# moneyworks

The essential consumer guide to making your money work harder.

Summer Edition

## What next after Brexit?

After the UK gave notice to leave the EU by triggering Article 50, we look at the impact this important decision may have on your finances.

### Is your estate liable for inheritance tax?

With thousands of families paying 40% inheritance tax, we look at the new rulings and what it means to you and your loved ones.

### The pension revolution

Two years since the pension reform, the need for a careful and considered retirement plan has never been greater.

### A taxing issue

We look at whether you are paying too much tax on your investments and how to become more financially efficient.

LANGHAM
FINANCIAL MANAGEMENT

# Welcome

In March this year, the Prime Minister Theresa May formally triggered Article 50 which effectively started a two-year notice period for the UK to depart from the EU.

In this latest issue of **moneyworks**, we will look at what the implications of Brexit may have on your finances and why despite such uncertainty, there are steps you can take which may help safeguard your financial future.

We also take a look at the new Inheritance tax rules brought into play this year and what they mean to you and your loved ones. There's a look at the pension revolution currently taking place and why two years since the pension freedoms were introduced, the need for a careful and considered retirement plan has never been greater.

There is also a feature on whether you are paying too much tax on your investments and how recent Government changes underline the importance of making sure your portfolio is as tax efficient as possible.

The importance of seeking financial advice to help you through the choppy waters of planning your future has never been greater and we hope this latest issue of **moneyworks** continues to inform and advise you on the important issues affecting us all.

Best wishes

The **moneyworks** team

**This newsletter is for information purposes only and does not constitute advice or a personalised recommendation.**



# Contents





# The News in Brief

A round up of the current financial stories.

## The savings habit gets stronger with age

People who are aged 55 or over have twice as much saved for the future than the UK average, according to March 2017 research by SunLife.

The Cash Happy report found over-55s have an average savings balance of £47,237, compared to the overall UK average of £26,180. One in five people in this age group have more than £100,000 stored away for their future.

That doesn't mean older people are always making the best decisions for building up their savings. 30% of over 55s still keep some of their savings in a jar or biscuit tin, with one in 10 having more than £500 stashed away at home.

73% state they have savings stored in an instant access account – two-thirds of these people have more than £20,000 held in this way. This is despite the fact interest rates are at record low levels. 57% of over 55s surveyed said they are saving for their long-term future, but less than a quarter have a stocks and shares ISA.

(Source: https://moneyfacts.co.uk/news/savings/savings-of-over-55s-double-the-uk-average/)

## £50,000 savings hole

There is a worryingly large gap between how much people are saving for the future and how much they think they'll need – with February 2017 research from Munnypot finding the average UK person is facing a £50,000 shortfall.

On average, people stated they will need to have savings worth £83,542 by 2022 if they're going to be able to achieve their key life goals. But with the average Brit saving less than £200 a month, they could end up more than £50,000 short.

Just 34% of respondents stated they were able to boost their savings pot last year, with 26% seeing their amount go down. More than three-quarters said they wanted to save more each month, although 24% said it was pointless doing so because of low interest rates.

If you have long-term goals that are five or more years away and you're worried about your ability to achieve them, it might be worth speaking to a financial adviser about how you could make stronger plans.

(Sources: https://moneyfacts.co.uk/news/savings/average-brit-faces-a-50000-savings-shortfall/)

## Don't lose track

With people increasingly changing employers multiple times over the course of a career, it's perhaps not surprising that one in five have lost track of one or all of their pensions.

January 2017 research found 62% of us have paid into more than one pension over our working lives; with more than six million people potentially misplacing some of their retirement savings. As a consequence, 39% don't know the total value of their pensions.

If you've spent several years working for a previous employer and paying into a pension, this pot of money could make a significant difference to your retirement plans. The government operates a pension tracing service that can help you track down any forgotten pensions, including the provider's contact details to find out how much it could be worth.

(Source: www.aegon.co.uk/news/1_in_5_with_multiplepensionshaslosttrackofsavings.html)

## Government U-turn is a boost for self-employed

One of the headlines from March 2017's Budget was news that the government was planning to increase the amount of tax self-employed people have to pay on their earnings. But with the move proving unpopular, chancellor Philip Hammond has decided to scrap the measure.

Hammond initially announced he would be increasing Class 4 National Insurance Contributions for the self-employed. The plan was it would rise from 9% to 10% in April 2018, and then to 11% the year after. Hammond initially defended the measure on account of a rising number of people becoming self-employed; and the fact they currently pay a lower level of National Insurance contributions than employed people.

However, widespread outrage at the measure – which would have cost every self-employed person an average of 60p a week – and the fact it went against the Conservative Party's own manifesto lead to Hammond scrapping these plans a week later. This is great news for self-employed people, who no longer face a tax hike on their earnings.

