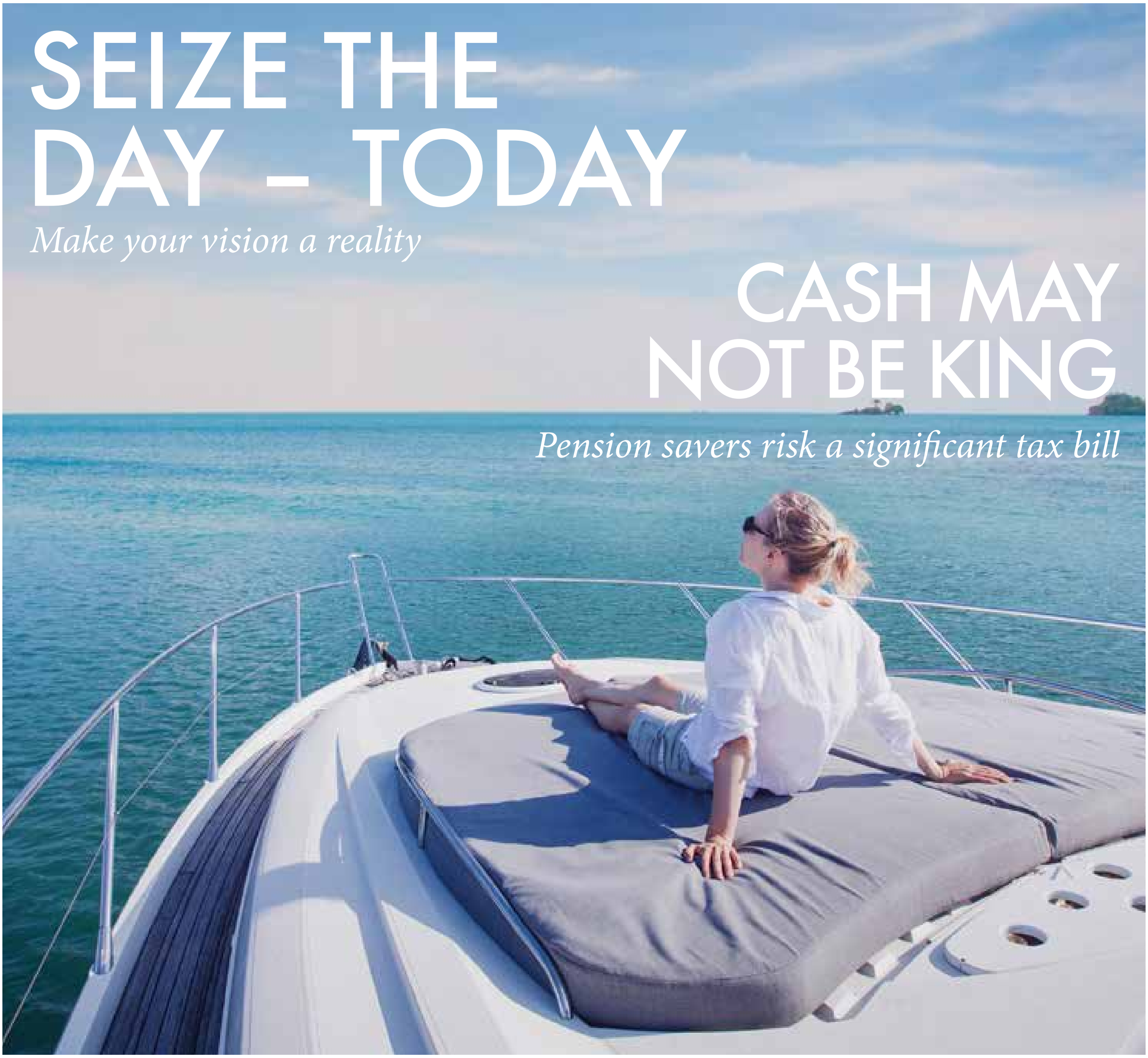
INSIGHT

ISSUE 10 ■ AUTUMN 2018

A WEALTH OF ADVICE



SEIZE THE DAY – TODAY

Make your vision a reality

CASH MAY NOT BE KING

Pension savers risk a significant tax bill

SHOULD I STAY, OR SHOULD I GO NOW?
Key aspects that influence retirement decisions

CLIENT VIDEO TESTIMONIALS
Demonstrating our value to individuals and businesses

WHAT DOES BREXIT MEAN FOR INVESTORS?
The prospects do appear a little more encouraging

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INSIDE THIS ISSUE

04 WHAT DOES BREXIT MEAN FOR INVESTORS?

05 SHOULD I STAY, OR SHOULD I GO NOW?

06 SEIZE THE DAY – TODAY

08 CASH MAY NOT BE KING

10 WHAT IS GENDER PAY REPORTING?

12 DIVIDEND TAX-FREE BAND

13 CLIENT VIDEO TESTIMONIALS

14 PENSIONS SHAKE-UP

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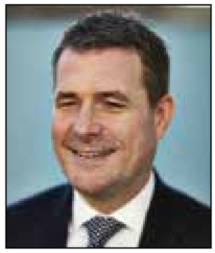
WELCOME



Welcome to the Autumn 2018 issue of *Insight*. As the poet and playwright Oscar Wilde once commented, 'When I was young I thought that money was the most important thing in life; now that I am old I know that it is.' And with these pertinent words in mind, inside this issue we look at a number of topics designed to keep you up to date and help you plan to meet any changes in your life and financial circumstances.

For most people over the age of 55, it is now possible to cash in or unlock all of your pension. How you take these benefits will depend on the type of scheme you have and how you want to take benefits. On page 08, we consider the concerns that have been raised that some savers may risk running out of cash if they siphon too much out of their pension pots.

As you've seen in the last two issues, we have continued to feature some clients who have received advice from our Financial Planning and Wealth Management Team of advisers, and on page 13 we continue to share what value they have received from the advice that we have provided.

