining the assets within a pension wrapper: in this way they fall outside of the plan holder's estate for Inheritance Tax (IHT) purposes. As long as they remain within the wrapper they stay tax efficient in most cases until they're needed by the nominee or successor.

If the plan holder - or a nominee or a successor - dies before the age of 75, not only are the assets passed on free of IHT, but the drawdowns are paid out free of income tax. If they die after the age of 75, the assets are still excluded from the estate for IHT purposes, but any lump sums or income drawdowns are treated as income and are subject to the beneficiaries' own marginal rate of tax (ie. taking into account other sources of income).

How might your dependents benefit?

The example given below is a simplified illustration and only a guide to what might be achieved with careful financial planning.

However, it's important to note that most of the existing pension plans were set up before the new regulations came into force and may not have the flexibility to establish Nominee or Successor Flexi-Access Drawdown accounts.

Instead, the pension provider will pay out the full value of the fund in cash on the death of the plan holder. In that situation, the assets count towards the total estate for IHT purposes.

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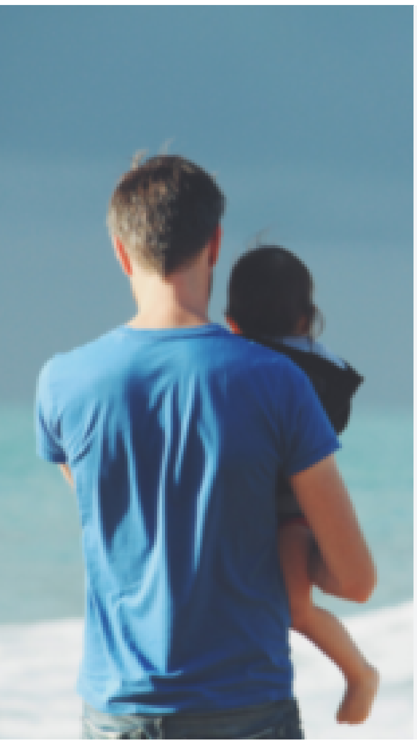


The pension family tree

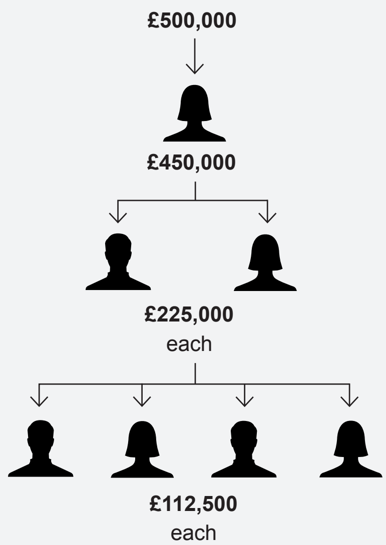
A family comprises a husband and wife, their two children who in turn have two children each (four grandchildren in total).

The husband dies aged 76 with £500,000 remaining in his pension fund.

The wife inherits a Nominee Flexi-Access Drawdown plan. As her husband died after reaching the age of 75, any withdrawals are taxable as income. The wife dies aged 74 and with £450,000 remaining in the plan.

The two children each inherit half of this (£225,000) through Successor Flexi-Access Drawdown. Withdrawals are tax free as the mother died before age 75. However, both children die in their 60s without accessing their plans. As they also died before reaching 75, each residual pension fund passes tax free to the grandchildren.

Each grandchild inherits a Successor Flexi-Access Drawdown pot of £112,500 and enjoys tax-free withdrawals.



High inflation hits workers and savers

Employment is at a record high, but UK workers are starting to feel the squeeze as wages fall below inflation for the first time since 2014.

If you'd like to discuss how you can make your money work harder, please get in touch.

Inflation has gone up, in part, due to the Brexit-related fall in the value of sterling, but the fall in wage growth is unusual as it occurs at a time when employment is at a high. When prices rise faster than wages, it reduces spending power and puts pressure on household finances.

Keeping up with inflation

If you earned £539 per week (the 2016 median gross weekly earnings for full-time employees) your pay next year would need to increase by another £10 each week to keep up with an inflation rate of 2.6% (which it was in August 2017). Unfortunately, the current average pay growth of just 1.8% means your earnings will actually be worth £4 less each week.

As well as your wage-packet, rising inflation could also erode the value of any savings you have on deposit, leading some to consider a riskier investment where there is potential for your money to work harder. If you find yourself in this situation, we can help.

