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MoneyMatters

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Lifetime ISA
What you need to know

EQUITY RELEASE
Is it a sensible option?

WITHDRAWING MONEY *from a pension*

How to make the most of your PENSION POT

Good Financial *ADVICE*

● Lifestyle Protection ● Creating Wealth ● Tax Rules ●

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Lifetime ISA ... What you need to know

When is the lifetime ISA available?

Who can open a lifetime ISA?

What are the advantages?

Can I invest in stocks & shares?

What is the limit?

Is this my overall ISA limit?

Can I spend the money in my lifetime ISA on whatever I like?

Are withdrawals tax-free?

What penalties are there?

Do lifetime ISAs have 'pass on' rules?

How do you open a lifetime ISA?

How do you pay into a lifetime ISA?

Will money invested into a lifetime ISA money grow tax-free?

What's best a lifetime ISA or a pension?

When can first time buyer make withdrawals?

Withdrawals are tax-free.

Help to Buy ISAs and lifetime ISAs

Are all details finalised?

- How to open the new lifetime ISA for under 40s
- The rules on lifetime ISA top-ups and withdrawals
- How the lifetime ISA works alongside the Help to Buy ISA
- Plan for your £20,000 ISA allowance in 2017

The value of your investment and the income from it can go down as well as up and you may not get back the original amount invested. Past performance is not a reliable indicator for future results. Levels, bases and reliefs from taxation are subject to change and their value depends on the individual circumstances of the investor. Please contact us for further information or if you are in any doubt as to the suitability of an investment.

Another way to invest tax efficiently

Venture Capital Trusts (VCTs) invest in small companies, often at an early stage of their development. We have all heard of companies such as Zoopla, Virgin Wines and Secret Escapes, these have all benefited from VCT investment.

Most investors are familiar with ISAs and SIPPs as tax-efficient ways to invest, but there is another option for adventurous investors who have maximised their ISA and SIPP allowances; Venture Capital Trusts (VCTs). There are many key considerations, risks and potential benefits of investing in VCTs, below are some we have outlined.

What is VCT investing?

VCTs invest in small companies, which are often not listed on the stock market, meaning investors would not normally be able to invest in them directly. It also makes them a much higher risk as some will fail and investors may get back much less than they originally invested.

The VCT will seek to invest in a company for between 5-10 years before selling, hopefully for a profit. To increase the chances of their investments performing well, the VCT will use its resources and expertise to help the company grow sales and profits. It does this by making improvements to marketing, operations, efficiency and recruitment.

What are the benefits?

Helping start-ups and small companies grow is vital for the economy, but it is substantially high risk, much more than investing in larger companies and mainstream investments. In recognition of this the government offers certain tax benefits to investors. We believe the tax benefits should always be seen as the icing on the cake, rather than the main reason for investing in VCTs.

Income tax relief of up to 30% is available when you invest in a new issue of VCT shares. If you invest £10,000 you can receive £3,000 as tax relief, which reduces your tax bill and means the net cost of the investment is just £7,000.

Tax-free dividends are the main income from VCTs as profits from selling successful companies are usually distributed as dividends. Many VCTs offer yields in the region of 5% or more, completely tax free.

No capital gains tax (CGT) to pay when you sell shares in a VCT.

Up to £200,000 can be invested in VCTs in any tax year, yielding a maximum income tax rebate of £60,000. However, the maximum rebate is limited to the amount of tax you pay. You have to hold the VCT for at least five years to keep the tax rebate. Please remember tax rules will change over time and benefits depend on individual circumstances.

Positioning VCTs in a portfolio

VCTs are only really a consideration for investors who have used their full ISA and pension allowances and already have large, well-diversified portfolios and have the capacity to sustain losses. VCTs should account for no more than 10% of an equity portfolio unless you are a very high risk investor.

Tax-free dividends are the primary source of returns from VCTs, so they are likely to appeal to investors seeking the majority of their returns as high income. Remember, dividends are variable and not guaranteed. With the levels of income tax relief available VCTs are likely to appeal to most high earners and those facing large income tax bills, although the benefits will depend on personal circumstances.

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How to make the most of your PENSION POT

Whatever the size of your pension pot at retirement, maximising its value is critical. Just what are the retirement options facing a pension saver and how can you make the most of these important savings.

Take the tax-free cash?

If you will be a taxpayer in retirement, it could make a lot of sense to take as much as possible of your pension tax-free depending on your individual circumstances. Once you reach age 55 (57 from 2028), up to 25% of your pension can normally be taken as a tax-free lump sum and you can then choose what to do with the balance.

If you were to take 25% tax-free cash in one go from an average pension pot of £43,500, you could have £10,875 paid out as a tax-free lump sum and £32,625 left to provide a taxable income. Remember, tax rules can change and benefits depend on individual circumstances.

Do you need a regular income?

Fundamental living costs, like utilities, food, last for your whole retirement. This means it's important to have some regular income in retirement.

Regular income can come from many places like your State Pension or investments. However, if you need more you can exchange some or all of your pension for an annuity. To ensure you receive the best annuity income, shop around and provide your full health and lifestyle details. It can make a big difference to the amount of income you receive, as the chart below shows.

