PARTNERS WEALTH MANAGEMENT

Planning your financial freedom (August 2019)

Welcome to the August 2019 edition of PWM Insights.

This edition will have a quick look at some of the changes that are either with us, or will be imminently, which could have an impact on you and your financial planning going forwards. If this raises any questions or concerns, please do get in touch with your usual Partners Wealth Management adviser.

An answer to poor interest rates on your cash

In early June, The Telegraph highlighted that savers are losing £3.5bn a year in interest from an inability to summon the energy to switch away from high street banks, even though these often offer lower rates than smaller, rival firms.

According to the Centre for Economics and Business Research, customers with Barclays, HSBC, Lloyds, Royal Bank of Scotland and Santander account for £827bn of the total £1.3 trillion saved in the UK. While they are set to make £3.4bn in interest on their savings over the next year, this would more than double (to £7bn) if they swapped to better interest rates with rivals.

Partners Wealth Management's Deposit Service can help resolve this for you, as one set of forms allows for cash to be managed across multiple institutions, ensuring you always benefit from competitive rates. This applies not only to your personal cash, but also corporate, trust and charity deposits. Please do get in touch if you would like to find out more.

2019/20 Finance Bill - capital gains tax change confirmed

The 2019/20 Finance Bill was published on 11 July, and in it, the government confirmed a shift in capital gains tax (CGT) rules limiting the extra amount of private residence relief second home owners are entitled to, as previously announced in the Budget 2018. Private residence relief reduces capital gains tax and includes circumstances where the individual originally lived in the property, but then kept it as a rental after moving to a new home.

Under the existing rules, the exemption applies to the time spent while the owner is living in the property plus another 18 months of relief. For example, if someone owned a property for eight years but only lived in it for five, they would receive six and a half years of exemption (i.e. five years plus the 18 months).

The government's changes will limit the 'extra relief' to nine months for contracts for sale made from 6 April 2020. Whilst this seems like a small change, those affected could spend thousands of pounds in additional tax - the government expects to net £470m over the next five years in additional tax revenues as a result of this change (Source: Quilter).

In a small number of cases, the rule change will be of benefit to married couples, as a spouse or civil partner can now inherit the relief. Previously, a spouse who inherited a home would not be entitled to the relief unless they personally lived in the property. Under the new rules, the relief their deceased partner would have received is now transferable.

Buy-to-let tax changes

Another change in the tax rules for residential buy-to-let (BTL) property owners came into force on 6 April. The new tax year 2019/20 saw the amount of interest on a BTL mortgage that can be set against rent cut from a half to a quarter, with a corresponding increase in the sum qualifying for a basic rate tax credit.

From next tax year there will be no direct offset against rent and all interest will qualify for a 20% tax credit. In addition:

- CGT on residential property will become payable within 30 days of a sale, if that occurs on or after 6 April 2020. The payment will also need to be accompanied by an interim tax return.
- The period during which you can own two homes as main residences with neither of them being liable to CGT will be reduced in most circumstances from the current 18 months to circumstances from the current 18 months to just nine months. This could give rise to challenges in today's slow housing market.
- Letting relief, which is an exemption of up to £40,000 of gain from CGT if a main residence is let, will only apply if the owner remains in the property while it is let.

The widening 60% tax gap, and what can be done to alleviate it

In recent years the personal allowance for income tax (i.e. the amount that someone can earn before paying tax) has seen significant increases and now stands at £12,500 for the 2019/20 tax year. However, the threshold for the loss of the personal allowance has remained static at £100,000 since it was introduced in 2010.

The 60% rate comes about because earnings above £100,000 not only pay tax at the rate of 40%, but the personal allowance is also reduced by £1 for every £2 of additional income above the £100,000 threshold. The effect of the gradual loss of personal allowance means that the effective rate of tax between £100,000 and £125,000 is 60%. Anyone with income levels above £125,000 has a personal allowance of zero.

This "quirk" means that we have marginal income tax rates of 20%, 40%, 60%, falling back to 40% above £125,000, and 45% on income over £150,000.

For those with income in excess of £125,000, it is possible to get back some or all of the 60% tax through personal contributions to occupational and personal pension schemes (as long as these bring the net income position lower than £125,000).

There really is an ISA “season”

Statistics from the Investment Association regularly show that ISA sales are clustered in the early months of the calendar year as investors react to a 5 April deadline. If you look at the personal finance pages of the weekend press in March, and it is hard to avoid all the ISA stories, including the journalist’s favourite of ISA millionaires (yes, they do exist).

However, by mid-April ISAs seemingly go into hibernation. The puzzle is why that happens, as logically, to gain maximum benefit, investment should be made at the start of the tax year, rather than its end. If you are planning to make an ISA investment in 2019/20, it could benefit you to consider doing it now, rather than waiting for the March stampede.

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

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

partnerswealthmanagement.co.uk