Issue 19 Spring 2017

Viewpoint

Spring Budget
The context and headlines from Phillip Hammond's first (and last) Spring Budget.

The £1m Inheritance Tax allowance
An allowance that will add £175,000 to each parent's main residence nil-rate band.

Inflation: this time it's personal
Why is it that retirees and students face significantly higher levels of inflation than the official rate?

The importance of protection
Millions of people have insured their pets, but who will pick up the bill if something happens to you?

Simple ways to cut your spending
Most of us would like to save more each month but what's the best way to cut unnecessary spending?

Achieving your financial goals
The value of high-quality financial advice in an increasingly complex world.

Time for an upgrade
Products like critical illness insurance have changed, so it's important to make sure your cover hasn't become outdated.

Spring Budget

The backdrop to Phillip Hammond's Spring Budget was very much dictated by the events between March and November 2016. In what proved to be his last Spring Budget, George Osborne performed a range of financial gymnastics to hang onto his one remaining borrowing target, the elimination of the budget deficit by 2019/20.

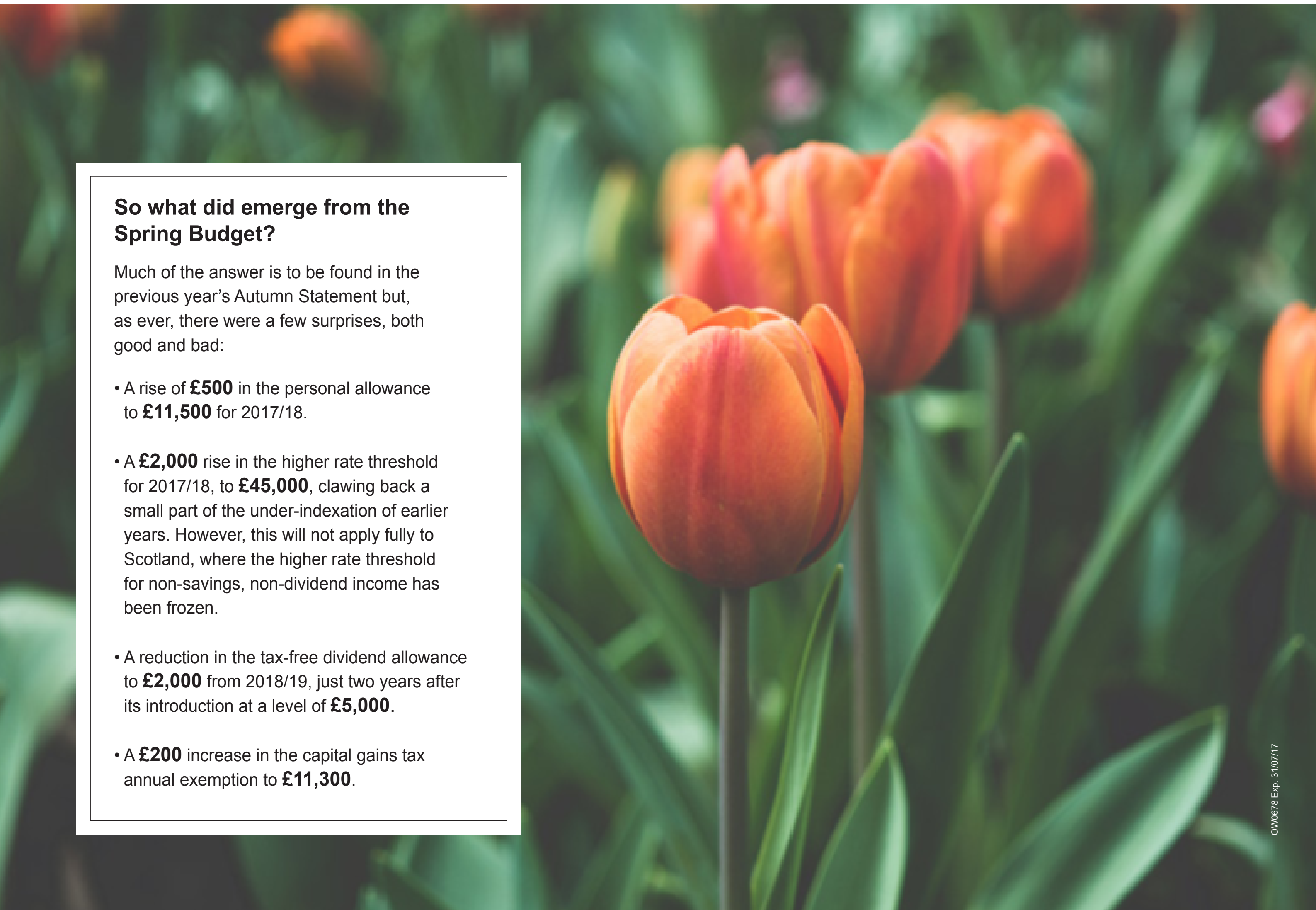
If you need further information on how you will be affected personally, please get in touch.

