PCSMONEYTALK

The personal finance newsletter for members of PCS published by Lighthouse Financial Advice

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A helping hand from the government

With the current tax year ending on 5 April, in this issue of PCSMoneyTalk we look at legitimate ways the government encourages us to reduce our tax bill. But act quickly, as often it is a case of use it or lose it!

While everyone should pay their share of tax, there is no reason to pay more than you are expected to.

Some ways of reducing tax are fairly straightforward and can be low risk – for instance if you are investing money other than via a pension you should probably consider putting it in an ISA. Others are more complicated and high risk. As a rule of thumb no investment should be made purely because it reduces tax – it should also be a sound investment in its own right.

Cash to spare?

Then consider putting it into an ISA, where any growth is free of capital gains tax and no income tax is payable on income received. The ISA allowance for UK adults is £15,240 for the current tax year – that's £30,480 for a couple. Using your ISA allowance each tax year and investing the money in suitable funds can be one of the best ways of building up a lump sum, for instance to supplement income in retirement or to pay for long-term care.

Investments not held in a tax-wrapper?

If you have investments, whether cash, investment funds or individual shares, which you hold directly rather than within a tax-efficient wrapper such as an ISA, pension fund or investment bond, you should investigate whether it would make sense to hold them within a suitable tax-efficient environment, especially if you have unused pension and ISA allowances for the current tax year.

Use your allowances

Try and use your and your spouse's various personal allowances and lower rate tax bands, especially if one of you isn't working. Switching income from a higher rate taxpayer to a spouse paying a lower tax rate (or no tax) can save tax.

Special rules apply to income from assets jointly owned by married couples. Normally the income is split equally and so each spouse is taxed on half the income. If the beneficial interest is not 50:50 the couple can make a declaration to HMRC and pay tax according to the share of each spouse. The declaration must represent the genuine beneficial interest in the jointly held asset – although transfers can be made between spouses without tax implications.

Make sure your tax codes are correct:

It is worth checking your tax code each year (the numbers and letters on your payslip). Check the basics: is your name, address and National Insurance number right? The notice will also state your employer's name; if you no longer work for that employer, something is wrong.

Tax advice which contains no investment element is not regulated by the Financial Conduct Authority.

Also in this issue

Get in touch now, before it is too late!

To find out whether you are taking advantage of the various ways the government encourages us to pay less tax call us now on

08000 85 85 90 or email appointments@lighthousefa.co.uk

and book an appointment with one of our professional financial advisers.

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Is your job at risk? Act now to secure your finances

What action can you take to secure your financial future if your job is at risk, or you are considering accepting a voluntary severance?

In the Spending Review published in November 2015 the Office for Budget Responsibility suggested that as many as 100,000 more public sector jobs could be axed between now and 2020. In such uncertain times it makes sense to be prepared, even if you are not sure whether or not your job is at risk. Here are some of the things you should consider:

Work out how much you spend a month
Remember to include your mortgage repayments, insurance, council tax and other bills. Make sure you include any direct debits and standing orders. What is the shortfall between your total expenditure and any income you may receive when you are out of work? Can you reduce your outgoings?

Do you have mortgage payment protection?
If so can you claim on it? Should you ask to reduce your monthly repayments or ask for a repayment holiday? You should tell your mortgage lender about your situation, as they are likely to be more flexible if you do need to reduce your repayments.

Could you take out short-term income protection insurance?
This pays a proportion of your income for a fixed period of time if you lose your job. However, it does not normally pay out if you take voluntary redundancy or if you knew you were at risk of redundancy when you applied for the insurance.

Do you have any other loans or debts?
Check your credit card bills and the rate of interest you pay on outstanding balances. What can you do to reduce them or pay them off?

Will you receive a lump sum payment as part of your severance package?
If so, how can you make the most of it? What should your priorities be? Should you invest part or all of the lump sum? Or use it to pay off debts?

Will you be able to claim benefits?
Any savings, including your lump sum payment, could affect how much you receive.

