ASPIRE

PLAN • DREAM • ACHIEVE

THIRD QUARTER, 2017

EVERYTHING'S COMING UP ROSES

Keeping your finances in the pink

GENERATION GENEROUS – How retirees are helping to improve the fortunes of the young (and the economy)

THORNY ISSUES – the rise and rise of the State Pension age

TIDE AND TIME – Why living longer is creating a ticking time bomb for pensions

WEDDING VOWS – financial facts every newlywed needs to know

The magazine of Willson Grange Limited

TICKING TIME BOMB

In July this year, Alex Brazier, the Bank of England's financial stability director, warned that a sharp rise in personal loans could pose a threat to the UK economy.

Outstanding car loans, credit card balance transfers and personal loans have increased by 10% over the past year, whereas household incomes have risen by just 1.5%.*

Labour MP Rachel Reeves, the new chair of the Business, Energy and Industrial Strategy Select Committee, also expressed concern that the debt problems seen in the run-up to the last financial crisis are "rearing their heads" again.

UK households, it seems, owe more than HALF A TRILLION pounds on variable rate mortgages and consumer debt, with interest repayments totalling £39.2 billion a year. A rise in interest rates of just 0.5% would cost an extra £3.4 billion in repayments in the first year alone!*

These figures just put into context the likely struggles our working population, and particularly the younger generation, will be facing in the future. The next few decades are going to be tough, there's no two ways about it… even the State Pension age could rise to 70 for today's twenty-somethings. So there's a long, rocky road ahead, and we need to prepare in advance.

With careful planning and a good awareness of savings, pensions and how families can effectively pass money down through the generations (see *Generation Generous*, page 5), we can at least begin to make provision for our children and grandchildren in years to come.

For the time being, it looks like it's up to us!

*Source: 'Debt Strikes Back or The Return of the Regulator' – speech given by Alex Brazier to the University of Liverpool, Institute for Risk and Uncertainty, 24 July 2017

Aspire isn't just about money. It's about family. It's about life

ISSUE 11:
KEEPING YOUR FINANCES IN THE PINK

Welcome to a new edition of *Aspire*, our quarterly magazine where we take a look at the latest issues that could affect you, your family and your finances.

We've had quite a year so far, what with a snap general election and the continuing debates and nuances surrounding the Brexit negotiations. In the world of finance, it's as well to keep abreast of the news. However, as financial advisers, we tend to steer well clear of playing the political game. Reacting markets are often just that – knee-jerk reactions to changing events, which can be red herrings when it comes to long-term investment.

So, instead of taking you through the ups and downs of domestic and world politics, we thought we'd focus our attention this issue on the areas that are likely to affect you most closely – pensions, Inheritance Tax (IHT), business, personal and family protection.

Where IHT is concerned, for example, new rules introduced in April this year may allow you to pass on more of your estate free of the tax. Yet many people are not fully aware of the thresholds.

In brief, the threshold at which your estate becomes potentially liable for IHT at 40% is £325,000 per person. In the 2017/18 tax year, there is an additional £100,000 'residence nil rate band' (RNRB) that can be used against the value of your property – but, as always, there are conditions attached.[1] Make sure you turn to *Tending the Estate* on page 9 and be clear on the facts.

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[1] Individuals can pass on larger amounts of money free of IHT, so long as they live for seven years after making the gift.

When you plan, you can…

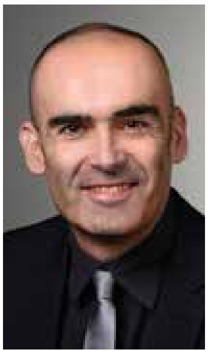
…keep it in the family

…control your future

…get down to business

…live life (& love life)

WHATEVER NEXT?



Willson Grange Investments Manager Chris Morris was one of the many stalwarts to stay up all night as the General Election results streamed in. Now he's feeling philosophical as he, like the rest of us, attempts to make sense of a nonsensical (as it turns out) event. What's the story in the financial world?

As election Thursday rolled into the early hours of Friday morning, it was clear that the "strong and stable" Government that Theresa May had sought was not to see the light of the new day. Instead, she faced the humiliation of a hung Parliament.

And that's where the fun and games – I use the term loosely! – began.

As a newly elected, but doubly weakened, Prime Minister clung to power through an informal coalition with her "friends and allies" in the Northern Ireland Democratic Unionist Party (DUP), the question for many was "what next?" not only in party political terms but also in policy and investment terms.

The answer, in investment terms, was largely anticipated in the days that followed – volatility in currency, equity and bond markets. The political uncertainty injected into the UK economy in respect of both Brexit and the public finances, with international confidence suffering, resulted in Sterling sliding 1.6% in the immediate aftermath to $1.2743 and 1.4% to €1.1382 (as at 12 June 2017).

However, these losses were largely recouped in the weekend's currency markets, as Sterling recovered to $1.29 and €1.15 respectively (as at 12 June 2017). While the DUP is a pro-Brexit party and the election has no direct impact on the Article 50 deadline, the 'hard' Brexit outcome that many economists feared now appears to be in jeopardy.

A so-called 'softer' Brexit, with concessions around the customs union and single market access, has seen many take a more positive outlook for the UK economy, as they believe this may provide a cushion for Sterling and help it to stabilise. Coupled with this is the second Scottish Independence Referendum, which after the disappointing result for the Scottish National Party, now looks near impossible. This in turn could lead to a positive environment for both banking and financial services stocks.

Similarly, the internationally-oriented FTSE 100 Index rose in the immediate aftermath, as the spotlight was put back onto overseas players – exporters and $ earners – the Index ended Friday 9th up by 1%. While the more domestically-focused FTSE 250 Index fell initially (especially banks, builders and retailers), it too stabilised and closed the day up 0.1% (as at 12th June 2017).

A WAITING GAME

All this serves to show that it's a fool's game trying to guess very short-term currency and market movements. Over the coming months, volatility will almost certainly persist, until economic momentum firms and uncertainty eases, and in that respect it's critical for investors not to base long-term asset allocation decisions on party manifestos, leaders' speeches, polls or commentary.

It's not a time for knee-jerk investment decisions – and indeed time wasted on political issues over which we have no control, is time that could have been far better spent on understanding the underlying fundamentals of a company, their profit and cash-flow numbers, which over the longer-term have a far greater impact on share price returns.

It's worth looking back and noting that in the 12 months following the 2010 Election, with its own hung Parliament outcome and Conservative/Liberal Democrat coalition, the FTSE 100 rose 13.6%, the 10 year gilt yield fell (which inversely means capital price rose) from 3.74% to 3.4%, and £ gained 10% on the $ (source: Professional Advisor, 9th June 2017). Ultimately, the UK economy could fare well on a softer Brexit and a looser fiscal policy (greater Government borrowing, increased spending and an ending of the cap on public sector pay).

