Issue 14 Winter 2016

Viewpoint

Your latest newsletter from The Orchard Practice

Is there a housing bubble – and is it about to pop?

The news that average house prices in London have hit almost £500,000 has, unsurprisingly, led to talk of house price bubbles and potential crashes. But how worried should we be?

According to Land Registry, London saw an increase of 9.6% in house prices in the year to September - a rate few were predicting at the start of the year.

However, the picture for the UK as a whole is a little more subdued, with prices having risen by a more modest 5.3% in the previous 12 months, bringing the average UK house price to £186,553.

Rates remain steady

What happens next on house prices is hard to predict, as there are so many variables at work.

Although regulation is influencing the amount lenders are able to lend, competition amongst the major lenders is intensifying. And, whilst it seems inevitable that mortgage interest rates will eventually rise from recent historic lows, there are few signs to suggest any imminent changes.

Demand outstripping supply

Employment rates are at their strongest since records began and earnings are, for the first time in many years, outpacing inflation. This, alongside the ever-growing population, is likely to continue fuelling a demand for housing.

Meanwhile, there remains a significant shortage of housing stock. Despite the pick-up in house-building levels in the last couple of years, many estate agents are reporting a lack of property coming onto the market with 'for sale' housing stock at an 11-year low.

One influence on the availability of homes for sale will be the recent tax changes affecting so-called 'Buy to Let' landlords, of which there are now an estimated 2 million. Whether landlords choose to sell-up, increase rents to cover their costs, or accept lower returns, the impact will likely be felt gradually over the next few years.

So what can we expect?

Strengthening demand from would-be buyers, combined with constrained supply, suggests that the UK as a whole is unlikely to see any significant 'correction' in house prices in the near future. This view is shared by many forecasters, including estate agency Savills who predict continued, steady growth of between 2.5 - 5% per year for the next five years.

Predicting the likely direction of central London house prices is far tougher. Estate agents in the capital are still forecasting growth in the year ahead, but there is no doubt that activity has eased back in recent months. With at least 20,000 'luxury' homes currently under development or in the planning stages (a level far greater than the historic norm), a period of consolidation seems likely.

If you're looking for advice on funding your next property purchase, please get in touch.

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.

For this service a fee of £395 is payable upon agreement to use our services.

COPEN1166 Exp. 10/06/16

How much can you pay into your pension this year?

From 6 April 2016, the amount of tax relief people earning more than £150,000 can receive on their pension contributions will be limited.

Between now and then, however, there's a window of opportunity that means you can pay more into your pension than you might realise.

You could invest up to £40,000 in your pension

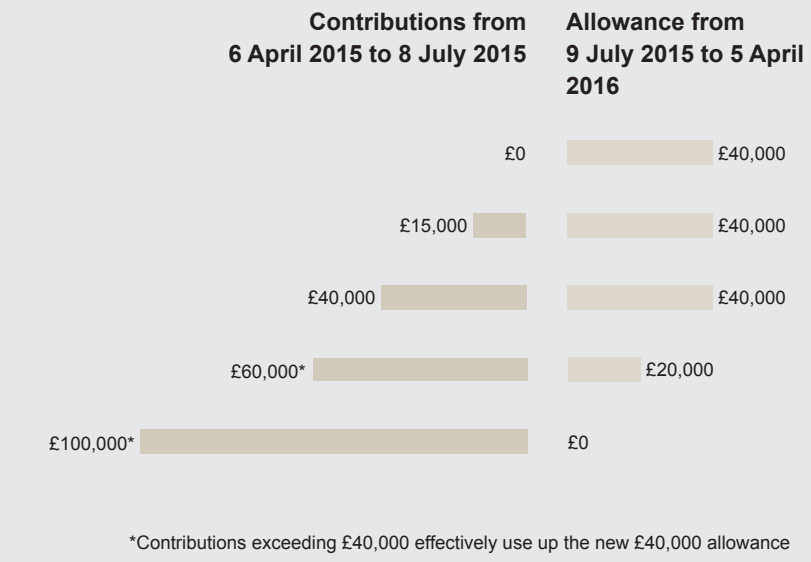
During his 8 July Budget announcement, the Chancellor confirmed that the Pension Input Period would be aligned to the tax year. This means you could put another £40,000 into your pension between now and 5 April 2016 without incurring a tax charge.

A window of opportunity

The £40,000 annual allowance usually applies to pension contributions made each tax year, including those made by you and your employer and benefits built up in a final salary scheme.

A new £40,000 allowance has effectively been introduced for contributions made from 9 July 2015 to 5 April 2016.

