HICKS
CHARTERED ACCOUNTANTS
AUDIT & TAX SPECIALISTS

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Perspective

INSIDE THIS ISSUE

Welcome to our first edition of *Perspective* for 2018 from Hicks Accounting. A new tax year is nearly upon us – and that means, for all diligent savers and investors, it's important to make sure that you take full advantage of your current Individual Savings Account tax-efficient allowance. And the good news is you don't even have to declare any investments held in ISAs on your tax return. This may not seem like much, but if you have to file an annual tax return, you'll know that any way of simplifying your financial administration can be very helpful. Read the full article on page 03.

While some pensions are relatively straightforward, others are complex. It is important that everyone – whether single, married or divorced – takes steps to understand their finances and prepare for their independent future should a relationship break down. There is no substitute for expert legal and professional financial advice, and the costs involved should be considered an investment. Turn to page 04.

We hope you enjoy the articles. To discuss any of the articles featured in this issue, please contact us on 01582 766677 or email newleads@hicks.co.uk – we look forward to hearing from you.

WILL YOU MAKE PROVISION FOR ALL THAT YOU HOLD DEAR?

Getting your affairs in order and planning what you want to pass on to loved ones

Writing a Will may seem daunting – and with everything else we should be thinking about, it becomes just another chore on the to-do list. However, getting your affairs in order and planning what you want to pass on to loved ones – whether it's while you're alive or after you've passed away – is really important. Not only does it mean that your wishes can be carried out, but it can also help reduce the emotional and financial burden on loved ones at an already difficult time.

We all lead such busy lives that it can be easy to put off estate planning, but it's best to take care of this sooner rather than later. It's especially important for cohabitating couples to have a Will, as the surviving partner does not automatically inherit any estate or possessions left behind.

NO WILL IN PLACE

Three in five adults (60%) don't have a Will in place, with a third (33%) not having thought about writing a Will, according to research from Royal London[1]. Surprisingly, the research also found that a quarter (26%) of those aged 55 and over have not written a Will. Of these, one in six (16%) over-55s with no Will have never even thought about writing one.

Cohabiting couples are less likely to have a Will, with three quarters (77%) not having written one compared to those who are married or in a registered civil partnership (46%). Single adults (45%) and cohabiting couples (32%) are the least likely to have thought about writing a Will compared to those who are married or in a civil partnership (22%) and those who have separated/divorced (21%).

FEELING MORE PRESSURE

Adults with children feel more pressure to write a Will, with half (48%) saying they have not written a Will but want to write one in the near future. Three in five parents with children under 18 (58%) also haven't chosen guardians for their children in the event of their death.

Making or updating a Will provides the perfect time to talk to your family about inheritance matters. For instance, you can talk about the items you might like to pass on to them, as well as what they might spend an inheritance on. When people have these conversations, they often discover that they can help their loved ones financially now, rather than waiting until they've passed away. As well as being able to see loved ones benefit from some money, this can also help from an Inheritance Tax perspective.

PASSING ON YOUR BELONGINGS

It's not just about wealth. Some people may not think they need a Will because they don't have very much money in the bank or because they don't feel old, but this isn't necessarily the case. You need to decide to whom you want to pass on your home and belongings, such as your car, jewellery and even your pets. It's important to put this information down in writing so your family and friends can honour your wishes once you've passed away.

Don't assume who will benefit. If someone dies in the UK without a valid Will, their property is shared out according to rules of intestacy, which means your estate can only be inherited by close family (spouse/registered civil partner, siblings, children, parents and aunts/uncles). So, unless you have a Will, intestacy rules could force an outcome that is completely contrary to your wishes.

WRITING A WILL OR REDRAFT

Beware of the revoking rule. Wills are revoked when you marry, so even if you have written a Will to include your spouse or civil partner-to-be before your marriage, you'll need to renew it afterwards. This is also important if you have children from a previous marriage. Although your new spouse would benefit from your estate through the intestacy rules, your children might not.