Even before the Brexit vote, that goal was looking unlikely to be reached. By July it – and Mr Osborne – had been abandoned. Although Mr Hammond talked early on about a "fiscal reset", he wisely waited until the Autumn Statement to reveal new numbers. These markedly increased government borrowing over the coming years and replaced Osborne's projected £10.4bn surplus in 2019/20 with a £21.9bn deficit.

That projected increase in borrowing was more a recognition of post-referendum reality than any new policy initiative. Helpfully, it did give the new Chancellor some wriggle room: £12.2bn was added to the 2016/17 borrowing target, making it that much easier to hit and setting a higher baseline for 2017/18 onwards. However, the latest calculations from the Office for Budget Responsibility (OBR) suggest that not only will the Chancellor undershoot the revised 2016/17 target by £13.4bn – more than the November increase – he will also see marginally lower borrowing in the next three years than previously forecast.

One reason for the improved outlook is that the OBR has increased its growth forecast for 2017 from the 1.4% it saw in November to 2.0%, the same adjustment as the Bank of England made in its Quarterly Inflation Report. Economic growth further out is modestly reduced in the OBR's latest projections. 2016 produced economic growth of 1.8%, marginally lower than the Autumn Statement estimate of 2.0%.

Inflation, running at 1.8% on the CPI measure (and 2.6% on the old RPI yardstick), is expected to reach 2.4% this year and 2.3% in 2018. While working-age benefits generally remain frozen, the government finances still suffer because of increased borrowing costs on index-linked gilts. However, the government remains able to borrow 10-year money via the conventional gilts market at a rate of about 1.25% – just as well with over £55bn needing to be borrowed in 2017/18.



So what did emerge from the Spring Budget?

Much of the answer is to be found in the previous year's Autumn Statement but, as ever, there were a few surprises, both good and bad:

- A rise of **£500** in the personal allowance to **£11,500** for 2017/18.

- A **£2,000** rise in the higher rate threshold for 2017/18, to **£45,000**, clawing back a small part of the under-indexation of earlier years. However, this will not apply fully to Scotland, where the higher rate threshold for non-savings, non-dividend income has been frozen.

- A reduction in the tax-free dividend allowance to **£2,000** from 2018/19, just two years after its introduction at a level of **£5,000**.

- A **£200** increase in the capital gains tax annual exemption to **£11,300**.

The new £1m Inheritance Tax allowance

If you would like to discuss the impact of Inheritance Tax on your financial planning please get in touch.

In the wake of the 2015 General Election, the Conservative Party confirmed it would deliver on its Manifesto promise that parents could pass their property up to the value of £1m to their children free of Inheritance Tax, thanks to a new 'family home allowance'.

The allowance is called the Resident's Nil Rate Band (RNRB) and takes effect in April 2017. By 2020/21 it effectively adds £175,000 to each parent's nil-rate band (currently £325,000) in respect of their main residence, bringing the total that may be transferred IHT-free on the second death to £1m.

Basic rules

An estate will be entitled to the RNRB if:

- the individual dies on or after 6 April 2017
- they own a home, or a share of one, so that it is included in their estate for Inheritance Tax
- their direct descendants, such as children or grandchildren, inherit the home or a share of it
- the value of the estate is not more than £2m *(estates valued at more than £2m the RNRB (and any transferred RNRB) will reduce by £1 for every £2 over the £2m taper threshold. This means that in the tax year 2020 to 2021, an individual would not be entitled to the RNRB if their estate is worth more than £2,350,000.)*

An estate will also be entitled to the RNRB when an individual has downsized to a less valuable home or sold or given away their home after 7 July 2015, provided the deceased left the smaller residence or assets of equivalent value to direct descendants.

