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Viewpoint

Your latest newsletter from AMA Financial Solutions

Do you have too much money invested in cash?

Is your Cash ISA under attack from inflation?

If you started saving in a Cash ISA when they were first introduced in 1999 and continued to invest every year to date*, you could have saved over £71,000. But with the Bank of England's Base Rate remaining at 0.5% since 2009, the spending power of these savings has effectively been diminished when you have taken inflation into account.

In fact, you would have had to earn interest of 3.9%[1] over the last five years for your savings to have beaten inflation. And looking at the current Cash ISA best buys, it would seem unlikely you'd achieve that from a bank or building society.[2]

You could have £71,000 (plus interest) in your cash NISA

		2014/15 **£15,000**		
	2011/12 **£5,340**	2012/13 **£5,640**	2013/14 **£5,760**	
	2008/09 **£3,600**	2009/10 **£3,600**	2010/11 **£5,100**	
2004/05 **£3,000**	2005/06 **£3,000**	2006/07 **£3,000**	2007/08 **£3,000**	
1999/00 **£3,000**	2000/01 **£3,000**	2001/02 **£3,000**	2002/03 **£3,000**	2003/04 **£3,000**

[1] This Is Money – 3.9% that's the magic number: It's at least what savers needed for the past five years to beat inflation
[2] Moneysavingexpert.com Best Buy Cash ISAs on 27 November 2014
[3] Hargreaves Lansdown – Neil Woodford: Rate expectations
[4] BBC News UK household debt hits record high
* As at 30 November 2014

The case against raising interest rates

While there's talk about the prospects of an interest rate rise, Neil Woodford, Head of Investment at Woodford Investment Management, argues there's no need for UK interest rates to rise until 2016 thanks to a number of factors:[3]

- UK households remain burdened by too much debt (household debt-to-income ratio hit a record high of 140% in 2013)[4]
- Household cash flows remain very sensitive to rate rises
- UK labour market dynamics have changed. With over 1 million people in part-time employment preferring a full-time job, and many more in self-employment
- UK inflation remains low and appears to be heading lower

So, with interest rates at an all-time low and looking to remain so for the foreseeable future – it's time to consider transferring your Cash ISA savings to a Stocks and Shares ISA investment and avoid the effects of inflation on your savings.

And the great news is that following the introduction of the New ISA (NISA) legislation in July 2014, you can now switch your Stocks and Shares ISA investments back to Cash ISAs if interest rates get back to a level that means your spending power won't be eroded.

The value of investments and the income from them can go down as well as up and you may not get back the amount originally invested.

Tax concessions are not guaranteed and may change in the future.

Talk to us about inflation-beating investments

There are numerous multi-asset investments available to investors who are uncomfortable taking too much risk with their money. Many of these have delivered significantly higher returns than cash over the last five years. Get in touch to find out more.

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Are you prepared for a rate rise?

The Bank of England Base Rate remains at 0.5% – its lowest level since the Bank was established in 1694.[1]

With commentators adjusting their predictions of a Bank of England Base Rate rise on an almost monthly basis, you may feel unable to make a confident decision about your mortgage. But there are measures you can take to prepare for an interest rate increase.

Take control of your finances
The first step is the most important: consider how an increase could affect you. You may be in a fortunate position, where even an increase of several per cent would not impact your standard of living. However, this is unlikely to be the case for most people.

Research from the Money Advice Service suggests more than half of UK homeowners are not prepared for a rise.[2]

The research also reveals that three out of four homeowners haven't considered how a 3% interest rate increase would affect their mortgage repayments. This is despite the Bank of England Governor Mark Carney estimating interest rates will rise by 2–3% over the next three years.

Review your mortgage
If you think an increase in your mortgage repayments could have a negative impact on your financial wellbeing, you should consider reviewing your mortgage arrangements. We can help you choose a deal that's right for your needs.

If you want to protect yourself against future interest rate rises, you may want to consider a fixed-rate mortgage. This means your payments are set at a certain level for an agreed period, regardless of whether your lender changes its Standard Variable Rate (SVR). Such an increase typically occurs when the Bank of England Base Rate starts to climb.

A fixed-rate mortgage makes budgeting easier because your payments will stay the same, although it also means you won't benefit if the SVR then goes back down.

Check your bank statement
You may find it useful to take a closer look at your overall finances, and consider if and where you can make savings to prepare for higher repayments, should they materialise.

Looking at your bank statement in detail can help you decide if you need to make cutbacks on your spending. You may be able to easily identify areas where you could make significant monthly savings.

Don't leave it too late
Don't be tempted to wait until rates start increasing. Considering your options now. Acting decisively could pay dividends in the future – even if rates remain static.

