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Autumn 2015

Bulletin

Time for a protection review

The July Budget produced a raft of changes including cuts to the tune of £12 billion to the working age welfare bill.

This means that everyone who relies on a salary or income from self-employment should urgently review how they would manage if they were unable to work as the result of a serious illness or accident.

Employment and Support Allowance (ESA) of up to £102.15 a week is currently paid if you can't work because of sickness or disability. The system creates an incentive to claim sickness benefits over Jobseeker's Allowance which is just £73.10 a week. However, from April 2017, new claimants of ESA will receive the same low rate as those claiming Jobseeker's Allowance, alongside some additional support to help them take steps back to work.

Support for Mortgage Interest (SMI) is currently available for homeowners getting income-related Employment and Support Allowance, income-based Jobseekers Allowance, Income Support or Pension Credit to get help towards interest payments on their mortgage. Currently, those who receive help with their mortgage interest are able to do so indefinitely (two years for claims related to Jobseekers Allowance) with no need to pay anything back. The Budget proposed the conversion of the SMI scheme into a loan, so that homeowners repay the financial support they receive.

The current benefits are an inadequate safety net for most people in full-time work, so the proposed changes should act as an incentive to get proper protection in place. We would encourage you to discuss your need for critical illness cover and income protection with us. The more popular critical illness cover pays a lump sum on diagnosis of conditions such as heart attack, cancer or stroke. The average claim paid in 2013 was £60,400.

Income protection provides a tax-free monthly income once you have been unable to work for a selected period such as three months because of illness or injury. The average claim paid in 2013 was £11,500 a year. Whilst such a delay in payment may sound unattractive, this cover is much more comprehensive in terms of the medical conditions which can stop you from working. The monthly income, which can be linked to an inflation index, is paid until you return to work or reach retirement age or die. Both types of cover are necessary to protect you and your family.

Your home may be repossessed if you do not keep up repayments on your home. Tax laws can change.



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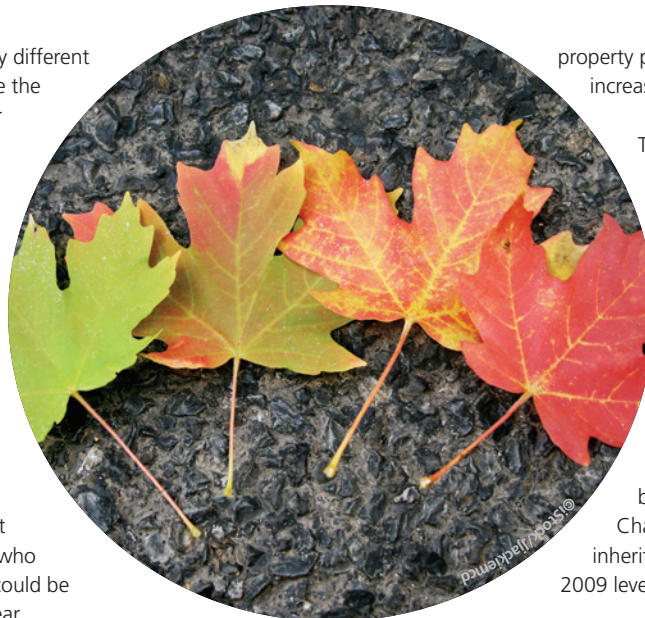
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The Summer Budget: ringing in the changes

The first Budget after an election is often the most radical and this year's post-poll offering was no exception.

The summer Budget of 2015 was a very different affair from its March predecessor. While the spring Budget marginally cut taxes over the five year period from 2015/16, the summer Budget increased taxes by more than £22bn over the same period.

One of the largest money-spinners for the Exchequer is the reform of dividend taxation taking place from 2016/17. You will be able to receive up to £5,000 of dividends with no tax liability, regardless of your tax rate, but above this new dividend allowance tax rates will be 7.5% higher than currently. If you have a large investment portfolio or you are a company owner who draws dividends instead of salary, you could be considerably worse off from next tax year.



property purchase costs, you could face a substantial increase in income tax.

There was an easing on the inheritance tax front with the introduction of a new transferable main residence nil rate band, initially set at £100,000 in 2017/18 and rising to £175,000 by 2020/21. As a result, from April 2020 a couple with a joint estate worth up to £2m will be entitled to nil rate bands totalling £1m, provided they have (or, in most cases, have had) property worth at least £350,000 that is passed to direct descendants. Above £2m the new band will be subject to a 50% taper. The Chancellor also decided to freeze the normal inheritance tax nil rate band at £325,000 (its 2009 level) for another three years, until April 2021.