It has long been said that our tax system needs to be simplified. However, in recent years, the Government have introduced a number of allowances which Graham Poles looks to highlight in his article on page 12. This current issue does not take account of any changes in the Chancellor's Budget announcement scheduled to take place on 29 October, and so we'd encourage you to visit both our main Armstrong Watson website (www.armstrongwatson.co.uk) and our dedicated Financial Planning & Wealth Management website (www.armstrongwatsonfp.co.uk) to remain informed of the announcements.

The full list of the articles featured in this issue appears opposite, and we hope you enjoy this Autumn issue of our magazine. If you would prefer to download a digital copy or subscribe to new issues electronically, please visit www.armstrongwatsonfp.co.uk/subscribe-insight.

Paul Dickson
Managing Partner

WHAT DOES BREXIT MEAN FOR INVESTORS?

The prospects do appear a little more encouraging

SPEAKING TO CLIENTS OVER THE LAST FEW MONTHS, THE SUBJECT WHICH HAS BEEN CAUSING THEM MOST CONCERN HAS BEEN BREXIT. THE OPTIMISTS ARE STILL HOPEFUL THAT THE UK WILL STRIKE A WITHDRAWAL AGREEMENT WITH THE EU, AS WE HEAR REPORTS THAT THERE WILL BE A SPECIAL SUMMIT TO SIGN THE BREXIT DEAL IN NOVEMBER.

However, nobody can take anything for granted, given the twists and turns of the past two years. Any deal needs to be agreed by what seems to be a divided British Parliament, where the two main parties are not unified on the issue. Overall, however, the prospects do appear to be a little more encouraging, especially after a summer of warnings that Britain was likely to leave without any deal at all.

SO WHAT HAVE BEEN THE MAIN EFFECTS OF THIS UNCERTAINTY?

Both sterling currency and the FTSE 100 have seen significant volatility, and it's clear that the eventual Brexit outcome could see this continue. Whilst new or existing investors or people considering buying property are unlikely to welcome this, there are many differing views on the extent to which markets have 'priced in' a hard Brexit and the extent to which we may now see some positive surprises.

WHAT ABOUT THE UK HOUSING MARKET?

This has remained surprisingly robust, although falls in London values have been seen. It's worth remembering that a couple of years ago, the capital was one of the most buoyant property markets in the world. Official figures show that prices in London fell 0.7% over the year to June, falling in five out of the first six months of the year. Things are brighter in the rest of the country, where on average prices rose by 3%.

Buyers now need to brace themselves for rising interest rates after the Bank of England (BOE) lifted its base rate to 0.75% in August, and the BOE Governor, Mark Carney, has said that a no-deal Brexit would probably see interest rates rise rather than fall. He has also said a no-deal outcome could see house prices fall by over 35%, while mortgage rates increase according to Bloomberg.

BREXIT BOUNCE

If we look back to the day the Brexit result was announced in June 2016, the FTSE 100 benchmark index surprised everybody by rising sharply. In part, it was due to the fact that the companies listed on the benchmark index generate more than three quarters of their earnings from overseas, so are less dependent on the domestic UK economy. They also benefited from the weaker pound, as their foreign earnings are worth more when converted back into sterling, causing the so-called 'Brexit bounce'. Lessons can be learned from this, and many analysts expect a wave of investment once Brexit uncertainty lifts, which should lift the economy and share prices in the longer turn, offsetting the effect of a stronger currency – again, this is the optimists' view!

With the FTSE 100 down around 6% this year to trade at 7,418 (as at 4 October 2018), there may be an opportunity for investors willing to buy on the 'dips' in the market. However, other factors such as the threatened trade war could drive global share prices, including those in the UK, even lower.

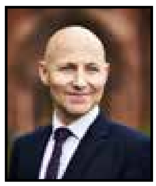
KEY FUNDAMENTALS TO INVESTING

Despite the gloom, Brexit does not have to be a disaster for investors. It's important to consider some key fundamentals to investing. Firstly, the importance of asset allocation – spreading your invested funds between UK and overseas investments and utilising different types of investments, such as shares, commercial property, government and corporate bonds. Secondly, active fund management – utilising the skills and experience of fund managers to prepare for the Brexit outcome and react to its effects. Thirdly, the old adage of 'it's time in the markets rather than timing the markets' still remains true, as there is no substitute for investing over the long term and remaining patient.

The alternative for investors is to keep their money in the bank or building society where it may not be affected by investment risk, but will be affected by inflation risk so won't have the potential to grow in real terms. If investors use Brexit as a reason to delay or stop investing, they may find further reasons afterwards to continue to delay. After Brexit, there will be other potential fears on the horizon, and we can always find something that makes us feel nervous about investing.

It's important to seek financial advice from a regulated financial adviser and consider your appetite to both risk and reward. Contact our Financial Planning Consultants. ■

David Squire
Financial Planning Director and Chartered Financial Planner



SHOULD I STAY, OR SHOULD I GO NOW?

Key aspects that influence retirement decisions

WHATEVER YOU WANT TO DO WHEN YOU RETIRE, THE BETTER PREPARED YOU ARE, THE MORE REWARDING IT WILL BE. IT'S IMPORTANT TO ASSESS THE KEY ASPECTS THAT WILL INFLUENCE YOUR RETIREMENT, AS THE DECISIONS YOU MAKE CAN HAVE A REAL IMPACT ON YOUR SAVINGS. THERE ARE SOME IMPORTANT CONSIDERATIONS TO THINK ABOUT.

