moneyworks

The essential consumer guide to making your money work harder.

Spring Edition

Is it time to talk?

After a tough financial year, is now the time to discuss your finances?

Opportunity knocks

We report on the latest controversial budget and how it may affect you.

Keep your house in order

Plan ahead to make sure your family don't face any unwanted burdens.

One step at a time

We look at how The 2015 pension freedoms are encouraging more people to make a smoother transition into retirement.

anderson sinclair & CO LLP

Welcome

Welcome to the spring issue of **moneyworks**, the quarterly consumer publication which brings you the financial news of the moment and the impact it may have on you.

Following the controversial March budget by George Osbourne, we look at what it could mean to you and your savings while on the plus side we assess the opportunities it has created to reduce your tax bills.

On another topical issue, we look at how the pension freedoms of 2015 are encouraging more people to make a smoother transition into retirement by phasing down the number of hours they work as opposed to stopping completely.

We also report on the tricky but important issue of estate planning –putting your financial house in order now to help to avoid your loved ones being left to pick up the pieces and foot the bill when you are gone.

Finally we look at the reasons to review your finances following a turbulent global period on the stock market and why now is a good time to sit down with your advisor.

The importance of seeking financial advice is vital to help ensure you and your family make your savings work as hard as possible and we hope this latest issue of **moneyworks** continues to inform and advise you on the important issues affecting us all.

Best wishes

The **moneyworks** team

Terms and conditions

Moneyworks is a publication from Bankhall PMS Ltd. Bankhall is a trading style of Bankhall PMS Ltd which is authorised and regulated by the Financial Conduct Authority.

Bankhall PMS Ltd, The Southmark Building, 3 Barrington Road, Altrincham, Cheshire WA14 1GY - www.bankhall.co.uk

Registered in England, Number 2785381

Registered address: Pixham End Dorking Surrey RH4 1QA.

moneyworks is written and produced by Beyond Magazines and the APS Group.

Contents

Opportunity knocks 4

It was the budget which sparked a thousand headlines, but how will it really affect you?

House in order 5

We report on how making plans for your legacy ahead of time, will make sure your family don't face any unwanted burdens.

One step at a time 6

We look at how The 2015 pension freedoms are encouraging more people to make a smoother transition into retirement.

Is it time to talk? 7

Following a difficult year on the global stock market, why now might be a good time to review your investments.

The News in Brief

A round up of the current financial stories.

An ISA for life

Chancellor George Osborne used the March Budget to unveil a new way for younger people to save for a new home or for retirement – known as the Lifetime ISA.

Available from April 2017 to people aged 18-40, you can save or invest £4,000 a year into a Lifetime ISA, up until you reach 50, and the government will pay an extra 25% bonus on top. The rules are still to be finalised, but it has been made clear that you must use this money to buy a first home or towards your retirement. If you use it for another purpose, you would lose the 25% bonus and have to pay a charge. You would also need to wait until you are 60 to start using the money for retirement or again you would lose the Government bonus and have to pay a charge.

See page 4 for a round-up of the 2016 Budget.

One in five of us aren't saving on a monthly basis

March research by Santander has revealed that one in four people wish they could save more regularly – and 20% don't save anything at all on a monthly basis.

Of those of us who save, on average we put away a quarter of our disposable income, working out at around £120 a month.

Many people realise they need to change their spending habits, so they can save more. 61% of people surveyed admitted to feeling shocked at how much they've spent when checking their bank balance, with 13% acknowledging this rude awakening happens on a regular basis.

(Sources: http://moneyfacts.co.uk/news/savings/different-savings-habits-revealed/)

Pension blow for big savers

The total amount you can hold in your pension over your lifetime, without paying tax, has been reduced to £1 million from this April – meaning it will have almost halved in six years. The Lifetime Allowance was £1.8 million, but it has been continually reduced over recent years.

It was estimated that 460,000 people will be impacted by this latest reduction. Anything above £1 million will be taxed at 55% on withdrawal if taken as a lump sum, or 25% if taken as an income.

[Sources: http://www.moneywise.co.uk/pensions/managing-your-pension/will-you-be-caught-out-the-lifetime-allowance]

The tax treatment depends on the individual circumstances of the investor and may be subject to change in the future. The Financial Conduct Authority does not regulate taxation advice.

What next for interest rates?

It's now more than seven years since the Bank of England took the unprecedented step of cutting interest rates to a record low of 0.5% – and the latest indicators are that base rate could fall even further.