The RNRB allowance

The maximum amount of RNRB will increase every tax year as follows:

Tax year at death	RNRB
2017/18	£100,000
2018/19	£125,000
2019/20	£150,000
2020/21	£175,000

For later years, the amount of the RNRB will increase in line with the Consumer Prices Index.

Any unused RNRB can be transferred to the deceased's spouse / civil partner's estate. This can also take place if the first of the couple died before 6 April 2017 (even though the RNRB wasn't available at that time).

The definition of direct descendant

For RNRB purposes, a direct descendant of a person is:

- a child, grandchild or other lineal descendant of that person
- a spouse or civil partner of a lineal descendant (including their widow, widower or surviving civil partner)
- a child who is, or was at any time, that person's step-child
- an adopted child of that person
- a child who was fostered at any time by that person
- a child where that person is appointed as a guardian or special guardian for that child when they're under 18

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

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Example case studies

Mr A dies in the tax year 2020 to 2021 and leaves a home worth £300,000 and other assets worth £190,000 to his children.

- The maximum available RNRB in tax year 2020 to 2021 is £175,000.
- The RNRB that applies is £175,000 (the lower of the home value or £175,000)
- The Inheritance Tax Nil Rate Band (NRB) is £325,000

Estate value	£490,000
Less RNRB	£175,000
Remaining estate value	£315,000
Less NRB	£315,000*
Value that IHT is due on	£0

*£10,000 of NRB is unused and can be transferred to spouse.

Mrs B dies in the tax year 2020 to 2021 leaving a flat worth £100,000, and other assets of £400,000 to her son. She leaves the rest of her assets of £500,000 to her husband; these are exempt for IHT purposes.

- The maximum available RNRB in tax year 2020 to 2021 is £175,000.
- The RNRB that applies is £100,000 (as it is the lower of the home value or £175,000)
- The Inheritance Tax Nil Rate Band (NRB) is £325,000

Estate value	£500,000
Less RNRB	£100,000*
Remaining estate value	£400,000
Less NRB	£325,000
Value that IHT is due on	£75,000

*£75,000 of RNRB is unused and can be transferred to spouse.

OW0635 Exp. 05/04/18

Inflation: this time it’s personal

Much is made about the impact of inflation on the ‘real’ value of your income and investments. That is, the impact inflation has on your ability to continue affording your lifestyle.

For advice on savings and investments please talk to us.

The magic number

The Bank of England Monetary Policy Framework has an inflation target of 2%. The remit is not to achieve the lowest possible inflation rate as inflation below the target of 2% is judged to be just as bad as inflation above the target. However, this magic number masks a wide variation in the levels of inflation experienced by different groups of people as it is calculated using a basket of goods and services that’s meant to reflect the spending habits of the ‘average’ household.

Research by the UK Office for National Statistics (ONS) highlights that those who are retired, or who have lower disposable incomes, face significantly higher levels of inflation than the rate used to calculate increases in the state pension and other benefits.

In fact, retirees and students experienced the highest rates of personalised inflation with the difference widening as the rate of inflation increases. For example, in 2003 the official inflation rate was 1.4%, while that of the lowest earners was 1.5%. In 2008 the official inflation rate was 3.6%, but 4.4% for the lowest earners.

The value of your investment and any income from it may fall as well as rise. You may not get back the amount you originally invested.

The effect of inflation on savings

Inflation is an economic fact of life but this analysis shows that in retirement you are likely to be faced with potentially higher levels of inflation than you’re used to. Whilst the state pension currently features a ‘triple-lock’, this has not always been the case and may not hold in the future. And it only protects you from the ‘average’ level of inflation. Further, if you rely on your personal pension for ‘the little luxuries’ or even to maintain your basic expectations of a comfortable lifestyle, you will not be able to ‘grow’ this income through wage rises or by changing jobs as you may have been used to as an employee.

If the returns you get on your money are unable to at least match inflation, then your assets will effectively lose value each year. Depending on your personal circumstances, you may need an investment strategy with the potential to provide adequate real returns to address these inflationary issues. The road ahead is far from clear, but that’s all the more reason to pay close attention to how your savings are invested.

OW0675 Exp. 31/07/17

Article correct at time of going to print.

The importance of protection

Millions of pet owners have purchased insurance in case of an expensive trip to the vet's, but who will pick up the bill if something happens to you?