Is early retirement an option?
This might be an attractive option. However, taking early retirement generally means accepting a lower pension, so you need to make sure that you will have enough retirement income to live on comfortably, now and in the future.

Have you lost valuable benefits such as life assurance or private medical cover?
If you have, you may want to consider replacing them. You will need to weigh up the benefits of having this cover against the cost.

Review your savings and investments
You should review any savings and investments you already have to see whether they could produce much-needed income or simply to make sure they are invested in line with your needs and attitude to risk.

How can you generate more income?
How easy will it be to find another job? What other type of work could you do? Is your employer offering advice on getting a new job? Could you rent out a room in your home? Any rental income could be tax-free.

What about your pension arrangements?
Contributions from your employer will cease and you will probably want to stop any additional contributions you usually make, at least until you get another job.

Time to secure your financial future?

To find out what you should consider doing to secure your and your family's financial future call us now on

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and book an appointment with one of our professional financial advisers.

Financial advice at work

We run seminars for PCS members about how to cope with the financial impact of taking voluntary severance. These are usually held at your place of work, or similar location.

They will help PCS members work out exactly where they are financially and what action they should consider taking in light of their possible loss of income. We also look at making the most of lump sum payments and whether taking early retirement might be an option.

To find out how we can help PCS members please contact one of our regional representatives:

London, the Home Counties, the South West & South Wales:
Helen Andrews
Tel: 07771 804658
Email: helen.andrews@lighthousefa.co.uk.

The Midlands, the North West & North Wales:
John Duffy
Tel: 07535 991722
Email: john.duffy@lighthousefa.co.uk.

The North East, Scotland & Northern Ireland
Gillian McGrath
Tel: 07887 788935
Email: gillian.mcgrath@lighthousefa.co.uk.

Could your family end up paying 40% inheritance tax when you die?

If you are married and your house is worth around £600,000 (£325,00 if you are single) and you have some modest savings you could leave your family with a hefty tax bill to pay – unless you reorganise your finances well ahead of time.

The number of families paying inheritance tax following the death of a loved one is set to rise this year, according to the Office for Budget Responsibility. This is to a large extent because the IHT threshold has remained relatively static but house prices have gone up, pushing more estates above the tax-free threshold.

Will there be inheritance tax to pay when I die?

It depends how much you are worth. If the value of everything you own (including your home) minus any money you owe (such as mortgages and credit card bills) is less than £325,000 there won't be any inheritance tax to pay. If it is above that amount there may be tax to pay immediately or, if you are married or in a civil partnership, when your partner dies.

Working out how much you are worth is not as straight forward as it sounds. As well as things you own outright, you need to count your share of things you legally co-own with your partner. No inheritance tax is payable on the value of assets you leave to your spouse or civil partner, no matter how much you are worth. If you leave them everything they also get your tax-free allowance of £325,000. This means that when they die the first £650,000 of what they own is exempt from inheritance tax.

Talking about inheritance tax

Talking about money with family members can be tricky – and made even more difficult when it also involves talking about death. However, many people and their families are likely to find themselves with hefty IHT bills to pay unless they, or their parents, take action to reduce the potential tax liability. The current rate of inheritance tax is 40%.

How to reduce an inheritance tax bill

Fortunately, it is possible to reduce or even eliminate this largely voluntary tax legitimately. This can be achieved in a number of ways and need not result in you getting less income or having a lower standard of living.

Giving it away!

It goes without saying that there are strict rules about inheritance tax and giving away assets. For instance you can give something away and if you live for at least seven more years it will not be taken into account for inheritance tax. However, if you continue to benefit from something you have given away it will be taken into account.

A good starting point is to make use of the various annual exemptions and allowances. For instance, an individual can give away up to £3,000 a year, reducing their estate by the same value, and there are other, similar exemptions.

One rule that is often overlooked is the ability to make regular gifts from income. So if you have more income than you need you can give it away, rather than let it accumulate within your estate and further increase your IHT liability.