(Source: https://www.theguardian.com/politics/2017/mar/15/philip-hammond-ditches-national-insurance-rise-for-self-employed
http://www.cityam.com/260511/budget-2017-tax-hike-self-employed-national-insurance
http://www.telegraph.co.uk/news/2017/03/08/budget-2017-millions-self-employed-hit-2-per-cent-rise-national/)

# What next after Brexit?

## The UK has formally given notice it will be leaving the EU, but the path forward is filled with uncertainty.

On Thursday 30th March, nine months since the nation voted to leave the EU, Prime Minister Theresa May announced: “There can be no turning back”.

But rather than bringing an end to the episode, the reality is we are only at the beginning. Article 50 is effectively a two-year notice period to depart from the EU, with the priority being to agree the terms of Brexit.

A wide range of details will be debated between the British government and EU ministers, with the Prime Minister outlining 12 negotiating priorities her government will focus on.

Most of these discussions are expected to take place away from the spotlight, but with Brexit such a major media talking point, it’s a topic that’s unlikely to fade into the background.

Even after the terms of Brexit have been agreed and the UK has formally left, the government still has to decide which EU laws to keep and which to discard. In total there are 80,000 pages of EU agreements to renegotiate. As they affect the way UK businesses currently operate, the implications around keeping and changing these rules could be significant.

contention is trade deals. Right now, UK businesses benefit from being part of the single market, where goods and services can be imported and exported free from tax. Leaving the EU could mean businesses face significant costs to continue trading with Europe. This would hurt their profits and have an impact on stock markets.

Some sectors will be largely immune to the situation, such as domestic-focused businesses like estate agents and house builders. Others, who trade overseas, could continue to benefit from the fact Sterling is still weaker than it was for the moment; but their long-term fortunes might be tied to the UK’s ongoing membership of the single market.

### Don’t neglect your own financial future

The uncertainty over Brexit might be an unavoidable part of life for the next few years, but that doesn’t mean your own financial future needs to be compromised. If you have major financial goals and are unsure of your ability to accomplish them, it could help to meet a financial adviser to review your plans.

*“In the current climate, developing a balanced portfolio of investments could help you to achieve a smoother investment journey”*

There’s no doubt that uncertainty is going to reign for a number of years – even after Brexit takes place. Leaving the EU is going to fundamentally change the UK. But in what way, and to what extent, no one can really know.

### How could this affect your investments?

On the morning after the UK vote to Leave the EU, stock markets endured sharp falls. But since that point, it has been a relatively positive period for global markets.

Last year’s decline in the value of Sterling currency hurt many UK businesses (mainly those who rely on imports as part of their operational model), but Sterling has started to recover early in 2017. Investors with global assets – or who are invested in UK businesses that rely on exporting goods – have been able to benefit from the fall in Sterling.

Clearly, the outcome of the Brexit negotiations will have an impact on markets. For example one of the major areas of

In the current climate, developing a balanced portfolio of investments could help you to achieve a smoother investment journey. That way, even if areas of the market struggle due to Brexit-related developments, for example, you might have other areas of your portfolio still generating strong returns. An adviser can help you build a strategy that suits your individual needs.

It will also help to continue regularly reviewing your investments. That way, if the economic landscape and outlook shifts significantly, you can examine any impact this might have on your plans and make any changes needed.

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**The Financial Conduct Authority does not regulate Taxation and Trust advice.**

(Source: http://www.bbc.co.uk/news/uk-politics-39431428
https://www.gov.uk/government/speeches/the-governments-negotiating-objectives-for-exiting-the-eu-pm-speech)

# Is your estate liable for inheritance tax?

## Thousands of families are having to pay 40% inheritance tax, and favourable new rules might not solve the problem.

If a week is a long time in politics, a decade is a lifetime. But now finally, nearly 10 years after first pledging to tackle the growing problem of inheritance tax, the government has introduced new rules aimed at reducing the number of families who have to pay it.

In October 2007 – with the Conservatives the opposition party – George Osborne announced intentions to increase the threshold before inheritance tax is due to £1 million.

It was a headline-maker; but despite winning the new general election in 2010 it has taken a further seven years to reach this point.

Inheritance tax applies if the value of your estate is above your threshold when you die. Since 2009, the thresholds have remained £325,000 for single and divorced people, and up to £650,000 for married couples, those in a civil partnership and widowers.

Your estate is made up of everything you own – including your house, car, savings and investments, minus any liabilities. The deceased's beneficiaries – usually the family – have to pay 40% tax on everything above the threshold.

Back in 2009/10, 15,000 families a year were forced to pay inheritance tax. In 2015/16, that figure had grown to 40,000. A few years ago, it was assumed only the richest families in society had to pay inheritance tax – but that's no longer the case.

