News - February 2015

Is the government wising up to pensions?

The Treasury has rebranded its 'guidance guarantee'.

The 'guidance guarantee' was one feature of the new pension tax regime on which the Chancellor placed considerable emphasis when he made his surprise Budget announcement last March. The initial consultation paper said "…choice on its own is not enough. Consumers need to be able to make informed decisions. We will therefore guarantee that individuals approaching retirement will receive free and impartial face-to-face guidance to help them make the choices that best suit their needs."

Although Mr Osborne used the word 'advice' in his Budget speech, it became clear very soon that free advice was not being offered. Similarly the 'face-to-face' aspect was quickly watered down to less expensive forms of communication, such as a telephone based service. Initially the government said that the Pensions Advisory Service (TPAS) and the Money Advice Service (MAS) would be the two main bodies to supply the guidance. However, in October, less than six months before the new rules begin, the MAS was replaced by the Citizens Advice Bureau.

In January the Treasury "unveiled the name and logo of the new pensions guidance service": Pension wise. In theory this service could have to deal with "over 300,000 individuals a year" and "will be a first port of call for consumers" approaching retirement with defined contribution pension plans. In practice many pension people are sceptical about what Pension wise can deliver. Not only are there question marks over finding and training appropriate personnel in such a short timeframe, but there are also concerns that what many near retirees want is advice, not a guidance shopping list from which *they* have to choose. Any complaints about the guidance will go to the Parliamentary and Health Service Ombudsman, rather than a financial services regulator/ombudsman.

If you are nearing the point at which you want to start using your retirement fund, then we believe your starting point should be to take professional advice. Pension wise will not deliver ongoing advice based on a full knowledge of your personal circumstances. Although it will be free, it will be generic information and, more importantly, a one-off exercise. Next year, when your 12 months old pension arrangements need review, you may need more detailed information.

The value of tax reliefs depends on your individual circumstances. Tax laws can change. 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.

Inheriting your partner's Individual savings account

More details have emerged about how ISAs can be inherited.

One of the rabbit-out-the-hat features of December's Autumn Statement was the announcement that if you outlived your spouse or civil partner you could 'inherit' their ISA. It sounded an attractive option, but the idea was far from developed when Mr Osborne made it public at the end of last year.

The Treasury and HMRC have now issued further information and a set of draft regulations. The effect of the regulations in their current form will be to:

- Permit a surviving spouse/civil partner to make an additional ISA subscription equal to the value of the deceased spouse's/partner's ISA at the date of their death;
- Allow non-cash holdings (e.g. unit trusts, OEICs and shares) in the deceased spouse's/partner's ISA to form part or all of the subscription; and
- Set a time limit for the subscriptions, broadly 180 days after administration of the estate is complete or, in the case of cash assets, three years from the date of death, if later.

The opportunity to transfer existing ISA investments is helpful – the Autumn Statement had appeared to suggest that investments would have to be realised and subscriptions could only be in cash. However, the current regulations leave unchanged what happens between the date of death and the new subscription being made. That will mean the ISA assets will be taxable as part of the estate between the date of death and the making of the subscription. To complicate matters further, because the subscription value is fixed at the date of death, a transfer of non-cash holdings will be affected by changes in value before the subscription is made.

The Treasury says the cost of this reform will be negligible in revenue terms – £10m in 2019/20 – but if the two of you regularly take full advantage of your ISA limits, it could prove a valuable benefit for the survivor.

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Tax year end planning: investments

The Budget is on 18 March and the tax year ends on Easter Sunday (5 April).

This year's Budget will take place within a fortnight of Parliament winding up ahead of the general election on 7 May. That means little time to pass legislation, so there may be another Budget (of some sort) after the election – as occurred in 2010. So when you're undertaking year end planning for 2014/15, you also need to keep an eye on possible pre-election tactics, too.

Among the items to review on the investment front are:

- *Individual savings accounts (ISAs)* The maximum ISA investment in 2014/15 is £15,000 and, following last year's Budget changes, there are no restrictions on how much of this limit you can invest in cash (although currently available interest rates are something of a disincentive). Unused ISA allowances cannot be carried forward, so you should normally contribute as much as possible each tax year. A change of government might see some erosion of tax benefits of ISAs. In 2013 the Treasury examined the option of capping their value and the idea could be revisited by a new Chancellor.

- *Capital gains tax (CGT)* In the 2014/15 tax year you can realise gains of up to £11,000 with no capital gains tax liability. And once 2015/16 begins on 6 April you will have another £11,100 annual exemption to use. If you have the gains, then using both years' exemptions could be a wise precaution: both Labour and the Liberal Democrats have floated the idea of CGT reform. You cannot simply sell and then immediately repurchase to crystallise a gain, but there are other options which have similar effect. For example you could sell your holding in an investment fund and then reinvest in the same fund via an ISA or a SIPP.

