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Viewpoint

Your latest newsletter from The Orchard Practice

The Budget 2016: Headlines

Mr Osborne's third Budget in the space of a year included a number of re-announcements from his Autumn Statement, but there were a few surprises.

Lifetime ISAs

From April 2017, adults under 40 will qualify for a new Lifetime ISA. The maximum annual contribution will be £4,000 to which the government will add a 25% bonus (so a £100 contribution will become £125 in the plan).

You can use the funds, including the bonus, to buy a first home at any time from 12 months of opening the account. Or you can withdraw the funds tax free from age 60 for use in retirement. Withdrawals can be made at any time for other purposes, but you'll forfeit the bonus element plus any interest or growth, and face a 5% charge.

At the same time the total amount you can save each year in an ISA will be increased from £15,240 to £20,000.

Personal allowance

The Personal Allowance (the amount of income you can earn before you start paying Income Tax) will increase to £11,500, and the higher rate threshold will rise to £45,000 in April 2017.

The Dividend Allowance

This was a surprise announcement in last year's Summer Budget and also begins in 2016/17. The allowance will mean that the first £5,000 of dividends you receive in a tax year will not be subject to any further tax, regardless of your marginal tax rate. The existing 10% dividend tax credit disappears from 6 April 2016.

Capital Gains Tax

From 6 April 2016 most rates will be cut by 8% so gains will generally be taxable at 10% to the extent they fall in the £32,000 wide basic rate band (2016/17) and 20% if they fall into the higher or additional rate bands. However, for gains on residential property (eg. Buy to Let) and carried interest the 2015/16 tax rates of 28% and 18% will continue to apply. The capital gains tax annual exemption for 2016/17 will remain unchanged at £11,100.

National Insurance

From April 2018 employers will need to pay National Insurance contributions on pay-offs (for example, termination payments) above £30,000 where Income Tax is also due.

Class 2 National Insurance contributions (NICs) for self-employed people will be scrapped from April 2018 and they will only need to pay one type of National Insurance on their profits, Class 4 NICs.

After April 2018, Class 4 NICs will also be reformed so self-employed people can continue to build benefit entitlement.

New tax allowances for money earned from the sharing economy

From April 2017, there will be two new tax-free £1,000 allowances – one for selling goods or providing services, and one on income from property you own.

People who make up to £1,000 from occasional jobs – such as sharing power tools, providing a lift share or selling goods they have made – will no longer need to pay tax on that income.

In the same way, the first £1,000 of income from property – such as renting a driveway or loft storage – will be tax free.

Corporation Tax

The main rate of Corporation Tax has already been cut from 28% in 2010 to 20%, the lowest in the G20. It will be cut again to 17% in 2020, benefitting over 1 million businesses.

Business rates

From April 2017, small businesses that occupy property with a rateable value of £12,000 or less will pay no business rates.

There will be a tapered rate of relief on properties worth up to £15,000. This means that 600,000 businesses will pay no rates.

Stamp duty rates for commercial property

New rates and tax bands are 0% for the portion of the transaction value up to £150,000; 2% between £150,001 and £250,000, and 5% above £250,000.

Buyers of commercial property worth up to £1.05 million will pay less in stamp duty.

Stamp duty rates for leasehold rent transactions will also change, with a new 2% stamp duty rate on leases with a net present value over £5 million.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen. For specific tax advice please speak to your accountant or tax specialist.

If you'd like to know more of the details behind the Budget headlines, please get in touch.

COPEN1245 Exp. 23/06/16

Give yourself a sporting chance

With a summer of sports coming up you might feel inspired to get involved. But before you do make sure you're covered in case any of the inevitable bumps and bruises need more than just a plaster.

There's a host of major sporting events taking place this Summer.

An active community

Seeing so many of the world's greatest athletes and sporting heroes competing at the top of their game may leave you feeling motivated to get involved at a grass-roots level.

Anyone can take part in grass-roots sports – which play a crucial role in keeping us, our children and our communities healthy and active. But even with the best instructors, facilities and equipment, accidents and injuries can happen and you may be unable to work as a result.

