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YOUR WINDOW ON FINANCIAL ISSUES

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INSIDE THIS ISSUE

TAX YEAR 2013-14 IS UPON US

Some time before Chancellor of the Exchequer George Osborne revealed the contents of his red Budget Box on 20 March, the tax and benefits landscape for the 2013-14 financial year had largely been painted. The new tax year brings higher personal allowances, except age-related ones, a narrowing of the basic rate band and a reduction in the highest rate of income tax. Capped drawdown limits will be higher in many cases and State Pensions are also rising.

The Chancellor's Autumn Statement revealed that the income tax personal allowance would increase, not to £9,205 as previously announced but to £9,440. Less happily for some older taxpayers, the enhanced allowances for over-65s have been frozen, at £10,500 for those aged 65-74 and £10,660 for over-75s, until the standard allowance catches up and they all merge. The married couple's allowance for over-75s is, however, upgraded from £7,705 to £7,915 of taxable income for 2013-14.

More taxpayers may be drawn into the higher rate band in 2013-14 as the basic rate band narrows to £32,010, whilst the additional rate payable above £150,000 falls 5% to 45%. In 2013-14, the changes to the Child Benefit regime will have effect across an entire tax year. Child Benefit can now bring a tax charge if one partner has an adjusted net income above £50,000; the charge equals the benefit when income reaches £60,000. In some cases, additional pension contributions or other 'salary sacrifice' – and Gift Aid – can keep adjusted net income below the threshold.

STATE PENSION RISES 2.5%

National Insurance rates are unchanged, with minor upward adjustment to thresholds for Class 1 and Class 4 contributions. The basic State Pension rises by 2.5% in 2013-14, to £110.15 (single) and £176.15 (couple) as the Government moves towards a flat-rate State Pension, equivalent to £144 per week in 2016. Regarding tax relief on pension contributions, the annual and lifetime allowances remain at £50,000 and £1.5m, respectively, in advance of previously announced reductions for 2014-15. On pension plan benefits, the capped drawdown limit of 100% (of the Government Actuary's Department figure) becomes 120% for drawdown years starting from 26 March 2013.

Capital Gains Tax exemption limits were expected pre-Budget to rise £300 to £10,900 in 2013-14, with the inheritance tax threshold remaining frozen at £325,000 (effectively up to £650,000 for married couples). An approximate 1% rise to £329,000 announced in the Autumn Statement for 2015-16 is apparently being deferred until 2019 at the earliest, to help fund a proposed care fees cap expected in 2016. The main Corporation Tax rate reduces to 23% in 2013-14, whilst Stamp Duty Land Tax rates and thresholds remain unchanged.

BUDGET SUMMARY

Personal allowance to rise to £10,000 from 2014/15
'Help to Buy' loans and guarantees to boost house market
Allowance to save employers first £2,000 of NI from 2014/15
Childcare support up to £1,200 per child from 2015
Main Corporation Tax rate cut to 20% from 2015/16
Further measures to combat aggressive tax avoidance
£5,000 for pre-1992 Equitable Life with-profits annuitants

SOME HOMES ARE JUST DIFFERENT

A home deemed to be non-standard can be more difficult to insure, but a good insurance intermediary will usually find the policy you need on competitive terms.

Our national media recently reported on an American who had converted an airliner into a home. Bruce Campbell, an engineer in his early sixties, lives in a Boeing 727-200 aircraft that found a final resting place in the forests of Oregon. Nobody seems to have asked whether he had problems insuring a home that takes the meaning of non-standard construction to new heights.

This side of the Atlantic, there was a story about a couple who had bought a defunct Brighton & Hove double-decker bus to live in because they could not wait six years for a larger council house.

At £2,000, it was cheaper than the $100,000 Boeing. Redundant railway carriages have also been turned into low-cost homes, but all of these are extreme examples of non-standard construction. For insurance purposes, non-standard construction may simply mean 'not built with bricks and mortar under a tile or slate roof'.

NERVOUS ABOUT UNCONVENTIONAL

Financial organisations can be nervous about involvement with the unconventional. Some insurers may be geared to the mass market, quoting premiums that reflect a broadly standard set of circumstances. If there is, say, a fire in a modern brick-built property, the extent of damage and likely repair or rebuilding cost to be met by an insurer will not be inflated by unusually combustible or hard-to-replace building materials. So, does this mean non-standard properties should be avoided? The answer to that in principle is 'no', because generally, our homes are more than just financial assets and the places we choose to live for a variety of reasons.