TIMING

- Drawing savings too early is likely to result in lower returns and/or lower lifetime income
- Drawing savings later may not result in higher returns – this depends on how you invest and use your savings

CAPITAL REQUIREMENTS

- Many people withdraw capital from their pension savings not because they 'need' it but because they can, and they end up just retaining it in a less tax-efficient environment
- Meeting income needs from capital could be extremely efficient – it may even be necessary

INCOME REQUIREMENTS

- There are choices to make between generating income now versus providing for your future
- You may also continue earning some income during retirement through paid work, business ventures or even lucrative hobbies
- Your income needs are likely to vary over time, and some expenses are fixed while others are variable. Most critically, long-term care can prove expensive
- Your income preferences are also key – having a known stable income source may be preferable to having a higher but less stable income
- Generating surplus income is inefficient from a tax perspective

ATTITUDE TO RISK

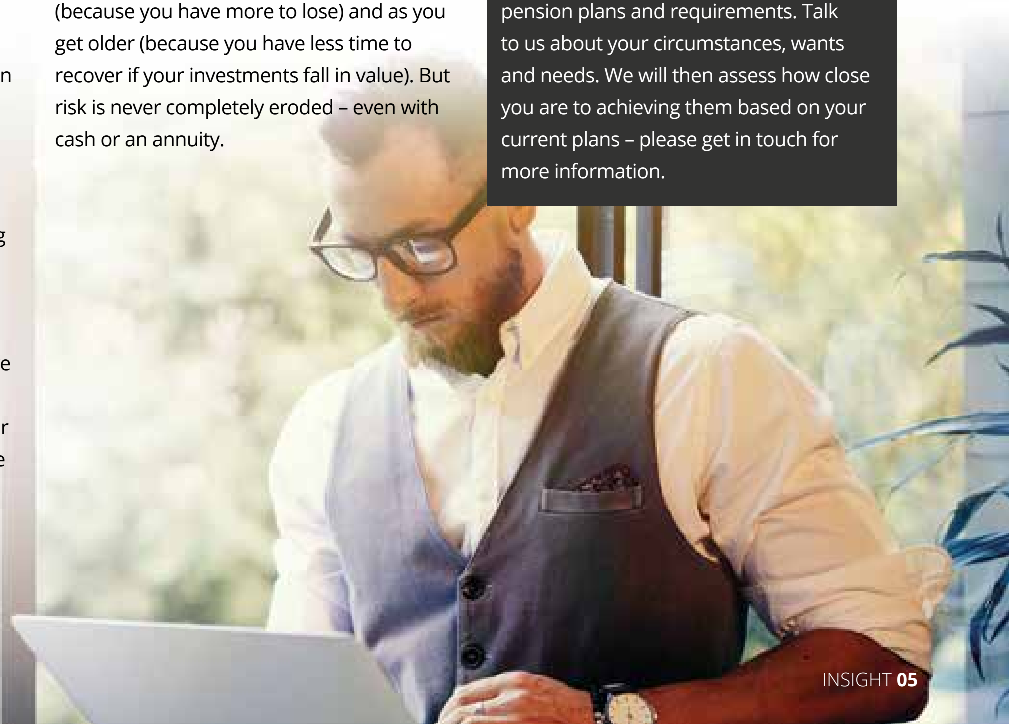
This is the trade-off between relative safety (which you may choose out of concern) and taking risk (which you may choose with an aim of achieving growth). Your attitude may also change as you accumulate wealth (because you have more to lose) and as you get older (because you have less time to recover if your investments fall in value). But risk is never completely eroded – even with cash or an annuity.

You also need to ask yourself some of the following questions:

- What is my life expectancy, and how much money will I need to achieve my retirement plans?
- How could my income and capital needs change in the future?
- Do I have an effective plan to leave a financial legacy?
- How much money would my spouse/ partner need if I die before them?
- How might I protect against the effect of inflation?

HELPING YOU PLAN AND ENJOY YOUR FUTURE

Regardless of the life stage you have arrived at, it is important to receive expert and professional financial advice on your pension plans and requirements. Talk to us about your circumstances, wants and needs. We will then assess how close you are to achieving them based on your current plans – please get in touch for more information.



SEIZE THE DAY – TODAY

Make your vision a reality

EXACTLY HOW MUCH YOU'LL NEED FOR A COMFORTABLE RETIREMENT WILL DEPEND LARGELY ON YOUR COST OF LIVING AND LIFESTYLE CHOICES. FOR MANY PEOPLE, RETIREMENT IS ABOUT SUN-SOAKED HOLIDAYS, LEISURELY ROUNDS OF GOLF AND THAT BOAT THEY'VE ALWAYS COVETED.

But retirement is not what it used to be, with more of us working longer to build up our decided retirement income. So it's essential to reassess how much you're saving into your pension if you want to make your own vision a reality. For many people, retirement may seem a long way off, and saving into a pension isn't always a top priority.

But the simple truth is the earlier you start, the easier it will be. If you have less time to invest, then the amount of money that you have to save is likely to be higher to make sure your retirement planning is on track. We've provided some ideas to help improve and boost your savings for a more comfortable retirement.

STARTING POINT FOR YOUR RETIREMENT PLAN

Working out what pensions you already have should be a starting point for your retirement plan. Locate the latest statements you have for all your pensions, including from previous employers and personal pensions. You can also get a forecast of your State Pension via www.gov.uk/check-state-pension.

You should be sent an annual statement for each of your pension schemes, including any employer-based arrangements and personal pension plans, even if you are no longer contributing to them. If you don't have up-to-date statements, you can ask for these to be sent to you. You may also be able to access pension values online via your pension company/scheme website.

VALUING YOUR PENSION

As well as telling you what your pension is worth now, annual statements will also detail what your pension might be worth at retirement.

These forecasts (don't think of them as anything more than rough estimates) will be based on a range of assumptions including investment growth and inflation between now and retirement.

It is important to consider the effect of inflation because over time, this can significantly reduce the spending power of your pension.

COST OF YOUR LIFESTYLE

Whether your pension will be enough to pay for the retirement you want will depend on the savings pot you amass, as well as the cost of your lifestyle when you retire.

Working out what income you will need in retirement may not be straightforward, however. Your life in retirement will be different from your working life; some costs may go up, while others will reduce.

You may spend more on holidays and leisure (especially in the earlier years of retirement), but your housing costs may be lower. While you may no longer have the costs of bringing up children, you may still want to help them financially, and there could be grandchildren to think of. In your later retirement years, you could have care costs. The traditional rule of thumb has been a target pension income of two thirds of your salary.

