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Financial Viewpoint

Your latest newsletter from Prosperity Financial Services Ltd

Prosperity Financial Services Ltd

Autumn Statement 2016

The Chancellor, Philip Hammond, delivered his Autumn Statement on 23 November. He reiterated the government's promise to "build an economy that works for everyone" but what do the measures announced mean for your finances?

Income Tax

The 0% starting rate band for savings will remain at £5,000. Both the £100,000 threshold for phasing out the personal allowance and the £150,000 starting point for additional rate tax are unaltered for 2017/18. The result is that the overall tax burden is little changed for basic rate taxpayers, but most higher rate taxpayers will see a useful boost.

Total Income (£)	2016/17 (£)	2017/18 (£)	Tax Saving (£)
Less than 11,000	0	0	0
15,000	800	700	+100
20,000	1,800	1,700	+100
30,000	3,800	3,700	+100
40,000	5,800	5,700	+100
50,000	9,200	8,700	+500
75,000	19,200	18,700	+500
100,000	29,200	28,700	+500
125,000	43,600	43,300	+300
150,000	53,600	53,300	+300
200,000	76,100	75,800	+300

The Chancellor confirmed the goals of a personal allowance of £12,500 and higher rate threshold of £50,000 by 2020, but also announced that after 2020 the personal allowance increase would be linked to the Consumer Price Index (CPI) rather than the National Minimum Wage (NMW), as previously proposed. The NMW will itself rise by 30p an hour to £7.50 from April 2017.

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 2021. The new residence nil rate band announced in the July 2015 Budget starts in 2017/18, but only at a level of £100,000 (it rises by £25,000 a year for each of the following three tax years before becoming inflation-linked).

Salary sacrifice

New rules will apply to salary sacrifice arrangements from 2017/18 which will largely negate the current Income Tax and National Insurance Contribution (NIC) advantages of such arrangements. There will be exemptions for arrangements relating to pensions (including advice), childcare, Cycle to Work and ultra-low emission cars.

Individual Savings Accounts (ISAs)

For 2017/18 the ISA investment limit will rise to £20,000, with the Junior ISA (JISA) and Child Trust Fund limits increasing to £4,128.

Pensions

Three important changes to pensions occurred on 6 April 2016:

- A further 20% reduction in the lifetime allowance from £1.25m to £1m, with the introduction of two new transitional reliefs;
- The tapering of the annual allowance to as little as £10,000 for those with high incomes; and
- The start of the new single tier state pension system, marking the end of the basic state pension and state second pension for anyone reaching their state pension age after 5 April 2016.

Mr Hammond also announced a reduction in the money purchase annual allowance (MPAA) from £10,000 to £4,000 for 2017/18 onwards. This measure is aimed at individuals drawing income under the pension flexibility rules and then recycling it as further tax-relieved pension contributions.

The latest cuts to the annual allowance and lifetime allowance mean that as the tax year end nears, reviewing pension contributions should be one of your priorities.

The housing market

While there were no new measures directly aimed at landlords, the move to bring in legislation banning letting agents from charging fees to tenants is likely to have an indirect effect.

Business Taxes

The main rate of Corporation tax will fall to 19% from April 2017 and the Chancellor confirmed the goal of a 17% rate by 2020.

If you'd like more of the headlines behind the Autumn Statement and what they mean for you, please talk to us.

OW0504 Exp. 31/03/17

Are your contents underinsured?

When it comes to insuring your home and contents, many people take out far less cover than they need, risking potential upset if it comes to making a claim.

The average UK home contains around £55,000 worth of possessions, but an average insurance policy covers just £35,000, leaving a huge £20,000 worth of uninsured valuables per household.

Why are people undervaluing their possessions?

One reason could simply be a lack of awareness – both in terms of the real value of possessions and the items we should be thinking about insuring. When you're reviewing your contents insurance, don't just think about your jewellery and electronic equipment or other high-value items. Make sure you consider things like clothing, shoes, books, furniture – and contents in your garage, garden shed or other outbuildings.

Another reason why people underinsure could be a desire to keep insurance premiums down – but this really misses the point of taking out cover in the first place. If you're in the unfortunate situation where you need to claim and you haven't included certain items in your policy, you won't be covered and this could leave you even more out of pocket.

Ask us to review your cover

By seeking our professional guidance, you may find you're able to reduce your outgoings, identify instances where your protection could be improved or uncover gaps in your insurance.

