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INSIDE THIS ISSUE

ISA CASH WITHDRAWAL RULES

Good news for savers – Individual Savings Accounts (ISAs) now offer added flexibility. In another move designed to encourage people to continue to save and retain the tax benefits of doing so, from April 2016, if you take money out of your ISA and replace it during the same financial year, you won't lose your tax-free entitlement.

The Chancellor announced the change in last year's Budget, saying that he believed that people should have more freedom when it comes to managing their ISA savings and should be trusted to manage their hard-earned cash themselves.

How this works

The ISA allowance is a generous £15,240 for the 2016-17 tax year, increasing to £20,000 from 6 April 2017. Previously, if you saved £10,000 into an ISA and then removed it, you would only be allowed to save a further £5,240 in the same tax year. Under the new rules, you can take the money out and put it back later in the year without losing any of your tax-free entitlement. If you put the money back in the 2017-18 tax year, then it will count as part of that year's allowance.

NEW TAX LANDSCAPE UNFOLDS

Despite media speculation ahead of the March Budget, the Chancellor didn't introduce any new changes to the taxation of pensions. However, in a surprise move, he announced the launch of the Lifetime Individual Savings Account (LISA), another potentially attractive addition to the savings range.

PENSIONS

The Lifetime Allowance was reduced from £1.25m to £1m as previously announced and the annual allowance remained at £40,000. From April 2016, the £40,000 annual allowance will be reduced for those in receipt of income over £150,000, including their own and their employer's pension contributions.

ISAs

To qualify for the new LISA, savers will need to be aged between 18 and 40 in April 2017. Any savings put in before their 50th birthday will receive a 25% bonus from the government at the end of the tax year. There is no specified monthly contribution, but instead an annual limit of £4,000. Savings can be used towards purchasing a first home up to £450,000 anywhere in the UK, or saved until age 60, otherwise a 5% charge will apply and the bonus will be withdrawn if the funds are taken out for any other reason. LISAs can be saved in cash or invested in stocks and shares; income and gains within a LISA are tax-free.

The contribution limit for ISA accounts will increase from the current level of £15,240 to £20,000 in April 2017.

INCOME TAX

For the 2017-18 tax year, the personal allowance will be increased to £11,500 (£11,000 in 2016-17). This will take 1.3 million of the lowest paid out of paying tax altogether. The Chancellor reiterated that the target is to reach £12,500 by 2020. Also in 2017-18, the basic-rate limit will increase to £33,500 (£32,000 in 2016-17) and the higher-rate tax threshold at which individuals pay 40% will increase to £45,000 (£43,000 in 2016-17).

CAPITAL GAINS TAX

From April 2016 the rate fell from 18% to 10% for basic-rate taxpayers and from 28% to 20% for higher-rate taxpayers. However, these new rates do not apply to gains made on residential property. The tax-free allowance for capital gains remains at £11,100 in the current tax year.

BOND FUNDS

From April 2017, bond fund managers will no longer deduct 20% tax from their income payments to investors.

PENSION FREEDOMS ONE YEAR ON

It's been over a year since the introduction of the new pension rules that brought increased freedom of choice to those aged over 55 in defined contribution pension schemes. The media had speculated that some retiring under the new rules would blow their savings in one go; but good sense has it seems prevailed.

WHAT THE DATA SHOWS

The latest data from HMRC[1] shows that a total of 188,000 savers took £18,600 on average from their pensions, meaning that around £3.5bn was released into the economy. Data from insurers shows that around 1 in 5 savers used the cash they accessed to pay off debts. So not the mass purchase of Lamborghinis or a rush to take luxury holidays that some had predicted.

The money was also spent funding education costs or to help a child's first or sometimes even second move up the housing ladder, proving yet again that the 'Bank of Mum and Dad' has a major role to play in funding the lives of future generations.

The freedoms have been particularly attractive to those in their 50s. Amongst those aged 55 to 59 accessing their pension pots, only 16% have bought an annuity. Although annuities proved understandably more attractive to the 65 to 69 age bracket. 40% used drawdown, leaving their money invested and taking an income. 44% elected to take lump sums.

