Cedar Wealth Ltd
Victoria House
Victoria Road
Chelmsford
Essex
CM1 1JR

T: 0203 478 1505
E: enquiries@cedarwealth.co.uk

YOUR WEALTH SUMMER 2017

INSIDE THIS ISSUE

INHERITANCE TAX – THE NEW MAIN RESIDENCE BAND

Many families are anxious to pass their wealth onto their families, but are worried about their Inheritance Tax (IHT) position. With property values remaining high, more families are likely to find themselves caught in the IHT net. However, new rules have been introduced from this April that may help to lighten the tax burden.

THE RESIDENCE NIL-RATE BAND

The residence nil rate band (RNRB) is available where individuals die after 5 April 2017 and pass their main residence (or alternative qualifying property that they lived in) on to their direct descendants. Direct descendants are children or grandchildren. Step-children, adopted children and foster children also come within this category.

The RNRB is being introduced in phases, starting at £100,000 and rising to £125,000 from April 2018, £150,000 from 2019, and in April 2020 it will reach £175,000. This is in addition to the existing individual nil rate band of £325,000.

TAPERING APPLIES

Whilst the introduction of the RNRB is obviously good news for many families, if the net value of the deceased's estate (after liabilities have been deducted but before reliefs and deductions are applied) is above £2m, the RNRB is subject to tapering at the rate of £1 for every £2 by which the net value exceeds this amount

POINTS TO CONSIDER

It's important to note that only direct descendants can benefit, and that doesn't include nieces and nephews for example. So not everyone will be able to rely on the RNRB for IHT planning purposes.

It's important to have a valid Will in place, not only to ensure that you make your wishes clear, but also to maximise the tax efficiency of your estate. Also, if you divorce or remarry, it's a good idea to revisit your Will to ensure its terms are still in line with your intentions.

If you are concerned about your IHT position, getting good professional advice is essential. The rules are complex and everyone's situation is different.

SCAMS AND ONLINE FRAUD UPDATE

Recent figures from the Office for National Statistics[1] show that online fraud is now the most common crime in the UK, affecting more than one in ten people.

Sadly, frauds and scams are becoming more varied and more sophisticated all the time, meaning that it's important to exercise care and be vigilant. Criminals are using all available channels to contact potential victims, meaning that text messages, emails, phone calls and online sites are all regularly used to scam people.

For example, a recent phone scam has been exposed where targets would receive a call from a local number. The fraudsters would say "Can you hear me? Responses are then recorded, and if you answered "Yes", this was edited and used to make it appear that you had agreed to a non-existent purchase.

Other scams involve sending fake emails purporting to come from HMRC, requesting that recipients access information about a tax rebate. When they log on to the fake site, they are asked for banking details and find that as a result, money is removed from their accounts by fraudsters. Be vigilant.

[1] Office for National Statistics, 2017

VCT ASSETS UNDER MANAGEMENT RISE

Venture Capital Trusts (VCTs) have increased in popularity as investment vehicles over the last five years. The total amount of new investment in VCTs in the 2016–2017 tax year was £542m – the second highest annual total on record.

This surge in popularity is a reaction to recent tax changes. The lowering of the pension Lifetime Allowance, the tax-free dividend allowance cut due in 2018 and the new rules relating to buy-to-let property investments, have all led high earners to look for alternative forms of investment.

VCTs offer tax-free income, and in an era of low interest rates this has proved attractive to many investors. However, they come with a higher risk profile than a standard investment trust. They invest in very small companies that are in their infancy and are looking for investors to provide money to help them develop their business.

VCTs offer an income tax rebate of up to 30%, and if held for five years, any gains made will be free from capital gains tax. Given that many new businesses fail to get off the ground, investors need to be aware of the very high risks involved.

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

Some funds will carry greater risks in return for higher potential rewards. Investment in smaller company funds can involve greater risk than is customarily associated with funds investing in larger, more established companies. Above average price movements can be expected and the value of these funds may change suddenly.

AGE-APPROPRIATE INVESTMENT – WHAT DOES THAT MEAN FOR YOU?

It's often said that age is only a number, but just as our taste in clothes and music change as we mature, we may need to revisit our savings and investment strategy at different stages of our lives.

In your **20s** you are starting your career, may be paying back student loans or saving as hard as you can for the deposit on your first home. Investing at an early age, rather than keeping all your spare cash in an account that pays low rates of interest, can be a good long-term strategy. Plus, there is plenty of time to ride out any short-term ups and downs in the stock market. You can make use of your annual ISA allowance (up to £20,000 for the 2017–18 tax year), meaning that your investments will be free of income and capital gains tax.

