Integritas Financial Planners Ltd

Nurture · Grow · Protect

Integritas Financial Planners Ltd
A1 Optimum Business Park
Optimum Road
Swadlincote
Derbyshire
DE11 0WT

Get in touch
t: 01283 777 014
m:enquiries@integritasfp.co.uk

SUMMER 2019

Are you paying more tax on your buy-to-let property?

Do you own or are you considering purchasing a buy-to -let property? Changes to the treatment of mortgage interest tax relief means that buy-to-let is becoming less attractive.

What are these changes and what do they mean for landlords?

Back in April 2017 the government committed to reducing buy-to-let mortgage interest tax relief. Prior to this change in legislation, landlords only paid income tax on their net rental income. For landlords with interest-only mortgages, this meant that they could claim the cost of their mortgage payments.

However, from April 2020 landlords will be unable to deduct mortgage interest. Instead they will only receive a tax credit of 20%. As a result, landlords who are higher or additional-rate taxpayers will not get all the tax back on their mortgage repayments, as the credit only refunds at the basic rate. It could also trigger higher income tax thresholds, as you will need to declare the income that was used to pay your mortgage on your tax return, before applying the 20% tax credit.

Let's look at an example. A higher-rate taxpaying landlord receiving £950 rent a month and paying £600 towards their mortgage would have received a tax bill of £1,680 prior to April 2017. By comparison, from April 2020 the tax bill would be £3,120.

In addition to the tax changes, the government has acted to make buy-to-let more expensive for new purchasers and existing landlords. A client with a buy-to-let portfolio faces a loss of tax-relief on mortgage interest and the prospect of paying more tax when buying or selling buy-to-let properties. To compound the issue, a higher rate stamp duty surcharge on purchasing additional homes came into force in the 2016/2017 tax year. Currently this can be between 3% and 15%,depending on the value of the property.

Landlords also have to contend with the new Tenant Fees Bill, which aims to restrict lettings agents from charging fees to tenants. This could impact landlords, as agents may look to increase the fees they charge to landlords to make up the shortfall.

If you are impacted by the changes outlined, do let me know and we can discuss your circumstances and give guidance on alternative strategies to ensure that you take full advantage of the tax breaks offered with investing and retirement planning.

Integritas Financial Planners Ltd
A1 Optimum Business Park
Optimum Road
Swadlincote
Derbyshire
DE11 0WT

Get in touch
t: 01283 777 014
m:enquiries@integritasfp.co.uk

INHERITANCE TAX – not just reserved for the very wealthy!

There are however steps you can take to limit the amount of tax your family may face

When someone dies, Inheritance Tax is charged on their estate above a certain value. A person's estate is basically everything they own such as property, cars, life assurance policies not written in a trust and other investments, as well as personal effects such as jewellery.

Inheritance Tax is potentially charged at a rate of 40% on the value of everything you own above the Nil-Rate Band threshold. This is the value of your estate that is not chargeable to Inheritance Tax. The amount is set by the Government and is currently £325,000, which is frozen until 2021. When you die, your estate is not liable to tax on any assets up to this amount. However, anything over this amount may be taxed at a rate of 40%.

Since 6 April 2017, if you leave your home to direct lineal descendants, which includes your children (adopted, fostered and stepchildren) and grandchildren, the value of your estate before tax is paid will increase with the addition of the Residence Nil-Rate Band, currently £150,000 in 2019/20. Inheritance Tax is an unpopular and controversial tax, coming as it does at a time of loss and mourning, and it can impact on families with even quite modest assets. However, there are legitimate ways to mitigate against this tax. But be aware that some of the most valuable exemptions must be used seven years before your death to be fully effective, so it makes sense to obtain professional financial advice and consider ways to tackle this issue sooner rather than later.

What can you do to mitigate against Inheritance Tax?

MAKE A WILL

Dying intestate (without a Will) means that you may not be making the most of the Inheritance Tax exemption which exists if you wish your estate to pass to your spouse or registered civil partner. For example, if you don't make a Will, then relatives other than your spouse or registered civil partner may be entitled to a share of your estate, and this might trigger an Inheritance Tax liability.