Note: if you invested more than £40,000 between 6 April 2015 and 8 July 2015, your new allowance may be reduced by this amount.



*Contributions exceeding £40,000 effectively use up the new £40,000 allowance

Definitions

Pension Input Period - a period of time over which the pension input amount under a scheme is measured, in order that a check can be made to see if the Annual Allowance for the related tax year has been exceeded.

Annual Allowance - the maximum that you, or someone else (eg. your employer), can contribute to all the pensions you hold in a year, without incurring a tax charge.

The annual allowance is £80,000 for the 2015/16 tax year, including benefits being built up in a final salary pension.

If you have accessed your pension since 6 April 2015, or are in flexible drawdown, a reduced contribution limit may apply.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

If you'd like to find out how much more you can invest in your pension plan, or you're looking to access your pension in 2015, please get in touch.

COPEN1110 Exp. 31/03/16

Protecting your employees and assets

Whatever business you're in, having the right insurance in place is essential to protect your assets and responsibilities.

We've put together a short description of the most common types of cover for small businesses, along with a brief checklist, to get you thinking about your current arrangements.

If you'd like help understanding or reviewing your business insurance, please get in touch.

Common types of business insurance

Employer's Liability insurance is a legal requirement. It protects you in the event a member of your staff is injured or becomes ill as a result of the work they do.

Public Liability insurance protects you should a member of the public suffer an injury or damage their possessions whilst visiting your premises. It also covers you when you carry out work away from your premises.

Professional Indemnity insurance covers the costs of legal action taken against you, should a client feel they suffered financial loss as a result of your professional opinion.

Depending on your circumstances, you may also need to consider things like **buildings insurance, business interruption, business fleet insurance** and insurance cover for **tools.**

Your business insurance checklist

1. **Take the time to understand your policy/s**
   Whether taking out new cover, or renewing your business insurance, take the time to understand your policy. Look at exactly what it does – and doesn't - cover you and your business for.

2. **Check your cover levels and limits**
   Check and double-check the levels of cover you have. Are your liability limits appropriate? Are there any exclusions that might apply in the event of a claim? You may find it useful to seek professional advice if you're unsure.

3. **Ask questions when things seem unclear**
   Don't be afraid to ask questions. Do you know what Business Interruption or Goods in Transit really means for your business? If your policy is heavy on jargon and hard to understand, ask your provider for help. A good insurance provider will be happy to explain what you are paying for.

4. **Tell your insurer if your circumstances change**
   Make sure you tell your insurance provider if something changes in your business. If you've taken on staff, diversified, grown or downsized, it's important to let your insurer know. If you don't, you could find yourself under-insured – or find your policy is no longer valid.

5. **Seek professional advice**
   Buying insurance can sometimes appear simple, but it's easy to overlook policy features that could make a big difference if you ever need to make a claim. Seeking professional advice will help ensure you're fully informed about your policy.

COPEN1039 Exp. 17/06/16

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Investing for your children's future

We all want the best for our children, not only now but in the future. With the cost of providing for children continuing to rise, careful financial planning can make all the difference.

The cost of raising a child in the UK from birth until the age of 21 has climbed to £229,251, an increase of 63% since 2003.*

Parents spend £6,411 a year, on average, supporting those aged 22+, compared to £3,841 on younger children.*

Whether you want to support your children with education costs, travelling or saving for their first home or car, in many ways investing for children involves the same considerations as investing for adults.

Common investment options for children

Choosing the right type of investment will depend on a variety of factors, including what the money is intended for and when it should be accessed. There are several options available, which include:

- **Collective funds** – a fund that is operated by a trust company or bank and handles a pooled group of trust accounts
- **Investment bonds** – single premium policies offered by onshore and offshore life assurance companies
- **ISA/Junior ISA** – UK resident children under 18 who have never been issued a Child Trust Fund voucher may be eligible for a Junior ISA
- **National Savings and Investment (NS&I)** – NS&I has a limited range of accounts suitable for children. Its Children's Bonds can accept investments of between £25 and £3,000 and, once the child is 16, they take responsibility for their investment
- **Personal pension** – There is no minimum age for a personal pension. Total contributions to a child's plan are usually limited to a maximum of £3,600 per tax year

Ownership of the investment

You will also need to decide on the ownership of the investment, as this will determine the tax that might be payable on it. You can:

- **Invest in your own name**
- **Invest in your child's name** – using bare trusts or designated accounts
- **Invest in a discretionary trust** – set up for a number of potential beneficiaries. The trustees can select who will receive the income the investment generates

Making the right choice

The sooner you start investing for your children, the better - but you should always take expert advice before making any decisions. We can advise you on tax efficiency, ownership, and investment choices.

