SIMPLYMONEY

Unit 5, Shepcote Office Village, Shepcote Lane
Sheffield S9 1TG

Tel: 0114 249 3444 | Email: sheffield@i2ifa.co.uk

i2 RETIREMENT & FINANCIAL PLANNING

58 Station Road, Sandiacre
Nottingham, NG10 5AS

Tel: 0115 939 2626 | Email: nottingham@i2ifa.co.uk

www.i2ifa.co.uk

YOUR WINDOW ON FINANCIAL ISSUES

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INSIDE THIS ISSUE

ARE YOU DUE A FINANCIAL MOT?

Whilst we regularly service our cars, we don't always pay the same attention to our money. Are your finances in good shape? Or are they in need of a tune-up? If you're not sure about the diagnosis, it's time to get a financial health check.

Are you getting the best mortgage deal?

It's worth reviewing your mortgage from time to time. With interest rates likely to rise sooner rather than later, it makes sense to consult your adviser as there may be a more suitable deal available for you.

Are you using all your tax breaks?

The annual limit for New Individual Savings Accounts (NISAs) is, from July 2014, a massive £15,000. NISAs represent an excellent tax-efficient way of saving, so don't miss out on this major tax advantage.

Pensions offer generous tax breaks. If you are a basic-rate taxpayer making a pension contribution of £10,000, this will in effect only cost you £8,000, once income tax relief has been applied. If you are a higher-rate taxpayer, the net cost to you would be just £6,000.

Is your pension plan in good shape?

Everyone should ensure they are maximising their pension contributions. If you're due to retire shortly, it's worth talking to your adviser about the changes in legislation that come into effect from April 2015, which give you more options for your pension pot.

Is your will up-to-date?

Having no will means that your assets, money and possessions may not end up where you intended if you die. If you have a will, but your circumstances have changed through marriage (which would usually invalidate it) or death of a spouse or other life-changing event, it's worth reviewing the content and ensuring it reflects your current wishes.

Do you have enough life assurance?

Do you have the right cover? Our life assurance needs change as we get older. Your financial adviser can help by reviewing your policies and highlighting areas of risk.

Take a look at your savings and investments

Savings and investments you acquired a while back may not meet your current financial needs or represent the best currently available.

It makes sense to review your finances regularly with your financial adviser to ensure they're running smoothly.

Will writing and estate planning services are not regulated by the Financial Conduct Authority

CITY CHAT

Scams still rife

It seems some UK investors are still falling for the scams of persuasive salesmen based abroad. Sometimes they access share registers to create a plausible entrée when contacting a victim, so Equiniti, Capita and other registrars sometimes warn shareholders of the risk.

The Financial Conduct Authority is also active in protecting the interests of investors, though it must be careful what accusations it levels at overseas firms. This may mean it issues a general warning about dealing with unauthorised firms, adding that a named firm has no authorisation to provide financial services or products in the UK.

Best advice from the City is to shun any suspect approaches received by phone, post or email and stick with a verified FCA authorised firm.

DON'T DIE 'INTESTATE'

Having no will means that your assets, money and possessions may not end up where you intended when you die. New rules on what happens when someone dies without making a will came into force on 1 October 2014.

How are the rules changing?

The changes affect the intestacy rules, which govern how a person's assets are distributed if they die without a will – which is known as dying 'intestate'.

Under the existing rules, where someone dies intestate, leaving a spouse or civil partner and direct descendants such as children, and grandchildren, the spouse or partner would take the first £250,000 and personal belongings. They would then have a life interest in one half of the balance, and the children would take the other half of the balance. A life interest means that that the surviving spouse can use the property or receive its income until they die, when the property passes to the children.

Under the new rules, the main beneficiary is the surviving spouse or civil partner who still gets the first £250,000 and personal belongings, but they receive half the balance absolutely. The remainder of the balance goes to the children.