- *Venture Capital Trusts (VCTs)* These high risk investments can be an important element of year end planning because of the initial 30% income tax relief and other tax benefits they offer. This year two of the largest VCT managers have virtually withdrawn from the market for new monies, which could mean that if you leave investment until the last moment, your choice of VCTs may be limited. With an eye to the election, most VCTs will allow investments to be allocated between this and next tax year.

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Tax year end planning: pensions

The new tax rules are due from 6 April, but there is still plenty to consider before then.

The current tax year has been a transitional one on the pension front. It has seen the annual allowance reduced by 20% to £40,000 and the lifetime allowance cut by a sixth to £1.25m. There has also been a raft of temporary transitional provisions introduced ahead of the new regime for 2015/16 onwards.

The key area to consider for both this and next tax year is whether to make some one-off contributions. There has been much political discussion about changing tax relief on contributions:

- *The Labour Party* has said that it will reduce higher rate tax relief on contributions to fund job creation. More details should soon emerge in their manifesto.

- *The Liberal Democrats*, and in particular the current Pensions Minister, Steve Webb, are considering a single flat rate of relief on pension contributions between 20% and 30%.

- *The Conservatives* have made no announcements, but a leading think tank closely associated with the party has also proposed moving to a flat rate relief system.

Income tax relief on pensions cost £27.9bn in 2012/13, with another £15.2bn cost for national insurance contribution relief on employer's contributions, according to HMRC. Given the current state of government finances, any post-election Chancellor could be tempted by such low hanging fruit.

If you wish to make large pre-emptive pension contributions, please contact us as soon as possible. Maximising contributions can require a considerable amount of data to be collected, which takes time.

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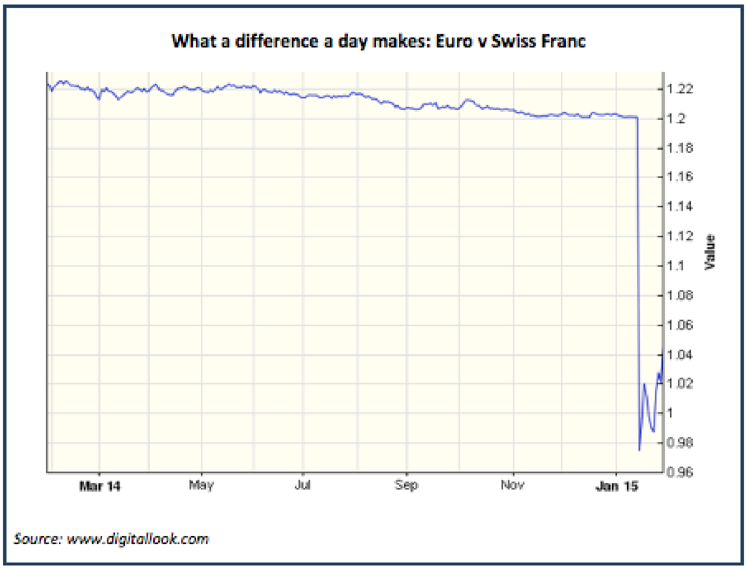
A currency-dominated month

January saw plenty of excitement on the currency front.

The first month of 2015 saw plenty of excitement regarding foreign exchanges.
At 10.30 am on 15 January the Swiss Central Bank surprised the foreign exchange markets by announcing that it would no longer attempt to keep the Swiss Franc pegged at a rate of €1.20. The peg had been in being since 2011 with the aim of curtailing speculation and protecting Swiss exporters. As the graph shows, when the peg was removed the euro fell sharply against the Swiss Franc and has since settled at close to parity.



The Swiss central bank's move was attributed – somewhat with the benefit of hindsight – to action expected to be taken by the European Central Bank (ECB) the following week. This did come to pass, with the ECB at last announcing the start of quantitative easing (QE). As the ECB had been hinting at such a move for some while, the impact on the euro was limited, but it still pushed the value of the single currency down. Had the Swiss continued to cling to their €1.20 peg, life would have been very difficult.
As at the end of January the result is that your après-ski drink in Switzerland has become about 7% more expensive, while across the border in France it is about 10% cheaper (the pound now buys about €1.34 against €1.22 a year ago). You might even find that buying from Amazon.de is less costly than via Amazon.co.uk.
From an investment point of view January's moves are a reminder that currency gyrations can undo or amplify investment returns. Some funds investing overseas never attempt to hedge currency movements, while at the opposite end of the spectrum, there are funds which are always hedged back into sterling, leaving them unaffected by exchange rate fluctuations. Sometimes getting the currency strategy correct is more rewarding than choosing the right shares.