May 2019

# Focused

## Wealth Management

# ONE SIZE FITS ALL?

Strategies for getting ready for retirement

**Also in this issue...**

Large Self-Administered Scheme?

Intergenerational planning: a family affair

Alex Brown
Wealth Management Director
in /alex-brown-0ba5262

# Welcome

**Hello, and welcome to the May 2019 edition of Focused Managing Wealth, the newsletter created exclusively for you, our clients.**

Made up of content from Wealth Management Consultants across the company, we hope you find it useful, informative and of interest – you are the heart of what we do here at Mattioli Woods, so know the importance of keeping you informed of the latest in financial planning.

If you have any queries or questions on anything within this newsletter, please contact your consultant. 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**.

## Our contributors

Martin Jarvis
Associate Consultant
in /martin-jarvis-fpfs-1b72107a

Peter Ryan
Wealth Management Consultant
in /peter-ryan-50622a102

Glen Marshall
Wealth Management Consultant
in /glen-marshall-a858b675

## Our principal services include:

- wealth management – pensions, investments, financial planning and protection
- employee benefits – pensions, flexible benefits, healthcare, financial education
- asset management – portfolio management, Structured Products Fund, cash ISAs, EIS, SEIS, VCTs and OEICs
- property fund management – real estate investment trust, syndicated property and Private Investors Club
- professional adviser services – SIPP, SSAS and trustee services

# Auto enrolment increases – be aware...

**The latest (and as we write, final) uplift in auto enrolment contributions came into effect in April.**

While the Government has indicated only 3% of individuals aged 55 and over make contributions of more than £4,000 per tax year, the unfortunate consequences of separate pieces of legislation colliding can result in you exceeding the money purchase annual allowance (MPAA) or tapered annual allowance (TAA), resulting in a tax charge, all just because your employer offers a generous pension scheme!

Speaking of the MPAA, this remains at £4,000 for the 2019/2020 tax year, and the TAA rules have not been altered either. So, if you have income (from all sources) exceeding £110,000, your annual allowance could potentially be tapered. Also, this tax year will be the first year the allowance from all previous three tax years could have been tapered, meaning high earners could be restricted in terms of carrying forward allowances from previous years. On the plus side, as of 2019/2020, non-tax year pension input periods are now an historical issue. If you completed provisional calculations for tapering last tax year, it would be worth checking them once the accurate 2018/2019 income figures are known, and the 2018/2019 pensions savings statements are issued in October.

With the potential of carry forward option eroded, now is the time to talk to your Wealth Management Consultant on contribution planning options and alternatives, so get in touch.

# A case of genuine errors

**Where contributions have been made to a pension scheme by mistake, there are certain conditions that will enable the pension scheme to return the funds without an unauthorised payment charge being applied.**

HMRC acknowledges "genuine errors" may occur for many reasons, resulting in the receipt of a non-intended contribution into the scheme. When this happens, and it is spotted (meaning it is rectified as soon as reasonably possible) the payment can be treated as if it had not been received. This is particularly important where an individual has enhanced or fixed protection, as a contribution can lose their protected lifetime allowance.

In the recent G Hymanson vs. HMRC case, the extent of 'genuine error' and 'reasonably possible' were explored further. It was held that the decision by HMRC to revoke Mr Hymanson's fixed protection (following the continuation of regular pension payments via a standing order) was unreasonable. It was further directed the protection status be reinstated.

There are many specifics that led to the judgment in this case, and Mattioli Woods will be keeping a watchful eye on developments so that we can keep anyone with an interest in these up to date.

# Mattioli Woods' new charity partnership

**We are delighted to announce we have begun a new charity partnership with Alzheimer's Research UK.**

Following an extremely successful three-year arrangement with Breast Cancer Now – which saw Mattioli Woods staff, clients and connections raise more than £200,000 for the organisation – our new partnership will see us work with the Cambridgeshire-based charity to help fund the latest cutting-edge research into dementia.

In an announcement to staff, Chief Investment Officer Simon Gibson said: "Dementia is a devasting condition that affects the lives of people everywhere. Once someone is diagnosed with it, their symptoms will continue to get worse over time, as there is currently no cure.

We know many colleagues and clients have connections to Alzheimer's Research UK and similar charities and have been affected by dementia within their own families. We have many fundraising events and opportunities on the horizon and we look forward to making this partnership a great success."