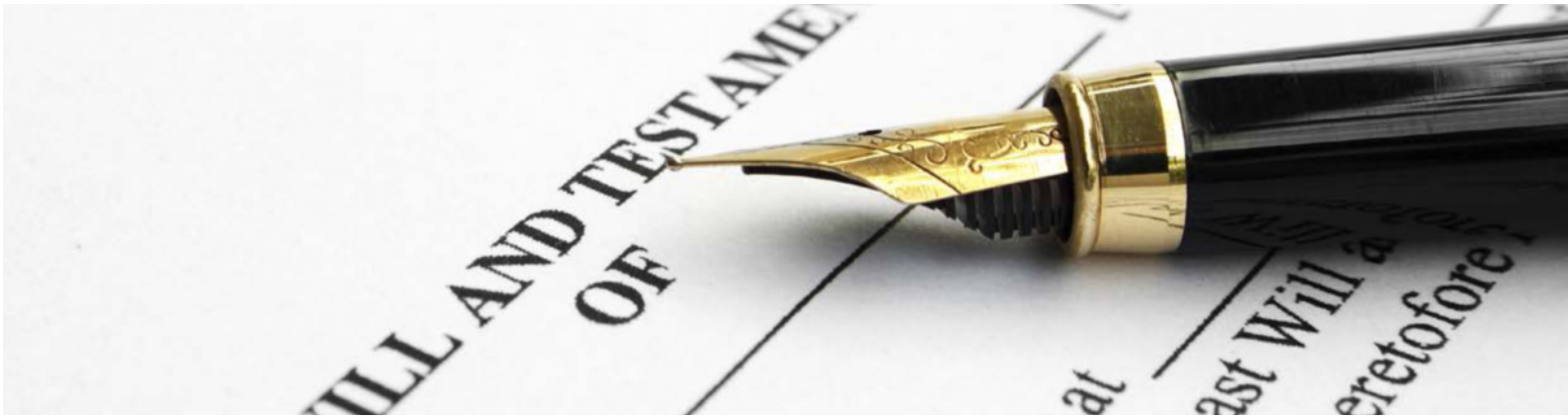
Another change is that, where a person dies intestate and leaves a spouse or civil partner but no children, the surviving spouse or partner will take the whole estate.

Making your will should be top of your 'to do' list

Whatever your marital status, it's worth making a will – but if you're not married and have significant assets, such as property in sole names, then it should be top of your list. It's also important where there is a second marriage with children from previous relationships.

Making a will is something that people often put off, but it's not a difficult thing to do and it means that you get the outcome you want. If you have a will but your circumstances have changed through marriage (which normally invalidates an earlier will) or death of a spouse or other life-changing event, it is worth reviewing the content and ensuring it reflects your current wishes.

Will writing and estate planning services are not regulated by the Financial Conduct Authority



NISAs – NICE AND SIMPLE DOES IT

NISAs have found favour with savers, with a record £4.9bn going into cash NISAs in July 2014 according to the British Bankers' Association.

So what's changed?

- The annual allowance from 1 July 2014 is £15,000 – a big jump
- More choice – you can put up £15,000 in either a cash NISA or a stocks and shares NISA, or any combination up to the £15,000 limit
- Savers can hold cash and investments within their stocks and shares ISA, so no need for two separate accounts (if the provider allows this)
- More flexibility to earn tax-free interest (with freedom to switch NISA investments – and ISAs from earlier years – from stocks and shares to cash and vice versa, subject to provider terms)
- Junior ISAs – the limit is now £4,000.

With interest rates low, cash NISAs offer enhanced returns because of their tax-free status (a major advantage is that you don't need to record NISAs on your tax return). For a basic-rate taxpayer, the return in a NISA is worth 25% more because of the tax effect, for higher-rate taxpayers, it is worth 66.6% more.

Stocks and shares NISAs are slightly different. Investments inside a NISA aren't completely tax-free, but there are advantages:

- No tax on gains. Invest outside an ISA and any profits made above the annual capital gains tax exempt amount (£11,000 for tax year 2014-15) would be subject to tax at 18% for basic rate taxpayers and 28% for higher-rate and additional-rate taxpayers.
- Income earned from any share investments is taxed at 10%. So while basic-rate taxpayers would pay the same outside a NISA, this is a significant saving for higher and additional-rate taxpayers who would otherwise pay 32.5% and 37.5% respectively (tax year 2014-2015).

Levels and bases of and reliefs from taxation are subject to change and their value depends on the individual investor

IS IT WORTH MARRYING FOR MONEY?

Most of us marry for love, but tying the knot still brings financial advantages too. It's commonly believed that co-habitees have the same rights as married couples, but in fact this isn't the case.

The Government plans to introduce a married person's tax break in April 2015. Rather than rewarding all married people with a higher tax allowance, the marriage transferable tax allowance will allow married couples and civil partners to transfer up to £1,050 of their personal allowance to their partner. This is only available where neither person is a higher-rate tax payer.

Some married people already benefit from an income tax break. If either person was born before April 1935, they are entitled to the married couple's allowance. The maximum allowance in tax year 2014-2015 is £8,165.

There are Capital Gains Tax (CGT) advantages too. CGT is payable at 18%, or 28% if your income pushes you into the higher rate tax band, on gains you make in excess of the annual exempt amount (£11,000 in 2014-2015). Married couples and civil partners can transfer assets to each other without triggering a CGT charge. This means they can take advantage of both their annual allowances to reduce a tax liability.