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.

If you'd like to explore the options in more detail, please get in touch.

*http://www.lv.com/openwork/working-with-lv/news_detail

COPEN963 Exp. 01/04/16

Tax credit on dividend income

Dividends are currently paid with a 10% tax credit. For every £1,000 of dividend income received, it's assumed that £111 in basic rate tax has already been paid, making the total dividend £1,111. From 6 April 2016, this tax credit will be scrapped.

From April 2016, all dividend income will be treated as gross and the rate of tax payable on dividends will depend on the investor's other taxable income. Every investor will have a £5,000 tax-free dividend allowance as well as their personal allowance. Beyond this, the personal tax liability for taxpayers increases by 7.5% (basic rate), 32.5% (higher rate) and 38.1% (additional rate) compared to 2015/16.

So what does this mean for you?

Essentially it will make life better for many small investors seeking an income from their shareholding. However, you should know:

1. whether your investment generates a yield (this is the income generated by the underlying assets which may be paid to you or reinvested in the fund).
2. whether the yield is taxed as dividend or interest.
3. how much that yield is.

Let's look at two hypothetical examples:

Fund A has a yield of 4%, taxed as dividend.
You can invest up to £125,000 in this fund, before triggering a tax liability on the income generated.

Fund B has a yield of 1% taxed as dividend.
You can invest up to £500,000 in this fund, before triggering a tax liability on the income generated.

It is important to make the right investment fund choices to meet your own personal objectives and that includes minimising your tax liability. We can help you here.

Consider taking the following actions to help offset the loss of the 10% tax credits:

1. Maximise your ISA and Pension investments – these are not subject to taxation on the yield generated by the fund.
2. For couples, make the most of each person's £5,000 dividend income allowance by considering to split your investments.
3. Use the new personal savings allowance for other types of investment fund. In most cases, the income from fixed interest funds and corporate bonds is subject to interest tax, not dividend tax. From April 2016, the first £1,000 of interest income from these holdings will be free of income tax under the new personal savings allowance (£500 for higher rate taxpayers).
4. Consider deferring taxation using an Onshore or Offshore Investment Bond for part of your investments.

The value of investments and any income from them can fall as well as rise. You may not get back the amount originally invested.

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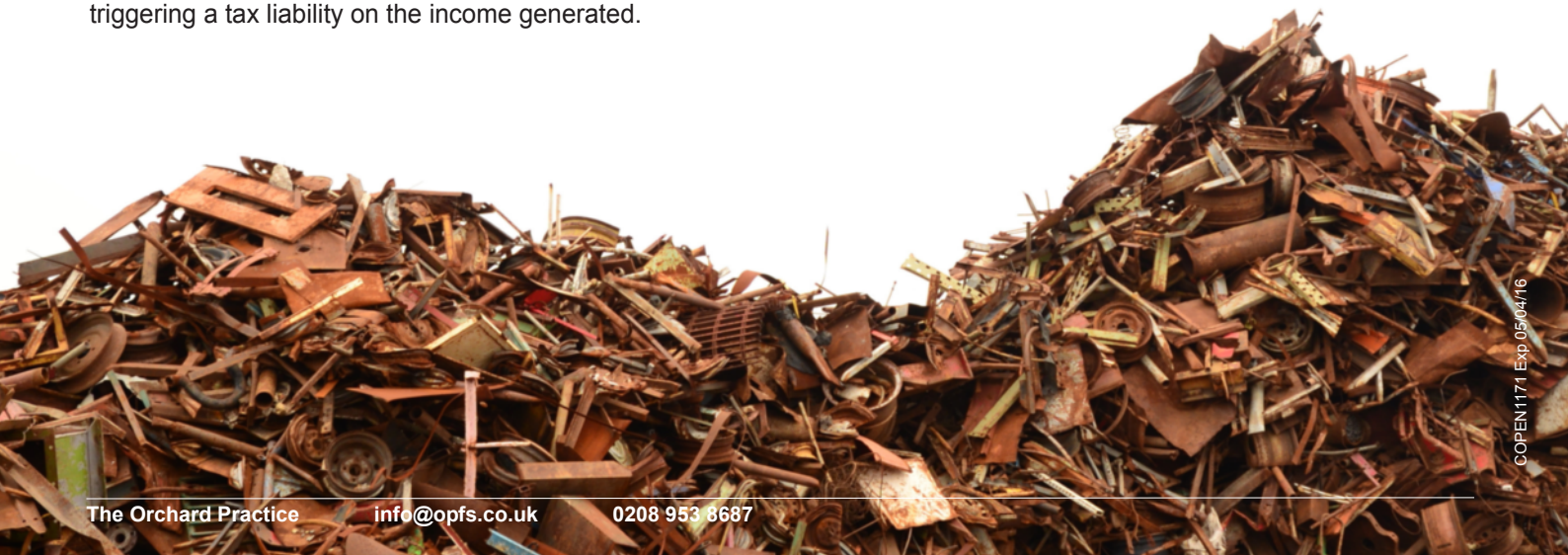
For a review of your investments and tax allowances, please get in touch.