BACK TO BUSINESS

From the perspective of financial planning, much of the less contentious draft legislation contained in the 2017 Finance Bill, dropped due to the PM's calling for a snap General Election, has now returned (see page 11). Topics include the proposed reduction to £4,000 of the pension's Money Purchase Annual Allowance, changes to rules concerning non-UK domiciles and changes to the treatment of uneconomic chargeable event gains. However, the return to Brexit negotiations, coupled with the complexity of the make-up of the new Government, suggest that these proposals are more likely to take effect from 6th April 2018.

What's less clear is the impact that the wafer-thin majority of the new informal coalition will have on Conservative manifesto pledges, such as the future abolition of the means-tested thresholds for later-life social care, or changes to pension tax relief, all of which may be in limbo. (See page 11 for updates on the triple lock pension and state pension age.) It's also possible that the contentious increase in class 4 National Insurance Contributions for the self-employed, dropped from the March Budget, may be delayed or even dropped, too.

Uncertainty over tax policy means informed, balanced financial advice (which can provide positive tax 'alpha') remains key. Tax will remain high on the political and economic agenda, and investors should always seek ways to legitimately reduce it. Aggressive tax avoidance will continue to be (correctly) attacked, and it's imperative that investors save and invest tax-efficiently in ways permitted by legislation. No political party objects to this basic principle, and while complex choices remain, the financial advisers here at Willson Grange Chartered Financial Planners are well-equipped to advise and support in all these matters.

GENERATION GENEROUS

Life is very far from being a bed or roses for our younger generation right now – with many obstacles faltering their financial and social progress. Eager to keep them on the straight and narrow, families are doing their bit to span the great wealth divide. New research from St. James's Place reveals how 'old money' is likely to play a significant part in the economy in years to come...

The Tory party's failure to win a majority in the election in June was partly influenced by the young, who, against previous form, turned out in force. Was that a reflection of the growing number of hurdles they face in early adulthood – from university fees, housing inequality, stagnant job creation, a resulting lack of social mobility and diminishing access to final salary pension schemes? Very possibly.

The UK's wealth balance is certainly tipped in favour of older households at present. According to the Wealth and Assets Survey published at the end of 2016 by the Office for National Statistics, over-65s collectively hold around two-fifths of the nation's £11.1 trillion total wealth (with average wealth of £377,000 per capita). A further two fifths are held by 45-64-year-olds (with average per head of £260,000). Citizens in the 18-44 age bracket, meanwhile, own just a fifth between them – £100,000 each.

It's not too surprising – people save, invest, pay off mortgages and accrue pension entitlements over a lifetime. Nevertheless, there are signs that younger generations will struggle to enjoy similar entitlements, and eventually wealth, in their middle and later years. They are the first post-war cohort not to at least start working-age life with higher real incomes than their predecessors had at the same age.[1] Soaring house prices, meanwhile, have caused home ownership among 25 to 34-year-olds to slide to 36% - down from 60% little more than a decade ago.[2]

PROPPING UP THE SYSTEM

A new study, commissioned by St. James's Place and conducted by Capital Economics in March, has revealed that many families are stepping in to help their young brood on their way. There is, the study found, an estimated £6.6 trillion of wealth held by people aged 55 and over in the UK – of which some £920 billion will be gifted to younger generations over the next three decades.

This generosity will not just help those receiving it, but will make a powerful contribution to the economy in the years ahead. Over the next 30 years, this wealth transfer will potentially add £677 billion to the economy, or 1.2% of UK GDP each year – enough to fund the purchase of around 3.4 million homes for first-time buyers.[3], provide 21.2 million deposits[4], or pay for 24 million students' tuition fees[5].

Families need to think about how and when they intend to make transfers to maximise the impact and achieve the most beneficial tax treatment

"The economic contribution made by older people in the UK transferring wealth to the younger generations is huge," says Iain Rayner, Joint Chief Operating Officer at St. James's Place. "For every £1 transferred, £1.65 is generated for the UK economy[6].

"On average, 55-85-year-olds transfer £40,000 to their children, grandchildren and family members, mainly for housing, university education or other major purchases. These are serious sums of money and, collectively, represent a vast wave of wealth that our research shows is about to be transferred. This will have a significant impact on the finances of the recipients and the wider economy as this wealth floods into the market.

"Families need to think about how and when they intend to make transfers to maximise the impact and achieve the most beneficial tax treatment – and the fortunate recipients really need to think about how and when to best deploy these gifts to help them achieve their financial goals."

BLOOMING GREAT

First announced in 2015 and eagerly awaited ever since, the new Main Residence Nil Rate Band is being phased in… at last.

The new band gives couples and individuals an extra allowance for Inheritance Tax (IHT). By 2020, couples will be able to leave up to £1million between them without an Inheritance Tax bill.

But beware, there are conditions attached, and getting it wrong could mean missing out on the allowance altogether, or, worse, exposing your legacy to risks that can rob your family of their inheritance.

- **If your estate plan is already in place, now's the time to review it with your adviser, and check to see if it's still fit for purpose or if it needs updating.**

[1] 'The economic circumstances for different generations', 2016, Institute for Fiscal Studies [2] English Housing Survey (EHS) Headline Report 2013-2014, Department for Communities and Local Government, October 2015 [3] Based on average first-time buyer house purchase price of £198,325. Source: www.telegraph.co.uk, 7 March 2017 [4] Based on an average first-time buyer deposit of £32,000. Source: www.mortgagesolutions.co.uk, 13 January 2017 [5] Based on average tuition fees of £27,750. Source: www.ucas.com, accessed 22 June 2017 [6] Based on Capital Economics' estimate on the marginal propensity to consume

PENSIONS

New Day, New Dawn

This year marks the second anniversary of 'pension freedoms' and savers have cashed in more than £9 billion from their pension pots during that time[1]. Is that a good or a bad thing? Perhaps only time will tell… in the meantime, there are ways and means to future-proof ourselves and reduce the risk of our resources running dry.

Clearly proving very popular, the Treasury says that "giving people freedom over what they do with their hard-earned savings is the right thing to do".

Experts, of course, will continue to argue over whether the 2015 legislation – which gave people over the age of 55 the freedom to use their savings in a variety of ways – will have a positive or negative impact on the long-term retirement landscape. One thing's for sure – it has certainly breathed new life into pensions and helped to improve their appeal to a working population that's not saving enough for retirement.

On the flip side, the new rules (or, more specifically, the removal of the old ones) have left many retirees exposed to a variety of risks, and placed an enormous responsibility on the shoulders of those who choose to draw a flexible income from their invested pot.

