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IHT and tips on reducing tax

More than ever before, the income tax from inheritance tax is effecting so many estates in the UK

More than ever before, the income tax from inheritance tax is effecting so many estates in the UK , but did you know that the first type of "death duty" dates all the way back to 1694, then later in 1796 a further tax on estates was used to help fund the war against French imperialism and Napoleons march across Europe.

Having inheritance tax around or a form of it for the last 320 years may appear as a relic of the past but even in our modern world it is still a great source of income for HM Treasury. The government looks set to collect around £30 billion from estates over the next 6 years alone.

New IHT rules

Many people are unaware that there are less than 12 months until new IHT rules are introduced. Deaths on or after 6 April 2017, will have a new main residence nil rate band which will also be available in addition to the standard nil rate band of £325,000.

The main residence nil rate band will be the net value of the home after any outstanding mortgage or liability to a maximum of:

- £100,000 for 2017/18
- £125,000 for 2018/19
- £150,000 for 2019/20
- £175,000 for 2020/21

This means from April 2020, there is the potential for a married couple or civil partnership to leave £1 million of their estate IHT-free to their direct descendants.

The new main residence threshold only applies to one main residence property only and not second homes and only if it is left to a direct descendant. If the value of the main residence is above £2 million then the threshold tapers away.

Protect your loved ones from tax

We all know estate planning can be a complicated process, especially as rules and legislation seem to change every year. However, with the right forward planning it is possible to considerably reduce or even eliminate the IHT liability. Currently, Inheritance Tax is paid at 40% if a person's estate, consisting of their property, money and possessions and other assets are worth more than £325,000 when they die.

There are many IHT strategies which can be implemented fairly easily

1. Use your gift allowance

Each tax year everyone can gift away up to £3,000 Inheritance Tax free. But there are lesser used ones like gifting up to £5,000 when a child gets married (£2,500 for each grandchild), or the unlimited regular gifts you can make from surplus income – using these allowances can reduce tax liabilities.

2. ISAs offer tax benefits

The tax benefits of ISAs were recently overhauled to make them even more appealing. If you are married or in a civil partnership you can effectively pass the income and capital gains tax benefits of your ISA savings to your surviving spouse on death. It is also possible to create an IHT-free ISA, invest in certain AIM shares within the ISA and these qualify for an IHT exemption after two years, though please note that AIM shares carry more risk than other market shares and investors could get back less than they invest.

3. Use the new pension rules

New pension rules have changed the taxes applied to pension pots at death. In the past up to 82% tax was payable. Now pension funds are normally tax free on death before age 75. For deaths after age 75, beneficiaries are charged at their rate of income tax on withdrawals e.g. 20%, 40% or 45%. For basic rate tax payers that's half the standard rate of IHT and, if the beneficiary is zero-rated, they could pay no tax.

4. Take expert advice

Advice from a professional could prove valuable. As estates grow ever larger, your professional financial adviser will help you navigate your way through the new rules, minimising tax payable and increasing the amount to be paid to your beneficiaries. Tax rules can change and any benefits depend on personal circumstances.

Principles of Ethical Investing

Ethical investing dates back to the nineteenth century, ethical investment roots can be found within the religious movements of the Quakers and Methodists, who even back then had concerns such as employment conditions and control. The church has always had a supply of funds to invest and at the beginning of the twentieth century the Methodist Church began investing in the stock market and due to their religious beliefs they consciously avoided investing in companies involved in ungodly practices like alcohol and gambling.

Pension funds control approximately a third of the shares in the UK stock market and consequently this gives these funds considerable influence. An important development for the ethical market was an amendment to the UKs 1995 Pensions Act that came into force in 2000. As a result the Trustees of occupational and local government pension schemes have to state their policy on socially responsible investment in their Statement of Investment Principles. The impact of this legislation has been the raising of awareness of ethical investing overall.

Choosing a fund

Different people have different thoughts and principles and as a consequence not all ethical investment funds have the same objectives.