You may also want to write a Will or redraft your existing one if you are in the process of separating from or divorcing your partner, because if you die before your divorce is complete, your spouse or registered civil partner can still inherit your estate.

Source data:
[1] YouGov on behalf of Royal London surveyed 2,089 adults between 10 and 11 October 2017. The survey was carried out online. The figures have been weighted and are representative of all GB adults (aged 18+).

MAKING PROVISION FOR ALL THAT WE HOLD DEAR

Writing a Will is fundamental to the financial planning process. It may not be the most exciting of subjects, but it answers one of our most basic desires – to make financial provision for all that we hold dear. There are many things to consider when looking to protect your family and create an effective protection planning strategy. If you would like to find out more, please contact us.

ISA RETURNS OF THE YEAR

Taking control over where your money is invested tax-efficiently

A new tax year is nearly upon us – and that means, for all diligent savers and investors, you should make sure that you take full advantage of your current Individual Savings Account (ISA) tax-efficient allowance.

An ISA is a tax-efficient investment wrapper in which you can hold a range of investments, including bonds, equities, property, multi-asset funds and even cash, giving you control over where your money is invested. It is important to remember that an ISA is just a way of sheltering your money from tax – it's not an investment in its own right.

You don't even have to declare any investments held in ISAs on your tax return. This may not seem like much, but if you have to file an annual tax return, you'll know that any way of simplifying your financial administration can be very helpful.

ISA LIMITS

This tax year, you can invest up to £20,000 in ISAs. The 2017/18 tax year runs from 6 April 2017 to 5 April 2018. The ISA allowance can be split as desired between a Stocks & Shares ISA, a Cash ISA, a Lifetime ISA (maximum £4,000) and an Innovative Finance ISA, providing you stay within the overall £20,000 limit.

The annual ISA allowance is per individual and is the maximum amount every person can save into any type of ISA over the course of the tax year. This means you and your spouse or registered civil partner can put up to £40,000 between you into ISAs this tax year.

PROTECTED FROM THE TAXMAN

When you invest through an ISA, your money is protected from the taxman, so you don't have to pay personal Income Tax on any interest or dividends you receive from your investments. While the UK Government has introduced the Personal Savings Allowance and Dividend Allowance, holding your investment through an ISA will save you from monitoring and managing a potential tax burden.

The tax-efficient nature of an ISA is particularly useful in retirement, as it means you can hold your money in bond funds and generate a tax-efficient income on top of the payments you receive from your pension. It is also very beneficial if you want to generate long-term capital growth from your funds but prefer to take a cautious approach to investing.

ANNUAL EXEMPTION THRESHOLD

When your investments are held in ISAs, you don't have to pay any Capital Gains Tax (CGT) on their growth. Of course, this may seem like a minimal benefit if your profits are well within the annual exemption threshold for CGT, but it's worth remembering that stocks and shares investments are for the long term. If your funds perform particularly well for several years, holding them in ISAs will mean you have full access to your money at all times without having to worry about managing a potential tax burden.

CONSOLIDATE YOUR INVESTMENTS

If you feel that your existing ISA provider is no longer appropriate for your needs, or you are looking to consolidate your investments under one roof, with an ISA you are free to transfer your investment between providers to suit your individual needs.

However, your current provider may apply a charge when you transfer your investment. While your investment is being transferred, it may be out of the market for a short period of time and will not lose or gain in value.

CONTROL OVER RETIREMENT INCOME

ISAs can give you control over your retirement income, as you can take as much money out as you like, whenever you want. Savings in an ISA and withdrawals from an ISA are free from personal taxation.

In contrast, if you are a pension saver, you can generally also take out as much money as you like, whenever you want, from age 55. However, while 25% of the pension pot can be withdrawn tax-free, remaining withdrawals are taxed at the applicable marginal rate of Income Tax.