According to a March 2016 report by the Office for Budget Responsibility (OBR), "Our forecast is consistent with Bank rate being reduced below 0.5% for some of the next two years." The OBR doesn't expect rates to climb to 0.75% until 2019 at the earliest – another three years from now.

Whilst low interest rates are good news for borrowers, it has made it extremely difficult to achieve a rewarding return on money held in savings accounts. If you have savings you plan to rely on in the long-term, this gloomy interest rate forecast could mean you may need to consider alternative options.

(Source: http://www.thisismoney.co.uk/money/news/article-3496007/Forecasters-predict-rates-fall-record-low-0-5-two-years.html)

These investments do not include the same security of capital which is afforded with a savings account. The Financial Conduct Authority does not regulate taxation advice.

If you don't ask....

Our expectations over how much we can sell our home for continues to rise – with March figures from Rightmove revealing that the average asking price in the UK has climbed above £300,000 for the first time.

The March total of £303,190 was 7.6% higher compared to 12 months earlier, and it's also means the average asking price is £100,000 more than 10 years ago. Rightmove added that the fastest-rising regions were in the North and West of England.

(Source: http://news.sky.com/story/1663755/average-house-prices-push-past-record-300000)

We cannot be held responsible for the content of external websites

Osborne announced that the rate of capital gains tax would drop from **28% to 20%** (for higher rate tax payers)

Basic rate tax payers benefit from a **lower rate of tax relief (20%).**

Osborne is raising the annual ISA allowance next year too, from £15,240 to a considerable £20,000

Opportunity knocks

Rarely has there been a Budget that has generated as much media coverage as the one unveiled in March, but what's hidden behind the headlines?

It would be fair to assume that Chancellor George Osborne's eighth Budget speech will go down as his most memorable. In the weeks leading up to it, there had been a great deal of speculation he was about to radically alter the pension tax relief rules. In the end reforms in this area remained off the table, but a row over cuts to disability benefits prompted plenty of damaging headlines for the government.

Yet as that high profile fall out rumbled on, away from the spotlight the Budget presents some interesting possibilities for growing your finances and minimising the amount of tax you pay. And with the government not exactly ruling out changing those pension tax relief rules in the long-term, there could be a pressing need to act quickly.

This is because the idea that had been mooted was to introduce a flat rate of tax relief, which would have spelt bad news for higher rate tax payers. At present, they benefit from **40% tax** relief on what they pay into a pension, which can significantly strengthen the size of their pot. For **every £6,000** they save, tax relief tops it **up to £10,000**. Basic rate tax payers benefit from a **lower rate of tax relief (20%).**

With the pension freedoms opening up your options for using your defined contribution pension from the age of 55, the tax relief paid on contributions makes pensions a very attractive way to save for the future – you don't even have to use a pension wrapper to specifically save for retirement.

There are no guarantees that 40% tax relief will remain indefinitely, so if you are a higher rate tax payer you may wish to consider making the most of it while you can. Elsewhere, Osborne announced that the rate of capital gains tax would drop from **28% to 20%** (for higher rate tax payers) and **18% to 10%** (for basic rate tax payers). Capital gains tax is paid on gains you make from selling possessions worth more than **£6,000** or from investment growth. You have an annual allowance of **£11,100**, above which capital gains tax is applied. This change took effect on **6 April 2016**, and means you will pay less tax on returns above your allowance.

Osborne is raising the annual ISA allowance next year too, from **£15,240 to a considerable £20,000**. The personal allowance thresholds on the rate that income tax is charged will also continue to rise in April 2017. The tax-free element will be increased to **£11,500**, and the amount before you pay higher rate tax will be raised to **£45,000**.

This combination of the pension tax relief remaining in place, the drop in the capital gains tax rate, the raising of the ISA allowance and the change in personal allowance thresholds means there are more opportunities to reduce the amount of tax you are paying on your personal finances. A new personal savings allowance was also launched this April, meaning basic rate tax payers no longer pay any tax on the first **£1,000** interest earned – **and higher rate tax payers won't have to pay tax on the first £500 of interest earned.**

The tax treatment depends on the individual circumstances of the investor and may be subject to change in the future. The Financial Conduct Authority does not regulate taxation advice.

Put your house in order

By making plans for your legacy ahead of time, you can make sure your family don't face an unwanted burden.

Estate planning: it's complicated, it's time-consuming and it's becoming increasingly expensive. Although, understandably, you don't want to spend time contemplating your own death, if you don't make plans your family could face some major headaches sorting out your affairs.

