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Financial Viewpoint

Your latest newsletter from Prosperity Financial Services Ltd

Prosperity Financial Services Ltd

Pension savers face Lifetime Allowance cut

From 5 April 2016, your tax-free pensions savings limit will be cut from £1.25m to £1m. This cap is called the 'lifetime allowance' and applies to your entire pension savings (apart from the state pension).

When the lifetime allowance was first introduced in 2006, it only affected high earners in the UK who could afford to grow seven-figure pension pots.

But as the limit has reduced in recent years many more thousands of people have been affected – especially those in final-salary schemes who have built their entitlement through many years' work.

Tax charges

If your pension savings are worth more than the £1m lifetime allowance when you take your benefits, you'll have to pay the lifetime allowance tax charge on the excess. The tax charge is 55% if you take the excess pension pot as a lump sum, or 25% if you take the pension as a regular payment.

Annual allowance

The amount you can pay into your pension every year (the annual allowance) is currently £40,000. You usually pay tax if savings in your pension pot exceed the annual allowance, but you can top up your allowance for the current tax year (6 April to 5 April) with any allowance you didn't use from the previous three tax years.

Pensions savings allowances

Tax Year	Lifetime Allowance	Annual Allowance
2013/14	£1.5m	£50,000
2014/15	£1.25m	£40,000
2015/16	£1.25m	£40,000
2016/17	£1m	£40,000

Protecting your money

If you had a pension pot of more than £1.25m as at 5 April 2014 you may be able to claim Individual Protection 2014. This will provide a protected lifetime allowance equal to the value of your pension rights on 5 April 2014 (up to an overall maximum of £1.5m).

You will not lose Individual Protection 2014 by making further savings into your pension scheme, but any pension savings in excess of your protected lifetime allowance will be subject to the lifetime allowance charge.

Applying for Individual Protection 2014

You became eligible to apply for Individual Protection 2014 from 18 August 2014. Applications are still open but must be received by HMRC no later than **5 April 2017**.

We expect to see similar transitional protection regimes announced ahead of the lifetime allowance cut.

If you are worried that your pension pot may be affected by this change and would like more information, please get in touch.

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

COPEN1042 Exp. 31/03/16

Autumn Statement – What it means for you

The balance of economic changes had been moving in the Chancellor's direction, giving him some wriggle room to make a number of surprise announcements in his 2015 Autumn Statement.

Tax credits

One of the biggest of those was the Chancellor's U-turn on tax credits. He was widely expected to water down his summer cuts, but instead, abandoned nearly all of the measures, leaving the main taper rate and income thresholds unchanged.

The housing market

Mr Osborne also returned to the stamp duty land tax (SDLT) rules for residential property, announcing that, from 1 April 2016, the rate of SDLT on purchases of "additional residential property" (eg. second homes and Buy to Let) will increase by three percentage points.

He also revealed further initiatives for homebuyers, promising a total of 400,000 affordable housing starts by 2020/21, half of which would be starter homes sold with a 20% discount to young first-time buyers.

In the city, a new Help to Buy equity loan scheme will give London buyers 40% of the home's value from early 2016, as opposed to the 20%, offered by the current scheme. The government is also announcing a series of other schemes, including Help to Buy: Shared Ownership to help more people get onto the housing ladder.

Pensions

While making no fresh major pension tax announcements, the Chancellor did execute a subtle cut to the cost of pension tax relief for the government by pushing back six months the dates on which auto-enrolment contributions will increase. The rise from 2% to 5% total contributions will now occur in April 2018, with the final move to 8% a year later.

From April 2016, the basic state pension will rise to £119.30 per week, an increase of £3.35 - the highest real terms increase to the state pension for 15 years.

Inheritance tax

There were two small pieces of good news on the IHT front:

- No action will be taken over the use of deeds of variation to make post-death amendments to wills.
- The legislation on pension plans in drawdown is to be clarified to ensure normally no IHT is payable on funds remaining at death.

Energy

The current Energy Companies Obligation, a government scheme for larger suppliers to deliver energy efficiency measures to British homes, will be replaced from April 2017. Instead, a new cheaper energy supplier obligation to reduce carbon emissions will run for five years, which should see 24 million households save an average of £30 a year on their energy bills from 2017.

The Warm Home Discount scheme will also be extended to 2020-2021. This currently gives certain low-income households a one-off reduction of £140 on their electricity bill.

Flood protection

300,000 homes will be better protected from flooding by 2021, with £2.3 billion for over 1,500 flood defence schemes across the country.

Tax concessions are not guaranteed, may change in the future and are subject to individual circumstances.

If you'd like to know more about how the announcements made in the Autumn Statement affect you, please get in touch.