In the past, pensions legislation was in place to help maintain a certain level of income through retirement. Before 2015, there was a cap on the amount that most people could withdraw from a drawdown plan. The maximum withdrawal was broadly in line with the amount an annuity would pay, so an annuity – offering a guaranteed lifetime income – was often the preferred option.

Since 2015, however, retirees have been free to draw an unlimited income from their invested pension fund, and avoid annuities altogether.

…DECISIONS, DECISIONS… DEALING WITH THE UNKNOWN

There has been a significant switch from annuities to 'flexi-access drawdown' since the reforms were introduced – a pattern that is likely to continue.

Drawdown is much more flexible than an annuity. However, drawdown requires individuals to generate a potentially rising level of income using assets whose returns can be unpredictable.

That problem is exacerbated because nobody knows how long they will live. Uncertainty around life-expectancy forces retirees to think long and hard about taking withdrawals at a rate that also ensures their fund doesn't run out.

Given the requirement for a predictable income over an uncertain timespan, it may be tempting to invest in a low-risk portfolio – but this may well damage the prospects for decent returns. Research from Barclays shows that over all 10- and 18-year periods from 1899 to 2016, the probability of UK equity outperforming cash was over 90%[2].

> Without doubt, anyone who is approaching retirement should talk to their financial adviser

Research also indicates that, for higher withdrawal rates, a substantial exposure to equities tends to produce higher probabilities of success, albeit with higher volatility[3].

"How much equity you hold in your drawdown portfolio will depend on your age, health, lifestyle, risk profile, and so on," says Ian Price, divisional director at St. James's Place.

"What I can't do is recommend that people hold a certain percentage – everyone's situation is different. Without doubt, anyone who is approaching retirement should talk to their financial adviser. They'll be able to recommend an appropriate drawdown portfolio that will provide the sort of income you're targeting.

"That portfolio is likely to include an appropriate selection of income-producing assets, such as global equities, bonds and commercial property, which offers diversification

- Income drawdown will reduce the size of your pension fund and the investment growth may not be sufficient to maintain the level of income you wish to draw. If you withdraw money at a rate greater than the growth achieved by your investments, your remaining fund will reduce in value. The level of income you take will need to be reviewed if the fund becomes too small. This is more likely the higher the level of income you take.
- The income you receive may be lower than the amount you could receive from an annuity depending on the performance of your investments.
- The rules governing how much income you can take directly from your pension fund may change. This could mean that the income you can take from the investment no longer meets your requirements.
- The amount you decide to withdraw is likely to affect your tax situation and it may not be beneficial to withdraw a large amount from your pension in one tax year, as this may increase your tax threshold and the amount of tax you pay.

[1] www.gov.uk , 25 January 2017 [2] Barclays Equity Gilt Study, 2 March 2017 [3] Return Sequence and Volatility: Their impact on sustainable withdrawal rates. Matthew B Kenigsberg, Prasenjit Dey Mazumdar, Steven Feinschreiber. The Journal of Retirement, 2014.

to avoid over-exposure to any one asset class or geographic region."

Market events since the Brexit vote are a recent example of volatility. Global assets have not only mitigated UK-specific risks, but have also benefited from sterling's weakness.

Your adviser should also talk to you about holding funds in cash, so you are not forced to take withdrawals from more volatile assets. It's effectively reverse pound cost averaging because, if the value of an asset falls, more units or shares have to be cashed in to provide the same income.

Those who take an income from shrinking investments early on in their retirement can do irreparable damage to their portfolio. Your adviser will also be able to help you determine an income strategy that is sustainable over the long term, and has the flexibility to adapt if your fund has suffered from poor market conditions.

You may also consider buying an annuity with part of your pension fund, to cover essential spending. Annuities, in fact, may still prove the best option for some.

TIDE AND TIME

The World Economic Forum recently warned that the pressure on pension systems from ageing, and longer living populations could lead to the "financial equivalent of climate change".

Half of all babies born today are expected to live to over 100, the Human Mortality Database (2016) tells us. With that, the costs of providing retirement security are projected to rise to unprecedented levels – presenting governments around the world with what the World Economic Forum (WEF) calls a "pension time bomb" in the not-too-distant future[1].

While generous benefits accrued in final salary pension schemes, combined with higher-than-inflation rises to the State Pension, have led to a revolution in pensioner wealth, younger generations are unlikely to be as fortunate. They will, on average, spend more years in retirement but will receive less from their private pensions. Consequently, they may be more reliant on the state.

Yet the State Pension is unlikely to become more generous in real terms, and it will fall on individuals to put more aside for retirement.

Changing our saving habits is something we must all face in years to come, as well as working for longer and perhaps revising down our expectations for our own retirements.

WIDENING GULF

Although the UK's retirement age is due to rise to 67 between 2026 and 2028, the WEF report warned that further increases are needed if the UK is to sustainably support future generations. The spiralling cost of providing security to those in retirement will put the incomes of future generations in peril and set the UK and other developed countries on course for a major crisis.

The WEF has estimated that the gap between what people in the UK need during retirement and what they have is currently £6 trillion. If its forecasts turn out to be correct, the gulf will widen to more than £25 trillion by 2050 – putting an impossible strain on our children and grandchildren.

The WEF believes workers need to save between 10pc and 15pc of their annual salary to support a reasonable level of income in retirement. Many workers face a shock in later life, it warns, with current savings rates "not aligned with individuals' expectations for retirement income – putting at risk the credibility of the whole pension system".

It's almost certain that retirement ages in this country will rise, but by how much and how quickly will be an issue for the government to grapple with over the next parliament. The State Pension age could rise to 70 for today's twenty-somethings, so a retirement age of 60 or 66 could soon turn out to be a privilege for the fortunate few.

The value of an investment with St. James's Place will be directly linked to the performance of the funds selected and may fall as well as rise.

The levels and bases of taxation and reliefs from taxation can change at any time and are dependent on individual circumstances.

[1] 'We'll Live to 100 – How Can We Afford It?' WEF, May 2017

LOSING TRACK

… A study by pensions and investments company Aegon found that, of the 62% of people who have multiple pensions, more than a fifth (21%) have lost track of one or all of them. That equates to more than SIX MILLION people who have misplaced some of their pension pots. And 39% of those with multiple pensions don't know the total value of their retirement savings*.

… Tracking down a lost pension can be as simple as making sure any old pension providers have a current address for you. You should write to the pension company, tell them your new address and ask for a statement. If you're trying to track down a lost workplace pension, you could try contacting the company you used to work for. If they no longer exist, or you're trying to trace an old personal pension and you don't have any contact details, the Department for Work and Pensions (DWP) has a pension tracing service that can help you find a lost or forgotten pension.

