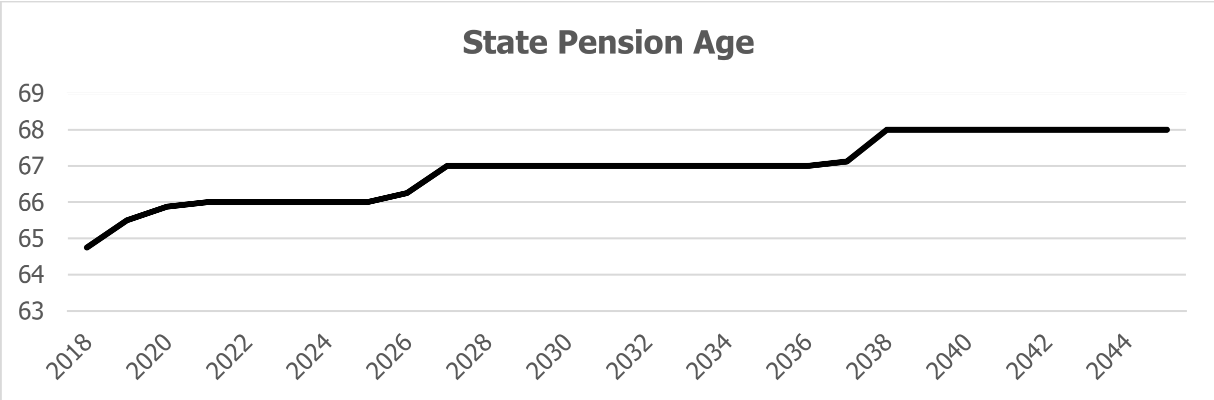
State pension equality means increases for all

The State Pension Age (SPA) became equal for men and women for the first time, at age 65, on 6 November 2018.



Having reached this landmark, the next stage of SPA increases has already started. For both men and women, the state pension will become payable for anyone born between 6 December 1953 and 5 January 1954 on 6 March 2019. The SPA will then be increased to reach age 66 by October 2020.

The SPA is scheduled to rise again as existing legislation already covers the increase from 66 to 67, phased in over two years from April 2026. The same legislation provides for a step up to 68, starting in April 2044.

However, in July 2017 the Department for Work and Pensions announced it would accept the recommendations of the Cridland Review – this brings the start of the move to a SPA of 68 forward to April 2037. Legislation for this change has been deferred until after the next SPA review in 2023 – raising the SPA in the current political conditions could prove difficult for the government – but if your SPA will be at least 68 if you were born after 5 April 1971.

Rising life expectancies

The rising SPA is linked to historic improvements in mortality – in effect they match the increases in life expectancy at age 65 of 8 years for men and 9 years for women since the early 1950s.

The Cridland Review has anticipated future increases in life expectancy as an argument for accelerating the increase in SPA. However, data from the Office for National Statistics issued in September, suggest that increases in life expectancy may have come to an end, at least for the time being.

The arrival of the equalised SPA provoked a fresh round of protests from women born in the 1950s, who started working life with an expectation that their state pension would be payable from age 60. The government has previously made a minor concession on the phasing of the change but further offers are not expected. The simple reason is cost: a higher SPA reduces government pension expenditure and raises extra National Insurance Contribution revenue.

If you want to retire when you choose, rather than the State decides, make sure your private pension provision is adequate.

New probate fees to affect many estates

The government has revived plans to raise probate fees in England and Wales.

A new, banded structure for probate fees in England and Wales is to be introduced, according to a written statement issued a week after the 2018 Budget by the Parliamentary Under Secretary of State for Justice.

The announcement comes after the absence of inheritance tax (IHT) reforms in the Budget, despite the Chancellor commissioning a review by the Office of Tax Simplification in January 2018. The only change to IHT announced in October was a small adjustment to the legislation for the residence nil rate band – this being such a complex piece of legislation, it had been wrongly drafted.

New fee structure

If new probate fees sound familiar, it is because a very similar announcement was made in March 2017. At the time the proposal provoked widespread criticism, because the higher levels were seen to be more of a new tax than a simple fee adjustment. In the event the planned change fell victim to the legislative logjam around the last General Election and disappeared.

Since then, the government has taken on board some of the original criticism and cut the fees they are proposing, particularly for larger estates:

Value of estate	Old Proposal	New Legislation
Up to £50,000 or exempt from requiring a grant of probate	Nil	Nil
£50,001 - £300,000	£300	£250
£300,001 - £500,000	£1,000	£750
£500,001 - £1,000,000	£4,000	£2,500
£1,000,000 - £1,600,000	£8,000	£4,000
£1,600,001 - £2,000,000	£12,000	£5,000
Over £2,000,000	£20,000	£6,000

The current fees are £215 for individual applications and £155 via a solicitor, with nothing payable if the estate value is up to £5,000. Under the new banding, there is a maximum effective charge for probate of 0.5% of the estate, which is triggered at £50,000 (a £250 fee) and £500,000 (a £2,500 fee).

