



Corporate Benefits

Summer 2014

Bulletin

2015 and beyond – so much change, yet so much stays the same

From April 2015, the shackles are off in terms of retirement income planning.

Gone will be any need to buy an annuity. Gone will be any income limits on drawdown. Savers will have complete flexibility to take as much or as little from their pension pot as they need, when they need it. But remember it's only those with Defined Contribution (DC) pensions that will enjoy this new found freedom. And the tax regime isn't changing. The annual and lifetime allowances will still constrain pension saving. 25% stays tax-free, but there's still income tax on the balance. Tax thresholds and allowances will still drive behaviour and determine optimum outcomes.

The new pension freedom and choice also brings new responsibilities. The removal of the psychological barrier that pension pots are locked away will naturally bring temptation for savers to dip into them too deeply, too soon – because they can. Yet the fundamental principles of planning for life after work remain the same.

- **Save enough:** Retirement savings have to last a long time. This takes more money than most savers think.
- **Manage income:** Income must be taken sustainably. Taking too much, too soon will end in tears.
- **Invest appropriately:** Investment requires a long term view, to support that sustainable income. The natural inclination for older people is to run to cash deposits, but this will rarely be a sustainable solution over the longer term.
- **Tax planning:** The tax framework isn't changing. Using the right wrappers, at the right time, will give more tax-efficient income and wealth transfer outcomes. There's a real danger of people misusing the new flexibility and walking into 'stupidity tax'.

Although the brave new world won't exist until 2015, it impacts on retirement planning now. Those already at, or close to, retirement need to take big decisions soon and, with the pensions rule book about to be torn up, years of careful planning may have to be completely rethought in a matter of weeks.



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The pensions flexibility revolution

The Budget hailed changes which are sure to affect your retirement planning.

“Let me be clear. No one will have to buy an annuity” were the surprise words in this year’s Budget speech. However, legislation and administrative systems cannot be changed overnight, so we are now in a two stage process:

Finance Bill 2014 The Bill makes interim pension tax changes to defined contribution (DC) pension arrangements (such as personal pensions and money purchase occupational schemes, but not final salary schemes), including:

- The limit for capped income withdrawals – making withdrawals from your retirement fund to provide an income – is increased from 120% to 150% of the broadly equivalent market annuity rate for new plans and from the next drawdown year for existing arrangements.
- The minimum secure income (broadly state pension, occupational pension or pension annuity) for flexible withdrawals has fallen from £20,000 a year to £12,000 a year, giving you full access to your pension fund, with no cap on withdrawals.

Your pension providers must now make their own system and rule amendments, so you may not be able to benefit from them all immediately.

Finance Bill 2015 and beyond A Budget consultation document covered



other pension changes, some of which are destined for next year’s Finance Bill, including:

- The introduction of full pension flexibility for defined contribution schemes from 6 April 2015. This would scrap the £12,000 minimum income requirement. The tax-free lump sum of up to 25% of the fund would remain, with the rest of your fund taxed as income.
- The treatment of benefits on death may change, with the tax rate payable on lump sum payments of drawdown funds remaining at death reduced from the current 55%.
- The minimum age from which you can start drawing benefits from your pension is likely to increase – a change that would affect all private pensions.

These radical reforms will almost certainly mean that your retirement planning needs to be reviewed. In a world with much greater flexibility, both pre- and post-retirement strategies can look very different.

The value of your investment and the income from it 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. The value of tax reliefs depends on your individual circumstances. Tax and pension laws can change. The Financial Conduct Authority does not regulate tax advice.

The 2014 Budget – beneath the surface

The small print revealed plenty of changes, not all of which made the Chancellor’s Budget speech.

Income tax – For next tax year, i.e. 2015/16:

- The personal allowance is set to rise from the 2014/15 level of £10,000 to £10,500.
- The higher rate threshold – the point at which you start paying higher rate tax – will rise by 1% to £42,285. This is almost £1,600 below the 2009/10 level.
- The transferable tax allowance will begin for married couples and civil partners. To be eligible, neither you nor your partner may be higher or additional rate taxpayers. You can transfer £1,050 of your personal allowance to your partner (or vice versa).
- The starting rate band for savings income will be increased from £2,880 to £5,000 and the rate of tax will be cut from 10% to 0%. This change is not as valuable as

it sounds, because of the way the savings rate band operates.

Capital taxes – There were a few small changes to capital taxes:

- The capital gains tax annual exempt amount will increase by £100 to £11,100 for 2015/16.
- The final period residential property exemption, which applies when a home is sold, has been reduced from 36 months to 18 months, with effect from 6 April 2014. The longer period will still apply for people moving into care.
- Inheritance tax was untouched, apart from some minor technical changes, including some related to trusts. Further changes to the treatment of trusts will follow consultation later this year.

Other taxes and measures – There was an important change on the business tax front, with the annual investment allowance (AIA) being increased from £250,000 to £500,000 from April 2014 until the end of 2015.

If you use a tax avoidance scheme that is disclosed to and disputed by HMRC, or you enter into a scheme counteracted by the General Anti Abuse Rule introduced last year, you will have to make an upfront payment of the tax you hope to avoid.

To learn more about how these changes could affect you, please contact us.

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax and trusts advice and some forms of inheritance tax planning.

ISA becomes NISA for savers

Pensions were not the only savings plans to see a boost from the Budget. ISAs received a welcome increase to the maximum annual investment level.

