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.

Articles reviewed

"Are you going to be hit? "The chancellor's raid on £1m pension pots, which penalises the prudent not just the rich"

The Sunday Times

Experts have warned that young people earning the minimum wage could eventually be amongst those affected by the reduction in the Lifetime Allowance.

Greg Kingston of Suffolk Life (part of Legal & General) has commented that for a 21 year old on the minimum wage of £6.70 per hour (which comes into effect from October 2015) working 35 hours a week and managing to save 20% of their earnings into a pension, by the time they are 67 they could easily have reached the reduced limit. This assumes growth of 7% per annum and charges of 1.5%.

The Lifetime Allowance is the maximum amount that can be saved into a pension before penal tax charges of up to 55% kick in. This maximum will reduce from £1.25m to £1m from April 2016.

George Osbourne has insisted that fewer than 4% of savers currently approaching retirement will be affected. However, those with pensions valued in the region of £700,000 now and retiring in the next 10 years could be hit depending on the level of contributions being made and the returns achieved. Investment returns of 5% could take these funds over the £1m limit without any further contributions being added.

At the present time, it is not clear what protections will exist under the new regime. Currently, there are two types of protection available: "Fixed Protection" which lets savers keep up to £1.25m as long as no further contributions are made and "Individual Protection" which means you can apply to keep your pension pot if it is more than £1m and continue to make contributions. By applying to HMRC for individual protection you are preserving the right to continue saving and retaining the current higher lifetime allowance against any further reductions.

This is an exceedingly complex area of pension planning and so expert advice should be taken. Withdrawing money from your pension or paying in further contributions may prove irrevocable and so advice should be sought to ensure that you make the right decisions.

"Your new £95,000 tax-free savings pot"

The Sunday Times

From April 2016 a basic rate taxpayer will be able to save more than £95,000 a year in cash without paying a penny in income tax. This is compared to the £15,000 currently available through an ISA. Higher earners who pay 40% tax will be able to shelter more than £55,000.

These increases are due to the new personal savings allowance. This will enable a basic rate taxpayer to earn £1,000 from cash savings each year without paying income tax. Higher rate (40%) taxpayers will be able to bank £500 tax free. Additional higher rate taxpayers are excluded.

From April 2016 banks and building societies will no longer deduct 20% tax from income generated from savings held outside of an ISA. Higher earners will also not need to declare interest on their tax returns up to £500 per annum.

Currently ISA savings interest rates are very low in comparison to other high street savings accounts. However, the tax advantages of ISAs means that many choose to use this type of vehicle. But with these changes, the more attractive non-ISA accounts may prove more advantageous as many pay significantly better interest rates.

For example a savings account paying 1.25% means that you could save £80,000 to earn £1,000. This together with the £15,240 which can be placed into an ISA in 2015/16 means a total of £95,240 could be saved without paying tax on the income.

There are also increased flexibilities for ISAs as it will be possible to withdraw monies from a Cash ISA without affecting your tax-free pot. Currently, if you have already saved £15,000 into your ISA and then withdraw £1,000 this cannot be put back in and so the tax savings are lost. Under the new rules which are expected to start in Autumn, you will be able to repay the money into the ISA in the same year without any loss of tax-free status.

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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