Generally ethical or Socially Responsible Investment (SRI) funds are those which avoid companies involved in activities believed to be harmful, such as tobacco and weapons production, or alternatively they are funds which aim to actively invest in companies which promote ethical policies such as recycling and healthcare.

Obviously with both good and bad criteria to consider and different individuals having potentially different ethical stances in terms of investment it is perhaps not as easy as it first appears to select an appropriate ethical fund or range of funds to invest in.

Drawbacks of ethical investing

The drawback is the number of funds available to choose is reduced quite dramatically, this "pool" of investments from which a manager can select his or her stocks are limited and this will impact potential performance. Additionally, ethical funds generally tend to be in the small and mid capitalisation stocks, which, did suffer during the market correction following the credit crunch. Investing in ethical funds should be considered over the longer term of an economic cycle. The other consideration is when it comes to assessing the ethical performance of a company or an ethical fund there is no such thing as a "perfect" company. At one time or another they could all become involved in activities which someone may not approve of. Therefore, Ethical investing is ultimately about compromising and prioritising, this should be considered because there is no single sector for ethical funds and each one sits in a general Investment Management Association (IMA) sector, which can have its issues.

What to do

You need to determine where you sit and feel comfortable if you are considering this type of investment.

Whether considering to invest based on positive or negative criteria, it's important to realise there is no right or wrong answer and ultimately it comes down to the principles of the potential investor. Ultimately performance will be determined by the chosen funds available to the manager.

For further guidance in the area of ethical investing you can visit the following websites: the Ethical Investment Research Service: www.eiris.org. This supplies virtually all the information that an investor is likely to need for ethical investment purposes. Other sites to look at are http://www.neiw.org/advisers and a free website which will assist in this www.ethicalscreening.co.uk You will have to register for the site (which is free).

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Inflation is low,
but that doesn’t mean investors should ignore it

Growth in the government’s ‘go-to’ measure of inflation, the Consumer Price Index, has settled around zero for much of 2015 and into 2016.

This does not mean it will remain this low forever. The Bank of England for some time now has held a current target CPI inflation of 2% a year and, along with central banks in the US, Europe and Japan, it has been doing everything in its power to push up inflation.

This is mainly because the alternative, deflation, has gross economic consequences. Whilst falling prices sound very attractive, should they fall and keep falling consumers and businesses put off spending in the hope prices will drop even lower in future. This becomes negative for companies as they make less and less profits, but it can also lead wages to fall, debt and unemployment to rise, bankruptcies to increase and ultimately economic stagnation.

Interest rates have been kept at ultra-low levels to prevent deflation and almost huge amounts of money have been printed via quantitative easing (QE) by the Bank of England. The theory is money should be lent to consumers and businesses with low interest rates, which should increase demand for goods and service, and prices ultimately start to rise.

The UK economy is still facing a number of challenges, such as slower global growth, the exit from the EU, deflation in the euro zone and wage growth is also still relatively weak, but we are not in deflation territory.

If interest rates remain too low for too long, more spending and borrowing will be the probable outcome creating extra money flowing around the economy and the additional demand for goods and services, could push up prices. Once this cycle begins it is very difficult to control and inflation rises.

Inflation on savings and investments

In general, prices prices will rise over the long term. Portfolios are geared to achieve a positive after inflation return. While the transition from low to higher inflation can also be negative as it creates uncertainty, some investments offer better prospects for inflation-beating returns than others.

Cash is defenceless against inflation. To put this into context, an income requirement today of £20,000 a year becomes more than £31,000 after 15 years of 3% inflation.

Inflation soaks up wealth

Prolonged high inflation is negative for bonds. It makes their income payments, the fixed amounts for the life of the bond, less attractive, while also eroding the value of investors’ capital.

Consumers rely on their essential products so sales tend to be more resilient and some companies may be able to increase prices in line with or above inflation. Conversely companies reliant on periodic spending or which have no pricing power can struggle.