The next time you're renewing your pet insurance, check your own level of cover too. If you'd like more information on the types of cover available and whether they are suitable for you, please get in touch.

Many pet owners will know the stress and financial burden caused by an expensive vet's bill and have taken out pet insurance to avoid having to make difficult decisions at stressful times. In fact, figures show 3.9 million dogs and cats are covered by pet insurance.

However, it seems we place more value on our pet's wellbeing than our own, with almost 8.5 million people in the UK potentially needing some sort of insurance cover, having none.

Why aren't we insuring ourselves?

One in four breadwinners does not have life insurance in place, risking leaving their families in financial difficulty if they were unable to work – or worse, died. It seems women are in a worse position than men, with 38% protected by some sort of policy, compared to 45% of men.

So what is it that puts us off buying insurance? Perhaps it's the thought of paying out each month but not seeing any benefit from the cover.

Far from being a luxury, protection insurance should be considered essential. If you suffered a serious illness or injury you may lose your income, and this could lead to you losing your home. Similarly, if you died, would your loved ones be able to maintain their current lifestyle without your income?

If you think it's not going to happen to you, you may be surprised to know:

- half of people in the UK born after 1960 will be diagnosed with some form of cancer during their lifetime
- In 2015/16 8.8 million working days were lost due to musculoskeletal disorders
- there are up to 175,000 heart attacks in the UK each year

Insurance policies can provide funds to help deal with the financial consequences of illness, an accident, unemployment or death. Whether that's to help pay the mortgage, maintain your family's lifestyle, or even help pay for medical treatment or specialist nursing support.

OW0637 Exp. 31/12/17

Simple ways to cut your spending

Most of us would like to reduce our outgoings and put a bit more money away each month, so here are our tips to help cut out unnecessary spending.

Top tips to help you better manage your finances

Write a budget

Creating a monthly budget plan can seem like a hassle at first, but it is the most effective tool to track your spending. Once you know exactly what you've got coming in and what's going out you'll be able to start to control your finances. There are plenty of templates you can use to document your income and expenditure – let us know if you'd like us to send you one.

Reduce unnecessary spending

Once you've got a handle on your budget you can start to identify where you could reduce your spending. For instance, making up a packed lunch each day to take to work, rather than nipping to the local shop to buy sandwiches, will add up to quite a saving over a month.

You might also be able to save money on transport costs – and improve your health at the same time. It is reported that, on average, we spend £3,500 a year to run a car, whereas cycling would cost considerably less and walking would cost nothing.

Holidays can also vary wildly in price depending on the time of year you book. For example, in 2017, if you were to go to Miami in October rather than peak summer season, you could save on average £804.

Save more each month

Cutting out unnecessary expenses will free up some additional cash that you could use to boost your savings. If you don't trust yourself to put money aside each month, make sure you set up (or increase) automatic deposits from your salary to go directly into savings.

When it comes to longer-term investments you'll need to think about your attitude to risk. Investments with higher risk have the potential for a better return, but if you're a cautious investor you may prefer to accept a potentially lower return for less risk to your capital. Then there's the issue of tax-efficient financial planning. If you're able to contribute more into your pension, either through your employer's scheme or via a private pension, this will help boost the pot available to you at retirement and you'll benefit from the tax relief.

The value of your investment and any income from it may fall as well as rise. You may not get back the amount you originally invested.

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OW0677 Exp. 20/04/18

Achieving your financial goals

We lead complex lives in an increasingly complex world. As financial planning experts we can help you better understand your financial challenges, goals and needs, and help you find appropriate ways to meet them.

Your needs in any and all of these areas will change over time, and regulatory changes can impact the effectiveness of any structures already in place. That's why we recommend regular reviews to ensure your plans remain on track.