ACCESSING THE CASH

The most common method of accessing pension funds, chosen by 34% of people, was to make use of the new option called uncrystallised funds pension lump sum (UFPLS) which allows them to access their money in instalments whilst the rest remains within the pension fund and is sheltered from tax.

Research from Aegon UK[2] shows that 15% of the working population are saving more into their pensions following the change in the rules, meaning that 6.2m people in the UK are contributing more than they were in 2015. Encouraging indeed. Talk to your adviser today about your pension contributions.

A pension is a long-term investment. The fund value may fluctuate and can go down. Your eventual income may depend on the size of the fund at retirement, future interest rates and tax legislation.

[1] HMRC, 2016
[2] Aegon UK, 2016

MACROECONOMIC FACTORS – WHAT THEY MEAN FOR INVESTORS

Chaos theory teaches us to expect the unexpected, so a butterfly flapping its wings in New Mexico could, the theory goes, cause a hurricane in China.

In a similar way, macroeconomics, the study of the economy as a whole, links together any number of indicators including employment, interest rates, inflation, productivity, political stability and market performance in an attempt to help us understand the functioning of our complicated modern economic system.

A CONNECTED WORLD

When it comes to investing, fund managers have to take these factors into account when formulating their strategy. They look for macroeconomic data that can help them buy into the right companies in the right markets at the best time to maximise returns for their investors.

So, they see that over-supply of property in China can lead to economic slowdown in Australia as the Chinese buy less of their raw materials, which in turn can affect market confidence in the FTSE 100 in the UK.

Political uncertainty like that surrounding the EU Referendum, or a Presidential Election in the US, can cause a temporary slowdown in economic output as buyers around the world postpone purchases until the outcome is known. Ageing populations in the world's developed economies mean that national resources have to be directed to sectors such as healthcare and pension provision, leaving less to be spent on infrastructure and construction. These factors explain in part the popularity of investment in emerging markets like Brazil, Russia, India and China that can offer higher returns than developed markets but carry increased risk.

ADOPTING THE RIGHT INVESTMENT APPROACH

For investors there will always be concern about the global economy. Those considering investing in today's economic climate clearly need some informed advice.

Working with your financial adviser, you can establish how much risk you're comfortable with and the impact that has on the rate of return you can realistically expect to earn. You should bear in mind that the level of return can vary from year to year, and that past performance is not a guide or a guarantee of future returns.

As ever, the fundamental key to investing is to ensure you don't invest exclusively in one asset or market. Spreading your money around the different asset classes – cash, equities, bonds and property – helps reduce your exposure to risk and volatility.

Investment requires a disciplined approach and a degree of holding your nerve if markets drop. Seasoned long-term investors have learned that markets can be volatile and will inevitably go down as well as up from time to time. They know that the worst investment strategy you can adopt is to jump in and out of the stock market, panic when prices fall and sell investments at the bottom of the market.

While focussing too much on short-term gains or losses is unwise, so too is ignoring your investments altogether. If you haven't reviewed your portfolio for a while, it could be time to meet with your adviser. They will be able to check that your asset allocation is still right for you and undertake any necessary portfolio rebalancing that the review throws up.

The value of investments and income from them may go down. You may not get back the original amount invested.

HOW WILL THE NEW DIVIDEND TAX WORK?

From April 2016, the first £5,000 of dividend income each year will be tax-free. Sums above that will be taxed at 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers.

No tax will be deducted at source, and taxpayers must use self-assessment to pay any tax due. It's important to remember that this change doesn't affect dividend income from stocks and shares held within an ISA, or dividends received within authorised pension funds.

WINNERS AND LOSERS

Not everyone will be worse off under this new system. Higher-rate taxpayers with £5,000 or less in dividend income will gain. Under the old system they would have paid 25% or £1,250 on dividends totalling £5,000, under the new rules their dividends fall within the tax-free allowance.

However, basic-rate taxpayers who receive more than £5,000 in dividends are set to pay more.