After spending the week sitting behind a desk in an office, an 18-hole round at the weekend could take its toll. Some of the most common sports injuries are:

- Ankle sprain
- Groin pull
- Hamstring strain
- Shin splints
- Knee injury
- Tennis elbow

Accident protection

Obviously we all do our best to avoid accidents, but when you're playing sport you're at a much higher risk of twisting, spraining or breaking something and this could affect your ability to work. A broken wrist can take six to eight weeks to heal. Depending on the severity of the injury, a fractured leg could take from six to eight weeks all the way up to between three and six weeks to six months to heal.

If in that time you were unable to work accident protection would prove invaluable.

Before the summer comes and you decide to join in with a Sunday League football team or get involved in your local parkrun, please make sure you get in contact to discuss Accident Protection.

COPEN1244 Exp. 30/09/16

Too ill to earn

‘Seven Families’ highlights the importance of protecting your income.

Seven Families is a charity-led campaign that aims to raise awareness of the financial and emotional difficulties caused by long-term illness or disability. Launched in November 2014, it follows seven real families in the UK where the main breadwinner has been forced out of work by an accident or illness – without having any protection insurance in place.

The Clarke family

Tracey Clarke and her husband Tim live on a houseboat after financial difficulties forced the sale of the family home.

Tracey was born without functional vision in her left eye. It had never caused her problems until 2011 when her eyesight began to shut down completely. Tracey had to give up driving and, ultimately, her career as a Pharmacy Technician. Soon after, her husband Tim was made redundant.

The effect of losing two incomes unexpectedly meant Tracey and Tim had to rethink their financial plans. They were forced to sell their home of 25 years and find a place that would allow them to live within their means on the benefits they now depend on.

Looking back

Tim and Tracey admit they had to choose between paying various insurance policies and feeding the family. Looking back, Tracey says *“Obviously feeding the family had to come first. We should have looked again at the budget to find a way of maintaining the payments for the insurance policies.”*

Have you protected yourself and your family?

Income protection cover will help provide an income if you are unable to work due to an accident, sickness or, in some cases, unemployment.

Get in touch to find out how we can help protect you and your loved ones.

You can find out more about the Seven Families campaign at www.7families.co.uk

COPEN1234 Exp. 31/12/16

Spring clean your finances

A quick Google of 'Spring Clean' will throw up a million and one Buzzfeed articles or 'life hacks' on how to make spring-cleaning easier and quicker. You'll find tips about using cola to clean the toilet, lemon to clean the taps and vinegar to clean just about anything.

When you're done cleaning your worktops with baking soda and your windows with newspapers, why not try spring-cleaning your finances with our handy hints:

Work out what you're spending

Keeping track of your income and outgoings gives you a great snapshot of your finances. It can help highlight any problem spending areas and where you can potentially make savings. To get started, you'll need copies of your recent bills, wage slips and bank statements. Tally them up and write them down (or use a spreadsheet), including your other main monthly outgoings. Compare this to your monthly income to quickly see your spending patterns and how much you have left over at the end of every month. There are also online tools to help you while budgeting or your bank or building society may have an online tool which takes information directly from your transactions. Alternatively you can talk to us.

Protect what matters

Spring-cleaning your protection insurance is also important as you'll want to make sure you have the right cover for your current circumstances when you need it.

If you're renting a property you will want to protect your belongings. If you have just bought a home you'll need to make sure both your home and possessions are adequately covered. You may even want to consider accidental damage cover or home emergency cover.

If you've recently had a baby, or you have others who depend on your income, make sure you have cover in place to provide financial security for those who depend on you should you become ill or die. Life insurance and critical illness insurance give you the peace-of-mind that you or your family could 'weather a financial storm'.

Invest in an ISA

An Individual Savings Account (ISA) is a tax-efficient way of saving. In the current tax year (April 2016 to April 2017) the government allows you to put up to £15,240 into an ISA and it's important to take advantage of this.

