nb: Points of Note – Autumn 2014

a new face at newbold broadstreet...

We are delighted to announce that Andrea Willson has joined us as a paraplanner and office manager. After working with another IFA for a number of years Andrea brings a wealth of experience to Newbold Broadstreet Wealth Management and you will no doubt speak with her in the near future. Welcome to the team Andrea!

the pensions framework becomes clearer...

The Chancellor's Budget announcement of a radical reform of pensions surprised nearly all the pension experts. The general assumption had been that any pension changes would take place after next year's General Election. Since the first shock, details of how the new pension landscape will look have gradually emerged, throwing up a few more (somewhat smaller) surprises. We are now at the halfway stage in the process, with the transitional rules for the current tax year passed into law in the Finance Act 2014 and consultation under way on draft legislation for the end game from 6 April 2015.

Finance Act 2014 – Transitional features
The changes covered by the Finance Act 2014 include:

- Capped drawdown The maximum annual amount that can be taken under capped drawdown was raised to 150% of the equivalent annuity. This applies if you begin capped drawdown today or, if you are already in drawdown, from your first drawdown anniversary after 26 March 2014. For example, at age 65 the maximum annual drawdown is currently (September 2014) 8.70%.
- Flexible drawdown The minimum level of secure income for this take-what-you-want option has been reduced from £20,000 to £12,000.
- Extension to the period between drawing your lump sum and drawing your pension This was an area which had caused much confusion, but the rules are now clarified. Broadly speaking, if you drew your tax-free lump sum from a defined contribution pension after 18 September 2013 and have either not put any income arrangements in place or have cancelled a related annuity, you have until 5 October 2015 to set up some form of income. The 5 October 2015 deadline will continue to apply if you draw cash at any time in this tax year.
- Trivial commutation and small pots The trivial commutation limit – the ceiling for drawing all of your pension savings as a lump sum – has increased from £18,000 to £30,000. Similarly, the limit for turning "small pots" of pension rights into cash has been raised from £2,000 to £10,000. The maximum number of personal pension "small pots" that can be drawn is now three (previously two).
- Protected pension ages and protected cash A limited concession has been introduced to allow individual transfers to be made without loss of these valuable protections. Benefits must be drawn by 5 October 2015.

Taxation of Pensions Bill – The new regime from 2015/16
In early August draft legislation was published as holiday reading for pension boffins. Details could change following consultation, but the outline is fixed:

- Flexi-access drawdown - Flexible drawdown will disappear and capped drawdown will only remain if it was set up before 6 April 2015. The new drawdown regime for money purchase schemes allows you to draw what you want, when you want, from your drawdown fund, taxed as income. As now, when you designate part of your pension plan to be used in drawdown, you will also be able to draw a 25% tax-free lump sum.

- Uncrystallised funds pension lump sum - This cumbersome phrase hides a simplified way of drawing a one-off lump sum from your money purchase pension. Instead of designating part of your fund to drawdown, making a 100% withdrawal and taking the related tax-free lump sum, you can just take an uncrystallised funds pension lump sum (see example below), leaving the rest of your pension arrangement untouched.

- Annual allowance reduction - To prevent the new rules being used as a tax-efficient way of paying an employee aged 55 or over, the Bill imposes a new "money purchase annual allowance" of £10,000 for contributions to money purchase schemes if you use either of the facilities described above to draw income.
- More flexible annuities - The current restrictions that generally prevent annuity income from being reduced once in payment will disappear, as will the 10 year ceiling on the maximum period for which payments may be guaranteed.

The Uncrystallised Funds Pension Lump Sum

Joan reckons that she has income of £45,000 in 2015/16 and wants £50,000 net from her pension plan to help her son buy his first home. She speaks to her adviser who suggests that she takes £71,429 from her self-invested personal pension as an uncrystallised funds pension lump sum. This would provide her with her £50,000 net as follows:

	£	£
Gross lump sum	71,429	71,429
Tax free element (25%)		(17,857)
Taxable income balance		53,572
Tax @ 40% on balance	(21,429)	
Net amount	50,000	

There are other changes due, for example ending transfers out of unfunded public sector schemes and reducing the 55% tax rate that currently applies to some lump sum death benefits.

The outline and much of the detail of the new pension regime is clear. If any of the reforms described above could affect you, now is the time to start initial planning. Call us now to arrange for a review of your pension planning. Some of the opportunities being created by the reforms will not last for long.

UK commercial property bounces back...

The news

It has been difficult to avoid news about house prices in the last year. The papers have been full of stories of potential London property bubbles while controversy has raged about the Government's Help to Buy schemes and their impact. To add to the cacophony, both the Bank of England and the Financial Conduct Authority have brought forward measures aimed at cooling the market. The latest readings suggest national house prices were rising in July at annual rate of 10.6% (Nationwide) or 10.2% (Halifax).

