eNews
SPRING 2018

The Investment COACH

ESTATES

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New focus on inheritance tax

The government has requested a review of inheritance tax (IHT), focusing on making the system less complicated.

The Chancellor, Philip Hammond, has asked the Office of Tax Simplification (OTS) for "proposals... for simplification, to ensure that the system is fit for purpose".

The OTS has been asked to "focus on the technical and administrative issues within IHT," so it is looking for simplification options, not a radical reform. The Chancellor is unlikely to reduce IHT revenue, as the tax is forecast to raise £5.4bn in 2018/19.

Appropriately, the OTS did have a look at IHT when developing its 'Complexity Index' in 2015. The index examined over 100 aspects of UK taxation, assessing their complexity and its impact. Unsurprisingly, IHT ranked third for complexity, behind two sets of capital gains tax computation rules.

If the OTS repeated the exercise today, IHT could well come first because of the extra complexity added by the residence nil rate band (RNRB) and its associated downsizing rules.

> *The RNRB could save your estate up to £70,000 in tax (up to £140,000 for a couple) by 2020/21.*

You should not defer your estate planning because of the impending OTS review. If you have not reviewed your will since the RNRB started life in April 2017, now is the time to do so. The RNRB could save your estate up to £70,000 in tax (up to £140,000 for a couple) by 2020/21, but the relief is far from straightforward. The end of the tax year also offers opportunities to use your annual IHT exemptions, as covered in our feature article.

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INVESTMENT

Shaky start to 2018 for markets

Global markets were hitting new all-times highs repeatedly in 2017 before encountering some turbulence in 2018.

If you were invested in world stock markets last year, you should have enjoyed some healthy returns, although markets have experienced a much bumpier ride of late.

In 2017, the benchmark for developed markets, the MSCI World Index, was up nearly 10% in sterling terms, while the corresponding emerging markets index rose by over 20%. The US epitomised the strength of global share markets, with the Dow Jones Index closing at a new high 70 times in the year, itself a record.

Unpredictable futures

Despite this performance, markets have proven their unpredictability at the start of 2018.

If you are a long-term investor, it's generally unwise to suddenly turn into a short-term trader because of market volatility. In any case, holding cash is an unattractive option when the base rate is 0.5% and inflation is running at around 3%, guaranteeing a post-inflation loss. A compromise for fresh investment could be to drip feed sums into funds regularly, rather than make a single purchase.

We are happy to dicsuss your investment options.

✢ 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.

Credit: iStock/gremlin

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PENSIONS

State pension age continues to rise

When planning for retirement it is crucial to know what state pension you are entitled to, and when you will get it.

The level of the state pension has become more straightforward thanks to the introduction of a flat-rate pension in 2016. But figuring out when you will receive your pension has become more complex.

Women used to collect their state pension at the age of 60 and men received theirs from age 65, but the State Pension Age (SPA) for women has been rising. By the end of this year it will be equal with men.

This will not be the end of the increases, because from December 2018 the SPA will start to be increased to 66. It will then ratchet up to 67 from 2026.

Who is affected by these changes?

If you were born between 6 October 1954 and 5 April 1960 you will reach your SPA at 66. If you were born after 6 April 1961 you won't reach your SPA until your 67th birthday.

Credit: iStock/DNY59

There are two periods when the SPA will rise each month according to your date of birth.

The first affects those born between 6 December 1953 and 5 October 1954. The second (increasing SPA from 66 to 67) affects those born between 6 April 1960 and 5 March 1961.

Staying informed

Many women who have seen their state pension age rise in recent years have complained they were not given sufficient warning about these changes.

We can help you understand how these changes will affect you and your retirement planning. In particular, we can advise you how to bridge the gap between the time when you expected to get your state pension and when it will actually be paid.

INVESTMENT

Tax relief reductions affecting landlords

The next instalment of tax changes affecting landlords and investors in buy-to-let properties takes effect from 6 April.

George Osborne's reform of tax relief on buy-to-let residential mortgage interest was announced in the summer 2015 Budget. The change began in April 2017, with the full effect not felt until 2020/21.

Borrowers will get a 20% tax credit on interest under the new scheme, instead of deducting interest against rental income. This is equivalent to basic rate relief, and it increases borrowing costs for higher or additional rate taxpayers. The change is being phased in until 2020/21. The amount of interest deductible against rental income is 75% for 2017/18, reducing by 25% each year after. Borrowers can claim 25% of the tax credit in 2017/18, increasing by 25% a year to reach 100% from 2020/21.

One consequence is that taxable income will increase. This can have unfortunate tax side effects – for example, pushing a borrower over an important tax threshold such as the £100,000 income level at which the personal allowance begins to be tapered away.

Credit: iStock/Martin Nancekievill

In the longer term, the impact of the reform could be significant for higher and additional rate taxpayers. The switch to a 20% tax credit could even turn a profit into a loss for a higher rate taxpayer.

Some buy-to-let investors are planning to sell in the face of the growing tax burden. If that includes you, talk to us about all your options.

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PENSIONS

Auto-enrolment increases

Since 2012 employer and employee automatic enrolment contributions have totalled 2% of 'band earnings', with the employer having to pay at least 1%.

From 6 April this year, the minimum contributions will rise to 5%, with 2% from the employer. The table below shows the extra cost, based on an employee earning £26,000 a year.

	2017/18 contribution £ pm	2018/19 contribution £ pm	Change %
Employer	16.77	33.28	+98
Employee*	13.42	39.94	+198

** Paid net and assuming basic rate tax relief at source*

Further increases happen in April 2019, as the total rises to 8% with 3% from the employer. Each April there are generally also tax and NIC changes, so the impact on employees will be cushioned marginally.

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