KNOW YOUR MAGIC NUMBER

Having accounted for the State Pension and any defined benefit scheme pension, you need to calculate how much money you will need to save to produce the remainder of your target income. This can depend on factors such as the age you want to retire, income yields available on investments, how much prices rise during your retirement and how long you live for – and how much you have put aside already.

If you contribute through a workplace pension, your employer will also contribute on your behalf, and you could qualify for National Insurance savings using a so-called 'salary sacrifice' arrangement. Employer top-ups in particular can significantly increase the value of your pension contributions, so it is worth checking that you are making the most of any workplace generosity offered.

It's also important to be aware that there is a limit on the size of overall pension savings you can accumulate – currently £1.03 million (for 2018/19, and rising annually in line with inflation) – without facing a hefty tax charge of up to 55% on the excess.

This Lifetime Allowance (LTA) for pensions could also be a challenge for people whose retirement savings are currently less than £1 million, as well as individuals with sizeable final salary pension entitlements. Investment growth and ongoing contributions could lead to your breaching the LTA in future.

ALTERNATIVE WEALTH OPPORTUNITIES

Pensions are not the only way to save for retirement. Tax-efficient Individual Savings Accounts (ISAs) are a popular savings option, while many people see property – particularly in the form of buy-to-let – as their retirement nest egg.

TIMING IS EVERYTHING

Pension freedoms have now given retirees considerable flexibility over how they draw an income or withdraw lump sums from their accumulated retirement savings. Pension savings can be accessed from age 55. You no longer have to purchase an annuity – an income stream for life – and you can choose how much income you take and when to take it.

You could take your whole pension fund as cash in one go – with 25% being tax-free and the rest taxable. Other options include taking a lump sum now, with further withdrawals when you want, or an ongoing regular income (via so-called drawdown or an annuity). However, the danger of these pension freedoms is that people withdraw too much money too quickly and risk running out of money before they die.

It is also possible to pass on your pension savings completely free of tax. So, as well as being a tax-efficient way to invest, pensions can be a very useful way to reduce Inheritance Tax bills.

SEIZE THE DAY – TODAY

Too many people fail to seriously consider how they are going to manage financially in retirement until they are about to retire. It is only then that they discover that their pension is not on target to meet their retirement aspirations.

When you are living a busy life, it can be difficult to find time to consider your long-term plans. Your mortgage or your children's education might be more immediate financial priorities; your career or running your business can make more pressing demands on your time. However, getting your pension on track as soon as possible could save you and your family a financial headache later on.

Another reason to take advantage of existing pension tax breaks is that there is no guarantee they will be there in the future. The Government has already cut the annual allowance to £40,000 – and as little as £10,000 for very high earners – while reducing the lifetime allowance from its £1.8 million peak in 2011/12. Higher-rate Income Tax relief on contributions could be next, so it makes sense to make the most of what's on offer now. ■

REACHING YOUR WEALTH GOALS

Saving for retirement is essential if you want fully to enjoy your later years, but how do you assess how much income you will need? Plus, how much do you need to save to reach your goals? If you would like to review where you are financially, please contact us – we look forward to hearing from you.

CASH MAY NOT BE KING

Pension savers risk a significant tax bill

FOR MOST PEOPLE OVER THE AGE OF 55, IT IS NOW POSSIBLE TO CASH IN OR UNLOCK ALL OF YOUR PENSION. HOW YOU TAKE THESE BENEFITS WILL DEPEND ON THE TYPE OF SCHEME YOU HAVE AND HOW YOU WANT TO TAKE BENEFITS. BUT CONCERNS HAVE BEEN RAISED THAT SOME SAVERS MAY RISK RUNNING OUT OF CASH IF THEY SIPHON TOO MUCH OUT OF THEIR PENSION POTS.

There are a number of downsides to taking too much cash from your pension, especially if you are doing it earlier than expected. However, around one in ten (10%) planning to retire this year expect to withdraw their entire pension savings as one lump sum, risking a significant tax bill and an impact on their future retirement income.

The findings[1] are part of unique annual research – now in its 11th year – into the financial plans and aspirations of people planning to retire in the year ahead and shows that, in total, one in five (20%) retiring this year will risk avoidable tax bills by taking out more than the tax-free 25% limit on withdrawals.

TWO THIRDS PLANNING ON RETIRING EARLY

However, they are not necessarily spending all the cash – the main reason given by those taking all their fund in one go was to invest in other areas such as property, a saving account or an investment fund (71%). Interestingly, around two thirds (66%) of people are planning on retiring early.

Since the launch of pension freedom reforms in April 2015, more than 1.1 million people aged 55-plus have withdrawn around £15,744 billion[2] in flexible payments.

TAKING ADVANTAGE OF PENSION FREEDOMS

Government estimates[3] show that around £2.6 billion was paid in tax by people taking advantage of pension freedoms in the 2015/16 and 2016/17 tax years, with another £1.1 billion raised in the 2017/18 tax year.

The most popular use of the cash is for holidays, with 34% planning to spend the money on trips. Around (25%) will spend the money on home improvements, while one in five (20%) will gift the money to their children or grandchildren. Other popular uses include buying cars or paying off mortgages. ■

Source data:

[1] Research Plus conducted an independent online survey for Prudential between 29 November and 11 December 2017 among 9,896 non-retired UK adults aged 45+, including 1,000 planning to retire in 2018.
[2] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/675350/Pensions_Flexibility_Jan_ 2018.pdf
[3] http://obr.uk/overview-of-the-november-2017-economic-and-fiscal-outlook/

DON'T GET PENALISED BY THE TAX SYSTEM

Pensions freedoms allows you to have the flexibility on how and when you spend your money without being penalised by the tax system, but it is worrying that some retirees may withdraw more than the tax-free lump sum limit. The risk is even greater if you're taking all of your pension fund in cash. To review your own situation, please speak to us. You can call us to arrange an appointment or ask a question – we look forward to hearing from you.

