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Financial Viewpoint

Your latest newsletter from The Orchard Practice

The Orchard Practice
growing together

Pension Freedom: Making the right decision

During last year's Budget announcement, the Chancellor introduced the prospect of pension changes. These changes were confirmed in the Taxation of Pensions Act 2014 and have now taken effect.

The freedom granted by these changes is good news for all pension savers but could lead to many people making bad decisions and paying unnecessary tax. That's why it's important to understand what the changes mean to you and why professional financial advice can help you make the right decisions with your pension.

1 Greater freedom over how you take tax free cash

Most people can now take up to 25% tax-free cash from their pension, either by:

- Taking your Pension Commencement Lump Sum in full, with subsequent withdrawals taxed as income; or
- Making a series of withdrawals over time, receiving 25% of each withdrawal tax free.

2 Flexible access from age 55

People over the age of 55 will have greater power over how they invest their retirement savings and more choice in terms of the options available. You can now:

- Take the whole fund as cash in one go
- Take smaller lump sums as and when needed
- Take a regular income – via income drawdown, or an annuity

Choosing to take your pension in stages, rather than in one go, could help you manage your tax liability.

3 Restrictions on how much you can contribute to pensions

Pension contributions are subject to a £40,000 annual allowance and specific contribution rules. This remains true under the new rules.

However, if after 6 April 2015 you make any withdrawals from your pension in addition to any tax-free cash, contributions to defined contribution plans will be restricted to £10,000.

4 55% pension "death tax" to be abolished

Up until April 2015, it was normally only possible to pass a pension on as a tax-free lump sum if you died before age 75 and you had not taken any tax-free cash or income. Otherwise, any lump sum paid from the fund was subject to a 55% tax charge.

From April 2015 this tax charge was abolished and the tax treatment of any pension you pass on will depend on your age when you die:

- If you die **before age 75**, your beneficiaries can take the whole pension fund as a lump sum or draw an income from it tax free, when using income drawdown.
- If you die **after age 75**, your beneficiaries can:

  1. Take the whole fund as cash in one go: the pension fund will be subject to 45% tax. (From April 2016, lump sums will be taxed at the beneficiary's marginal rate).

  2. Take a regular income through income drawdown or an annuity (option only available to dependants): the income will be subject to income tax at your beneficiary's marginal rate.

  3. Take periodical lump sums through income drawdown: the lump sum payments will be treated as income, and subject to income tax at your beneficiary's marginal rate.

If you're looking to access your pension in 2015, or you'd like advice on your new pension choices, please get in touch.

Income drawdown carries significant investment risk as your future income remains totally dependent on your pension fund performance.
HM Revenue & Customs practice and the law relating to taxation are complex and subject to individual circumstances & charges which cannot be foreseen.

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Landlords and lending
What you need to know

The National Landlords Association (NLA) claims that so-called 'part-time' landlords now make up more than 70% of the private rented sector.[1]

If you're planning to buy a rental property as a long-term investment, or to generate a regular income, here are a few points you may want to consider before you get started.

Buy to Let mortgages
You're likely to need a Buy to Let mortgage to finance your property purchase. Buy to Let Mortgages are not regulated by the Financial Conduct Authority, but the lender will still be
looking for you to meet a number of requirements.

Typically, the lender will expect you to:

- Provide accurate information about your financial circumstances
- Understand the legal implications and commercial risks of being a landlord
- Read and understand its Buy to Let offer pack, and the terms and conditions
- Understand that you, not your tenant, are responsible for meeting mortgage payments
- Understand that non-payment of the mortgage may put the wellbeing of your tenants at risk and could lead to the property being repossessed

They will also expect you to let them know if your circumstances change and you decide to occupy a property.

Mortgage costs
Mortgage interest payments are likely to be your largest ongoing cost, and most lenders will want to ensure that the rental you earn from letting your property easily covers your mortgage commitment.

You'll also need to consider the lender's arrangement fee. This can often be added to your mortgage, which means you will pay interest on it, but this can normally be offset against your tax liability.

Purchase costs
If you're funding your purchase with a mortgage, you will still need to find a deposit from elsewhere. Depending on the condition of the property, you may have to undertake structural or decorative work.

