ATT Welcome, September 2015

Welcomes

01 September 2015

Summer Budget: a wealth manager’s perspective

Working in the wealth management industry, I kept a keen eye on several Budget announcements that will have an impact on my clients and ATT members’ clients.

The changes to IHT rules in particular, with the introduction of a main residence nil-rate band (MRNRB) on top of the existing nil-rate band, were welcome. The wealth management professional provides a lot of estate planning advice and forms a large part of my day-to-day work.

It’s important to remember that, before you begin to talk through the changes to your clients, it is imperative that they have a will in place. As a tax practitioner, you will know that you can save your clients a lot of tax, but if you do not ask them whether they have a will, those with relatively modest estates and who have children can end up paying IHT on the first death. IHT, therefore, needs to be paid before the assets are released, which can cause all kinds of problems and hardship due to the intestacy rules.

As an aide memoire, you are considered intestate if you do not have a will or you have married since you last drafted one and which was not drafted in contemplation of your second marriage. The latter tends to catch out clients on their second marriage who forget they need to re-write their wills.

The new MRNRB will come into effect in April 2017 and will be for £100,000, rising to £175,000 in the tax year 2020. This allowance will apply if the property passes to direct descendants. Unused allowances can be transferred to a spouse or civil partner and there will be rules for clients who have downsized their main residence. For clients with a net estate in excess of £2 million, the new allowance is reduced at a rate of £1 for every £2.

It is hoped that a comprehensive consultation this month will finalise the detail of this new allowance. However, it does appear that transfers to discretionary trusts will not qualify. So it may be time to ask your clients to check their wills because nil-rate band discretionary trust wills were very popular before the change in transferring the unused nil-rate band to spouses or civil partners from 9 October 2007.

There have also been changes to pensions. The new flexibilities have created the interest that has been badly needed to stimulate people to start saving again.

The Budget clarified the position on death after age 75 in money purchase arrangements. For deaths after 6 April 2016, the proceeds will be taxed at the recipient’s marginal rate of tax. From a planning perspective, clients should review any spousal bypass trusts in place (and any letters of wishes may need to be modified). They may not be the most tax-efficient structure now that pensions can be cascaded down within the scheme to a dependent, nominee, or successor.

The changes to the pensions input period to align them with the tax year from April 2016 has created a welcome bonus for some scheme holders. For clients who make regular monthly payments, those made from 6 April 2015 to 8 July 2015 will fall into a pre-alignment tax year input period worth up to £40,000 in pension contributions. From 9 July to the end of this tax year they can pay £40,000 because they have a new input period. Indeed, one client of mine who paid his £40,000 annual contribution in June can now pay a further £40,000 due to the introduction of two input periods in the same tax year.

The changes for higher earners (more than £150,000) are more concerning because the £40,000 annual allowance reduces to £10,000 once earnings exceed £210,000 a year. For these clients, they should consider using their carry-forward relief now if they want to benefit from the maximum tax reliefs.

There is also a consultation paper on pension tax reliefs, so I suggest you make the most of the generous tax reliefs while you can.

Until next month.