# Brief items

## LTA changes

The lifetime allowance (LTA) tests the value of all the UK registered pension benefits held by an individual. While the standard LTA for the 2019/20 tax year is now £1,055,000, it is still possible to apply for both individual protection 2016 and fixed protection 2016, which could give you a protected lifetime allowance of up to £1.25 million. Certain conditions apply, however, so speak with your Wealth Management Consultant.

## Personal allowance

The standard personal allowance (PA) has increased to £12,500, with higher rate tax relief on pension contributions now available on earnings above £50,000 (£43,430 in Scotland). The PA is gradually reduced for adjusted net incomes between £100,000 and £125,000, culminating in a nil PA for earnings of £125,000 and higher. This reduction (or removal) of the PA will obviously result in a higher income tax liability; however, pension contributions can help reinstate the PA, as well as helping with any tapered annual allowance issues. Again, contact your consultant for more information.

# One size fits all? Strategies for getting ready for retirement

**Thinking about your retirement but wondering how to grow that 'rainy day' pot? Associate Consultant Martin Jarvis is on hand to help...**

Generating a positive income stream can be a complex business. Throughout your working life, the process seems straightforward, right? Work, get paid, work, get paid, and so on – however, what happens at retirement?

From worrying about the nuances of work to the nuances of finances, working out how to generate an income from your savings can be tricky. Hopefully, by the time you reach retirement, you will have a nest egg stashed away that can be used to replace the lost income from working. So, is there one easy-to-find way of doing this?

## Cash is king?

Let's start simple. What about a bank account, simply withdrawing the savings? Sure, this is fine – however, there needs to be a substantial level to cover you for several years. For instance, you could replace a £20,000 income on a sum of £300,000 for fifteen years. Sound good? However, add a 5% investment growth each year, and this longevity jumps up to 25 years.

Yes, there are many different factors to consider when investing – risk tolerance, time frame and tax, to name a few. However, if used correctly, investments can provide you with a potential longevity boost.

So, if we are looking at investments, and the boost they can give to your retirement pot, what types could be used to provide an income stream?

## Safe as houses

A popular method for retirement is a buy-to-let house purchase, with the rent providing the income stream. Coupled with what can be sizeable capital rises, a buy-to-let can seem like a win-win. Further, with a long-term tenant, a relatively stable return is generated, which can be in the region of 2%-11% yield depending on the area.

However, changes to the rules around buy-to-lets (such as offsetting mortgage costs and stamp duty hikes) has reduced the attractiveness of such investments. When added to a relatively high administration burden of managing the property, income tax on rental receipts, capital gains on sales, potential tenant problems or void periods, maybe buy-to-let properties are no longer the panacea people once thought they were. Plus, even if you can stomach the additional costs these issues can cause, there is also the lack of liquidity to consider.

So, if liquidity is a problem, what about the more 'standard' investments? Well, if these are the answer, we're sorted, right? Let's just throw our hard-earned lump sum at a fund manager and leave them to it! As long as they to know to diversify between equities, bond and fixed interest, we should have no trouble of meeting our income target, surely?

If only, actually – investments can often appear confusing and abstract, especially when compared to the tangible nature of something like a house purchase, for example. A key concern is tax – although every individual receives a capital gains tax allowance (currently £11,700), personal allowance (currently £11,850) and dividend allowance (currently £2,000) there are far more tax-efficient options available.

## ISAs

ISAs, for one, are extremely tax-efficient and given the right structure, can be very liquid – most individuals know the main advantages: tax-free investment, tax-free growth and tax-free withdrawals – the holy trinity. This strategy can work exceptionally when used for income. Additionally, a wide array of investments can be used including equities, bonds, and fixed interest. Therefore, ISAs can cater for most risk tolerances and needs. Saying that, it must be noted the annual investment amount, although conducive for regular investment, does not suit a one-off large lump sum.

## Pensions

Your head would need to have been firmly buried in the sand over the last few years to have not heard about the pension revolution. Often seen as complex, archaic and boring structures, the introduction of relaxed income rules has thrust them firmly into the spotlight once more. The main perk – being able to take as much income as needed at whatever point – is certainly attractive and, add to this very favourable tax treatment within the fund and on death... maybe pensions are the answer?

