

## Investment Solutions Bulletin – Quarter One, 2012.

### Financial Planning Opportunities

The Chancellor's Autumn Statement contained few surprises; however there are a number of opportunities for individuals to take advantage of their allowances before the end of the current tax year.

#### Pensions + Tax

It had been suggested that the Chancellor might withdraw some of the tax benefits of pension saving, notably the availability of tax-free cash (usually 25% of the value of the fund) and higher rate tax relief on contributions. In the event these fears proved unfounded but they serve as a reminder to higher rate taxpayers to take advantage of the current concessions while they last.

There were, however, other developments on the pensions front. The State Pension age is to be increased from 66 to 67 from 2026 - 8 years sooner than originally planned. This may cause some people to consider working longer or saving more, but one benefit is that retirees who have not yet accrued their maximum benefit entitlement will have a chance to top-up their National Insurance contributions.

The annual Capital Gains Tax Allowance has been frozen at its present level of £10,600 for 2012/13.

#### Junior ISAs

Junior ISAs have been available since November 2011, when they replaced Child Trust Funds. Family and friends can contribute up to £3,600 a year into either Cash or Stocks and Share accounts and from April 2013 the annual investment limit will increase in line with the Consumer Price Index.

Accounts can be established for any UK resident under the age of 18, but no withdrawals can be made before the child's 18<sup>th</sup> birthday except in the case of terminal illness or death. When the age of 18 is reached, the Junior ISA will be converted automatically into an Adult ISA.

#### Deferring Annuity Purchases

The income available to purchasers of retirement annuities has fallen by around 20% over the past 3 years and now stands at historically low levels. Consequently, many retirees are asking whether it would make sense to delay annuity purchase until rates might improve.

There is a good chance that the yield on gilt-edge securities, which are the main influence on annuity rates, will rise from current levels in the foreseeable future. It is also a given that annuity rates will rise with increasing age, as also will the likelihood of declining health qualifying the annuitant for the improved rates available from an enhanced or impaired life annuity.

However, it's not a one-way bet. Every year's deferral is a year's annuity income lost and with every passing year the period between payments starting and the Reaper coming to call gets shorter.

The answer is likely to be different for each individual, but a good way for investors with larger pension pots to hedge their bets would be to phase annuity purchases over a number of years.

### **Inheritance Tax**

No significant announcements were made on Inheritance Tax. This will come as a relief to some as there was much speculation about further restrictions to business property relief being introduced. There is still considerable scope for planning for those affected or likely to become affected in the future.

Most of us will be aware that the Nil Rate Band has been frozen at £325,000 since the 2009/2010-tax year. Ordinarily this would be quite serious but it has coincided with a rocky period for house prices and the stock market and as a result the Exchequer has seen a downward trend in the Inheritance Tax taken since the transferable Nil Rate Band was introduced in October 2007.

However as asset values start to recover, more clients will find their estate liable to IHT. Simple strategies like putting life insurance policies in Trust and using Bypass Trusts to ensure that pension death benefits are not subjected to tax on second death should be considered in all cases, while insurance-based arrangements – such as Discounted Gift Trusts, will continue to prove invaluable to those with more complex requirements.

### **In Summary**

As expected, the Chancellor's second Autumn Statement contained no major policy changes and only a few surprises.

However, the devil is likely to be in the detail of the draft Finance Bill clauses.

Some of the pension changes together with the continued uncertainty over the future of the current IHT regime provide some big opportunities for re-evaluating your financial affairs.

**At Investment Solutions, as an Independent Firm of Financial Advisers, we are appropriately placed to provide advice covering all regulated financial planning. Should you wish to discuss any aspect of your financial planning then please do not hesitate to contact us.**

**All the very best wishes for 2012!**

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