Investing to beat inflation

We believe over the long-term inflation can be protected in a well-diversified portfolio of shares, which could deliver attractive real returns, although it will not always be a smooth ride and some companies are better-placed to cope than others.

By having exposure to shares and holding a range of other assets the investor aims to achieve attractive capital growth over the long term, but surrender some upside when stock markets are rising in order to maintain a balanced approach and shelter capital during the inevitable downturns.

Just like a portfolio of shares or bonds gold should be considered as a long-term investment to get the full benefit of any inflation protection. In addition, we would only suggest allocating a small proportion of a portfolio to gold, in the region of 5-10% - to such an asset.

Present condition

It is important to remember that most assets often struggle when a sudden and unexpected rise in inflation hits, or if it becomes a prolonged period of high inflation. There are also other things to take into consideration when building an investment portfolio, such as long-term financial goals and attitude to risk.

Presently there are no signs of inflation moving sharply higher in the short term, but given the devastating long-term effect deflation has, central banks have made it clear they will use every tool at their disposal to stimulate demand and inflation.
If deflationary pressure continues to be a possibility it will force further QE. It may therefore, be worth considering adding an element of inflation ‘protection’ to any portfolio.

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Ensure you get your retirement strategy right

When the time comes to actually take the cash from your pension pot, you have to ensure you've got your strategy right. Your retirement will be one of the most important things you ever need to plan for. Yet it can be daunting for many, as you sometimes only have one chance to get it right.

This is why a growing number of people are turning to professional advice because it saves time, minimises tax and can provide the peace of mind which comes from having an experienced adviser develop a personal retirement plan for you.

With this approach you remain in control, as it is you who can choose your level of engagement, from using guidance and tools to making your own decisions, to full portfolio management.

We believe you should only pay for advice you will value. An adviser will devise a strategy to help achieve your target retirement date, with funds to last as long as necessary and tax minimised.

They will evaluate the level of income needed and the most efficient way to take it.

1. **Match your needs with risk.** An adviser will create a comprehensive plan which balances income requirements with your attitude to risk.
2. **Rule changes.** An adviser will have detailed knowledge of changes to rules and regulations. They will work with you so they can ensure opportunities are maximised while any negative impact is kept to a minimum.
3. **Tax efficiency.** An adviser will consider how you could mitigate Inheritance Tax (IHT). Pensions are not usually subject to IHT on death so can be a very tax-efficient way to pass wealth on to loved ones.
4. **Tax liabilities.** An adviser can work out the most efficient way of using your money at retirement. For instance, depending on circumstances it might be more tax-efficient to take money from non-pension assets first. Tax rules can change and the benefits of tax shelters depend on circumstances.
5. **Boosting your assets.** This might be by using carry forward, or maximising use of allowances of your pension or reviewing your non-pension assets, to create a complementary strategy to fund your retirement, ensuring you are using all available tax-wrappers.

Your professional financial adviser takes advantage of sophisticated planning tools and techniques to help you to map out your financial future, showing you how best to organise your assets to provide you with financial security at retirement.

Remember, the value of all investments can fall as well as rise so you could still get back less than you invest. Once held in a pension, money is not usually available until age 55, rising to 57 in 2028.

What you do with your pension is an important decision. Therefore, we strongly recommend that you understand all of the options available and check your option is suitable for your circumstances: take appropriate advice or guidance if you are at all unsure.

The government's **Pension Wise** service can help. Pension Wise provides free impartial guidance on your retirement options face-to-face, online or over the phone.

Help to Buy or Lifetime ISA?

The new Lifetime ISA is being introduced in April 2017, the Lifetime ISA essentially offers an alternative to the existing Help To Buy ISA. So which is going to be the best for you and your needs?

The existing Help To Buy ISA allows anyone the chance to save up to £200 each month for a deposit on their first home.

