the Investment & Mortgage centre

MoneyMatters

November/December 2011

Protect your INCOME

Stock market turmoil
What it means to you

PENSION Tax puzzle

GIFTING MONEY to your children

FINANCIAL WEALTH CHECK

IHT PLANNING

• Lifestyle Protection • Creating Wealth • Tax Rules •

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ISA increase

£600 increase for your ISA

The publication of inflation figures in October 2011 means that the new Individual Savings Account (ISA) allowance for the 2012/13 tax year will be £11,280. With forecasters stating that this could be the highest inflation figure to be seen, savers should consider maximising their allowance to full to reap the full benefit of the increase.

The new ISA allowance, which will become available from 6th April 2012, is £600 higher than the current limit of £10,680 for 2011/12.

Individuals will be able to invest up to £11,280 into an investment ISA in the next tax year. Alternatively, they can invest up to £5,640 into a cash ISA with the remainder up to the total allowance of £11,280 available to invest in an investment ISA.

Anybody over the age of 18 (16 for a cash ISA) is able to save using an ISA as long as they are a UK tax resident. You can take out an ISA even if you are not currently working.

You and your partner are both able to set up an ISA as you get separate ISA allowances. You cannot take out an ISA with somebody else as each ISA must be individually taken out. However, you can subscribe to an ISA on behalf of someone else, for example as a gift.

Increases to the ISA allowance, which are now based on the Consumer Prices Index (CPI) inflation figure for the year to the previous September, are rounded up to be easily divisible by 12. This makes it easier to calculate the monthly allowance, which will be £940 per month for 2012/13.

The higher ISA allowance represents good news for savers and investors who want to protect their returns from tax and aim to achieve a net return to keep pace with high levels of price inflation.

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Financial Wealth Check

With the New Year on the horizon, now is the time to consider your financial plans. We set out a wealth check list for you to ensure you have the main points covered.

Effective tax planning

Tax is paid on our individual earnings and assets. We can be more tax efficient if we take advantage of reliefs and allowances offered to married couples and civil partners. The amount of tax paid can be reduced as a couple if you arrange your finances correctly. Consider switching income producing assets, like shares, investment funds, bank and building society accounts and jointly owned property, into the name of the partner who pays the lower rate of tax. With this arrangement, you pay less tax on dividends, rent and savings interest.
In general the rule is that jointly owned income is taxed 50/50, this can be changed by making a specific election where there has been a genuine individual gift of assets.

Ensure you receive the correct allowance

The standard personal allowance is £7,475.
If you are over 65, you should ensure you are receiving the appropriate higher personal allowances. Those aged 65-74 can earn £9,940 before tax is charged, rising to £10,090 for those 75 and over. If you are married and aged 75 and over, you are also entitled to the £7,295 Married Couple's Allowance.

Consider the advantage of joint asset ownership

Property assets could trigger a capital gain tax (CGT) bill, as could shares, so it may be worth considering joint ownership. Basic-rate taxpayers pay CGT at 18 per cent, whilst higher rate tax payers pay 28 per cent.
But couples need to be careful. When calculating CGT, the gain realised is added to the income earned in that tax year; when combined like this you may fall into the higher tax bracket and will pay the 28 per cent rate on the gain. Realising an asset, such as a second home, is usually better if jointly owned. This will take advantage of two CGT allowances, as in practice either partner, regardless of earnings, often pays the higher CGT rate.

Make provision to reduce a future Inheritance Tax bill

There are exemptions which allow the reduction of future Inheritance Tax (IHT). Everyone can make an annual gift worth £3,000, which removes money from your estate regardless of how long you live, and if this is not used in the previous tax year you can carry it forward to the next tax year, so effectively you could gift £6,000. Grandparents can also give £2,500 to each grandchild who marries; parents can give £5,000. Taxpayers can also make regular gifts out of income, which will be IHT free. As with other gifts, people have to survive the transfer by seven years for it to be disregarded for IHT purposes

Recover costs of running a business

If you are a small business you can claim for the extra costs involved in running your business from home. This includes lighting, heating, property insurance, repairs, council tax, and some mortgage interest; these costs can be offset against profits, reducing your overall tax bill. But consider this carefully before submitting any claim as if a part of your property, even a single room, is devoted entirely to your business then there may be a CGT charge when the property is sold.