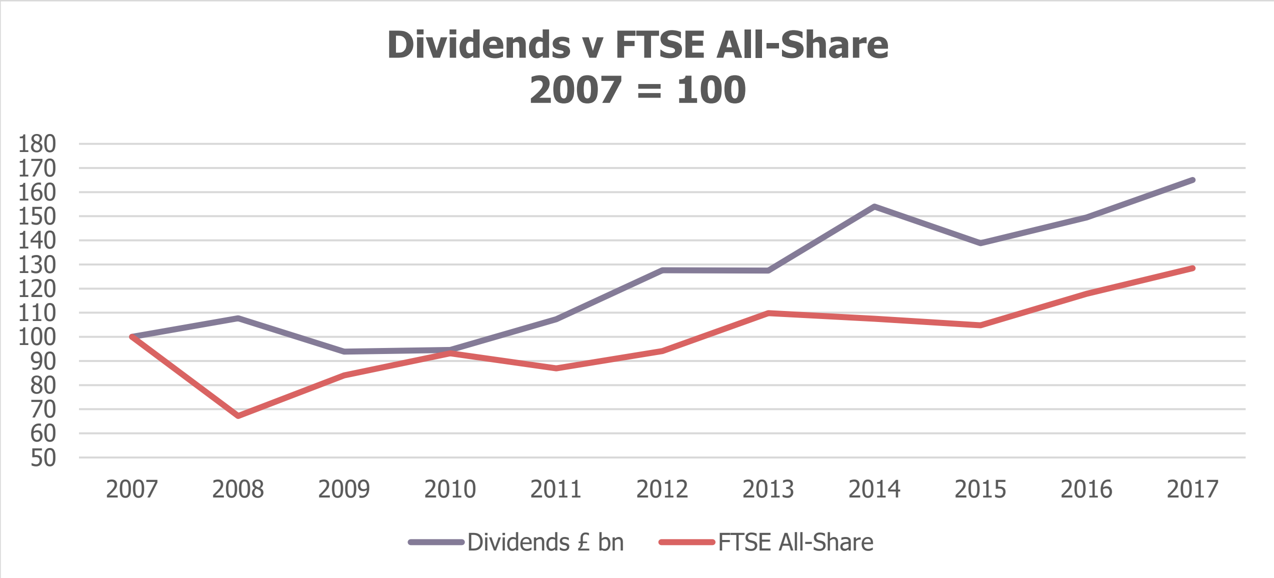
The new fees are currently scheduled to come into effect 21 days after the legislation is passed, and there is very little that can be done to mitigate the impact. They are payable even if the estate passes with no IHT liability, as is usually the case on the first death of a married couple or civil partners, or if the value of the estate is covered by the available nil rate and residence nil rate bands.

There are still opportunities to save IHT with careful planning and, as the Budget made no significant changes, there remains a window of opportunity before any reforms are introduced.

If you would like help updating your estate plans ahead of the review publication please get in touch.

UK dividends remain strong despite volatile markets

UK dividends are continuing to grow faster than inflation, according to the latest quarterly data from Link Asset Service.



Source: Link Asset Services, FTSE

The latest UK Dividend Monitor (UKDM) shows that in the third quarter of 2018 dividend payments were 4.1% up on the previous year, comfortably above the current rate of inflation. Looking over the 10-year period from the end of 2007 to the end of 2017, total dividend payments have risen by an average of 5.1% while CPI inflation has averaged 2.4%.

The UKDM is published by Link Asset Services (formerly produced by Capita) and totals the dividends paid out on the ordinary shares of companies listed on the UK Main Market every quarter – excluding investment companies, to avoid double counting. It captures both regular dividends and one-off special dividends, which often stem from takeovers or other corporate restructurings.

As the graph shows, over the last ten years, the amount paid out in dividends has grown faster than the capital value of shares. There are still dips, but between 2007 and 2017 the regular dividend total dropped only once, in the wake of the global financial crisis. The jump and dive between 2013 and 2015 is an aberration caused by a one-off £15.9 billion special dividend paid by Vodafone in 2014.

