

3D Financial Planning
Independent Financial Advisors

53a High Street Reigate
Surrey RH2 9AE

01737 225989
info@3dfinancialplanning.co.uk

WEALTH **KNOWLEDGE**

AUGUST **2015**

www.3dfinancialplanning.co.uk

In this month's Wealth Knowledge newsletter... Changes to the way dividends are taxed could mean investors face higher tax bills. The rates for standard annuities have reached a new 2015 high. The Supreme Court has ordered that the government delays introducing its tax-free childcare scheme until 2017 after a legal battle with childcare voucher providers. And, almost a third of employees want their employer to introduce flexible working arrangements for workers approaching retirement.

Dividend tax credits to end

Individuals who receive dividends could pay more tax after the chancellor announced an end to dividend tax credits in his Summer Budget statement.

Under the current rules dividends are paid with a notional 10% tax credit, effectively exempting basic rate taxpayers from paying tax on dividend income. Higher rate taxpayers currently pay a 25% tax on dividend income while additional rate taxpayers are taxed 30.56%.

This will change in April 2016 when dividend tax credits are replaced by a £5,000 tax-free allowance. Investors will pay no tax on dividend income below £5,000 but income exceeding the allowance will be taxed at the following rates:

- basic rate taxpayers: 7.5%
- higher rate taxpayers: 32.5%
- additional rate taxpayers: 38.1%.

The dividend allowance will be in addition to the £1,000 personal savings allowance for income such as bank interest.

Sean McCann, chartered financial planner at NFU Mutual, said:

"A new £5,000 tax-free allowance on dividends sounds great but there will be winners and losers. Basic rate taxpayers won't be better off.

"In fact, basic rate taxpayers with more than £5,000 in dividend payments will start paying tax on their dividend income."

Chris Jones, president of the Chartered Institute of Taxation, said:

"Typically, the owner of a small limited company will be paid through a combination of low salary and dividends.

"Shareholders/directors will need to carefully consider whether the changes [...] will mean that this strategy may no longer be the most efficient way of extracting money from their company."

Contact us to discuss what Summer Budget 2015 means for your personal finances.

Standard annuity rates hit 2015 high

The rate for a typical standard annuity increased 5.6% between 12 May 2015 and the end of June, according to research by My Pension Expert.

This is the highest that standard annuity rates have been in 2015.

The research gives the example of a 64-year-old with a £100,000 pension who would earn £303 a year more than they would have at the start of May.

On 12 May 2015, the best available income was £5,370, while on 30 June it was £5,673. This equates to an extra £6,060 over an average 20-year retirement.

My Pension Expert attributes the rising rate to an increase in yields on government bonds. Gilt yields, which annuities are linked to, rose in June after policymakers hinted at a future rise in interest rates.

Annuity rates have fallen since the government's pension reforms were announced in 2014. Rates fell 10% between August 2014 and January 2015 before reaching their lowest ever level in April 2015.

Scott Mullen, director at My Pension Expert, said:

"The 5.5% rise in the standard annuity rate is great news for those considering purchasing an annuity, as it could lead to a significant increase in their retirement income. It demonstrates just how volatile the market is and why it requires constant monitoring if you're to make the most of your pension funds."

Contact us to discuss retirement planning today.

Tax-free childcare postponed until 2017

Government plans to introduce tax-free childcare for working families have been postponed until 2017.

The tax-free childcare scheme, originally scheduled to start in autumn 2015, will increase government childcare provisions up to £2,000 per child and extend them to all children under 12 years old within its first year.

However, the government has been ordered to suspend the scheme until early 2017 after a group of childcare voucher providers mounted a legal challenge against the decision to award the delivery to National Savings & Investments.

The claimants argued that choosing a state-owned organisation to operate the scheme violated EU procurement law. The court declared the decision to be lawful but ruled that the government would have to push back the scheme by more than a year.

The existing employer-supported childcare scheme will continue accepting new entrants until tax-free childcare is introduced.

Anthony Thomas, chairman of the Low Incomes Tax Reform Group, said:

"We urge the government to take the opportunity to consider the impact of tax-free childcare as drafted and to examine carefully the full range of interactions [with other childcare schemes].

"There is an opportunity to re-examine the legislation to try and smooth some of these interactions and to make sure that detailed guidance, and supporting tools, are in place to allow individuals to make informed decisions about which scheme they should use."

Contact us to find out how you can take advantage of tax-free childcare.

Flexible working popular among pre-retirees

Almost 3 in 10 (28%) employees want their employer to introduce flexible working arrangements and part-time roles for people nearing retirement, according to a study by Aegon UK.

The research reveals that flexible work is considered to be an important development by pre-retirees across a range of sectors. Employees in the following sectors are the most likely to expect their employers to allow them a flexible role:

- healthcare (40%)
- engineering and manufacturing (41%)
- administration (31%).

The survey of 4,000 employees also asked respondents for their retirement plans should they not reach their target retirement income:

- 61% say they will continue work into retirement
- 36% will stay in their current role
- 9% will become self-employed.

Angela Seymour Jackson, managing director of workplace pensions at Aegon UK, said:

"Workers across the UK are waking up to the reality that they will likely have to work well past their planned retirement age to make up for shortfalls in their savings.

"With so many expecting to work on past traditional retirement age on more flexible contracts, employers will need to move quickly to accommodate this new later-life work culture."

Talk to us about introducing flexible working to your workplace.