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RT FINANCIAL PLANNERS LTD

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Jackie Greenwood, Chartered Financial Planner
T: 01285 886122

New Tax Year – New Tax Rates and Allowances

There are few significant changes for this new financial year but the current rates and allowances for residents of England are set out below.

Income Tax

The personal allowance – the amount below which no income tax is payable has increased to £11,850. The higher rate tax threshold has also increased to £46,350.

Sadly, the dividend allowance, which was a useful additional allowance for tax planning has been reduced to £2,000 (it was previously £5,000). This is the amount that an individual can receive in dividends with no tax payable.

Capital Gains Tax

The CGT allowance has increased to £11,700 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 £125,000. In total therefore, couples may be able to leave assets up to £900,000 to their descendants free of IHT (or £450,000 for an individual). The Residence Nil Rate Band is a relatively complex area with a number of peculiar rules so 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 to £1,030,000 (from £1M). 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 should emphasise that this should really not be wasted if at all possible given the restriction on investment levels in other tax preferred plans.

Please note that the above applies to England and rates of tax in Scotland, Wales and Ireland may vary.

Should Final Salary Pensions be Transferred?

There are several reasons for the recent, significant increase in the number of people wanting to transfer their final salary pension schemes to personal pensions. Firstly, the values offered for transferring out have increased (sometimes significantly), and secondly, because of the newer rules allowing pensions to be accessed more flexibly and the attractive changes in the rules about death benefits from pensions.

When considering whether a transfer is suitable, it is important to understand the differences in the types of scheme. Defined Benefit (DB) schemes - also known as final salary schemes - do not have any fund value and the pension you receive is not in any way dependent on investment returns. Instead, for each year you work, you earn a right to a pension to be paid in the future as a small percentage of your salary. The employer has to pay in whatever is required to meet this guarantee.

The other types of pension schemes are collectively known as Defined Contribution (DC), because the benefits you receive will be defined by the level of contributions made. In fact, it isn't only the amount you contribute, another important factor will be the level of investment growth. This is determined by the level of risk an investor is willing (or able) to take, as well as general investment market conditions.

In transferring out of a DB scheme, you are giving up very valuable guarantees in exchange for a transfer value – which is the contribution in the DC scheme and this is the only thing over which you have any real control. Although you may be able to choose the risk you are prepared to take and select certain investments, you cannot influence the investment returns, so your future income could be very uncertain.

There are however some valid reasons why it may be preferential to sacrifice these guarantees. For example, you may have other adequate, guaranteed income elsewhere. Or it may only form a relatively small part of your overall wealth and therefore will not have a significant impact on your future. Poor health would also be a very good reason why an individual may not want to have a long term guaranteed income – a larger lump sum that can be accessed more flexibly, or be passed on could be very much more beneficial in this case. Another reason is the ability to pass on unused benefits to one's children (or other beneficiaries) tax efficiently – which may not be possible within the DB scheme.

As you can see - while it is very often better advice to remain in an existing DB scheme and retain the guarantee - there may be good reasons to move and there isn't always a definite right or wrong, which means that specialist advice is always essential.

Cryptocurrencies - Are they a valid investment?

Cryptocurrencies (cryptos) such as Bitcoin have grabbed a fair few headlines in recent months, with more and more new 'currencies' being created all the time: there are now over 1,500 available. However, it is the price increases that have attracted most of the attention, with many comparing the recent rises to the historic asset bubbles seen over the last number of centuries, such as the dot-com bubble around the turn of the last century, where prices of technology stocks eventually fell by 80%. Another good example is the tulip bubble of the early 17th century, where speculation helped drive the value of tulip bulbs in the Netherlands to previously unheard of prices. Newly imported from Turkey, tulips were apparently a big novelty at the time and we cannot help but wonder if perhaps cryptos are no different.

Bitcoin was the first crypto and was described as a purely peer-to-peer version of electronic cash that would allow online payments to be sent directly from one party to another without going through a financial institution. This description underscores one of the key ideas behind digital currency - that it bypasses the traditional banking systems. You may however also note that it is not a clear explanation of an investment – which fairly well sums up these assets in that they are complex instruments that are difficult for many investors to understand.

Unlike traditional finance, cryptos have no central monetary authority. Instead, banks are replaced by a peer-to-peer network made up of users' computers, which timestamps transactions by hashing them into an ongoing chain of work. This forms a chain of transaction history of every bitcoin, called the blockchain. If it is done properly, blockchain does have the potential to speed up transactions, allow for international transfers, cut costs, and improve transparency across several industries.

It is important though to realise that cryptos are fundamentally different from traditional currencies like the British pound or the US dollar. Money, in the form of currencies (coins and banknotes) and electronic money (bank deposits), are commonly characterised by at least three functions; a medium of exchange (for buying), a unit of account (for pricing) and a store of value (for saving). This is quite clearly not the case for these cryptocurrencies.

What has been amazing has been the number of articles in the financial press that have tried to make a standard investment case for Bitcoin. Most investment professionals have deliberately avoided covering the phenomenon, because the fundamentals simply do not support the rates of appreciation we have seen. Essentially, the market dynamic isn't that far removed from a pyramid scheme; if you buy in you are wholly reliant on market churn.

Finally, cryptocurrencies are still not very well regulated by the authorities although this is changing gradually, and in most countries (with the notable exception of Japan) they are not accepted as legal tender. Until this changes the case for investment is based on chance and speculation neither of which, we would suggest, are the key drivers of a rational and suitable investment for most people.

News About Some Changes at RT

I am delighted to introduce two new members of our team: Simon Fell has been with us for seven months as a consultant and is now joining us permanently as our Operations Director.

You will know that constant and significant changes are a feature of financial services and a major part of Simon's role will be to implement changes and evolution within the company to ensure we continue to run a successful business that benefits both our clients and our employees. Simon has over 18 years' experience in the financial advice sector, working with local advisers and investment management firms to provide solutions for clients and he has been working closely with investment companies in his consultancy role and will continue to do so as our Operations Director.

Morwenna Trenchard has also recently joined us as an administrator. Situated in our Cirencester office, the wonders of technology means she can work for our Winchcombe office as well and you may already have met or spoken to her at either branch. Morwenna's main tasks will be the ongoing maintenance of clients' plans and supporting all the advisers and she has already proved herself to be an invaluable member of the team.

Plans are also underway to implement some changes to our investment solutions and processes, although this will take a little while to fully implement. There will be a number of new investment propositions and the option used for each of our clients will very much depend on their requirements and investment objectives. There will, for example, be a range of RT Model Portfolios, and while there will be a few options available we do recognise that these portfolios will not be right for everyone, so there will be several alternative solutions available where we feel this is a more appropriate course of action.

We will of course keep you fully updated when there are new investment solutions available that we feel may be the best option for your funds.

New Data Protection Rules

You will have doubtless heard or read about the new General Data Protection Regulation that comes into force on May 25th. One of the major areas surrounds marketing: not only the need to obtain consent for direct marketing but also the ability for anyone to be able easily to opt out.

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.