Another target for extra revenue was buy-to-let residential property. From April 2016, the 10% wear and tear allowance will be replaced with a relief based on the actual costs incurred in replacing furniture. A year later, the maximum rate of tax relief on finance costs (mainly interest) for individual investors will be reduced year by year, reaching basic rate by 2020/21. If, as a buy-to-let investor, you have used a mortgage to fund part of your

These tax changes, together with many other measures announced in July, mean that an early review of your financial planning could be a wise and rewarding move.

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice.



From April 2017, a new set of bereavement benefits will be introduced. The existing combination of bereavement payment, widowed parent's allowance and age-related bereavement allowance will be replaced with a new bereavement support payment (BSP) consisting of lump sums and instalments paid over 12 months. While BSP will be tax free, it will not be as generous if your widow(er) has a young family, as widowed parent's allowance is currently payable for as long as Child Benefit can be claimed for at least one child. The reform is once again a reminder that reliance upon the state for a safety net is not to be recommended.

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Good news for holidaymakers, bad news for depositors...

The weakness of the euro is having a variety of effects – some beneficial but others not so.

In the 12 months from mid July 2014, the pound rose by over 10% against the euro. While good news for people going to the Mediterranean for a holiday, it is bad news if you hold large deposits in UK banks and building societies. The maximum depositor protection provided by the Financial Services Compensation Scheme (FSCS) is determined by an EU directive, which sets the limit at €100,000.

In December 2010, when the FSCS limit was last reset, the conversion into sterling meant cover was up to £85,000. Roll forward to 3 July 2015 and a mandatory five year review means FSCS cover has been cut to £75,000. In practice, this action taken by the Treasury means that your existing deposits will continue to benefit from £85,000 of cover until the end of the year, but from then onwards the £75,000 cap applies.

However, there is a useful new provision alongside the £10,000 cut. The government has launched a new cover for 'temporary high balances' of up to £1m for six months, covering specified payments, such as house sale proceeds and divorce settlements.

Talk to us if you are unsure about any implications for your financial situation.

Independent tax revisited

Changes to the tax system now and in 2016 mean it is time for couples to review their tax planning.

When independent tax for married couples was introduced 25 years ago, it prompted a flurry of tax planning as husbands and wives rearranged their financial affairs to reduce their tax bills. Now another set of tax changes have brought the focus back to independent tax, which also applies to civil partners.

The starting rate band This tax band applies to savings income (mainly interest). For 2015/16 this band is £5,000 and the tax rate is 0%. Unfortunately many taxpayers are unable to exploit this apparent generosity because their earnings/pension income is too high.

The personal savings allowance From 2016/17 this will give basic rate taxpayers an allowance of £1,000 to set against their savings income. Higher rate taxpayers will receive a £500 allowance, but additional rate taxpayers receive nothing. The allowance's arrival will lead banks and building societies to pay deposit interest without deduction of tax from 6 April 2016.

The dividend allowance The dividend allowance also comes into being



next tax year. The first £5,000 of dividend income will be free of personal tax, regardless of what tax rate you pay on your other income.

In theory, in 2016/17 you and your husband/wife/civil partner could each have total income of £22,000 before paying any tax. It would need to be a particular mix of income. However, establishing the right structure of income – who gets what from where – must be balanced against your long term investment goals: generating a large slice of interest income may help keep your tax bill down, but in the current economic environment it also places a low cap on your investment returns.

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice. 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 in with your overall attitude to risk and financial circumstances.

Investment in volatile times

Market volatility has been at near-record levels in recent months, as investors respond to the uncertainty in Europe, the expectation of a US interest rate rise and the problems facing China. How should we deal with it? Just go on holiday and ignore the noise or take evasive action?

What is volatility? Volatility is simply the up-and-down movements of the market. Most investors naturally find periods of high volatility rather scary. Constant news reports about, for example, the European debt crisis creates more uncertainty which can then impact the market further. Some institutional investors can take advantage of these exaggerated market movements, but most of us are certainly not in a position to do that.

Is volatility bad? Daily market moves can sometimes be dramatic, but there is often a strong relationship between volatility and long term market performance. Wren, the Wells Fargo strategist, said investors must remember that “volatility is your friend, not your enemy”. That is especially true if you believe the economy will continue to improve and inflation will remain modest. You can then look at market falls as an opportunity to put cash to work.

