your MONEY

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HAPPY NEW TAX YEAR?

Even before the recent Budget, a number of changes to tax and benefits had been announced by the Chancellor...

George Osborne's Autumn Statement confirmed that the income tax personal allowance would increase substantially, from £8,105 to £9,440, rather more than previously indicated. There will be no rise for some older taxpayers, as enhanced allowances for over-65s are frozen, at £10,500 for ages 65-74 and £10,660 over 75, until the basic personal allowance reaches and passes those levels. However, the 10% tax relief concession for over-75s is lifted from £7,705 to £7,915 of taxable income for the new tax year.

Rather more of us will be paying higher rate tax in 2013-14 as the basic rate band shrinks by more than the personal allowance increase. Then there are the recently implemented changes to the Child Benefit system, which will impact across a full tax year. Child Benefit can now attract a tax charge if one partner's 'adjusted net income' is over £50,000, with the charge wiping out the benefit when the figure hits £60,000.

For some people, extra pension contributions or other 'salary exchange' arrangements may hold adjusted net income beneath the threshold. Meanwhile, the additional rate of tax payable above £150,000 falls to 45% from 50%.

NATIONAL INSURANCE ADJUSTED

There are no changes to NI rates, but small upward adjustment to Class 1 and Class 4 contribution thresholds. Basic State Pensions rise by 2.5% in 2013-14, to £110.15 (single) and £176.15 (couple), as the countdown to a flat-rate State Pension, equivalent to £144 per week in 2016, gets under way. Tax concessions on larger pensions are unchanged; annual and lifetime allowances stay at £50,000 and £1.5m, respectively, for just one more year. Regarding pension plan benefits, for drawdown years starting from 26 March 2013, the capped drawdown limit goes up from 100% to 120% of the Government Actuary's Department's computation.

In 2013-14, the capital gains tax exemption limit looks set to rise by £300 to £10,900, but the inheritance tax threshold stays frozen at £325,000 (£650,000 for qualifying couples). An uplift to £329,000 for 2015-16, announced in the Autumn Statement, is apparently being put off until 2019 or later, to help pay for the care fees cap planned for 2016. The main corporation tax rate is cut again, to 23%, in 2013-14. Stamp duty rates and thresholds for property transactions are unaltered.

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A MOVING STORY DEVELOPS

First-time and buy-to-let purchasers have become more active in some UK regions.

Signs are that the UK housing market may be over the worst effects of the financial crisis. Joblessness has not hit the levels feared, the Funding for Lending scheme is slowly aiding mortgage availability and some housebuilders have in recent months announced higher sales and profits. A major source of housing market statistics is the Council of Mortgage Lenders (CML), which acts on behalf of most of the country's mortgage lenders.

CML data on mortgage activity represents a useful yardstick, so we can hold that up and see what it tells us about the hotspots and not-so-hot spots. London and the South East have often led the market in terms of property sales volumes and prices achieved, so it is well worth noting that in late February the CML revealed that in 2012 first-time purchaser numbers in the capital were 15% higher, at volumes not seen since the financial crisis hit in 2007; home mover numbers were 4% up on 2011.

The CML figures measure up well in Scotland, too. The number of first-timers was a substantial 13% higher than in 2011; however, the increase in home moves was just slightly up. The increase in first-time-buyer activity was less impressive in Wales, where the percentage was 5%, with the number of home move transactions in 2012 almost the same as the previous year. Statistics for Northern Ireland and the English regions presented a mixed picture, with a slight fall in home moving activity in some areas. A highlight of the UK mortgage market last year was a 19% increase in the amount lent for buy-to-let transactions, to £16.4 billion gross.

On the question of price movements, there were also regional differences; these are revealed by recent figures from major mortgage lenders and the Land Registry. According to Nationwide, UK house prices rose 0.2% in February, but showed virtually no change from a year earlier, with most regions seeing falls in 2012, a year in which London did best and Northern Ireland lost most ground. Land Registry data indicated that home prices in England & Wales had gone up 1% over the past year; London (7.1%) and the South East (2.6%) gained most and the North West (-4.2%) and Yorkshire/Humber (-3.7%) did worst. Overall, the market is still convalescing, not yet fully recovered across the UK as a whole.

CAUTIOUS WELCOME FOR CARE FEES LIMIT

In February, Health Secretary Jeremy Hunt announced plans for a cap on individuals' care cost contributions; this will take effect in 2016.

Someone's total assets can shrink fast when they have to meet care home fees, which healthcare analysts Laing & Buisson last year computed to average around £27,000 per annum, taking account of accommodation and food. That represented a rise of around 25% in five years. The new measures are designed to reduce the financial burden individuals and families can face through the misfortune of requiring residential care, as about one in four people do. If the measures succeed, fewer people will have to sell their homes to meet fees.

The changes due for implementation in 2016 include a rise in the value of assets someone may hold whilst qualifying for means-tested state help with care fees. This asset limit stands at £23,250 in much of the UK and it will rise substantially, to £118,000. Another change will introduce a £72,000 cap on the total amount anyone must pay for care. The official Dilnot Report on care cost funding suggested such a cap, though at a lower amount, as a means of enabling insurers to construct new products to cover future fees.

THINGS TO CLARIFY

A few things will need clarifying, such as the degree of support available to those with assets at various levels below the threshold. Also, with average UK property prices way above £118,000, the gain may be restricted mainly to those owning low-value homes. Clarification is needed about the cap, because it covers only the care part of residential care and excludes the hotel-like elements. The split between these elements in overall residential care fees and the period of time in care could influence whether some people end up paying much more than £72,000 despite the cap.

