RT FP

RT FINANCIAL PLANNERS LTD

NEWSLETTER – APRIL 2019

In this issue

- **The New Tax Rates for 2019/2020**
- **Investing in Pensions vs Property**
- **Taking Business Profits Tax Efficiently**
- **New Costs and Charges Reports**
- **Don't Be Caught by Financial Fraud**

RT Financial Planners is regulated by the Financial Conduct Authority

The information in this Newsletter is to be viewed as general information and does not constitute advice. It is based on our understanding of current legislation and market conditions, all of which are subject to change. If specific, individual advice is required, you should contact your IFA.

Jackie Greenwood, Chartered Financial Planner
T: 01285 886122

New Tax Year – New Tax Rates and Allowances

Once again there are no significant changes for this new financial year but the current rates and allowances for residents of England are set out below (rates of tax in Scotland, Wales and Ireland may vary).

Income Tax

The personal allowance – the amount below which no income tax is payable increases to £12,500. The higher rate tax threshold has also increased to £50,000.

The dividend allowance remains at £2,000. This is the amount that an individual can receive in dividends with no tax payable. There is also a Personal Savings Allowance of £1,000 for basic rate taxpayers and £500 for higher rate taxpayers, which is the amount of savings interest that can be received without tax being due.

Capital Gains Tax

The CGT annual exemption has increased to £12,000 and the CGT rates are 10% for lower rate and 20% for higher rate taxpayers (these rates are 18% and 28% for gains made on sales of residential property that do not qualify for relief as your private residence).

Inheritance Tax

The IHT Nil Rate Band has remained level (again) at £325,000, but the Residence Nil Rate Band has increased to £150,000. In total therefore, couples may be able to leave assets up to £950,000 to their descendants free of IHT (or £475,000 for an individual). The Residence Nil Rate Band is a relatively complex area with a number of peculiar rules. If you require more information about this we have covered it in detail in previous newsletters – so please ask for a copy if you would like one.

Pensions

The pension lifetime allowance has fractionally increased again to £1,055,000 (from £1.03M). Pension tax relief rules remain unchanged, so the annual allowance for contributions remains at £40,000 and will not be tapered until 'adjusted income' exceeds £150,000. Anyone having accessed pensions flexibly has a reduced allowance for contributions limited to £4,000.

ISAs

The standard annual ISA limit stays at £20,000 – and I would emphasise that this should really not be wasted if at all possible given the restriction on investment levels in other tax preferred plans.

Is Property or Pension A Better Investment?

When it comes to saving money for retirement, the number of people choosing property over pensions is increasing despite the increased tax burden and additional 3% stamp duty on second properties compared to the generous tax breaks on pension investment. It is clear that many people prefer property as it is more tangible than a pension where it isn't always easy to see or understand what is happening with your money.

Property has seen some extraordinary levels of capital growth over the years. UK house prices have far outstripped inflation by some 3% a year since 1955. But the UK stock market has grown faster still, gaining investors on average over 6% above inflation over the same time period. (*Figures: Numis & London Business School, excluding rental and dividend yield and costs of investing)*

Investing in rental property gives you the benefit of the ongoing rental yield as well as the inherent appreciation in value. With the average UK rental yield around 3.6%, this gives you a regular income with the prospect of additional profit over the long-term. By contrast, the FTSE All-Share currently offers a prospective dividend yield of 4.7% (variable, and not a reliable indicator of future income), and of course share prices can be volatile.

An inevitable risk in property investment is that you can also face void periods should you be unable to find a suitable tenant – or worse still, if a tenant defaults on the rental income, it can take a considerable time to evict them, during which time you may receive no income but still have liability for the mortgage interest.

Pensions also offer Inheritance Tax (IHT) benefits. Property is included in your estate for IHT. A pension, however, can be claimed tax free by your beneficiaries if you die before 75. If you're older than 75 when you die, your pension still isn't usually subject to IHT, but your beneficiaries will pay income tax at their marginal rate when the money is withdrawn.

Once you have invested in a pension, you cannot access the capital until age 55 (57 from 2028) – but you have no such age restrictions on selling your property.

Property investment is more of a lifestyle decision as it can be time-consuming and requires a lot of effort as well as having high costs for exit and entry.

It is not a case of one being better than the other. Both have their advantages and disadvantages, and what's right for you will depend on how comfortable you are with the risks of each. Investing is all about diversification and distributing money in order to benefit from a decent return at some point in the future, and there is no reason why property and pensions shouldn't complement each other as part of a diverse investment portfolio.

