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SUMMER 2016

rosan helmsley quarterly

Budget 2016 tax changes: new moves

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Brexit – A tight call?

We are a couple of weeks away from the referendum on our continued membership of the EU and it seems for many Britons, perhaps even the majority, the primary attachment to these shores seems to be essentially pecuniary in nature.

There have been warnings on the security front, but whichever way you cut it, the main focus on the debate remains the economic pitfalls – or perhaps uncertainties – of a 'Brexit' vote. Thus far, it appears that warnings on the economy, no matter how hyperbolic, are holding sway.

Since David Cameron first promised an in/out referendum in January 2013, most polls have shown a decisive lead for the 'staying in' vote, though the sluggish performance of the Eurozone economies and a worsening refugee crisis have certainly caused the gap to narrow. There was a hugely negative reaction to the EU reform deal the Prime Minister brokered in Brussels, which for many highlighted our political impotence in the face of the EU hierarchy.

Regardless of which way you intend to vote, perhaps the most depressing aspect of the debate for anyone looking to make a reasoned assessment, is that you would be hard pressed to recall a single nuanced argument from either side of the divide over the last few weeks; a point brought home by HM Treasury's farcically one-sided study into the potential economic implications of Brexit.

A couple of weeks ago my children in their early twenties asked for some guidance in framing their own debates. I perhaps simplistically suggested they consider how they would vote now if we were currently out of the EU and being asked whether we should join. I suggested they consider that in the context of the leading EU members wanting a long term Federal Europe outcome and how they felt about that from a UK perspective. Secondly, I asked them to consider whether they felt the concept of a single currency worked well for the member countries and whether they as young Britons were likely to countenance that membership in the future.

What we do know is that a Brexit would create some short-term market uncertainty, which is unlikely to be good for risky assets such as UK equities. History tells us though that these periods tend to be relatively short lived. My appraisal is that the UK will continue to perform well as either a member of the EU or outside it. Around the world 165 countries trade daily with the EU without being members and most of them trade successfully without a special trade agreement. The EU still has no special trade agreement with the US, (the UK's single largest trading partner), nor with China (the second largest economy in the world), nor with India or Brazil.

Rosan Helmsley Golf Day – St. George's Hill Golf Club

On a lighter note, we recently held our 9th consecutive golf day at St. George's Hill Golf Club – a great day enjoyed by guests and hosts alike.

This newsletter contains a number of articles on current topical industry and financial planning issues. Please do contact us if you wish to review any of the articles, or your own situation in the context of changing legislation.

Rob Sandwith | Chief Executive

Can you really avoid inheritance tax?

Inheritance tax (IHT) was once famously described as "a voluntary levy paid by those who distrust their heirs more than they dislike the Inland Revenue" by Roy Jenkins, a former Chancellor of the Exchequer.

When Gordon Brown was Chancellor of the Exchequer, he called IHT a 'voluntary tax' because he said there were many ways to avoid it.

It is clear, however, that not everyone has taken this message on board. The details of the estate of a well known and recently deceased figure in the world of entertainment were recently published. In the will, £15 million was to be divided between three children. Each son will receive just over £3 million but the biggest beneficiary will be the Exchequer in the shape of a huge IHT bill of nearly £6 million.

The billions that could be saved

The Office for Budget Responsibility released figures in 2014 in which they estimated that one in ten deaths would be subject to IHT in the 2018/19 tax year. The reason for this increase is mainly the surge in house prices, which prompted the Chancellor to announce the main residence nil-rate band in the Summer Budget 2015, coming into effect in 2017.

This is eventually expected to reduce the number of deaths subject to IHT by a third, but the Exchequer will still receive around £5.6 billion of IHT by 2020/21. That is a very large amount for a 'voluntary tax' and more than double the £2.7 billion in IHT the government received in 2010/11.

The best time to start your planning is today

If you aim to take advantage of the voluntary nature of IHT, it is essential to do your tax planning in good time. That means starting now – as soon as possible – because most of us cannot forecast when we are going to die.

The first step is to make an appointment with us so that we can estimate the current potential IHT liability on your estate and put in place a plan of action. This is likely to involve a number of aspects of your financial arrangements, including the following:

- **Your will** – it is essential to have an up to date and valid will.
- **Exemptions** – there are various valuable exemptions you can use to pass money onto your family or others free of IHT.
- **Gifts** – you may have assets you can give away now so that you see your heirs enjoying their use during your lifetime.
- **Pensions** – personal pension funds have taken on a new role in IHT planning following recent changes. It might be worth delaying withdrawing funds.
- **Trusts** – the use of trusts can make a lot of sense, especially for larger estates.
- **AIM ISAs** – normal ISAs form part of your taxable estate, but if they are invested in AIM shares their value should be tax free after you have held them for two years. Of course, AIM shares are generally more volatile than other equity-based investments.
- **Business Property Relief** – many investments will allow you to make use of this particularly beneficial relief from IHT.
- **Life assurance** – insurance cover can be a helpful way to build up tax-free assets outside your estate by using your annual exemptions. You can use relatively small regular payments to provide a much larger tax-free capital sum. Life policies do, however, need to be in trust to avoid making the IHT liability larger.