We can help you understand what you're covered for – and what you aren't. While buying home insurance may feel like an expensive chore, it's critical to ensure it meets your needs and expectations. If you don't fully understand your policy excesses (the contribution you are required to pay towards a claim) and policy exclusions (such as accidental damage), your insurance could end up letting you down when you need it most.

Alternatively you may not even realise you actually require specialist insurance. If your home is classed as a 'non-standard construction', or you have high-value contents in the home, it may be appropriate to call in a specialist insurance provider that can meet your needs.

It can be easy to question the value of insurance – until the day you need it most. If you've ever been unfortunate to make an insurance claim, you'll know just how valuable it can be.

For more information about protecting your home and contents, please get in touch.

Achieving your financial goals

We lead complex lives in an increasingly complex world. As your financial adviser we can help you better understand your financial challenges, goals and needs, and help you find appropriate ways to meet them.

Even a seemingly straightforward financial goal can involve numerous decisions and a lot of time and effort getting it right. Whether it's buying a home, investing for the future or protecting the people and things you cherish, we're here to help you make the right choices for your needs. Here are some of the services we provide, which our clients have told us they value the most.

Mortgages

With so many mortgage lenders offering products on the high street and online, it can be tempting to cut out the middle man. But when you're making such a huge financial commitment, professional guidance can be invaluable, particularly if your needs are out of the ordinary. As well as arranging your mortgage we can also recommend specialist professional services that can help with other elements of your home-buying process, including solicitors and surveyors.

Protection

When using comparison sites and direct insurers, how can you be sure their "off-the-peg" solutions meet your specific needs? Using our expert product knowledge we can help you find the right solution for you. Whatever your particular need – be it income, family, mortgage or business protection – we can access high quality products from a range of handpicked providers; providers we have selected because they are proud to stand behind claims when it matters the most.

Investment planning

As well as your pension, you may have opportunities to invest lump sums – such as an inheritance or bonus – but are unsure about what strategy is best. As with all areas of financial planning, it pays to have a clear objective or vision. We can talk you through the important things to consider and help you create a balanced and diversified portfolio, taking into account your financial goals, attitude to risk, and any appropriate tax planning.

Retirement planning

The onus to create a comfortable retirement is falling increasingly on the individual, and the new pension regulations, whilst bringing welcome freedoms, introduce additional complexity to your at-retirement choices.

The right financial plan could help secure a more comfortable retirement – not just for you, but also for your loved ones and heirs. We can help you navigate the complexities of the new rules. Knowing what can be achieved and establishing the right strategy as early as possible can help you prepare for the future.

Inheritance planning

Passing our hard-earned wealth to loved ones often forms a big part of our ambitions. The right forward planning can help you maximise your heirs' inheritance by minimising tax liabilities. We can help you put the right structures in place.

Of course, your needs in any and all of these areas will change over time, and regulatory changes can impact the effectiveness of any structures already in place, so we recommend a regular review to ensure that your plans remain on track and relevant.

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

The value of investments and any income from them can fall as well as rise. You may not get back the amount originally invested.

To find out more about how we can help you, please get in touch.

OW0429 Exp. 31/06/17

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

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Parent landlords

With house prices rising faster than salaries, the younger generation face having to find a much bigger multiple of their income to buy a home, compared to their baby-boomer parents.

Couple this with rising rent payments that stifle the ability to raise a deposit and you can see why 'Generation Rent' is a growing population and more kids are looking to their parents for help.

Parent landlords

In the UK, 730,000 parents rent properties to their children and a further 1.4m landlords have said they would be willing to take their children as tenants.

As both the cost of renting and buying a property increases, renting from a parent should help prospective first-time buyers get on the property ladder sooner rather than later. Especially given that just 5% of parents charge the market rate, 30% allow their children to pay whatever they can afford and 12% even go so far as to pay the bills for the property.

Buy to Let

If you have a property you're considering renting to your children, or you're thinking of Buying to Let to help out your kids, make sure you consider all the costs involved before you take the leap. The table below covers the sorts of costs to consider.

Solicitors, valuers and surveyors are not regulated by the Financial Conduct Authority.

If you need mortgage advice, or you're looking to help your children onto the property ladder, please talk to us.

