Newsletter

Winter 2014/15

# MoneyMinutes

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Roberts Clark



In this issue



## The £50,000 Higher Rate Tax Threshold

**The Politics**

David Cameron promised a higher rate threshold of £50,000 in his closing Conservative Party conference speech last October. He said that this would "bring back some fairness to tax" and be accompanied by a personal allowance of £12,500, a figure already proposed by the Liberal Democrats.

The current higher rate threshold is £41,865 (rising to £42,285 in 2015/16) and today's personal allowance is £10,000, increasing to £10,600 in the next tax year.

**The Numerical Reality**

Mr. Cameron's pledge said the increase would occur "in the next Parliament". Now that we have fixed five-year parliamentary terms, that phrase could take us up to 2020/21 tax year. If – as seems likely – the £50,000 figure is over five years away, what it would actually represent is an increase of 3.4% a year from 2016/17 onwards – say about 1½% a year above expected inflation.

If that does not sound overly generous, then it is even less so when you look at what the higher rate threshold would be now if it had been linked to inflation (as measured by the CPI) since 2009/10, the year when the threshold reached a peak of £43,875. Index-linking would mean the 2014/15 figure should already be over £50,000, as the graph below shows.

The increase to £12,500 in the personal allowance works out to be a very similar annual rise of 3.5% to 2020/21, based on next tax year's allowance of £10,500. However, the personal allowance has vastly outpaced inflation in recent years, having increased by 54.4% since 2009/10.

**The Financial Reality**

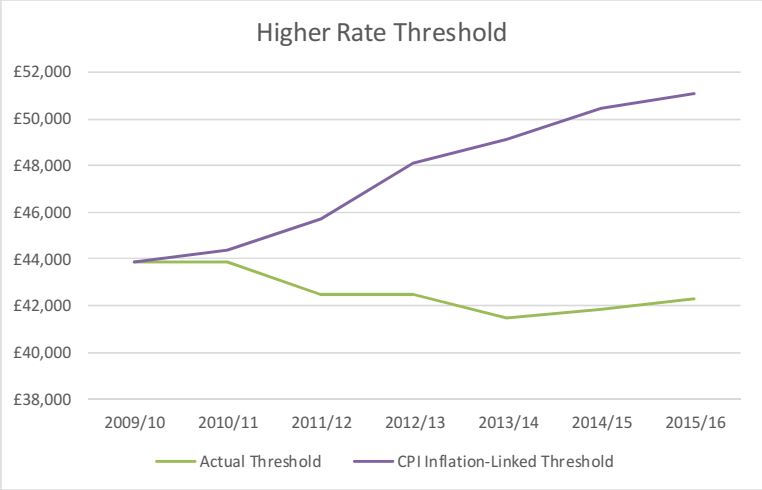
The increase in the personal allowance is by far the more expensive of Mr Cameron's two tax reduction pledges. It would cost £5.5bn by 2020/21, according to the Institute for Fiscal Studies. Raising the higher rate threshold would only cost about £1.5bn. The much smaller amount reflects several factors, not least that higher (and additional) rate taxpayers account for about one in six of all taxpayers. There is also the fact that the higher rate threshold currently sets the ceiling for full- rate employee and self-employed National Insurance contributions (NICs), so for many people the 20% income tax savings would to some degree be countered by 10% or 7% NIC increases.

£7bn of tax cuts is a chunky sum for a government which, in this financial year, is struggling to keep borrowing under its Budget target of £95.5bn. Where the necessary funds would come from was a subject Mr Cameron wisely decided not to cover in his speech.

*ACTION*

A few weeks after the Prime Minister's promise of £7bn in tax cuts, the chief executive of the NHS England said the service would need £8bn a year extra funding by 2021. The proximity of the two numbers was coincidence, but it serves to underline the continuing pressure on the Exchequer for years to come.

***Total government debt is now over £1,450bn and 2014's borrowing is running above 2013's level. This unhealthy state of government finances will constrain the next government's actions, whatever might be said in the run up to May's general election. If you want to cut your tax bill, financial planning is almost certainly a more reliable course of action than relying upon manifesto promises.***



# No Rush To Raise Interest Rates

Future interest rates remain a key topic for investors around the globe, but for all the discussion no change seems likely in the near term.

**The unreliable boyfriend**

A member of the Treasury Select Committee recently compared the Bank of England to an "unreliable boyfriend" for the way it had been making contradictory hints about when interest rates will rise. The Bank's Governor had at different times suggested the first rate rise would be in 2016, then 2015 and, in a June speech at the Mansion House, "sooner than markets currently expect," which was read as meaning possibly November 2014.