When it comes to dealing with your possessions, such as your home and finances, the will executor (often a family member) will have to arrange a grant of probate. This involves applying to the Probate Service and paying a flat fee of around £150-215. However, the government has announced plans to introduce a sliding scale for how much you have to pay, tied to the size of your estate. The consultation period ran until 1 April 2016, with a further announcement to follow.

In the most extreme case – an estate worth more than £2 million – it could mean that the cost of obtaining a grant of probate goes up to £20,000. For a more modest sized estate above £300,000 but below £500,000, the fee would rise to a not inconsiderable £1,000, and for an estate above £500,000 but less than £1m it would be £4,000. When you total up the size of your estate, you might be surprised by how much it is worth. Your loved ones could have to find a four figure sum of money just to begin the proceedings of distributing it.

And that might just be the start of the financial concerns. If your estate is above a certain threshold point, 40% inheritance tax will be charged against everything above it. This could result in a tax bill that runs into thousands of pounds. It would also have to be settled before your family can inherit your estate. If they fail to do it within six months, interest starts to be charged on top.

The inheritance tax threshold is £325,000. If someone's estate is less than the Inheritance Tax threshold of £325,000, the remaining threshold can be transferred to their husband, wife or civil partner's estate when they die. This means the surviving partner's estate can be worth up to £650,000 before any Inheritance Tax is due. The government is introducing a new main residence nil rate band allowance from next year, which will eventually mean a married/civil partnership couple can potentially leave an estate worth up to £1 million inheritance tax-free. However, there are certain qualifying rules which means not everyone can benefit from this extra allowance. For example, it can only be used to leave your main home to a direct descendent.

The double issue of the grant of probate fee, and inheritance tax, could prove painful. Let's say you are divorced with an estate worth just over £500,000. Under the government proposal, it would cost your family £4,000 to obtain grant of probate to access it. As you are also over your inheritance tax threshold by £175,000, your estate would incur a £70,000 tax liability. So they would have to find £74,000 – plus legal fees – to sort out your affairs.

This underlines just how important it is to put plans in place now. There are a number of ways you may be able to reduce any inheritance tax liability your estate carries through some simple planning. Although the grant of probate fee might prove unavoidable, you can at least make arrangements to address it now, to remove the burden.

By sitting down with an expert, you can aim to ensure that – when your time comes – your loved ones won't face the extra pressure of extra bills when dealing with your finances. A clear plan can spring into action that addresses the problem, so they get to inherit as much of your estate as possible.

The Financial Conduct Authority does not regulate taxation and trust advice.

One Step at a Time

The 2015 pension freedoms are encouraging more people to make a smoother transition into retirement.

Everything changes when you enter retirement. And if, like most people, you've spent the last 30-40 years working full time, it can come as quite a shock. Having a job is about more than receiving a wage. There's also a sense of fulfilment gained from making a positive difference to the organisation you are a part of. Trading all of that for retirement, where suddenly there are no commitments and all the free time in the world, can be difficult.

There may be other reasons why taking the leap is tricky. You might not be able to afford to fully retire. Or your health might have suffered in some way so that you can't manage to work as many hours, but don't want to give it up completely.

This is why an increasing number of people have adopted a phased approach to retirement. Rather than stopping working completely, they start to reduce their working hours. It means gaining more free time and, with it, the chance to dip your toe into the water of what retirement life is all about – whilst still retaining many of the positive aspects you associate with your job.

By not slowing down quite so suddenly, you can also stay more mentally and physically alert – which could make a real difference to your long-term wellbeing.

With the pension freedoms, you can choose when you want to start accessing your pension* – and how you want to use it. This could mean keeping it invested via a drawdown option, and choosing to take a regular income or make withdrawals when you need it. In the meantime, your pension has the potential to continue growing in value. The trade-off is that your money would continue to be exposed to a level of risk. Another option might be to use some of the pot to arrange a fixed term annuity, which would pay you a set income for a specified period of time.

Accessing pension benefits early may impact on levels of retirement income and is not suitable for everyone. You should seek advice to understand your options at retirement. If required, you would be able to continue saving into the pension through your employee wage. Compared to being fully retired, you wouldn't be as reliant on your pension and therefore be taking lower amounts from the pot – this means your savings may last you longer.

If you were to take this route of using your pension before you fully retire, it's important to be aware of the withdrawal tax implications – which, coupled with your employee wage, could see you pay income tax at a higher rate. Equally, withdrawing too much too soon could significantly reduce the value of your pension pot, causing issues later in life.