The non-news

Much less attention has been paid to the performance of UK commercial property, which has traditionally danced to a different tune from its residential counterpart. Commercial property was badly hit during the 2007-09 financial crisis, with average values falling by around 44% according to Investment Property Databank (IPD), the leading property index provider.

After the two-year rout, values recovered slightly in 2010 before drifting down in the next two years. Even so, investors made a positive overall return in 2011 and 2012, thanks to rental income of around 6%. In 2013 sentiment finally began to turn and from May values began to rise. An initially slow pace has since accelerated and July 2014 marked the 15th successive month of capital growth. At the same time there has been a return to increasing rental values thanks to the UK's economic recovery.

The overall result has been that in the last 12 months to the end of July, UK commercial property delivered a pre-tax total return (income + growth) of 18.5%.

Becoming popular

The solid performance of UK commercial property may not have hit the headlines, but it has attracted the attention of private investors and their advisers. According to the Investment Management Association, the property fund sector has been in the top four sectors for net retail inflows for each of the first six months of 2014. The sector is now worth nearly £20bn.

The popularity is not solely down to performance. Over the last year a number of funds have been restructured to allow income to be paid into NISAs and pension arrangements without deduction of tax. Previously income had been paid as dividends, with 20% non-reclaimable tax suffered by the fund.

An exposure to UK commercial property will make sense for many investors, as it can provide a useful diversification from both shares and fixed interest bonds and an attractive income yield. If you do not have any property in your investment portfolio, now could be a good time to undertake a strategic review.

Not all property funds are the same – some invest directly in bricks and mortar, while others invest indirectly through property companies. This can result in very different patterns of performance, so make sure you take advice before investing.

inheritance tax and intestacy law changes on the way...

Another turn of the IHT screw

For a couple of years, the Government has been mulling over a change to the inheritance tax (IHT) rules that apply to most trusts. After several rounds of consultation which met with some robust responses, in June HMRC issued a final paper setting out the changes they plan to introduce from 6 April 2015. However, at the same time, as an anti-forestalling measure, HMRC also revealed that the changes would affect new trusts created, or existing trusts added to, after 6 June 2014.

The changes are quite technical, but their overall result is to reduce the IHT efficiency of using multiple trusts, often in the past set up on consecutive days. Under the old rules, each trust had its own nil rate band (currently £325,000) for IHT calculation purposes. The new regime will mean a single band has to be spread across all the trusts you create (or add to) after 6 June 2014 – and that includes trusts created by your will.

Trusts set up on or before 6 June 2014 are unaffected unless additional gifts are made into them – and that can include writing off all or part of loans made to the trust. There might also be transitional provisions for life policy trusts and certain trusts established to receive occupational pension scheme death benefits may escape the new rules. The picture should become clearer when draft legislation is published in the Autumn.

A slight unwinding of the intestacy tangle

In May the Inheritance and Trustees' Powers Act 2014 received Royal Assent. The Act contains important revisions to the intestacy rules in England and Wales, but these have not yet taken effect – their start date is 1 October 2014. The most significant changes cover two common situations where someone dies without a valid will and:

Leaves a surviving spouse/civil partner but no issue (children, grandchildren, etc)

Under the current rules the spouse/civil partner is entitled to:

- personal chattels (car, jewellery, etc);
- £450,000 outright; and
- A life interest (a right to income only) in half the residue.

The other half of the residue passes to parents, failing them brothers and sisters and, failing them, their issue. They will also receive the capital from the life interest when the survivor dies.

The new rules will pass everything to the surviving spouse/civil partner (which is what many people think already happens).

Leaves a surviving spouse/civil partner and issue

Under the current rules the spouse/civil partner is entitled to:

- personal chattels (car, jewellery, etc);
- £250,000 outright; and
- A life interest in half the residue.

The other half of the residue passes to the child/children (under trust if under 18), with the remaining value of life interest half being paid on the survivor's death.

The new rules will give the surviving spouse/civil partner half of the residue outright, rather than wrapped in a trust. The children thus lose their reversionary interest.

These new rules will only apply in England and Wales: Northern Ireland and Scotland have their own intestacy rules, although history suggests Northern Ireland will soon copy the English reforms.

The IHT trust changes mean that ideally you should avoid altering existing trust arrangements until matters become clearer. You may also need to review the structure of your will. If you do not have a will, the above paragraphs should convince you that you need one.

The changes to IHT are a reminder that the tax is still important to the Treasury, all the more so with the nil rate band frozen until 2018 and rising house prices.

NISA's arrive...

