PARTNERS WEALTH MANAGEMENT

Planning your financial freedom – Autumn Update (November 2018)

Use or lose your £40,000 pension bonus

Higher earners have six months left to take advantage of a quirk in the pension rules that allows them to double up on their tax relief.

Savers have an "annual allowance" of £40,000 tax free contributions per tax year. They can also carry forward any unused allowance from the previous three years. However, a rule change in the 2015-16 tax year meant that they could put in double the annual allowance for that year, increasing their contribution from £40,000 to £80,000. Under the carry forward rules, anyone who did not take advantage of the double tax break then must do so before April 2019 or lose it.

Child Benefit fines

HMRC is considering refunding some parents and guardians who were fined for not registering for the high-income child benefit charge (HICBC). The department has said it will review cases in the 2013/14, 2014/15 and 2015/16 tax years and will offer refunds to taxpayers who it finds had a reasonable excuse for not registering to pay the HICBC.

Alongside this, HMRC is writing to taxpayers who may be liable to pay the HICBC for 2016/17 and 2017/18 to explain the rule and help them avoid having to pay a penalty.

Things to keep an eye on post Budget

Many breathed a sigh of relief after the Budget announcements, with the widely expected tax rises to pay for the NHS failing to materialise. Financial planning was, in fact, remarkably unaffected for a change. However, the spectre of further tax rises - should Brexit go awry - remains ever present.

As such, there are several things to bear in mind:

- Experts warn there is no certainty as to how long current pension tax reliefs will last and advise clients to make the most of their full tax allowances whilst they can.
- Though most people will pay less income tax from next April after the personal allowance and higher rate tax thresholds were unexpectedly increased in the Budget, higher earners will see part of that gain cancelled out by linked increases to national insurance.
- From April 2020, reforms to the "off-payroll" working rules will mean private sector companies who cannot prove their workers are self-employed will become liable to pay employer national insurance contributions and deduct higher taxes from their workers' pay.

Landlords hit by the budget

When you sell a property, you may be liable to pay capital gains tax (CGT) if you have let it out. How much you pay depends on how long you lived there. You pay tax on your "chargeable gain", defined as your gain, minus any private residence relief (PRR) you are eligible for. PRR is the tax relief that keeps people's main homes out of the CGT net. At present you do not have to pay any CGT for the years you lived in the property, plus an additional exemption for the final 18 months that you owned it, even if you were not living there at the time. Hammond, however, announced that from April 2020 this final period exemption will be cut to nine months. The other change is arguably more impactful and involves something called lettings relief, which currently provides up to £40,000 of relief for an individual and £80,000 for a couple, to people who let out a property that is, or has been, their main home. From April 2020, lettings relief will only apply where the owner is sharing occupancy of the home with a tenant, effectively spelling the end of this perk.

Rates held but Brexit will not get in the way of rises

The borrowing costs of UK households and businesses may rise in the event of a no-deal Brexit, the Bank of England has warned. The central bank stressed that it may not be able to cushion the economic blow of the UK leaving the European Union next March with no agreement. For now, the base rate is held at 0.75% but the central bank forecasts growth of 1.3% this year, rising to 1.7% in 2019. The rationale behind expected increases irrespective of the Brexit outcome is that the economy is now broadly in balance, rather than being in material excess supply as it was then. Inflation is notably above target, not significantly below. The Bank also stressed that a 'no-deal' scenario would probably cause another slump in the pound, pushing up inflation and supporting the case for borrowing costs to rise.

If you wish to maximise your cash deposits whilst maintaining the safety of full FSCS protection, please speak to us regarding our market leading cash management service.

Record pension withdrawals

Pensioners have cashed in a record £5.7bn from their retirement pots so far this year. The scale of draw downs has led to warnings that pensioners may face a lack of cash in later life. Official figures on the amount withdrawn since January means the total amount raided from retirement savings has reached a staggering £21.6bn in the three years since pension freedoms were introduced. Evidence that people were starting to treat their retirement nest egg as a bank account emerged in figures released by HMRC. They showed that as many as 585,000 withdrawals were made by 258,000 people in the three months to the end of September, totalling nearly £2bn. In the three-and-a-half years of pension freedoms, nearly five million withdrawals have been made by more than 1.3 million people, totalling £21.6bn.

Don't forget how efficient pensions are from a legacy planning perspective. Please contact us if you would like to review this area of your planning.

I hope that this update is useful and informative, if you have any questions regarding any part of this, please contact me or your usual Partners Wealth Management Adviser.

Duncan Wilson
Partner and Chartered Financial Planner
dwilson@partnerswealthmanagement.co.uk
020 7444 4066