February 2019

Focused

Mattioli Woods plc

Pensions and Wealth

HOW SAFE IS MY PENSION PROVIDER?

Also in this issue...

A look at death in service policies and the possibility for further tax charges

Income tax planning in residential property portfolios

Auto-enrolment: more to be done?

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at Mattioli Woods
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Welcome

Hello, and welcome to the February 2019 edition of Focused Pensions and Wealth, the newsletter created exclusively for you, our vital professional connections.

Made up of content from wealth management consultants across the company, we hope you find it useful, informative and of interest – you are a big part of what we do here at Mattioli Woods, so have put this together with the best interests of both you and your client in mind.

If you have any queries or questions on anything within this newsletter, please contact the consultant(s) you work with.

Alternatively, you can email **info@mattioliwoods.com** or telephone **0116 240 8700**.

We would value your feedback on this newsletter, too, which you can send to **marketing@mattioliwoods.com**.

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Mattioli Woods: working with you and your clients

At Mattioli Woods, we know that fundamental to our success is the internal structure that enables us to provide a tailored, technical and professional service not only to our clients but also to you, our introducers – we know your relationship with your client is important, and by offering a personalised service, we find ways to work with you to enhance and support your existing relationship.

In working with us, you will be allocated one of our experienced consultants, who will be your first point of contact. From there, the consultant will work with you to ensure any solutions they design interact with any planning you already have in place for your client – you can also choose how involved you wish to be in this part of your client's affairs.

Further cementing our relationship, we also like to keep you updated an all things pension legislation, by:

- running free-to-attend seminars
- attending exhibitions
- offering you visits to your business for either one-to-one meetings or in-house team presentations

We look forward to working with you.

Coverage shortfall on auto-enrolment, says charity

While auto-enrolment has been noted as success across the UK since its introduction in 2012, with more than 9.96 million employees enrolled by the end of November 2018, there is still "much to be done".

Those are the words of Michelle Highman, Chief Executive of The Money Charity[1]. Commenting on the organisation's 'Money Statistics' from December 2018, she said: "If we're honest, none of us spend as much time planning for our futures as we should. But there's a clear problem in working hard and being comfortable now if we'll then leave ourselves in trouble later in life. Those are the years when the majority of us will hope to be most comfortable, as well as when we may most need help.

"That's why the successes of auto-enrolment and the plans for the pensions dashboard are to be wholeheartedly welcomed… however, clearly there is still much to be done, ensuring people do not fall through the gaps in pensions provision, as well as engaging people with being financially capable in planning for all times and circumstances of life."

At Mattioli Woods, we know auto-enrolment will continue to remain an important part of the overall planning for business owners, alongside other flexible employee benefits such as life cover. Therefore, seeking the right level of consultancy – and resulting employee benefit package – will assist with employee engagement and retention.

Shortlist success for Mattioli Woods

We are delighted to announce Mattioli Woods is a finalist at the Pension Age Awards 2019.

Shortlisted in the Pension Provider of the Year category, the awards are designed to reward both the pension providers and schemes across the UK that have proved themselves worthy of recognition against the backdrop of increasingly challenging economic times.

Having administered a vast range of arrangements, such as personal pensions, self-invested personal pensions and small self-administered schemes over the last 26 years, our internal, consultancy-led administration team has always strived to provide high-quality bespoke administration to our clients all across the UK.

We are one of the few pension providers who still have a single point of contact through our dedicated client relationship managers, offering a more personal touch for our clients and preventing unnecessary time being passed from pillar to pillar in a call centre-style provider.

Fingers crossed for the awards – we are up against some well-established large insurance-based firms, yet hopefully our flexibility and technical knowledge will help us stand out!

Pension cold-calling ban now in force

From 9 January 2019, companies or individuals making unwanted phone calls to people about their pension schemes could face enforcement action, including fines of up to £500,000.

Pension cold-calling has been used by fraudsters to con people into parting with their money, often investing it into high-risk investment schemes. Research conducted by the Money Advice Service, for example, suggests there could be as many as eight scam calls every second[2] – the equivalent of 250 million calls per year.

