anthony, bryant

Winter 2014

financial FOCUS

Making the most of your investments

In this issue:

Preparing for auto-enrolment
The many guises of investment risks
Lasting Powers of Attorney
Pension estate planning gets a boost

Contents

Auto-enrolment: employers need to be prepared 3
Are you ready for your auto-enrolment staging date?
©iStock/Ridofranz

Making the most of your investments 4–5
In a low interest environment, how can you generate more income?
©iStock/weerapatkiatdumrong

The many guises of investment risks 6
There are different types of risk associated with investing. We look at them in detail.
©iStock/DanCardiff

Lasting Powers of Attorney 7
We take our health for granted, but what if something were to happen? An LPA can give you and your family peace of mind.
©iStock/Ivan Blitznetsov

Making the most of your ISA 7
Cash is not the only tax-saving route.
©iStock/Goodluz

Pension estate planning gets a boost 8
Pensions have become more attractive in estate planning thanks to the recent changes to tax treatment of death benefits.
©iStock/kodachrome

Cover image ©iStock/aabejan

This newsletter is for general information only and is not intended to be advice to any specific person. You are recommended to seek competent professional advice before taking or refraining from taking any action on the basis of the contents of this publication. The Financial Conduct Authority (FCA) does not regulate tax advice, so it is outside the investment protection rules of the Financial Services and Markets Act and the Financial Services Compensation Scheme. The newsletter represents our understanding of law and HMRC practice as at 28 October 2014.

The politics of tax saving

©iStock/imagestock

If you are expecting to benefit from Government tax cuts any time soon, you may be disappointed.

You may think that with the current relatively high UK rate of economic growth and the fall in unemployment, the worst may be over and the government can therefore afford to ease up on the austerity. Sadly this is unlikely to happen for some time – whatever the political complexion of the next government following the May 2015 election.

The Government is still spending much more each year than it is collecting in taxes. The gap was unexpectedly high at £99 billion last year and it looks as if we will underperform the deficit reduction target for the current year as well. That was even before investing in capital projects like schools, roads and hospitals.

In fact there's a fair chance that taxes will have to rise further, because it is generally hard to balance the budget simply by cutting government expenditure, especially after several years of cutbacks and economies.

So if tax cutting is unlikely from the government in the next few years, where are the areas you can still carry out some effective tax planning?

Pensions remain one of the most tax-efficient investments available - and the recent changes to the way you can draw pension benefits after age 55 have made them even more attractive. The tax position of pension funds when the policyholder dies is also set to improve substantially. Most people do not invest the maximum they could in pensions. The annual allowance is £40,000 and the maximum tax-efficient amount that can be invested in a pension is currently £1.25 million.

The annual ISA allowance has been increased to £15,000 a year per investor. So it is now much easier to accumulate substantial funds in this favoured environment that is free of UK tax on investment income and capital gains.

Life assurance based lump sum plans can provide an effective way to generate income that can suffer less income tax than direct holdings of investments, although they do need careful planning to achieve the best outcomes.

Ask us to carry out a tax-saving review for you.

The Financial Conduct Authority does not regulate tax advice.

Auto-enrolment: employers need to be prepared

It is over two years since larger businesses and other organisations first started to bring their employees into pensions schemes under the new automatic enrolment rules that are due to apply to all employers.

Things have gone very well according to The Pensions Regulator (TPR), but there are warnings that many smaller employers are still unprepared to meet their legal duties.

Under the automatic enrolment rules, all employers will have to enrol their employees into qualifying pension schemes. Employees can opt out if they wish, but it is a criminal offence to induce them to do so.

A good start

The first two years of automatic enrolment have been hailed as a great success. Four and a half million people have been automatically enrolled, which is around half the expected final total. TPR has flexed its muscles with 23 formal actions against employers by the end of June 2014, but no fines yet. All of this is much more positive than many feared.

The National Employment Savings Trust (NEST), which the Government set up to ensure that no employer is unable to find a pension provider, enrolled its millionth member in April 2014. Like other similar schemes, it continues to grow rapidly. NEST recently revealed that around one in ten employees is choosing to opt out. Some pension providers and payroll systems have experienced teething problems, but generally administration appears to be running smoothly.