- Inheritance Tax is levied at a fixed rate of 40% on all assets worth more than £325,000 per person (0% under this amount) – or £650,000 per couple if other exemptions cannot be applied.
- The Residence Nil-Rate Band is currently £150,000. This is an allowance that can be added to the basic tax-free £325,000 to allow people to leave property to direct descendants such as children and grandchildren – the allowance will be reduced by £1 for every £2 that the value of the estate exceeds £2 million

MAKE LIFETIME GIFTS

Gifts made more than seven years before the donor dies, to an individual or to a bare trust, are free of Inheritance Tax. So, if appropriate, you could pass on some of your wealth while you are still alive. This will reduce the value of your estate when it is assessed for Inheritance Tax purposes, and there is no limit on the sums you can pass on. You can gift as much as you wish, and this is known as a 'Potentially Exempt Transfer' (PET). However, you will need to live for seven years after making such a gift for it to be exempt from Inheritance Tax. Should you be unfortunate enough to die within seven years, then it will still be counted as part of your estate if it is above the annual gift allowance.

You need to be particularly careful if you are giving away your home to your children with conditions attached to it, or if you give it away but continue to benefit from it. This is known as a 'Gift with Reservation of Benefit'.

Integritas Financial Planners Ltd
A1 Optimum Business Park
Optimum Road
Swadlincote
Derbyshire
DE11 0WT

Get in touch
t: 01283 777 014
m:enquiries@integritasfp.co.uk

LEAVE A PROPORTION TO CHARITY
Being generous to your favourite charity can reduce your Inheritance Tax bill. If you leave at least 10% of your estate to a charity or number of charities, then your Inheritance Tax liability on the taxable portion of the estate is reduced to 36% rather than 40%.

SET UP A TRUST
Family trusts can be useful as a way of reducing Inheritance Tax, making provision for your children and spouse, and potentially protecting family businesses. Trusts enable the donor to control who benefits (the beneficiaries) and under what circumstances, sometimes long after the donor's death.

Compare this with making a direct gift (for example, to a child), which offers no control to the donor once given. When you set up a trust, it is a legal arrangement, and you will need to appoint 'trustees' who are responsible for holding and managing the assets. Trustees have a responsibility to manage the trust on behalf of and in the best interest of the beneficiaries, in accordance with the trust terms. The terms will be set out in a legal document called 'the trust deed'.

Information is based on our current understanding of tax legislation and regulations. Tax laws can and do change.

The rules around trusts are complicated, so you should always obtain professional advice.

Will Writing and Trusts are not regulated by the Financial Conduct Authority

How to avoid the Child Benefit Tax Trap.

*Around 1.4 million families now lose some or all their child benefit because one of the parents earns over £50,000 a year.**

**source: the telegraph 08.01.2019*

However, in the example below see how a pension contribution can help you.

John (33) and Tina (28) have a daughter Emily who is 3. John is an editor at his local newspaper and has a salary of £60,000 p.a.

Tina looks after Emily and earns £6,000 p.a. working part time at a coffee shop. At the moment they receive Child Benefit of £20.70 p.w. (£1,076 p.a.) but since John's adjusted net income is over £50,000 p.a. he will need to pay a tax charge calculated as 1% of the Child Benefit received per £100 his income is over £50,000. John's adjusted net income is actually £10,000 higher than the threshold so the tax charge is equal to the amount they have received (£1,076, equivalent to 10.76%).

John & Tina have two options:

- **Stop claiming Child Benefit**
- **Reduce James' adjusted net income**

One way that John could reduce his adjusted net income to below £50,000 (and avoid the tax charge) would be to make a personal pension contribution. Tax relief at 20% (basic rate) is added to the contribution by the government so a payment of £8,000 net would be worth £10,000 in his pension. As a higher rate tax payer he can obtain a further 20% relief on the £10,000 gross contribution (£2,000).

James' adjusted net income is reduced by the value of the gross pension contribution (£10,000) from £60,000 to £50,000. This means that he does not now have to pay the High Income Child Benefit Tax Charge.

Integritas Financial Planners Ltd
A1 Optimum Business Park
Optimum Road
Swadlincote
Derbyshire
DE11 0WT

Get in touch
t: 01283 777 014
m:enquiries@integritasfp.co.uk

Summary

If John does nothing he will have to pay a tax charge of £1,076.

