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GSFW Financial Management LTD

Inheritance tax receipts hit a new high

Inheritance tax (IHT) is raising more than ever according to HM Revenue & Customs (HMRC). How much do you want to contribute?

IHT receipts broke through the £5 billion barrier for the first time in the 12 months to May 2017. In April and May 2017 alone, receipts were up over a third on the previous year.

The record tax take is due to three main factors:

1. The nil rate band (NRB) has been frozen at £325,000 since April 2009.
2. Estate values have been rising, thanks to increasing share and property prices.
3. The primary tax rate above the nil rate band remains at 40%.

IHT tax payments will continue to grow, according to the Office for Budget Responsibility projections – with £6.2 billion of tax expected to be collected in 2021/22.

Mitigation options

There is little chance that any fresh legislation to dilute IHT's impact will appear any time soon. However, two measures do offer some scope for mitigating its impact:

- **The residence nil rate band (RNRB)**, the first phase of which came into force in April this year at a level of £100,000 for each individual. The RNRB will ultimately mean that from April 2020 a married couple (or civil partners) *may* be able to pass on a joint estate of up to £1 million with no IHT to payable.
- **Pension death benefits** were granted highly favourable IHT treatment as part of the 2015 pensions flexibility reforms. Lump sum and survivor's pension benefits payable on death are normally free of IHT, although the beneficiary will be subject to an income tax charge if death occurs on or after age 75.

If you do not want your estate's beneficiaries to suffer from that increasing IHT tax take, the sooner you start planning the better. If you have already undertaken some planning, then you might well need to review matters in the light of the RNRB and pension rules mentioned above.

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate estate planning or tax advice. Occupational pension schemes are regulated by The Pensions Regulator.

A degree in debt?

The new academic year is about to start, with student debt firmly in the political spotlight.

"Students now graduate with average debts of £50,000." So said the Institute for Fiscal Studies (IFS) in a recent paper examining higher education costs in England. The higher education financing rules differ for the other three constituent parts of the UK, but all rely upon undergraduate borrowing to some extent.

For a student in England starting a course this autumn, their level of debt on graduation is likely to be more than £50,000. In 2017/18, maximum tuition fees will increase to £9,250 a year, and the interest rate charged on loans will jump to 6.1%. The IFS calculates that on average students will accrue a £5,800 interest bill over the duration of their course.

In England (and Wales) the loan currently starts to be repayable at the rate of 9% of income above £21,000, so a graduate earning £31,000 would pay £75 a month, which may not even cover the interest accruing on the debt. Fortunately, any outstanding debt is written off, but only after 30 years following the April in which the course ended. The IFS estimates that the government will eventually write off nearly a third of the interest and debt total, with around one in four fully repaying their debt.

If you have children or grandchildren heading off to university at some point, these debt figures can appear daunting. Providing financial assistance by establishing some pre-funding arrangement makes sense. However, it may be less wise to apply that money directly to paying tuition fees and/or maintenance rather than initially drawing down the student loan. In the worst scenario, upfront payment may simply reduce the government write-off. In other situations, there could be some logic in clearing the loan and avoiding high interest payments. Your funding plans therefore need flexibility built in.

The value of your investments and any income from them can fall as well as rise and you may not get back the original amount invested. Past performance is not a reliable indicator of future performance.

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Ageing divorcees

The average age for divorce has reached an all-time high.

The average age on divorce is now nearly 46 for men and 43½ for women. This makes agreeing the financial settlement more challenging, because the higher the age, the more wealth there generally is to argue over. Some of that will often stem from rising property values, but another major (and sometimes forgotten) aspect is pension rights.

By their mid-40s, each party may have accumulated over 20 years the equivalent of hundreds of thousands of pounds worth of pension benefits, possibly including some from final salary schemes.

Dealing with pensions on divorce is a complex area that will inevitably require financial as well as legal advice. If you find yourself facing a divorce, do talk to us as soon as possible so that we can explain the tax and retirement ramifications that flow from the various pension settlement options.

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Doors opening for Chinese share listings

In June 2017, the leading provider of indices for emerging markets announced that from next year it would start to include shares listed in China in its indices.

The decision followed rejections at review in the three previous years and was seen as a major turning point for investment in China. If you have no investment in what is the world's second largest stock market, please talk to us about your options.

The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. Investing in shares should be regarded as a long term investment and should fit with your overall attitude to risk and financial circumstances.

Are you covered on personal lending?

The rate at which people are taking out loans, maximising store credit cards and signing up for car finance is worrying the Bank of England.

With an extraordinary growth in the pace of debt, officials are concerned that lenders are granting loans to households that can ill afford to repay them A large number of loans, mortgages and other liabilities are not covered by insurance. Are all your borrowings covered?

Half of UK mortgage holders have no life insurance in place, according to a 2016 study by Scottish Widows. These statistics are remarkable. Mortgages are generally people's largest liability. If the main earner in a household dies, the surviving partner might find it impossible to keep making the mortgage repayments.

If you have taken out a loan to buy a car or for some other purpose, it might be covered by payment protection insurance that would pay out if you were ill or lost your job. Check whether you have such cover and what it includes. If it is not your habit to clear credit card balances each month, then you should ask what will happen to any uncovered balance if you should become ill or die.

Perhaps you are a guarantor for a family member's mortgage. What if they lose their job or their business fails? If you are self-employed then you will also need to remember your business debts.

The objective is to make sure that your partner and children especially are not left to deal with your debts if you should die suddenly or suffer from a life-threatening illness. This can be easily dealt with using simple 'term insurance'. The cost of such cover naturally increases with age so the sooner you are able to discuss your protection requirements with us the better.

Your home may be repossessed if you do not keep up repayments on a mortgage or other loans secured on it. Think carefully before securing other debts against your home.

Have you used up your ISA allowance?

With the individual savings account (ISA) allowance now at £20,000, it is difficult for many people to save more than this each year.

However, where unexpected or additional money becomes available, you may need to consider investing into funds or other investments directly. ISAs are tax-privileged wrappers. Outside them there are potential tax charges, although for many investors they are not punitive. The two main taxes are:

Income tax – the first £5,000 of dividends in the current tax year are covered by a dividend allowance which is taxed at 0%. The excess is taxable at 7.5% for a basic rate taxpayer (32.5% and 38.1% respectively for higher and additional rate taxpayers). From 6 April 2018 the dividend allowance is set to reduce to £2,000. Investors may qualify for the personal savings allowance of £1,000 (£500 for higher rate tax-payers) and possibly even the nil starting rate of tax of up to £5,000.

Capital gains tax (CGT) – you have an annual CGT exempt amount of £11,300 which means that you only pay tax (at 10% or 20% if a higher rate taxpayer) on gains in excess of that threshold. Gains on property incur an extra 8%. Many investors use their annual ISA allowance by selling the investments they hold directly and reinvesting them into their ISAs, realising gains which may be fully or partially within the annual CGT exempt amount.

So rebalancing your portfolio annually and keeping an eye on your ISA investment levels should help manage your investments efficiently.

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