… Once found, it might be a good idea to review your existing pension arrangements to ensure that they are working for you, particularly if one or more pension is languishing in a poorly performing fund. Ask your Willson Grange Financial Adviser to explain, if this is of interest to you.

*Aegon, October 2016

With This Ring

Financial matters aren't always the first consideration for excited couples tying the knot. But it's so important to review your current financial arrangements and establish new plans at the start of your new life together.

Even a simple ceremony and reception these days costs many thousands of pounds – £25,090 on average according to a recent survey[1]. Sometimes the unexpected can put paid to the best-laid plans, so wedding insurance is really a must for every couple, however well organised you might have been for your big day.

But later, when all the excitement has quietened down, and the honeymoon is over, the serious thinking needs to start, and this is the point at which you, as a couple, will need financial advice.

- At the simplest level, you might want to maximise your ISA allowance and other tax-efficient investments, perhaps by moving some assets from one to the other, taking advantage of the fact that transfers to a spouse are exempt from Capital Gains Tax.
- You might also want to think about your pension beneficiaries, dividend income and property ownership
- And you will, naturally, want to update your Wills.

However, there is another reason why marriage is a financial landmark: it's a time when people first start sharing their lives – and, usually, their debts – with their partners. So this is the perfect moment to put some protections in place.

LIFE INSURANCE should be fairly high on your list of considerations, as it can provide the security that money is available to meet mortgage and other financial commitments should one partner die. Similarly, a **JOINT-LIFE SECOND DEATH** whole-of-life policy could help settle Inheritance Tax (IHT) liabilities when both partners have passed away.

Life cover needs to be put in place even by those who don't consider themselves to be wealthy – and it's relatively straightforward to arrange. Yet not everyone will be able to secure cover through the standard market.

"Increasingly, people are getting married when they're older or indeed getting married for a second or third time," says Torquil McLusky, managing director at Pulse Insurance, a specialist insurer.

"An older couple may have significantly more complex investment needs; older people may also have health problems or age-related issues, which is when specialist providers that offer access to the Lloyds' market can sometimes be needed.

"Specialist insurers can provide cover for people with pre-existing conditions and can also offer cover for older couples who may suddenly have mortgage commitments or other financial obligations at a stage of their lives when they had been expecting to be thinking more about taking it easy, rather than carry on working."

SECOND TIME AROUND?

- If you are a "blended" (or step-) family, A FAMILY TRUST WILL can be of real long-term benefit. It enables you to provide fairly and equitably for your other half and your children and stepchildren. You don't have to sacrifice your other half's welfare for the sake of your children, and you don't have to sacrifice your children's future to provide security for your other half.
- Are you intestate? If you made a Will after your divorce, unless your new Will was written "in contemplation of marriage" to your present spouse, it automatically became invalid on your wedding day. You (and your new spouse) will need to make arrangements with your solicitor for a new, valid Will.

PRE-NUP PROTECTION

We all hope that marriage will last forever, but the fact is that more than 40% of marriages now end in divorce[2]. Inevitably, financial plans made as a married couple may not survive a divorce – especially if they no longer make financial sense.

"Unfortunately, divorce is not something that we can insure against," says McLusky. "The best we can probably do is a prenuptial agreement, which, although not recognised in statute, the UK courts will at least take into considerations when making a settlement."

Many couples will have joint life insurance policies in place, and often the premium is paid by just one of the parties. If that spouse stops paying or cancels the policy, then the other partner could be left without life insurance.

If a partner has custody of the children, it's often wise to maintain a life insurance policy on their ex-spouse with a benefit amount high enough to replace maintenance income. Sadly, lots of break-ups become bitter or lengthy because couples can't agree how to split the finances or continue paying insurance premiums. In those cases, individuals will need some professional financial and legal advice.

The value of an investment with St. James's Place will be directly linked to the performance of the funds selected and the value may fall as well as rise. You may get back less than the amount invested.

The levels and bases of taxation, and reliefs from taxation, can change at any time and are generally dependent on individual circumstances.

Will writing involves the referral to a service that is separate and distinct to those offered by Willson Grange Limited and St. James's Place. Wills are not regulated by the Financial Conduct Authority.

[1] www.hitched.co.uk, accessed 30 May 2017 [2] Office for National Statistics, November 2015

TENDING THE ESTATE

The UK is entering an unprecedented era in which people are retiring with much greater wealth than their predecessors. That wealth is largely being preserved through retirement and will in due course find its way down through the generations. Effective estate planning could not only reduce a future Inheritance Tax bill… it could provide valuable financial support for the family during your lifetime.

Most of us spend our lives working to provide for our family, so it's reasonable to assume that we would want to take every opportunity to preserve our wealth and pass it on to our designated beneficiaries tax-efficiently.

Writing a Will is normally the first step towards making our wishes concrete and establishing who should get what, but it can also be an opportunity to reduce an Inheritance Tax (IHT) bill.

Assets that go straight to children trigger a tax charge if they exceed the IHT nil-rate band, whereas assets passed between husband and wife or civil partners generally don't. Yet without a valid Will, your estate will be divided up according to the rules of intestacy – which do not guarantee that your spouse will inherit your whole estate.

The Office for Budget Responsibility (OBR) believes that more than 40,000 estates will be liable for IHT this year[1]. It's not surprising when you consider that the IHT nil-rate band has remained at £325,000 per person since 2009, and will be fixed until 2021.

But there has been some good news, too. From 6 April this year, a new IHT-residence nil-rate band (RNRB) has been introduced. This provides a new transferable allowance for married couples and … Once found, it might be a good idea to review your existing pension arrangements to ensure that they are working for you, particularly if one or more pension is languishing in a poorly performing fund. Ask your Willson Grange Financial Adviser to explain, if this is of interest to you. The allowance will initially be for £100,000 per individual, and will increase in £25,000 increments annually to £175,000 in 2020/21. This is in addition to an individual's own nil-rate band of £325,000.

Crucially, the £325,000 threshold and the new RNRB are transferable, meaning that you can pass both tax-free allowances onto your spouse or civil partner when you die. With the RNRB increasing to £175,000 in 2020/21, a couple could eventually pass up to £1 million without attracting IHT. The rules, as ever, are not straightforward and not everyone will benefit; many individuals will still want to find ways to minimise the amount of tax due on their estate after they die.

"Even if you don't consider yourself to be particularly wealthy, you may still find that the value of your individual or combined estates exceeds the tax-free thresholds, so anything that reduces a potential IHT bill is worth considering.

"With the benefit of advice, you can be sure that your wealth goes to whom you choose, without putting your own retirement security at risk."