Don't forget ISA and Pension maximisation

Make sure that you fully maximise your ISA (Individual Savings Account) and pension contributions, which can be extremely tax efficient. You can currently invest up to £10,680 in an ISA, of which half can be in cash. This means a couple could effectively currently invest £21,360 this financial year, on which they pay virtually no tax on income or growth. As from April this year, the annual pension allowance for tax-privileged contributions is £50,000 reduced from its previous level of £255,000.

With the New Year on the horizon, now is the time to consider your financial plans. We set out a wealth check list for you to ensure you have the main points covered.

Leave your loved ones an inheritance

It is believed that this year people will provide HMRC with more than £2 billion in inheritance tax (IHT), according to unbiased.co.uk. But with some careful IHT planning you need not be caught in this trap. IHT is charged at 40 per cent on anything in your estate above the nil-rate band of £325,000 in 20011/12. You can transfer any unused nil-rate band on a person's death to the estate of their surviving spouse or civil partner, which reduces the IHT liability on the surviving spouse or civil partner's estate upon their death.

Your estate comprises of everything you own, including your home, savings, investments and your share of any jointly owned assets. You no longer need to be wealthy to exceed the nil-rate band.

Gifting

One way to reduce an estate is to give it away. If you live for seven years after making a gift, as long as you don't reserve any right to it, it will be outside your estate for IHT purposes.

As well as gifts, known as potentially exempt transfers or PETs, there are a number of exemptions you can use. These are immediately outside your estate and include an annual gift of up to £3,000; as many gifts of up to £250 a year as you like; and gifts upon marriage, which vary from £1,000 to £5,000, depending on your relationship to the bride or groom.

You can also donate regular gifts out of income. There is no limit on the amount you can give away as long as it is regular, out of your income and it does not affect your standard of living.

As from April 6 2012 a reduced IHT rate of 36 per cent will apply where 10 per cent or more of the net estate is left to charity.

Trusts

When gifting to very young people or your children, you may want to consider setting up a trust. There are a number of trust schemes you can use to improve your IHT situation but still retain some control over the assets.

Just as with gifts, you need to wait seven years before the asset is outside your estate. But, as the trustees, the holders of the trust, who could also be the beneficiaries, have the power to alter how the trust assets are distributed, there is more control. Additionally, depending on the type of trust arrangement used, you can set it up to provide you with an income.

You need to take professional advice if you are considering a trust as they are varied and complicated.

Trust advice is not regulated by the Financial Services Authority.

Future Planning

Nil-rate band planning might also be worth considering shifting assets out of your estate.

Although the introduction of the transferable nil-rate band has made this less popular, it enables assets worth up to the nil-rate band at the time of death to go to beneficiaries without popping up in the surviving spouse's estate. When placing them in trust, transfer to the beneficiary does not have to happen until after the second death.

Another very important use of a nil-rate trust is that you can take money out of the surviving spouse's estate, which can be useful for avoiding part of the estate being swallowed up in nursing home fees in old age.

Property

Married couples and civil partners can use their transferable nil-rate band or nil-rate band planning to absorb some of the value of a property, but the home can still be a problem area from an IHT planning perspective.

It is one of the most difficult aspects, especially if you want to carry on living in your home. If you give it to your children but carry on living in it, you are 'reserving a benefit', so it will never leave your estate. However, your children could end up paying capital gains tax if it is not their main residence. You could give, or sell the property to your children then pay a market rent on it, it would then fall outside your estate after seven years.

Equity release is another way to reduce the value of your estate. By taking out a mortgage against your home, you create a debt on the estate. Then, providing you spend the money you raised, or give it away, you will reduce the value of your estate.

Investments

If you have spare cash, you could make investments that qualify for IHT exemptions. To encourage investment in small UK companies, and to make it easier for family businesses to pass down through the generations, business property relief was introduced. With this, if you hold a qualifying share then, after two years and providing it continues to qualify, it will be exempt from IHT.

Another option is Life insurance, with a whole-of-life policy guaranteeing that as long as you pay the premiums, however long you live, it will pay out the sum assured.

Life insurance can provide for all or part of the IHT liability. But arrange for it to be paid to the beneficiaries and not into your estate or it will add to the IHT problem.

It is believed that this year people will provide HMRC with more than £2 billion in inheritance tax (IHT). But with some careful IHT planning you need not be caught in this trap.

The Financial Storm

The recent financial storm has seen shares plummet around the world and many investors fear a rerun of the 2008's crash.

Western countries are looking for leadership as emerging markets grapple with the need to raise rates to combat inflation at the same time as the world economy stutters.