COPEN1171 Exp 05/04/16

Student finance changes highlight spiralling study costs

From next year, students could face record bills when it comes to supporting their educational ambitions, with many parents being asked to help pick up the tab.

A university education can be a valuable advantage for young people entering today's increasingly competitive job market. But the cost of attaining a degree now comes at a significantly higher cost than in previous decades.

Tuition fees hit record high

Consumer body Which? estimates the cost of a three-year degree outside of London (including tuition fees, accommodation and living expenses) is typically between £35,000 and £40,000.

A 2014 report from The Institute for Fiscal Studies paints an even starker picture. It suggests students will leave university with an average debt of £44,035 – a figure estimated to be nearly £20,000 higher than under the old system, which ended in 2012.

Student maintenance grants to be scrapped

Students from households earning up to £42,620 per year were, until now, able to subsidise their living costs with a student maintenance grant.

This funding will be scrapped from August 2016 and replaced with a loans system. For new full-time students in England starting their courses from August 2016, the maximum amount of support will rise by £766 to £8,200 a year (up to £10,702 for those studying in London) depending on your circumstances. However, it will only apply to students with household incomes of £25,000 or less per year.

Number of teenagers combining study and work plummets

Evidence also suggests fewer students are combining part-time work with their studies, increasing the financial burden on many parents even further.

A report from the UK Commission for Employment and Skills reveals that the number of 16 and 17 year-olds combining part-time work with their studies has halved over the past 20 years, from just over two-fifths (42%) in 1996 to less than one-fifth (18%) in 2014.

Conversely, the number of young people participating in full-time education has grown substantially, from 2.1 million in 1996 to 3.2 million in 2014 – an increase of 50% - creating greater competition for each job opportunity.

Planning for a changing landscape

With costs rising and further changes on the horizon, the importance of a robust financial strategy to support your children's (or grandchildren's) further education has never been greater.

Investing for children rather than yourself is subject to a specific set of rules. These can vary depending on the ownership, tax status and term of the investment, so it makes sense to seek advice before making any investment decisions. And, as with most investments, the sooner you put plans in place and begin saving, the better.

If you would like to find out more about investing for your children's future, or would like to review your wider investment strategy, please get in touch.

COPEN1100 Exp. 14/03/16

Pension savers face Lifetime Allowance cut

From 5 April 2016, your tax-free pensions savings limit will be cut from £1.25m to £1m. This cap is called the 'lifetime allowance' and applies to your entire pension savings (apart from the state pension).

When the lifetime allowance was first introduced in 2006, it only affected high earners in the UK who could afford to grow seven-figure pension pots.

But as the limit has reduced in recent years many more thousands of people have been affected – especially those in final-salary schemes who have built their entitlement through many years' work.

Tax charges

If your pension savings are worth more than the £1m lifetime allowance when you take your benefits, you'll have to pay the lifetime allowance tax charge on the excess. The tax charge is 55% if you take the excess pension pot as a lump sum, or 25% if you take the pension as a regular payment.

Annual allowance

The amount you can pay into your pension every year (the annual allowance) is currently £40,000. You usually pay tax if savings in your pension pot exceed the annual allowance, but you can top up your allowance for the current tax year (6 April to 5 April) with any allowance you didn't use from the previous three tax years.

Pensions savings allowances

Tax Year	Lifetime Allowance	Annual Allowance
2013/14	£1.5m	£50,000
2014/15	£1.25m	£40,000
2015/16	£1.25m	£40,000
2016/17	£1m	£40,000

Protecting your money

If you had a pension pot of more than £1.25m as at 5 April 2014 you may be able to claim Individual Protection 2014. This will provide a protected lifetime allowance equal to the value of your pension rights on 5 April 2014 (up to an overall maximum of £1.5m).

You will not lose Individual Protection 2014 by making further savings into your pension scheme, but any pension savings in excess of your protected lifetime allowance will be subject to the lifetime allowance charge.

