The new ISA limits

In the 2008 Budget, the Chancellor announced changes to ISAs that became effective at the start of the 2008 tax year. The highest profile was the change to investment limits as the Government eliminated the mini and maxi components.

Now, there are just two types of ISA - the cash ISA and the stocks and shares ISA - and your overall allowance for both in 2009/10 is £7,200 (or, from October, £10,200 if you are aged over 50). Within this, the limit for cash ISAs - or for the cash element within a stocks and shares ISA - is £3,600 (£5,100).

Within the limits, there is flexibility. You can, for example, now put the maximum £3,600 in a cash account and £3,600 in a stocks and shares account. Alternatively, if you place just £2,000 in cash, you can use the entire remaining balance - £5,200 - to invest in stocks and shares. If you don't need cash at all, you can put the full allowance into stocks and shares. You can also transfer existing cash ISA holdings to a stocks and shares ISA without impacting on your current tax year allowance. So, if you have £10,000 already sitting in existing ISA plans then this amount can be moved to a stocks and shares ISA, yet leave your allowance of £7,200 still available.

The only other change is we have finally seen the back of PEPs. Although no new money has been invested in PEPs since 1999, the distinction remained. PEPs are now part of the ISA regime and the plans can be consolidated under one product wrapper. Existing PEP holders should see little difference, but do check with your adviser if you are unsure.

Hodge Bakshi Financial Services

Welcome to the latest edition of e-Update, our update on developments in the world of financial services.

We hope you find the contents of interest. If you have any questions, or would like to discuss any of the points raised, please give us a call.

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What is a SIPP?

A Self-Invested Personal Pension (SIPP) is basically a wrapper - a specific form of pension - which allows you to pick from a wide selection of investments to save for your retirement. It provides you with considerable control and flexibility over your investment choices and, as the government has widened the list of qualifying assets, ensures you can tailor it to match your personal requirements. If you are employed, your employer can also pay into your plan to boost its value and all SIPP contributions receive tax relief at your highest rate (subject to maximum limits). In addition, investments within the wrapper are not liable to income or capital gains tax.

The annuity landscape

Thanks to the credit crunch, the landscape for annuity products has changed. Market volatility, low interest rates and changing investor demand have combined to bring new products onto market while others have fallen by the wayside.

Annuity rates are dependant on interest rates, so recent base rate cuts have hit prospective payouts quite hard. As a result, as investors have looked to tease out additional income, impaired life annuities and so called 'postcode annuities' have become more popular. Other potential retirees have simply decided to defer buying an annuity for as long as possible.

Market volatility has also affected the so-called 'third way' annuity products, originally designed to fill the gap between annuities and unsecured pensions, allowing exposure to the stockmarket, but with capital and income guarantees. They have had a difficult time as the cost of maintaining the guarantees has soared with the increased market volatility.

However, the market is also opening up to new ideas – for example, one new (fixed term) product is offering a secure rate of income for a pre-agreed term and then returning a guaranteed amount to the investor on maturity, which can then be rolled over into another annuity or income producing product. This ensures investors are not locked into what are currently considered very low rates for the long term and instead allows them a 'second chance' to get what might be better rates in a more favourable future environment.

In the small print

Low headline rates on mortgages can be deceptive and you need to ensure that the ‘great’ deal really is a great deal. You should always check that the interest rate you are paying is competitive, but this is not the full story: For example, if interest is not calculated daily capital repayments won't instantly reduce the cost of borrowing. Arrangement and reservation fees can knock out the gains from lower interest rates. You should also check the cost of the survey, legal fees and any higher lending charges - and also check any exit penalties that may continue after any promotional rate has expired. Often mortgages simply are too good to be true.