News & Views

MI Financial Services
Newsletter April 2011

BUDGET 2011

The biggest news on personal tax to emerge from the Budget will have no immediate consequences. The Government – as part of its tax simplification programme – plans to consult on merging income tax and National Insurance. This will be a major undertaking and will have significant repercussions if it goes ahead but, for the time being, it remains a distant prospect.

Changes in the threshold levels for personal taxation will have more immediate implications. Chancellor George Osborne has raised the personal allowance by £1,000 to £7,475 from 6 April of this year. From April 2012, it will move up to £8,105. At the same time, he has brought down the rate at which people start to pay higher rate tax from £43,875 to £42,475. As a legacy from the last Labour budget, the personal allowance will still be withdrawn completely at an income of £115,000.

The Chancellor has also said that, in future, tax allowances will be increased in line with the Consumer Prices Index rather than the Retail Price Index. Historically, the Retail Price Index has been higher, so this is likely to hurt taxpayers.

The rules on inheritance tax and capital gains tax (CGT) remained largely unchanged. Anyone leaving more than 10% of their estate to charity will see their inheritance tax bill fall by 10% while the amount of Entrepreneur's Relief on CGT has doubled from £5m to £10m. For those who qualify, a lower rate of 10% (rather than 18% or 28%) is levied.

Elsewhere, the biggest news was dropping of the proposed rise in fuel duty and shaving an additional 1p off existing fuel duty. The Chancellor has said he will take action if the oil companies, which are being charged a 'windfall' tax to finance these moves, use it as an excuse to put up pump prices.

There was little for adult savers in the Budget with ISA allowances having already seen a chunky rise in the last tax year and their annual rise from 6 April already confirmed. However, the Treasury said it would shortly be publishing details of the Junior ISA account, the much-anticipated replacement for the Child Trust Fund, which is likely to have similar tax incentives but without government contributions.

There were no changes to venture capital trust allowances but upfront tax relief on Enterprise Investment Schemes will rise from 20% to 30% while the amount that can be invested annually will rise from £500,000 to £1m. The Chancellor is also relaxing some of the rules around eligible companies.

RULES OF INVESTING — Never buy what you don't understand.
Some investments might sound exciting — and even appear to have delivered. Yet history is littered with simple-sounding ideas that, when tested by the pressures of markets, came crashing down. Think Long Term Capital Management, the now defunct hedge fund that traded in bond spreads. Think split capital trusts, which resulted in millions of pounds of investor compensation. And now, think how banks bundling up sub-prime mortgages has affected the whole economy. If you don't understand something fully, steer clear.

Welcome to our latest edition of News & Views, your independent update on current financial issues.

We hope you find the content of interest, and if you would like to discuss any of the issues raised in this edition, please do not hesitate to contact us.

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Rock and a hard place

Uncertainty appears to be the watchword among policymakers at the Bank of England (BoE). Recent events have provided few hints on the possible direction of interest rates and the timing of any potential movements, and the Monetary Policy Committee (MPC) remains divided on future strategy.

Rates were kept on hold for the 24th month in a row in March. However, minutes of both the February and March meetings show a split has begun in the Committee. Three members have twice voted for an increase of at least 0.25 percentage points, while another continues to vote for an expansion to the currently dormant quantitative easing programme.

Despite that, external speculation about further quantitative easing measures appears to have abated, at least for the time being. Current inflationary pressures reduce the scope for injecting more money into the economy, as this would likely fuel prices. The Consumer Price Index remains stubbornly high, well above the BoE’s target of 2%, and registered a further rise during February, to over double that target, ie: 4.4%.

Nevertheless, the MPC is limited in how much it cool inflation by raising interest rates; although they remain at their lowest level since records began more than 300 years ago, it is difficult to increase them without impacting the UK’s fragile economic position. The economy shrank by 0.6% in the final quarter of 2010 and government spending cuts, coupled with the increase in VAT from January, are likely to further impact any prospects for economic expansion, particularly in the construction sector, and the full effects of these are yet to be seen.

Although inflation remains significantly above target, the MPC’s expectations for inflation in the medium term remain "anchored". It is not until 2013 that they expect it to fall back below 2%. With the lack of any other clear signal, the path of interest rates is therefore likely to be influenced by other events in the world economy albeit with one eye on what happens once the government spending cuts properly take hold.

For the moment then, low interest rates continue. Such a strategy will continue to be welcomed by borrowers; however, it will prolong the headache for savers, particularly those who are looking for a low-risk home for their money. Whilst the rest benefit from lower repayments on borrowing, those who focus on deposit accounts are getting little return on their money and inflation continues to eat away at its real value.

FSA warning over Bank advice

The regulator of all providers of financial services in the UK has warned consumers that they may suffer from banks’ drive to expand wealth management and private bank services.