Many investors have been left wondering whether they should bail out of the market, or whether this is a buying opportunity not to be missed.

Don't panic

Investing is a long-term game and during the game falls happen, and when they do the fall is often hard and arrives fast. Trying to time the market and bail out whenever you see a slump is very difficult. In fact, bailing out can seriously dent an individual investor's portfolio.

Investors making serious money over time have a long-term outlook and expect peaks and troughs along the way. This strategy does not mean you should just sit and wait forever. The way to make money is to buy low and sell high and knowing when to bow out is crucial, but frantically bailing in and out of positions as the market rises and falls is likely to lead to your investment cash vanishing.

Fearful decisions

If you are bailing out of a market because of fear then cash is likely to be the best place to wait out the turbulence, do not be tempted to take a gamble on a different share that has tumbled and you think can bounce back.

If you put money in equities, be it in individual shares or a fund, you should be thinking in periods of five years or more and identifying what you think will be a solid performer over that period.

Be very careful at these times and only invest sums that you can afford, should the markets start falling again.

Sound investments or not?

Investments come in two forms; active, which are managed and aim to beat the market, and passive, which like Exchange Traded Funds and trackers, rise and fall with an index.

When the bad times hit, active investments theoretically should do better, as you get the manager's years of expertise. This is not always the case and should you feel your money is in a fund that is too high a risk, or the suspicion that the fund manager is not paying enough attention, then a volatile market can be a good time to reconsider your investments.

Is the balance right?

A good point to consider is whether you are too heavily invested in one area. Rebalancing a portfolio is something that the best fund managers do regularly and individual investors should also consider this.

Stock markets in both developed and emerging countries are likely to remain volatile. But fundamentally some companies are in good shape with strong balance sheets and have business models which are able to ride out the storm.

Going defensive

In stormy times, investors may consider buying into defensive shares and funds that suffer less from market volatility, like utility companies, pharmaceuticals, tobacco producers and food makers, all examples of the defensive sector.

The drawback is that defensive stocks lag the market and do not rise as much in the boom times.

Should I invest in gold or cash?

Gold has been a valuable safe haven for investors and is increasingly being sought out for protection from market storms and inflation, but, with bullion trading at all time highs it is vulnerable to a sell off and investors must be aware that it is not low risk.

If you need to avoid risk then cash is the safest bet and can be deployed to pick up cheap assets when you think that it is time to buy back in.

If you are extremely nervous about the state of the stock market, then it is worth considering selling up, taking profits and putting your money into a savings account.

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 guide to future performance. Please contact us for further information or if you are in any doubt as to the suitability of an investment.

Stock market turmoil

Yet again extreme volatility has gripped the stock markets around the world, the losses recently have been immense. But how exactly does this affect your finances?

Fears of a double dip recession in the UK, US and countries across Europe are growing despite the recent £75 billion Quantitative Easing.

The downgrading of the USA's credit rating from triple A to double A, slow growth in many of the world's major economies, and widespread concern about the financial stability of Greece, Spain and Italy within the Eurozone have all played a contributing role.

So what can you do?

Your pension

Check your pension savings have been transferred into lower risk investments with the intention of protecting any gains as retirement approaches.

If your pension savings have been hit then you may be faced with the tough decision as to whether you should work for longer and wait for your pension fund to recover.

Annuity rates have tumbled too so cashing in your pension pot now may result in a lower than expected incomes. Again, if buying an annuity is something you are looking at doing imminently then it is a good idea to get independent financial advice as soon as possible.

If you have a good few years left to work before you retire then recent events should not be too much cause for concern.

Pensions are a long term investment and the odds are that at some point in the not too distant future your pension pot will return to growth once again.

Your investments

Investors with cash often see a sudden downturn as an opportunity to pick up shares at basement prices in the hope that they will make huge gains in the long term.

This can be a risky strategy as there is always potential for share prices to fall even further.

If you do decide that now is the right time to invest then only speculate with money that you can spare, ensure you are taking full advantage of your Investment ISA allowance so you maximise any gains, and ensure that you spread your investments so that you end up with a diverse portfolio that helps to mitigate risk.

Investing is a long term strategy and there is no denying that it sometimes needs nerves of steel.

While it can be tempting to bail out if the share price of a company you have invested in falls significantly it is important to bear in mind that doing this will realise your losses, whereas playing the waiting game could see your investment rise in value once again.

