What the Papers Say

This is the latest in a regular series of summaries where we look to review some of the main articles written in the financial sections of the Sunday papers.

These articles often cover issues that are important to our personal financial well-being and we hope that the summaries will provide you with information and ideas that will be of interest to you.

If you would like to discuss any of the issues raised within these summaries or any other financial planning issue, please do contact our wealth management division on 01204 414243.

"Help! We're stuck in 1975"

The Sunday Times

In addition to the potential reduction in tax relief on pension contributions, what else could be in store in the Budget? The Sunday Times took a look at the tax reliefs available and the thresholds which haven't been increased for many years.

One of the main topics, is inheritance tax and the threshold of £325,000 which has been in place since 2009 despite increasing property values. However, other IHT allowances such as gifts have been frozen since 1975!

Parents can gift up to £5,000 to their children on marriage, grandparents can gift £2,500 and for everyone else the allowance is £1,000. These amounts immediately fall outside your estate for IHT. According to The Sunday Times, these amounts would be £37,463, £18,731 and £7,493 (using the Bank of England's online inflation calculator).

The Budget this week is the first given by a wholly Conservative government since 1996 and it is expected to contain bad news about how exactly the deficit will be reduced. Their election campaign promised not to raise national insurance, income tax or VAT for 5 years, so where else will the saving be made?

- Changes to pension tax relief – high earners could see their annual allowance reduced from £40,000 to £10,000
- A clampdown on salary sacrifice
- A reduction in the capital gains tax allowance

The Sunday Times provided details on the current tax-free limits, when they were last increased and where they would be if they had been increased with inflation:

What the tax-free limits should be worth in today's money

Allowance	*Current limit*	*Frozen since*	*Limit if it had risen in line with inflation*
Wedding gifts**	£5,000, £2,500, £1,000*	1975	£37,463, £18,731, £7,493
One-off gifts**	£250	1980	£958
Annual gift allowance**	£3,000	1981	£10,271
Redundancy payments	£30,000	1988	£71,852
Letting relief	£40,000	1991	£76,704
Relocation expenses	£8,000	1993	£14,555
Rent-a-room	£4,250	1997	£6,908
Inheritance tax threshold	£325,000	2009	£389,383

*£5,000 for parents, £2,500 for grandparents, £1,000 for anyone else
**These are gifts that immediately fall outside the giver's estate for inheritance tax purposes
Sources: HMRC, Bank of England inflation-adjusted figures to 2014, Deloitte

"Ignore yourself – invest"

The Sunday Times

Amid the Greek chaos, the last thing you might want to do is put money in the markets. But if you do, you could prosper"

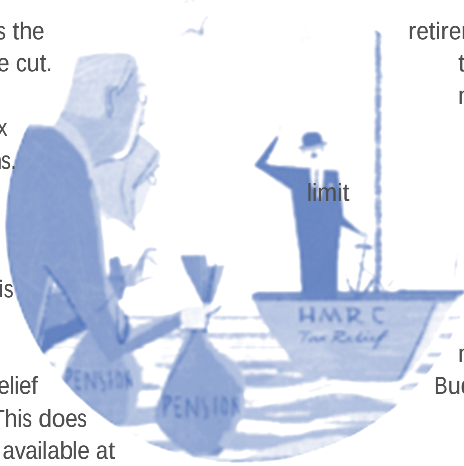
With uncertainties in Greece affecting the markets, is now a good time to invest? Stock markets are falling as are share prices, these drama create opportunities for those who have been waiting to invest.

Ian Cowie of the Sunday Times, points to the invasion of Iraq in March 20013, the FTSE 100 was trading at 3,300 and many investors switched to cash. He continued to invest and the shares bought at the time have roughly doubled. The FTSE closed at 6,585.78 with the 12 month high being 7,122.74, the weekly change was -2.49% so is this an opportunity?

Britain's main stock market, the FTSE 100 has lost nearly half is value twice since the millennium, most recently in 2009 and whilst it is possible again, is now a chance to take advantage? BlackRock, states that the important this is that people who hold their nerve and keep investing during periods when prices fluctuate buy more when prices are low. They point to investing regularly, or drip feeding into the market which can reduce volatility and provide a smoother ride.

“Goodbye to tax relief on pensions?”

Sunday Telegraph



With the Budget due on Wednesday, there is the possibility that tax relief on pensions could be cut. The pre-election manifesto hinted that high earners could be restricted on the level of tax relief available on their pension contributions. Tax relief is currently available up to 45% on contributions up to £40,000 per annum. However, this could be restricted to £10,000 per annum for high earners, even if not in this Budget it is anticipated that this is one area that savings could be made in the future. According to HMRC figures, the cost of tax relief on pension contributions is around £35bn. This does not take into account the tax-free lump sum available at retirement, the tax forgone on the pension investments or the reduction in national insurance contributions. At more than £50bn, tax relief on pensions exceeds government expenditure on defence. Previous reductions to the annual pension contribution limit to £40,000 and the lowering of the annual allowance (to £1m from April 2016) have been introduced with some warning.

Trying to invest in your pension in the next few days is not practical, but if you were planning on making a contribution anyway, doing so before the Budget might be safer than waiting.

“Funds weigh up their resilience to the meltdown in Greece”

The Sunday Mail

Few funds escaped the fallout last week as global share prices fell. Those funds with exposure to Continental Europe as well as the UK were affected amid fears that the Greek banking system would fail.

Many fund managers have been assessing their portfolios resilience to the Greek issue.

The Sunday Mail reviewed the Mercantile Investment Trust which invests in small and mid-sized companies in the UK. The fund manager, Guy Anderson claims that the problems in Greece will have little direct effect on his portfolio.

The funds exposure to Greece is minimal, however as investment markets are now international, overseas exposure still affects UK shares. The Trust holds Dixons Carphone, which in turn owns Kotsovolos, which is Greece’s largest electrical retailer. However, this only makes up 1.5% of Dixon’s operating profits and the impact is minimal. Anderson also says that the Trust’s holdings only generate 17% of their revenues from Europe, as a result the impact of Greece should be minimal.

The Trust is dominated by consumer stocks such as Card Factory, Greggs and Poundland, plus a handful of FTSE 100 stocks. They remain positive on the outlook for UK mid and small companies, particularly those exposed to domestic consumer discretionary spending.

Other funds to rival the Mercantile Investment Trust include, Henderson Opportunities, Invesco Perpetual Select UK Equity and Schroder UK Mid Cap.

The graph below shows the performance of these Investment Trusts over the past 5 years:

Source: FE Analytics, 5 year Bid-Bid, daily pricing

As with all investments it is important to note that the value of investments and any income taken from them can fall as well as rise. You may not get back the full amount of your original investment.

Any questions?

If you have any questions on any of the articles covered in this publication or would like our help with any financial planning issue, please contact:

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