Just as there is a huge variety of non-standard property, from medieval, timber-framed cottages to apartments in steel, and concrete tower blocks, or even eco homes, there is also a variety of insurers that specialise in covering the unconventional. If you find that a mainstream insurer will not insure your non-standard home, a professional insurance intermediary will know where to find the right policy on competitive terms.

HOW ISAs HELP BUILD WEALTH

It was reported last year in the daily and financial press, that dozens of investors had ISAs worth at least £1 million.

The 'ISA millionaires' had mainly invested the maximum amount each year from 1987 in a Personal Equity Plan (PEP), the stocks & shares ISA's predecessor, and continued investing when ISAs took over in 1999. Often with income reinvested, their contributions of around £200,000 had multiplied fivefold in a quarter of a century or so. This shows what can be achieved – not guaranteed – through steady investment in a tax-sheltered environment with the right investment strategy and timing.

The overall 2012-13 ISA limit was set at £11,280, with up to half of this permitted in a cash ISA. Unused allowances cannot be carried forward to a new tax year; we use them or lose them. The limit rises to £11,520 for 2013-14, which may be a year for early investment, rather than last-minute just before the next 5 April window closes.

ISAs are exempt from Income Tax and Capital Gains Tax, but the 10% tax on UK company dividends is irrecoverable. Stocks and shares ISAs may contain direct shareholdings or collective investments and the risk characteristics and income yields vary. Investment may be by lump sum or monthly subscription, which applies equally to cash ISAs. It is important to bear in mind, when investing in a stocks & shares ISA, that all the usual caution should be exercised over the nature of equity investments.

The Junior ISA version was introduced in November 2011, as a tax-efficient way to build up capital for when a child reaches 18, giving them the chance to take some responsibility for their own finances. The Junior ISA was created as successor to Child Trust Funds, for children born outside the CTF qualifying period, 1 September 2002 to 2 January 2011. For 2012-13, Junior ISAs allow up to £3,600, rising to £3,720 for 2013-14, to be invested in cash or stocks & shares, with tax breaks similar to standard ISAs. Parents, plus other relatives and friends, can help youngsters to accrue a useful sum at a crucial lifestage.

FLAT-RATE STATE PENSION CALL TO ACTION

Fundamental changes to State Pension arrangements, outlined recently by the Government, introduce a flat-rate pension with effect from 2016.

Some people will lose and some will gain from the new regime. Among the losing group are the higher-paid that have been accumulating extra State Pension entitlement under the State Second Pension (S2P) and the earlier earnings-related schemes, SERPS and Graduated Pension. Someone in this group retiring after 5 April 2016 will get only the flat-rate pension rather than the enhanced pension they were expecting. Other losers will be final-salary scheme members, who will be denied the S2P opt-out with its reduced NI rate.

The new State Pension arrangements reflect a series of Government aims that include providing greater certainty about future State Pension entitlements. There is also a pressing need to cut costs, as life expectancy is rising. Thus the State Pension Age is rising in stages to 67 and, potentially, to 70 or beyond. The flat-rate pension will cut the number of people having to resort to the means-tested pension credit, which is there to supplement low-value State Pensions and give a guaranteed minimum weekly income of £142.70.

NEW QUALIFYING PERIODS

Not everyone reaching their State Pension Age will get the full flat-rate pension. Under the post-2016 regime, you must make NI contributions for at least ten years to get any State Pension and 35 years to qualify for the full rate; years will be credited during employment breaks to raise a family. Shortfalls could be remedied by contributing more into a personal pension, or into a workplace auto-enrolment pension scheme under arrangements now being introduced.

In summary, changes to the State Pension amount and the ages at which it will become payable in future, plus the impact of pension auto-enrolment, make it imperative for employers and individuals to review all aspects of pension provision to help achieve the comfortable retirement to which most of us aspire. In this specialist area, many people would benefit from expert professional advice.

HOUSING MARKET HAS BRIGHT SPOTS

The past few years have been tough, but some UK regions and property market segments have seen encouraging signs.