WHAT YOU NEED TO ASK YOURSELF BEFORE CASHING IN YOUR PENSION POT

Q: HAVE YOU CONSIDERED WHAT THE TAX IMPLICATIONS ARE?

At the heart of any pension transaction you undertake, tax planning is a major consideration. Only the first 25% of the amount that you drawdown from your pension pot is tax-free, and the remaining 75% is taxed as earned income.

Q: WILL YOUR MONEY LAST THE DURATION OF YOUR RETIREMENT YEARS?

Before taking the cash, it is crucial to think about whether you will have enough money to last the duration of your retirement. It's not a one-off decision: you should regularly review your choices throughout your retirement, as your needs evolve and income needs may change.

Q: WILL YOUR PENSION SCHEME ALLOW YOU TO CASH IN YOUR PENSION POT?

If you're convinced that cashing in your pension pot is the right move for you, you need to ensure that your pension scheme allows you to do so. If not, it means that you'll need to transfer your savings into a suitable pension scheme to be able to access your cash.

Q: ARE YOU AWARE OF THE COMPANIES RUNNING PENSION SCAMS?

Pension savers getting scammed out of their retirement savings is a real issue. The problem is that many of these scams look perfectly legitimate so are not easy to spot. Others offer investment returns which are too good to be true. You can visit the FCA's ScamSmart website, which includes a warning list of companies operating without authorisation or running scams – www.fca.org.uk/scamsmart.

Q: HAVE YOU SOUGHT PROFESSIONAL FINANCIAL ADVICE ABOUT YOUR PLANS?

Not seeking professional financial advice can be very risky, especially when it comes to deciding how to eventually take your pension. If you get it wrong, it could be very costly and have a considerable impact on your retirement lifestyle and standard of living. We'll make sure that the action you take is the right one for you, your family and your needs.

WHAT IS GENDER PAY REPORTING?

What are the requirements?

GENDER PAY GAP REPORTING IS NOW A LEGAL REQUIREMENT FOR ALL UK ORGANISATIONS WITH 250 EMPLOYEES OR MORE. ESSENTIALLY, YOU SUBMIT CERTAIN MATHEMATICAL INFORMATION INTO THE GOVERNMENT SYSTEM, AND THE RESULTS ARE AVAILABLE FOR EVERYONE TO SEE ON THE GOVERNMENT WEBSITE.

We have seen incredibly high levels of compliance to the regulations, with 241 extra organisations reporting even though there was no mandatory requirement to do so. There have been some stragglers, with around 1,500 organisations missing the reporting deadline.

For some employers, it was very time consuming to obtain and compile accurate payroll data – but thanks to our Payroll team, this took no time at all.

SO WHAT IS A GENDER PAY GAP?

It is comparing the average pay of men and women within the business they work in. Employers needed to submit the mean pay gap (which is the difference between the average hourly rate of men and hourly rate of women). The mean is the overall average (of hourly rates) of a whole sample so can be subject to the influences of extremely high or low salaries at the top or bottom of the range.

Employers also submitted the median pay gap figure, which is listing all the hourly rates from lowest to highest and picking the middle most hourly rate.

PAY GAP REGULATIONS

As part of the Gender Pay Gap regulations, there is also a requirement to submit the percentage of men and women who receive a bonus and the mean and median gap of those bonuses, and the percentage of male and female employees working in the four pay quartiles (upper, upper middle, lower middle and lower quartile).

At Armstrong Watson, our mean pay gap is 33% and median pay gap is 34%. The PWC Women in Work index revealed the pay gap in the financial service sector sites at 34%. At Armstrong Watson, we are proud of the number of women in senior positions and the strength this brings to our business. In our pay quartiles, with have 47% females in our upper pay quartile (our highest paid employees). We then have over 70% in our upper middle and lower middle pay quartile. Yet in our lower quartile, there is a significant jump, so 89% of our lowest paid role is held by females. We employ more females in our business (as you can see, there is a spread of females in our pay quartiles), but their high proportion in the lower quartile drives our gender pay gap figure up.