Designing your investment strategy

After establishing and agreeing your attitude to risk, we will work with you to create an appropriate investment strategy - one that aims to maximise returns while maintaining the right level of risk for you.

As well as recommending the most appropriate product or tax 'wrapper' (a specific type of tax efficient investment) from the range available to us, we will also recommend the most appropriate fund or portfolio of funds.

Our recommendation will also take into account a number of other factors, including:

- Your objectives for the investment
- Your personal circumstances
- The timeframe over which you intend to hold the investment or pension
- The amount of money you have available to invest
- Other investments that you already have

With so many investment options available and the effects of inflation erosion posing an immediate risk to your savings, the hardest part can be deciding which route to take.

We'll follow a clear and thorough process to clarify exactly what you need from your investments and how much risk you're prepared to take. Our approach will help you get a solution that matches your needs – today and in the future.

Past performance is not a guide to future performance and may not be repeated. The value of investments and the income from them may go down as well as up. You may not get back the amounts originally invested.

OW1003 Exp. 07/01/18

Are Cash ISAs worth the investment?

After the Bank of England (BoE) cut interest rates to reassure the market following the Brexit vote, cash ISA returns plummeted.

For advice on ISAs and other types of investment planning, please get in touch.

According to Telegraph Money cash ISA returns fell by as much as 35% in the six months after the BoE's decision. A quick google shows the best rates on offer currently are just over 1% for an easy access cash ISA (meaning you can withdraw your money at any time) and 1.4% if you're prepared to lock your savings away for three years.

So are cash ISAs still worth the investment?

Before you decide, there are a couple of other factors to consider.

The weaker pound – a by-product of Brexit – is driving up inflation. According to The Office for National Statistics: inflation has been steadily increasing since 2015 and hit 2.3% in March 2017. The BoE has predicted it could reach 2.8% by the middle of 2018.

With interest rates at record lows, this is bad news for savers; inflation eats into the value of your savings, so unless you're earning a higher rate of return, you effectively lose money.

The Personal Savings Allowance (PSA) which was introduced in April 2016. It lets you earn up to £1,000 in interest tax-free on your savings if you're a basic rate taxpayer and £500 if you're an higher rate taxpayer (additional rate taxpayers don't receive a PSA). This cancels out some of the benefits offered by a cash ISA – earning tax-free interest on your savings – especially since the annual limit is only £20,000 (in the 2017-18 tax year).

Of course, there may be cases when a cash ISA makes sense. If you switch to a higher tax bracket in the future, you might lose out on some or all of your PSA. And if you're already an additional rate taxpayer, then it's the only way you can earn interest on your savings tax-free. Another benefit that may not be available with other types of savings products is that your spouse or civil partner can inherit the money you hold in a cash ISA tax-free.

You need to decide whether or not a cash ISA is right for you based on your personal financial situation, but while interest rates remain low, it might be worth considering investing in a stocks and shares ISA instead. These bring with them an element of risk of course, but there's also the potential for greater return. Stocks and shares ISAs are considered medium to long-term investments and you should be prepared to invest for at least five years.

The tax efficiency of ISAs is based on current rules. The current tax situation may not be maintained. The benefit of the tax treatment depends on the individual circumstances. The value of your stocks and shares ISA and any income from it may fall as well as rise. You may not get back the amount you originally invested.

OW0883 Exp. 19/07/18

Pension Advice Allowance

Financial decisions affecting your retirement income will be among the most important you'll make during your lifetime and investing in timely financial advice could provide a welcome boost.

Getting advice can help you get more from your money. If you'd like to discuss any aspect of your savings and investments please get in touch.

Since April 2017 it has been possible to withdraw £500 from pension pots (defined contribution or hybrid pension scheme savings with an element of defined contribution) in three separate tax years, to put towards the cost of this advice without incurring a tax charge.

This 'Pension Advice Allowance' was announced in the 2016 Budget and implemented in April 2017. It is part of a government initiative to give more people access to advice so that they can plan better for their retirement.

And it seems there is a genuine need for this support; with research from Citizens Advice suggesting that nearly half of people (49%) are worried they won't have enough pension savings for a comfortable retirement.

The value of advice

While the cost might be a barrier to some in terms of taking financial advice, it can make a positive difference to the amount of retirement income you could receive.

Research has found that when approaching retirement only 22% of people know the value of their pension pot and only 14% of people would be confident planning their retirement goals without financial advice.