### The new rules

The good news is that this April has seen the introduction of new rules – even though they aren't quite what Osborne proposed back in 2007. A new residence nil rate band allowance is being gradually rolled out, worth £100,000 a person for the 2017/18 tax year and rising to £175,000 a person by the 2020/21 tax year. At that point, if you're married or in a civil partnership, you can leave behind up to £1 million free from inheritance tax.

That said, there are certain caveats that mean not everyone can benefit from the new rules. The residence nil rate band allowance can only be used to pass on a home that you own, and have at some point lived in. It doesn't cover any buy-to-let properties.

Furthermore, the allowance only applies if you leave your home to a direct descendent, such as a child or grandchild. If you were planning to leave your home to a niece or nephew – or to a brother or sister – you can't use this allowance.

Even if you pass both of these requirements, there are no guarantees the increased allowance will still be enough to prevent your loved ones facing a 40% inheritance tax bill. Last November, Savills forecasted that average UK house prices will rise to £241,900 by the end of 2021 – but in more affluent parts of the country like the South East, they are tipped to reach £366,200. That would be above the combined residence nil rate band allowance of £350,000.

### The importance of planning

The bottom line is that inheritance tax revenue is forecasted to continue climbing over the next few years, despite these new rules. The Office for Budget Responsibility has recently estimated that the tax intake, over the next five years, will be £2 billion higher than expected.

How you want your loved ones to benefit from your life's hard work is a very personal choice. But if you intend for them to receive as much of your estate as possible, it could help to speak to a financial adviser to consider your options.

With the right plans in place, you could significantly reduce any liability. At the very least, you can ensure there are less shocks for your loved ones, during what would be a difficult time emotionally.



(Sources: http://news.bbc.co.uk/1/hi/uk_politics/7021357.stm
https://www.ftadviser.com/2016/08/02/ifa-industry/tax-planning/ways-to-mitigate-inheritance-tax-hbRKN0iIYsQGy29NKz257M/article.html
http://www.dailymail.co.uk/property/article-3902286/Where-house-prices-rise-five-years.html
http://www.telegraph.co.uk/news/2017/03/11/2bn-paid-inheritance-tax-previously-thought-house-prices-soar/)

# The pension revolution: the path to freedom is still a rocky one

## It's now two years since the pension freedoms were introduced, and the way people are funding their retirement is changing.

It used to be a lot simpler. For the vast majority of retirees, restrictions over using their pension pot consigned them to arranging an annuity. This was a guaranteed income paid for as long as you live; although this limited approach wasn't suiting everybody.

The government changed all of that in 2015. Now, defined contribution pension holders can access their savings from the age of 55, and spend it however they like – or keep it invested and draw an income. More freedom on how to fund retirement, but greater complexity too. A careful, considered plan has become more important than ever.

Two years in, and the reforms are proving very popular:

- A March 2017 survey of over 55s found 65% believe the pension freedoms are one of former Chancellor George Osborne's better ideas.
- Between April 2015 and December 2016, HMRC figures show more than £9.2 billion was flexibly accessed by savers – that is people withdrawing pension savings to spend however they prefer.
- In April 2017, Aegon reported 5.5 million people are now saving more into a pension because of the freedoms – with the average pot size leaping from £30,000 to £50,000 in the space of two years.

The pension freedoms have made it more attractive to save into a pension. You can benefit from tax relief of at least 20% on contributions (40% or 45% if you're a higher or additional rate taxpayer). In workplace schemes, your employer usually matches your contributions.

You can save up to £40,000 a year into a pension tax-free (£10,000 if you're an additional rate tax payer). The rules around inheriting pensions have also been made more favourable.

### Developing a strategy

Yet there are also important considerations around how you use your pension, which is catching many people out. When it comes to making withdrawals, only 25% of your pot is tax-free to access. The rest of it is charged in line with income tax rates. Take too much in one tax year, and you could end up losing 40% of part of your withdrawal, if it takes you over the higher rate taxpayer threshold. This would significantly reduce how much money you actually receive from your pension.

In March 2017, the Treasury revealed it has raised five times more tax from people accessing their pension than originally expected. It had estimated to collect £900 million over 2015/16 and 2016/17, but the actual amount is set to more than £2.5 billion.

This is particularly concerning given most people expect to use their pension savings in a responsible way. The same Age Partnership survey found a third of people would take out cash from their pension to pay off existing debts, and 25% would want to enjoy retirement by spending more on life's luxuries, such as travelling the world, private healthcare and treating grandchildren. Just 2% would blow money on a luxury sports car.

