financial focus

issue 8

The specialist provider of holistic financial advice for medics and dentists

Should I stay or should I go?

In Newsletter 6 we examined the changes to pension legislation whereby the Lifetime Allowance (LTA) was to be reduced from £1.8m to £1.5m; HMRC have now confirmed that the LTA is to be reduced again from April 2014 to £1.25m. It stands to reason that more members of the NHS Pension Scheme (NHSPS) will be caught out this time around...

Should you leave the NHS pension scheme?

Chances are you shouldn't, but whereas previously we could have said unequivocally that you should remain a member of the scheme there are tax changes ahead that remove that certainty.

A LTA of £1.25m could still sound fairly healthy, but do you know how much your NHSPS is valued at? Without this knowledge you could find yourselves being taxed on any excess over the LTA at a rate of 55%.

To calculate (or project) the capital value of your NHSPS we multiply your annual pension entitlement by twenty and then add the value of the tax free lump sum. If you have any other 'final salary' (defined benefit) pensions then the same calculation is applied to these (unless in payment to you before 6/4/2006); if you have any personal pensions, including AVC's (defined contribution) then it's the value of the fund that is used.

So what can £1.25m buy you these days?

If you have a NHS pension of £54,250 or lower you should be OK unless you have any other pensions – if you have other pension schemes then an individual assessment is advocated.

What does this mean to you, and why should it challenge your NHS Pension Scheme membership?

The end result is that more doctors and dentists will exceed the LTA and therefore will face a tax charge of 55% on the excess pension fund at retirement – worse still is that you can only take evasive action now and you have to act quickly.

What protection do I have?

When the LTA was initially introduced HMRC provided protection to existing members who had, or were likely, to exceed the threshold, this option expired in 2009 and is not available to new applicants. Further protection was offered when the LTA was cut in 2012, likewise this isn't available any more.

HMRC are to afford protection again, but the new levels of protection almost certainly exclude new scheme benefits being accrued and therefore remaining an active member of the NHS pension scheme isn't allowable.

The new protection, "fixed protection", essentially fixes the LTA at £1.5m until such a time that the underlying LTA is revised to a higher level.

This could be the difference between maintaining a pension fund of up to £1.5m or paying a tax charge of 55% on the difference between £1.25m (the new allowance) and £1.5m (the protected allowance); putting this another way it mitigates an excess charge of up to £137,500. There will be some instances whereby paying the tax charge is the best option, but many more cases where opting out of future accruals (by opting out of the scheme) represents the best course of action.

Indecision isn't an option

Unlike the last raft of protection options, this time you will need to have decided in good time to effect protection before the new LTA rules are introduced. In reality you will need to have considered, decided and actioned the changes before the end of this tax year as one days membership to the NHS pension scheme beyond the next tax year will render any protection invalid.

MedDen pride ourselves on understanding the NHS pension scheme and how changes to pension legislation impact our clients; if you would like to review your own position please contact your MedDen adviser or alternatively email enquiries@meddenifa.com

For more information please contact: **0113 2470088 www.meddenifa.com**

How do I calculate my Annual Allowance charge?

Given the fact that the vast proportion of our clients fall into the 95th percentile of income[1] and the Annual Allowance limit falling to £50,000 with a further decrease in April 2014 to £40,000, a significant number of MedDen's clients will be caught by the Annual Allowance charge; so if you are liable how do you calculate how much your charge will be? For the purposes of this article the articles relate to a member of the 1995 Section of the NHS Pension Scheme (the difference being the HMRC factor reduces from 19 to 16 for a 2008 Section member).