You can save your money in one cash ISA or one stocks and shares ISA, or split the allowance across both types. A cash ISA means you don't pay tax on saving accounts interest. A stocks and shares ISA means you don't pay tax on any income or capital gains you've made on your investments – but obviously there's more risk involved in the latter. The tax efficiency of ISAs is based on current rules. The current tax situation may not be maintained. The benefit of the tax treatment depends on individual circumstances.

Although there is no fixed term, you should consider stocks and shares ISAs to be a medium to long term investment of ideally five years or more.

The value of your stocks and shares ISA and any income from it may fall as well as rise and is not guaranteed. You may get back less than you invest.

Get trusted advice

Discussing your financial needs with an expert can make managing your finances simpler. We can help you establish a financial plan that's designed around your specific needs, make sure it stays on track, and provide ongoing advice that will help you achieve your goals.

If you would like to have a chat about your budget, protection or investment needs, please call us today.

COPEN1236 Exp. 05/04/17

Alternative Funerals

If you've ever imagined your own funeral do you think of a grand procession and a marble headstone or an altogether more demure affair?

Before you start planning your funeral make sure you know fact from fiction. For instance, did you know:

- you don't have to use a funeral director to organise a funeral
- you don't have to use a hearse to move a body
- you don't even have to have a coffin

It's entirely up to you whether you choose a typical Victorian-style service offered by many undertakers or opt for something different. You could try a woodland burial, where people are buried in biodegradable containers or shrouds in a natural or woodland burial ground. In some cases a tree can be planted to mark the burial spot.

You may even want to follow David Bowie and go for direct cremation, where your body is cremated without a ceremony.

To find out more about the benefits of a Whole of Life Plan please get in touch.

A sporting send off

Some sports venues such as Manchester City's Etihad Stadium can cater for funerals including:

- Blue and white coffin or traditional coffin with flag
- Funeral ceremony in a suite overlooking the pitch
- Area with displays of photos
- Your choice of music
- Order of service booklet with tributes and photos
- Football flower tributes
- After funeral reception with drinks and/or catering
- Committal at one of Manchester's cemeteries or crematoria
- Scattering of some of the ashes in the Memorial Garden

Don't leave the bill to the bereaved

The average cost of a funeral in the UK has risen by 3.9% to £3,702 over the past year, so it makes sense to plan ahead instead of leaving it to the bereaved to find the money.

A Whole of Life Plan can help take away some of the financial worry of planning or funding a funeral from your family or friends. These plans are designed to pay out a specified sum when you pass away (or are diagnosed with a terminal illness). The amount paid depends on the sum assured and type of cover you choose, you can decide this when you set up your plan.

COPEN1242 Exp. 31/12/16

Simple steps to tax planning

Professional advice and careful planning can help you to make the most of legitimate opportunities to reduce the amount of tax you pay.

Your Accountant, or tax specialist, will be your first port of call when it comes to tax, but it's also an important consideration in your day to day financial planning. Here are some areas where you can make sure you're not paying too much tax.

Pay As You Earn (PAYE) and National Insurance (NI)

Check your PAYE tax code

Always check your tax code when it's issued – HMRC don't always get it right. You can ask them to correct any errors that might otherwise cause you to pay more tax, or pay tax earlier than you would through your self-assessment tax return.

National Insurance contributions (NICs)

If you have more than one job you may overpay NICs during the tax year. You can claim this back from HMRC.

Married or civil partnership

Transferable personal allowance

Married couples and registered civil partners can share some of their personal allowance. This means that the unused allowance of one partner can be used by the other, resulting in an overall tax saving for both.

More than one property?

Couples getting married or entering into a civil partnership who own separate properties must nominate one as their main home for Capital Gains Tax purposes within two years of the marriage / registered civil partnership.

Inheritance tax (IHT)

Make sure you have an up to date will

A will is a key part of estate planning – not just because it sets out what you want to happen to your wealth after your death, but also because it covers a number of other important aspects. If you die without a will, the rules of intestacy determine how your estate will be distributed and there could be an unnecessary IHT bill for the loved ones you leave behind.

