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Financial Viewpoint

Your latest newsletter from The Orchard Practice

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Do you have too much money invested in cash?

Is your Cash ISA under attack from inflation?

If you started saving in a Cash ISA when they were first introduced in 1999 and continued to invest every year to date*, you could have saved over £71,000. But with the Bank of England's Base Rate remaining at 0.5% since 2009, the spending power of these savings has effectively been diminished when you have taken inflation into account.

In fact, you would have had to earn interest of 3.9%[1] over the last five years for your savings to have beaten inflation. And looking at the current Cash ISA best buys, it would seem unlikely you'd achieve that from a bank or building society.[2]

You could have £71,000 (plus interest) in your cash NISA

2014/15	**£15,000**
2011/12	**£5,340**
2012/13	**£5,640**
2013/14	**£5,760**
2008/09	**£3,600**
2009/10	**£3,600**
2010/11	**£5,100**
2004/05	**£3,000**
2005/06	**£3,000**
2006/07	**£3,000**
2007/08	**£3,000**
1999/00	**£3,000**
2000/01	**£3,000**
2001/02	**£3,000**
2002/03	**£3,000**
2003/04	**£3,000**

[1] This Is Money – 3.9% that's the magic number: It's at least what savers needed for the past five years to beat inflation
[2] Moneysavingexpert.com Best Buy Cash ISAs on 27 November 2014
[3] Hargreaves Lansdown – Neil Woodford: Rate expectations
[4] BBC News UK household debt hits record high
*As at 30 November 2014

The case against raising interest rates

While there's talk about the prospects of an interest rate rise, Neil Woodford, Head of Investment at Woodford Investment Management, argues there's no need for UK interest rates to rise until 2016 thanks to a number of factors:[3]

- UK households remain burdened by too much debt (household debt-to-income ratio hit a record high of 140% in 2013)[4]
- Household cash flows remain very sensitive to rate rises
- UK labour market dynamics have changed. With over 1 million people in part-time employment preferring a full-time job, and many more in self employment
- UK inflation remains low and appears to be heading lower

So, with interest rates at an all-time low and looking to remain so for the foreseeable future – it's time to consider transferring your Cash ISA savings to a Stocks and Shares ISA investment and avoid the effects of inflation on your savings.

And the great news is that following the introduction of the New ISA (NISA) legislation in July 2014, you can now switch your Stocks and Shares ISA investments back to Cash ISAs if interest rates get back to a level that means your spending power won't be eroded.

The value of investments and the income from them can go down as well as up and you may not get back the amount originally invested.

Tax concessions are not guaranteed and may change in the future.

Talk to us about inflation-beating investments
There are numerous multi-asset investments available to investors who are uncomfortable taking too much risk with their money. Many of these have delivered significantly higher returns than cash over the last five years. Get in touch to find out more.

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The most valuable gift you can buy?

Life and Protection Insurance policies (sometimes known as 'Family Protection') offer a financial safety net for you and your loved ones, should the worst happen.

They can provide a regular income or cash payout to ease the financial burden of:

- death
- serious injury or illness
- unemployment (as an additional cover with certain policies)

Which policy is right for you?

Life Insurance can provide financial security to those who depend on your income when you die. It could pay off your mortgage, or provide an income to help cover things like regular household bills.

The most appropriate type of **Life Insurance** will depend on your circumstances

- **Term Insurance** pays out a lump sum if you die within the agreed 'term' (the amount of time you have chosen to be covered for, eg. 20 years).

- **Whole of Life Insurance** pays out a lump sum when you die, whenever that is, as long as you are still paying the premiums.

- **Family Income Benefit Insurance** pays out a regular income, instead of a lump sum, to provide ongoing financial support for those who depend on you.

Critical Illness Insurance pays out a tax-free lump sum on the diagnosis of certain life-threatening or debilitating conditions, like cancer, heart attack or stroke.

You may decide to buy Critical Illness Insurance when taking on a major commitment, like a mortgage or starting a family, but it can be bought at any time to provide peace of mind.

Income Protection Insurance pays out a regular, tax-free income if you become unable to work because of illness, injury or unemployment. It could help you keep up with your mortgage or rent payments, as well as other living costs, until you're able to return to work.