Salaried Officers

For salaried officers the calculation is easier. If we use the tax year 2011/12 as an example, you need to know your income on 1 April 2011 and your income on the 31 March 2012 (as the NHS Pension Scheme has an input period of these dates). You then need to know the Consumer Price Index (CPI) figure for September 2010. Using an example income of £120,000 rising by £10,000 with 33 years service the calculation is as follows;

Value at start of year 33/80 x £120,000 = £49,500 x 19 (HMRC factor) =£940,500 + CPI (3.1%) = £969,655
Value at end of year 34/80 x £130,000 = £55,250 x 19 (HMRC factor) =£1,049,750 – £969,655 = £80,095
(£80,095 - £50,000) x 40% (or your marginal rate of tax) = £12,038 potential tax liability

Practitioners

For practitioners the calculation is more difficult and has more stages. You have to know your uprated earnings figures for both the beginning and end of the year (this information can be obtained from the NHS Pensions Agency) and the Consumer Price Index (CPI) figures for the September before and the year in question. Using an example of £3m accrues and income of £130,000;

Opening Value £3m x 1.4% = £42,000 x 19 (HMRC factor) = £798,000 + CPI (3.1%) = £822,738
Closing Value £3m + (CPI Sept 2011 +1.5%) = £3,201,000 + £130,000 (income) x 1.4% = £46,634
£46,634 x 19 = £886,046
(£886,046 - £822,738) = £63,308 - £50,000 x 40% (or your marginal rate of tax) = £5,323 potential tax liability

In both of these cases Carry Forward rules could apply to reduce or remove your tax liability. This is such an important area of tax and pension planning that we would always recommend that you seek professional advice rather than hoping you've got it right. We already have clients who are facing tax penalties of tens of thousands of pounds. Make sure that if you are caught by this charge you are aware of your options – get in touch with your MedDen adviser today.

[1] Amy, R. (Chair) 2013 - Review Body on Doctors' and Dentists' Remuneration Forty First Report (pg. 28) - The Stationery Office

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A fund managers view of the world

Andrew Wilson is Investment Team Director at Brooks Macdonald Asset Management in York

As growth continues to recover around the world, we remain positive on equity markets particularly in the longer term. However, some headwinds to watch for in the short term include uncertainty around the next US Federal Reserve (Fed) chairman, the negotiation of the US budget ceiling due to raise its head again in February and a possible flare-up of the European situation, with Portugal and Greece likely to need further help.

Equities

Although Mark Carney would like to take the credit for recent strong economic data coming out of the UK, we would suggest that Conservative policy (namely Help to Buy) and company results have been the key drivers to the economic recovery and the strong quarter seen in UK Equity markets.

A common theme across all Western economies has been the stabilisation of growth (including Europe) with the first signs of a full blown recovery beginning to come through. In the US we have the shale gas 'revolution' which has resulted in low energy prices, which in turn has increased the competitiveness of the US export market, so much so that companies are moving back onshore to produce goods. This should be a long term trend that will impact the outlook for Emerging Markets reliant on being the factory of the world, however, these markets were impacted in the past quarter by the Federal's Reserves decision not to 'taper' which resulted in heavy outflows when investors attitude to risk changed.

We feel that longer term these markets will be key beneficiaries of global growth and so remain happy to invest in these regions when opportunities present themselves. The economic stabilisation of the Eurozone remains at a low base, although the trend (no matter how slight) is upwards and with Angela Merkel's election win, a degree of policy certainty should help markets.

We do though have a number of concerns with regards some of the peripheral countries and would not be surprised if some required further help, which in turn will likely result in a short term spike in volatility for equities.

Although we have become more positive over the year to date, we continue to be wary with; the US have simply pushed the debt ceiling to February, the peripheral countries in Europe are likely to ask for more help, and the UK although seemingly strong is heavily reliant on housing and the consumer.

As a result of all of the above we are looking to choose our entry points carefully and continue to keep a wary eye on short term issues that may delay our long term views coming to the fore.

Fixed Interest

Most Western markets government debt are priced at levels where we feel capital losses are inevitable, and so rather than expose clients to this potential risk we

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NOTICE BOARD

Attend a seminar

MedDen are currently clocking up the miles presenting to various departments, groups and practices about how the Annual Allowance will impact on individuals within the NHS Pension. Everybody who has attended has said how helpful the content was.

