New earnings thresholds for auto-enrolment.

In early December the Department for Work and Pensions (DWP) announced the thresholds that should apply to automatic enrolment pension contributions from 6 April 2019. We say ‘should’ because, strictly speaking, they need final approval from the Secretary of State, although any change is extremely unlikely.

There are three key levels to be aware of:

- The Earnings Threshold This is the trigger level of earnings which brings a ‘worker’ into automatic enrolment. It used to match the personal allowance, but since 2015/16 has been frozen at £10,000. That round number will stay in place for the coming tax year.
- The Qualifying Earnings Lower Limit This is the floor level of earnings above which contributions are payable, but only if the earnings threshold is triggered. It matches the lower earnings limit, which is a key level for social security benefit entitlement and will be £6,136 (£118 a week) in 2019/20, an increase of £104 (£2 a week)
- The Qualifying Earnings Upper Limit This is the upper level of earnings on which contributions are payable. In past years it has matched the UK higher rate threshold. The same will be true for 2019/20, despite the £3,650 increase in that threshold to £50,000. This is not good news for Scottish taxpayers, whose own higher rate (41%, not 40%) threshold for earned income is set to be £43,430 in 2019/20.

Increasing contribution rates

These numbers take on more significance for 2019/20, as the minimum total auto-enrolment pension contribution rate will increase from 5% to 8% of qualifying earnings. Of the 8%, the minimum payable by the employer will be 3%, meaning many employees will see their contribution rate jump from 3% to 5% – a two thirds rise.

If you are an employee in an auto-enrolment pension scheme, then you could well find that April’s increase in your pension contributions will more than counter the benefits of the income tax cuts which occur at the same time. If you are an employer, you may want to warn your employees of the forthcoming changes.

The 8% contribution level will mark the end of current round of planned increases for auto-enrolment. However, the general consensus is that 8% is too low to achieve a decent retirement income. To explore what level of contribution is appropriate in your circumstances, please get in touch.

Shake up your New Year's resolutions

The time to resolve has returned.

Have your New Year resolutions fallen by the wayside yet? You know, the ones about eating better, drinking less and exercising more. The problem is they all require you to make a change to your lifestyle, which is never easy, particularly in the dark days of mid-winter.

Some people prefer to talk about intentions rather than resolutions. And to try to look beyond the short-term goals to longer term outcomes to boost the likelihood of sticking to them.

Here are four simple financial New Year's resolutions. They need only one-off actions, so they should be easier to stick to. And they could provide long term benefits:

1. **Make a will.** If you don't have a will, you have no say in how your estate is distributed. That may not matter if the laws of intestacy match your wishes, but often the two diverge considerably, leaving difficult issues for your dependants. If you have made a will, you are not completely off the hook: resolve to look at it and make sure it is still the right will for your current circumstances.
2. **Set up lasting powers of attorney.** Who would make decisions about your finances and medical treatment if you were unable to do so? Just as with a will, a lasting power of attorney lets you decide the answer rather than falling back on what the state determines or leaving your family without the ability to really help you.
3. **Check what you are earning on your deposits.** Many banks and building societies continue to pay negligible rates on accounts that are "no longer available" to new savers. Just because an account has 'gold' in its title is no guarantee that it won't be paying a mere 0.1%.
4. **Check your state pension entitlement.** This is easy to do online (https://www.gov.uk/check-state-pension) and shows both what you should receive based on current rates and when you should start to receive it. The projection will also indicate any scope you have for increasing your state pension.

For help with any of these resolutions (not the food, drink and exercise ones), please talk to us.

Understanding the Child Benefit Charge

7 January marked the fifth anniversary of the tax on child benefits, an imposition that is still not widely understood.

The High Income Child Benefit Charge (HICBC), to give child benefit tax its correct name, was introduced in a rush by George Osborne – so much so that it began three months before the start of the 2013/14 tax year. It was, and remains, a classic example of the type of tax system tweaking beloved of Chancellors and disliked by those who have to deal with the consequences.

The HICBC represented an attempt to use the income tax system to withdraw child benefit from parent(s) (married or not) where one had income exceeding £50,000. Its introduction was poorly publicised, leaving many people – particularly PAYE earners – unaware of their potential liability.