The Financial Services Authority (FSA) warned in it’s annual risk outlook that banks’ plans to expand their wealth management services to replace income from traditional banking activities could lead to unsuitable advice being given. Following analysis at several firms the FSA identified poor practice around risk profiling, unwarranted use of complex high-cost products and poor record keeping.

It said: ‘There is a risk that relationship managers with aggressive sales incentives may be more inclined to highlight benefits and downplay risks of the products they are trying to sell.’

A second major concern was that banks may upgrade affluent customers to private banking to offer them unsuitable wealth management products.

‘Poor risk profiling may have already resulted in the up-risking of some retail customers. An example of this would be a retail banking customer with relatively large savings held in deposits being recommended an investment in a structured product, without the seller fully investigating the circumstances of the customer’s wealth or their investment objectives’ stated the FSA.

Don't lose out when preparing wills, warns OFT

Failing to shop around when looking for a professional will writer could be costing UK consumers around £40 million a year, the Office of Fair Trading (OFT) has warned.

Many banks offer what appear to be good value for will services, some even provide it for free with certain accounts. However, although they outsource the preparation of wills to external solicitors, they then cash in by recommending that the Bank is named as a professional executor to look after the estate when the customer passes away.

Although there is no requirement in law to appoint a professional executor, 43 per cent appoint the professional who wrote their will to act in this role, while almost a quarter of those customers (23 per cent) said they had not been made aware of the likely charges. A professional executor will administer the estate in return for a fee (often a percentage of the value of the estate), whereas lay executors - such as friends or family - can be appointed instead without cost.

The end result is that for the winding up of an average estate consumers are paying up to £9,000, while the actual cost could be far higher when additional hourly rates and other charges or disbursements are taken into account. Money that could have gone to the beneficiaries.

Director in the OFT Services and Public Markets Group David Stallibrass said: ‘Preparing a will is important to make sure that your wishes are respected after your death. Consumers need to be fully aware of their options when signing up for executor services. People should be able to make an informed choice about the costs and benefits of appointing a particular professional executor in their will, compared to leaving lay executors to decide whether they need professional support. The wrong decision when appointing executors could mean a potentially expensive professional service is chosen, when a family member or friend may be quite capable of handling the task either alone or with professional support.

Four leading high street banks have now voluntarily agreed to review and improve their will-writing services. The OFT approached Barclays, HSBC, Lloyds and RBS as part of a wider effort to improve the will-writing market for customers and their beneficiaries, ‘following concerns that some consumers were appointing professional executors without fully understanding the likely costs and the alternative options.’

Simply Wills owner and Director of MI Financial Services, Tony Menghini, said: ‘Simply Wills is a member of the Institute of Professional Willwriters' (IPW) whose Code of Practice received OFT approval in 2010. Among other things, the code forbids members from making the appointment of themselves as executor a condition of accepting instructions, and requires them to provide information about the duties and responsibilities of executors, in order to help clients make an informed choice about appointments.’

Time to take action

Total UK personal debt had reached £1,452bn by January 2011, according to figures from Credit Action – more money than the whole country produces in a year and a sum that equates to nearly £8,500 per household (excluding mortgages).

Contrast that with the nation's current savings levels, which have seen the average household save just £996 over the last 12 months – or £2.73 a day. However, in an environment where it has become the norm – and, until recently, all too easy – for individuals to make purchases with debt, changing this 'enjoy now, pay later' mentality is going to be difficult.

You may be sure, however, that the coalition government is keen to encourage such a change. Work & Pensions Secretary Iain Duncan Smith has been quoted as saying: "We do not save enough in this country…it is appalling, and changing the culture is critical." Right now, the main incentives to encourage such saving involve limiting the amount of tax you pay on certain savings products. Certainly, the Government needs to do more if they are going to generate the kind of interest that will push more people to act.

Yet, if there was ever a good reason to start changing our behaviour, it is surely the fact it costs the average household £2,500 a year in net income just to meet its interest payments.

Concerns over bank accounts

The Financial Services Authority (FSA) has concerns whether bank packaged accounts offer value for money.

Banks have heavily marketed packaged accounts in order to increase fee income after profits from traditional banking activities like lending were hard hit by the financial crisis.

The accounts, which are fee-bearing current accounts bundled with travel insurance, have been sold to over a quarter of consumers.

The FSA said: 'Consumers should consider whether they represent value for money for them.'

Consumers could be better off purchasing products individually and the level of cover from bundled insurance was often lower than expected.

The FSA stated in its financial risk outlook that it will conduct further work in this area during 2011.

The contents of this newsletter do not constitute advice and should not be taken as a recommendation to purchase or invest in any products mentioned. Before taking any decisions, we suggest you seek advice from a professional financial adviser. All figures and data contained within this document were correct at the time of writing. The value of investments can fall as well as rise. Past performance is not a reliable indicator of future performance. Please note that the FSA does not regulate taxation advice or Will writing services.

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