If you would like MedDen to speak to your group or if you would like us to organise a talk in your area please contact us on 0113 2470088.

Just gone self-employed?

If you have less than 3 years accounts, getting on the mortgage ladder can be an issue. Many lenders are very wary of borrowers in this situation, particularly as most first time buyers are looking for 90% loans to values.

To assist in this area, MedDen have agreed special lending terms with a leading mortgage provider allowing applications to be submitted without the need for accounts !!

The Bank of England's View

Mark Carney's, new Bank of England CEO, recent vote against further Quantitative Easing is indicative of the improving UK economy and the belief that the Help to Buy scheme could trigger a rise in consumption owing to the wealth effect of home ownership.

Child benefit issues

Clients, who receive Child Benefit, may need reminding to contact HMRC if income is over £50,000 per annum. – Failure to do so could result in a fine. Over one million families are within the grasp of the new tax charge - although some will have opted out.

Broadly, the new High Income Child Benefit tax charge for 2012/13 will apply to anyone who:

- has individual income over £50,000; and
- they or their partner received Child Benefit after 7 January 2013

For many, this will mean registering for self-assessment for the first time or contacting HMRC for clarification on their individual situation.

The fine for missing the deadline could be as high as 100% of the tax due. Its therefore important to check whether these changes could impact on you and your family.

This publication is for guidance only and individual financial advice should also be sought before making any financial decision.
References to tax are based upon our understanding of tax law and HMRC practice as at October 2013 and are subject to change, tax relief is based upon individual circumstances.
Think carefully before securing other debts against your home. Your home may be repossessed if you do not keep up repayments on your mortgage.

For more information please contact: 0113 2470088 www.meddenifa.com

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prefer corporate debt where yields remain at levels where they more than compensate clients for the slight increase in risk investing in these companies.

Property

Investing in property in the UK has two attractive characteristics for investment for clients; as an alternative source for yield for diversification purposes and some protection against inflation. For the past couple of years we have therefore been investing primarily for yield, this has been increasingly important as our attraction to government debt wanes.

Conclusion

Overall we are becoming increasingly positive on global markets and companies, which is leading us to add to our equity exposure. It should be noted though that we are doing so when opportunities present as we remain of the view that volatility in the short term will continue. However to offset our views on equity markets, our negative view on fixed interest markets means that we continue to look for alternative sources of income, with property currently our favoured asset class.

Risk Warnings

The performance indicated for each sector and for the portfolio as a whole should not be taken as an expectation of the future performance. Remember that investments and the income provided from them can fall as well as rise.

Investors should be aware that the price of your investments and the income from them can go down as well as up and that neither is guaranteed. Past performance is not a guide to the future. Investors may not get back the amount invested. Changes in rates of exchange may have an adverse effect on the value, price or income of an investment. Investors should be aware of the additional risks associated with funds investing in emerging or developing markets. The information in this article does not constitute advice or a recommendation and you should not make any investment decisions on the basis of it.

The Governments Help to Buy Scheme

The Help to Buy scheme will "support people who have at least a 5% deposit" to buy a home through two schemes and the aim of this is to increase the supply of low-deposit mortgages and new house building. This can have an impact on clients just entering the market and home movers with small equity stakes.

Option 1- Help to Buy equity loans

Help to Buy equity loans are open to both first-time buyers and home movers on new-build homes worth up to £600,000.

You won't be able to sub-let your home if you use this scheme.

How it works

With a Help to Buy equity loan:

- you'll need to contribute at least 5% of the property price as a deposit
- the government will give you a loan for up to 20% of the price
- you'll need a mortgage of up to 75% to cover the rest

Option 2 -Help to buy mortgage guarantees

The Help to Buy mortgage guarantee helps you buy a home with a deposit of 5% of the purchase price.

The guarantee is provided to your lender - not to you.