- Simon Treadwell, Willson Grange Financial Adviser

5 IDEAS TO MAKE LIFE LESS TAXING

There's plenty that can be done to keep a potential IHT bill to a minimum. Here are our five of the best:

1. Use the allowance for individuals to give gifts worth up to £3,000 a year (£6,000 if you use the previous year's allowance as well) without incurring any IHT.
2. Individuals can pass on larger amounts of money free of IHT, so long as they live for seven years after making the gift.
3. Take account of the 'normal expenditure out of income' rule – if you give gifts out of your income and, in doing so, don't damage your standard of living, they are exempt from IHT, and there is no upper limit.
4. Spread your giving over a number of years rather than paying out a lump sum.
5. Don't give away too much too soon – otherwise you could be dependent on your children.

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[1] Office for Budget Responsibility, March 2016

TALKING ON AIR

Every new day brings with it new events with their social and political impact. Whether it's good news or bad, big news or small, LBC Radio host Shelagh Fogarty is there each lunchtime, 'leading Britain's conversation'…

Shelagh Fogarty's father got it just about right when he'd say to his Merseyside neighbours, "She's a talker, that one." Could it be that Mr Fogarty Snr had an inkling that his bright but chatty daughter was destined for a career in radio broadcasting? Very possibly. But he couldn't, surely, have foreseen that she would grow up to be a nation's favourite conversationalist… and a multiple Sony Radio Award-winning talkshow host at that?

As she meets up with *Aspire* en route to her daily show with London's LBC Radio, it's clear that Shelagh, "the talker", thrives just as much on the fast pace of her busy broadcasting life, and the human dramas that she sees as a news journalist.

"I'm built for daily news," she smiles. "Twenty-five years of presenting breakfast shows has given me an unbreakable habit – I'm up at the crack of dawn, switching on the radio and finding out what's going on."

Encouraged by her parents, and journalist brother Liam, Shelagh – outgoing and inquisitive – trained in the 1980s with the BBC, enjoying a year's experience with Radio 4.

"There was something very appealing about the fact that a broadcast reporter could be responsible for everything, from researching to scripting and recording, and it would all be over and done with very quickly. I loved the immediacy," she recalls.

A natural and enthusiastic communicator, Shelagh, it emerged, had a rare ability to make the most hard-hitting news stories accessible to a wide audience. Hosting the award-winning Breakfast Show (with co-presenter Nicky Campbell) on BBC's 5Live, she interviewed the country's top politicians, sports stars, musicians and actors.

"I'll dig to find out what has led a person to say what they've said, particularly if it's a stark statement."

Shelagh also excelled at live outside broadcasts too, covering some of the biggest world events, from the devastation of the Boxing Day Tsunami from Thailand to the live service at Anfield marking the 20th anniversary of the Hillsborough tragedy (for which she received much praise).

Now with London-based LBC Radio – "Leading Britain's Conversation" – she appears happier than ever presenting 15 hours of live radio every week and interacting with a nationwide audience from her phone-in studio.

The UK's longest-running commercial radio station is giving

WE ASKED SHELAGH

What intrigues you most about daily news today?
"It's the human drama, really.
"I was quite struck by Theresa May on the morning after the election – seeing how she coped with the situation, knowing that the world was watching her. Then not long after, there was the Grenfell Tower tragedy. How would she respond? If she cried, she'd be accused of weakness, and if she didn't she was being 'unfeeling'. It was uncomfortable viewing, but from a human perspective, I felt a great deal of empathy for her."

What's your most treasured conversation?
"That has to be my interview with Donald Woods, the late South African newspaper editor and anti-apartheid campaigner in 2001 [the year Woods died].

"Donald told me, 'A whole life can change on a pin-head – one small event, one single decision, can completely alter your course,' and it certainly did for him. He fled South Africa, but was then able to brief western governments, particularly the White House, on how to handle South Africa, and press for sanctions against the apartheid regime."

"Donald and his wife, Wendy, were so impressive, so gracious. I'll always be moved by their memory."

conversationalist Shelagh a new direction and energy with its lively, free-flowing style, where nothing, or very little, is off-limits.

"The great thing about LBC is I can give my opinion – something I could never do as an impartial BBC presenter. But it's quite liberating.

"The conversations are so lively at the moment – there's a lot of Brexit, of course, so that's a great debate. But we've also been talking about emotional and ethical issues, such as same-sex marriage, assisted dying, acid attacks… Callers will relay quite personal points of view based on their experience. My role is often just to listen and let them talk."

How does Shelagh deal with angry, difficult or (as recently experienced in the wake of London's tragic events) callers with 'alternative' views (see lbc.co.uk: "If Grenfell Residents Move Into My Flats, I'll Move Out")?

"Everyone has a right to their opinion," explains Shelagh. "My response is to be challenging – I'll dig to find out what has led a person to say what they've said, particularly if it's a stark statement – but I'm not overtly confrontational. I want to encourage people to talk and say what they feel, but there will, inevitably, be widely varying views. It's worrying, in a way, but fascinating at the same time. Real change is always uncomfortable."

Shelagh Fogarty presents the lunchtime phone-in show on LBC Radio, Monday to Friday, 1pm-4pm.

Lock and Key

Not everyone will be pleased by the newly formed government's most recent announcements…

Before the snap general election, Theresa May had pledged to replace the triple lock (the system that guarantees that the State Pension rises in line with the higher of earnings, inflation or 2.5%) with a 'double lock' – which would ensure rises in line with the higher of earnings or inflation, but not by a minimum of 2.5% per year – by 2020.

As we know, not all went according to plan, and in order to secure its deal with the Democratic Unionist Party (DUP), the government has now decided to drop its planned changes.

Downing Street has now announced that the triple lock is to be retained beyond 2020 – a move likely to be welcomed by many of the country's 12 million pensioners*. The cost, however, will be shouldered by the UK taxpayer.*

■ More controversy abounds as the government attempts to clear up the confusion over the amount individuals who have dipped into their pension pots can continue to save into their plans…

The **Money Purchase Annual Allowance** (MPAA) – ie the most you can save into a defined contribution pension tax-free once you have accessed cash or taken a flexible income from it under pension freedoms rules – has, it has been announced, been reduced from £10,000 to £4,000.

But – and this is where the controversy lies – the cut will be **backdated** to April 2017.

Announced initially in the Autumn Statement 2016 (and detailed in the first version of the Finance Bill), the reduction was due to come into effect this tax year, but didn't receive Royal Assent because of the timing of the general election. Savers could therefore be forgiven for thinking that the £10,000 limit still applies, and perhaps that the reduction would be postponed until April 2018.