You'll also have to budget for furniture and appliances if you intend to let your property furnished. Other costs will include legal fees, Stamp Duty Land Tax (if appropriate) and a survey fee.

[1] National Landlords Association, 10 July 2014
[2] www.which.co.uk, November 2014

ONGOING RUNNING COSTS

Like your own home, a Buy to Let property will require maintenance and you'll need to maintain the safety of gas and electrical appliances.

You might think of using a letting agent to market your property, select tenants and manage the property. A letting agent will typically charge around 10–15% of the monthly rental for this service.[2]

Your tenant will normally be responsible for most property related costs such as Council Tax, a TV Licence and utilities. The tenancy agreement should clearly set out who is responsible for each of these payments.

Don't forget to budget for insurance. Specialist buildings and contents insurance for landlords is essential, but you should also arrange cover to protect you against loss of rental income.

If you'd like more information on how to fund and protect your Buy to Let investment, please get in touch.

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

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

Is your credit score holding you back?

If you're seeking a loan – particularly something as significant as a mortgage – your personal credit score can be the difference between success or failure.

Far from being out of your hands, you can take meaningful action to ensure your credit score works in your favour.

Tougher criteria
The criteria borrowers are being asked to meet remains much stricter than it was before the credit crunch. Lenders are now fully responsible for assessing whether you can afford the loan, and they are required to verify your income.[1]

Maximising your credit score can not only affect which deals are available to you, it can be the difference between having a loan request accepted or refused.

How can you influence your credit score?

- Think carefully before you apply for a loan. The more applications you submit, the more 'footprints' there will be on your credit record. This could indicate that you are finding accessing a loan difficult and it could be held against you.
- Do your utmost to pay off your credit card bills in full every month, or at least ensure you are making consistent payments from the balance. If you have a record of being able to manage your borrowing responsibly, it will hold you in good stead with lenders.
- Avoid going up to your limit on your credit cards. It may instead be advisable to have more than one card, but you should remain well within your limits on each.
- Make sure you are on the electoral roll. If you're not, many lenders simply won't deal with you.
- Get up to speed with your personal admin and avoid missing payments. Irrespective of whether it's a credit card, personal loan, mortgage payment or utility bill, any missed payments will impact on your credit score.

These steps should help you maximise your chances of accessing a broader range of mortgage deals.

Not sure where you stand?
If you're worried about your score, why not take advantage of a free 30-day trial from Experian or Equifax, and get a credit report? This will help you better understand your position before trying to get a mortgage.

[1] FCA Mortgage Market Review published 12 September 2014 http://www.fca.org.uk/firms/firmtypes/mortgagebrokersandhomefinancelenders/mortgagemarketreview

If you're considering a home or remortgaging, 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 payable upon agreement to use our services.

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Pension planning for the self-employed

There are 4.5 million[1] self-employed people in the UK and less than a third have any kind of pension arrangement.[2] That's a shocking statistic when you consider that State support is shrinking and we're all living longer.

Of course, saving for a pension when you're self-employed is not as straightforward as it is for an employed person, who might automatically benefit from a workplace scheme and employer contributions. We've outlined some key points below for you to consider.

Don't rely on the State Pension
Whether you're employed or self-employed you're entitled to the full basic State Pension (currently £113.10 a week) as long as you've paid in 30 years of National Insurance Contributions and you retire after 6 April 2016.[3]

On its own then, State support is unlikely to enable you to maintain your current standard of living into retirement. That's why it's imperative for the self-employed to find other ways to provide the additional
income needed in retirement.

Start saving early
It's stating the obvious, but the sooner you start saving into a pension the bigger your potential retirement fund. You'll also have more time to benefit from the tax relief that's available.

To highlight the importance of saving early, a 25 year-old male looking to retire at 67 would need to contribute £356 per month in order to achieve a retirement income of £15,000 a year.[4] If the same man had waited until he was 45 before he started saving, he would need to contribute £739 to achieve the same level of income – an additional £383 per month.[5]

Minimise the amount of tax you pay
One of the main benefits of paying into a pension is the tax relief the savings attract. For example, if you're a basic rate taxpayer paying £80 into your pension each month, HMRC will effectively add an extra £20[6] in tax relief.

