INVESTMENT BULLETIN

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YET ANOTHER PENSION REVOLUTION?

For anyone who has spent the past 12 months getting to grips with the new pension rules, the news another 'revolution' may be round the corner will not necessarily be welcome. However, this now looks like following Chancellor of the Exchequer George Osborne's announcement of a new consultation on the UK's pension regime.

There are no firm details as yet, but the Chancellor expressed a wish to simplify the pension system, observing: 'Pensions could be taxed like ISAs - you pay in from taxed income and it is tax– free when you take it out. In between it receives a top-up from the Government.

The reaction from the financial sector has been mixed. Although many welcome the impulse to simplify the regime, they believe ISAs have retained a 'halo' effect precisely because they have been relatively immune from the government tinkering. As one industry commentator observed for example: "What the current regime could easily do with is some stability and relief from further meddling.

"The only way to encourage more people to save is to keep the rules as simple as possible. ISAs are a truly trusted product within the financial services industry—they are simple, easy to understand and accessible. It would be disastrous if people were to save for retirement only to find in later life that a cash-strapped government changes the rules again to tax income for a second time.

The Chancellor's move to taper tax relief on pensions for high-earners had been well-flagged. From April 2016, for every £2 of adjusted income over £150,000, an individual's annual allowance will be reduced by £1, down to a minimum of £10,000. Wealth planners have urged higher earners to take advantage of the reliefs where possible up to the end of this tax year. However, Osborne did not - as some had expected - make changes to the salary-sacrifice regime, meaning higher-earners on the margin can still use this to bring them below the threshold.

Elsewhere, the Chancellor chose not to provide any greater clarity on the resale of annuities, deferring further details until the autumn. In the meantime, prospective retirees must continue to digest the new rules, plus the limits to the lifetime allowance announced in the March Budget. The Chancellor may have ambitions to make the pension regime simpler but, for the time being, complexity reigns.

OSBORNE UPDATES DIVIDEND TAX REGIME

From an investment perspective, the most notable change in the post-election 'Summer Budget' was arguably the scrapping of the existing dividend tax credit regime. Under this system, dividends are paid with a notional 10% tax credit, meaning non and basic-rate tax payers have no further ability.

From April 2016, the tax credit will be replaced by a £5,000 tax-free dividend allowance for all taxpayers. Above that, investors will pay tax at 7.5%, 32.5% or 38.1%, depending on their marginal rate of tax.

Chancellor of the Exchequer George Osborne said 85% of those who receive dividends will see no change or be better off. Still, the move could hurt those with large share holdings held outside an ISA.

Elsewhere, the Chancellor showed his commitment to peer-to-peer (P2P) lending with the creation of an 'innovative finance ISA'. According to the Budget document: "The Government will introduce the innovative finance ISA for loans arranged via a P2P platform, from 6 April 2016, and has published a public consultation on whether to extend the list of ISA-eligible investments to include debt securities and equity offered via a crowd funding platform."

Meanwhile, providers of tax-incentivised schemes came under pressures Osborne announced rule changes for Venture Capital Trusts and Enterprise Investment Schemes. These aim both to bring the UK system into line with European Union rules on state aid and ensure funding is directed towards earlier stage companies.

USE IT OR LOSE IT

Individual savings accounts (ISAs) provide a rare opportunity for UK investors to shelter their savings from the taxman. For every pound you invest, you pay no tax on any capital gains or income. You can invest up to £15,240 in the 2015/16 tax year in cash and/or stocks and shares. However, as time can fly by, you should take action as soon as possible to use this year's allowance, or you could lose it for good. Please note the exact tax benefits of ISAs will vary, depending on your circumstances and the assets in which you invest.

THE IMPACT OF RISING INTEREST RATES

Rising interest rates do not just affect individuals - they also have an impact on companies, which will, for example, need to generate more profit to pay higher debt charges. Corporate bond prices are also affected. As rates rise, the price of bonds will fall– because bonds' interest payments are usually fixed, an increase in rates will reduce the attraction of a fixed payment compared with other bonds or cash. All these issues can affect your portfolio's performance. Still, if you take a long-term view and your objectives remain unchanged, the short-term ups and downs should not create much cause for concern.