The government then boosts this savings further by 25% up to a total limit of £3,000, as long as you are a first time buyer purchasing a property priced up to £450,000 in London and up to £250,000 elsewhere in the UK. You can save as little as a pound as there is no minimum deposit each month and you can open the account with £1,000 which doesn't count towards your monthly savings.

The Help To Buy ISA will be available up to Autumn 2019, anyone aged sixteen or over is entitled to open a Help To Buy ISA.

The accounts are limited to one per person, which means a couple can each have an account and benefit from the bonus.

The new Lifetime ISA, which will be available from April 2017, is based on similar principles to the Help To Buy ISA, but has some very important differences, the most important one being that it can be used either to save for purchasing your first home or for saving towards a pension for later in life. There's no limit on how much you can save each month as long as you don't go over the yearly limit which is £4,000.

As with the Help To Buy ISA, the government offers a 25% bonus, but this is paid whether you use the money to purchase your first home up to a price of £450,000 anywhere in the UK, or keep it for later in your life. Any money that's taken out before your 60th birthday and not used for purchasing your first home will forfeit the government bonus plus any growth or interest earned, as well as incurring a 5% charge. If you withdraw the money after you're 60, you can take it all tax-free.

For the time being you will be allowed to have both a Lifetime ISA and a Help To Buy ISA, you can choose to do this, but you will only be able to use the bonus from one of the two accounts to buy a home.

The Lifetime ISA is essentially being introduced to replace the Help To Buy ISA, so it makes sense to opt for the latest ISA account, but you will have to wait until they are introduced next April. If you want to set up an ISA for your child, you could consider opening a Help To Buy ISA on their 16th birthday then transferring the savings to a Lifetime ISA two years later which will still be ahead of the government deadline of Autumn 2019 when the Help To Buys ISAs will be withdrawn, however, this will allow you to take full advantage of the government bonuses.

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Can you afford to lose your pension?

It's estimated that during our working lives we will have different jobs with different employers, with some now having up to 11 jobs during their working lives. This means you have to potentially keep track of as many pensions.
Anyone that thinks they may have any abandoned pension savings should consider tracking these down sooner rather than later. It could be a very rewarding exercise. The recent launch of the new online Pension Tracing Service could help with the tracking process. It's a free government service that enables people to locate their lost pensions quickly and easily. You can contact them today at www.gov.uk/find-pension-contact-details or call 0345 6002 537.

Avoid losing your pensions

The simplest way of protecting all your pension savings is to hold them all under one wrapper.

Consolidating old pensions into one single arrangement is the most effective and simplest of options available. This can be done by selecting one pension you prefer to work with and transferring old pensions directly into it.

Consolidate or not?

Before you take this step you should do some research. On one hand consolidating is likely to make life a lot easier, making it simpler to manage your pensions and easier to identify if you are on track to retire as planned. But on the other hand, you'll need to make sure you don't forego any valuable benefits, for instance, some policies allow generous lump sums.

Benefits of consolidating

It takes a lot of time and effort when keeping track of several pension plans, dealing with several providers is never easy, can be very time consuming and frustrating. Trying to work out what you have, and if you need to save more, is hard enough without having to sift through old statements or trying to understand pension jargon.

Improve investment performance

Investment performance is probably the biggest factors which will decide how big your pension will eventually grow to. We all appreciate that investments can go up as well as down in value and you could get back less than you invest. In older plans, you may find that the investment choice is limited to a particular "managed" pension fund, run by the pension provider, giving you little to no say about where your pension is invested.

Some pensions have better investment options or will allow a more involved approach by the individual. By consolidating you could take advantage of this control and see an end to any underperforming non-controlled investments.

Always seek professional financial advice before transferring a pension, you should find out if any penalties or exit charges will be levied. Then carefully consider whether you think it will be of long term benefit for you to proceed and that you will not be sacrificing any guarantees. Remember, your pension could be out of the market while you transfer so you may not be affected by market falls or rises during this time.

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