Consider leaving part of your estate to charity

Any amounts you give to a UK registered charity (during your lifetime, or as a bequest) are exempt from IHT. In addition, broadly speaking, if you leave 10% or more of your taxable estate to charity, then the IHT rate levied on your estate is cut to 36%.

Could you make monetary gifts from your spare capital?

You can gift up to £3,000 free of any IHT each tax year. And if you forget to make your £3,000 gift one year, you can carry forward to the next tax year and gift up to £6,000.

Using the IHT marriage exemption for gifts

Gifts made to someone who is getting married or registering a civil partnership are exempt within limits based on your relationship to the parties. A maximum of £5,000 applies if you are a parent.

Pensions

Are you taking advantage of your annual allowance for making pension contributions?

Your annual allowance for the tax year 2016/17 is £40,000, however, those earning more than £150,000 will have their allowance reduced on a tapering basis down to £10,000.

Could you carry forward any unused annual pension allowances?

You can carry forward unused allowances from the three previous tax years and use these to cover pension contributions greater than the current year's annual allowance.

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

Get in touch today for advice on how to maximise tax efficiency in your financial planning.

COPEN1243 Exp. 05/04/17

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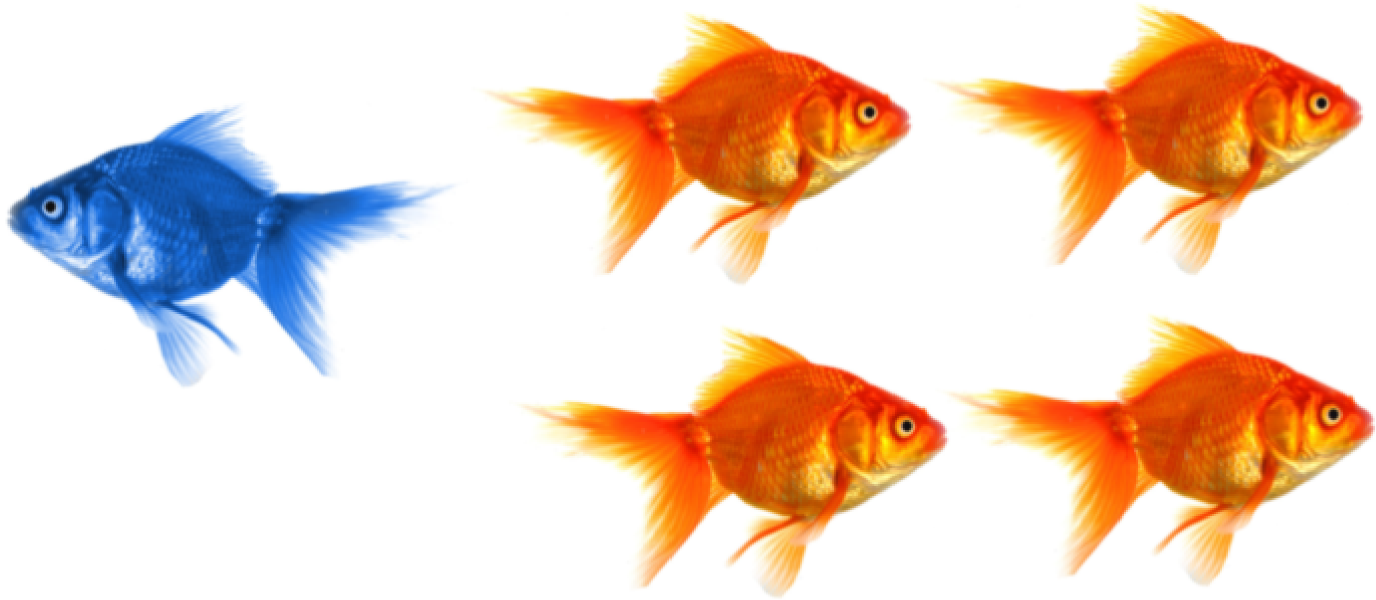

Opting out of Auto-enrolment

Saving into a pension is an important financial step we should all be taking to ensure a comfortable lifestyle when we stop work.