The maximum amount you can save each year that attracts tax relief (otherwise known as the annual allowance) is £40,000.[7]

Importantly, if your income is low and you're not able to save the full £40,000 in one tax year, you can carry forward any unused allowance[8] and use it against earnings in the next tax year. Please note:

- you must have been a member of a registered pension scheme during the years you want to carry forward
- your tax relief is limited by your annual earnings in the year you want to carry forward
- you can only carry forward unused allowance from the three previous tax years

What type of pension is right?
The self-employed can choose from a range of different pension products, including stakeholder pensions, personal pensions and Self Invested Personal Pensions (SIPPs). Each has its advantages and disadvantages – we can advise on which is best for you.

Perhaps the most flexible pensions are stakeholder schemes. They allow you to save as little as £20 per month and the charges are relatively low, which is helpful if you have irregular income levels.

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

Talk to us
If you're self-employed and need advice about your pension planning, please get in touch to discuss your options.

[1] http://www.resolutionfoundation.org/wp-content/uploads/2014/05/Just-the-job-or-a-working-compromise-FINAL.pdf
[2] http://www.resolutionfoundation.org/wp-content/uploads/2014/05/Just-the-job-or-a-working-compromise-FINAL.pdf
[3] https://www.gov.uk/state-pension/eligibility
[4] https://www.moneyadviceservice.org.uk/en/tools/estimate-what-you-need-to-save-for-retirement
[5] https://www.moneyadviceservice.org.uk/en/tools/estimate-what-you-need-to-save-for-retirement
[6] https://www.gov.uk/tax-on-your-private-pension/pension-tax-relief
[7] http://www.hmrc.gov.uk/tools/pension-allowance/
[8] http://www.hmrc.gov.uk/tools/pension-allowance/

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Cohabiting: protect yourself by writing a Will

Unfortunately, there's no such thing as common law marriage in the UK, which means that cohabiting couples have barely any rights to protect what's theirs in the event of a relationship break-up or the death of a loved one.

But there is a way to help protect yourself and your assets when cohabiting – writing a Will.

Most people know that having a Will in place enables you to nominate who should receive items of monetary or sentimental value, such as jewellery, property or furniture, in the event of your death.

But, above all, a valid Will avoids the potential pitfalls of dying intestate which, in the case of partners who are not legally married or in a civil partnership, could be problematic. In such circumstances, the surviving partner has no automatic right to the other's inheritance.

Why a Will could be important to…

- **Those with dependants** If you have young children, a Will is the best way to clarify who should look after them should you / your partner die.
- **Business owners:** Are you self-employed, in business with others, or a major shareholder in a limited company? It's worth considering how your business assets would be dealt with in the event of your death, without adversely impacting your family or the business itself.
- **Those with a Life Insurance policy:** Taking out a Life Insurance policy gives you valuable peace of mind: you know you've protected your family against financial hardship, should the worst happen. Putting your Life Insurance in trust avoids delays at a stressful time for your loved ones, and protects any claim settlement from the taxman.

Getting help

Any Will must be drawn up accurately, avoiding ambiguities, and executed correctly for it to be valid and effective. As such it is always worthwhile using experienced professionals to take your instructions and to draw up the Will itself.

A proper consultation with a Will writing expert will allow you to explore ways in which to reflect your wishes in the most tax-efficient way.

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

If you'd like to find out more about how to arrange a Will, please contact us.

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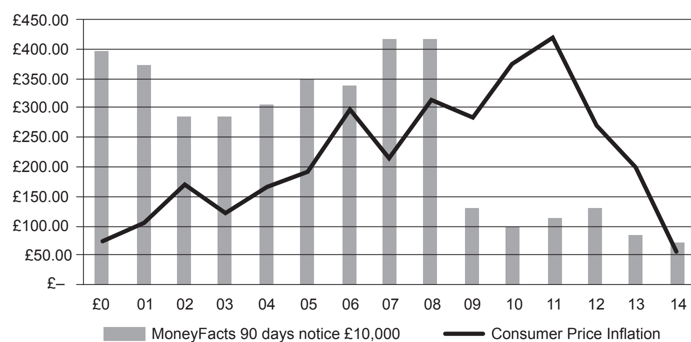
Generating income in a lowest rate world

If you rely on your savings to supplement your living costs, or provide you with an income in retirement, you may be finding it difficult to make ends meet at the moment.