Things change – and so should your cover

You may already have one or more of the above in place, but it's still worth reviewing your current cover levels. Personal circumstances can change regularly so it's important to ensure your level of cover remains appropriate.

Contact us today for a Life and Protection Insurance review.

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How tax efficient is your pension?

The main purpose of a pension is to build funds for your retirement inthe most tax-efficient way possible.

You may contribute regularly to your pension, but do you take full advantage of the tax benefits it offers you? For instance, did you know your pension could help you reclaim valuable personal tax allowance – and even Child Benefit?

Over the lifetime of your pension, these potential benefits could contribute significantly to the funds available to you at retirement.

Here are four examples of how your pension could work harder for you.

1 Use contributions to realign Personal Allowance for high earners (over £100,000)

Nearly everyone who lives in the UK is entitled to an Income Tax Personal Allowance (the amount of income you can receive each year without having to pay tax on it).[1]

This Personal Allowance is reduced by £1 for every £2 of taxable income over £100,000.

By making a pension contribution, you could reduce your taxable income, and reclaim your allowance. This is particularly valuable if you have a taxable income of between £100,000 and £116,210.

2 Prevent the erosion of Child Benefit

Since 7 January 2013, if you're a parent earning more than £50,000 the amount of Child Benefit you receive reduces. It goes completely once earnings hit £60,000.[2]

A pension contribution can help you reduce your earnings and therefore allow you to reclaim Child Benefit.

3 Maximise tax relief on contributions /minimise tax on pension income

The government encourages you to save for your retirement by offering tax relief[3] on your pension fund up to a certain amount.

Through efficient planning, you may be able to receive tax relief at a rate higher than the Income. Tax-rate you'd pay on your retirement income.

4 Paying in more than your annual allowance

You are allowed to pay up to £40,000 annually into your pension. Contributions above this amount are subject to tax penalties.[4]

However, in certain circumstances, you can exceed your annual allowance without penal tax charges applying. This is because you can carry forward three years' worth of unused annual allowance meaning, subject to earnings, you may be able to claim valuable tax relief.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes, which cannot be foreseen.

[1] https://www.gov.uk/incometaxrates/personalallowances
[2] http://webarchive.nationalarchives.gov.uk/+/http://www.hmrc.gov.uk/news/childbenefitchargemar2013.htm
[3] https://www.gov.uk/taxonyourprivatepension/pensiontaxrelief
[4] https://www.gov.uk/taxonyourprivatepension/annualallowance

If you'd like to explore your pension in more detail, please get in touch.

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Are you prepared for a rate rise?

The Bank of England Base Rate remains at 0.5% – its lowest level since the Bank was established in 1694.[1]

With commentators adjusting their predictions of a Bank of England Base Rate rise on an almost monthly basis, you may feel unable to make a confident decision about your mortgage. But there are measures you can take to prepare for an interest rate increase.

Take control of your finances
The first step is the most important: consider how an increase could affect you. You may be in a fortunate position, where even an increase of several per cent would not impact your standard of living. However, this is unlikely to be the case for most people.

Research from the Money Advice Service suggests more than half of UK homeowners are not prepared for a rise.[2]

The research also reveals that three out of four homeowners haven't considered how a 3% interest rate increase would affect their mortgage repayments. This is despite the Bank of England Governor Mark Carney estimating interest rates will rise by 2–3% over the next three years.

Review your mortgage
If you think an increase in your mortgage repayments could have a negative impact on your financial wellbeing, you should consider reviewing your mortgage arrangements. We can help you choose a deal that's right for your needs.

If you want to protect yourself against future interest rate rises, you may want to consider a fixed-rate mortgage. This means your payments are set at a certain level for an agreed period, regardless of whether your lender changes its Standard Variable Rate (SVR). Such an increase typically occurs when the Bank of England Base Rate starts to climb.

A fixed-rate mortgage makes budgeting easier because your payments will stay the same, although it also means you won't benefit if the SVR then goes back down.

Check your bank statement
You may find it useful to take a closer look at your overall finances, and consider if and where you can make savings to prepare for higher repayments, should they materialise.