DIFFERENCE IN PAY

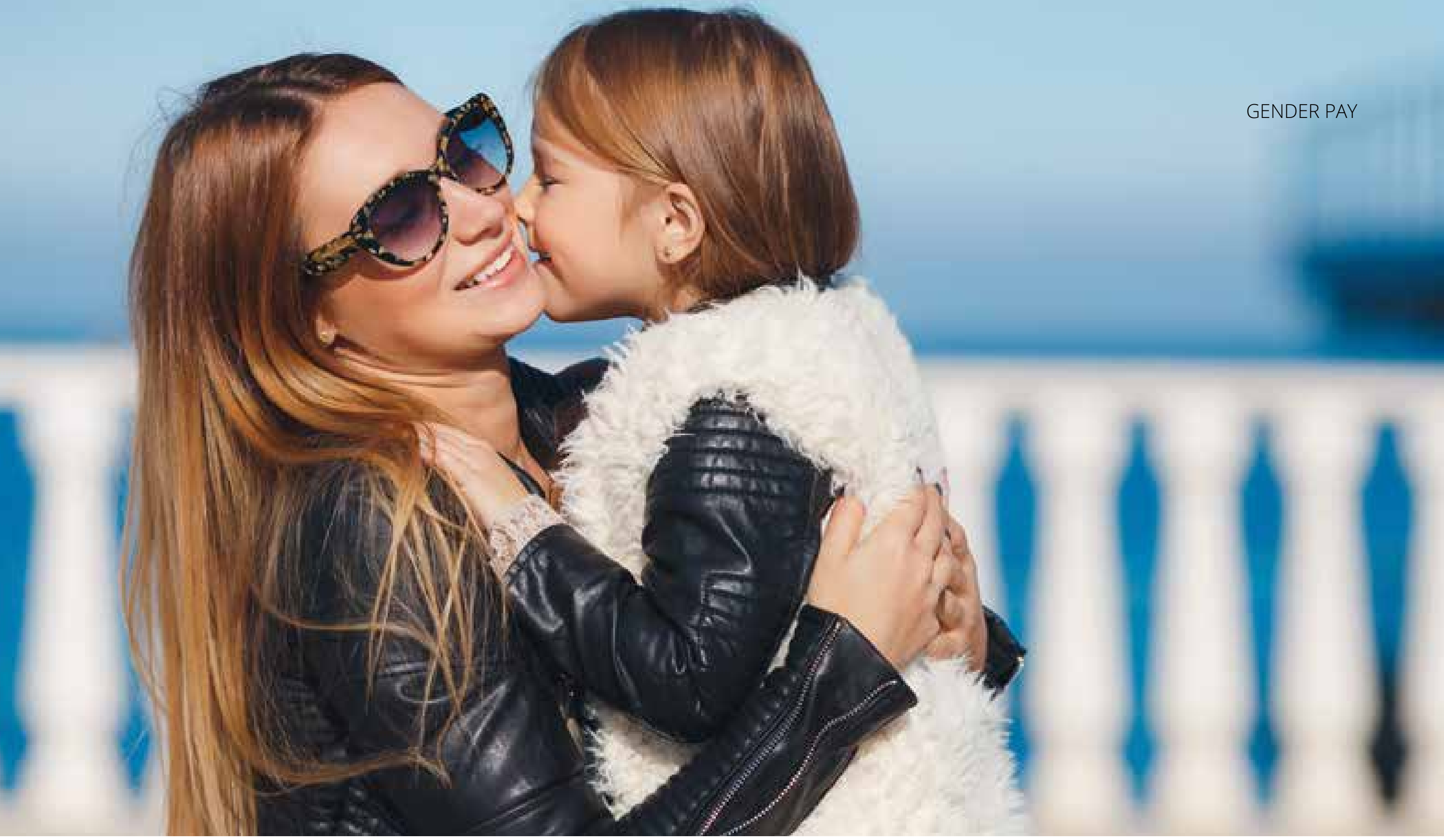
Currently, the UK gender pay is 18%, which has reduced from 25% in 2000, but what does it really mean?

Does it mean that men and women are paid differently for doing the same job? Businesses can have a pay gap but can be treating women fairly in pay terms. We were keen to state in our Pay Gap rationale the difference between paying men and women the same for the same work (equal pay), and looking at the average hourly rates of men and women which is impacted by the role they hold in a business (gender pay gap).

The most reported gender pay gap is probably Ryan Air, with a 71.8% median pay gap, as it employs 546 male pilots and only eight female pilots. Unfortunately, Ryan Air hasn't provided any rationale on why only 8% of pilots are female and what action they and no doubt the wider aviation section should consider to balance this out.

LOWER PAID ROLES

What generally the pay gap in the UK shows is that there are more women working in lower paid roles, potentially because they decide to take part-time jobs



so they can look after children or elderly dependants. Most part-time jobs are in sectors such as retail, hospitality and caring, which tends to be low paying. There are many other potential factors such as educational decisions or stereotypes – for example, only 14.4% of all people working within STEM subjects in the UK are women, despite women making up half of the working population. We also know that only eight of the FTSE 100 companies are headed up by women or those from ethnic minority groups.

The Institute of Fiscal Studies report on the gender pay gap shows that the gender pay wage gap in the UK is smaller when comparing young women before they become mothers with their male counterparts, but that the gap widens consistently for 12 years after the first child is born, by which point women receive 33% less pay per hour than men. Why might this be? There could be lots of reasons for this, such as reduced availability of good quality part-time roles or promotion opportunities, personal choice to take career time out, or male counterparts developing skills and experience while female counterparts are out of the business. Factors such as the cost of childcare or the pressure of social norms will have an impact.

SCANDINAVIAN-STYLE NIRVANA

The introduction of shared parental leave in 2015 was seen as a first step towards a Scandinavian-style nirvana where men and women share childcare equally, and for women to have greater scope to move away from being traditionally seen as the main carer. Only 2% of eligible couples have taken advantage of this. As with this whole subject, there are likely to be a range of reasons from society norms to the fact that most employers pay shared parental pay, whereas the mother may be entitled to an enhancement and thus financially makes more sense for her to take her maternity leave rather than sharing it. The Government launched a campaign earlier this year called 'share the joy' to promote shared parental leave.

Employees, customers, investors and the Government will want to see signs of action from organisations, but as a significant number of employers published their reports just before the deadline – the moment those 2017 figures were uploaded by 6 April 2017 – the outcome of the gender pay exercise for 2018 would have been known, as the snapshot date for the 2018 survey was 5 April 2018.

We are likely to see this type of reporting to extend to other protected characteristics such as ethnicity, age, etc.

The Government has a role to play in reducing the gender pay gap by improving the availability and reducing the cost of childcare. Shared parental leave needs to be more attractive to both parents and to become much more of a social norm to reduce the gap and the long-term impact on pay and then pensions for mothers. Employers will have their role to play to really understand what has driven their figures and what action can be taken. ■

Zoe Pluckrose-Norman
Armstrong Watson's
People Director

DIVIDEND TAX-FREE BAND

How allowances and tax rates interact

IT HAS LONG BEEN SAID THAT OUR TAX SYSTEM NEEDS TO BE SIMPLIFIED. HOWEVER, IN RECENT YEARS, THE GOVERNMENT HAVE INTRODUCED A NUMBER OF ALLOWANCES AND 0% TAX RATES, AS WELL AS WITHDRAWING INDIVIDUAL'S PERSONAL ALLOWANCES, WHICH HAS LED TO MUCH CONFUSION, INCLUDING WITHIN HMRC, WITH THE EVER INCREASING COMPLEXITY OF HOW ALL THESE INTERACT WITH ONE ANOTHER.

In this article, I will look to highlight a number of these points.

TAX ON SAVINGS

A 'savings rate band' of £5,000 was introduced on 6 April 2015 which taxes any savings income at 0% if it falls within this band. An individual's savings income is taxable after their non-savings income such as employment and pension income. Therefore, if your non-savings income is in excess of £16,850 for 2018/19, you will not benefit from the savings rate band.