[1] Bank of England Base rate of 0.5% correct on 30 November 2014
[2] The Money Advice Service: More than half of UK homeowners not prepared for interest rate rises: 8 October 2014 https://www.moneyadviceservice.org.uk/en/news/morethan-halfofukhomeownersnotpreparedforinterestraterises

If you want help assessing the mortgage deals available to you, please get in touch.

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

For this service a fee of up to a maximum of 2% of the loan amount is payable on completion. Typically this will be £500

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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 up to a maximum of 2% of the loan amount is payable on completion. Typically this will be £500

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The most valuable gift you can buy?

Life and Protection Insurance policies (sometimes known as 'Family Protection') offer a financial safety net for you and your loved ones, should the worst happen.

They can provide a regular income or cash payout to ease the financial burden of:

- death
- serious injury or illness
- unemployment (as an additional cover with certain policies)

Which policy is right for you?
Life Insurance can provide financial security to those who depend on your income when you die. It could pay off your mortgage, or provide an income to help cover things like regular household bills.

The most appropriate type of **Life Insurance** will depend on your circumstances

- **Term Insurance** pays out a lump sum if you die within the agreed 'term' (the amount of time you have chosen to be covered for, eg. 20 years).

- **Whole of Life Insurance** pays out a lump sum when you die, whenever that is, as long as you are still paying the premiums.

- **Family Income Benefit Insurance** pays out a regular income, instead of a lump sum, to provide ongoing financial support for those who depend on you.

Critical Illness Insurance pays out a tax-free lump sum on the diagnosis of certain life-threatening or debilitating conditions, like cancer, heart attack or stroke.

You may decide to buy Critical Illness Insurance when taking on a major commitment, like a mortgage or starting a family, but it can be bought at any time to provide peace of mind.

Income Protection Insurance pays out a regular, tax-free income if you become unable to work because of illness, injury or unemployment. It could help you keep up with your mortgage or rent payments, as well as other living costs, until you're able to return to work.

Things change – and so should your cover
You may already have one or more of the above in place, but it's still worth reviewing your current cover levels. Personal circumstances can change regularly so it's important to ensure your level of cover remains appropriate.

Contact us today for a Life and Protection Insurance review.

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Changes to your pension from April 2015

In his Spring 2014 Budget, the Chancellor announced changes that will affect your pension savings when you retire.

The government has since published the latest version of the 'Taxation of Pensions Bill' which helps clarify these changes.

What we know already[1]

Flexible access from age 55
From April 2015, those aged at least 55 will have freedom over how they take money out of their pension fund.

Restrictions on pensions contributions
The normal £40,000 annual allowance will reduce to £10,000 if you make any withdrawals from your pension in addition to any tax-free cash.

Retirement age changes
Set to increase to 67 from 2028.

What's new[2]

Freedom over how you take your tax free cash (PCLS)
Most people can take up to 25% tax-free cash from their pension.

From April 2015, you can either take the tax-free cash all at once, or have a portion of any withdrawals you make paid tax-free.

For example, if you have a pension fund worth £100,000,you could:

- Take the £25,000 tax-free cash all at once, with subsequent withdrawals taxed as income.
- Make a series of withdrawals over time and receive 25% of each withdrawal tax-free (eg. for a lumpsum withdrawal of £20,000, you would receive £5,000 tax-free; for monthly withdrawals of £1,000 you would receive £250 tax-free, with £750 subject to income tax).

This second option could help you manage your tax liability more effectively.

55% pension 'death tax' to be abolished
It's normally only possible to pass a pension on as a tax-free lump sum if you die before age 75 and have not taken any tax-free cash or income. Otherwise, any lump sum paid from the fund is subject to a 55% tax charge.

From April 2015 this tax charge will be 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 tax-free.

If you die after age 75, your beneficiaries have three options:

- **Take the whole fund as cash at once.** The pension fund will be subject to 45% tax. However, it has been proposed this should be changed to the beneficiarys marginal rate of income tax from 2016/17.
- **Take a regular income through income drawdown or an annuity** (option only available to dependants). The income will be subject to your beneficiary/s marginal rate of Income Tax.
- **Take periodical lump sums through income drawdown.** The lump sum payments will be treated as income, and therefore subject to your beneficiary/s marginal rate of Income Tax.

While a pension continues to support those in retirement, it could now also enable one generation to support the next.

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

The freedom granted by these pension changes is good news for all pension savers but, without professional financial advice, many people could end up making uninformed decisions and paying unnecessary tax.

If you are looking to access your pension in 2015, please talk to us to better understand your options.

[1] www.gov.uk
[2] This information is based on our interpretation of the current version of 'The Taxation of Pensions Bill' as published on 21 November 2014 and is subject to change.

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How tax efficient is your pension?

The main purpose of a pension is to build funds for your retirement in the most tax-efficient way possible.

