Devine
Financial
Management Ltd.

October/November 2014
Client News

I am pleased to send you our latest newsletter. If you would like to ensure you receive this newsletter by email in future, please register using this link. We issue around 4 newsletters per year plus budget updates.

It is now autumn and memories of summer holidays are fading, so perhaps it is time to put your finances in order before we get embroiled in Christmas celebrations?

It is well worth fully reviewing your portfolio at least once a year and making sure that it still meets your objectives, in terms of income and growth as well as meeting your attitude to risk.

In addition, is it as tax efficient as it could be? There are many opportunities for tax-free or tax deferred investment, so make sure you are making the most of your opportunities.

Apologies if you feel that this bulletin is rather laden with statistics, but they do give an valuable insight into people's savings habits and the impact of what they choose to do.

I trust that you will find the newsletter interesting and if you know anyone else who might appreciate a copy of it, let me know and I will send them one.

Best regards,

Tony Devine

In this edition:

Individual savings accounts (ISAs)

The latest HMRC data on ISA contributions show that many people are taking advantage of tax-efficient saving, although there has been a fall in the popularity of cash ISAs.

HMRC published its latest statistics for individual savings accounts, as was, they now being called 'New' ISAs (NISAs). These could help explain why George Osborne chose to create the NISA, with higher contribution limits and greater investment flexibility – it may not actually cost him much.

The more interesting points to emerge from the numbers are:

- The Great British public may at last be falling out of love with cash ISAs. In 2013/14, 10.5 million accounts were subscribed to – nearly 1.2m fewer than in 2012/13. Given the rock-bottom interest rates that were on offer, this is no real surprise.
- By contrast stocks and shares ISAs gained in popularity marginally, with 3.0 million accounts subscribed to, up 68,000 on 2012/13.
- Junior ISAs, which you can contribute to for children, have not really taken off yet with 432,000 subscriptions in 2013/14 (although up appreciably from 296,000 the previous year).
- Although Junior ISAs cannot be cashed in until the child is age 18, so will remain invested for a number of years, 75% of the amount invested was simply left on cash deposit – usually giving a return less than inflation at present.
- Cash ISA holdings at April 2014 amounted to £228.5 billion.
- The total amount held in stocks and shares ISAs as at April 2014 was £241.1 billion.
- It would appear that the introduction of AIM shares as an allowable holding in ISAs from 5 August 2013 has resulted in £4.4 billion of investment. It would seem that people are either being very adventurous with their investments or looking to save inheritance tax.

As listeners to BBC Money Box will have heard recently, cash investment in NISAs has attracted over £5bn since the limit increased to £15,000 on 1 July.

At the same time there has been an average 0.34% interest rate cut by 20 of the leading cash ISA providers. It says a lot about demand for customers' deposits that for now the best instant access, bonus-free cash NISA is from National Savings & Investments, who are offering 1.5%.

What all these figures show us – and apologies if I have blinded you with numbers – is that millions of people have recognised the sense of investing in ISAs.

If you are not maximising your £15,000 investment limit into the NISA, you should seriously consider the merits of doing so.

The choice of where you invest your NISA can make a huge difference to your returns. Also, one criticism of NISAs has been that they are not 'tax-efficient' as far as inheritance tax is concerned.

If this is an issue for you, it may now be possible to do something about it.

I am happy to discuss any aspects of NISA investment or the inheritance tax situation. Please just get in touch and we can arrange a time to have a chat about them.

Devine
Financial
Management Ltd.

More people dragged into the inheritance tax net

On previous occasions, we have covered the area of more and more families being drawn into the inheritance tax net. This number appears to be continually increasing and as a result there is a knock on effect on those liable to Stamp Duty.

Research by the Office for National Statistics showed that property prices soared by 11.7% in the year to July – which is the steepest increase since before the recession.

With the value of property, it makes a difference where you live, of course. The price of an average house price in the South East is around £337,000 compared with £246,000 in the South West. Prices in the Midlands and North tend to be lower, whereas London prices come in at a staggering average of £514,000.

This means that families living in the South East and London are now almost certain to be dragged into the inheritance tax trap given that the main asset (the family home) could be close to, or above, the inheritance tax threshold of £325,000.

This is because inheritance tax is charged on all the assets that someone owns, so the family home is just the start. Then you have to add on the personal possessions, investments, cash deposits and everything else.

So don't think you will escape inheritance tax, just because your house is worth less than £325,000.

In addition, a house purchase above £250,000 will be subject to Stamp Duty at 3%. As a result of the increase in property prices, the cost of a starter home has also soared – with not only the house being more expensive but the cost of Stamp Duty also being added in.

According to the statistics the average first-time buyer's home in July this year cost £209,000 – which is approximately £27,000 more than the previous year. No wonder the kids might need help with their deposit!

By maximising use of planning strategies – whether by carrying out estate planning to reduce inheritance tax on death or gifting to help children and grandchildren climb the property ladder, the fiscal challenges can be addressed.

However, HMRC has successfully closed most of the main planning opportunities with the family home and homeowners looking to do something about a potential inheritance tax liability might need to look at other arrangements.

It is a complex area, so professional advice is invaluable. If you would like to discuss any of these issues and make use of my expertise, please let me know.

When do you expect to retire?

A new survey has found that one in seven people in work do not plan to retire. Make sure you are not one of them by planning ahead.