Business Owners – Pension, Salary or Dividend?

When owners of small companies choose how to take their profits, there is still a strong case for pension contributions. While dividends may still be preferred, changes in how they are taxed may drive more directors who don't need the income for day-to-day living to extract profits using employer pension contributions instead. Remember, since April 2018, the dividend allowance is just £2,000.

Taking profits as salary or bonus is still more expensive than taking it as a dividend, even with the reduction in the annual dividend allowance. For a higher-rate taxpayer, the combined effect of corporation tax at 19% and dividend tax of 32.5% will still yield a better outcome than paying it out as salary, which needs to account for income tax at 40% plus employer and employee National Insurance

However, a pension contribution remains even more tax efficient. An employer pension contribution means there's no employer or employee NI liability – just like dividends. But it is usually an allowable deduction for corporation tax, the same as for salary.

And of course, with modern flexible pensions, directors over 55 can access it as easily as salary or dividends. With 25% of the pension pot normally available tax free, it can be very tax efficient – especially if the income from the balance can be taken within the basic rate. But remember that taking drawdown income will trigger the MPAA (Money Purchase Annual Allowance), restricting future saving options.

In reality, many business owners may pay themselves a small salary, typically around £8,000 a year – building-up State pension entitlement without triggering NI. They may then take the rest of their annual income in the form of dividends, as this route is more tax efficient than taking more salary. But what about profits they don't need in excess of their day-to-day living needs?

The table below compares the net benefit ultimately derived from £40,000 of gross profits to a higher-rate taxpaying shareholding director in the 2018/19 tax year.

	Bonus	Dividend*	Pension
Company profit	£40,000	£40,000	£40,000
Corp. Tax 19%	£0	£7,600	£0
Employer NI	£4,850	£0	£0
Value to director	£35,150	£32,400	£40,000
Director's NI	(£703)	£0	£0
Director's Inc Tax	(£14,060)	(£10,530)	£0
Benefit to Director	£20,387	£21,870	£40,000

** Assumes full £2,000 annual dividend allowance has already been used.*

Clearly, the dividend route provides more spendable income than the bonus alternative. But if the director doesn't need this income, the value in their pension pot is almost doubled. When the client takes money from their pension, the figures still compare favourably. If the £40,000 fund is taken when the director is a basic-rate taxpayer, net spendable income will be £34,000 after tax free cash (or £28,000 if taken as a higher-rate taxpayer). That is respectively 55% and 28% more than the dividend option.

Reminder of Costs and Charges Reports

I will mention again that there has been new regulation requiring that investors are to be notified of all charges on their investments on an ongoing basis. The ruling means that a 'personalised and aggregated' view of all costs are provided to investors in writing at least annually for anyone receiving ongoing investment services.

The new costs and charges disclosure document will be broken down into categories showing separate one off, ongoing, incidental or transactional costs where relevant. They will include the charges paid to the platform, wrap or product provider, fund manager charges, adviser and discretionary fund manager charges and any other incidental fees incurred.

So, if you have not already received this new notification, you are likely to see one from RT or your investment provider soon. I would like to stress that it is not a note of new or additional charges, but a new requirement to keep you informed of the total ongoing charges.

At RT Financial Planners, where possible, we would like to include all plans, not just those included in this legislation. Due to the age of some plans it will take a little time to gather the information in the format required, so we are in the process of obtaining this and will address this shortly. As ever, if you have any questions please get in touch.

Be Very Aware of Financial Scams

Financial Fraud is becoming increasingly sophisticated and although we may all think we would not fall foul of scams, they are more convincing than ever and growing numbers of people are being caught out.

There are wide-ranging methods being used, one common one being a phone call purporting to be from your bank stating that your account has been compromised and you need to transfer funds to a new account. Your bank or any legitimate organisation will NEVER ask you to move funds other than for purposes already agreed – such as a new account or a purchase.

Other methods may involve emails from official sites such as the TV Licencing Office, DVLA or HMRC stating you are due a refund or that you need to re-set your account. Once again it is highly likely that these are NOT genuine.

If you are ever in any doubt, contact the company or organisation by looking up contact details yourself, or using an online search or genuine literature received in the post.

The RTFP newsletter does not contain direct marketing information – we do not promote specific companies or products for example – but we do want to ensure you only continue to receive this if you want to do so and in the format you prefer. So, if you would prefer not to receive our newsletters in future you may opt out by emailing newsletters@rtfp.co.uk You may also use this address if you would like to continue to receive the newsletters, but by email instead of by post.