Valuation fee	Lenders may ask you to pay the valuation fee. The type of valuation will depend on factors such as the age and condition of the property. If the valuation isn't carried out the fee can be refunded.
Application/Arrangement fee	This is the cost your lender will charge for arranging your mortgage. Some lenders will allow the fee to be added to your mortgage but this means you will be charged interest on it over the term of the mortgage.
Legal costs and fees	The fees charged by a solicitor include conveyancing (the transfer of ownership of land), and the costs of legal registrations and miscellaneous costs (known as disbursements) such as Local Search fees and Land Registry fees. Some lenders may offer to finance some or all of the legal costs as an incentive.
Stamp duty	You must pay Stamp Duty Land Tax (SDLT) if you buy a property or land over £125,000 for residential properties and £150,000 for non-residential land and properties. Stamp Duty operates on a tiered basis: **Residential property SDLT rates** up to £125,000 — Zero The next £125,000 (the portion from £125,001 to £250,000) — 2% The next £675,000 (the portion from £250,001 to £925,000) — 5% The next £575,000 (the portion from £925,001 to £1.5 million) — 10% The remaining amount (the portion above £1.5 million) — 12% **SDLT rates for additional properties** up to £125,000 — 3% The next £125,000 (the portion from £125,001 to £250,000) — 5% The next £675,000 (the portion from £250,001 to £925,000) — 8% The next £575,000 (the portion from £925,001 to £1.5 million) — 13% The remaining amount (the portion above £1.5 million) — 15%
Higher lending charge	If the amount you wish to borrow is greater than a certain proportion of the property's value (typically 75%), you may incur a higher lending charge.
Early Repayment Charge (ERC)	Lenders may charge for early repayment of your loan before the end of the normal mortgage term. This can sometimes be a significant amount so you should always check the terms in the offer letter from your lender.
Deeds release or exit fee	Lenders may charge a fee to release the deeds of a mortgaged property to you or a new lender.
Mortgage advice fee	We'll explain how we charge and what our advice will cost.

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

OW0440 Exp. 31/03/17

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At retirement: the runners and riders

With the much-lauded pension freedoms, we now have a range of options when deciding how to fund our retirement.

Whilst many newspaper headlines warned that new retirees would blow their entire pensions savings on Lamborghinis, it appears that most have taken a more measured approach. Data from the Association of British Insurers (ABI) shows that in the first year following their introduction 57% of new retirees took less than 1% of their pot and fewer than 4% of retirees took out more than 10%. The majority of these were in the first few months following the changes.

But not everyone is affected by the new freedoms.

Those who are, or have been, members of a final salary/defined benefit scheme **won't be affected by the new regulations**. These schemes provide a pension based on your years of service and your salary when you left the scheme, or, if it is no longer operating, the point at which it closed.

Those with a defined contribution scheme – or who have made additional contributions into a free-standing pension plan – **will benefit from the new freedoms**. You can buy an annuity, draw income from your savings, or withdraw lump sums as you need them.

Annuities

Buying an annuity is the traditional means of converting your savings to a guaranteed income stream. This could include an income for your spouse on your death and/or inflation proofing. However, annuities have had a bad press in recent years as the returns on bonds – the investments that underpin the income stream – have collapsed. This has made them seem poor value for money.

Flexi-Access Drawdown

You can elect to remain invested and withdraw income from your pension savings. However, the income from investments is variable and the value of the underlying investments may vary over time.

Uncrystallised Pension Fund Lump Sums

This rather inelegant term describe, a newly-introduced freedom. If you have more than one defined contribution scheme and one that you have not touched (ie. elected to buy an annuity or elected to withdraw income), you can use it to 'top-up' your retirement by taking occasional lump sums.

Horses for courses

The table below summarises the key features of the three options now available to retirees. With options comes choice, and choices can be hard to make – particularly in an area as important as your pension.

The likelihood is that those retiring today will have a combination of income sources at their fingertips: the State Pension, an element of defined benefit and an element of defined contribution. Some may elect to continue working in a part-time or advisory capacity or on a consultancy basis.

The value of investments and any income from them can fall as well as rise. You may not get back the amount originally invested.

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

This will be one of the most important decisions of your life as it determines the kind of retirement you can afford. Further, managing your tax liabilities when you have more than one source of income open to you can be complicated. The right solution for you will depend on many variables, so please do get in touch before making any decisions.

