Financial Landscape

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Carpenter Rees Ltd

Estate matters

Structuring your affairs efficiently means starting the correct planning early enough

Inheritance Tax (IHT) is payable by some people that, for the most part, could have been avoided. If you want your estate to go to your loved ones with the minimum amount of IHT payable, you should obtain professional advice.

There are currently a number of generous reliefs relating to IHT. Indeed, if the correct planning is started early enough, it may be possible to avoid IHT altogether.

NEW MAIN RESIDENCE TRANSFERABLE NIL-RATE BAND

From 6 April 2017, there will be a new main residence transferable nil-rate band (family home allowance) that will apply when a main residence is passed on to a direct descendant. This new main residence transferable nil-rate band will work alongside the existing IHT nil-rate band, which is currently £325,000. In the same way as with the current nil-rate band, any unused main residence transferable nil-rate band will be transferred to a surviving spouse or registered civil partner.

A property which was never a residence of the deceased, such as a buy-to-let property, will not qualify. The allowance will initially be set at £100,000 in 2017/18, increasing to £125,000 in 2018/19, £150,000 in 2019/20 and up to £175,000 in 2020/21 (and then increase each year in line with inflation [CPI]).

EFFECT OF THE PROPOSED CHANGES

Few taxes are quite as emotive – or as politicised – as IHT. The structures into which you transfer your assets can have lasting consequences for you and your family. The current rate of IHT payable is 40% on property, money and possessions above the nil-rate band. The rate may be reduced to 36% if 10% or more of the estate is left to charity.

It makes sense to ensure that your affairs are structured in the most tax-efficient way possible. However, it isn't easy to keep up with the many exemptions and reliefs available. So what should you consider?

LIFETIME GIFTS

Lifetime gifts to individuals are potentially exempt transfers and fall outside the scope of IHT, provided the donor survives at least seven years from the date of the gift.

TRUSTS

Trusts can sometimes help you to eliminate unnecessary tax charges, enabling the maximum possible part of your family's wealth to be preserved. You may like to transfer part of your wealth to a family member but still retain control; our specialists can advise on setting up trusts and can take care of all the administration.

WILLS

One important way to minimise IHT is to make a Will, so as to leave your family with the maximum assets and at the least tax cost.

ENJOY SPECIAL CONCESSIONS

The treatment for IHT purposes is more favourable for some assets than others. Business assets and shares in unquoted companies, agricultural land and works of art, for example, all benefit from special concessions which may assist in passing wealth from one generation to the next. ■

ARE YOUR NEEDS FULLY CONSIDERED?

Without the right advice and careful financial planning, HM Revenue & Customs could become the single largest beneficiary of your estate following your death, which is why you should obtain professional financial advice to ensure your needs are fully considered. To review your situation, please contact Carpenter Rees on 03330 100777 or email hello@carpenter-rees.co.uk.

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Financial planning for people and business.

Taxing times

Reduction in the amount those with income of more than £150,000 can contribute tax-free to pensions each year

A gradual reduction in the tax-free limit on pension contributions from the current £40,000 a year to £10,000 for high income individuals was announced by the Chancellor, George Osborne, in the July Summer Budget 2015. High income individuals could see their retirement pots reduced by hundreds of thousands of pounds over a lifetime after he confirmed that pensions tax relief will be reduced for those with income (including all pension contributions) of more than £150,000.

NEED MORE INFORMATION?

Looking for more information about how the reduction in the tax-free limit on your pension contributions could impact on you? To find out more, please contact Carpenter Rees on 03330 100777 or email hello@carpenter-rees.co.uk.

The Government has pressed ahead with plans to progressively reduce the annual amount those with income over £150,000 can contribute tax-free to a pension each year.

TAPERED ANNUAL ALLOWANCE

With effect from 6 April 2016, the Annual Allowance of £40,000 will be reduced by £1 for every £2 of income over £150,000 per annum, up to a maximum reduction of £30,000. This means individuals with 'adjusted income' of £210,000 or more will only have an Annual Allowance of £10,000.

The income definition of 'adjusted income' will include any employer pension contributions. This means that the tapered allowance cannot be manipulated by reducing income via salary sacrifice.

While the annual contributions will be capped at this low level in future, there may still be an opportunity for individuals caught by this change to maximise contributions with the use of two particular measures.

CARRY FORWARD ALLOWANCES

All individuals are able to carry forward any amount of their Annual Allowance that remains unused for up to three full tax years. While their levels of carry forward accrual will be significantly limited in the future, high earners who currently have carry forward relief should consider using it before it expires.

Annual Allowances for the previous three tax years:

2012/2013	2013/2014	2014/2015
£50,000	£50,000	£40,000

Anyone who has not fully maximised their pension contributions across these back years could make use of accrued carry forward and receive additional-rate relief before the end of the current 2015/16 tax year. If the carry forward allowance for the above tax years is not used, it will start reducing as each year falls off and will be lost completely by 6 April 2019. The levels of unused relief from the tax years before 2016/17 will still be available in full (subject to falling within the previous three tax years), but in any years from 2016/17 onwards where the annual allowance has been reduced, only the balance of the tapered annual allowance will be available for carry forward to future years.

PENSION INPUT PERIODS

A further change which will considerably simplify the Annual Allowance is the alignment of Pension Input Periods (PIP) to the tax year. A PIP is the period over which an individual's pension savings are tested against the Annual Allowance. It has previously not always been aligned to the tax year, but all existing PIPs open on 8 July 2015 automatically ended on this date. A new PIP then opened on 9 July will run to 5 April 2016. Future PIPs will then be aligned with tax years.