Not so, unfortunately…

The Treasury has now confirmed that the withdrawn provision will be among several included in a new Finance Bill to be introduced after the summer recess, and that the **60% MPAA cut will be applied retrospectively.**

The move (unsurprisingly) has attracted widespread criticism from experts, including former pensions minister Steve Webb.

"Cutting the MPAA is an unnecessary measure in the first place, but it is particularly unacceptable to do so with retrospective effect. How were savers meant to know in May who was going to win the election?"

Ian Price, divisional director at St. James's Place, says that the measure, if approved by Parliament, could create a significant problem for those who have accessed their pension before fully retiring.

"Some people may have accessed cash from their pension to clear mortgage debts or support their children, but with the understanding that they could still make £10,000 of tax-relievable contributions each year. The announcement is very unfair on them."

"We would urge everyone to take advice before taking benefits from a pension so that they understand what will be the impact on their ability to fund future contributions."
David Eaton, Willson Grange Financial Adviser

The levels and bases of taxation and reliefs from taxation can change at any time and will be dependent on individual circumstances.

* Projected number of people in the UK of state pension age (SPA) or older, www.pensionspolicyinstitute.org.uk, accessed 26 July 2017

Health wealth

Can you believe it's half a century since the original 'Summer of Love'; that quintessentially Sixties' year, when 100,000* (mostly) young people headed to San Francisco with the hope of changing the world? If you weren't there in 1967 – or perhaps you were but can't remember it! – then why not celebrate the 50th anniversary anyway by embracing your inner hippie. In this issue of *Aspire*, we help you to focus on ridding yourself of unnecessary stress, calm your busy mind and get on with your day in chilled out form.

...AND BREATHE...

Close your eyes and imagine... a beautiful beach with waves lapping the shore, a calm sea and wide horizon, and the subtle, salty sea air as you breathe in.

There's nothing like an away-from-it-all holiday to help you feel relaxed, rested and energized.

But there's no reason why you can't bring that once-a-year feeling back with you, and benefit from it every day. An ancient breathing technique called ujjayi (also known as 'ocean breathing') is the perfect way to do it. Taken from the Sanskrit word meaning 'victory breath', ujjayi is used in many yoga classes to help calm a busy mind. The sound it produces, caused by the slight contraction of the throat while breathing in and out, is similar to the murmur of the sea.

Children naturally breathe long and deep, but as we grow older, our breath becomes more halting, shorter and shallower – the result of the restlessness and tension we experience in our everyday lives.

Ujjayi breathing involves concentrating on the area around your throat. By contracting your glottis (the opening between the vocal folds), you take more time to breathe the oxygen in and out, and you have more control over your breath. It should lead to deeper relaxation and more energy, as you expel energy-sapping waste gases with every exhalation. It's also thought to boost the body's resistance.

The great thing about ujjayi breathing is that you can do it anywhere, and at any time you choose. So if you have a difficult situation to face, or just feel a little het up, then a few minutes of ocean breathing is just the ticket for an instant relief from the tension you're feeling.

After a while, you will notice that you have fewer thoughts going through your mind as you listen to your throat and concentrate on your breathing.

TAKE A BREATHER: A quick lesson in ocean breathing

- Sit in a chair or on the floor with a straight back (adopt the lotus position if you like).
- Breathe out first with your mouth open and say "ha" out loud, as if you're making breath clouds on a cold day. Repeat a few times.
- Now close your mouth and relax your lips. Concentrate on your throat, close your glottis a little, and breathe in and out with "ha". You should hear a rasping sound in your throat.
- Breathe in this way for three minutes to start with – when you have mastered the technique, you can do it for as long as you like.

*summerof.love

BRING OUT THE BUDDHA BOWL

If you're on social media, you can't have failed to notice the new trend in photographing your dinner. Buddha Bowls are the latest and most talked about meals among discerning diners. As its name suggests, the Buddha Bowl has its origin in Asian – particularly Chinese and Japanese – culture. Quite simply, it is a high-rimmed bowl that's filled with all manner of nourishing goodness – food to feed the body and soul. Most often, but not exclusively, vegan or vegetarian, a Buddha Bowl typically contains raw or roasted vegetables, beans, a whole grain like brown rice or quinoa, and maybe fish or a lean meat. Colourful (and very photogenic!), ingredients are arranged tastefully and appetisingly in the bowl, sprinkled with nuts and seeds, and perhaps a tasty sauce for moisture and good measure.

Packed with deliciousness and a delight to the eye, Buddha Bowls are endlessly versatile and a fun way to get a balanced and healthy diet.

So please... snap away!

Flower Power

The rose has been regarded as the flower of love since time immemorial, and not just by the English. In ancient Greece, rose buds and flowers were depicted in murals at the Cretan Palace of Knossos, and in Renaissance art, they were often used by painters to symbolise earthly and celestial love. Botticelli's Venus, for instance, rises from the waves with white roses cascading all around her.

Their ruffled beauty is just divine, while the allure of the rose's heavenly scent is irresistible and, really, beyond compare. So recognisable, it evokes memories of summer days and happy times to nearly everyone who smells it. However, our use for the rose goes far beyond the love potions and perfumes that have seduced many a lover throughout the ages. Roses have a variety of culinary uses – rose tea, rose vinegar (great in marinades and fresh salads), rose water (found in Asian food stores) and as perfectly scented sugar decoration for cakes.

It can be medicinal, too. The Damascus Rose, brought back from the Crusades by the Knights Templar, generated the *rosa gallica officinalis*, also known as the apothecary rose. Used first of all as an aromatic mask to flavour unappealing medicines, it had inherent medicinal powers of its own. Rose extract was known for strengthening the immune system and for disinfecting and closing up wounds, while rose oil helped to relieve fatigue and insomnia.

YOUNG AND SWEET

Rose petal extract and rosehip extract (*rosa canina*) have long been used for their anti-ageing properties. Rose essential oil is helpful for moisturisation and regeneration – use in a carrier oil, such as grapeseed, as this can also have a potent anti-ageing effect. Rosehips have been shown to improve skin hydration and are frequently used in anti-ageing and antioxidant products.

