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Inheritance tax receipts hit a new high

Inheritance tax (IHT) is raising more than ever according to HM Revenue & Customs (HMRC). How much do you want to contribute?

IHT receipts broke through the £5 billion barrier for the first time in the 12 months to May 2017. In April and May 2017 alone, receipts were up over a third on the previous year.

The record tax take is due to three main factors:

1. The nil rate band (NRB) has been frozen at £325,000 since April 2009.
2. Estate values have been rising, thanks to increasing share and property prices.
3. The primary tax rate above the nil rate band remains at 40%.

IHT tax payments will continue to grow, according to the Office for Budget Responsibility projections – with £6.2 billion of tax expected to be collected in 2021/22.

Mitigation options

There is little chance that any fresh legislation to dilute IHT's impact will appear any time soon. However, two measures do offer some scope for mitigating its impact:

- **The residence nil rate band (RNRB)**, the first phase of which came into force in April this year at a level of £100,000 for each individual. The RNRB will ultimately mean that from April 2020 a married couple (or civil partners) *may* be able to pass on a joint estate of up to £1 million with no IHT to payable.

- **Pension death benefits** were granted highly favourable IHT treatment as part of the 2015 pensions flexibility reforms. Lump sum and survivor's pension benefits payable on death are normally free of IHT, although the beneficiary will be subject to an income tax charge if death occurs on or after age 75.

If you do not want your estate's beneficiaries to suffer from that increasing IHT tax take, the sooner you start planning the better. If you have already undertaken some planning, then you might well need to review matters in the light of the RNRB and pension rules mentioned above.

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate estate planning or tax advice. Occupational pension schemes are regulated by The Pensions Regulator.

Gearing up for the Autumn Budget

The Chancellor has announced the date of his first Autumn Budget as Wednesday 22 November.

The second Budget of 2017 will be both Mr Hammond's first Autumn Budget and the first Budget after the general election.

Traditionally, the first Budget of a new parliament is the chance for a Chancellor to administer the "medicine" of tax increases. Doing so at this stage gives the electorate the maximum time to forget the measures before returning to the polls. However, on this occasion the Chancellor will probably be more constrained. Mr Hammond does not have carte blanche, even though in theory the government has a majority for Budget legislation, thanks to support from the DUP. His own backbenchers can block the best made plans, as the Spring Budget climb down on class 4 national insurance contributions (NICs) showed. So, what can we expect on 22 November?

Less space for manoeuvre

The answer is less clear than usual. For many years the contents of the Spring Budget have been widely trailed in the preceding Autumn Statement. In 2017 there has been no such statement ahead of the Autumn Budget – the first of the new Spring Statements will not arrive until 2018.

The latest government finance figures suggest that the Chancellor will be borrowing less than was projected in March, giving him some wriggle room. However, there are many demands on any spare cash he can find, from replacing the lost extra class 4 NICs income to addressing calls for higher public sector pay and reduced tuition fees.

In the summer, David Gauke, the secretary of state for work and pensions and former Treasury minister, told a conference that he did not foresee any "fundamental" changes to pensions tax relief.

Nevertheless, there remains a possibility that the Chancellor could make some further tweaks to the rules on pension relief, such as another reduction in the annual allowance. If you are considering a pension contribution in this tax year, making it before 22 November could be a wise precaution, but do check with us first on how you are affected by the existing rules.

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

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Ageing divorcees

The average age for divorce has reached an all-time high.

The average age on divorce is now nearly 46 for men and 43½ for women. This makes agreeing the financial settlement more challenging, because the higher the age, the more wealth there generally is to argue over. Some of that will often stem from rising property values, but another major (and sometimes forgotten) aspect is pension rights.

By their mid-40s, each party may have accumulated over 20 years the equivalent of hundreds of thousands of pounds worth of pension benefits, possibly including some from final salary schemes.

Dealing with pensions on divorce is a complex area that will inevitably require financial as well as legal advice. If you find yourself facing a divorce, do talk to us as soon as possible so that we can explain the tax and retirement ramifications that flow from the various pension settlement options.

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Markets rise against the grain in Q3

The third quarter of 2017 has ended and despite the heavy political news, investment returns were generally positive.

Think about the third quarter of this year – July to September – and you might think markets had suffered a hard three months. In the UK there was the backwash from the general election, the slowly-moving Brexit talks and inflation nudging 3%.

Across the Atlantic Donald Trump was failing to pass legislation while twittering about an attack on North Korea. Europe had its own surprise at the end of the quarter, with Angela Merkel winning a less than decisive election that will probably end in a three-way coalition government.

Just for good measure, in Japan a snap general election was called for October by Shinzo Abe, hoping to exploit a weak opposition (now where have you heard that before...?).

Meanwhile the US, UK and Eurozone central banks were each in their own way signalling that the days of ultra-easy money are coming to an end, with 'normalisation' of interest rates a long term goal.

For all that political and financial noise, the main share markets were up over the quarter, a reminder once again that the markets make their own judgements about what's important in the ebb and flow of news.

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Doors opening for Chinese share listings

In June 2017, the leading provider of indices for emerging markets announced that from next year it would start to include shares listed in China in its indices.

The decision followed rejections at review in the three previous years and was seen as a major turning point for investment in China. If you have no investment in what is the world's second largest stock market, please talk to us about your options.

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Have you used up your ISA allowance?

With the individual savings account (ISA) allowance now at £20,000, it is difficult for many people to save more than this each year.

However, where unexpected or additional money becomes available, you may need to consider investing into funds or other investments directly. ISAs are tax-privileged wrappers. Outside them there are potential tax charges, although for many investors they are not punitive. The two main taxes are:

Income tax – the first £5,000 of dividends in the current tax year are covered by a dividend allowance which is taxed at 0%. The excess is taxable at 7.5% for a basic rate taxpayer (32.5% and 38.1% respectively for higher and additional rate taxpayers). From 6 April 2018 the dividend allowance is set to reduce to £2,000. Investors may qualify for the personal savings allowance of £1,000 (£500 for higher rate tax-payers) and possibly even the nil starting rate of tax of up to £5,000.

Capital gains tax (CGT) – you have an annual CGT exempt amount of £11,300 which means that you only pay tax (at 10% or 20% if a higher rate taxpayer) on gains in excess of that threshold. Gains on property incur an extra 8%. Many investors use their annual ISA allowance by selling the investments they hold directly and reinvesting them into their ISAs, realising gains which may be fully or partially within the annual CGT exempt amount.

So rebalancing your portfolio annually and keeping an eye on your ISA investment levels should help manage your investments efficiently.

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