Unfortunately, there is no certainty either way but selling when the market hits bottom should not be done without serious consideration.

If you are unsure of the best course of action, speaking to a professional financial adviser is likely to be the most sensible thing to do. They will also be able to help you make sure that your investment portfolio is meeting your investment needs and help you to restructure it if needs be.

Your savings

Under £85,000

The Financial Services Protection Scheme (FSCS) covers all deposits in UK banks and building societies up to a maximum of £85,000 or £170,000 for joint accounts.

Consequently, if you have less than £85,000 in savings all of your money will be fully protected and returned to you should anything happen to a bank that you have an account with.

Over £85,000

If you have savings that total over £85,000 you need to check that they are 'safe'.

The FSCS compensation limits apply to 'institutions' authorised by the FSA as opposed to individual banks. This difference is important for those with high value savings as mergers between UK banks has meant that many now share FSA licences, and therefore FSCS compensation limits.

You need to make sure that you do not hold more than £85,000 in sole-named accounts, or £170,000 in joint accounts with any one FSA registered institution.

Your mortgage

Uncertainty on the stock markets has meant fixed rate mortgage rates have remained low because it has become less expensive for the banks themselves to borrow.

The general view is that the Bank of England will have to keep interest rates low for at least the short term future so big rate rises are not expected any time soon. However, this is not guaranteed.

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 guide to future performance. Please contact us for further information or if you are in any doubt as to the suitability of an investment.

Quantitative Easing

The Governor of the Bank of England Sir Mervyn King says this is the 'biggest financial crisis' the world has ever faced as the bank increases its quantitative easing programme to £275bn.

What is quantitative easing?

QE is an emergency tool of monetary policy that the Bank of England can use to boost the UK economy. Cutting interest rates is the principal way the Bank can fire up economic activity but interest rates cannot go much lower.

How does it work?

The Bank generates fresh amounts of electronic money to encourage lending to businesses. Specifically, the Bank buys assets like Government and corporate bonds with its new cash. The companies selling those assets, usually commercial banks or other financial businesses such as insurance companies, will then have new money in their accounts, which in turn should feed into the wider economy.

Is it really 'printing money'?

No, not in the literal sense. The Bank of England doesn't need to turn on the printing presses. It creates money electronically and uses it to buy IOUs, such as government gilts or company bonds, from banks and businesses.

Have we had QE already?

The Bank has already issued £200billion in QE: it started in March 2009, when it had already cut rates to the record low of 0.5 per cent, where they remain, but when the UK economy was still struggling to emerge from recession. It then injected the cash in tranches over the following 11 months, after which it closed off the scheme.

Did it work?

According to research recently published by the Bank of England, yes. A report from the Bank found the stimulus measure provided a 'significant' benefit to growth and helped GDP (Gross Domestic Product) increase by around 1.5 per cent and 2 per cent. This was equivalent to dropping interest rates by between 1.5 per cent and 3 per cent, the Bank found. Others are more sceptical that it is possible to attribute such economic dividends to QE.

Does it fuel inflation?

Again, according to the Bank, not as much as many had expected it to. Its study found the consumer prices index rate of inflation increased by between 0.75 per cent and 1.5 per cent following the last round of QE. But inflation now stands at 4.5 per cent, way above the Government's 2 per cent target.

Why is more QE needed?

The UK economy looks in danger of slipping into a second dip of recession. Data on the economy is increasingly downbeat, with second-quarter growth downgraded to just 0.1 per cent, and instability in financial markets and the Eurozone debt crisis have raised the risk of another recession. Also, banks are worried about the strength of their finances and are not lending to businesses or individuals.

Will it work again?

Fears of debt contagion from Europe and major changes to regulation in the UK still mean banks are being cautious with their balance sheets: they could just hoard the cash they get from selling assets to the Bank.

What about inflation?

The Bank will say that QE is necessary to stop inflation falling too far below its 2 per cent inflation target on the two year horizon.

divorce & your pension

When going through a divorce, the Court is required to take your pension rights into account, as this is seen as a shared asset.

So what options are there when it comes to dividing a pension?
Through the Court, a divorcing couple can choose either
- Balance the pension rights against another asset, such as the matrimonial home (this is known as Pension Offsetting)
- Arrange that when one party's pension eventually comes into payment, a portion of it will be paid to the other party (this is known as Pension Earmarking)
- Split the pension at the time of the divorce to give both parties their own pension pot for the future (this is known as Pension Sharing).