In your **30s**, you are likely to have more financial obligations, like a home and a family. This can often be a challenging time, but it's important not to lose sight of important financial objectives for your future, like investing for a child's education or building up a sizeable fund for your retirement.

YOUR MIDDLE YEARS

By the time you reach your **40s**, retirement can still seem a long way off, but you could be approaching your peak earnings years, so maximising your pension contributions and taking advantage of your tax-free ISA allowance are both good ways of investing in your future.

The new pension regulations introduced in 2015 mean that many people in their **50s** could be considering retiring at age 55. If that's the case, you should consider the investment options that will be available; you may, for instance, change your investment strategy from one that concentrates on growth to one that focuses on producing income.

Not so many years ago, reaching your **60s** would have meant an often-abrupt end to your working life. However, nowadays many more people are working well into their 60s and even 70s. What you may want to revisit is your attitude to risk. You may be more concerned than you were in your younger days about protecting your funds from the ups and downs of the stock market and may want to opt for less risky investments.

If you're in the fortunate position of having sufficient funds in retirement for your own use, you may want to invest part of your assets for the benefit of younger members of your family.

Whatever your age and investment aim, we can offer advice that's tailored to your circumstances.

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.

MORE PEOPLE SET TO LEAVE £150,000 OR MORE

The Institute for Fiscal Studies (IFS) has produced research[1] showing that the wealth of those aged over 80 increased by 45% during the decade to 2013, and the percentage who think they will leave more than £150,000 to their family has risen from 24% to 44%.

The report attributed this sharp rise in the wealth of the elderly to home ownership and the continuing rise in property prices. Unsurprisingly, more families are facing inheritance tax (IHT) as a result, with the total bill exceeding £4bn for the first time in 2016.

CHANGES TO IHT IN APRIL

April sees the introduction of a new family home allowance. The residence nil-rate band, to give it its proper name, will start at £100,000 rising in stages to £175,000 in April 2020. This is in addition to the individual IHT allowance of £325,000. When the changes are fully implemented, a married couple will be able to pass estates worth up to £1m that include a family home, to their direct descendants without incurring IHT. Where the tax is payable it is normally charged at 40%.

IMPLICATIONS FOR YOUNGER GENERATIONS

With more wealth being accumulated by the elderly, figures show that 75% of those born in the 1970s have either received, or expect to receive, an inheritance. By comparison, only 40% of those born in the 1930s received an inheritance.

With the younger generations facing higher living costs and fewer wage increases, their future is set to depend in greater measure than ever before on the wealth they can expect to inherit from their parents and grandparents.

Families looking to pass wealth to younger generations should take professional advice. There are annual allowances that can be used to reduce your overall liability to IHT and other ways in which you can pass money on tax-efficiently. The rules are complex, and professional advice is essential.

[1]Institute for Fiscal Studies, 2017

POWER OF ATTORNEY NUMBERS ROCKET

With dementia and Alzheimer's disease now officially the UK's leading cause of death, more families than ever are considering putting power of attorney arrangements in place against the time when they might lose mental capacity. Office for National Statistics figures show that deaths from dementia jumped by a fifth in 2015[1].

As the illness is becoming more widely-reported and more is known about its effects, many people have decided to act while they have the mental capacity to do so. In total, just under two million lasting powers of attorney (LPAs) have been registered since 2008.

A SIMPLE PROCESS THAT GIVES PEACE OF MIND

An LPA is a legal document that allows the donor to choose and appoint one or more people to help them make decisions, or act on their behalf, if they are no longer able to do so themselves. There are two types of LPA, one covering property and financial matters, the other dealing with health and welfare.

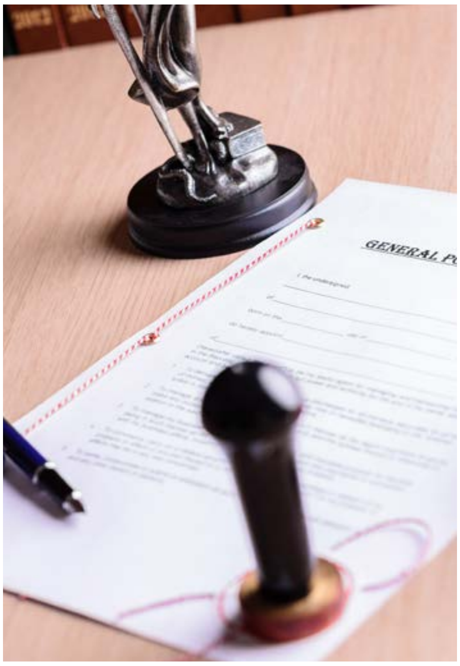
Property and financial affairs. Here, your attorney has the power to make decisions about money matters on your behalf if you are unable to do so. This includes running bank accounts, accessing and managing pensions and funds in drawdown, paying bills and selling property.