Removing larger amounts from IHT

Useful though these exemptions are, they are unlikely to make much difference to a large IHT bill. For this you need to take advantage of other legitimate tax planning strategies. These can involve:

- reducing your capital while maintaining your income
- using trusts to remove money from your estate
- making investments that are exempt from inheritance tax
- funding long-term care and reducing the value of your estate
- taking out insurance to pay for inheritance tax
- leaving money to charities.

Make sure your Will is valid and up-to-date

Whatever you do and how ever much or little you are worth, you need to make sure that you have a Will that is valid and reflects your wishes as to who you want to benefit from what you own.

Expert advice

If you are concerned about inheritance tax you should talk to one of our professional financial advisers. To book an appointment call us now on

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Why investment funds can often be better than cash

Don't be put off by the recent falls in the world's major stock market indices – putting your savings into carefully selected investment funds is more likely to build a nest-egg over the longer term or generate a reasonable income.

Most financial advisers say that people should keep an amount equivalent to at least three months of household income in an "emergency" fund that you can access quickly. However, if you are holding more than this in a cash deposit account you should consider moving it to stock market-based investment fund.

Current market volatility may deter you. However, you need to realise that cash deposit accounts are not necessarily as safe as you may think. Not only are you receiving next-to no interest, on which you may then have to pay tax, but over time the real value of your money is likely to be eroded by inflation, even if inflation is relatively low.

Money invested in appropriate stock market investment funds is likely to create more wealth over the longer-term, assuming that any income is reinvested, than cash held in a savings account. Reinvesting any income you receive enables you to compound your returns, widely accepted as one of the best ways of building a nest egg for the future. Of course you might want to take the income now, for instance if you are retired.

Look behind the headlines

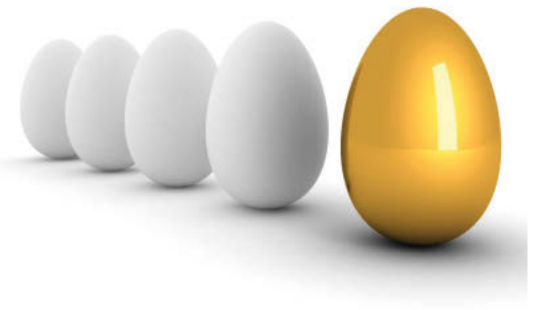
Remember that the falls announced by the media, relate to indices, in other words to a group of shares. A fall (or a rise) in an index doesn't mean that the price of all shares have fallen (or risen) by that amount. There are numerous stocks and shares that are not in the major indices, including those of large reputable companies.

Take a long-term view

When you put your money in investment funds you need to realise that the value of your investment is likely to vary from day to day, and to go up and down. You should only invest in such funds if you are investing for the longer-term, for instance at least five years.

Spread the risk

Another thing to remember is that most people don't invest directly in individual shares – they put their money into pooled funds which invest in a wide range of stocks and share and are managed to a clear remit. Not all these funds invest in stocks and shares that make up the indices that make the headlines.



Some investment funds aim to produce income, rather than capital growth, and some have consistently delivered more than 4% income in recent years. Compare that to the returns you are getting on your cash deposit account.

Reduce the risk further

One way of trying to reduce effect of stock market falls on your investments is to put your money in what are known as multi-asset funds. These are funds which spread your money across a range of asset classes (eg shares, bonds, property and even cash) and even in funds managed by other managers, rather than simply across a range of similar stocks and shares. The idea is that this gives you a more diversified investment. Most multi-asset funds are managed to a tight remit, with the fund manager moving money around with the aim of reducing volatility (sudden falls in the value of the fund).

Talk to an expert

Multi-asset funds could be a suitable home for your money if you are wary of taking too much risk, but would like a better return in terms of capital growth an/or income than you are getting on a cash deposit account. However, it is important to take professional financial advice before investing. There are hundreds of funds to choose from and you need to make sure you choose one that matches your objectives and your attitude to risk.

Make your savings work harder

If you would like your savings to work harder call us now on

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and book an appointment with one of our professional financial advisers.

The value of your investments can go down as well as up, so you could get back less than you invested.