PERSONAL SAVINGS ALLOWANCE (PSA)

Not to be confused with the savings band, the PSA was introduced on 6 April 2016 and is a separate allowance available for individuals to claim. It does not strictly matter about where your savings income is taxed (which is different to the above). However, the amount you can claim depends on whether you are a basic rate taxpayer (BRT), higher rate taxpayer (HRT) or additional rate taxpayer (ART). The PSA is £1,000 for BRT, £500 for HRT and no allowance available for ART.

DIVIDEND ALLOWANCE (DA)

The DA was also introduced on 6 April 2016 and is available to all taxpayers regardless of income levels. The DA is currently £2,000, therefore, the first £2,000 of an individual's dividend income is subject to 0% tax.

PERSONAL ALLOWANCE (PA)

For 2018/19, an individual's personal allowance is set at £11,850. However, if their total income exceeds £100,000 (taking into account income already covered by any PSA or DA), they will lose their PA at a rate of £1 for every £2 over £100,000. Therefore, if an individual earns more than £123,700 in 2018/19, they will lose their PA.

The combination of paying Income Tax at 40% together with the loss of the PA will therefore result in a 60% tax rate.

The position will be worse for any Scottish residents. From 6 April 2018, Scottish residents pay higher rate tax at 41%, therefore, the loss of their PA will result in an effective tax rate of 61.5%.

There are, however, planning opportunities. For example, if a taxpayer's income is likely to be in excess of £100,000, they can make pension contributions. Pension contributions give tax relief in two ways: firstly, at source as the contribution is paid net, therefore, if an individual contributes £8,000, it will be topped up by HMRC and £10,000 will be contributed to your pension. Secondly, tax relief is also given by extending the basic rate and higher rate tax bands.

Therefore, by making pension contributions, you can effectively protect your PA and avoid 60%, or 61.5%, tax rate. ■

Graham Poles
Tax Partner

There are, of course, more than tax issues to consider when making pension contributions or any form of investments, and we would always advise individuals to take the appropriate investment advice, which is where our Financial Planning and Wealth Management team come in. Please contact a Financial Planning Consultant at an office near you or call 0808 144 5575.

CLIENT VIDEO TESTIMONIALS

Demonstrating our value to individuals and businesses

WE HAVE BEEN PROVIDING INDEPENDENT FINANCIAL PLANNING ADVICE TO CLIENTS ACROSS THE NORTH OF ENGLAND AND SCOTLAND FOR MANY YEARS, AND OUR AIM IS TO ALWAYS ENSURE THAT WE PROVIDE REAL VALUE TO THE INDIVIDUALS AND BUSINESSES WE WORK WITH.

In truth, value is very personal and difficult to define. Advice itself is somewhat intangible – it's not something you can touch or see, and yet what you receive and, more importantly, how you benefit from the advice can be very powerful and at times life-changing.

The challenge, then, is: how do we demonstrate the value that we add? We didn't feel that our words would be enough, and so over the last few months we have been undertaking a project with some of our clients, and we are grateful that they've agreed to be involved.

In Issue 8, we featured Ben Peters, Managing Director based in Harrogate, and in Issue 9, we featured Barry Maxey, local businessman and fundraiser in Carlisle. You can revisit their interviews here:

http://www.armstrongwatsonfp.co.uk/ben-peters-harrogate

https://www.armstrongwatsonfp.co.uk/barry-maxey-carlisle

AN INTERVIEW WITH… BEN PEPPERELL, CHIEF EXECUTIVE, HULL

Ben was managing partner from 2009 before becoming chief executive in 2017 for the legal practice which have three offices across the Humber Region.

BACKGROUND

Ben was introduced by Andy Poole in Armstrong Watson's specialist legal sector team following the structural changes being made to his company.

Following the introduction to Justin Rourke, Armstrong Watson Financial Planning Consultant, Ben was able to review the impact of the corporate changes to both his individual finances and that of the business which included pensions, property and business protection.

WHY DID YOU CHOOSE ARMSTRONG WATSON FINANCIAL PLANNING & WEALTH MANAGEMENT?

It was very important that we approach the correct financial advisers to add value to our future, and they were just what we were looking for in a strategic partnership.

WHAT THREE WORDS WOULD YOU USE TO DESCRIBE YOUR FINANCIAL PLANNING CONSULTANT?

Approachable, professional and communicative.

HOW HAS THE ADVICE HELPED YOU?

It was important that we looked towards the future to protect all of our employees but also the owners of the business from the family perspective. Peace of mind was certainly something that we were looking for from the advice from Armstrong Watson, and this is something which I feel got achieved. Most importantly, they have been very clear in their advice.

WHAT ARE YOUR EXPECTATIONS AS TO HOW THE RELATIONSHIP WILL DEVELOP?

In the future, we'll certainly be looking for the same level of service which we have already received, and I'm very confident that they have an over-reaching level of service across many different streams of advice that we can tap into to give us a competitive advantage. ■

You can watch the full interview with Ben Pepperell here: **https://www.armstrongwatsonfp.co.uk/ben-pepperell-chief-executive-hull**. If you'd like to get in touch or find out more about our financial planning and wealth management service, you can visit our website: **www.armstrongwatsonfp.co.uk** or send us an email: **help@awfinancialplanning.co.uk.**

PENSIONS SHAKE-UP

Getting away from the stresses of everyday life

FOR MANY, THE IDEA OF RETIREMENT MEANS GETTING AWAY FROM THE STRESSES OF EVERYDAY LIFE. BUT WITH LIVING COSTS RISING AND INTEREST RATES LOW, PEOPLE NEED TO THINK ABOUT HOW TO GENERATE EXTRA INCOME FROM THEIR SAVINGS IN RETIREMENT.