DIVIDEND INCOME AND THE PERSONAL ALLOWANCE

Dividend income is eligible for the personal allowance, so as a very basic example, assuming an individual has no other income and in tax year 2016–17 they receive £16,000 in dividend income, the first £11,000 would be covered by their personal allowance and the other £5,000 by the new dividend allowance, resulting in no further tax to pay

PLANNING STEPS

Investors need to navigate their way around these new rules to avoid paying too much tax. In order to maximise the benefit of the £5,000 dividend allowance, married couples and those in civil partnerships should make sure that they spread their taxable portfolios between them to make the best use of their dividend allowance, personal allowances and basic-rate bands. Using the annual ISA allowance of £15,240 and making pension contributions can help minimise the impact of this tax revision. Specialist investment plans like onshore and offshore bonds which allow for tax deferment on income are another option for higher-rate tax payers.

If you haven't reviewed your portfolio for a while, this could be a good time to revisit your investments in the light of this new tax regime.

HOW TO STAY SAFE ONLINE

Whilst the internet has transformed our lives in countless positive ways, sadly it has also become a place where scammers and thieves operate. Armed with a few safety rules we can all enjoy surfing and shopping on the web.

Scammers use fake websites to con you into paying for goods that never arrive, and harvest your credit card and bank details. Fake sites can often look very convincing, but there are ways to protect you and your financial details from misuse.

Your internet browser includes security functions which can help spot sites masquerading as trusted sites, and can even tell you before you arrive that the site is a fake. Check that the security options are enabled in your browser.

TELL-TALE SIGNS

Check out a website before use. Search for alternative contact details such as an address or phone number – if in doubt, call them first. Look on forums and blogs for reviews and advice from previous users of the site. If you don't feel confident that the site is genuine, don't divulge any personal details. If a deal seems too good to be true, it probably is.

Think carefully before giving out any personal or banking information online. If you're buying goods or services over the web, before entering any banking information, make sure your browser is showing the padlock symbol next to the address bar and that the address starts with https://. Without these signs, there's no guarantee of security or encryption of your details. Any major online retailer will always have these security measures as standard.

It's also important to be aware of email interception. The Solicitors Regulation Authority recently warned of a growing scam where computer hackers intercept emails between a house purchaser and their solicitor. The fraudsters monitor emails and wait until a cash transaction is imminent, then purporting to be the solicitor, the hacker sends a realistic email requesting the transfer of cash to their own account. People have unfortunately lost thousands of pounds to this scam.

GETTING TO GRIPS WITH THE NEW STATE PENSION

It used to be simple; men retired at 65, women at age 60. But with life expectancy rising, the government found itself paying state pensions to more people for longer and needed to find a way to lighten the financial burden facing the Exchequer.

So, the state retirement age has been raised and it will continue to rise in the years to come. By 2020, both men and women will be entitled to receive their state pension at age 66. This increases to 67 between 2026 and 2028; from then on, it will be reviewed every five years and linked to life expectancy rates. If you don't know what your state retirement age is, you can find out by using the Gov.uk online calculator.

THE NEW FLAT-RATE STATE PENSION

If you reach state pension age on or after 6 April 2016, you'll receive the new flat-rate or 'single tier' state pension. The full amount is £155.65 per week.

Those who retired before 6 April 2016 and qualify for a full state pension will see it increase in April by 2.9% to £119.30 per week for a single person. If you have built up additional state pension, referred to as the State Earnings Related Pension Scheme (SERPS) or State Second Pension (S2P), you will receive more than the basic figure.

NOT EVERYONE QUALIFIES FOR THE FULL AMOUNT

Under the new scheme, in order to receive the full amount of £155.65 per week, you will need 35 'qualifying years' of National Insurance contributions or National Insurance credits. Not everyone will get the full amount if they have missing years in their contribution record. Those who have built up additional state pension may get more, while those who were 'contracted out' of SERPS or S2P may get less. The amount you will receive is the greater of the amount you would get under the old system, or the amount you would have received if the new system had been in place for the whole of your working life. Getting an online forecast from Gov.UK will clarify your position.