To make the correct decisions you will need to know what you and your former spouse's pensions are approximately worth. This will mean that both of you will need to ask your pension providers for valuations of your own pension pots.

You will need to understand the implications of each of these three ways of taking pension rights into account in a divorce settlement. You need to be very aware that transferring from a final salary or career average scheme to a money purchase scheme (or personal pension plan) carries a number of risks. You should consider taking professional financial advice before sharing a pension so that you understand whether you are getting value for money.

If the Court so wishes, it can issue a Court Order to occupational pension schemes, personal pension schemes, retirement annuity contracts, and Section 32 Buy-out plans to investigate further. The Court can also consider pension plans that you and your former spouse are currently paying into, plans that you have preserved in the past and plans that are currently paying you an income.

Arrangements outside the scope of the legislative provisions covering divorce are state benefits, Equivalent Pension Benefits earned between 1961 and 1975, and any pension rights a person is in receipt of by virtue of being a widow, widower, or dependant.

The Three Options

Pension Offsetting

All the couple's assets are taken into account and pension benefits are offset against other assets, like the matrimonial home. The party with the pension rights keeps them for him/herself and the other party is given the benefit of other assets, such as the right to live in the matrimonial home.

It can be difficult to achieve a fair share of a couple's total assets by offsetting a pension pot against other assets. This may be because the pension pot is by far the greater in value. Also pension values tend to fluctuate more than property values. If offsetting is not deemed fair then one or another of the alternative options is likely to be used.

Earmarking

The pension scheme, on instruction from the Court, pays a specified amount of the member's pension and/or lump sum (in England, Wales and Northern Ireland) or a specified amount of the member's lump sum only (in Scotland) to the ex-spouse.
The amount is specified at the time of the divorce but as with all periodical payment orders, either party can apply to the Court to have the amount varied. The payment is made when the spouse with the pension pot retires, or when they die.

The downside with Earmarking is that it does not achieve a 'clean break' and does not enable the ex-spouse to receive retirement income until the spouse with the pension pot retires. An additional drawback is that if the Divorce Order is for the regular payment of a pension, those payments will stop when the spouse with the pension pot dies or if the party receiving the earmarked pension remarries.

Pension Sharing

The pension sharing option is to separate the ex-spouse's benefit entitlement, as specified in the Court Order, from the pension scheme member's, so that there is a 'clean break'.
A Pension Sharing Order is issued that creates a Pension Credit Member (the ex-spouse) and a Pension Debit Member (the member).

The Pension Credit is based on the member's Cash Equivalent Transfer Value (CETV).
The Credit will be a percentage of the CETV, not a fixed sum of money. The CETV is calculated as of the day before the Pension Sharing Order takes effect, so it can be higher or lower than the value disclosed at the start of the divorce proceedings.

You should consider taking professional financial advice before sharing a pension so that you understand whether you are getting value for money.

Income protection

Many Britons have no insurance policy in place to protect them in the event that they become injured or suffer an illness which places their income in jeopardy. So what happens in these instances, will you still receive a sufficient monthly income to accommodate the most of your outgoings, especially the essential ones?

An income protection insurance policy would make the difference between ensuring you could continue a normal life whilst you recovered or up until you retired, whichever came first. Completely bespoke solutions are currently offered by insurance companies who provide an excellent range of solutions based on the information you provide. Whether you are looking to cover your income of up to £20,000 or £30,000 which is the average figure for income protection insurance policies, or more, the possibilities to do so are available depending on how much you want to spend.

With any income protection insurance policy, you need to be thorough and look at all the different points of a particular policy, as each one can and will offer different levels of cover and benefits. For example when arranging Income Protection, you need to choose the type of protection best for you and a very important point to mention is the choice of something called the 'occupation class' of a insurance policy.

It is this factor that many insurers will use to reach a decision on whether to pay out your claim or not. Obviously validating your claim is important, what would be the point of taking out insurance in the first place otherwise? Different insurers will offer various 'occupation class' definitions depending on the types of insurance that they offer.

The main choices are as follows:

Own Occupation Class – this type of income protection insurance is often the best as an individual can claim if he or she cannot do their stated job or occupation due to illness or injury or any other specific reason. This means that if you are unable to complete your normal duties such as a physical job, you can receive a successful payout and still consider a job that involves working from home for example.