If he makes a net contribution of £8,000 before the end of the tax year (5 April) he will end up with:

- £10,000 in a pension growing free from most taxes
- £2,000 reduction in his income tax liability
- £1,076 reduction in other taxes.

Simply by doing this **John has increased his wealth by £5,076 – a 63% return on his £8,000 net pension contribution.**

N.B. This return only considers the initial tax benefits and does not consider the longer term benefits of making pension contributions. Couples with more than one child can potentially have an even greater tax trap.

Tax laws can and do change.

Levels and bases of taxation and tax reliefs are subject to change and their value depends on individual circumstances

Where did it all go wrong for Neil?

Fund manager and stockpicker Neil Woodford is unusual in that he is as close to a household name as is possible from the world of investing. Once a hugely successful investment manager, recent events have highlighted the potential perils of individual stock picking.

In the space of just seven days, the glittering career of Neil Russell Woodford, touted as the UK's answer to legendary American investor Warren Buffett, lies in tatters. The UK financial regulator has turned on him, long-standing investors have collectively pulled billions of pounds from his funds, and a reputation built over four decades of front-line investment management has been ripped to shreds.

Former colleagues, acquaintances and clients cite a number of reasons why they believe trading in the 59-year-old's flagship equity fund was unusually and abruptly suspended in early June.

A few highlighted Woodford's series of stock choices, most notably his investments in construction group Kier, online estate agency Purplebricks, lender Provident Financial and road recovery service the AA, for the gates being slammed shut on his hugely popular fund.

With an investment style based on conviction, the current political landscaped has also not helped him. One of his convictions was a smooth outcome from Brexit but uncertainly has hit UK shares and, in turn, the performance of the fund.

Some closest to Woodford felt he became unstuck the instant he left Invesco Perpetual five years ago to launch his own fund company. Did his alignment of interests change at this point when moving from being just a portfolio manager to the founder of his own business?

Investors, ranging from big institutions such as pension funds to ordinary people with some money set aside, put money into his UK Equity Fund. The name of the fund is fairly clear. He invests in UK shares and pays an income to investors on a regular basis, which many put back into the fund. They could take their money out whenever they wanted.

His "star" status was secured following 25 years of market-beating returns with Invesco Perpetual, partly when he saw through the dotcom boom but his performance since he went it alone five years ago has been dramatic. In its first year, there were returns of 18% on investors' money, compared with an average rise of only 2% on the London Stock Exchange at the time.

However, far from uniquely, this has been followed by struggles in the last couple of years.

What lessons are there for investors?

Integritas Financial Planners Ltd
A1 Optimum Business Park
Optimum Road
Swadlincote
Derbyshire
DE11 0WT

Get in touch
t: 01283 777 014
m:enquiries@integritasfp.co.uk

This is a shock for many investors. A star of the sector is having what has been described as a "dark and terrible moment".

Some will point to this case as proof that paying charges to a "star" fund manager to try to beat the market is a waste of time and that, instead, people should invest in a passive tracker fund. Others will argue an active management can be successful but is limited to a few.

As a compromise, an **active/passive** approach taken by an investment manager may offer the best of both worlds, providing **diversification** geographically and by type of investment. By using tracker funds rather than selecting individual company stocks, a fund manager can reduce the level of risk.

Reduce your income tax with an EIS or VCT …..but be aware of the risk.

There are a number of ways to reduce your income tax liability by effectively reducing your gross taxable income. This can be done by making pension contributions or for higher rate or additional taxpayers gifting to charity.

Subject to affordability and more importantly having a high appetite for risk and tolerance for a capital loss, there are also some tax efficient lump sum investments which can provide attractive tax advantages including income tax relief.

An Enterprise Investment Scheme (EIS) is designed to raise capital and invest in small unquoted companies and in return for the high-risk nature of the investment you can claim immediate income tax relief of up to the 30% of the investment made.

In the 2019/20 tax year the maximum amount of relief that can be claimed is £300,000 from an investment of £1m. It is also possible to claim up to £300,000 against an income tax liability for the previous tax year but only up to the amount of income tax paid.