The £500 allowance allows you access to retirement advice at different stage in life, eg; when first choosing pension or just prior to retirement. The value of this advice should not be underestimated. UK savers with a pension pot of £100,000 save, on average, £98 more every month and receive an additional income of £3,654 every year of their retirement, if they take financial advice.

At a glance

The Pension Advice Allowance of £500:

- can be used up to three times, only once in any tax year
- is available at any age
- can be redeemed against the cost of face-to-face regulated advice
- will be available to holders of defined contribution pensions and hybrid pensions with a defined contribution element

Taking advice on your pension planning could give you extra income every year in retirement

OW0891 Exp. 19/07/18

Lasting Power of Attorney

A will deals with matters in the event of your death, but what if you became unable to handle your affairs while still alive?

If you would like any assistance in deciding whether an LPA would be suitable for you, or any help setting up an LPA, please get in touch.

As you get older, a physical or mental illness could affect your ability to manage personal affairs. If the prospect of this worries you, you should consider setting up a Lasting Power of Attorney (LPA). This is a legal document which allows you to appoint one or more people to either help you make legal decisions, or make them entirely on your behalf.

Knowing that your financial affairs will be looked after by people you trust can give you valuable peace of mind.

Types of cover

There are a number of different types of LPA available depending on the requirement:

1. Ordinary POA
2. Lasting POA
3. Enduring POA (replaced by LPAs on 1 October 2007, but still valid if you signed one before this date)

Ordinary Power of Attorney can be used while you still have the mental capacity to make your own decisions, but need temporary assistance. For example, if you are hospitalised or on holiday and you want to empower someone to make financial transactions on your behalf.

Lasting Power of Attorney is required if you want to give someone the legal authority to make decisions on your behalf in the event you lose mental capacity. There are two types of LPA:

1. Health and Welfare LPA - your appointed ‘attorneys’ will be able to act on your behalf if you become completely unable to make decisions regarding your own wellbeing. For example, if your circumstances mean you require full time care, or a particular medical treatment they will step in and act in your interests.
2. Property and Financial Affairs LPA - your attorneys can make decisions concerning your bank accounts, paying bills or even selling your home if required. Unlike the Health and Welfare LPA, this version can be used as soon as it is registered, but only with your permission – ie. you are still fit to make other decisions on your affairs.

Choosing your attorneys

When deciding who you would like as your attorneys, there are a few things to consider:

- How well do you know them?
- How well do they look after their own affairs?
- Do you trust them to make decisions that are best for you?
- Will they be comfortable making these decisions?

If you choose more than one attorney, you’ll also need to decide whether they will make decisions separately or together.

When you set up your LPA you can nominate replacement attorneys in case your chosen attorneys become unable to carry out the role for whatever reason.

Lasting Powers of Attorney are not part of the Openwork Limited offering and are offered in our own right. Openwork Limited accepts no responsibility for this aspect of our business.

Lasting Power of Attorney is not regulated by the Financial Conduct Authority.

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The value of our advice

Good financial advice and planning helps people to protect and build their assets, make the most of their investments and help to achieve the goals and lifestyle they desire.

For more information about any of our services, please get in touch.

Establishing priorities

Every client we meet has a unique and varied range of financial planning needs, so it's important to establish priorities right from the start if we are to create a meaningful and relevant plan.

As time passes, your financial plan will need to evolve, and regulatory changes can impact the effectiveness of any structures already in place. That's why we recommend a regular review to ensure that your plans remain on track and relevant.

The importance of ongoing advice and service

If you choose to receive ongoing advice and service from us, we'll invite you to regular meetings where we will monitor the progress of your plans and discuss any adjustments required in the light of changing circumstances.

We believe that ongoing service can help you continue to make well-informed choices and give you the best chance of achieving your goals through key life stages.

Five promises we make to our clients

1. We will help you arrange your finances so that they work as effectively as possible towards funding your life goals.
2. We will help you take steps to ensure your income, assets and family are protected from the impact of long-term illness, disablement or death.
3. We will advise you on how your investments can benefit from relevant tax reliefs and allowances. We will also advise you on the most effective way of withdrawing income or capital from your arrangements when the need arises, or how best to pass wealth to your intended beneficiaries.
4. We will help you keep your plans in focus by regularly meeting with you to review and refresh arrangements. This might be a result of changing personal circumstances, legislation, new opportunities and any other factors relevant to your situation.
5. We will be accessible and responsive whenever you wish to contact us with queries or requests.

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