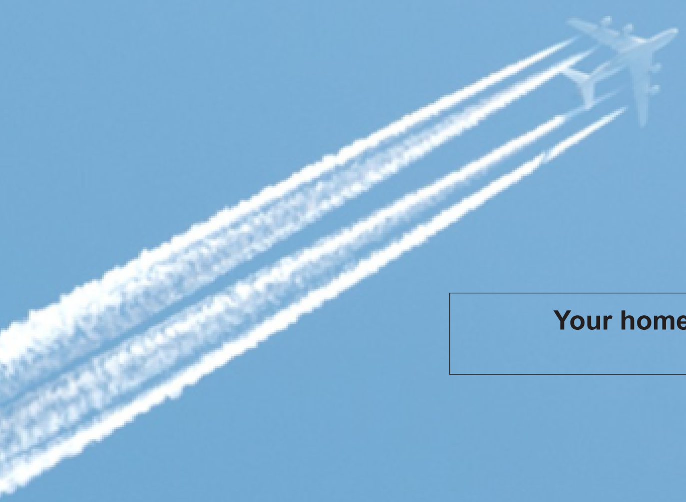
Even a seemingly straightforward financial goal can involve numerous decisions and a lot of time and effort getting it right. Whether it's buying a home, investing for the future or protecting the people and things you cherish, we're here to help you make the right choices for your needs. Here are some of the services we provide, which our clients have told us they value the most.

Mortgages

With so many mortgage lenders offering products on the high street and online, it can be tempting to cut out the middle man. But when you're making such a huge financial commitment, professional guidance can be invaluable, particularly if your needs are out of the ordinary. As well as arranging your mortgage we can also recommend specialist professional services that can help with other elements of your home-buying process, including solicitors and surveyors.

Protection

When using comparison sites and direct insurers, how can you be sure their "off-the-peg" solutions meet your specific needs? Using our expert product knowledge we can help you find the most appropriate solution for you. Whatever your particular need – be it income, family, mortgage or business protection – we can access high quality products from a range of handpicked providers; providers we have selected because they are proud to stand behind claims when it matters the most.



Investment planning

As well as your pension, you may have opportunities to invest lump sums – such as an inheritance or bonus – but are unsure about how to do this. As with all areas of financial planning, it pays to have a clear objective or vision. We can talk you through the important things to consider and help you create a balanced and diversified portfolio, taking into account your financial goals, attitude to risk, and any appropriate tax planning.

Retirement planning

The responsibility to create a comfortable retirement is falling increasingly on the individual, and the new pension regulations, whilst bringing welcome freedoms, introduce additional complexity to your at-retirement choices.

The right financial plan could help secure a more comfortable retirement – not just for you, but also for your loved ones and heirs. We can help you navigate the complexities of the new rules. Knowing what can be achieved and establishing the right strategy as early as possible can help you prepare for the future.

Inheritance Tax Planning

Passing our hard-earned wealth to loved ones often forms a big part of our ambitions. The right forward planning can help you maximise your heirs' inheritance by minimising tax liabilities. We can help you put the right structures in place.

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The value of investments and any income from them can fall as well as rise. You may not get back the amount originally invested.

Your home may be repossessed if you do not keep up repayments on your mortgage.

Time for an upgrade?

Have you upgraded your mobile phone in the past two years?
If the answer's yes, your choice may have been driven by a change in your needs or wants. Perhaps you opted for a better deal, a different contract, or a handset with new features that weren't available with your previous model?

We can review your needs and make sure you have the right cover in place. To arrange your review, please get in touch.

When it comes to updating your phone TV or even your car we all want to feel like we're getting a good deal.

The question is: why don't more of us do this with items like the financial products we pay for every month?

Are your current arrangements still right for you?

Take critical illness insurance as an example. If you have a critical illness policy:

- When did you last update it?
- Does it still provide the cover you need?
- Does it continue to provide the benefits and features you need?

When your needs change, it makes sense to update things

Life may have changed since you last bought or reviewed your critical illness insurance cover. You may have had children, moved house, or your income may have changed.

This means that even though you have a critical illness plan in place, it might not offer you the level of cover you'd need if the unexpected happened.

However, it might also provide cover for certain conditions which may not be available on a new plan.

Insurance innovation

It's not just mobile phone companies that compete to offer the most innovative products – insurance companies are constantly updating their products to reflect customers' changing needs too.

Given that more of us are living longer and surviving serious illnesses like cancer it is perhaps unsurprising that products like critical illness insurance have changed in recent years. For instance, many insurers have introduced greater flexibility and extended their cover to cater for a wider range of illnesses. Some have even introduced completely new products offering partial pay-outs, or for an additional cost, allow you to claim for non-critical illnesses and injuries.

Protect your loved ones

Critical illness insurance can help you cover mortgage or rent payments, treatment, or any home alterations you may need to make as a result of an unexpected critical illness – so it's important your cover remains up-to-date.

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