This is not surprising, as the cost of living has increased dramatically over the past ten years.

At the same time, interest rates have fallen to unprecedented low levels – along with the income you can receive from traditional sources of income such as bank deposit accounts and bonds.

The chart below shows the annual income from a £10,000 90-day notice bank deposit account over the past fifteen years. You can see it has dropped from a peak of £420 in 2008 to only £73 now – a fall of over 82%. And this is before the effect of inflation is taken into account: over the same period (2008-2014), using the government's favoured measure of inflation (the Consumer Price Index), the value of money fell by over 20%, meaning that the real value of this income is even less.



Source Financial Express

How can you find different ways of delivering income?

An alternative might be to invest in stocks and shares that can deliver income through dividends, either by holding them directly or through an Equity Income fund. This can be attractive, although many investors find market volatility off-putting, as it can change both the value of their investment and the income it generates.

One other approach is to take a much wider view and consider other potential sources of income from a broader range of asset classes and capital structures, across many different countries and regions, to provide diversification.

Diversification makes sense

The table below shows the annualised returns from a range of different asset classes over the past 10 years, covering different types of equities, government and company bonds, commodities, property and cash.

You can see from the 'patchwork quilt' effect that making a decision on which asset class to hold is tricky – the top performer changes regularly and the returns are very volatile. Investors who are over-committed to one asset class run the risk of disproportionate losses should that asset class underperform.

Taking a diversified approach means that a drop in the value of one asset may then be offset by increases in other asset classes, leading to smoother overall performance.

To find out more about the investment and income solutions we can offer, please get in touch.

You should not use past performance as a reliable indicator of future performance. It should not be the main or sole reason for making an investment decision. The value of investments and any income from them can fall as well as rise. You may not get back the amount you originally invested.

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Commodities 37.0%	Euro equities 20.1%	Commodities 18.5%	Global bonds 45.1%	UK equities 30.1%	Commodities 27.4%	Gilts 15.7%	Euro equities 17.8%	US equities 29.9%	US equities 20.8%
Euro equities 24.1%	Property 18.1%	Euro equities 15.7%	Gilts 12.8%	Euro equities 20.1%	US equities 20.0%	Property 8.3%	UK corp bonds 13.1%	Euro equities 25.2%	Property 19.3%
UK equities 22.0%	UK equities 16.8%	Global bonds 9.5%	Cash 5.7%	Commodities 19.8%	UK equities 14.5%	Global bonds 7.4%	UK equities 12.3%	UK equities 20.8%	Gilts 13.9%
Property 18.8%	Cash 5.0%	Cash 6.2%	Commodities 5.6%	US equities 12.6%	Property 14.3%	UK corp bonds 6.9%	US equities 11.1%	Property 10.9%	UK corp bonds 12.2%
US equities 17.3%	US equities 1.6%	UK equities 5.3%	UK corp bonds -4.1%	UK corp bonds 10.8%	Global bonds 9.8%	US equities 2.5%	Gilts 2.7%	UK corp bonds 0.9%	Global bonds 6.9%
UK corp bonds 7.9%	UK corp bonds 0.7%	Gilts 5.3%	US equities -12.8%	Property 2.2%	UK corp bonds 8.4%	Cash 0.9%	Property 2.4%	Cash 0.5%	UK equities 1.2%
Gilts 7.9%	Gilts 0.7%	US equities 3.7%	Property -22.5%	Cash 1.3%	Gilts 7.2%	UK equities -3.5%	Cash 0.8%	Gilts -3.9%	Cash 0.5%
Global bonds 7.3%	Commodities -0.4%	UK corp bonds 1.8%	Euro equities -24.0%	Gilts -1.2%	Euro equities 5.8%	Commodities -6.7%	Global bonds -2.6%	Global bonds -6.3%	Euro equities 0.2%
Cash 4.9%	Global bonds -4.7%	Property -5.5%	Euro equities -29.9%	Global bonds -7.6%	Cash 0.8 %	Euro equities -14.7%	Commodities -5.4%	Commodities -11.2%	Commodities -11.8%

