ASSET Advantage

Your quarterly newsletter from

ASSET Investment Management Ltd
wealth management specialists

Autumn/Winter 2016

The Autumn Statement

Philip Hammond's first Autumn Statement didn't contain any major tax or pensions changes that have any immediate impact for our clients as we understand it. The key points from the statement were, in respect of our investment clients:-

Reduced Money Purchase Annual Allowance

The Chancellor announced just one cut to pension allowances. The Money Purchase Annual Allowance (MPAA) is set to be cut from £10,000 to £4,000 from April 2017 (subject to consultation). This only affects those clients who have accessed their Defined Contribution pension under the new pension flexibilities and continue to pay into their pension. Just taking the tax free cash out of a pension, without drawing an income, doesn't trigger the reduced annual allowance.

Salary sacrifice allows employees to boost their pension pots through savings in employer and employee NI following an agreed reduction in pay and this remains a tax efficient choice for pension savers and there will be no changes to the funding of pensions via salary sacrifice.

2017/18 income tax rates and bands confirmed

The increase in the personal allowance in 2017/18 is confirmed as £11,500 and the higher rate threshold will rise to £45,000. Increases are planned to £12,500 and £50,000 respectively by 2020.

Inheritance Tax (IHT) residence nil rate band

From April you may be entitled to an extra £100k IHT nil rate band where the family home passes to direct descendants on death.

Lifetime ISA introduction

Under 40s will have a new savings option which can help them to get a foothold on the property. Up to £4,000 a year can be paid into the Lifetime ISA and receive a 25% Government Bonus. First time house buyers can access their fund tax free prior to age 60.

£20k ISA Allowance

The ISA savings allowance is set to receive an above inflation increase. Savers will be able to enjoy an additional £4,760 of tax free savings.

Corporation Tax cut

The rate of Corporation Tax will be cut from 20% to 19% from 1 April 2017 with a further cut to 17% to follow in April 2020.

The new Chancellor, Philip Hammond, presented his first and last Autumn Statement in which the huge hole in Public Finances was exposed.

For most of our clients, this will have little direct impact; less directly we can be affected by Inheritance Tax and Care Fees. Social Care, or the lack of it, was not addressed in this statement and one can only assume that Local Authorities will be more squeezed in future when it comes to providing care.

Professional planning here could be vital

Our Services

We are able to offer qualified advice in areas other than pure investment, such as:-

- Care Fee Planning
- Equity Release
- Mortgages
- Income Protection
- Life & Critical Illness cover
- Pension Planning
- Inheritance Tax Planning
- Wills and Estate Planning
- Lasting Powers of Attorney

Heading for Financial Meltdown?

In the Spring 2015 issue we reported on Crispin Odey, the hedge fund manager, predicting the imminent catastrophic collapse of global markets, the effects of which would "be felt for a hundred years". Prophetic stuff indeed. We had broadly dismissed this view. Since then investors have pulled 60% of their assets from his flagship hedge fund as returns failed and markets rallied, so not heeding these dire warnings proved sensible.

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Asset Protection Trusts

We covered these in the Summer 2014 edition. These trusts place all the clients' assets, including the home, into a trust which as such is outside the scope for assessment by the local authority in respect of care fees. Or so some will tell you.

If these are done purely for this reason then the local authority will claim deliberate deprivation of assets and the person requiring care will still have to pay. The trusts do not work for Inheritance Tax purposes either.

These schemes are still being sold for around £3,000 a time and are being marketed quite blatantly. Money would be better spent on ensuring that Wills and Lasting Powers of Attorney are in place for a fraction of the cost. It is quite legitimate

Inheritance Tax (IHT) – What were you doing in 2009?

Not many things remain at the same rate as 2009. If we turn the clock back to 2009:-

- Gordon Brown was Prime Minister
- Alistair Darling was Chancellor
- The FTSE 100 suffered its worst ever year – dropping to 3512 on the 3rd March following the global financial crisis
- A pint of beer cost £2.05
- In January 2009 petrol cost 87.2p a litre on average
- The average house cost was £179,363
- A loaf of bread was 65p
- The IHT Nil Rate Band (NRB) was £325,000

Some things resolutely don't change. The IHT Nil Rate Band (NRB) is still £325,000. There will be no amendments to IHT bands until 2021. Your NRB, renews every seven years – so relevant transfers that you made in 2009 or earlier has now dropped out of your estate. You now potentially have a new NRB available – albeit it's still £325,000.

In the majority of cases, the value of one's assets will have continued to increase - be that in the value of the home or in the value of investments so despite thinking that one had mitigated the IHT liability it may be a surprise to discover that there is still a substantial liability.

There is a correct order for gifting assets and unfortunately doing things in the wrong order can mean that planning doesn't work as well as it could.

to shelter half the value of the home in a Will Trust.

Of course, for people who don't want to physically give away their capital or assets, or perhaps have given away as much as they can afford but still have an IHT liability, there remains the option to insure that liability (depending on age and health). There are also a wide range of different trust solutions to choose and also non trust based arrangements.