Looking at your bank statement in detail can help you decide if you need to make cutbacks on your spending. You may be able to easily identify areas where you could make significant monthly savings.

Don't leave it too late
Don't be tempted to wait until rates start increasing. Considering your options now. Acting decisively could pay dividends in the future – even if rates remain static.

[1] Bank of England Base rate of 0.5% correct on 30 November 2014
[2] The Money Advice Service: More than half of UK homeowners not prepared for interest rate rises: 8 October 2014 https://www.moneyadviceservice.org.uk/en/news/morethanhalfofuk homeownersnotpreparedforinterestraterises

If you want help assessing the mortgage deals available to you, please get in touch.

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.

For this service a fee of £395 is payable upon agreement to use our services

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Do you run your own business?

If you do, you probably have one or more key employees that are integral to its success.

They may even possess the skills, knowledge, experience or leadership that makes a vital difference to your bottom line.

But have you considered what would happen if they suddenly died, or suffered a critical illness that forced them to be absent from work for a long period of time? If the unexpected happened, it could pose a serious risk to your business.

Protect the most important assets
You may have covered the tangible assets of your business, but have you protected the most important assets: the people that directly contribute to your profits?

Key Person Protection is a simple way for you to insure your business against the losses you might suffer as a result of the death, or critical illness, of a key individual.

To find out more about our full range of Business Protection products, please get in touch.

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Offset mortgages explained

Offset mortgages may be familiar in name – but do you really understand their features and benefits? Here's a quick guide.

What is an Offset mortgage?

Usually linked with one bank account (but sometimes more), an Offset Mortgage allows the money in your savings account to be counted as temporary overpayments towards your mortgage.

However, your savings remain accessible so you can still get to them if you need to.

Why might you choose an Offset mortgage?

Taking out an Offset mortgage enables you to use your savings to reduce your mortgage balance and therefore the interest you pay on it. For example, if you borrowed £200,000, but had £50,000 in savings, you would only be paying interest on £150,000.

Offset mortgages can be more expensive compared to a standard deal, but they can help to reduce your monthly payments, whilst still giving you access to your savings.

Advantages

- As you pay less interest, Offset mortgages can help reduce your monthly repayments, or enable you to repay your loan early.
- You maintain access to your money, should you need it.
- Deals can be quite flexible, allowing you to offset savings and current accounts against your mortgage.

Disadvantages

- Money held in Offset accounts won't earn you interest.
- If you don't have much saved, you won't save much on the mortgage, meaning it may be better choosing an alternative deal with a lower interest rate.
- Offset mortgages are usually more expensive than standard deals.

When is it worthwhile?

If you have a mortgage rate that is higher than your savings rate (after tax), you may find yourself better off by offsetting – even if you don't have a high savings balance.

In addition, you have the added security of being able to access your savings at any time (unlike making overpayments on a traditional mortgage).

An Offset mortgage may be even more appealing if you're a higher rate tax payer. As there is no interest paid on the money in an Offset savings account, there is no tax liability.

Offset mortgages can offer real financial benefits if you have a mortgage and some savings. By seeking professional advice, you will gain a clearer picture about whether it's the right choice for you.

To discuss your mortgage needs, please get in touch.

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Leaving a legacy

You've worked hard to create wealth. You may have taken risks, devoted long hours to building a business, or made sacrifices to establish your investment portfolio.

At the same time you've probably paid considerable amounts of tax, be it Income Tax, Corporation Tax, Capital Gains Tax, Stamp Duty, or National Insurance. And then, of course, there's Inheritance Tax (IHT).

While IHT may be a concern for you and your heirs, there is more to estate planning than simply trying to reduce the Chancellor's slice of your legacy.

As a starting point, it's important to think about what you would want to happen to your wealth on your death. For instance:

- What should any surviving spouse or partner inherit?
- Who are your (other) chosen beneficiaries?
- Are there specific items you want to leave to particular people?
- What framework – if any – is needed for your bequests? For example, you might be happy to leave capital outright to a 40 year-old architect daughter, but the same may not be true of a 19-year old student son.