COPEN1172 Exp. 10/03/16

Your financial New Year's resolutions

Most of us will make at least one New Year's resolution – but research suggests that just 1 in 10 of us will go on to achieve it.

Psychologists have found we're more likely to succeed if we break our resolution into smaller, specific goals.

So, if one of your resolutions for 2016 is to get on top of your finances, we've broken this down into five easy (and, hopefully, more manageable) steps for you. You might want to choose the one that you think will make the biggest difference, or take on all of them over the course of the year. Either way, we hope they'll help you on your way to a more prosperous financial future.

1 Make a budget

Keeping track of your income and expenses will give you an objective view of your finances. It can also highlight areas where you can trim your expenses or make the most of your income. You can break this down even further into specific tasks, like writing a groceries list before you go shopping, or setting a weekly budget for luxuries.

2 Use your ISA allowance

The allowance for 2015/16 is £15,240. You have until 5 April 2016 to take advantage of the current allowance as you cannot carry any unused ISA allowance over to the following tax year. Over the longer term, the effect of compound interest can make a big difference to your overall savings, so it makes sense to save as much as you can.

3 Top up your pension pot

Pension savers are able to top up their pension pot by an extra £40,000 before 5 April 2016. This one-off benefit is due to a change in rules which means the Pension Input Period will now be aligned to the tax year.

4 Update your protection

Whether it's updating your home insurance policy to cover any new Christmas purchases, or making sure your Income Protection policy covers any recent change in salary, the New Year is a good time to review your insurance needs. That way, if you need to make a claim, you know you'll be properly covered.

5 Seek 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're thinking about moving on or remortgaging, we can help you find the right mortgage deal.

COPEN1167 Exp. 10/03/16

Cost of dying rises by nearly 4%

The average cost of a funeral in the UK has risen by £140 in the last year to £3,702.

It's hardly the most cheery subject, but updated figures suggest that funeral costs are on the rise, increasing faster than the rate of inflation over the past year. But it's clear that while £3,702 might seem a reasonably generous budget, it might not be enough to the include things you might consider essential for a dignified send-off.

Funeral director fees, which have risen by 5% in the past year alone, make up the majority of the cost. Cremations now cost £683 on average and burial fees £1,645. Adding flowers, a headstone and a reception could add another £2,323[1].

How you can tackle the rising costs?

Talk about it

It is never an easy discussion to have, but talking about funeral wishes with your loved ones can help minimise costs. When asked, most people would prefer a low-cost approach with over a third saying they want their families to spend as little as possible.

Shop around

Dying doesn't need to be expensive. As with all things, if you shop around you can usually find a better deal. Websites like YourFuneralChoice.com can help you find affordable funeral directors in your local area.

There are also more affordable alternatives to the traditional wooden casket. You can order a basic cardboard version online from just £245, a more exotic banana leaf construction for around £275, or even make your own[2].

Plan ahead to avoid debt

For many people, cost-cutting is the last thing on their mind when planning a funeral for a loved one. But in trying to provide a 'good send-off', you may put yourself at risk financially. During 2015, the average debt taken on to pay for a funeral was £1,318[1].

Cover the cost

A Whole of Life Plan can help take away some of the financial worry for 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, you can decide this when you set up your plan.

Planning your own send-off can be difficult, but you may find that taking some time to share your wishes and put plans in place provides peace of mind for you – and your loved ones.

[1] *The Royal London National Funeral Cost Index Report 2015*
[2] *comparethecoffin.com*

If you would like to discuss end-of-life financial planning, or any aspect of your protection needs, please get in touch.

COPEN1176 Exp. 14/12/16

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 one 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 worthwhile 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.

COPEN1170 Exp. 10/12/16

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5 reasons why you should use your full ISA allowance

If you haven't used up your ISA allowance for 2015/16, you have until 5 April to do so.

With the tax-year end fast approaching, the clock is ticking for you to use up all of your £15,240 ISA allowance for this tax-year.

But why is it so important to use up your allowance? Here are five great reasons:

1 More generous allowances

The ISA annual allowance now stands at a record £15,240 – all of which can be invested in a Cash ISA, a Stocks and Shares ISA, or a combination of the two. This figure is almost 30% more generous than the 2013/14 allowance of £11,520 (of which only £5,760 could be invested in a Cash ISA), giving you a much greater opportunity to shelter more of your savings from tax.

2 Your ISA is tax-efficient

Unlike some other investments your returns are not subject to tax. That means every extra pound you save (within your allowance) will be sheltered from the taxman. This tax-year, you can invest up to £15,240 tax-free.

3 You can't 'carry over' your ISA allowance

Unlike some other personal allowances (such as your pensions annual allowance), you cannot carry any unused ISA allowance over to the following tax year. That makes it doubly important to invest your full allowance, if you can afford to.