Under the new system, those with less than ten qualifying years are unlikely to receive any state pension, although there are exceptions. As the new state pension is based on an individual's own National Insurance contributions, in most cases there is no facility to claim a pension based on contributions made by a spouse.

To put these changes into perspective, a paper from the Department for Work and Pensions stated that, *"By 2030, over three million men and over three million women will have benefited from a notionally higher state pension. This proportion then begins to diminish over time, falling to around two-thirds by 2040 and just over half by 2050."*

WHAT YOUR NEXT STEPS SHOULD BE

These changes have prompted many people to take a closer look at their own pension situation. The state pension represents a basic safety net, so it's important to get good advice to ensure that you are saving enough for the future.

A pension is a long-term investment. The fund value may fluctuate and can go down. Your eventual income may depend on the size of the funds at retirement, future interest rates and tax legislation.

HELP TO BUY ISA TAKES OFF

For those would-be first time buyers saving for that all-important deposit, every little helps.

Little wonder then that the government's recently launched Help to Buy ISA has been eagerly taken up. Over 250,000 accounts have already been opened.

WHAT SAVERS NEED TO KNOW

You can contribute a maximum of £200 each month, with the government contributing up to £50 on top. You can put in an initial deposit of £1,000 when the account is first opened, and as an extra incentive to save, the government will pay a bonus of up to £250 on the full £1,000, plus another £50 for each £200 of monthly savings made after that. You get interest on your savings too.

The minimum savers need to accumulate to qualify for the bonus is £1,600, this will attract a bonus of £400. In order to claim the government's maximum bonus of £3,000, they need to save £12,000.

If you are aged over 16 and a first time buyer, then a Help to Buy ISA represents a great way to save for a deposit.

The value of investments and income from them may go down. You may not get back the original amount invested.

WHAT THEY SAID AFTER THE BREXIT POLL

"We urge the authorities in the U.K. and Europe to work collaboratively to ensure a smooth transition to a new economic relationship between the UK and the EU, including by clarifying the procedures and broad objectives that will guide the process. We strongly support commitments of the Bank of England and the European Central Bank to supply liquidity to the banking system and curtail excess financial volatility. We will continue to monitor developments closely and stand ready to support our members as needed."

Christine Lagarde,
Managing Director, International Monetary Fund

24/6/16

"It will take some time for the United Kingdom to establish new relationships with Europe and the rest of the world. Some market and economic volatility can be expected as this process unfolds. But we are well prepared for this. The Treasury and the Bank of England have engaged in extensive contingency planning and the Chancellor and I have been in close contact, including through the night and this morning. The Bank will not hesitate to take additional measures as required as those markets adjust and the UK economy moves forward. These adjustments will be supported by a resilient UK financial system."

Mark Carney,
Governor, Bank of England

24/6/16

"To those who may be anxious, whether at home or abroad, this does not mean that the United Kingdom will be in any way less united, nor indeed does it mean that it will be any less European – that this decision involves pulling up a drawbridge or some sort of isolationism. I think the opposite is true. We cannot turn our backs on Europe. We are part of Europe. We can find our voice in the world again, a voice that is commensurate with the fifth-biggest economy on Earth. I believe we now have a glorious opportunity. We can pass our aws and set our l taxes entirely according to the needs of the UK economy."

Boris Johnson MP
Vote Leave campaign

24/6/16

"I still believe that our country is better off within the European Union, but there is no doubt that London will continue to be the successful city it is today. Our city and our country will continue to be the best place in the world to do business. And we will continue to look outwards and trade and engage with the entire world, including the European Union. Although we will be outside the EU, it is crucial that we remain part of the single market. Leaving the single market of 500 million people – with its free-trade benefits – would be a mistake. I will be pushing the Government to ensure this is the cornerstone of the negotiations with the EU."

Sadiq Khan,
Mayor of London

24/6/16

"We are carefully monitoring developments in global financial markets, in cooperation with other central banks, following the results of the U.K. referendum on membership in the European Union. The Federal Reserve is prepared to provide dollar liquidity through its existing swap lines with central banks, as necessary, to address pressures in global funding markets, which could have adverse implications for the U.S. economy."

The Federal Reserve

24/6/16