[1] nationalarchives.gov.uk: inheritance tax analysis of receipts

Inheritance Tax: the basics

At its simplest, IHT is a 40% tax, generated on your death, that applies to the amount by which your estate exceeds the nil rate band (currently £325,000).

While most estates are too small to be subject to IHT, those that are above the starting point face an average bill of nearly £170,000.[1] If you think you'll leave an IHT bill, you should either make provision for it (for instance, through a Life Insurance plan), and / or consider taking advantage of the various reliefs and exemptions that can help reduce your liability.

You can also make a number of gifts during your lifetime that will be IHT exempt – unless they are made within seven years of your death, in which case IHT will apply.

Where there's a Will...

A Will is key part of successful estate planning – not just because it sets out what you want to happen after your death, but also because it covers a number of other important aspects.

For instance, if you die without a will, the rules of intestacy determine how your estate will be distributed. As well as creating the potential for family squabbles, this is unlikely to reflect your wishes and it could create an unnecessary IHT bill.

The importance of professional advice

In theory estate planning is simple: to avoid any inheritance tax you need to make sure you've made sufficient gifts, long enough ago, to mean that on death (with a valid Will) your estate is worth less than the available nil rate band. With professional advice, you can create robust plans that will help you achieve this.

Talk to us about estate planning

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes, which cannot be foreseen.

If you need to write a Will, we can refer you to an expert to prepare it for you.

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The Autumn Statement

We've summarised the key points from George Osborne's Autumn Statement, which was delivered to Parliament on 3 December 2014.

Income Tax

In March 2014, the Chancellor confirmed the personal allowance would rise by £500 in 2015/16, to £10,500[1]. The Autumn Statement has added another £100 to this, bringing the 2015/16 personal allowance up to £10,600.[2] As in the past, some of this increase will be clawed back by *reducing* the basic rate band, on this occasion by £80 (to £31,785).[3]

Capital Gains Tax (CGT)

In 2015/16 the Capital Gains Tax annual exempt amount will rise by £100, to £11,100, as previously announced.[4]

Inheritance Tax

The Inheritance Tax (IHT) nil rate band, which has been frozen at £325,000 since April 2009, will remain unchanged until at least April 2018.[5]

Individual Savings Accounts (ISAs)

For 2015/16 the investment limit will increase in line with inflation by £240 to £15,240.[5] The so far little-used Junior ISA (JISA) will have its investment limit increased by £80 to £4,080.[5]

From 3 December 2014, if an ISA investor in a marriage or civil partnership dies, their spouse/civil partner will effectively inherit their deceased partner's ISA tax advantages. In addition, from 6 April 2015, the surviving spouse/civil partner will be able to invest as much into their own ISA as their spouse/civil partner used to, on top of their usual allowance.[5]

The housing market

The big surprise in the Autumn Statement was a reform of the Stamp Duty Land Tax (SDLT) rules for residential property. On 4 December 2014, a tiered approach – similar to that used for Income Tax – was introduced. There are now five tax bands:[5]

Band of residential property value £	Tax rate %
0 – 125,000	0
125,001 – 250,000	2
250,001 – 925,000	5
925,001 – 1,500,000	10
1,500,000+	12

Business taxes

The main rate of corporation tax is currently 21% and will fall to 20% from April 2015, bringing it into line with the unchanged small profits rate. The Chancellor once again extended the small business rate relief for a year.[6]

HM Revenues and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen

If you would like guidance on how the Autumn Statement might affect you, please get in touch.

[1] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/293800/TIIN_8110_income_tax_personal_allowance_and_basic_rate.pdf
[2] http://www.telegraph.co.uk/news/politics/11271430/More-than-130000-taken-out-of-higher-rate-of-tax-in-Autumn-Statement.html
[3] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/293800/TIIN_8110_income_tax_personal_allowance_and_basic_rate.pdf
[4] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/264600/12._Capital_gains_tax_-_annual_exempt_amount.pdf
[5] http://www.retirementplanner-sw.com/digital_assets/15760/2014_Autumn_Statement_Summary.pdf
[6] http://www.hmrc.gov.uk/softwaredevelopers/ct/draft-forms.htm

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