Any Occupation Class – this one is the trickier option and one that can leave you in a vulnerable position with insurance providers. 'Any occupation' relates to being unable to work at any job whatsoever. With 'any occupation' class insurance, you would not be paid out if you were to do anything that can be classed as working.

Suited Occupation Class – A plan using the 'suited occupation' provides a lesser degree of cover than a policy with the 'own occupation' definition. Under this definition the insurer may require you to return to work in an occupation for which you are suited. The insurer will determine what is a suited occupation based on your skills, training, qualifications and experience.

Ensuring that you understand all the policy details and the benefits you would be entitled to receive in the event of having to make a claim is important and you should familiarise yourself with all the various conditions of a particular insurance policy before making your final decision.

Pensioners tax

A Government appointed body is considering radical reforms to the way pensioners are paying tax, after thousands were hit with shock bills in the past year.

The Office of Tax Simplification (OTS) has been set up with the specific purpose of making the UK tax system easier, it is collecting evidence on the chaos that has engulfed pensioners since HM Revenue & Customs began aggressively chasing tax it had previously failed to collect. Most pensioners are innocent victims of a complicated and intimidating tax system.

Some pay too much as they do not claim allowances and reliefs which they are entitled to. Others pay too little because they do not understand tax forms and are then presented with large bills.

Pension "Accountant" problems

One of the major problems with tax for pensioners is that many spend their entire working life having their tax organised and deducted from their salary by their employer through the PAYE system.

Many people check their tax bill every month and then trust it is right. Yet at age 65, pensioners are expected suddenly to understand complex tax forms as if qualified in accountancy.

Pensioners who only ever had one job, will suddenly have several sources of income, such as the state pension, one or more private pensions, a part-time job and savings income.

They also receive higher tax allowances, but as they must claim these some miss out. Some of the pitfalls of pensioners' tax are:

- Pensioners with incomes over £24,000 lose their higher tax allowance at the rate of £1 for every £2 of income
- Many pensioners receive a married couples tax allowance, but this is even more complex as it is only given at 10p in the £1
- Some benefits such as the basic state pension are taxable, but others such as war widows pension are not
- The state pension is taxable, but paid untaxed
- Savings products that pay income may be taxable at seven different rates - 0, 10, 20, 32.5, 40, 42.5 or 50 per cent.
- Some investments, such as building society accounts, can be taxed at source, but pensioners may be able to reclaim some tax. Others, such as some National Savings & Investments products, are paid without tax being deducted, but pensioners must work out the tax and pay it later

Pensioner Tax Allowances

- The personal allowance for those aged 65 to 74 is £9,940 for this tax year (April 6, 2011, to April 5, 2012).Personal allowances for those aged 75 and over are £10,090.
- Once taxable income exceeds £24,000 a year, these higher personal allowances are removed at the rate of £1 for every £2 of income. Pensioners aged 65 to 74 with an income over £28,930 and those aged over 75 with incomes of more than £29,230 receive the basic personal allowance of £7,475.
- Those who are certified blind and on a local authority register (or who live in Scotland or Northern Ireland and are unable to perform work for which eyesight is essential) are entitled to an extra £1,980 on their personal allowance. Non-taxpayers can transfer this allowance to their spouse or civil partner.
- The basic state pension is taxable and should be shown on your Coding Notice. Someone on the single person's basic state pension of £102.15 a week will have their personal allowance reduced by £5,312 to account for this. This should reduce the tax allowance of someone aged 65 to 74 to £4,628 and make their tax code 462P.
- Someone receiving the full married couples' pension of £163.45 (which is paid only to those whose wife or civil partner does not have their own state pension) would see their personal allowance reduced by £8,499. This should leave a married 65 to 74-year-old a tax allowance of about £1,441.

What is HMRC doing to help?

HMRC says it is trialling a new way of handling phone calls. It says it has streamlined its administration of extra-statutory concession A19 claims. An A19 form covers the situation when HMRC delays in using information and this results in an underpayment of income tax by an individual.

It is also reviewing how tax calculations are set out on its notorious P800 forms, which ask for tax owed and an improved version should be ready soon.

To discuss how you can get the most out of your retirement planning, please contact us for further information

Gifting Money

You can gift money to your children to your heart's content, but while there's no limit to how much you can give there are tax implications to consider.

Inheritance tax
The main concern for many parents when gifting money is that their children will face an inheritance tax bill should the parents pass away.

Inheritance tax gives the Government a piece of your estate before you pass it on to your loved ones. It is also applied to any monetary gifts you give in the 7 years preceding your death.