This new ban prohibits cold-calling in relation to pensions, except where:

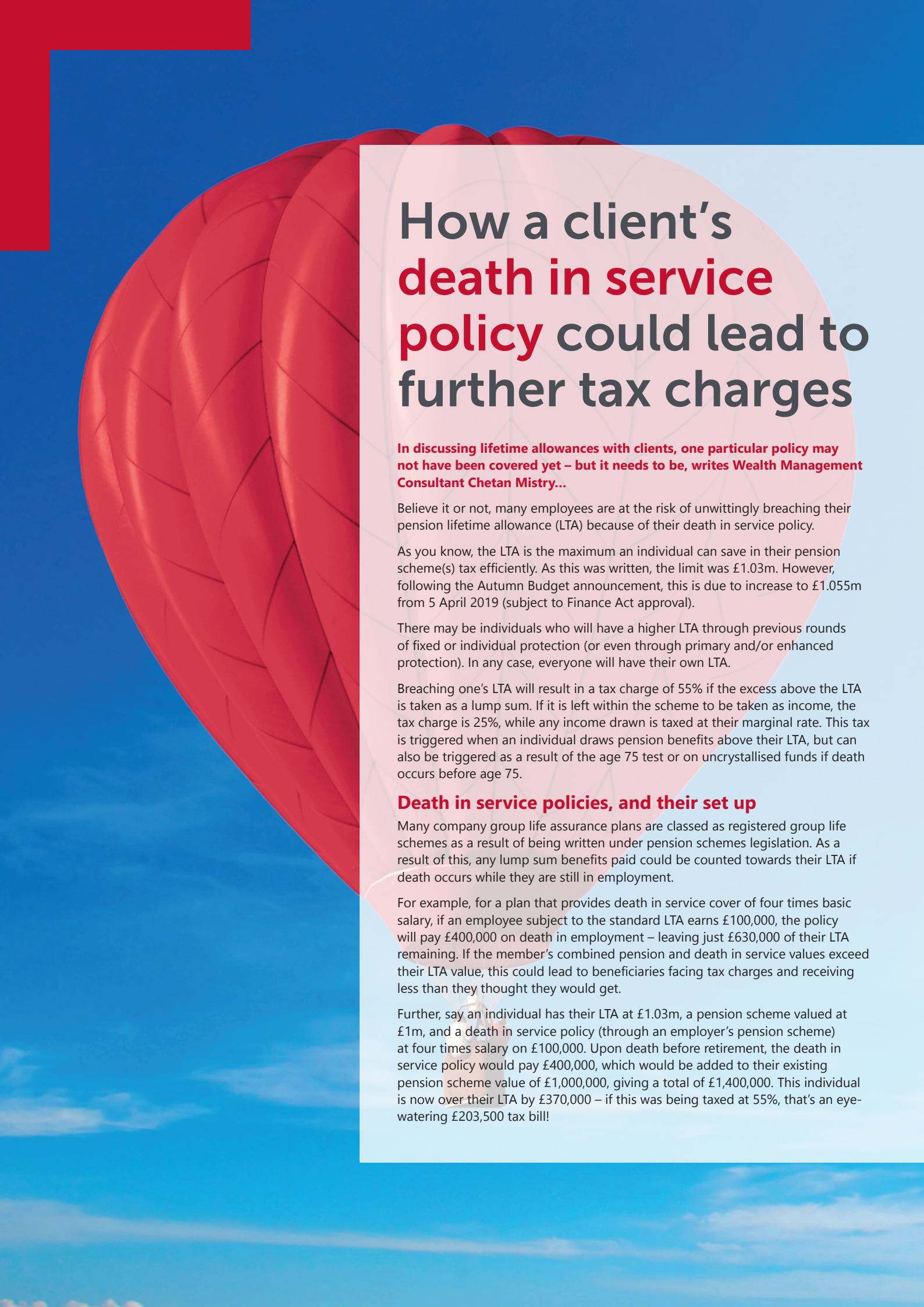
a) the caller is authorised by the FCA, or is the trustee or manager of an occupational or personal pension scheme

b) the recipient of the call consents to such calls being made by the caller on that line

c) the recipient of the call has an existing client relationship with the caller, and the relationship is such that the recipient might reasonably envisage receiving pensions cold calls

While the ban is in force, it is expected this will not deter fraudsters. Therefore, we are advising our clients – and we recommend you do so too – to remain vigilant and stay on their guard. For tips on how both you and your clients can do this can be found on our own ScamSmart page at www.mattioliwoods.com/scamsmart.