**The US lady**

There has been a similar uncertainty in the United States, although as the US central bank, the Federal Reserve, is now chaired by Janet Yellen, there have been no references to boyfriends. The issue across the Atlantic has been whether the Fed would alter its regular post-meeting statement that short interest rates were expected to remain between 0% and 0.25% "for a considerable time" after quantitative easing (QE) had ended. QE finally ended in October and while the Fed has kept the "considerable time" wording, it gave itself a bigger escape route if conditions improved faster than expected. The markets took that as meaning that the first rate rise had edged nearer, perhaps to the middle of next year.

**The whatever-it-takes Italian**

In the Eurozone, the European Central Bank (ECB), headed by Mario Draghi, is still in interest-rate cutting mode. The


Eurozone Deflation Risk May Slow UK Growth

ECB's inflation target is "below but close to 2%", whereas the latest inflation reading is just 0.3%. Mr Draghi, famous for saying the ECB would do "whatever it takes to preserve the euro", has cut rates twice this year. The euro base rate is at 0.05% and commercial banks depositing excess cash with the ECB receive a *negative* interest rate (-0.2%).

The interest rate medicine is now exhausted and still does not seem to be working. Many economists expect Mr Draghi to start a euro QE programme soon, if he can overcome German resistance to the idea.

**Meanwhile UK savings rates stay low**

With base rate stuck at 0.5%, returns for savers have dropped to well under 2% (before tax) on league-topping instant access accounts. If you want an interest rate that starts with a "3", then you need to lock up your money for five years – almost as long as base rate has been unchanged.

*ACTION*

Even with inflation (on the CPI measure) at just 1.2%, you are probably losing purchasing power by keeping money in an instant access account: if you are a higher rate taxpayer, you need a 2% gross interest rate to break even. Interest rates will eventually rise – as Mr Carney keeps saying – but he also emphasises that rate rises will be gradual and peak below the pre-crisis levels.

***If you need long-term income from your capital, short-term deposits are not an attractive option. There are plenty of higher yielding alternatives, if you are prepared to accept some investment risk. For example, it is no coincidence that for the last four months (to September) the most popular fund sector for private investors has been UK Equity Income. Funds in this sector typically have a current dividend yield of 3.75% or more (and that is net to basic rate taxpayers).***

# Tax Return Time

We are now way beyond October 2014 so you can no longer complete your tax return for 2013/14 on a paper form: your only option is to file online.

**Do not delay**

The standard deadline for online filing of 2013/14 tax returns is 31 January 2015, which is a Saturday. However, a last minute filing is not to be recommended as it may not leave you enough time to gather all the necessary data. In any case, by 31 January you will need to have calculations completed so that you can:

**make any balancing payment due 2013/14**

**make your first payment on account for 2014/15; and**

**pay any capital gains tax due for 2013/14.**

Failure to make a return on time will result in a fixed penalty of £100, even if HMRC owes you money. If your 2013/14 tax bill is not fully paid by 28 February 2015 you will suffer a 5% surcharge on the outstanding amount, along with interest (at 3% a year).

**Collection via your tax code**

New regulations were recently passed that from 2015/16 will allow HMRC to collect up to £17,000 of tax debts via your tax code (you will need earnings of more than £90,000 for this maximum figure to apply). The change received much press comment, even though it was announced initially in February. A point which much of the media coverage missed is that the increased collection amounts only apply to *debts*: for PAYE underpayments and self-assessment balancing payments, the current £3,000 limit will remain in force.

*ACTION*

If your tax return is still in that brown envelope, shred it: you cannot use it now. If you have not registered for online filing do so now, as it takes HMRC seven working days to set up an online account. ***If the tax return chore is getting too much, then it may be there are ways we can help simplify the process. For example, using nominee accounts for fund holdings rather than having direct ownership can turn all those elusive dividend vouchers into one consolidated tax voucher.***

# The Biggest Money Mistake in 2014

**Buy Low Sell High** – some people are still not proactive with fund switching .

Stock markets in 2014 closed lower than they were at the start of the year. FTSE 100 was at 6,749 on 31 December 2013. and closed 2014 at 6,566. However, the markets have been volatile with so many buy and sell points. Looking at the potential growth FTSE 100 alone for 2014 so far.

31st Dec 13 = 6,749. Time to sell, lock in profit and protect from market falls.

5th Feb = 6,457. Time to buy back into the market.