Caught by 'failure to notify'?

If proof were needed of the flaws in HICBC, it arrived in November 2018. That was when HMRC announced it would be reviewing 'Failure to Notify" penalties for 2013/14, 2014/15 and 2015/16 "to customers *[sic]* who did not register for the High Income Child Benefit Charge" and therefore did not pay the HICBC tax. Unusually for HMRC, it is not looking for the taxpayer to provide a "reasonable excuse" before considering a refund. It may be hoping to avoid a flood of letters from those affected.

The income trigger for the HICBC remains at £50,000. That means that for 2019/20 the trigger matches the UK higher rate threshold. When it began, the charge started at over £7,500 above the then threshold.

The tax is levied in a unique way: for each £100 of income above the threshold, tax is payable equal to 1% of the child benefit received. For example, an income of £56,000 would mean an HICBC of 60% of total child benefit – 60% of £1,789 (=£1,073) for a two child family.

Failure to claim child benefit can mean a loss of national insurance credits, so it's important to avoid this pitfall. If you or your partner are, or may be, caught by HICBC, there are several planning options to consider, which we would be happy to discuss.

Filling the pensions hole for the self-employed

The Department for Work and Pensions (DWP) is aiming to expand pension coverage among the self-employed.

Pension automatic enrolment has become a major success since it was launched nearly seven years ago, with almost 10 million people joining a workplace pension arrangement. Take-up rates have been much higher than some pundits had forecast – the latest calculation from the DWP showed that in 2016/17 the overall opt out rate was just 9%.

However, there is one group of people that the automatic enrolment regime completely misses: the self-employed. According to the DWP, the self-employed account for about 15% of the UK workforce – 4.7 5 million people. Private pension coverage in this sector is low, despite the tax benefits on offer. The DWP has calculated that in 2016/17, only about 1 in 7 of the self-employed were saving into a pension.

Encouraging pension saving

In December the DWP announced that it would be running a programme of trials aimed at encouraging the self-employed to start saving. These trials will involve a range of trade bodies and financial services organisations, including the main government initiated auto-enrolment scheme, NEST, which now has over seven million members.

If you are self-employed and one of the 6 in 7 who is not yet saving for your retirement, you should not wait for the DWP to find ways to nudge you into action. The hard fact is that with no private pension provision, your retirement pension will simply be the new state pension – £168.60 a week (£8,767 a year) from April. Remember too that the state pension is only payable from state pension age, which is now in the process of rising to 66 by October 2020 and 67 by April 2028.

If you want a higher pension, and/or you do not want to wait until the state decides it is time for you to retire, then the sooner you begin to consider your retirement planning, the better. Talk to us about your options now – these could well include routes other than pure pension arrangements.

The 2018 investment year

The world's share markets mostly saw falls in 2018.

Index	2018 Change
FTSE 100	-12.5%
FTSE All-Share	-13.0%
Dow Jones Industrial	-5.6%
Standard & Poor's 500	-6.2%
Nikkei 225	-12.1%
Euro Stoxx 50 (€)	-14.3%
Shanghai Composite	-24.6%
MSCI Emerging Markets (£)	-11.5%

2018 was a very different year for investors from 2017. During that year, the share markets generally produced positive returns with very little volatility. Both years had their fair share of dramas, with Brexit and Donald Trump sources of concern across the 24 months. However, whereas in 2017 stock markets seemed relatively unphased by events, the opposite was true in 2018.

In sterling terms, the MSCI World Index was down 4.9%, much less than the main UK indices. However, this hides two factors:

1. The US stockmarket, which forms about half of the World Index, was relatively strong. Strip that out and the MSCI World Index ex-USA was down 11.2% in sterling terms, only marginally less than the main UK indices.
2. The Brexit-battered pound was weak during 2018, which flattered overseas returns.

In the UK, the main indices produced their worst annual return since the financial crisis year of 2008. As a result, the UK stock market now has an average dividend yield of nearly 4.5%, the highest level since 2009.

If you are investing for income that yield is undoubtedly attractive. We're always here to discuss your portfolio and options – and 2019 is going to be an interesting year.