Pensions offer a number of important advantages that will make your savings grow more rapidly than might otherwise be the case. However, changes announced in April 2015 have lead to a complete shake-up of the UK's pensions system, giving people much more control over their pension savings than ever before.

DIFFERENT PENSION SCHEMES

The term 'private pension' covers both workplace pensions and personal pensions. The UK Government currently places no restrictions on the number of different pension schemes you can be a member of. Providing you don't save more than your Lifetime Allowance into all of your pension funds combined – currently set at £1,030,000 (2018/19) – you won't be penalised by the taxman for having lots of pensions.

So even if you already have a workplace pension, you can have a personal pension too, or even multiple personal pensions. These can be a useful alternative to workplace pensions if you're self-employed or not earning, or simply another way to save for retirement.

Any UK resident between the ages of 18 and 75 can pay into a personal pension – although the earlier you invest, the more likely you are to be able to build up a substantial pension pot.

TAX RELIEF ON PENSION CONTRIBUTIONS

A private pension is designed to be a tax-efficient savings scheme. The Government encourages this kind of saving through tax relief on pension contributions.

In the 2018/19 tax year, pension-related tax relief is limited to either 100% of your UK earnings, or £3,600 per annum.

The current pension tax relief rates are:

- Basic-rate taxpayers will receive 20% tax relief on pension contributions
- Higher-rate taxpayers also receive 20% tax relief, but they can claim back up to an additional 20% through their tax return
- Additional-rate taxpayers again pay 20% tax relief, but they can claim back up to a further 25% through their tax return
- Non-taxpayers receive basic-rate tax relief, but the maximum payment they can make is £2,880, to which the Government adds £720 in tax relief, making a total gross contribution of £3,600

If you are a Scottish taxpayer, the tax relief you will be entitled to will be at the Scottish Rate of Income Tax, which may differ from the rest of the UK.

LIMITS ON THE AMOUNT THAT CAN BE CONTRIBUTED

The Annual Allowance is a limit on the amount that can be contributed to your pension each year while still receiving tax relief. It's based on your earnings for the year and is capped at £40,000 (2018/19).

If you exceed the Annual Allowance in a year, you won't receive tax relief on any contributions you paid that exceed the limit, and you will be faced with an annual allowance charge. This charge will form part of your overall tax liability for that year, although there is the option to ask your pension scheme to pay the charge from your benefits if it is more than £2,000.

In April 2016, the Government introduced the tapered annual allowance for high earners, which states that for every £2 of income earned above £150,000 each year, £1 of annual allowance will be forfeited. However, the maximum reduction will be £30,000 – taking the highest earners' annual allowance down to £10,000.

It is worth noting that you may be able to carry forward any unused annual allowances from the previous three tax years. If you have accessed any of your pensions, you can

only pay a maximum of £4,000 into any un-accessed pension(s) you have. This is called the 'Money Purchase Annual Allowance', or 'MPAA'. The MPAA applies only if you have accessed one of your pensions.

EXCEEDING THE LIFETIME ALLOWANCE

What counts towards your Lifetime Allowance depends on the type of pension you have.

Defined contribution – personal, stakeholder and most workplace schemes. The money in pension pots that goes towards paying you, however you decide to take the money.

Defined benefit (also known as 'Final Salary') – some workplace schemes. This can be 20 times the pension you get in the first year plus your lump sum – but you'll need to check this with your pension provider.

Your pension provider will be able to help you determine how much of your Lifetime Allowance you have already used up. This is important because exceeding the Lifetime Allowance will result in a charge of 55% on any lump sum and 25% on any other pension income such as cash withdrawals.

This charge will usually be deducted by your pension provider when you access your pension.

PROTECTING YOUR PENSION POT

It's easier than you think to exceed the Lifetime Allowance, especially if you have been diligent about building up your pension pot. If you are concerned about exceeding your Lifetime Allowance or have already done so, it's essential to obtain professional financial advice.

It may be that you can apply for pension protection. This could enable you to retain a larger Lifetime Allowance and keep paying into your pension – depending on which kind of protection you are eligible for:

Individual protection 2016 – this protects your Lifetime Allowance to the lower of the value of your pension(s) at 5 April 2016 and/or £1.25 million. You can keep building up your pension with this type of protection, but you must pay tax on money taken from your pension(s) that exceeds your protected lifetime allowance.

Fixed protection 2016 – this fixes your Lifetime Allowance at £1.25million. You can only apply for this if you haven't made any pension contributions after 5 April.

PASSING ON YOUR PENSION TO BENEFICIARIES

Finally, it is worth noting that there will normally be no tax to pay on pension assets passed on to your beneficiaries if you die before the age of 75 and before you take anything from your pension pot – as long as the total assets are less than the Lifetime Allowance. If you die aged 75 or older, the beneficiary will typically be taxed at their marginal rate.

However, not all types of pension can be passed on in such a tax-efficient way. Some older-style pensions may not be able to offer all the new death benefit options available. If this flexibility is important to you, in this instance and if appropriate, you may want to consider transferring to a pension scheme that does.

There are continuous rumours that tax relief on pensions will be scrapped, or at least reduced, but we'll only know for certain once the Chancellor of the Exchequer, Philip Hammond, makes his Budget announcement scheduled for 29 October. ■

NO ONE-SIZE-FITS-ALL APPROACH

Life is full of choices. We are here to support you with the choices you'll need to make to ensure you have the retirement you want. There is no one-size-fits-all approach, which is why it's essential to obtain professional financial advice. To discuss your situation, please contact us – we look forward to hearing from you.

A PENSION IS A LONG-TERM INVESTMENT.

THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

PENSIONS ARE NOT NORMALLY ACCESSIBLE UNTIL AGE 55. YOUR PENSION INCOME COULD ALSO BE AFFECTED BY INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS. THE TAX IMPLICATIONS OF PENSION WITHDRAWALS WILL BE BASED ON YOUR INDIVIDUAL CIRCUMSTANCES, TAX LEGISLATION AND REGULATION, WHICH ARE SUBJECT TO CHANGE IN THE FUTURE.

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

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