24th Feb = 6,856. Time to sell, lock in profit. Growth of 6.17%.

24th Mar = 6,520. Time to buy back in market.

14th May = 6,878. Time to sell, lock in profit. Growth of 5.49%.

8th Aug = 6,567. Time buy back into market.

4th Sep = 6,877. Time to sell, lock in profit. Growth of 4.72%.

16th Oct = 6,195. Time to buy back in market.

21st Nov = 6,750. Time to sell, lock in profit. Growth of 8.95%.

15th Dec = 6,182. Time to buy back in market.

31st Dec 14 = 6,566. Time to sell, lock in profit of 6.21%.

For The Year - A Fall of 2.71%

BUT Growth Opportunities Through The Year of 31% (if you had actively switched in and out of markets at the right points)

**We call the process "Ida y Vuelta"** (Spanish for 'back and forth' or 'there and back')

So over the year, using the above simple online switching methodology at trigger points, some investors returned around 30% in a market that fell by around 3%.

Over the year, investors who took no action achieved no growth. If they were UK tracker investors, they lost money.

A proactive approach by switching 'cash park' to equity to switch back regularly will present growth opportunities without the need to use highly geared, high risk, structured investments.

TRAFFIC LIGHT WARNINGS

We offer a **Traffic Light Alerts Service** for clients with Red, Amber and Green alerts, which is well received as people like the idea of proactive switching but keeping it simple.

Whilst no person can call the markets exactly and get the exact bottom or top of the market right to the basis point, it is common sense to buy low, sell high and the biggest money mistake last year was to leave your money invested and let it ride the market rollercoaster, or indeed allow your own financial adviser (if you are not clients of ours) to be reactive rather than proactive with your funds. By being reactive, you will usually miss the boat. When you see headlines of market highs or market lows, that is a simple warning message to take action. Fortune favours the brave!

*ACTION - What to do in 2015*

NEVER FORGET BUY LOW SELL HIGH - markets will be just as volatile in 2015.

REPLY TO OUR WEEKLY NEWS EMAIL:
When we issue a RED or GREEN Alert consider taking action.

NOT RECEIVING WEEKLY EMAIL FROM US?
Email contact@financialadvice.net to register

DO NOT HAVE EMAIL ACCESS?
Register for our new text message alert service

**TXT "ALERT" now to 07850 624530 (include name) to be added to our txt alert service**

# Pension Payments Now - Take Advantage While You Can

The maximum amount that can be contributed to a registered pension plan for a particular person in a pension input period ending in a tax year is £40,000 (the annual allowance). Payments to a registered pension plan can be made in one of three ways:-

*Contributions by the individual which must not exceed the greater of relevant UK earnings and £3,600;*

*Employer contributions to a money purchase scheme; or*

*The value of the annual increase in the individual's accrued pension rights (in real terms) for salary related/defined contribution pensions – this is determined by multiplying the increase in pension entitlement for the year by 16.*

The annual allowance in the previous 3 tax years (2011/12-2013/14) was £50,000 and, for those who did not use all of this allowance, there is the opportunity to pay a contribution in respect of any "unused relief" – provided the full £40,000 is first paid for the pension input period ending in the current tax year (ending in 2014/15).

So what's the rush to pay contributions you might ask – if I miss paying my maximum this year I can always carry forward the unused allowance and use it up by making payments nearer my retirement? That is true. But the big question to be addressed is that of tax relief. Currently, contributions to registered pension schemes attract tax relief at the individual's top rate(s) of tax but that may not last.

The fact is that out of the £54 billion of tax relief that is given to pensions each year, 55% of it goes to higher rate taxpayers and 20% to additional rate taxpayers. A recent pension think-tank suggested that pension tax relief should be capped at 30% for everyone. Those higher or additional rate taxpayers with scope to pay contributions to registered pension plans may therefore wish to take action sooner rather than later.

*ACTION*
Do you fall into this category? Do you want to maximise pension contributions this tax year and then have the ability to use up unused tax relief from previous years. ***If so, call us for details of the pension providers to use. We will also do all the carry forward calculations for previous years.***

Roberts Clark Independent Financial Solutions Limited

**Midlands & North**
Prosperity House
Water Street
Burntwood
Staffordshire
WS7 1AN

Tel: 01543 677444

**London & South**
Gainsborough House
Sheen Road
Richmond
Surrey
TW9 1AE

Tel: 020 8144 7620

**MAKE** *Money* - **SAVE** *Money* - **PAY LESS** *Tax*

**Online 24 - 7**
**www.financialadvice.net**

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**Our Timeline**

**2000** - Trading starts from a converted farm outbuilding. **2001** - Pioneered fee based financial advice with fixed cost quotes for all. **2002** - Need An Adviser.com goes live online - 1st Awards: Winner IFA Firm of the Year and Winner Best Use of New Media. **2003** - Treasury invites us for talks on our unique advice model.

