Financial Planning infobyte 2015

Newsletter

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Tax reforms and the young

Tax changes relating to investment income provide opportunities when investments are made for the young.

Income of more than £100 p.a. which arises from investments made by parents on behalf of their children is taxed as if it were the parent’s income. But if the investments are paid for by grandparents or other relatives or friends, the income is taxed as that of the child, whose own personal allowance and rate of tax will apply.

The value of the personal allowance has risen substantially over recent years. It is currently £10,600 and will rise to £11,000 as from 6 April 2016. So a child can receive income up to this amount from investments funded other than by parents without paying any tax. It would take an investment of £350,000 to generate this level of income at an annual interest rate of 3%.

In addition, since April 2015 the first £5,000 of savings income has been tax-free thanks to a new zero percent tax rate on income which is not covered by earnings. So, combined with the personal allowance, a child could potentially receive an annual income of £15,600 non-taxable income.

Next year will also see a new tax regime for dividends on shares. The first £5,000 of dividend income will be tax-free, so if the child’s personal allowance has not been used up by other income, it could permit £16,000 of dividend income to be received tax-free.

The main types of investment for children which can be funded by parents without increasing their own tax bills are Junior ISAs, NS&I Children’s Bonds and offshore investment bonds.

Only £4,080 per annum can be invested in Junior ISAs and £3,000 per issue in NS&I bonds, but substantial gifts can be made into investment bonds, where the funds will roll up virtually tax-free until the child reaches the age of 18, after which withdrawals will no longer be added to the parent’s income.

Pension transfers overseas

Additional requirements have been introduced for those wishing to transfer UK pensions abroad.

Since 2006, the only way of enjoying the tax benefits of UK pensions abroad has been to transfer the pension rights into a Qualifying Recognised Overseas Pension Scheme, or QROPS. That is to say, an overseas pension scheme that satisfies the requirements of Her Majesty's Revenue and Customs (HMRC). Transfers other than to QROPS would incur an unauthorised payment and scheme sanction charge.

In order to qualify as a QROPS, overseas schemes must both comply with the HMRC rules and their administrators must provide HMRC with information about payments made to their members for a period of ten years after the transfer. This enables HMRC to decide whether the payments would have been permitted to be made by a UK scheme.

A new requirement was introduced on 6 April 2015, whereby schemes would only qualify as QROPS if access to scheme funds before the age of 55 was restricted to members in poor health. Scheme providers were asked to acknowledge the change by 17 June, but most failed to do so and in consequence the number of recognised schemes fell from 3,811 to just 663 and HMRC’s list of ROPS was temporarily withdrawn.

However, many overseas schemes have now notified HMRC that their rules reflect HMRC’s ‘early access’ requirements, and a new list of ROPS has been created, which is available on the HMRC website.

The fact that a scheme is included on the list of ROPS does not necessarily mean that it meets HMRC’s requirements and is a qualifying scheme. HMRC emphasises that it is the responsibility of pension holders to check with intended transferee schemes. This requires expert advice, and some financial advisers, such as www.globalqrops.com specialise in this field.

Credit for carers

It is estimated that 95% of people who care for the elderly and disabled are missing out on valuable benefits

Anyone who spends at least 20 hours per week is entitled to a National Insurance credit to compensate for lost working time. This tops -up their State pension entitlement by up to £200 per year.

To qualify, carers must be aged between 16 and State pension age and the people for whom they are caring will typically be receiving either disability living allowance, attendance allowance, personal independence payment or armed forces independence payment. The credit is available regardless of the carer's income, savings or investments

Carer's credit is available to carers who do not qualify for Carer's Allowance, but those who do receive this Allowance will receive the carer's credit automatically. Carer's Allowance is currently £62.10 per week and requires spending at least 35 hours per week looking after someone with substantial caring needs

Around 200,000 people are thought to be eligible for carer's credit, but only 11,000 have claimed the credit. Women are thought to account for 65% of carers, and most are aged over 50. Applications for carer's credit can be made via https://www.gov.uk/carers-credit

Beware hidden charges

St James's Place (SJP), the largest financial adviser group in the UK, has come under fire from Sunday Times investigators for lack of transparency in its charges.

SJP, whose representatives (or 'partners') are self-employed, promotes a restricted range of financial products and, according to one reader "*prefers not to talk about its fees*". Another said "*clearly it is in SJP's best interests to keep its charges secret*". Initial exit fees from SJP's pension and investment bonds start at 6%.

If you would like to discuss any of these matters further please contact us

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