Barings has just issued the results of its latest annual survey on retirement intentions. This shows:

- 14% of 'non-retired people' do not plan to retire
- 34% of 'non-retired people' do not know when they will retire.
- 30% of those in work beyond 65 are uncertain when they will retire
- But the survey found that the others’ expected retirement age is 70
- The average age people say they plan to retire is at 63, but those aged 25-34 expect to retire at age 61
- 25% of men had no pension but for women the percentage edged up to 41%

What this shows us is that the trend for extended working cannot be argued with. This might be down to the economic situation, but is not helped by having insufficient retirement income because of not planning ahead.

The latest National Statistics Labour Market numbers show 1,091,000 in employment at age 65 and over, 10% of the total 65+ population.

These findings confirm that many people in work have no coherent idea about retirement planning.

Whilst this may be forced upon some people because of auto-enrolment into pension schemes, are you sure that you will not be forced to carry on working in retirement?

Planning ahead can avoid this and I can help you calculate what is required.

Annuities and the shape of things to come

If you are approaching retirement, you will have a different focus: how can you get the best rate of return from your pension savings?

And what will the new government rules mean; should you wait or take action now?

The shock waves from the annuity bombshell announced in this year’s Budget are still reverberating. Sales of annuities have fallen by as much as 50% in some places.

The option, from 6th April next year, for individuals to take cash from their money purchase pension pot has meant that many are simply deferring any decision until then.

But most individuals who reach retirement age tend to value security of income very highly, so they may look at the alternatives, the tax implications and the risk of running out of money if they cash in and decide an annuity might be for them.

Annuities are not the perfect retirement vehicle for everyone but because of HMRC rules, providers have been unable to offer annuities that better meet what customers want, until now.

The government has listened to new ideas and directed HMRC to relax some of the rules, which will hopefully lead to new style annuities that have wider appeal. So is it worth hanging on to see if that happens? Here are the proposed rule changes:

1. Annuity income can be reduced. Why would you want to do this? You may want to take a higher annuity initially, until your state pension kicks in.
2. A guarantee term can run for an indefinite period. You could have an annuity with a guaranteed payment term for 20 years, for example – this will make it more likely that you will get greater overall value for money.
3. Any payments under the guarantee period, after your death, can be cashed-in up to £30,000. So the remaining income payable can be 'commuted' into a lump sum and paid to your heirs.

Of course, some of these changes may mean certain annuity rates are lower, but the additional benefits can be really worthwhile.

All the changes to pensions and how you take your annuity can be confusing – especially if you are retiring and need a regular income.

But before you make any decision, which may be with you for the rest of your life, get in touch and I can tell you what's happening so that you can make the correct decision.

Date of autumn statement announced

The Treasury has announced that the Autumn Statement will be on Wednesday 3 December 2014, just over a fortnight before Parliament goes on its Christmas holidays.

This continues the Chancellor's tradition of delaying his Autumn Statement until a time that is classed by meteorologists as winter.

The Statement will include details of the new fixed rate National Savings & Investment Bonds for those aged 65 and over which were promised in this year's Budget.

We can also expect to hear what revisions will be made (if any) to the tax rate applicable to drawdown pension funds paid on death.

This will be the last Autumn Statement before the election and may be more of a wish list or a pseudo election manifesto than normal.

Parliament is expected to dissolve on 30 March 2015, with the election on 7 May and the State Opening on 4 June.

Devine
Financial
Management Ltd.

BUSINESS SECTION

Nest contribution cap to be lifted

Steve Webb, the Minister for Pensions, has announced that the current annual contribution cap of £4,600 a year, that applies to members of the National Employment Savings Trust (NEST), will be scrapped.

The move could benefit the staff of more than 8,900 employers who administer their pension scheme through NEST.

As well as this, pension savers are also set to gain new transfer rights, giving them the same opportunities to consolidate their pension savings as members of other pension schemes.

There are currently more than 1.5 million workers who save into workplace pensions through NEST – with that figure expected to rise to up to 4 million over the next 3 years. The majority of them are lower and moderate earners.

NEST was set up by the government to support automatic enrolment by providing a quality low-cost pension scheme, primarily for smaller employers. These restrictions on how much could be paid in were originally imposed to ensure NEST focused on this target market.

But reflecting changes since then and the disadvantage caused to NEST savers by the constraints on contributions and transfers, the government has announced its intention to remove them from 2017.

Steve Webb said 'It's about time action was taken to give the 1.5 million people now saving with NEST the same rights as members of other schemes and the confidence that they're getting excellent value for money. These changes will help to build a fairer society by allowing those on low to moderate incomes to save more towards their retirement'.

The government will commence a short technical consultation on draft legislation to remove the restrictions on 1 April 2017.

Devine Financial Management Ltd.

London Office:
42-44 Grosvenor Gardens
Victoria
London SW1W 0EB
Telephone: 0845 013 6525

Southend-on-Sea office:
Princess Caroline House
1 High Street
Southend-on-Sea, SS1 1JE
Telephone: 01702 344264

Facsimile: 0844 579 0312
Website: www.dfmadvice.co.uk
Email: enquiries@dfmadvice.co.uk

Devine
Financial
Management Ltd.

The information regarding taxation is based on our understanding of law, HM Revenue & Customs practice and current legislation, which may be altered and depends on the individual financial circumstances of the investor.

If you no longer wish to receive this newsletter, please reply to the e-mail with “unsubscribe” in the subject line.