The Chancellor revealed several welcome ISA surprises, all due to take effect from 1 July 2014. However, as with the pension reforms, not every provider is likely to be up and running on day one:

- All ISAs will become New ISAs (NISAs).
- The overall annual investment limit will rise to £15,000 for 2014/15, an increase of £3,120 over the figure announced last December.
- For Junior ISAs (JISAs), the contribution limit will increase to £4,000 a year.
- New subscriptions can be split in any proportion you choose between cash NISAs and stocks and shares NISAs. If you wish, you can place your entire £15,000 subscription in a cash NISA, not – as previously – a maximum of 50% of the overall limit.
- You can transfer your stocks and shares NISA into a cash NISA. A move in the opposite direction has long been possible, but as a one way ISA trip.

- The investment rules for stocks and shares will be relaxed, allowing you to invest in funds, such as short-dated bond funds, which are currently ineligible for stocks and shares ISAs.

- The 20% flat rate of tax on cash interest earned within stocks and shares ISAs will be abolished.

This is a good time to review your existing ISA investments and decide where your 2014/15 contributions should be invested. If you have cash ISAs, subject to your attitude and capacity for risk, you could consider switching them to stocks and shares NISAs, knowing that you can now return to a cash NISA at a later date. You would lose the capital security that deposits provide, but you could significantly increase the income your (N)ISA provides and have scope for capital growth.

The value of your investment and the income from it 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. The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice.

Using the new Employment Allowance

If you are an employer, you're almost certainly in line to receive what is effectively a free gift from the Government worth up to £2,000, as part of an initiative to help smaller businesses.

Although there are exceptions, most employers qualify for the new Employment Allowance. This provides up to £2,000 a year off employers' class 1 national insurance contributions – the 13.8% payroll charge on employee earnings over £153 a week.

While you could simply 'bank' the savings, you might also consider using the money to improve your business. The £2,000 allowance could provide the seed corn for employee benefits such as additional pension contributions, health insurance or life cover for employees.

Cash health plans can provide payments when your staff visit the dentist, the optician or the physiotherapist, as well as paying a daily sum when they are in hospital. Buying this cover as a group, even a small one, is generally more cost-effective than individual purchase.

These plans can help you as well as your employees. Knowing that you have funded or part-funded payments should help reduce absenteeism or sickness, according to cash



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plan provider Bupa. Some plans offer help with backache or stress, both common causes of absence.

Plan carefully

If you are prepared to dig deeper, then consider group private medical insurance. Private hospitals can treat problems without long waiting lists – again improving staff morale and reducing time off. Life cover offers peace of mind to employees who may never choose it for themselves.

But bear in mind that choosing the right plan for your purpose, working out the cost and tax considerations can be a minefield; so you'll need some expert financial advice.

If your organisation is approaching your staging date for auto-enrolment or if you are in the throes of introducing this pensions innovation, there can be extra costs. You might well need the extra funds to help smooth the path. Auto-enrolment should not present too many difficulties with good preparation, but it does need to be taken seriously and you are likely to need specialist help.

Or if things are going well, you could spend the money on a staff party or outing, perhaps at Christmas or during summertime. Such events can help lift employee spirits – especially if your workforce is young – and provided the total of such events cost under £150 per employee in a tax year, there should be no tax or national insurance charges to pay.

Interest rates: six years at 0.5%

It has been more than five years since UK interest rates fell to 0.5% – the lowest rate ever. That has been good news for borrowers such as businesses and home buyers, but bad for savers. There is no imminent increase on the horizon and a Treasury report of independent forecasts suggests base rates could rise from 0.5% to 1% by the end of 2015.

In the meantime, even the best rates for taxed savers fail to beat inflation. There are, however, other options besides bank accounts for you to consider. If you are happy to lock your savings away, you could earn 3% over five years or 2.7% over three years or possibly more.

However, bank and building society accounts have generally not performed well over the long term. But investing in other ways almost always involves taking on higher risk.

If you are willing to try a riskier investment than cash in a bank account, there are various bond funds. These invest in loans to the Government and to companies by way of gilts and corporate bonds; returns are a mix of interest and gains (or falls) in the bond's underlying value. If interest rates rise, bond prices are likely to fall.

Further up the risk and reward scale come funds with a mix of bonds



and equities, and then equity income funds. These invest in shares that managers believe offer prospects of increasing dividends with capital gains. Such products are sensitive to stock markets – values can go up or down – but they may offer better returns over the longer term.

There is no easy solution to low interest rates. If you seek more reward, you must be prepared to take on more risk and we are here to advise you before you make any investment decisions.

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Is your self-assessment tax return already lost in your to-do pile? If so, you need to start working on it, because the deadline for paper-based tax returns is 31 October and you face penalties of up to £1,000 from 1 November. You do, however, get a three month extension to 31 January if you tell HM Revenue & Customs you wish to convert to an internet-based return before 31 October – if you haven't done it before you should know that the registration process takes around a week. Remember, even if you file personal tax forms online, you may still have a paper form with a 31 October deadline to return as a trustee or as executor of an estate.

Inheritance tax rolls onwards and upwards

The unloved tax is generating a rapidly rising income for the Government.

The inheritance tax (IHT) nil rate band has been frozen at £325,000 since 6 April 2009 and measures in this year's Finance Bill will maintain that freeze until at least 5 April 2018. Such a prolonged freeze is inevitably dragging more estates into the IHT net and increasing the IHT paid. The Office for Budget Responsibility projects that the tax will raise almost 75% more for the Exchequer in the final year of the freeze than it did in 2012/13.

If you have not reviewed your estate planning in recent years, you could be surprised at the slice of your wealth destined to disappear

in IHT rather than pass to your children or grandchildren. 40% of today's house price rise could be tomorrow's IHT bill.

Fortunately there remain a variety of planning opportunities that can help you reduce the impact of IHT. As is so often the case, the sooner you can start planning, the better. Why not arrange for an initial discussion with us to assess your IHT liability and the options open to you?

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