The Chancellor announced an overhaul of ISAs alongside the revamp of pension rules in his March Budget. The reworking of ISAs, first introduced in 1999, was rather overlooked because of the attention given to pensions. However, whereas the retirement plan reform is still work-in-progress, the ISA changes took effect on 1 July.

For ISA read NISA
As a reminder, the main changes that are now in force are:

- All adult ISAs have become NISAs (new ISAs).
- The maximum contribution in 2014/15 is £15,000 for an adult NISA and £4,000 for a Junior ISA (it is still JISA – they escaped become JNISAs).
- There is no longer a 50% maximum contribution limit on cash investment: you may place your full £15,000 in a cash NISA.
- The rule which permitted a transfer from a cash ISA to a stock & shares ISA, but not the opposite, has been scrapped. NISAs can be transferred in either direction.
- The investment rules have been relaxed to allow short-term bonds with less than five years to maturity to be held in a stocks & shares NISA.
- The flat rate 20% tax charge on interest on cash in stocks and shares NISAs has been abolished.

The Government is also examining how to include peer-to-peer loans to be held within NISAs.

Cash NISA nastier
July 1 did not mark any new enticing deals to invest in NISAs, as usually occurs around the end of the tax year. Few of the banks and building societies offered new terms. However, the money seems to have flowed in anyway, with the result that by August deposit-takers were cutting their cash NISA rates.

The latest statistics from HMRC show that in 2012/13 over 70% of ISA contributions were placed on deposit. Cash remains the popular option, despite the interest rates on offer for most accounts being below the current (July 2014) rate of inflation (whether you chose 1.6% CPI or 2.5% RPI).

The changes that have turned ISAs into NISAs have made them more attractive and flexible products. The key to making the most of NISAs - as with ISAs - is to keep contributing. That way, over time it is quite possible to build up a six figure portfolio free of UK income tax and capital gains tax (although 10% dividend tax credits cannot be repaid).

If you have not reviewed your (N)ISA holdings for a while, why not ask us to take a look at them? Just because NISAs are tax-favoured plans does not mean they are lock-up-and-leave investments. he IHT trust changes mean that ideally you should avoid altering existing trust arrangements

HMRC speeds things up...

Bad news for some
No, this is not your tax office becoming more efficient in responding to telephone calls and written queries. Instead it is HMRC taking advantage of a legislative change introduced by the Finance Act 2014 to gather tax from users of tax avoidance schemes.

1,200 schemes, 20 months and £7bn
The new law has given HMRC the power to issue users of disputed tax avoidance schemes with a Notice to Pay the tax that is in dispute within 90 days. If the courts subsequently decide in favour of the scheme, then HMRC will refund the payment with interest.

Until the Finance Act 2014 the mirror image applied: users of tax avoidance schemes did not have to pay up until the courts had decided against their scheme, a process that could last for many years. Indeed, one of the key benefits of many tax avoidance schemes was deferral of tax payment rather than complete avoidance.

HMRC has issued a list of nearly 1,200 tax avoidance schemes covered by the Disclosure of Tax Avoidance Scheme (DOTAS) rules where they intend to issue Notices to Pay. About 33,000 individual taxpayers and 10,000 companies are involved, with total revenue at stake in excess of £7bn.

nb: ***The Finance Act 2014 legislation marks another ratcheting up of the Government's fight against aggressive tax avoidance. It does not affect regular tax planning activities, but is targeted at the types of (frequently offshore or film-based) schemes which have attracted so much bad press in recent times.***

If you are tempted to use a tax avoidance scheme, you now face not saving any tax initially (or possibly ever) and having to pay fees for the privilege. Straightforward individual tax planning looks a far better option.

premium bonds prizes up…by 0.05%…

The unexpected happens…

When the Chancellor announced that there would be two, rather than one, one million pound monthly premium bond prizes from 1 August, he said nothing about increasing the underlying prize fund interest rate (then 1.30%). It was therefore something of a surprise when National Savings & Investments revealed in late July that the rate would be rising to 1.35%, very much against the general trend in savers' interest rates.

…but don't get your hopes up

The 0.05% increase was probably introduced to limit the reduction in the number of smaller prizes that would otherwise have been necessary to fund the additional £1m prize. A £1.3bn increase in total holdings as a result of an uplift in the individual investment limit to £40,000 has also helped to increase the prize pot. Nevertheless, in each monthly draw:

- The chances of a single bond winning any prize remain at 1 in 26,000.
- The odds on a single bond winning the £1m prize are 1 in 24,674,390,000 – nearly 1 in 25 billion.
- Over 98% of all wins will be £25.

nb: ***Premium bonds are not an investment, although if you are a higher rate taxpayer the odds are – there is no certainty – with a large enough sum that you'll earn more than an instant access account would pay once tax is taken into account.***

Premiums bonds can be a sensible flutter but, if you want to invest your money, talk to us.