There are indications that the worst may be over for the UK housing market. Unemployment has not reached expected levels, the Funding for Lending scheme is gradually helping mortgage availability and some housebuilders have reported better sales and profitability. A key source of relevant data is the Council of Mortgage Lenders ('CML'), which represents most mortgage lenders. CML figures on mortgage activity are a useful barometer, so let us tap the glass and see which way the needle moves.

London often leads the way in property turnover and prices, so it is encouraging to see that in late-February the CML reported that in 2012 first-time buyers in the capital were up 15% at levels not seen since 2007. The number of home movers was 4% higher. For Scotland, the CML figures tell a similar story. The number of first-timers was up 13% on 2011, although the increase in home moving transactions was only marginally higher. Increased first-time-buyer activity was less marked in Wales, where the figure was 5% higher, whilst the number of home movers in 2012 was virtually unchanged. There was varying data for Northern Ireland and the English regions, with instances of a moderate fall in home moving activity. However, a particular feature of the UK mortgage market in 2012 was a rise in buy-to-let lending which, at £16.4 billion gross, was up 19%.

As regards price levels, regional variations also apply, as shown by recent data from leading mortgage lenders and the Land Registry. Nationwide said that UK house prices rose 0.2% in February, but were unchanged from 12 months earlier, as 11 of 13 regions saw falls in 2012, when London performed best and Northern Ireland worst. Land Registry figures earlier this year suggested prices in England & Wales had risen 1% on the year, with London (7.1%) and the South East (2.6%) gaining most and the North West (-4.2%) and Yorkshire/Humber (-3.7%) faring worst – a mixed picture, but encouraging signs for the owner-occupier and buy-to-let markets.

FAMILIES DESERVE PROTECTION

Life sometimes seems like one big lottery and not just because of the endless TV adverts urging us to have a flutter. Yes, there are games of chance we would all like to win, but others where it is bad news if the fickle finger of fate points in your direction – hence the expression 'your number is up'. Once we reach adulthood and particularly when we start to take on responsibility for the welfare of others, there are many unwanted 'lottery of life' awards that we hope will not come our way. These include temporary or long-term loss of earning power through redundancy, accident or illness.

Premature death (though statistically unlikely) is a very real risk for everyone, particularly those with young families. All of these events can be emotionally difficult, but things can be made even worse by the financial consequences. It is to deal with these that protection insurance products were developed. Various charities quote statistics about how many people annually have their lives blighted or ended by particular illnesses or medical conditions. Some people worry about such statistics, but everyday activities inevitably carry risks and it is important that we all get on with our lives.

REAL HELP FOR FAMILIES

Protection insurance can bring peace of mind, but the important benefits are financial and practical rather than just psychological. Your family would not be left reliant on state support or maybe without a home of their own following the incapacity or death of a key breadwinner – across the UK, this means many families. Data from the Association of British Insurers has highlighted that every day 170 individuals and families make claims on their vital protection insurance policies.

So, what are the main forms of protection insurance? The categories included in that ABI figure are life, income protection and critical illness, but it excludes private medical insurance claims. The simplest life policies pay out a sum of money if the insured person dies within a set number of years. Assuming no serious health problems, such policies may seem surprisingly inexpensive, covering an outstanding mortgage and providing for other substantial commitments for a modest outlay.

Income protection policies pay out, after any agreed deferral period, if someone becomes unable to work through accident or illness and can even provide an income over the long term. Paid critical illness claims are designed to provide a lump sum if one of a list of specified illnesses is diagnosed. Private medical insurance, sometimes an employee benefit, brings the advantage of access to private treatment. Talk to your adviser about the mix of protection that is right for your needs and priorities.

NEWS BITES

The Chancellor's new 'Help to Buy' scheme has two elements: one a shared equity loan up to 20% for new-build purchases up to £600,000, the other a mortgage guarantee to help those with small deposits get a higher 'loan to value'.

To help individuals and families, the personal allowance rises from £9,440 to £10,000 from 2014/15. There will be more help with childcare costs, 20% of the first £6,000 per child, as from 2015, for working families earning under £150,000.

Budget measures, albeit deferred, to help businesses and encourage staff recruitment included a further cut in corporation tax, to 20%, in 2015/16; and an employers' allowance that will eliminate the first £2,000 of their annual National Insurance liability from 2014/15.