THINK CALM, DRINK CALM, EAT CALM

We could all do without added stress, but how do you avoid it? Sometimes, it's just a case of knowing how to react and deal with the situation that's causing us frustration or grief. Here are a few ideas for harnessing the power of nature, and allowing your body to be at one with the world:

- Anxiety can be relieved by boosting the levels of the inhibitory neurotransmitter gamma-amino butyric acid (GABA), which has a relaxing effect on the brain. Foods that can be made into GABA include beans, almonds, mackerel, lentils and oats.
- The mineral magnesium can ease anxiety – foods like leafy greens, nuts, seeds and pulses, are good sources, and you would do well to make these a significant part of your diet. (It's now also suggested that taking magnesium supplements in middle age can help prevent brittle bones in later life).
- Theanine, found in green tea, also helps to promote relaxation – two to three cups a day will get you the maximum benefits.
- Balancing your blood sugar is important, too, and the following tips can help you to do so:
  - Stick to a regular eating pattern and don't skip meals
  - Include protein with every meal
  - Eat low sugar fruits on their own and high sugar ones with a handful of nuts
  - Avoid fizzy drinks, cakes, biscuits, sweets, chocolate and fruit juice
  - Eat whole foods such as brown rice, wholemeal bread, vegetables, meat, nuts, seeds and fish.

(Source: nutritionist-resource.org.uk)

BAD BOOST?

Are you one of those people who reach for the Red Bull when you need a quick boost? Energy drinks such as Lucozade and the like are loaded with sugar and caffeine – sometimes more than twice the caffeine that's in a can of cola, according to NHS Choices.

"The caffeine certainly gives you a temporary energy jolt," the NHS explains on its 'Energy Booster Myths and Facts' page (www.nhs.uk). "However, the boost is short-lived and may be accompanied by other problems.

"The caffeine in energy drinks can make you feel irritable and restless. It can increase your blood pressure, while the sugar can contribute to weight gain, especially if you don't exercise regularly."

SO WHAT DOES WORK?

Plain water is a better choice than an energy drink. For a quick surge of energy, snack on fruit.

Radishes are enjoying a welcome resurgence in popularity – a handful of these peppery hot salad enhancers contains just 5 calories. They also have great crunch appeal, and are good for dieters, as they are a good way to reduce your overall portion sizes. They need chewing, too, which in turn slows down your eating – all good ways to help you eat less.

Raspberries aren't just delicious little fruits that really 'taste' of summer; their red flesh contains flavonoids – anti-oxidants that help to guard against a range of cancers, heart disease, asthma, arthritis, cataracts and age-related neurological diseases.

Love it or hate it, Marmite is good for your brain! Researchers have found that a teaspoon a day of the nation's favourite yeast extract increases levels of a neurotransmitter known to regulate brain activity.

People who drink two 250ml glasses of water 30 minutes before each meal lose 5lb more weight (over a period of 12 weeks), and dehydration can lead you to eat rather than drink.

When SWEETENERS TURN SOUR

Salary sacrifice schemes have been viewed by both employers and employees as a win-win in recent years. But if your business continues to allow workers to sacrifice some of their salary for non-cash perks, you could face a higher tax bill…

For years now, companies have been able to offer their workers an effective pay cut in return for providing them with a non-cash benefit, such as a company car, workplace parking, health checks, and similar perks. Employers save on paying National Insurance contributions (NICs) on the sacrificed wages, while employees can lower their taxable income and reduce their NICs too; it has been a popular arrangement.

But the tax and NICs savings represent a cost to the Exchequer at a time when there's mounting pressure on the government to raise public spending. Consequently, in a bid to recover lost tax revenue and to address what the chancellor regarded as the unfairness of some salary sacrifice arrangements, those participating in such schemes will, in Philip Hammond's words, "pay the same taxes as everyone else".

BITTER TASTE

Back in March, the government published the Finance Bill 2017, which included draft clauses relating to what it calls "optional remuneration arrangements". This reveals details about how the new salary sacrifice rules will work.

The new measures affect contracts involving salary sacrifice arrangements set up from 6 April 2017. Employees swapping salary for benefits will, in most cases, be required to pay the same tax as individuals who buy them out of their post-tax income.

Only a few politically-sensitive benefits such as pension saving, employer-provided pensions advice, employer-supported childcare, cycle-to-work schemes and ultra-low emission cars are exempt from the changes.

All other benefits, including most company cars, workplace parking, mobile phones, and employee discounts will be subject to Income Tax and Class 1A NICs. This will be on either the cash equivalent or the amount of salary sacrificed by the employee – whichever is greater.

There are transitional arrangements for employees who started a salary sacrifice arrangement before 6 April 2017. The benefits for those individuals will be protected until the end, modification or renewal of the contract, or until 6 April 2018, if that date is sooner. This excludes company cars, accommodation and school fees, for which the end-date is 6 April 2021.

Businesses that continue to run salary sacrifice arrangements will almost certainly see an increase in employers' National Insurance liabilities, which could be significant for those with larger workforces.

Some employers are still completely unaware of the implications of their actions – as well-intended as they are – when they allow staff to use salary sacrifice for many different types of benefit.

Staff who use salary sacrifice could find themselves unwittingly paying more tax than they expected – and they may not know until it is too late. Business owners should clearly detail to their staff which benefits are affected and when the change will occur – if they haven't done so already.

TERMS AND CONDITIONS

Clearly, the changes are causing challenges for many employers due to the short timescales for employee engagement and payroll changes. The reforms are likely to be particularly disruptive for employers that automatically include employees in salary sacrifice (allowing them to opt out if they wish), and for those that incorporate salary sacrifice schemes into the terms and conditions of employee contracts.

We would suggest that those businesses review their policies as soon as possible.

While pensions and childcare are exempt from the changes, the government has not given an exemption for employees who use salary sacrifice to increase their life insurance or income protection coverage. This will add a further burden on businesses that allow their employees to build on a basic level of employer-provided cover.

Employers should therefore continue to endorse the virtues of salary sacrifice for pension contributions, but inform staff that the removal of tax perks makes the offer of extra life cover – and most other types of benefit through salary sacrifice – much less attractive.

Any business owner who is unsure of the new rules should speak to their Willson Grange Financial Adviser, who will be able to advise on tax and employee benefits.

The levels and bases of taxation, and reliefs from taxation, can change at any time. The value of any tax relief depends on individual circumstances.

Back on track

Group income protection can be extremely effective for businesses helping employees manage long-term sickness and the associated costs. Early intervention and rehabilitation services are now returning more than one in four employees back to work.*

If you're an employer, you may not be aware that employees can be helped back to work before a claim becomes payable – with the support of your insurer.

Group Risk Development (GRiD), the industry body for the group risk protection sector, has recorded the number of cases in which the insurer supported a return to work with some sort of active early intervention, such as fast-track access to counselling or physiotherapy, before that person was eligible for a monetary payment.

The data shows that 27% of those who received support through early intervention were returned to work without triggering a claim. This compares to 25% in 2015, and just 20% in 2014. In total, 2,289 people were able to go back to work during 2016 because of such intervention.*

By offering workers access to such professional counselling, practical advice and support, including for issues such as debt management, relationship problems or health matters, insurers can often significantly reduce the length of sickness absence and the impact on an organisation.