1 https://themoneycharity.org.uk/money-stats-december-2018-strong-auto-enrolment-pension-rates-yet-solve-uk-coverage-shortfall/
2 https://www.moneyadviceservice.org.uk/blog/eight-scam-calls-happen-every-second



How a client's death in service policy could lead to further tax charges

In discussing lifetime allowances with clients, one particular policy may not have been covered yet – but it needs to be, writes Wealth Management Consultant Chetan Mistry...

Believe it or not, many employees are at the risk of unwittingly breaching their pension lifetime allowance (LTA) because of their death in service policy.

As you know, the LTA is the maximum an individual can save in their pension scheme(s) tax efficiently. As this was written, the limit was £1.03m. However, following the Autumn Budget announcement, this is due to increase to £1.055m from 5 April 2019 (subject to Finance Act approval).

There may be individuals who will have a higher LTA through previous rounds of fixed or individual protection (or even through primary and/or enhanced protection). In any case, everyone will have their own LTA.

Breaching one's LTA will result in a tax charge of 55% if the excess above the LTA is taken as a lump sum. If it is left within the scheme to be taken as income, the tax charge is 25%, while any income drawn is taxed at their marginal rate. This tax is triggered when an individual draws pension benefits above their LTA, but can also be triggered as a result of the age 75 test or on uncrystallised funds if death occurs before age 75.

Death in service policies, and their set up

Many company group life assurance plans are classed as registered group life schemes as a result of being written under pension schemes legislation. As a result of this, any lump sum benefits paid could be counted towards their LTA if death occurs while they are still in employment.

For example, for a plan that provides death in service cover of four times basic salary, if an employee subject to the standard LTA earns £100,000, the policy will pay £400,000 on death in employment – leaving just £630,000 of their LTA remaining. If the member's combined pension and death in service values exceed their LTA value, this could lead to beneficiaries facing tax charges and receiving less than they thought they would get.

Further, say an individual has their LTA at £1.03m, a pension scheme valued at £1m, and a death in service policy (through an employer's pension scheme) at four times salary on £100,000. Upon death before retirement, the death in service policy would pay £400,000, which would be added to their existing pension scheme value of £1,000,000, giving a total of £1,400,000. This individual is now over their LTA by £370,000 – if this was being taxed at 55%, that's an eye-watering £203,500 tax bill!

Furthermore, an individual who may have a form of protection (such as fixed protection 2016 at £1.25m) could have their protection revoked if they become a member of a new registered death in service scheme or if their benefits within an existing policy changes – e.g. four times salary increases to five times salary. This could result in an even larger tax bill if the protection they thought they had no longer applies.

An alternative is available

So, what can be done? Well, care must be taken when individuals change employment to ensure they are not joining a registered death in service scheme that will lead either to a loss of pension protection or to a possible LTA charge. One way this can be avoided is by asking the employer or the new employer to provide a death in service benefit through an 'excepted group life policy' such as a relevant life policy (RLP), so that it does not count towards a LTA.

Additional benefits of having death benefits via the RLP include:

- any premiums paid not forming part of the employee's annual allowance, so will therefore not revoke their protection
- premiums paid by the employer not being subject to income tax as they are not normally assessable on the employee as a benefit in kind
- the employer benefiting from corporation tax relief as long as this can be demonstrated as qualifying for the 'wholly and exclusively' rules
- the benefits payable not being subject to inheritance tax – as long as they are payable into trust

Also, the amount of cover an employee can receive is typically 20 or 25 times their salary and/or regular dividends, but this can vary per provider. Therefore, the death benefit payable could actually be higher in some cases. It is important to note, however – this type of cover is not a replacement for key person insurance or shareholder protection.