Putting a plan in place now may be the best thing you do for your beneficiaries.

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> "The March 2016 Budget is the third in twelve months and it revealed some important tax changes."

New moves after the Budget 2016 tax changes

This year's Budget contained many measures which could affect your long term financial planning.

Budgets have become a regular feature of the financial landscape. The March 2016 Budget is the third in twelve months and it revealed some important tax changes:

Income tax

For 2017/18 the personal allowance will rise by £500 to £11,500 and the higher rate tax starting point will increase by £2,000 to £45,000. This means the higher rate threshold will finally rise above its 2009/10 peak of £43,875. The Chancellor confirmed his goal of a personal allowance of £12,500 by the end of the Parliament (2020/21), but he made no comment about an earlier pledge to raise the higher rate threshold to £50,000 by the same time.

Capital gains tax

One unexpected change was an 8% cut in the rates of capital gains tax, starting in the current year 2016/17. Gains that fall within your basic rate tax band are now generally taxable at 10%, while gains in higher and additional income tax bands suffer 20% tax. However, gains made on residential property (e.g. buy-to-let and second homes) do not benefit from this reduction, and continue to be taxed at the old 18%/28% rates.

ISAs

The ISA contribution limit for 2016/17 is unchanged at £15,240 due to the fact that inflation was negative last September, but the Chancellor announced the limit would jump to £20,000 for 2017/18. He also promised the launch of a new Lifetime ISA (LISA) from 2017/18, which is designed to encourage saving by the under-40s. The LISA offers the equivalent of 20% tax relief on up to £4,000 of savings each year until the age of 50.

Corporation tax

Mr Osborne had already earmarked a cut in corporation tax to 18% in 2020, but in the Budget he shaved another 1% off the rate, taking it down to 17%. However, he also proposed a number of technical changes to corporation tax which will increase the Exchequer's tax take from some larger companies.

Other tax changes which were announced in earlier Budgets are being legislated for in the Finance Bill currently going through Parliament. Some of these need to be considered alongside the March 2016 measures. For example:

- **Dividend taxation** The £5,000 dividend allowance, which was introduced from 6 April 2016, adds to the appeal of investing in shares and share-based funds. Not only will some investors escape tax on their dividends altogether, the most tax any individual will pay on capital gains is now 20%.

  The dividend allowance and future changes to corporation tax are also relevant to the way in which any business should be structured, and whether or not taking dividends is the best way to extract profits going forward.

- **Pension protection** A 20% cut to the lifetime allowance (to £1m) was announced in the March 2015 Budget, along with two new transitional protections that can be claimed by those affected. These took effect from 6 April 2016.

If you think any of these changes could affect you, now is the time to talk to us about what actions you should take, if any.

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Do you know your state pension age?

The new single-tier State pension, which started life on 6 April 2016, is not paid automatically when you reach your State pension age (SPA); you have to claim it. The Department for Work and Pensions should write to you at least four months before your SPA telling you what to do. If you do not receive the letter, there is a claims phone line you can call. However, if like many people you do not know your SPA – and it will not necessarily be on a birthday – and the letter fails to arrive, you may not realise what has happened… Best check it now.

Keep covered for the rainy days

Whatever your view about the principle of providing people with social security benefits if they are ill or unemployed, it is inadvisable to try living solely on what the State provides in such circumstances. The so-called 'safety net' is lower than you may think.

After the recent U-turn on the Personal Independence Payment (PIP), the government has said there will be no more benefit cuts beyond those already planned. But that does not mean you or your family could comfortably rely on State support to make ends meet during periods of ill-health or unemployment.

The main benefits you could be entitled to include:

Ill Health – If you are unable to work because you are sick or disabled, you may be able to claim Statutory Sick Pay (SSP) or Employment and Support Allowance (ESA). SSP is paid at a fixed rate of £88.45 a week for the first 28 weeks of sickness if you work for an employer. Otherwise, you should claim ESA.

Personal Independence – Payments are an additional benefit for people aged 16-64 with a long-term health condition or disability who need help with everyday tasks or getting around. PIPs help with some of the extra costs inevitably incurred as a result of long-term ill-health or a disability. The standard daily living component is £55.10 a week and this can increase by the addition of a standard mobility component of £21.80 a week. There are enhanced PIPs if you are not expected to live more than 6 months.