Eligibility

To qualify for a Help to Buy mortgage guarantee, the home you want to buy must:

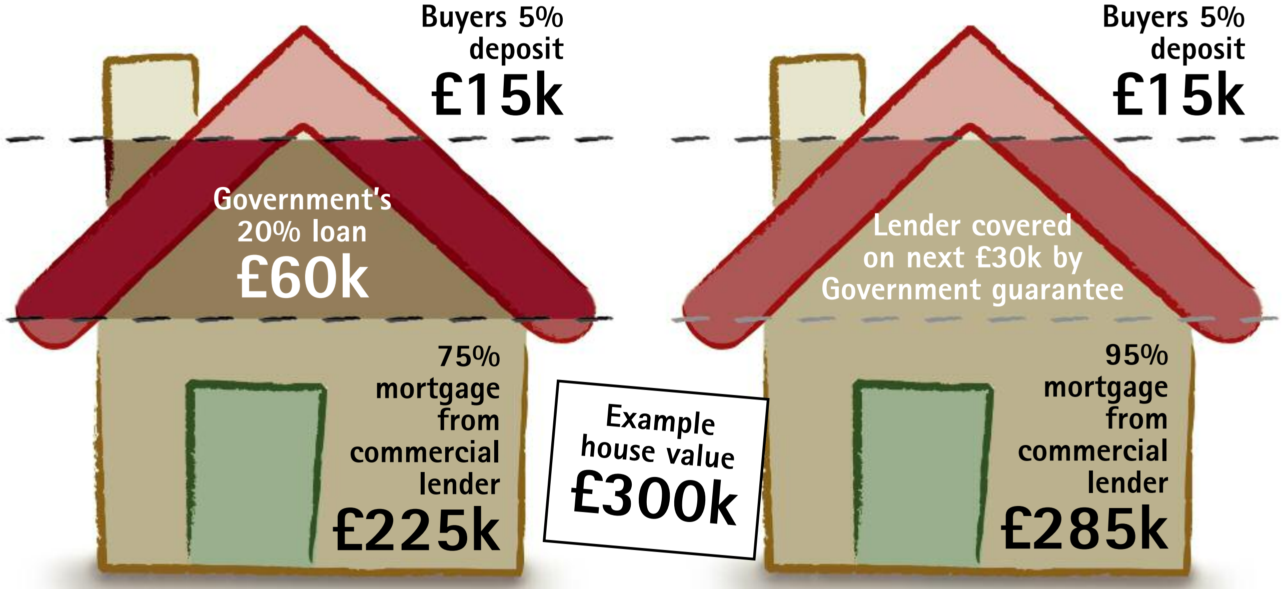
- sell for £600,000 or less
- not be a shared ownership or shared equity purchase
- not be a second home
- not be rented out after purchase

The property can be newly built or already existing.

You don't have to be a first-time buyer and there's no limit on your level of income. But you can't use Help to Buy with any other publicly funded mortgage scheme, or an interest-only mortgage.

Option 1

Option 2



Is it applicable to any property?

No, just new build only

Will I need a deposit?

Yes, you'll need a minimum of 5%

Is it only open to First Time Buyers?

No, it is also open to all, not just first time buyers

How does it work?

The Government will lend you up to 20% of the value of your property through an equity loan, which can be repaid at any time or on the sale of your home... so you will only need to secure up to a 75% mortgage from a bank or building society

Is it applicable to any property?

New build and existing homes

Will I need a deposit?

Yes, you'll need a minimum of 5%

Is it only open to First Time Buyers?

No, it is also open to existing homeowners

Scottish Schemes Launched

The Scottish government has unveiled its own version of the controversial Help to Buy scheme.

A Scottish version of the UK Government's Help to Buy shared equity scheme will provide up to 20pc of the purchase price of a new-build home in Scotland from a participating home builder, worth up to £400,000.

From Monday September 30 2013, the scheme opened to all first-time buyers and existing homeowners; however buyers must sell any existing property they own before they can access the scheme.

The Scottish Government will make £220m available to borrowers over three years.