You may contribute regularly to your pension, but do you take full advantage of the tax benefits it offers you? For instance, did you know your pension could help you reclaim valuable personal tax allowance – and even Child Benefit?

Over the lifetime of your pension, these potential benefits could contribute significantly to the funds available to you at retirement.

Here are four examples of how your pension could work harder for you.

1 Use contributions to realign Personal Allowance for high earners (over £100,000)

Nearly everyone who lives in the UK is entitled to an Income Tax Personal Allowance (the amount of income you can receive each year without having to pay tax on it).[1]

This Personal Allowance is reduced by £1 for every £2 of taxable income over £100,000.

By making a pension contribution, you could reduce your taxable income, and reclaim your allowance. This is particularly valuable if you have a taxable income of between £100,000 and £116,210.

2 Prevent the erosion of Child Benefit

Since 7 January 2013, if you're a parent earning more than £50,000 the amount of Child Benefit you receive reduces. It goes completely once earnings hit £60,000.[2]

A pension contribution can help you reduce your earnings and therefore allow you to reclaim Child Benefit.

3 Maximise tax relief on contributions /minimise tax on pension income

The government encourages you to save for your retirement by offering tax relief[3] on your pension fund up to a certain amount.

Through efficient planning, you may be able to receive tax relief at a rate higher than the Income. Tax-rate you'd pay on your retirement income.

4 Paying in more than your annual allowance

You are allowed to pay up to £40,000 annually into your pension. Contributions above this amount are subject to tax penalties.[4]

However, in certain circumstances, you can exceed your annual allowance without penal tax charges applying. This is because you can carry forward three years' worth of unused annual allowance meaning, subject to earnings, you may be able to claim valuable tax relief.

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

[1] https://www.gov.uk/incometaxrates/personalallowances
[2] http://webarchive.nationalarchives.gov.uk/+/http://www.hmrc.gov.uk/news/childbenefitchargemar2013.htm
[3] https://www.gov.uk/taxonyourprivatepension/pensiontaxrelief
[4] https://www.gov.uk/taxonyourprivatepension/annualallowance

If you'd like to explore your pension in more detail, please get in touch.

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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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The Autumn Statement

We've summarised the key points from George Osborne's Autumn Statement, which was delivered to Parliament on 3 December 2014.

Income Tax

In March 2014, the Chancellor confirmed the personal allowance would rise by £500 in 2015/16, to £10,500[1]. The Autumn Statement has added another £100 to this, bringing the 2015/16 personal allowance up to £10,600.[2] As in the past, some of this increase will be clawed back by *reducing* the basic rate band, on this occasion by £80 (to £31,785).[3]

Capital Gains Tax (CGT)

In 2015/16 the Capital Gains Tax annual exempt amount will rise by £100, to £11,100, as previously announced.[4]

Inheritance Tax

The Inheritance Tax (IHT) nil rate band, which has been frozen at £325,000 since April 2009, will remain unchanged until at least April 2018.[5]

Individual Savings Accounts (ISAs)

For 2015/16 the investment limit will increase in line with inflation by £240 to £15,240.[5] The so far little-used Junior ISA (JISA) will have its investment limit increased by £80 to £4,080.[5]

From 3 December 2014, if an ISA investor in a marriage or civil partnership dies, their spouse/civil partner will effectively inherit their deceased partner's ISA tax advantages. In addition, from 6 April 2015, the surviving spouse/civil partner will be able to invest as much into their own ISA as their spouse/civil partner used to, on top of their usual allowance.[5]

The housing market

The big surprise in the Autumn Statement was a reform of the Stamp Duty Land Tax (SDLT) rules for residential property. On 4 December 2014, a tiered approach – similar to that used for Income Tax – was introduced. There are now five tax bands:[5]

Band of residential property value £	Tax rate %
0 – 125,000	0
125,001 – 250,000	2
250,001 – 925,000	5
925,001 – 1,500,000	10
1,500,000+	12

Business taxes

The main rate of corporation tax is currently 21% and will fall to 20% from April 2015, bringing it into line with the unchanged small profits rate. The Chancellor once again extended the small business rate relief for a year.[6]

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

If you would like guidance on how the Autumn Statement might affect you, please get in touch.

[1] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/293800/TIIN_8110_income_tax_personal_allowance_and_basic_rate.pdf
[2] http://www.telegraph.co.uk/news/politics/11271430/More-than-130000-taken-out-of-higher-rate-of-tax-in-Autumn-Statement.html
[3] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/293800/TIIN_8110_income_tax_personal_allowance_and_basic_rate.pdf
[4] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/264600/12._Capital_gains_tax_-_annual_exempt_amount.pdf
[5] http://www.retirementplanner-sw.com/digital_assets/15760/2014_Autumn_Statement_Summary.pdf
[6] http://www.hmrc.gov.uk/softwaredevelopers/ct/draft-forms.htm

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