Annual annuity income

Remember once an annuity is set up it cannot usually be changed or cancelled. You should also consider how the income might be affected by inflation and whether you want your income to continue after you die. (Annuity rates can rise or fall and quotes are only guaranteed for a limited time).

Taking flexible income

If you have enough secure income to cover your essential expenses, taking a flexible income could be beneficial.

You can use drawdown for all or part of your pension. It lets you keep your pension invested whilst having the option of making unlimited withdrawals. Drawdown offers the chance of an increasing income through investment returns but it's a higher risk option than an annuity. Income is not secure and it could fall with the market, or even run out, especially if investments don't perform as you thought, you take too much out or you live longer than expected.

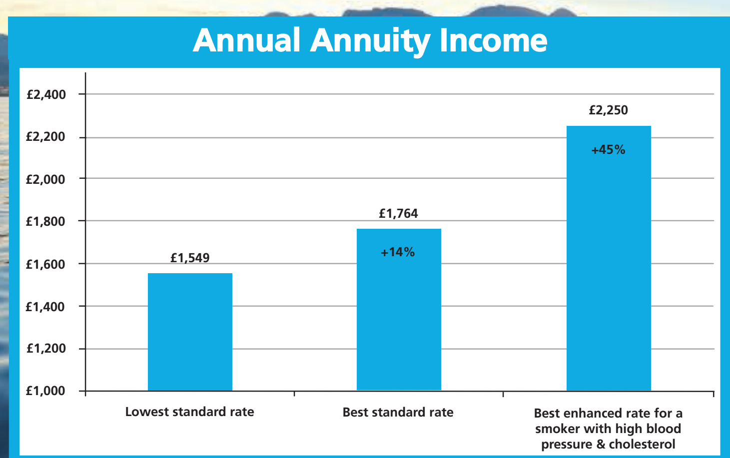
A good rule of thumb is to ensure your drawdown income doesn't run out is to limit your withdrawals to the income your investments produce. This is called taking the "natural yield". This strategy could help shelter the value of your pension pot as your income withdrawals won't be eating into the capital value of your pension.

Whenever your investment income falls you should consider reducing the income you take or sell investments to fund the income payments. To avoid depleting the value of your plan by selling investments, you may wish to consider keeping a cash buffer of around one or two years' worth of income payments. This could allow you to maintain the level of your withdrawals for a period of time but would mean less money is invested to hopefully grow over time.

Taking a lump sum

Another option within pension provision for taking money flexibly is to withdraw a lump sum. This option is called an Uncrystallised Funds Pension Lump Sum (UFPLS), this allows you to take money from any part of your pension which you have not used for drawdown or to purchase an annuity. You can take as much as you like but only 25% of each payment is tax free, the balance is subject to income tax.

What you do with your pension is an important decision. Therefore, we strongly recommend you understand your options and check any decision you make is suitable for your individual circumstances - take appropriate advice or guidance if you are at all unsure.



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The ISA budget

In his 2014 Budget, George Osborne announced the pension freedom reforms. In his 2016 Budget, he has given a major lift to the ISA system. He has also reduced the amount of capital gains tax investors will pay on their profits, with the exception of buy-to-let landlords.
On the whole this was a Budget which savers and investors will cheer, as it allows them to keep more of their money from taxation. However, some key details still need to emerge from the announcements; these are the key points which affect investors the most.

Announcement to help savers and investors

- The ISA limit will increase to £20,000 in April 2017.
- A new Lifetime ISA will be introduced in April 2017 for the under-40s.
- The allowance will be £4,000, which will form part of the £20,000 total ISA allowance.
- Investors will receive a 25% government top-up for each £4 saved, added at the end of each tax year.
- Investors can withdraw their capital tax-free to buy their first house, to a maximum value of £450,000,
- Withdrawals at any other time will have a 25% charge.
- A reduction in Capital gains tax on investments
- From 6 April 2016 the higher tax rate will be 20% and the basic tax rate will be just 10%.
- This reduction will not apply to a gain made on a residential property which is not the individual's main home, such as a second homes or buy-to-let.
- With the election referendum just around the corner, pensions tax relief has been left alone, so there is still a big upfront incentive to save into a pension.

What stands out?

After this Budget, ISAs just got even better. Investors will now be able to shelter even more of their savings from the taxman in a conventional ISA, and the new Lifetime ISA adds an extra option to help people get on the housing ladder or boost their retirement income.

As widely expected the chancellor has left pension tax relief alone, so there is still a big upfront incentive to save into pensions, particularly when the employer contributes.

The new Lifetime ISA will help to supplement the existing pension system, and will be particularly attractive to self-employed people, who have been left behind by the private pension system. Indeed pension saving amongst the self-employed has collapsed in recent years, with just 10% of them now saving for retirement in a pension. It could also be attractive for non-working spouses or partners.

Economics

Yet again growth forecasts were downgraded as expected, but the chancellor was at pains to point out that despite these downgrades, UK growth is set to be faster than any other major advanced economy, with record employment levels. He also said that despite the recent gloom he is on course to deliver a budget surplus.