An uncertain future

To guard against complacency, TPR marked the anniversary by issuing a strong warning to smaller employers: "the numbers of times we will need to use our compliance powers will rise." There are two main reasons for this warning:

- The vast majority of employers still have to reach their 'staging dates', and the number who have to implement automatic enrolment each month has been described as a tsunami, with peaks and troughs but with each wave much bigger than the last. The first wave saw around 12,000 employers a month due to stage in both May and July 2014. There is now a pause before numbers start to build up again in late 2015, becoming a flood in the second half of 2016, with around 35,000 employers each month, and peaking at 70,000 a month in the summer of 2017. The massively higher numbers mean that, inevitably, there will be less individual support for employers than has been the case up to now.
- Most large employers already had some pension provision which could be adapted to meet the new requirements, but that is not generally true of small companies. A recent TPR survey found that 20% of small employers (under 50 staff) and almost half of micro employers (under 10 staff) do not even know when their staging dates are.

Act now

The automatic enrolment requirements are complex for employers, and TPR found that 89% of smaller and medium-sized employers and 64% of micro-employers plan to consult an external adviser. That will greatly assist the process of understanding the requirements, dividing staff into different groups as the legislation requires, choosing an appropriate pension scheme, enrolling staff and communicating with them.

TPR recommends starting planning 12 months before your staging date, at which point it will write to you, but there will be benefits in getting ahead of the game and avoiding the last-minute rush. As TPR said, "Act now, be prepared or risk a financial penalty."

If you need help in planning for and implementing automatic enrolment, please get in touch to discuss what you have to do.

Auto-enrolment is regulated by the Pensions Regulator.

Making the most of your investments

Interest rates are unlikely to increase in the near future, according to the chief economist at the Bank of England. His view does not come as good news for people who depend on bank and building society deposit accounts to generate much of their income. But other options are available.

Peer-to-peer lending

Peer-to-peer (P2P) lending has grown in popularity because you can receive higher rates of interest than may be available from a traditional deposit account. Essentially, instead of lending to your bank, which then lends to its customers, you lend direct to many different customers via one of the specialist P2P websites.

As no bank is involved, your loans do not benefit from the £85,000 government protection that most other deposits enjoy. It is riskier than placing money in a bank and it is generally harder to get your money back early if you need it.

Dividend income

Many investors have been attracted to share-based investments because of the higher income yields they can provide. Currently the dividend yield on the top 100 listed UK companies (the FTSE100) is more than double the more competitive savings rate for deposits. Obviously this could change.

The most popular approach is to invest in funds that specifically aim to generate income from dividends. But they are not at all the same as deposits and you should not judge an investment just by the income you receive from it. In the long term, UK equity-based funds have generally paid out a growing income and their capital value has also risen, but this is not guaranteed.

Fixed interest investments

Bonds or fixed interest investments are another type of fund that you may well be considering if you are seeking income. Like deposit accounts they pay interest, but your capital is at risk, although they are normally less volatile than equity-based investments. Bond funds have generally performed well over the last 20 years or so as interest rates have sunk lower and lower. But if interest rates start to rise again at some point, they may well lose value.

> Interest rates are unlikely to increase in the near future, according to the chief economist at the Bank of England.

ISAs

One of the problems with investment income is that it is subject to income tax. ISAs are outstanding vehicles for producing tax-free income – using bonds or equities or both. They are particularly worthwhile for higher rate taxpayers, people who expect to pay capital gains tax (CGT), and basic rate taxpayers who invest in bonds or cash.

Capital gains

Another approach to topping up your income is to invest for growth, at least to some extent, and to encash capital gains on a regular basis. The amount of capital gains you can realise tax-free after taking into account any realised losses is £11,000 in the current tax year.

Life assurance bonds

The special tax treatment of life assurance bonds can be valuable to investors who already make full use of their CGT exempt amount. Five per cent of the original investment in such a bond can be taken as 'income' each year, with the tax normally deferred until the life assurance bond is surrendered. With careful planning, it may be possible to arrange for the year of encashment to be a low tax year, meaning higher or additional rate tax may not have to be paid on this 'income'.