### Speak to an expert

Ultimately, the point of saving into a pension is so you can fund your retirement and enjoy a care-free lifestyle. But although the pension freedoms can support that, they also increase the risk of you running out of money later in life. A careful plan is really important.

With so much at stake, and greater complexity, it can make a huge difference to sit down with a financial adviser to plan how you use your pension to fund your retirement. They can help you to think about the practicalities of what income you'll need, and the options available for funding retirement. They can also advise you on using your pension in a tax-efficient manner.

### Ask for help

Being self-employed is no picnic. Many people miss out on regular employee benefits such as sick or holiday pay; others find themselves working extremely long hours or getting by on an inconsistent level of income.

Dealing with these pressures for many years, a happy and contented retirement should be your reward for your blood, sweat and tears. By speaking to a financial adviser about your future, you can start to assess if you are set to have the provisions you need for a happy retirement – and if there is more you could be doing.

**Accessing pension benefits early may impact on levels of retirement income and is not suitable for everyone. You should seek advice to understand your options at retirement.**
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(Sources: http://www.moneyobserver.com/news/21-03-2017/impact-pension-freedoms-two-years
https://www.gov.uk/government/news/over-92-billion-released-by-pension-freedoms
https://www.aegon.co.uk/news/over_5_5_millionpeoplesavingmoreasaresultofpensionfreedoms.html
http://www.moneyobserver.com/news/09-03-2017/pension-freedoms-turn-tax-bonanza

# Are you paying too much **tax** on your investments?

**Interest rates have plummeted to new depths, and the long-term outlook is not promising for savers.**

Paying more tax than you need to could have a negative impact on your financial future. There are a number of different ways of reducing the amount you're paying on your investments. And, over the long-term, this could make a notable difference to your wealth.

At the moment, only the first £1,000 interest you earn, if you're a basic rate taxpayer, or first £500 interest, if you're a higher rate tax payer, is free from tax. After that, you pay tax on gains in line with your income tax status. In other words, you could pay 20% or 40% tax on the returns you achieve, which can significantly limit your growth.

### Thinking about ISAs

April 2017 has seen the introduction of a new, increased ISA allowance of £20,000. This allows you to save or invest in a tax-efficient wrapper, with any returns you generate free from tax.

You can select a cash ISA, which is similar to a regular savings account. For longer-term goals, you could choose to invest in a stocks and shares ISA. Another option is to split your allowance and put money into both types of ISAs.

ISA rules have been made more favourable over the last few years. For example, you and your partner can now inherit each other's ISA allowance, meaning you get to keep the tax benefits. You can also withdraw and replace your money freely between cash or stocks and shares ISAs.

It's always wise to check if you have money that could be placed into an ISA wrapper, in order to benefit to a greater extent from any gains you achieve.

### Dividend tax allowance to be cut

If you're an investor who benefits from dividends (payments public listed companies issue to shareholders), the 2017 Budget announcement that the dividend tax allowance will be cut might come as a blow.

At the moment, you can receive up to £5,000 in dividend income tax-free, but from April 2018 this will be reduced to just £2,000. Dividend payments you receive above your allowance will incur a tax charge of either 7.5%, 32.5% or 38.1%, depending on your tax status.

The government estimates 80% of investors will remain within this allowance and therefore have no tax to pay – but that still leaves one in five investors facing a potentially high tax charge. Careful planning is needed.

### The value of financial advice

According to January 2016 research by Prudential and Unbiased, Britons were set to waste £4.6 million over the year paying unnecessary tax – with more than half of taxpayers doing nothing to reduce their burden.

By speaking to a financial adviser about your arrangements, you can benefit from an expert checking if you're paying more tax than you need to – with options and advice on how you can be more tax-efficient.

Having the right plans in place could make a notable difference to the strength of your savings, investments and pension arrangements – and provide you with a greater chance of achieving your goals.

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**(Source: https://www.sharesmagazine.co.uk/news/shares/budget-2017-big-blow-on-dividends, http://www.thisismoney.co.uk/money/news/article-3406800/Brits-hand-4-6BILLION-taxman-unnecessary-payments-year-research-suggests.html)**

# And finally....

## An optimistic retirement

2017 is set to feature the most optimistic set of new retirees since 2008. A survey from Prudential, carried out in January 2017, of those set to retire found they expect to live on an average annual income of £18,100.

This is a £400 increase on 2016's new retirees, and the fourth consecutive year expectations have risen. Back in 2008 – before the credit crunch crisis – retirees expected to have an income of £18,700.

There is still uncertainty, however 45% of people who are planning to retire admit they're either not financially well prepared or are unsure about their preparations.

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**(Source: http://www.thisismoney.co.uk/money/pensions/article-4159894/Retirees-2017-look-forward-income-18-100-year.html)**

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