Sadly, however, a return to work is not always possible. When a member of staff is off work for an extended period, group income protection can help to relieve money worries by paying out a proportion of the employee's salary. The benefit is paid to the business and then passed on to the employee through the PAYE system.

At present, employers must provide statutory sick pay for up to 28 weeks to any employee off work sick. After the statutory sick pay period expires, SMEs are unlikely to provide financial support to an absent employee, although some SMEs will still want to continue paying out a portion of the employee's salary. Group income protection can help reduce the considerable financial costs the business would incur as a result of paying it unaided.

Group income protection paid out a total of £358.7 million in 2016, an increase of £11.7 million compared to 2015 – the average claim was £24,740 per annum.*

"These figures give insight into the fantastic contribution of employer-sponsored group risk protection benefits in supporting people when they need it most," says Katharine Moxham, spokesperson for GRiD. "These policies pay out in dreadful circumstances for employees and their families. It's excellent to be able to quantify the extent of the support we give as an industry through publishing these figures.

"It's very affordable for employers to make a difference, but GRiD's research regularly indicates that the cost of these benefits is overestimated or [that] businesses don't appreciate how much is included, which could also actually save them money elsewhere."

Indeed, GriD suggests that savings could include not having to invest separately in a standalone employee assistance programme, or to pay for legal advice.

"Employer-sponsored group risk financial protection cover is very good value. Basic level group life cover can be provided for around 0.5% of payroll, while a more comprehensive package – including group life and group income protection benefits – typically costs less than 2% of payroll. There are few other benefits that cost just a few pounds a month per employee but can pay out thousands of pounds (or even millions) and that really make the difference between a family surviving financially or not."

*Data source: GRiD Claims Survey, published May 2017

RIGHT TO ROAM

Gone are the days when you daren't turn on your mobile on holiday, for fear of racking up (frankly, enormous) charges. As from June, mobile networks were banned from charging extra for 'roaming' abroad.

More likely than not, you've had experience of the dreaded 'roaming fee' pantomime. If not directly (on average, a quarter of holidaymakers and travellers get home to a surprise mobile bill of £52*), then indirectly: the more cautious among us making sure we switch our phones very firmly off when we're sunning ourselves in the Algarve [*other destinations available!*].

For some years, mobile networks have maintained that roaming fees are merely a way of keeping domestic, day-to-day, customer prices down. But they've not had a good press, and at last (from 15 June), most have agreed to scrap the fees, at least in around 50 countries.

Those countries include the EU plus Norway, Jersey and a few more (check with your provider).

While we're still, technically, in the EU, this is all good news – and it's probably not going to be a high priority issue with Brexit negotiations, so with any luck the ban will continue for the foreseeable future.

One thing to be aware of, though… the UK is to start charging VAT on mobile use in non-EU countries from August, however many companies are considering absorbing the tax in their pricing. Just so you know.

TIPS FOR TRAVEL

- **Outside the EU:** download any apps, maps or music you might need before you travel. And use wi-fi for calls or messages rather than mobile data.
- **Exceeding agreed minutes,** texts and data would still be charged in the EU as it would in the UK, with providers charging different rates, says Which?
- **You need to be careful the country you're visiting is included.** The ban on roaming charges only affects the 28 countries in the EU, so if you're visiting Switzerland, the Channel Islands, the Isle of Man, Andorra and many more, they may still have roaming charges in place.
- **Some networks are including Turkey in the ban,** which means you won't get charged extra there. But you shouldn't assume that's the case and it's worth checking with your network before you visit Turkey.

* uSwitch

ALL IN CODE

Around 800,000 individuals could be paying the wrong amount of tax.[2] It's all down to your personal taxation code, and whether you receive income from two or more different sources, including a pension withdrawal. What better reason for double checking to make sure your code is correct?

Three years ago George Osborne, the then chancellor, unveiled an unprecedented package of pension reforms. The changes meant that individuals aged 55 and over could henceforth access their defined contribution pension savings whenever they wanted and in a variety of ways, subject to their marginal rate of Income Tax.

Hundreds of thousands of people have since taken advantage of these reforms. In total, over 1.5 million separate payments have been made, with £9.2 billion withdrawn since April 2015. In the final three months of 2016 alone, 162,000 people accessed £1.6 billion from their pension pots.[1]

Root cause

But despite being able to take benefits in a variety of different ways, including as cash and flexible income, vast swathes of individuals are at risk of paying too much tax on their pension income.

Nearly 30 million people in the UK pay Income Tax. Around 10 million file tax returns, while the remaining 20 million are taxed on the 'pay-as-you-earn' system[2], which is built around tax code allocation and designed to collect the right amount of tax from everyone over the course of the year. But if tax codes are incorrect, then it follows that the wrong amount will be collected.

Because many over-55s have multiple sources of taxable income, such as a salary and one or more pensions, it is believed that 800,000 could be at risk of being allocated the wrong tax codes.[2]

The answer lies in the way HMRC applies the 'personal allowance' when you have more than one source of income. Your 'personal allowance' is the amount you can earn tax-free and, in some cases, HMRC applies it only to income from one source; for example, a part-time job. HMRC then taxes other sources of income, such as a personal pension, at the full rate.

This means that even if your total income is below the personal allowance of £11,500, HMRC assumes you have already used your allowance for one income source and disregards it for other sources.

Tax take

Individuals are being urged to check their tax code to ensure that they are paying the correct amount, and to apply for a refund if they have been over-taxed. In some cases, overpayment of tax could have been going on for many years – so some diligence is needed.

"Most people are understandably baffled by the whole system of tax codes," says Steve Webb, director of policy at Royal London. "Employers and pension providers are issued with tax codes by HMRC and we generally assume they must be right."

However, HMRC is not infallible, and Webb highlights the importance of individuals knowing how to spot mistakes with their tax code and to get things put right. "Although computerisation of tax records is designed to help improve things, I have no doubt there are many people still paying the wrong amount of tax."

Paddy Millard MBE, founder of the charity Tax Help for Older People, shares some of Webb's concerns.

"Tax codes are probably one of the biggest single causes of confusion and problems among the people who contact us via our helpline," he says. "People should not simply assume that HMRC have got things right, but should check to ensure they are paying the right amount of tax."

HMRC certainly believes its record is strong in this area, as a spokesman for the department recently made clear: "The overwhelming majority of tax codes are accurate, based on information provided to us."

Nevertheless, it is crucial you check your tax codes to ensure you are paying only what is due, as mistakes are far from impossible.

If you have a Government Gateway account, you can check you are paying the right amount of tax using HMRC's online service. Alternatively, you can write to them, or phone on 0300 200 3300.

[1] HM Treasury, January 2017
[2] Royal London, April 2017

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