Past performance is not a reliable indicator of future performance. 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.

The Financial Conduct Authority does not regulate cash ISAs.

31 January deadline for self-assessment

One of the most important dates in the tax year for individuals who submit a self-assessment form, 31 January, will soon be here again. It's generally the latest date by which you should have filed a tax return for the previous year without incurring a penalty. So for 31 January 2015, the tax return should refer to the tax year 2013/14 that ended on 5 April 2014.

The balancing payment for 2013/14 will also be due. This is the tax and class 4 NIC payable for 2013/14 less any payments on account that you may have made. The balancing payment includes any capital gains tax and student loan repayments due for the year. What's more, the first payment on account for 2014/15 will be due as well – normally estimated as 50% of the tax and class 4 NIC payable for 2013/14.

The many guises of investment risks

Most people are aware that potentially higher gains go hand in hand with potentially higher risk. However, there are many different types of risk and here we examine some of the main types of risk that are most likely to affect your investments.

Inflation risk

The buying power of your capital will decrease over time as inflation erodes its value. The Bank of England target for UK inflation is 2% a year, with the actual rate of price increases sometimes more and occasionally less. An annual income of £1,000 after 10 years of inflation at 2% will be worth about £820; after 20 years, it will be worth just £673.

Just to keep pace with inflation, an income of £10,000 a year in 2014 would have to be worth at least £13,797 by now. Ideally, you should aim for your investments to keep their real value; so they need to grow at least 2% a year after tax and costs just to stand still. A key aim of much investment planning is to protect portfolios against the effects of inflation.

Risk to capital

Some investments like equities, property and, to some extent, bonds provide the opportunity for growth in their value, but also the risk that they may fall in value. The fall may be temporary, and may be followed by a resurgence after days, months or sometimes even years. But sometimes a loss can be permanent. One of the key reasons for diversification, placing your investment eggs in more than one basket, is to reduce these risks.

Income risk

Your income may be of more immediate relevance to your financial wellbeing than the capital value of your portfolio. If you rent a flat to a tenant, you may be less concerned about fluctuations to the value of the property than the regularity and security of the rental payments. It is much the same with equity and property-based-funds. The dividends from these investments may be more important than their capital value for many investors.

Shortfall risk

Sometimes investors find that their pensions or other investments do not meet their expectations. This is called shortfall risk. A shortfall could arise for several reasons. The investor might have unrealistic expectations of how their investments will perform; annual investment returns of 10% may occur, but it is not sensible to bank on them year after year. The investor may be starting with too small a sum or simply saving too little.

A common cause of shortfall risk is investing in assets that stand virtually no chance of delivering high enough returns. Pension investing over a period of several decades should generally be based on equities, with some exposure to property and bonds. Prolonged investing in cash is not likely to produce satisfactory long-term returns.

We are happy to help you decide how much risk you are prepared and able to take and what you want to avoid. All investments involve some kind of risk, although that might not seem to be the case in retrospect.

Past performance is not a reliable indicator of future performance. 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.

Lasting Powers of Attorney

Any of us could have an accident, an age-related illness or a mental or physical condition at any point in our lives. They can strike anyone at any time, and often without warning, resulting in the person affected losing the ability to manage their own affairs.

Making a Lasting Power of Attorney (LPA) while you are still fit and healthy can ease the burden on your family – and you – by giving them the authority to act on your behalf if you were to find yourself mentally or physically incapacitated.

There are two types of LPA: a property and financial affairs LPA which allows someone else to make decisions about money matters, such as paying bills and running bank accounts; and a health and welfare LPA which nominates someone to make decisions about your healthcare, living arrangements and also expresses your wishes about life-sustaining treatment.

The key difference between the two is that a property and financial affairs LPA can be used while the donor still has capacity, should they wish this to be the case, whereas the Health and Welfare LPA can only be used once the donor has lost capacity.

A costly alternative

If you do not have an LPA in place and later become mentally incapacitated, someone will have to make an application to the Court of Protection to become your Deputy before they can access and take control of your finances. Making such an application to the Court is far more complicated, costly and stressful than setting up an LPA. What is more, the Court will impose various ongoing costs and duties imposed on the Deputy after granting the Deputyship Order.