Source: Threadneedle, Datastream and iBoxx, in GBP as at 31 December 2014 – UK equities is the FTSE All Share Index, European equities is the FTSE World Europe ex UK Index, Commodities is the Dow Jones-UBS Commodity Index, UK corporate bonds is the iBoxx Sterling Non-Gilts Index (linked with UBS W All Stocks Investment Grade pre 30 June 2003), US equities is the S&P 500 Composite Index, Gilts is the FTSE UK Gilts Government (All) Index, Property is the IPD Monthly Index (total return), Global bonds is JPMorgan GBI Global (trade) (GBP Unhedged) Index. Cash is 3M £ Libor.

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Small businesses face auto enrolment deadline

In late January, The Pensions Regulator (TPR) released its latest quarterly figures showing how effectively employers are complying with the auto enrolment pension regime.

Its report[1] showed a rise in notices issued to non-compliant employers, as more medium-sized businesses reached their ‘staging date’.

Why are more employers being affected?

Auto enrolment is being phased, or ‘staged’, depending on an employer’s size. The first staging date for the largest employers (120,000+ employees) was 1 October 2012. Over the past two years, more businesses have gradually been required to meet the new rules and on 1 August 2015, the staging date for smaller employers (with between 30-49 employees) begins.

Action taken against non-compliant employers

For the two-month period between October 2014 to December 2014, TPR issued 1,139 compliance notices - a 500% increase compared to the 177 compliance notices it issued for the two-year period between October 2012 to September 2014.

There was a sharp increase in fines too: 166 £400 fixed penalty notices were issued for the period between October 2014 to December 2014, compared to just three between October 2012 to September 2014.

The jump in notices issued reflects more medium-sized employers being affected by auto enrolment. Around 30,000 employers (with approximately 62 to 149 workers) reached their auto enrolment staging date in April 2014 to July 2014 and completed their declaration of compliance with auto enrolment law by the start of December 2014.

[1]Automatic enrolment: Compliance and enforcement, Quarterly Bulletin, 1 October – 31 December 2014

Plan ahead to avoid being penalised

TPR has repeated its warning that employers should start the process of auto enrolment planning a year before their staging date. It also added that “failing to declare within five months of your staging date means you risk being fined.”

If your business is yet to enter the automatic enrolment process, do not leave things until the last moment. The sooner you start, the more likely you are to meet your obligations – and avoid a potential fine.

Pension Regulation Action	Oct 2012-Sept 2014	Oct 2014-Dec 2014
Compliance notices issued Where there has been a contravention of one or more automatic enrolment employer duty provisions which must be remedied	177	1,139
Unpaid contributions notices issued Sent to employers who have not made the required pension contributions on time	1	7
Fixed penalty notices issued A flat £400 penalty for failure to comply with a statutory notice or a specific employer duty	3	166

To discuss the auto enrolment options we can offer you and your business, please get in touch.

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Protect your belongings when you're away from home

Our personal belongings mean a lot to us, so it's important we take steps to protect them – especially when we're out and about.

Things like jewellery, designer handbags, mobile phones and tablets can be expensive. Losing them, or having them stolen, costs money and causes inconvenience and upset.

According to a recent survey by Paymentshield:[1]

- 83% of people are likely to carry a purse/wallet
- 64% a smartphone
- 42% sunglasses/glasses

With so many of us carrying something of value when we're out and about, it's important to take steps to protect personal belongings.

[1] Paymentshield's YouGov Survey. Undertaken between 7 and 8 January 2014, with a sample size of 1114 UK adults over the age of 18.

Here are some simple steps you can take to look after your valuables whilst on the move.

- Be discreet – don't flash expensive items around
- Don't leave bags or other valuables unattended
- Don't leave valuables on show in your car
- Only take with you what you really need

Are you covered?

The experience of having something stolen is bad enough, without the added burden of having to pay for a replacement. This is where Personal Possessions Cover can help. It can provide cover for items such as bicycles, laptops, or mobile phones if they get lost, damaged or stolen.

To find out more about Personal Possessions Cover get in touch.

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