Unemployment – You will need an assessment to work out the level of help you are entitled to receive, and your rate will be regularly reassessed. If you are 25 or over but have not reached your State pension age, you will receive a maximum of £73.10 a week Jobseekers Allowance while you are actively looking for work. The rules are different in Northern Ireland.

Retirement – The full new State pension which started on 6 April is £155.65 a week. Your National Insurance record is used to calculate your entitlement, and you will usually need 10 qualifying years to qualify for any new State pension, and normally 35 years to claim the full amount.

Death – You might be able to claim Bereavement Allowance if you are widowed between 45 and State pension age. You can receive this benefit for up to 52 weeks from the date your husband, wife or civil partner died. The maximum rate is £112.55 a week if you are aged 55 or over. If you are bringing up children, you would receive Widowed Parent's Allowance instead but the maximum weekly benefit is the same. You may be able to get a one-off £2,000 bereavement payment if you are under your State pension age when your husband, wife or civil partner has died.

This brief list of some of the main benefits is by no means exhaustive, but it should be enough to indicate that the amounts payable are probably too low for you to maintain the standard of living that you would wish for yourself and your family. A range of plans can help bolster your financial defences. They include life and health insurance cover as well as capital accumulation programmes.

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How much lower for longer…?

March 2016 marked the seventh anniversary of a 0.5% Bank of England base rate, but other interest rates are still falling.

"Lower for longer" is now a commonly used phrase when economists and bankers discuss the future of interest rates. The view is supported by banks and other deposit takers, which continue to reduce savers' rates. Shortly after Easter, National Savings & Investments (NS&I) joined the rate cutters. From June Income Bonds and the Direct ISA will then pay only 1%. In its announcement NS&I said "…downwards movements in interest rates across the cash savings market mean that our rates have risen in the competitor tables."

If you need income, then the continued downward pressure on deposit rates is unwelcome news. However, if you are prepared to forgo capital security, there are plenty of investment options capable of providing a higher income return. For example:

- UK equity income funds typically yield around 4% and offer potential for long term growth in income. The reforms to dividend taxation that took effect at the start of this tax year mean your first £5,000 of dividends now attracts no personal tax, regardless of your marginal tax rate
- Global equity income funds generally have a lower income yield than their UK counterparts, but offer a valuable element of diversification.
- Property funds which invest directly in property (rather than shares in property companies) offer attractive yields. The current rental return on commercial property is around 5% according to Cluttons, the property agents.
- Fixed interest funds, such as sterling corporate bond funds, have long been popular with investors seeking income. The range of income yields on offer is wide, with the highest income generally coming from funds investing in the lowest quality bonds.

If any of these investment opportunities interest you, do make sure you take advice before investing: simply picking the funds with the highest initial income can be a fatal mistake.

The value of your investment 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.

> "If you are prepared to forego capital security, there are plenty of investment options capable of providing a higher income return."

Pensions Regulator 22,900 : Swindon Town 0

The potential costs to a business of not complying with the rules for automatic enrolment were recently highlighted in press reports about Swindon Town football club. In the words of The Pensions Regulator, the club "repeatedly failed to comply with its automatic enrolment duties," and was ultimately fined £22,900. If your business is yet to start auto-enrolment, you need to begin preparation early to avoid incurring penalties.

Occupational pension schemes are regulated by The Pensions Regulator.The value of your investment 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.

Don’t fall into the gifting tax traps

New tax rules introduced in April have changed your options when investing for children.

If you give money or investments to your unmarried minor child, then the tax rules can catch you out. HM Revenue & Customs (HMRC) is suspicious that such gifts are an attempt to avoid tax on the part of the donor, so the law says that if the total income generated from all such gifts exceeds £100 in a tax year, that income is taxed as that of the parent. The rule operates on a per parent, per child basis, but it can still be difficult to avoid crossing the £100 threshold.

Several ways of sidestepping the problem have been developed over the years. The government has provided a partial solution by introducing the Junior ISA, which allows up to a total of £4,080 per tax year to be invested with no tax consequences upon parental donors, and no personal UK tax on the underlying investments.

Two new tax allowances, which came into effect at the start of this tax year, have changed the picture somewhat:

- The personal savings allowance means that if you are a basic rate taxpayer you can receive up to £1,000 in per tax year of interest free of tax. If you pay tax at 40% the allowance is £500, but there is no allowance if you are a 45% taxpayer.
- The dividend allowance gives you up to £5,000 of dividends free of personal tax per tax year, regardless of your tax rate.

Both allowances could be useful if a gift to a child would lead to the £100 threshold being breached. Unless the relevant allowance is exceeded based on the total of your and your child’s income, there will be no income tax to pay. However, direct investment in the name of a child is not always an ideal solution, as it gives the child access to the funds when they reach the age of majority, and there could be inheritance tax consequences.

You should therefore always seek advice before making gifts to your children.

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