It may be necessary to pay an annual supervision fee to the Court of Protection. The Deputy may have to take out a security bond to cover their actions as a Deputy, and every year they have to provide a Deputyship Report to the Court.

By making an LPA now you will avoid these complications in the future if the worst should happen, and it will give you and your family the peace of mind of knowing that you have done all you can to ease the burden on others. You can then get on with your life with the hope that your attorney will never have to use it. We are here to advise you.

The Financial Conduct Authority does not regulate will writing or LPAs. The value of your investment can go down as well as up and you may not get back the full amount you invested.

Making the most of your ISA

Cash is still by far the most popular type of ISA investment, according to HMRC statistics. But it may not be the best use of this precious tax-free facility for many people.

An ISA really comes into its own after an investor has built up plenty of accumulated income and gains. Cash is not usually a very attractive long-term investment, especially at present with the currently prevailing low interest rates.

However, if you cannot afford to invest for the long term, an ISA can make sense as a home for short-term cash reserves, because it is simple and saves a small amount of tax on the interest.

But if you are saving for the longer term – say for at least five years – then consider looking for a longer term investment, where the tax freedom of the ISA will have a chance to build up some real value. Of course, this will mean investing in assets like property or share-based funds that can fluctuate in value.

Past performance is not a reliable indicator of future performance. 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.

Pension estate planning gets a boost

More generous tax treatment of death benefits that has been recently announced has increased the attractiveness of pensions in estate planning.

George Osborne is developing a habit of pulling pensions rabbits out of his hat. In the 2014 Budget he proposed astonishing new flexibilities for pension plans at retirement. Then at his party conference he announced surprising plans to eliminate taxes on many inherited pension funds. This has made pension savings even more valuable for estate planning and inheritance tax planning.

Death before age 75 Currently, when a pension scheme member dies before age 75 and the remaining fund is paid as a lump sum, there is generally no tax due if you have not started drawing on the pension. To achieve this, the scheme administrator must select the beneficiaries or the money must be placed in a trust established for the purpose. There is generally a 55% charge if the member has received the tax-free lump sum and the pension is in income drawdown. Alternatively, a pension income may be provided for a dependant, taxable at their marginal rate.

From 6 April 2015 the Government plans to remove all tax on death before age 75 if the scheme pays the death benefit to someone nominated by the member. This applies to both lump sums and withdrawals from income drawdown. However, if the payments come from an annuity they will be taxable as the recipient's income.

The new rules apply to pension scheme members who die before 6 April 2015, as long as no payment is made before that date.

Death after age 75 Currently, on death after age 75 lump sums paid from pre-retirement pension or income drawdown are taxed at 55%. From 6 April 2015 that will reduce to 45%, and it may change to the recipient's marginal rate a year later. Income payments will be at the recipient's marginal rate, as they are at present.

Action required The new rules will increase your control over your pension fund if you die, and they may therefore affect how you fund your income in early retirement. You must also tell your pension scheme who you nominate to inherit your pension fund. We can advise you, taking into account further clarifications as they emerge.

Past performance is not a reliable indicator of future performance. The value of your investment can go down as well as up and you may not get back the full amount you invested. Tax and pension laws can change.

Upfront payment of tax

This year's Finance Act gave HM Revenue & Customs (HMRC) the power to require an upfront, or accelerated, payment of tax where a taxpayer has made use of a tax avoidance scheme which is under dispute with HMRC. A list of nearly 1,200 affected schemes has already been published, and HMRC started issuing accelerated payment notices in August. Payment is required within 90 days, and late payment will initially attract a 5% penalty. The notices cannot be appealed. The substantial tax payments now faced by those already notified should act as stark warning that aggressive tax avoidance can end up being costly.

anthony,bryant

Anthony,Bryant
Independent Financial Advisers
28 Eccleston Square
London SW1V 1NZ

Telephone: 0207 630 9696
Fax: 0207 932 2461

Email: info@anthonybryant.com
Web: www.anthonybryant.com

Authorised and regulated by the Financial Conduct Authority
Anthony,Bryant & Company (Investment Consultants) Limited.
Registered Office as above.
Registered in England No 1225777