4 Increased flexibility

In years gone by, if you used up your annual ISA limit but then made a withdrawal during the same tax-year, you'd be unable to replace it. As of April 2015, you now have the freedom to take money out, and put it back in later in the year, without losing any of your tax-free entitlement. That means you needn't worry about missing out on lost interest if you need to make a short-term raid on your savings, but can afford to replace it later.

5 The miracle of compound interest

Maximising your ISA savings can deliver huge benefits over the longer term. For instance, assume you invested the current maximum allowance of £15,240 in a Cash ISA, every year, for 25 years. Even if your investment grows at a modest 2.5% each year, your £381,000 total investment would have grown to £528,542.54. The same investment with a 5% annual growth rate would return £756,297.33.

If you haven't used up your ISA allowance for 2015/16 yet, please get in touch to discuss your options.

ISA FACTS

To open an ISA, you must be:

- 16 or over (for a Cash ISA)
- 18 or over (for a Stocks and Shares ISA)
- Resident in the UK
- A Crown servant (eg. diplomatic or overseas civil service) or their spouse or civil partner if you don't live in the UK

There are two types of ISAs:

- **CASH ISA**
  You don't pay tax on savings account interest.
- **STOCKS AND SHARES ISA**
  You don't pay tax on any income or capital gains you've made on your investments.

If you complete a tax return, you don't need to declare any ISA interest or profits on it.

You can put money into one Cash ISA and one Stocks and Shares ISA each tax year.

You can save up to £15,240 in one type of account or split the allowance across both types.

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 the individual circumstances.

The value of your stocks and shares ISA and any income from it may fall as well as rise. You may not get back the amount you originally invested.

1.75m homeowners unprepared for mortgage increase

The Bank of England (BoE) last increased the base rate in July 2007 and interest rates hit rock bottom in March 2009. This has meant over 1.75 million UK homeowners have never faced a rise in the BoE base rate.

Mortgage payments around 18% of income

During 2014 these first time buyers were spending, on average, 18.4% of their income on their mortgage. If the base rate is increased many homeowners may be in for an unexpected financial shock.

If you have a £100,000 repayment tracker mortgage over 25 years, even a small rise of just 0.5% in the base rate would mean your repayments would increase by £300 a year.

Monthly Payment	Interest Rate
£475	3.0%
£501	3.5%
£528	4.0%
£556	4.5%
£585	5.0%
£614	5.5%
£644	6.0%

Take control

There is still uncertainty around when the rates will rise but while rates remain low it's a good idea to get ahead of the game by reviewing your spending habits and budget.

Filling out an income and expenditure form will help you identify where you can easily make savings if you have to. Charities like The Money Charity offer a free online form, or you can easily search online for templates. Simply gather together all of your bank statements and bills. Work out your total income and outgoings. Don't forget to add in things such as Christmas or your car MOT. Once you know how much you have left over at the end of the month you'll be better prepared for any future surprises.

Fixed rate

Whilst reviewing your finances you may also want to think about reviewing your mortgage. With a fixed rate mortgage, the rate (and therefore your repayments) will stay the same for an agreed period. This makes budgeting much easier because your payments won't change - even if interest rates go up.

Whether reviewing your personal budget or your mortgage we can help. Get in touch to find out how we can help you.

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

For this service a fee of a maximum of 1% may be charged after initial consultation. Typically this is £500.

COPEN1162 Exp. 10/06/16

Business survival planning

If something happened to you, your co-owners or employees, could your business survive?

A study by Legal and General shows 46%[1] of new businesses would fold immediately following the death or critical illness of a key person.

The loss of a key person within a small or medium-sized business can cause unexpected costs at what would be a difficult time. Not only would the business have to fund the cost of recruiting and training a replacement, but it would also risk suffering:

Loss of profits

Loss of important business contacts

Loss of knowledge

For further information or advice on setting up a business protection policy please get in touch.

Business protection insurance can help mitigate or even avoid these risks altogether.

As a business owner, you should know there are three main types of business protection:

- **Key Person Insurance** – provides a lump sum to the business on the death of an important member of the business.
- **Shareholder Protection Insurance** – provides a lump sum that will allow remaining shareholders to buy the shares of a deceased shareholder.
- **Business Loan Protection** – provides a lump sum to help a business pay any outstanding business loans.

There is also the option to take out relevant life insurance in trust. Although this is not technically business protection an agreement can be made which specifies the terms on which proceeds can be used.

Critical illness cover should also be a consideration, as long-term or permanent absence from work, could cause serious financial pressures to you and your business.

Protect your bottom line

People are the biggest asset to any business and Business Protection Insurance is designed to keep your business trading should you lose the people responsible for your profit margin.

[1] *Legal & General - State of the nation's SMEs report*

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