INHERITING AN ISA ALLOWANCE

The spouse or registered civil partner of ISA holders who have died have the ability to inherit their ISA allowance. The Inheritance ISA or 'Additional Permitted Subscription' (APS) rules allow you to use your partner's ISA allowance for up to three years from the date of their death, or 180 days after the completion of the administration of the estate if longer. The spouse or registered civil partner can then inherit their ISA allowance, which will be equal to the amount held by the spouse or registered civil partner in their ISAs.

HELPING YOU GROW YOUR WEALTH

We are committed to helping you build a goal-based financial plan that reflects what's most important to you and your future plans. When it comes to building an investment portfolio, you may have specific goals that reflect your risk tolerance, time horizon or asset class preferences. Whatever your needs, we can help you develop an investment strategy that works for you. You can call us to arrange an appointment or ask a question.

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

PENSIONS IN **DIVORCE**

Preparing for an independent future should a relationship break down

When disputes arise within families, emotions run high and rash decisions are made. This is why divorce is an arena fraught with acrimony. But seven in ten couples don't consider pensions during divorce proceedings, leaving some women short-changed by £5 billion[1] every year. Research shows that more than half of married people (56%) would fight for a fair share of any jointly owned property, and 36% would want to split their combined savings.

Yet fewer than one in ten (9%) claim they want a fair share of pensions, despite the average married couple's retirement pot totalling £132k – that's more than five times the average UK salary (£26k)[2]. In fact, more married people would be concerned about losing a pet during a settlement than sharing a pension (13% vs 9%).

INADEQUATE SAVINGS AND PREPARATION

Overall, women are less well prepared for retirement than men, with 52% saving adequately for the future compared with 59% respectively. This figure falls to below half (49%) for divorced women, with nearly a quarter (24%) saying they are unable to save anything at all into a pension – twice the rate of divorced men (12%) saving nothing. Furthermore, two fifths of divorced women (40%) say their retirement prospects became worse as a result of the split, compared with just 19% of men.

Even if pensions are discussed during a divorce settlement, women are still missing out – 16% lost access to any pension pot when they split with their partner, and 10% were left relying completely on the State Pension.

CONFUSION AROUND PENSIONS IN DIVORCE

Almost half of women (48%) have no idea what happens to pensions when a couple gets divorced, which may explain why so few couples consider them as part of a settlement. A fifth (22%) presume each partner keeps their own pension, and 15% believe they are split 50-50, no matter what the circumstances.

In reality, pensions can be dealt with in a number of ways on divorce. The starting point should always be to find out what pensions there are, what are they worth, how they fit with any other assets such as property and savings, and each spouse's needs for a home and income.

GETTING A FAIR OVERALL OUTCOME ON A DIVORCE

If an adjustment needs to be made to get a fair overall outcome on a divorce, this can be done by one person keeping their pension, but the other getting more of the other assets (called 'offsetting'). Alternatively, the court can make a pension sharing order giving a percentage of one person's pension to the other (which could be 50-50 but often won't be) – or a combination of the two may be needed. However, pension sharing orders are made in just 11% of divorces[3].

Relationship breakdowns can leave people really vulnerable. It is important that everyone – whether single, married or divorced – takes steps to understand their finances and prepare for their independent future should a relationship break down. Pension sharing was introduced almost two decades ago, but it is clear that all too often in a divorce, pensions are still not being taken into account properly if at all.

Source data:

[1] The research was carried out online for Scottish Widows by YouGov across a total of 5,314 nationally representative adults in April 2017. Additional research was carried out by Opinium across a total of 5,000 nationally representative adults in September 2017.

[2] ONS Earnings and working hours www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours

[3] Based on Ministry of Justice figures showing there were 11,503 'pension sharing orders' in the year to March 2017, and ONS data that shows there were 107,071 divorces in 2016.

PLAN FOR YOUR FUTURE – MARRIED, DIVORCED OR OTHERWISE

While some pensions are relatively straightforward, others (for example, public sector schemes) are complex. It is important that everyone – whether single, married or divorced – takes steps to understand their finances and prepare for their independent future should a relationship break down. There is no substitute for expert legal and professional financial advice, and the costs involved should be considered an investment. To find out more, please contact us.