Yet, with contribution allowances falling through the floor over the last few years, plus withdrawals aside from the 25% tax-free lump sum being taxed at an individual's marginal rate, there are again issues with what seems to be the perfect structure.

## Something a bit different...

Outside of these 'standard' vehicles, we also have the more niche investments.

## Venture capital trusts

Venture capital trusts offer a tax-free dividend on top of no capital gain tax on subsequent sale. They even offer 30% income tax relief on investments up to £200,000 in any one tax year! Similar structures include Enterprise Investment Schemes and Seed Enterprise Investment Schemes, which can offer even more advantageous tax treatment.

However, it must be understood these investments are relatively higher risk. Therefore, investing all an individual's savings into one is arguably not the most suitable advice.

## Investment bonds

With a large lump sum, investment bonds can provide for a very tax-efficient method of investment. Further, there are advantageous tax treatments to consider. For onshore contracts, for example, the insurance company will suffer 20% tax on investment income and realised gains. For offshore contracts, there will be little or no taxation within the bond incurred on its investments.

For you, the investor, there are two major taxation benefits. Firstly, up to 5% of the initial investment amount per annum can be drawn each year without liability to tax until a 'chargeable event' occurs. However, on one of these events, whether any further tax is due will depend on your tax position in that year – i.e. if your other taxable income is significantly below a higher rate tax threshold, there may be little or no tax due on part or all of the gain. Plus, as the 5% allowance is cumulative, this can be rolled up over the years for when it's really needed, meaning further lump sums can be withdrawn. Secondly, these investments can be flexible enough to provide extra benefits when it comes to inheritance tax and trust planning.

As with all structures, there are issues (relative complexity) and although flexible, the tax treatment can be onerous if a very large lump sum is needed.

## One investment to rule them all?

Hopefully I have made clear there are lots of investment structures you can use to generate an income and, indeed, the above only scratches the surface.

Each come with their advantages and disadvantages and although there is no clear-cut winner, the above also shows that by utilising a mixture – so, cherry picking structures to suit your objectives and needs – we can, together, create an easy-to-understand, tax-efficient portfolio that should get that income stream flowing pretty well.

# Large Self-Administered Scheme? Large problem?

**While a well-planned, managed and executed SSAS strategy can reap many benefits, a recent case has led Wealth Management Consultant Peter Ryan to talk to his clients about the fundamental aspects of SSAS planning...**

SSAS schemes are an everyday conversation for me, most of which are relatively straightforward.

However, on this particular day in the office, not so much. The problem? An innocent oversight nearly leading to a big old problem for a scheme's trustees.

## The basics

Before we get into the details, I think it's first important to go over what a small self- administered scheme is. So, while both a SSAS and a SIPP are registered pension schemes sharing the same funding and benefit rules, a SSAS remains governed by the occupational pension scheme legislation that applies to all occupational schemes. However, its status as a 'small scheme' (where all members are trustees), means a variety of exemptions can apply.

For example, while the SSAS itself is set up by a limited company, it is the trustees who control the scheme. Therefore, SSAS members invariably wear two hats: 1) they are trustees of pension assets and b) directors of their own business – two distinct roles. As trustees, they need to ensure the assets are invested in a way that provides the desired returns to pay benefits to its members, so need to achieve a genuinely commercial investment return even when transacting with their connected party company. Further, it is the role of the Scheme Administrator to ensure any unauthorised investment situations (such as failure to transact on commercial terms with a connected party) are reported to HMRC, in line with regulations.

SSAS membership can span generations, and this is relevant where a new generation takes over the management of a family company. (A side note: I have been careful with my terminology in this article – there is a key distinction between a 'member' and a 'trustee' of an occupational pension scheme. The members have the beneficial interest in the scheme's assets, while the trustees look after the assets for the members. To qualify for 'small scheme' exemptions, all members must be member trustees).

So, when can problems arise? That will be when there are members in a small scheme who are not trustees as well.

## The case

So, what happened in my case? It was a new client, who was the director of a family company. We met up initially to discuss a technical point relating to his recently-deceased father's 'scheme pension' being paid by the SSAS. The SSAS had been set up by his parents, who had established the family business, with the next generation now being the directors. Up to this point, the family had managed the scheme themselves without a professional trustee, and acted as their own Scheme Administrator.