The tax treatment depends on the individual circumstances of the investor and may be subject to change in the future. *Pensions cannot be accessed before the age of 55 unless someone has retired earlier on the grounds of ill health or they have a low protected pension age.

Is it time to talk?

After a tough financial year, is now the time to discuss your finances?

In April 2015, the UK's major stock market – the FTSE 100TM – climbed to a new record high. Barely eight months later, it had slumped by more than 20%. Market rises and falls might be part and parcel of life as an investor, but the last 12 months have seen some large extremes.

In the mid-part of 2015, there was a great deal of uncertainty over Greece's financial future and, with it, the Eurozone. Despite heavy political turmoil, that crisis was averted, but then attention quickly shifted to the world's largest economy. China has endured an economic slowdown that has had a wide-ranging impact, with many markets enduring falls.

Next came the issue of falling in oil prices, from a 2014 peak of $115 a barrel, to a 12-year low of $28 in early January. Countries whose economies are heavily dependent on oil production – such as the UK – have been hurt by these tumbles.

With the growing uncertainty over the UK's future in the European Union, and the European Central Bank having introduced yet more monetary stimulus support for the region, these testing times for markets look set the continue for much of 2016. Investors should strap themselves in for a bumpy ride.

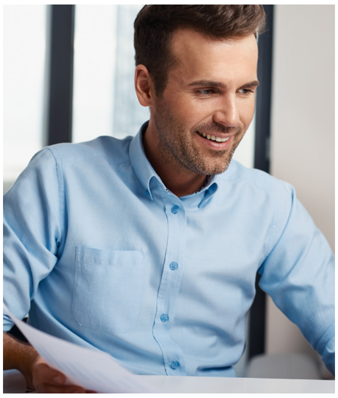
Not that it is all doom and gloom, far from it. When some countries and industries struggle, others can find opportunities and prosper from the changing landscape. Certainly there can be plenty of winners from the fall in oil prices. For example, the fact it is cheaper for all of us to fill up our cars means we have more money to spend on other items. Other companies can benefit from this, which in turn boosts investors with holdings in these organisations and sectors.

Whilst it is true that some asset classes and companies have seen their valuations fall, hurting investors with holdings, this might prove to be a short-term blip. Investors who remain composed may not make the mistake of encashing their holdings in haste. Doing so risks incurring losses, whilst denying them the opportunity to potentially benefit from future recoveries and gains. As the famous American investor Warren Buffet put it, "If you aren't thinking about owning a stock for 10 years, don't even think about owning it for 10 minutes."

Nevertheless, it makes a lot of sense to review your investments following a period of market volatility. By doing so you can check if their performance is what you could realistically have expected over the previous 12 months, or if you need to consider making changes.

For example, if you hold an investment that is designed to perform well during market rises, but is susceptible to struggle when they fall, it stands to reason it is likely to have under-performed over the previous 12 months. That doesn't mean you should encash it, as it might continue to be suitably positioned to benefit from rises in the long-term. However, if you have a more cautious investment that aims to preserve capital during market falls, but it failed to do so adequately enough, you might wish to consider your options.

Ultimately, you should look to speak to an adviser and ask for their expert help. They can review the performance of your investments and – crucially – assess if you remain on track to achieve your financial goals. If it looks as though you need to consider making changes, they can outline your options and make recommendations.



Not that it is all doom and gloom, *far from it.*

And finally....

To Brexit or to stay? That is the key question that every member of the British public is being asked to consider and vote on.

Thursday 23 June will see the country hold a referendum on Britain's ongoing membership within the European Union (EU) – a vote which was one of the Conservatives' pre-2015 election promises.

Earlier this year, Prime Minister David Cameron spent a great deal of time attempting to agree a more favourable trade deal with the EU. He is strongly of the belief that the UK should stay in the EU, but this view is not universally shared amongst Conservatives and several have broken rank. The most high profile campaigner for Britain to leave – or Brexit – is the Mayor of London, Boris Johnson.

With the campaigning set to dominate the news agenda in the run-up to 23 June, expect to hear plenty of contrasting views aired over whether Britain should stay or leave. Experts are forecasting that markets could experience some volatility over this uncertainty, and that this might continue should the nation vote to Brexit.

Anderson Sinclair & Co LLP

The Leatherhead Institute
67 High Street
Leatherhead
Surrey
KT22 8AH

anderson sinclair & co LLP

enquiries@andersonsinclair.co.uk

01372 379345

www.andersonsinclair.co.uk