When it comes to workplace pensions, all employers will have been required to enrol their eligible workers into a scheme by 2018, if they:

- are not already in one
- are aged between 22 and the State Pension age
- earn more than £10,000 a year
- work in the UK

You can choose to opt out of the scheme, but your employer is obliged to enrol you back in automatically every three years. You can opt out again if you still don't think it's for you, but you should think carefully before you do – especially if you don't have any other pension savings. After all, what will you live on when you retire?

Don't rely on the State

Many people over estimate how much they will receive from the basic State pension, which is currently just £115.95 a week plus any means-tested benefits. This will rise to a maximum flat rate of £155.65 from April 2016 – but only for those that have paid 35 years of National Insurance – providing an income of just over £8,000 per year.

Saying no to free money

Take 30 year old Miss Brown earning £26,500 per year with no current pension savings, who wants to retire at 60.

If she pays in £300 a month in to a private pension scheme until retirement she will receive an estimated pension income of just £3,960 per year.

If Miss Brown is opted into an auto-enrolment scheme where her employer contributes 5% per month (the minimum employer contribution is currently 1% which will increase over time), her estimated income at retirement rises to £5,420 per year. That's nearly £1,500 a year more with no additional cost to her.

What will you live on when you retire?

Relying on the State pension alone could mean a drop in your income when you retire. Saving into a pension, including a workplace pension scheme, means you will have more money to continue doing the things you enjoy when you retire.

A pension is only one form of retirement planning and it's a good idea to combine it with other methods. To find out more about auto-enrolment, pensions and other types of retirement planning, please get in touch.

COPEN1235 Exp. 31/12/16

Taxation changes impacting Buy to Let landlords

In last year's Summer Budget, George Osborne announced changes to the way landlords can claim tax relief on their mortgage finance costs. In his Autumn Statement, the Chancellor then announced proposed changes to Stamp Duty Land Tax on properties purchased for Buy to Let purposes.

Tax relief on interest costs

Landlords can currently deduct mortgage interest from their rental income before calculating how much tax they should pay.

From April 2017, tax relief on Buy to Let mortgage interest will gradually be reduced. The restrictions will be phased in over four years, resulting in tax relief only being available at the basic rate of income tax (currently 20%) from April 2020:

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- 6 April 2017 – higher rate relief can be claimed on the first 75% of the Buy to Let mortgage interest costs. The remaining 25% will have the basic rate of tax relief applied.
- 6 April 2018 – higher rate relief can be claimed on the first 50% and the remaining 50% will attract the basic rate of tax relief.
- 6 April 2019 – higher rate relief can be claimed on the first 25% and the remaining 75% will attract the basic rate of tax relief.
- 6 April 2020 – Tax relief can only be claimed at the basic rate level.

Wear and Tear Allowance to go

Up until April 2016 only landlords of fully-furnished residential properties could claim tax relief for wear and tear on furnishings.

This 'Wear and Tear' Allowance has been replaced with a relief that enables all landlords of residential dwelling houses to deduct the costs they actually incur on replacing furnishings in the property, such as:

- sofas
- televisions
- fridges and freezers
- carpets and floor-coverings
- curtains
- crockery or cutlery
- beds and other furniture

The initial purchase of furniture, furnishings, appliances and kitchenware won't be eligible for the tax relief.

Changes to Stamp Duty Land Tax

Stamp duty on properties purchased for Buy to Let purposes will increase by 3% for each band from April 2016. This will mean that even properties up to the value of £125,000 that would previously have attracted 0% stamp duty will now attract the 3% Buy to Let / second home rate.

Some Buy to Let mortgages are not regulated by the Financial Conduct Authority.

If you let a property and would like to know more about these changes, please get in touch.

Your property may be repossessed if you do not keep up repayments on your mortgage

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The Orchard Practice
growing together

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