An EIS investment also has the additional benefit of falling outside an individual's estate for IHT purposes once held for two years. As an alternative, a Venture Capital Trust (VCT) offers similar attractive tax advantages in return for again investing in high risk fledging companies. A VCT is slightly different to an EIS as the actual VCT itself is a quoted company.

Investment into a VCT is limited to £200,000 in each tax year with a maximum of 30% of income tax relief available. Unlike an EIS there is no option to carry back to the previous tax year to claim against any tax already paid and also no IHT benefits. To retain tax relief qualification, the investment must be held for 5 years.

VCT's and EIS's are not suitable for everyone. It important that you fully understand the risk involved. The tax incentives exist because of the greater risks involved with investing in smaller companies, which mean you could get back less that your original investment. Tax treatment depends on individual circumstances and may change in the future, and tax reliefs depend on the VCT or EIS maintaining their qualifying status.

Please speak to a qualified financial adviser before deciding to invest.

Do you know (and use) your 2019-2020 Tax Allowances?

Personal allowance	**£12,500**	Junior ISA allowance	**£4,368**
Higher-rate threshold	**£50,000**	Dividend allowance	**£2,000**
Additional-rate threshold	**£150,000**	IHT nil-rate band	**£325,000**
Marriage allowance	**£1,250**	Residential nil-rate band (IHT)	**£150,000**
Personal Savings (basic)	**£1,000**	Capital Gains Tax Allowance	**£12,000**
Personal Savings (higher)	**£500**	Pension Lifetime Allowance	**£1,055,000**
ISA allowance	**£20,000**	Pension Annual Allowance	**£40,000**

Main Personal Allowance and Reliefs (England, Wales, Northern Ireland only).

Integritas Financial Planners Ltd
Nurture · Grow · Protect

Integritas Financial Planners Ltd
A1 Optimum Business Park
Optimum Road
Swadlincote
Derbyshire
DE11 0WT

Get in touch
t: 01283 777 014
m:enquiries@integritasfp.co.uk

Retirement planning in the age of longevity

According to the Office for National Statistics, a child born today in the UK has a 1 in 3 chance of living to 100. That's a staggering increase from someone born in 1951, when life expectancy was 72 for women and 67 for men. As it stands, each generation is living an average of around 10 years longer than the previous one.

The fact that we are generally living, and remaining healthy, for longer than ever before is fantastic news. However, this also has some fairly major, and often overlooked, consequences for our way of life. We will all have to start doing things differently. This is particularly apparent in retirement planning.

INCOME IN RETIREMENT

If you retire at 65, your pension income could need to last for 35 years. The only way to guarantee your income throughout life is to purchase an annuity. Today, a simple fixed annuity starting at age 65, with no increases, costs about £18.50 for every £1 of pension.

An alternative might be to take income withdrawals from your pension fund and other investments, although that would not provide a throughout-life guarantee.

INFLATION

Taking a fixed retirement income cannot be a realistic long-term option because of inflation. Over the last 35 years the pound has lost over two-thirds of its value as measured by the RPI. An inflation-proofed annuity for a single person costing £100,000 at age 65 would currently provide only a little over £3,200 a year.

FUNDING YOUR RETIREMENT

The minimum level of pension contributions for auto enrolment will be 8% of band earnings from 6 April 2019. Yet pension experts consider this will be nowhere near enough to fund a comfortable retirement for most people. There are plenty of suggestions for how much to save, but for a more accurate answer we can offer an individual calculation, based on your personal circumstances.

PENSION FREEDOMS

The introduction of pension freedoms has been a huge enabler for over-55s, allowing millions to draw income from their pensions flexibly. Pension freedoms offer the opportunity to transition into retirement by continuing to work with reduced hours beyond traditional retirement age.

The flexibility that pension freedoms gives means that older workers can tailor their retirement to their own individual requirements, giving rise to a new distinct and more 'free' stage of life in between work and retirement. Earning an income later in life also provides workers with the opportunity to continue saving, which can mean higher retirement benefits in the future.

Pension Freedoms can help you maintain an appropriate work-life balance and allow you to continue to live life on your own terms. If you need help to structure your retirement action plan, do please let me know.