Plus, a key RLP benefit is that once the employee leaves the company, they may have the ability to reassign the RLP to themselves personally – something not possible to do via the death in service policy through the pension scheme.

In need of consideration

This is certainly an important area to consider and especially for those individuals who have both large pension benefits and a death in service policy through their employment.

At the very least, employees should check with their employers about the type of death in service policy they have as it is important to check they are not in danger of exceeding their LTA, or breaking their protection. If an employee is concerned about their LTA, they should certainly get in touch to discuss the options available to them.

How safe is my pension provider?

A worthwhile question, of course, and one that Mattioli Woods is keen to help its investors answer. Wealth Management Director Alex Brown explains more...

With so much turmoil in investment markets at the moment, investors would be forgiven for being more concerned over the valuation of their assets, rather than the actual protection of those assets.

However, a recent court case has brought the latter rather sharply into focus. As it could result in you – and Mattioli Woods – being asked by clients the question headlining this piece, this isn't something we – as a pension provider – or you, should shy away from, especially when, when it comes to Mattioli Woods, anyway, the answer is: "Perfectly safe".

What's happened?

At the start of November, SIPP provider Berkeley Burke had its claim for a judicial review against a decision by the Financial Ombudsman Service (FOS) dismissed. While they are appealing the decision, essentially the case against them was this...

A client – known as Mr Wayne Charlton – had invested in a green oil scheme in Cambodia. While it represented a permissible investment for the SIPP, it was a scam, so Mr Charlton lost his invested amount.

Now, while Berkeley Burke a) did not advise on the investment, and b) confirmed it was an execution-only investment for which the client duly acknowledged he had no advice from the firm, the FOS still ruled it was responsible for investigating the investment to ascertain how sound it was.

So, now what?

With Berkeley Burke's claim dismissed – a decision of quite seismic nature – the FCA immediately wrote a 'Dear CEO' letter to all SIPP operators, requesting information, and advising:

"Pending the outcome of any appeal of today's judgement and these other cases, we expect you to consider the potential implications of them for your firm and its customers. We will be contacting SIPP operators to discuss what these may be. If the outcome of any of these cases calls into question your firm's ability both now and in the future to meet its financial commitments as they fall due, you must notify the FCA immediately."

And the pension provider world is taking note – for example, fellow SIPP and SSAS provider Curtis Banks sent an email to its professional connections, where it called the FCA's letter's tone and request "serious, and rightly so".

"The information the regulator is asking SIPP operators to provide is the same kind of information we have been encouraging advisers to request as part of their due diligence," it said. Then, it asked:

"Can you provide answers if your client asks you these questions?

- When did you last review your SIPP due diligence process, and when did you last conduct it on my SIPP provider?
- Is my SIPP provider profitable?
- Does my SIPP provider have sufficient cash and/or professional indemnity insurance to cover any potential claims?
- How safe is my pension?"

At Mattioli Woods, we too can help you answer these questions if your clients want to know about the safety and integrity of their pensions and investments with us.

Safety at Mattioli Woods

Elsewhere in the SIPP world, provider Greyfriars went into administration in October after some issues with their DFM proposition. While unrelated to what has happened with Berkeley, it does show how fragile some operators are. Therefore, we can't help but think this ruling will have ramifications for other providers who are now likely concerned about their 'book' of execution-only investments.

As such, even if your clients' SIPPs have nothing but conventional investments within, the SIPP provider could still be in trouble due to other clients, all of which could have direct ramifications for the management of your clients' schemes.

However, what we at Mattioli Woods can definitely say to all our clients – whether they are through our professional connections like you, or directly advised – is that this Berkeley ruling should not give you any cause for concern.

Why? Well, we know our clients well, and their investments first-hand. Plus, our internal capital adequacy assessment process – which ensures we have long-term internal procedures and processes in place to cover all of our material risks – is more than met, and monitored on a regular basis. Our pillar 3 disclosure details, meanwhile – which promote market discipline through regulatory disclosure requirements – are publicly available for anyone who would like further information.

As a business, we continue to trade profitably, and have done so for every year we have been listed on the AIM market (since 2005). We also have a strong and secure process for dealing with non-standard investments.