Should you take action? Warren Buffett, the highly successful American investor and philanthropist said “The Stock Market is designed to transfer money from the active to

the patient.” In other words, it is usually best to keep calm during periods of high market fluctuations and benefit from long term growth.

The foundation to any successful investment portfolio is firstly to establish the risk that you are willing to take with the money that you will be investing. Every asset can be risky in isolation and the best way of controlling risk is to diversify.

You should certainly make sure that your portfolio is regularly rebalanced. Rebalancing simply means that the portfolio is put back to the original percentages invested in each asset class. This rebalancing procedure has the benefit of capturing the gains made by the ‘winners’ over each period and investing those gains back into the ‘losers’. This obeys one of the key requirements of a good investment process, that of buying low and selling high and this is instrumental in ensuring that you meet your long term financial objectives.

Ways to deal with volatility There are two ways to profit from volatility: market timing and pricing. By timing we mean anticipating

the action of the stock market – to buy or hold when the future course is deemed to be upward, to sell or refrain from buying when the course is downward. By pricing we mean to buy funds when markets are particularly cheap and sell them when markets look expensive.

As financial planners we meet with many fund managers during the course of the year and few of these will make big bets on the future direction of any market, which they refer to as big macro swings, because it is very difficult to always get it right. On the other hand it is easier to get a feel for when valuations look cheap or expensive.

A major investment house, believes that time in the market, not timing the market, is the best way to proceed. So by all means go on holiday, and leave your diversified, regularly rebalanced, portfolio to take care of itself.

Past performance is not a reliable indicator of future performance. The value of your investment and the income from it can go down as well as up and you may not get back the full amount you invested.

Pension futures come into focus

The Summer Budget revealed more changes to pensions in 2016/17 and launched a consultation on the future of pension tax relief.

There were four important pension announcements in the Summer Budget:

- The lifetime allowance, which broadly sets the maximum tax-efficient value of all your pension benefits, is to be cut by 20% to £1m from 6 April 2016.
- The annual allowance, which broadly sets the maximum tax-efficient total pension contributions for a tax year, is to be cut back for high earners from 2016/17.
- There has been an overhaul of 'pension input periods', which determine the tax year to which a contribution relates for annual allowance purposes. All pension input periods will now coincide with tax years.



- The government launched a consultation paper on "Strengthening the incentive to save", examining the future of pensions tax relief. The paper notes that the gross cost of all pension relief meant "the

government sacrificed nearly £50 billion in 2013/14".

This quartet of actual and possible changes means that it is important to keep your pension arrangements under review.

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The Summer Budget introduced the concept of a National Living Wage for those age 25 and over from next April at the rate of £7.20 per hour. For a 35 hour week, that equates to £252. Coincidentally, the new single-tier state pension also begins next April. The full rate for the new pension has not yet been set, but the Department for Work and Pensions (DWP) says it is £151.25 a week in 2015/16 terms. The £100 gap between the two underlines the fact that the new state pension still needs to be supported by private provision if you are to enjoy anything like a comfortable 'living' retirement.

Found – 500,000 extra employers

The Chancellor may be reviewing the whole basis of pension taxation, but the process of automatic enrolment into workplace pensions rolls on, unaffected.

Three years ago the Pensions Regulator's annual report on automatic enrolment estimated there would be 1.3 million employers who would need to comply with the requirements of automatic enrolment. However, in the summer 2015 report, that estimate was raised by 500,000 – over a third – because of "an increase in the number of new companies that have started up, and fewer going out of business than was forecast".

The extra 500,000 employers are all at the small (5-49 employees) or micro (1-4 employees) end of the scale. They have generally not yet reached their 'staging date', when automatic enrolment is legally required to be in place. Some, such as employers of a children's nanny or carer, are only just becoming aware of their responsibilities.

The large jump in employer numbers will mean that in the peak quarter (summer 2017), 350,000 of them will reach their staging date and need to comply. The previous estimate had set the peak at 220,000. To put those numbers into perspective, in the year to 31 March 2015, 35,000 employers had completed the automatic enrolment process.

If your business has not reached its staging date, the jump in the regulator's estimate is not good news. It will create more demand for advice in a pension sector that is already under considerable pressure from a relentless flow of pension reforms. The regulator currently suggests that you should start planning approximately 12 months before your staging date. However, given the increased employer

numbers, we would recommend that you start even earlier – some bottlenecks look inevitable. We can then guide you through the various stages of automatic enrolment and help select the appropriate pension arrangement for your workforce.

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