Integritas Financial Planners Ltd
Nurture · Grow · Protect

Integritas Financial Planners Ltd
A1 Optimum Business Park
Optimum Road
Swadlincote
Derbyshire
DE11 0WT

Get in touch
t: 01283 777 014
m:enquiries@integritasfp.co.uk

Will Writing - It's never too early...but often too late!

What happens if you do not make a Will?

If you die without a Will your estate may not be passed onto the people that you had wished it to. Your estate will be divided up according to standard rules known as Intestacy Law.

Many people assume that their spouse will automatically inherit everything should you die – but that is not necessarily the case.

Reasons why you should make a Will:-

- Peace of mind that your wishes are known
- Essential if you are to ensure that as much as possible of your wealth benefits those whom you choose, and is not taken by taxation unnecessarily, legal costs and beneficiaries chosen by law
- Appoint guardians for children and pass on parental responsibility
- Protect inheritance for children, step children and grandchildren
- You may want to leave something to friends, colleagues or charities

To ensure your Estate does go to the people you wish, please contact us now. We offer a free initial consultation in your own home to discuss your estate planning needs.

Have you protected your family?

It's easy to think we will never be diagnosed with a critical illness but should this happen the emotional impact on you and your family is enough to deal with without having to worry about your finances. Therefore, why not ensure you have appropriate financial protection in place so if the worst does happen you can focus on what really matters… your family well-being.

Without protection, how would household bills be paid if your main income was lost due to unforeseen circumstances? Often many people are forced into using savings, selling assets or borrowing if they are unable to work.

On a brighter note, more and more people are now surviving and recovering from serious illness but often this does result in an overall fall in income and increase in expenditure.

Many people think they can rely on the state but in many cases, this only provides a fraction of your pre-illness income. Therefore, it is important to safeguard your financial future and well-being, This could be by enacting new or existing insurance policies or increasing your emergency provisions.

Critical illness cover pays out a tax-free lump sum in the event that you are diagnosed with one of the specified conditions covered by the policy, you can then choose how best to spend the money.

An income protection plan pays out monthly income which is again tax free if you are incapacitated for a specified deferred period and typically pays out until you return to work.

If you would like to discuss taking out a new protection plan, amending an existing one or need guidance on your options, please do let us know.

Have you used your 2019/2020 ISA Allowance?

Integritas Financial Planners Ltd
Nurture · Grow · Protect

Integritas Financial Planners Ltd
A1 Optimum Business Park
Optimum Road
Swadlincote
Derbyshire
DE11 0WT

Get in touch
t: 01283 777 014
m:enquiries@integritasfp.co.uk

To encourage savings and investment, the government allows a number of tax-free investment options.

The Individual Savings Account (ISA) is one of these, and is a great way to save-tax free.

With inflation currently at 1.9% and many cash deposit rates lower, a Stocks and Shares ISA can be an attractive option to help protect your money from being eroded by the cost of living. Whilst you could secure inflation-busting returns, these will depend greatly on your specific investment strategy and your appetite to risk but, long-term, the stock market is generally a good option for growing savings compared to a Cash ISA.

You are able to invest up to £20,000 in the current 2019/2020 tax year and by placing your investment in an ISA tax "wrapper" you can benefit from the following tax advantages:-

- No Capital Gains Tax – there is no tax to pay on any profit you make from your investment
- No Income Tax – there is no tax on any interest or dividend payments out of your ISA

We can provide you with a range of investments options to meet your specific needs and level of risk. This could include investing for income or capital growth in a single investment fund or a portfolio managed by a discretionary fund manager.

If you would like to invest but have concerns over the current economic climate or the uncertainty over Brexit, ask about the option to guarantee up to 90% of the higher ever value of your investment.

Contact us now to take advantage of this tax efficient way of investing.

The value of investments and income from them can go down as well as up. You may get back less than the full amount invested. The tax treatment of ISAs depends on your circumstances and may change in the future

Integritas Financial Planners Ltd is an appointed representative of The Tavistock Partnership Ltd which is authorised and regulated by the Financial Conduct Authority
FCA No. 623126