Rest assured

As such, rest assured that despite the current market volatility, your clients' pension is safe with Mattioli Woods. As mentioned previously, if you need any help explaining this to your clients, get in touch – we'll be happy to help.

Residential property portfolios: three ways to help with income tax planning

Some changes in legislation have left the buy-to-let sector not so appealing for those who once enjoyed its tax perks. So what can you advise your clients on this tricky subject? Wealth Management Consultant Jack Silk is here to help…

Since April 2017, when legislation changes were made to tax breaks on buy-to-let property, the yield is no longer as attractive as it once was. As a result, some landlords with just one buy-to-let have – or are – deciding to sell, avoiding the strategy altogether.

Historically, finance costs were fully tax deductible for the owner. However, this is in the process of being restricted to basic rate income tax only. With the nature of the property sector being 'illiquid', selling a property isn't straightforward. Therefore, retaining the asset – and implementing a strategy to ensure the income generated is tax-efficient – is high on the agenda for many.

There are various strategies to try and reduce the tax bill, of which we'll look at three.

1) Transfer of income/ownership

For husband and wife cases, it is worth reviewing the income tax position of each individual. If the buy-to-let property is in the name of the higher earner, it may be a good idea to transfer ownership to the other as to utilise their personal allowance, or pay tax at their marginal rate (if a basic rate taxpayer).

For example, say the wife is a higher rate taxpayer, so is subject to tax at 40%, while the husband is paying 20% as a basic rate taxpayer. If the buy-to-let is in the wife's name, transferring it to the husband would ensure the income is taxed at 20% rather than 40%, providing all of this falls within his basic rate tax band.

The transfer would be exempt for both inheritance tax (IHT) and capital gains tax (CGT), as this would be classed as an inter-spouse transfer.

Related is the transferring of a property portfolio over several years into a limited company. However, the CGT and stamp duty land tax position needs to be taken into account.

2) Venture capital trusts

Venture capital trusts (VCTs) were introduced in 1995 by the Government to encourage private investors to invest in small UK trading companies while benefiting from substantial tax benefits. As investment into VCTs provide 30% income tax relief (to a maximum of the income tax paid) of the initial investment amount, they can be a useful tool to reduce any income tax liability generated through the property rental income.

Other advantages of VCTs include tax-free dividends, tax-free gains upon disposal, and the ability to invest up to £200,000 per tax year. Yet, some points to consider: the investment must be held for five years to retain tax relief, and it will be illiquid for that five years. VCT's are also deemed higher-risk investments.

3) Enterprise investment schemes

For more than 20 years, enterprise investment schemes (EIS) have been helping smaller companies raise finance by offering generous tax relief to investors. Similar to VCTs (and again higher risk), the income tax relief available upon investment – 30% – can be advantageous, and this time, it only needs to be held for three (albeit illiquid) years to be retained; gains are also exempt from CGT after this period of time.

Clients can invest up to £1m per tax year, with the facility to invest another £1m providing this is made into knowledge-intensive companies. Also, the investment qualifies for business relief once held for two years, meaning no IHT is payable on the amount.

Summary

The above planning scenarios won't be applicable to all individuals, yet, they provide some options for those affected by the changes in legislation. As each individuals' position will be unique, it is important to seek advice from a financial adviser.

Additionally, residential properties could be subject to IHT upon death – another important point to consider.

2019 ACCOUNTANTS EVENTS

Throughout the year, we will be attending several events focused on learning and networking with you, our professional connections.

These include:

Accountex London, ExCeL London, 1-2 May

IFA Exhibition, London, 13 June

Accountex Summit North, Manchester Central, 10 September

Professional Accountancy Exhibition, Birmingham NEC, 18-19 September

IFA Exhibition, Birmingham, 10 October

IFA Exhibition, Manchester, 31 October

We will also be hosting our own accountancy workshops, with two free-to-attend series running in the spring (April/May) and autumn (October/November) across the country.

Dates and locations of these are to be confirmed, so, keep checking www.mattioliwoods.com/latest-events.

Mattioli Woods plc

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