**2004** - Expansion and new head office in Staffordshire acquired. Represented now in London, Midlands, Scotland, Northern Ireland, France and Spain. **2005, 2006, 2007** - Finance mentors to BBC TV program. **2006** - Named in first ever Chartered Financial Planner listing and pioneered 'EU Passport' financial advice service to British expatriates in Spain. **2007** - Need An Adviser.com redesign and launch for blind, deaf, colour blind and dyslexic access.

**2008** - 'EU Passport' financial advice service to British Expatriates in all 25 EU States. **2009/10** - New Associate Consultants recruited in Scotland, Northern Ireland, Spain and France + 4 more awards Winning IFA Firm of the Year and Online IFA of the Year.

**2011** - Treasury Select Committee Lobby Group **Advisers United** launched by us to help lobby for fee based financial advice across the whole financial services industry. NeedAnAdviser for Mobile & Tablets goes live across all websites - Winner Online IFA of the Year and Runner-up IFA Firm of the Year.

**2012** - Winner Pensions IFA of the Year + 2 other Awards. 5 New Websites Launched: AnnuityRatesAdvice.com, DivorceandPensions.com, ExpatAdvice.com. EquityRelease-Advice.com, PensionTransferAdvice.com.

**2013** - **FinancialAdvice.net** replaces **NeedAnAdviser.com** - brand new design, features and navigation. **2014** - **Finalist Retirement Planner of the Year.** Ongoing development of a virtual/automated financial adviser robot TomPig.com.

# Pension Death Benefits All Change

Most people will remember the 2014 Budget for the Chancellor's pension proposals which are due to come into effect from 6 April 2015.

The ability to not to be forced to buy an annuity but the flexibility for all to use flexible pension drawdown (after age 55) and draw from your pension fund as much or as little as you require. The simple rules remain that 25% of the funds withdrawn are treated as a tax free lump sum and the remaining 75% drawn out as taxable income.

This presents a multitude of retirement income options. Some will withdraw the whole 25% tax free lump sum initially and any balance drawn down will be taxable as and when needed. Others will draw down a mix of both tax free lump sum and taxable income in stages. This will depend upon your own tax position at the time of drawing down funds.

However, we already knew of above pension changes that take effect from 6 April 2014. The issue was always the death benefits as under current rules, if you die when in "drawdown" up to 55% of the pension fund could be taxed if your surviving spouse wishes to withdraw the remaining balance of the pension fund. The Chancellor has since confirmed significant improvements to private pension funds on death both for annuity as well as drawdown as follows:

## Uncrystallised Private Pensions

**IF PENSION HAS NEVER been touched/no benefits paid out:** OLD RULES: Whole Pension Fund can be paid out tax free. NEW RULES: Whole Pension Fund can be paid out tax free

## Pension Drawdown on Death

BEFORE AGE 75
**IF DRAWDOWN PENSION HAS paid out some benefits already:**

**LUMP SUM PAID TO LOVED ONES** - OLD RULES = 55% tax. NEW RULES = Tax free

**INCOME PAID TO LOVED ONES** - OLD RULES: Financial Dependants Only (e.g. Spouse/ Civil Partner). Taxed as income. NEW RULES: You can leave your pension to any beneficiary and it does not have to be a financial dependent. It is tax Free if taken via new flexible drawdown income.

AFTER AGE 75
**LUMP SUM PAID TO LOVED ONES** - OLD RULES = 55% tax. NEW RULES = 45% tax (marginal rate from 2016/17).

**INCOME PAID TO LOVED ONES** - OLD RULES: Financial Dependants Only (e.g. Spouse/Civil Partner). Taxed as income. NEW RULES: You can leave your pension to any beneficiary and does not have to be a financial dependent. It is taxed as income.

## Pension Annuity In Payment on Death

Provided there is a spouses annuity or an unexpired guaranteed income period.

Before Age 75. **INCOME PAID TO SPOUSE** - OLD RULES: Spouse Annuity - Taxed as income. NEW RULES: Spouse Annuity - Tax free income.

After Age 75. **INCOME PAID TO SPOUSE** - OLD RULES: Spouse Annuity - Taxed as income. NEW RULES: Spouse Annuity - Tax as income.