There were several unfortunate circumstances. Not only had the father died, but the mother, who had also been a member trustee, was suffering from dementia and had lost mental capacity. Resulting in her not being able to continue as a trustee, this created a position where not all members of the scheme were trustees and unfortunately, one of the conditions of the small scheme exemptions for occupational schemes (as mentioned above) is that all members of the scheme are also trustees.

So, what's happened? The scheme has now become a large self-administered scheme (or an LSAS) and no longer qualifies for the small scheme exemptions that previously applied.

Within these exemptions, there was one particularly pertinent for my client – the ability to hold any form of employer-related investment (ERI) that exceeded 5% of the scheme's current market value.

As a general rule, the pension scheme trustees are allowed to invest up to 5% of the pension scheme in investments relating to the employer (i.e. company shares). However, the 5% position is required to be monitored to ensure the threshold is not breached. (Employer-related loans are completed prohibited, regardless of the amount involved). Importantly for my client, ERI restrictions not only apply to investments in the employer, but also to investments in parties associated or connected with the employer, and in property used by the employer or its associates.

So what was the problem? It turns out the scheme was in the advanced stages of a new property purchase for the company! Had the purchase gone ahead, this would have been a prohibited employer-related investment for the scheme. Breaches of ERI restrictions rules such as this can attract civil penalties (a fine of up to £50,000) and in some cases will be a criminal offence, with the Pensions Regulator able to instigate criminal proceedings against trustees, employers and advisers, with the potential of a two-year jail sentence.

## The solution (and how to avoid the problem)

Fortunately, I worked with the client to sort out an alternative plan to allow the property purchase to go ahead while protecting mother's interests in the LSAS – we organised the establishment of a new SSAS for the 'next generation' to transfer to, while preserving the mother's pension and her widow's benefits within the LSAS. The younger generation continue to act as trustees on the LSAS, but they are now members and trustees of the new SSAS, which will make the connected party property purchase.

It's frightening, right? The trustees had perfectly good intentions in buying a property to be tenanted by the company, but nearly walked straight into prohibited investment strategy. It becomes even more frustrating when we consider the actions the members had taken to protect the family. The older generation had drafted Wills and Powers of Attorney; the father had even created a lifetime interest trust for the mother to provide an income to her following his passing. All they were guilty of was not anticipating the mother losing capacity and being unable to remain a trustee and not appreciating the subsequent consequences of this.

With there no longer being a formal requirement for a professional trustee, you can foresee there will be other potential SSAS arrangements whereby through lack of knowledge of the small scheme's exemptions, similar prohibited investment strategies could occur.

Therefore, when planning and protecting your future ensure:

- proper Wills and Powers of Attorney are drafted, and kept up to date
- your family members know what your wishes are
- you consider the structure of your pension arrangements as part of the wealth 'big picture'

And of course, remember to take professional advice and regularly review matters with your Mattioli Woods consultant!

# The consultant's view...

Thoughts from the consultancy floor, by Wealth Management Consultant Glen Marshall

## Intergenerational planning: a family affair

**While attending a recent event, a colleague and I were taken aback by the staggering stats regarding the level of wealth millennials could be inheriting. Equally staggering, however, was the number of those individuals not receiving advice about it.**

Research carried out by Opinium suggests only one fifth of beneficiaries have advisers. Therefore, if we take into consideration the total inheritance tax (IHT) receipts for 2017/18 of circa £5.2b received by HMRC, it would suggest a vast sum of money is being received, but is doing so unadvised.

You have to wonder – why do we spend so much time and money planning and protecting our estates only to hand over our hard-earned money to the ones we love without ensuring those same people are receiving the very same advice and guidance? Guidance we have valued right up to the point we no longer need it?

I believe there is great value in engaging your beneficiaries in the IHT and estate planning process while ensuring they are also receiving appropriate advice and guidance. This will mean the wealth you worked so hard to build and manage should pass on to them with ease.

Mattioli Woods plc

Issue 2 was produced in May 2019
Mattioli Woods plc, 1 New Walk Place, Leicester, LE1 6RU

**www.mattioliwoods.com**

**Authorised and regulated by the Financial Conduct Authority.**

May 2019

The articles herein represent the views of the author and are not intended as a personal recommendation to make an investment. Investments can go down as well as up in value and you could get back less than you invested. The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice. Any investment decisions should be taken with advice, given appropriate knowledge of the investor's circumstances.