The first £325,000 of everything you own is exempt from inheritance tax (it is referred to as the nil rate band), but any amount over this is taxed at 40 per cent.

The exception being, if you are married or in a civil partnership then you can pass your full estate to your spouse in the event of your death without paying any inheritance tax.

By doing this you pass on your £325,000 inheritance tax exemption, so £650,000 of your combined estate would remain free from inheritance tax on second death.
The inheritance tax threshold was frozen at £325,000 in 2010 and it will not increase again until at least 2014.

Annual allowance
Everyone gets an annual gifting allowance which allows you to gift a certain amount of money to anyone you choose each year without needing to pay inheritance tax.

The annual allowance for the 2011/12 tax is £3,000, which means you can gift up to £3,000 to anyone. This £3,000 is a total sum regardless of how you choose to split it between your chosen people.

Additionally, if you have not used last year's allowance you can gift £6,000 this year and still avoid inheritance tax issues.

Special occasions
Parents can currently give their son or daughter up to £5,000 as a wedding or civil partnership gift, tax free. Lower limits apply to grandparents and friends who wish to make gifts on this special occasion.

Small cash gifts are also exempt and each year you can give up to £250 to as many people as you like, providing it is not part of your annual exemption allowance.

Regular payments
Regular payments are excluded from inheritance tax liability, as long as they come from your income (not your savings) and do not affect your lifestyle. So you could pay your children a regular monthly amount.

Selling your house
It is likely that any value in your home will be the main asset that will put your estate into the inheritance tax bracket.

However, selling your home and gifting the money to your children, moving in with your children or even pooling your resources to purchase a new home together could see them face an inheritance bill later on, even beyond the seven year exemption rule.

This is called 'gifts with reservation of benefit', and works like this; if you give your home to your children but continue to live there, or move in with them, they are no longer exempt as you will continue to benefit from them. Consequently the seven year exemption does not apply and the gift will still be liable for inheritance tax on your passing. The exception is where you pay a market rent for use of the property.

Income tax
Gifts are not eligible for income tax as they are not classed as source of income by HMRC. Therefore you do not need to worry about your children's income tax liability when gifting money to your son or daughter, providing they are over the age of 18.

Caring long term

The need for nursing care in old age is a real worry as it can wipe out a lifetime's savings but experts hope that proposed reforms will encourage more insurers to offer suitable cover

With state help currently at a bare minimum and nursing home costs running at an average of £36,000 a year, many people are facing the burden of these costs from savings or by using their assets, like their home.

The Dilnot Commission report, recently recommended capping the amount an individual has to pay to meet adult care at between £25,000 and £50,000, with £35,000 selected as the ideal figure.

Having a figure makes planning clearer, experts say, without the uncertainty of having to sell the family home. The Dilnot report is saying that if you are requiring care you will only need to fund the first £35,000, rather than providing an open ended cheque which could run into hundreds of thousands.

Once an individual has reached this £35,000 ceiling the state would then help out. However, this ceiling does exclude "hotel expenses" such as accommodation and food, with annual contributions of between £7,000 and £10,000 deemed appropriate.

For those with few assets or wealth to meet their personal contribution, it has also been suggested that the upper threshold on assets a person can keep to qualify for means-tested state help should be raised from £23,250 to £100,000.

Presently, local authority support is based on an individual's income and savings, and if low the state may help you to pay for your long-term care costs, but because this assessment includes property, savings, investments and pensions, you could have to cover care costs on your own.

If you have assets worth over £23,250 and live in England you will have to pay for everything.

The report states that while under the present system if you had lifetime care costs of £150,000, you could lose up to 90 per cent of your accumulated wealth. With the introduction of a £35,000 cap and extended means test, you would spend no more than 30 per cent of your assets on care costs.

Having a visual cap has encouraged insurers into the market, something that is really needed. Current insurance premiums are based on your health, age, sex and, of course, the amount of income you want, which is typically designed to cover part of your care costs with the rest met by state benefits and your income.

It is hoped that if these current insurance policies could be adapted to cover a limited sum, like the first £35,000 that individuals are expected to pay without state help, they could become more affordable. Those in the industry believe that Dilnot is creating a climate which makes it easier for financial products and insurance to grow.

This target of £35,000 which will grow during your lifetime makes decisions easier for consumers who prefer to self-insure, as well as insurers looking to price products, as they evolve.

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