Applying for Individual Protection 2014

You became eligible to apply for Individual Protection 2014 from 18 August 2014. Applications are still open but must be received by HMRC no later than **5 April 2017**.

We expect to see similar transitional protection regimes announced ahead of the lifetime allowance cut.

If you are worried that your pension pot may be affected by this change and would like more information, please get in touch.

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COPEN1042 Exp. 31/03/16

Your financial New Year's resolutions

Most of us will make at least one New Year's resolution – but research suggests that just 1 in 10 of us will go on to achieve it.

Psychologists have found we're more likely to succeed if we break our resolution into smaller, specific goals.

So, if one of your resolutions for 2016 is to get on top of your finances, we've broken this down into five easy (and, hopefully, more manageable) steps for you. You might want to choose the one that you think will make the biggest difference, or take on all of them over the course of the year. Either way, we hope they'll help you on your way to a more prosperous financial future.

1 Make a budget

Keeping track of your income and expenses will give you an objective view of your finances. It can also highlight areas where you can trim your expenses or make the most of your income. You can break this down even further into specific tasks, like writing a groceries list before you go shopping, or setting a weekly budget for luxuries.

2 Use your ISA allowance

The allowance for 2015/16 is £15,240. You have until 5 April 2016 to take advantage of the current allowance as you cannot carry any unused ISA allowance over to the following tax year. Over the longer term, the effect of compound interest can make a big difference to your overall savings, so it makes sense to save as much as you can.

3 Top up your pension pot

Pension savers are able to top up their pension pot by an extra £40,000 before 5 April 2016. This one-off benefit is due to a change in rules which means the Pension Input Period will now be aligned to the tax year.

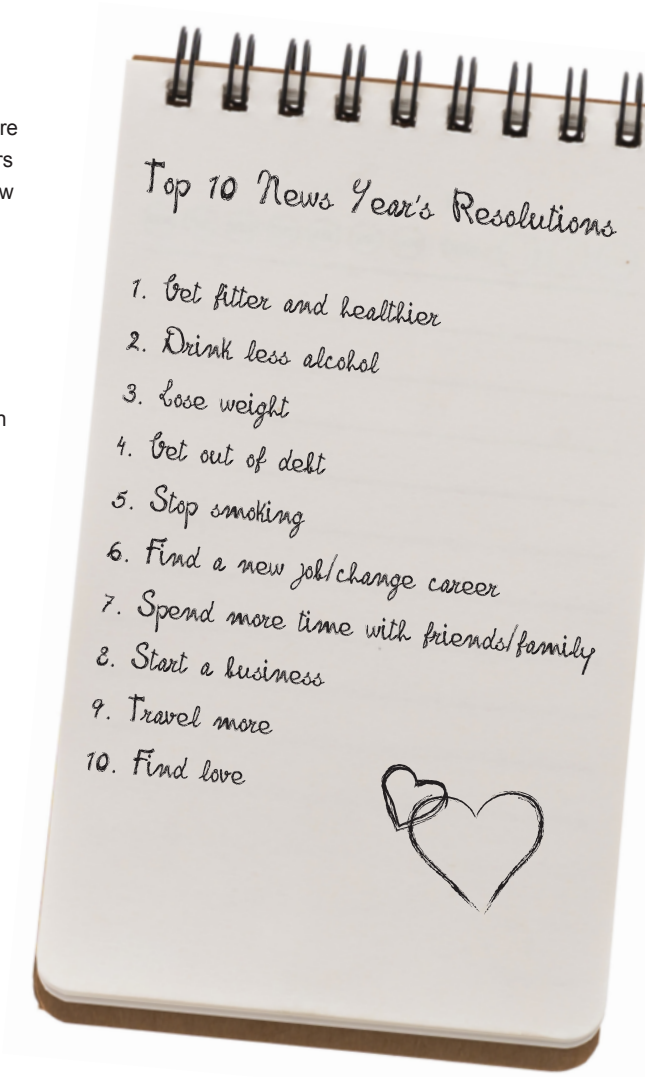
4 Update your protection

Whether it's updating your home insurance policy to cover any new Christmas purchases, or making sure your Income Protection policy covers any recent change in salary, the New Year is a good time to review your insurance needs. That way, if you need to make a claim, you know you'll be properly covered.

5 Seek advice

Discussing your financial needs with an expert can make managing your finances simpler. We can help you establish a financial plan that's designed around your specific needs, make sure it stays on track, and provide ongoing advice that will help you achieve your goals.

If you would like to have a chat about your New Year's financial resolutions, please call us today.



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The Orchard Practice
growing together

COPEN1167 Exp. 10/03/16