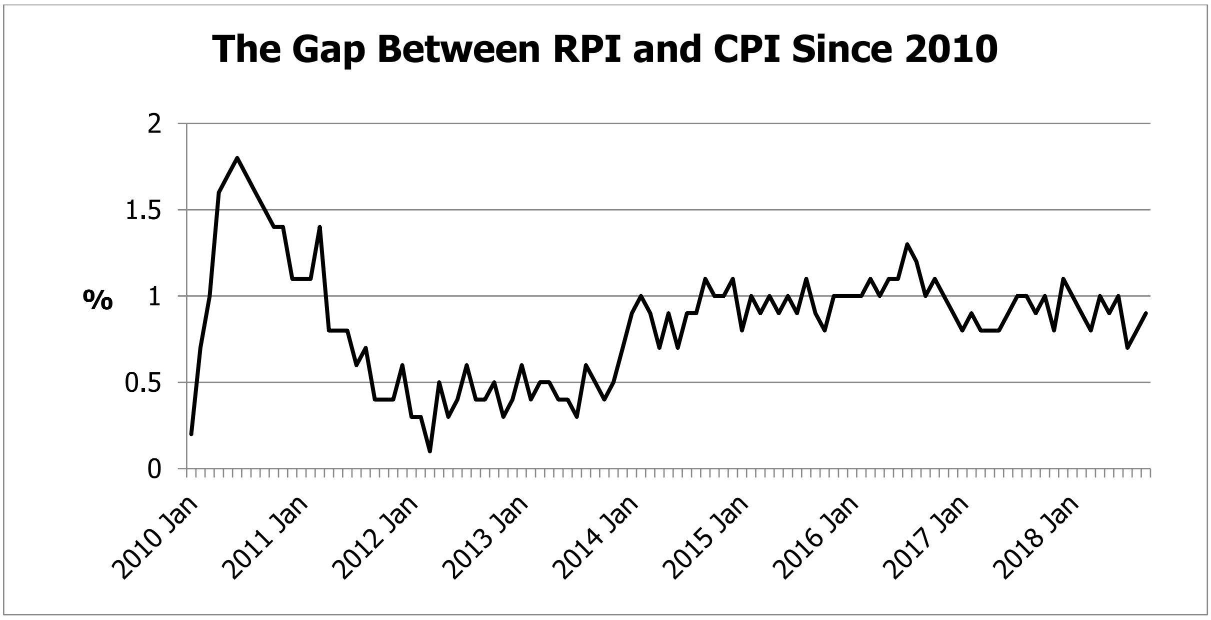
Unpredictable markets

Despite increasing dividend payments, there has been considerable volatility in UK share prices throughout 2018. Little more than five months, and over 1,000 points, separate the FTSE 100’s high and low marks for the year to date. But whilst the FTSE tracks capital values, it does not account for dividends, which are ignored in the calculations of most equity market indices.

If you are investing for income the data is a reminder that, for all the fluctuations in capital values, shares have continued to provide real dividend growth.

Index-linked savings certificates

The popular National Savings & Investments (NS&I) savings certificates will be indexed to CPI instead of RPI from next year.



The certificates have not been on sale since 2011, but NS&I allow existing certificate holders to reinvest in new series of certificates when their old ones mature. The terms have gradually worsened over the years and at present reinvestment promises a return of RPI inflation +0.01% a year. For certificates maturing from 1 May 2019, the basis of indexation will change from RPI to CPI.

The change was not picked up by newspapers at the time because they were released the Friday before the 2018 Budget, held on the Monday. Government departments are often accused of burying bad news, and the downgrading of the NS&I index-linked savings certificates is certainly bad news for affected investors.

RPI or CPI?

The government now generally only uses RPI where it benefits, for example as the basis for interest levied on student loans or for annual rail fare increases. CPI is used to index many – but not all – income tax bands and allowances.

NS&I said, 'This change recognises the reduced use of RPI by successive governments and is in line with NS&I's need to balance the interests of its savers, the cost to the taxpayer, and the stability of the broader financial services sector.'

As the graph shows, the move from RPI to CPI will cut returns by about 0.8% a year based on data since 2010. In their widely-missed press release, NS&I note that, 'The cost to the taxpayer is forecast to reduce by £610 million over the next five years'. That 'cost to the taxpayer' could also be read as, 'return to the investors'.

If you hold any issues of index-linked certificates, think about whether you definitely want to reinvest when they next mature, rather than letting inertia (and automatic reinvestment) take its course.

Office of Tax Simplification’s first report on inheritance tax

The Office of Tax Simplification (OTS) has published the first part of its inheritance tax (IHT) simplification review.

The report highlights a variety of issues with the current IHT system:

- IHT returns are submitted for about half of all estates, even though tax is paid by less than 5%;
- Most of the paperwork cannot be completed and submitted online and is far from user-friendly;
- Probate is not normally granted until IHT has been paid, which can create difficulty for executors;
- The residence nil rate band, introduced in 2017/18, was widely criticised as being ‘very complex’, and disadvantaging those who do not have children and those who have not owned their own home.

The OTS made a key administrative recommendation: ‘The government should implement a fully integrated digital system for Inheritance Tax, ideally including the ability to complete and submit a probate application’. HMRC have already started such a project in 2014, and in April 2018 announced it would be delayed, choosing instead to focus on the short IHT205 form which applies to certain estates where no IHT is payable.

The OTS review timetable

The Chancellor asked the OTS to undertake its review of IHT in January 2018. The instruction was, ‘to identify opportunities and develop recommendations for simplifying IHT from both a tax technical and an administrative standpoint’.

The OTS originally indicated it would publish a report ahead of the Autumn Budget, but Mr Hammond brought the Autumn Budget forward to October and nothing emerged from the OTS in time.

In late November, about the time the Budget would normally have arrived, the OTS published the first half of its review. Such was the response to the OTS consultation document, the organisation has decided to produce two reports. The first covers ‘administrative issues’ while the second will explore ‘key technical and design issues’.

The second report is due in spring, and could herald changes to tax rules, instead of the administrative framework. The result may be less generous than the current system, meaning it could be wise to review your estate planning opportunities now.