For those who have made contributions in PIPs ending between 6 April and 8 July 2015, the Annual Allowance for 2015/16 could be as much as £80,000. The £80,000 allowance is split between contributions paid in the two (or, in some cases, three) PIPs. Anyone with a PIP that previously ended between 6 April and 7 July will have a PIP that had already ended in the pre-alignment tax year, plus the additional PIP that was ended by the Government on 8 July 2015, so could have three in total in 2015/16. Any allowance not used up to 8 July 2015 could be carried forward to the post–8 July PIP, but up to a maximum of £40,000.

This provides a one-off opportunity to those who have paid contributions in PIPs ending between 6 April and 8 July 2015 of less than £80,000 to make additional contributions in this tax year of the balance of the £80,000, up to a maximum of £40,000 if they have sufficient earnings to use against an additional contribution in the current tax year, or it can be made as an employer contribution. Anyone who has made no pension contributions in PIPs ending between 6 April and 8 July 2015 can make contributions of up to £40,000 in the period between 9 July 2015 and 5 April 2016.

Coming in a year that has witnessed the biggest shake-up to pensions in more than a century, the Chancellor also indicated he might be willing to go further with reforms to retirement savings.

He said the recent pension freedoms had helped those who had 'worked hard and saved hard all their lives', but that now it was time to look at those starting to save.

'For the truth is Britain isn't saving enough and that's something we need to fix in our economy, too,' he said. ■

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

A PENSION IS A LONG-TERM INVESTMENT. THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN. YOUR EVENTUAL INCOME MAY DEPEND UPON THE SIZE OF THE FUND AT RETIREMENT, FUTURE INTEREST RATES AND TAX LEGISLATION.

AMOUNT OF CONTRIBUTION WHICH COULD BE PAID BASED UPON DIFFERENT LEVELS OF CONTRIBUTION PAID BEFORE JULY 2015:

Contributions paid in PIPs ending between 6 April and 8 July 2015	Annual Allowance 9 July 2015-5 April 2016
£0	£40,000
£20,000	£40,000
£40,000	£40,000
£60,000	£20,000
£80,000	£0

Investing

Five principles to consider

Successful investing involves making choices that meet your unique needs today and your financial goals for the future. Your personal circumstances will affect your decisions every step of the way.

Whether you are saving for a home, retirement or your child's education, here are five investing principles to consider:

1. INVEST FOR THE LONG TERM

It may seem very obvious but the longer you invest, the bigger the potential effect of compound performance on the original value of your investment. Many investors will be familiar with the term 'compounding' from owning cash savings accounts. The term refers to money multiplying itself by earning a return on the return. Over time, compounding can make a significant difference.

Your investments can also benefit from compounding in a similar way if you reinvest any income you receive. You should remember, however, that the value of stock market investments will fluctuate, causing prices to fall as well as rise, and you may not get back the original amount you invested.

2. UNDERSTAND YOUR INVESTMENTS

While a well-constructed portfolio can produce a healthy return for investors, the opposite is also true. It is easy to incur permanent losses by putting money into an asset that behaves in an unexpected way. Investors should always set aside time to try and understand what it is they want to hold.

The type of investments you choose will also depend on whether you're saving for long-term or short-term goals. For your long-term goals, you may want to consider long-term, growth-oriented investments. Your short-term goals call for investments that are more conservative and more accessible. For example, if you're investing to save for a house deposit, you'll want quick and easy access to your funds.

3. AVOID PORTFOLIO COMPLACENCY

The mix of investments within your portfolio is also known as your portfolio's 'asset allocation'. A portfolio should typically hold a combination of savings, income and growth investments. History is no indication of how an investment might act in the future, and investors should always try to weigh the potential risks associated with a particular investment alongside the prospective rewards.

One consideration is to invest smaller amounts over time – also known as 'pound-cost averaging' – to benefit from lower average costs than infrequent purchases. For example, your money will buy more units or shares within a fund when prices are low, and fewer units or shares when prices are high. Provided the fund gains in value over the long term, you'll have the opportunity to profit from your purchases during short-term price declines.

4. SEEK BROADER OPPORTUNITIES

As we witnessed in 2008 following the collapse of US investment bank Lehman Brothers, unexpected or adverse newsflow can have a significant effect on stock market performance. More recently, the crisis in Greece may well present broader opportunities in European stocks for investors willing to take on a certain level of risk.

Indeed, there have been times when highly cash-generative, defensive businesses capable of creating value in a range of market conditions have been subjected to the same negative sentiment that has driven down the price of stocks more sensitive to economic cycles and those that are poorer quality.

5. FOCUS ON THE REAL RATE OF RETURN

Inflation, taxation and charges (such as dealing, switching and ongoing charges) are three of the factors that can affect the real rate of return on your investment. There are certain options that can reduce costs, including the use of tax-efficient wrappers, namely Individual Savings Accounts (ISAs), private pension plans and employment 'save as you earn' schemes.

There are also inflation-protected instruments, such as index-linked bonds (interest-bearing loans where both the value of the loan and the interest payments are related to a specific price index – often the Retail Prices Index), National Savings investments or commercial property holdings, where rents can often be increased in line with the rate of inflation. ■

DO YOU HAVE THE RIGHT INVESTMENT STRATEGY?

Creating and maintaining the right investment strategy plays a vital role in securing your financial future. Whether you are looking to invest for income or growth, we can provide the quality advice, comprehensive investment solutions and ongoing service to help you achieve your financial goals. To find out more, please contact Carpenter Rees on 03330 100777 or email hello@carpenter-rees.co.uk.