Pension perks

When it comes to pensions, being married has advantages also. For example, although a spouse will be eligible for a widow's or widower's pension, this isn't automatically the case if the couple aren't married. There are often conditions that apply that typically require the couple to be financially dependent on each other and living as if married. They also need to be free to marry, so this would exclude anyone who wasn't divorced from a previous spouse.

But where it's particularly advantageous to be married or in a civil partnership is if your partner uses drawdown to access their pension. A pension fund can pass tax-free to anyone at all on death before retirement but, once income is being drawn from it, it will be subject to a tax charge on death unless it passes as pension income to a surviving spouse or civil partner.

Tax planning can be complicated; it's always a good idea to seek professional advice.

DOWNSIZING IN RETIREMENT – IS LESS MORE?

With property prices continuing to make headlines, many people nearing retirement are contemplating the financial advantages of downsizing to a smaller property.

Moving somewhere smaller can slash household running costs such as heating bills and council tax. And if you end up with spare cash you can invest tax efficiently to augment your retirement income. With the annual allowance for tax year 2014-2015 standing at £15,000, a New Individual Savings Account (NISA) could be a great place to deposit a lump sum or make regular payments of smaller amounts and get tax benefits.

You could otherwise use the cash you've released to help family members buy a place of their own by helping with their deposit, or invest in a property for them to live in that you jointly own. (You would need advice on the Capital Gains Tax and Inheritance Tax implications.)

A step too far?

Moving house later in life can be too much of a wrench, but there is an alternative way of raising cash against the value of your property that means you could continue to live in it and avoid moving. Equity release allows you to benefit from the 'equity', or value tied up in your home, in the form of a loan. (As releasing equity from your home might result in your relatives inheriting less than they had anticipated, it makes good sense to discuss the implications with your family and financial adviser).

Downsizing shouldn't be a substitute for proper retirement planning; it would be dangerous to assume that property prices will continue to rise for years to come.

This is a lifetime mortgage. To understand the features and risks, ask for a personalised illustration.

THE MMR STRESS TEST – ARE MORTGAGES UNDER PRESSURE?

When the Financial Conduct Authority (FCA) introduced its Mortgage Market Review (MMR) in April 2014, the media seized on its proposals and forecast that mortgages would become much harder to get, and that the increasingly-buoyant housing market would soon start to cool down.

The MMR proposals are designed to prevent a return to the high levels of sometimes risky mortgage lending that preceded the housing bubble that built up and finally burst in 2008.

It has also been recommended that banks and building societies restrict lending of large loans (those greater than 4.5 times income) to 15% of mortgages.

However, the signs are that the new mortgage rules are proving to have had less of a sudden impact and have been more of a gentle dampener. Figures released from the Council of Mortgage Lenders show that gross lending in July 2014 reached its highest monthly total since August 2008, at £19.1bn.

Increased focus on buyers' budgets

Under the MMR, lenders are required to ask potential homebuyers detailed questions about their lifestyles and spending habits. The focus is on the continuing ability of borrowers to meet monthly mortgage repayments once interest rates rise. With the Governor of the Bank of England warning that interest rates are likely to rise to 2.5% within three years, it's important to be able to demonstrate that borrowers could meet increased repayments as rates rise to this level.

Lenders are placing greater emphasis on probing expenditure in the household budget and how much spare cash borrowers can access.

However, the general view in the marketplace remains optimistic; the first-time buyer market is still very active. As the economic recovery gathers momentum, more buyers are finding themselves in a position where they can afford their own home. Many are opting for longer repayment terms. Figures from the Council of Mortgage Lenders show that of the almost 80,000 first-time buyers in the second quarter of 2014, more than 22,000 took out mortgages with terms exceeding 30 years, an increase of nearly 10 per cent since 2010. The expectation is that they will lower their repayment term as their incomes rise.

All the signs are that lenders are still prepared to grant mortgages as long as borrowers can show they can readily afford them. An independent financial adviser or mortgage broker can help you find the best mortgage to suit your financial circumstances.

CITY CHAT

Tesco, eggs and baskets

In past years, investors were shocked when major companies cut their dividends or suspended them altogether. BT, Lloyds Banking Group and transport operator FirstGroup have been among them. Lloyds and First have yet to resume dividend payments.

More recently, in late August, came the news that Tesco was cutting its interim dividend by three-quarters after a fall in profits. This further highlighted the importance of spreading risk – perhaps through a unit trust or OEIC – particularly if reliant on dividend income.

Even where a company is in the FTSE100 or 250 and a household name, it remains risky to put all your eggs into just one basket. (This is not a recommendation to buy, sell, hold or avoid any particular company's shares.)