The new arrangements have to be funded, like any other increases in state expenditure. Some of the additional cost will be met by National Insurance rises and some from extending the present freeze on the Inheritance Tax threshold of £325,000 (potentially double that for married couples and civil partners). This had been poised to rise to £329,000 (£658,000) in 2015-16 but will apparently not go up then after all. Many people will need to consider the impact of this and the other expected changes when they next review personal finances with their adviser. We now at least have some degree of certainty.

ACT TO COUNTER FLAT-RATE PENSION IMPACT

There will be winners and losers when a flat-rate State Pension starts in April 2016.

'Flat-rate' does not mean that everyone reaching their State Pension Age will get the full £144 pension

The group adversely affected includes higher-earners that have been accruing additional State Pension entitlement under the State Second Pension (S2P) and previous earnings-related schemes, Graduated Pension and SERPS. A person in this group retiring after 5 April 2016 will receive just the flat-rate pension instead of the increased pension they were anticipating. Many final-salary scheme members will also be worse off, when the S2P opt-out and its reduced NI rate are withdrawn.

The new flat-rate pension will, according to the Government, bring more clarity about future State Pension entitlements, but there is fear that another administration may change the rules again sometime. The wisdom to be drawn from this earnings-related entitlement grab is that everyone needs to consider taking steps to cut reliance on the State Pension. This could well start with exploring ways to replace that lost entitlement with alternative sources of retirement income.

FEWER TO GET PENSIONS CREDIT

The Government aims to achieve various objectives through State Pension reforms. It urgently needs to reduce costs, as life expectancy has been rising and statisticians believe this will continue. Thus the State Pension Age is going up in stages to 67 and, potentially, to 70 or higher. The flat-rate pension of £144 should bring a big fall in the number of people applying for the means-tested pension credit, which boosts income to provide a guaranteed minimum of £142.70 weekly.

'Flat-rate' does not mean that everyone reaching their State Pension Age will get the full £144 pension. Under the system operating from 2016, you must make NI contributions for a minimum of ten years to receive any State Pension and 35 years to draw the full rate; credits will be given for employment breaks to bring up children. Any expected shortfall against the 35 years could be made up by putting more into a personal pension, or into an auto-enrolment pension scheme under arrangements now being introduced at workplaces.

To sum up, adjusted State Pension amounts and the ages at which they will start to be paid, as well as the effect of pension auto-enrolment, make it advisable for employers of all sizes and individuals to examine all angles of pension planning to help bring a good quality of life in retirement. Many people would gain from professional advice on this sometimes complex matter.

WHO WANTS TO BE A ... ?

The Individual Savings Account and its PEP predecessor have reportedly created dozens of 'ISA millionaires'.

These are the lucky ones among the millions of people that have embraced the ISA concept and enjoyed tax breaks on their savings and investments. The rare 'ISA millionaires' had mostly put in the maximum amount annually since 1987, when the Personal Equity Plan (PEP) came in and carried on investing in stocks and shares ISAs when these replaced PEPs in 1999. Such investors will have put in about £200,000 and almost certainly have had their dividends reinvested to add to the capital in their ISA, which can certainly help to build value over a period of years.

The existence of ISA millionaires shows what can be done through year-by-year investment on a tax-sheltered basis, coupled with choices of shares or collective investments that do exceptionally well. Such an outcome is not guaranteed and some investors may have suffered disappointment. Not everyone can afford to invest the maximum each year, or this could put too much of their wealth at risk. For those that can, the overall 2012-13 ISA limit was set at £11,280, with up to half of this permitted in a cash ISA. The limit rises to £11,520 for the new tax year starting on 6 April 2013.

ISA TAX EXEMPTIONS

Income tax and capital gains tax exemptions apply to ISAs, but the 10% tax on UK company dividends cannot be recovered. Stocks and shares ISAs can include direct shareholdings or collective funds; varying risks and income yields arise from these. You can put in a lump sum or monthly amount, as you can with cash ISAs. When investing in a stocks and shares ISA, it is wise to keep in mind that all the normal caution attaching to equity investment should be applied.

The Junior ISA came out in November 2011, as a similarly tax-efficient way to accumulate capital for a minor and so enable them to take some control of their financial affairs when they reach majority. The JISA was conceived as successor to Child Trust Funds, for offspring not born between 1 September 2002 and 2 January 2011 (the qualifying period for a CTF). The 2012-13 JISA allowance is £3,600, increasing to £3,720 for 2013-14; this can be invested in cash and/or stocks and shares, with similar tax concessions to standard ISAs. Other relations and friends, as well as parents, can put money in, within the child's annual allowance.

It is important to take professional advice before making any decision relating to your personal finances. This publication represents our understanding of law and HM Revenue and Customs practice as at the date of publication. It does not provide individual tailored investment advice and is for guidance only. Some rules may vary in different parts of the UK, please ask for details. We cannot assume legal liability for any errors or omissions it might contain. Levels and bases of, and reliefs from taxation are those currently applying or proposed and are subject to change; their value depends on the individual circumstances of the investor.

Think carefully before securing other debts against your home. There will be a fee for mortgage advice. The amount is £295 on application, plus a broker fee £150 on completion of the mortgage and where you secure a mortgage we may also receive commission from the Lender. Your home may be repossessed if you do not keep up repayments on your mortgage.

Inheritance tax planning is not regulated by the Financial Services Authority.

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