Health and welfare. Here, the attorney has the power to make decisions on the donor's behalf regarding the donor's daily welfare (washing, eating, etc.), medical care, whether to move into a care home, and life-sustaining treatment.

You can choose to make one or both types. You will need to appoint one or more attorneys; these can be relatives or friends, your spouse or partner, or a professional adviser such as your solicitor.

It makes sense to do this when relatively young, fit and healthy. If you lose capacity and haven't written an LPA (or a pre-October 2007 Enduring Power of Attorney, applicable to property and financial matters), a family member would have to apply to the Court of Protection to be appointed as your Deputy; this can be an expensive and time-consuming process.

[1]Office for National Statistics, 2016



GETTING TO GRIPS WITH LISA

The Lifetime ISA, or LISA for short, will be available from 6 April 2017. Anyone resident in the UK (plus Crown employees and their spouses or civil partners) aged between 18 and 40 will be eligible to open an account.

SAVINGS LIMIT

You can save up to £4,000 a year into your LISA. There is no monthly limit, which means you can pay in as much or as little as you like, when you like, up to the annual limit. Paying into a LISA counts towards your annual ISA limit, which goes up to £20,000 for the 2017-18 tax year.

FLEXIBILITY

You'll be able to transfer money built up in some other ISAs in previous years into your LISA, subject to the overall annual limit. You'll also be able to move your LISA to another provider to get a better deal.

Different rules apply for transfers, for example pre-April 2017 Help to Buy ISA contributions may be transferred in full without counting against the £4,000 allowance, whilst transfers from other ISAs, not subject to the 25% bonus, would count against the £4,000 LISA allowance, so could not exceed that amount.

THE GOVERNMENT BONUS

This is one of the major selling points. The government pays a bonus of 25% on your savings. This means that anyone saving £4,000 by 5 April 2018 will receive a bonus of £1,000. From April 2018, the bonus will switch to being paid monthly. The bonus is paid on contributions paid in each tax year, interest on cash LISAs and investment growth in a stocks and shares LISA is irrelevant to the bonus paid.

BUYING A PROPERTY

You'll be able to use all or part of your savings, plus your bonus, towards a deposit on your first home worth up to £450,000. You will be able to withdraw your savings, plus bonus, when contracts are exchanged.

SAVING FOR RETIREMENT

Another selling point is that you can also use your LISA to save for retirement. When you turn 60 you will be able to take out all your savings tax-free. Your LISA won't impact on how much you can save into your pension, so you can pay into a pension, get tax relief on your contributions, and benefit from a LISA at the same time.

EXIT CHARGES APPLY

If you choose to use your LISA for any other purpose than buying your first home or for your retirement, you will be charged a 25% exit fee when you take your money out. No charges will apply for exit during the 2017–18 tax year.

If you feel that you'd like some advice on saving for a home or into a pension, please get in touch.

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

THE ELECTION AFTERMATH – WHERE ARE WE NOW?

Despite Theresa May's optimism at the start of the campaign, her early lead in the polls ebbed away resulting in a hung parliament. She now faces the difficult job of putting together a workable team with viable policies that both her back-benchers and her alliance colleagues, Northern Ireland's Democratic Unionist Party, can agree upon.

Some policies, such as the much-criticised reforms to social care, dubbed the "dementia tax", the ending of the pension triple lock and the removal of the Winter Fuel Payment, will all now be called into question.

In addition, there were several measures that didn't make it to the Finance Bill once the election had been called that have been left in limbo. The reduction in the tax-free dividend allowance was due to fall from £5,000 to £2,000 with effect from next April and the Money Purchase Annual Allowance for those already taking money from their pension but wanting to continue to save was due to reduce from £10,000 to £4,000. Again, these will need to be clarified.

With taxation, the Conservative manifesto pledged to increase the personal allowance to £12,500, and raise the higher-rate threshold to £50,000 by 2020.

BREXIT TALKS LOOM

Then of course, there's the reason the election was called in the first place, the need to begin the Brexit process. Theresa May had hoped to go into negotiations with a strengthened hand, but instead she may need to adopt a more conciliatory tone, and opt for a "softer" Brexit.

Markets don't respond well to uncertainty. So, it seems likely that for the next few months at least, volatility could be set to increase, with the stock and currency markets responding to the twists and turns we're likely to experience as events unfold.

The case for a portfolio spread geographically and by asset class remains very strong. Sitting tight and keeping focused on your long-term financial and investment objectives is, for now, arguably the best strategy.

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