The Office for Budgetary Responsibility's cuts to the growth forecasts were significant, highlighting that the UK economy looks considerably weaker than it did at November's autumn statement. Lower forecast productivity growth and a slowing global economy were cited as primary causes. Growth in 2016 is now forecast to be 2.0%, down from 2.4% as predicted in November and 2017's forecast has now been downgraded from 2.5% to 2.2% and growth has been revised down in every year thereafter.

Lower growth will impact on tax receipts, but Mr Osborne says he has identified savings in government spending of £3.5bn by 2020, by when the OBR forecast a budget surplus of £10.4bn.

Equity release
... Is it a sensible option?

We would all like to have substantial income so that we can stop or cut down on the amount of time we spend at work or even retire altogether. But what if you are facing a pension shortfall or need to meet an unexpected expense. Equity release may be an option to consider, as it allows you to unlock some of the wealth accumulated in your property without having to downsize. However, before you consider taking this option, there are key aspects of it which you must consider.

There are two main types of equity release scheme:

Lifetime mortgage – which is a loan secured on your home, it is repaid by selling your home when you die or go into long-term care.
Home reversion - Where you sell all or part of your home to a scheme provider in return for regular income or a cash lump sum, or both, and continue to live in your home for as long as you wish.

To qualify for equity release you have to be usually 55 or over and own your own home.

If you do have an outstanding mortgage and want to take out equity release, you will need to settle your mortgage first, which will affect the amount you then have access to for other purposes.

You will receive tax-free cash as a lump sum, a regular income, or both, to use as you wish and you can continue to live in your own home. Remember though that it is still your responsibility to maintain the home.

Your equity release questions answered

Q: Is there a minimum amount I have to take?
A: There could be a minimum amount you have to take, it will depend on the scheme and provider. But you may not have to take it all at once. Drawdown loans can be taken in smaller amounts over time.

Q: What happens to my partner if I die?
A: The scheme should be in both your names then the arrangements will continue. If you are using equity release to increase your income, make sure you consider the situation should you or your partner die.
If the property and scheme were in your sole name, the property would have to be sold and your partner would have to move out, unless they could repay the lifetime mortgage in full.

Q: Does equity release reduce the amount of Inheritance Tax (IHT) due on my estate?
A: Equity release will reduce the value of your estate when you die, which may reduce a potential IHT liability. If you are considering using an equity release scheme as part of your planning for IHT, you should obtain professional financial advice.

Q: Is a sale-and-rent-back scheme the same as a home reversion?
A: No, because if you rent you may have to leave your home after the end of the fixed term in your tenancy agreement, which may only last a few years and you may have to pay a much higher rent than under a home reversion plan, and the rent could go up.

Q: What happens if we need long-term care?
A: Your equity release scheme will usually continue unchanged if care is provided in your own home or just one of you moves to a residential or nursing home. If you both move into a care home, the scheme will usually end and the property will be sold.

Releasing equity from your home is a very big lifetime commitment, so ensure you have included your family in any decision you make.

Equity release may involve a lifetime mortgage or a home reversion plan.

To understand the features and risks, it is crucial to obtain a personalised illustration from a professionally qualified adviser because equity release is not right for everyone and it may affect your entitlement to state benefits and will reduce the value of your estate.

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3 steps for natural yielding income

Markets are dynamic by their very nature and we all seek to find those income generating investments which are the most popular. Some investors lock solely into dividends to supplement their sources of income, while others reinvest the natural yield to buy more shares which in turn generate more dividends, whilst at the same time protecting the base value.

This reinvesting of dividends is a highly effective strategy to grow wealth over the long term and taking natural yields may prove valuable for everyday expenses.

In the global economy volatility is never far away and in the UK we see this world of ultra-low interest rates which is a challenge for building a portfolio which generates regular and reliable income. So how can we best steer through these peaks and troughs?

1. Hold a good mix of assets to avoid over-reliance on too few investments and balance out your risks. Many investors have painful memories when the banks cut dividends after the financial crisis; so spread your investments across different sectors.

2. Hold sufficient high-yielding investments which will generate a higher now, but also hold some investments with the potential to offer future income growth. At this time inflation is low but it may not be in 20 years' time. Over the long term, you want your income payments to keep pace with the rising cost of living.

3. Always regularly review your portfolio and move into different areas of the market when necessary. Remember the right mix of investments held now may not be the only right ones for the future; 20 years ago, 10 year gilts had a yield of 7.5% while today they yield less than 1.5%.

Putting these considerations place, should see investors being able to take the portfolio's 'natural yield' – which is the income generated by the investments themselves. This leaves the underlying investments intact, improving the prospects for capital growth and a rising income over the longer term.

Every investment is about timing, so re-investing of income or natural yield is usually received in the form of dividends from shares, or interest paid by bonds either held direct or via a fund. Each investment is likely to distribute dividends on a biannual or quarterly basis at different times of the year. It is no easy task, but with careful planning and diligence over time it is possible to combine these payments into a steady stream of income but also note that income is variable and never guaranteed.

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