	Annuity	**Drawdown**	**Lump sums**
Guaranteed income	Yes	No	No
Up-front tax-free lump sum	25%	25%	N/A
Additional withdrawals	No	Subject to normal personal income tax rules	25% tax free The remainder subject to personal income tax rules
Death before 75	Spouse's annuity paid tax free	Tax free lump sum or Tax free drawdown	Tax free lump sum or Tax free drawdown
Death after 75	Spouse's annuity taxed as income	Lump sum taxed at highest marginal rate Drawdown subject to normal income tax rules	Lump sum taxed at highest marginal rate Drawdown subject to normal income tax rules

OW0437 Exp. 31/03/17

New Year's resolution

Many of us will have over-indulged during the festive season and will start the new year wanting to get healthier.

Whether it's stopping smoking, losing weight, eating more healthily or getting fitter, most of us will make at least one New Year's resolution, but how many of us will actually go on to achieve it?

How long do New Year's resolutions last?

According to research, 63% of UK adults fail to keep a New Year's resolution – two thirds giving up even before the end of January!

If you're eager to stick at it, you're more likely to succeed if you break your resolution up into smaller, specific goals. So, if one of your resolutions for 2017 is to have healthier finances, we've broken this down into easy (and, hopefully, more manageable) steps for you.

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.

Protect

Whether it's updating your home insurance policy to cover any new Christmas gifts, 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.

Save

As well as securing the living standards you want when you're working, it's also important to think carefully about putting some of that income aside for your future. Research from Aviva has found that 59% of UK adults surveyed are worried about having enough money to last them in retirement, with only 13% comfortable that their savings will last. Generally speaking, the more you save and the earlier you start saving, the better shape your financial assets are likely to be in when you need to draw on them.

Invest tax-efficiently

The ISA allowance for 2016/17 is £15,240. You have until 5 April 2017 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 in a tax-efficient way.

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.

OW0439 Exp. 31/03/17

Protection through the years

When it comes to protection insurance, we hold two firm beliefs:

1. **it should form the foundation of your financial plan.**
2. **cover should be reviewed regularly to make sure it continues to meet your needs.**

The latter is particularly important when you are at a particular 'life stage'. Whether that's buying a house, getting married, starting a family, setting up in business, or all of the above, protection insurance will help to protect your loved ones and your financial responsibilities.

So what type of cover is right for you?

- **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). Suitable for mortgage protection or while children are financially dependent on you.
- **Whole of Life Insurance** pays out a lump sum when you die, whenever that is, as long as you are still paying the premiums. Suitable for estate planning or to cover things like funeral expenses.
- **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 and some policies cover 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 these in place, but it's still worthwhile reviewing your current cover levels – especially if your circumstances have changed. Ask yourself:

Whether your family could cope financially if either you or your spouse/partner died?

How much income would you have if you were taken seriously ill and couldn't work?

Would your business survive without you or your key people?

How would your lifestyle change if you had an accident and couldn't do the things you do today?

Contact us today for a Life and Protection Insurance review.

OW0505 Exp. 19/12/17

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Maximise your ISA allowance

If you haven't used up your Individual Savings Account (ISA) allowance for 2016/17, you have until 5 April to do so.

Saving into an ISA is a great way of making your savings work harder. Whether you're looking to supplement your retirement income, build up funds for a property purchase or you simply want a 'rainy day' nest egg, ISAs offer an array of tax-efficient savings options. But with the tax-year end fast approaching, the clock is ticking for you to use your full 2016/17 ISA allowance of £15,240.

Why is it so important to use up your allowance? Here are some great reasons:

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.

You can't 'carry over' your ISA allowance

You cannot carry any unused ISA allowance over to the following tax year unlike some other personal allowances (such as your pension annual allowance). That makes it doubly important to invest your full allowance, if you can afford to. You also have the freedom to take money out and put it back in later in the same tax 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.

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 investment would have grown to £555,841.15.

Inheriting an ISA

Before April 2015, any savings held in an ISA automatically lost their tax-free status on the death of the ISA holder. Since April 2015, however, the Additional Permitted Subscription allows the spouse / partner to retain the tax benefits in the form of a one-off ISA allowance equal to the value of the ISA at the date of the holder's death. For example, if your partner had £40,000 in ISA savings including interest, your ISA allowance for that tax year would be £55,240 (the value of your partner's savings and your own ISA allowance for the 2016/17 tax year).

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.

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

Contact us for more information or advice about the different kinds of ISA investments. We will help you to make the best choice for you and your family.

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