Money

A survey has found that the squeeze on living costs has resulted in nearly one third of people cutting back on the amount they save

Consumers are saving less as financial pressures step up

Nearly one third of people will be forced to cut back their saving or stop putting money aside completely in the coming months, a survey has warned.

The squeeze from high living costs and stagnant wage growth is continuing to hold savers back from putting cash aside, according to a new quarterly savings index from Lloyds TSB.

Around 30% of savers plan to reduce their saving or stop putting any money away in the next 12 months, while four in ten consumers currently have no cash left at the end of the month to put into savings.

Some 84% of those surveyed said they would prioritise paying off debts over savings.

Two-fifths of people said that the low interest rate environment means that it is not worth saving in any case – although most (54%) disagreed with this.

Savings rates have plummeted further in recent months following the introduction of a government scheme last August called Funding for Lending.

This scheme has given lenders access to cheap finance, but it has also made them less reliant on needing to attract savers' deposits.

Financial information website Moneyfacts recently found that the choice of easy-access accounts offering an introductory bonus has halved since last August and bonus rates themselves have also plummeted.

More than 3,000 people took part in the Lloyds TSB study between January and March.

Social care reforms are needed as cuts kick in

MONEY MATTERS

Matthew Clark, founder of Exeter-based wealth management firm Seabrook Clark, looks at measures announced in yesterday's Queen's Speech that could have implications for social care costs

After seemingly endless debate and discussion, this week sees social care as one of the flagship issues to be included in the Queen's Speech for the coalition Government's plans for the next session of parliament.

The admirable aim of the reforms is to put the social care sector alongside the NHS at the heart of the welfare state for the first time, something overlooked when the NHS was set up in 1948. The reforms are desperately needed to cope with an ageing population, relieve pressure on hospitals, and minimise the impact of a 20% cut over three years in English councils' social care budgets, according to the Association of Directors of Adult Social Services.

The social care reforms build on proposals recommended by the Dilnot commission. In addition to a comprehensive overhaul of the existing legislation, which should help to define the boundaries between free NHS care and means-tested top-ups, there are two eye-catching measures to be introduced from 2016. The first is a new lifetime cap on care fees, which means that the State will intervene and pay the full costs of domiciliary or residential care once an individual has paid £72,000. Secondly, the residential care means-test threshold will be increased from the current £23,250 to £118,000. Whilst social care in England will remain partly privately funded, unlike in Scotland, the changes should help 100,000 more people according to the Chancellor, as an estimated 16% of older people face costs of £75,000 or more. The reforms should also make it easier for people to plan for later life, leave savings to children, and reduce the number of people forced to sell their homes to pay for the cost of their long-term social care.

State pension reforms will also feature in the Queen's Speech, as the State pension changes to a flat rate for anyone reaching retirement age from April 2016. The new State pension will require that you have made National Insurance contributions for at least 35 years to qualify for the maximum £144 per week, an increase from the current maximum of £110.15 per week. However, as always the devil is in the detail – the new pension will be based only on individual NI contributions, so married partners retiring after 2016 who could currently claim a higher State pension based on their own spouse's NI record will in future receive a lower pension.

While I welcome the higher priority the Government is giving to both social care and pensions, the changes inevitably result in a need for specialist advice in later life. The Society of Later Life Advisers accredits advisers who are committed to delivering high quality advice to older clients and their families underpinned with a strict code of professional ethics, covering care fees, pensions, equity release, inheritance and investments.

Dividends must reflect 'market value' for work

BUSINESS MATTERS

Directors' dividends can offer effective tax savings for limited companies – but they must be withdrawn in the proper manner, says **Lisa Thomas** an insolvency practitioner with Plymouth-based Neville & Co

One of the tax advantages of running a small limited company is that usually the directors are also the shareholders and they can opt to take a higher level of dividends forfeiting salary.

It is well known that salary taken from a company is taxable under PAYE and includes a large slice of National Insurance. However, 'salary' drawn as dividend avoids employees' National Insurance of 12% and employers' National Insurance of 13.8% as well so a very large saving. It does seem too good to be true and for a profitable company it is a very good way of saving tax.

In addition, if the director/shareholder is not a higher rate taxpayer hitting the 40/45% tax rate then there is no extra income tax payable on dividends. So, you can see why so many smaller limited companies use this legal way to save tax.

So, what's all the fuss?

If a company is solvent and the dividends are drawn properly there is not an issue. However, dividends can only be paid once a company has been going for at least six months and only out of profits. A company cannot pay a dividend if it has accumulated losses and it must also comply with the legislation on correctly voting and paying dividends.

If it all starts to go wrong and a company becomes insolvent and enters liquidation or administration one of the matters that the appointed insolvency practitioner has to do is investigate what happened and look for unusual transactions. Quite often, creditors will be aware of matters that the insolvency practitioner should look at and draw these to his or her attention.

It may not seem fair, but quite often we do have to ask the directors to pay back the dividends that they have taken so that we can repay this money to the creditors. All dividends taken while the company was losing money and had accumulated losses are 'illegal dividends' and as such have to be repaid. It is quite a shock for some directors to find this out and is the last thing that they want to hear when they are already having to deal with a failing company.

We have found that what often happens in practice (and when issues tend to arise) is that shareholders draw lump sums sporadically as and when the cash flow allows it and then retrospectively decide how it should be treated (usually when the company's annual accounts are due to be produced, which could be as much as up to 19 months later). Little or no paperwork has been produced and no steps were taken to ensure solvency at the time that the money was paid.

What should happen when drawing a dividend?

The directors should draw up regular accounts to be used to show that the company was solvent when dividends were voted. If in doubt they should check with their accountant. Dividends should be voted by the directors and minutes kept that they have approved them. This should happen before the money is drawn out.

If the solvency of the company is in doubt then any money drawn by the directors should be paid as salary through PAYE (of course another cost just when they do not need it).

In addition, it is wise to make sure that the salary taken is a fair amount for the work done and not above a 'market value' as that can cause problems as well.

If you are in doubt always seek professional advice.

Credit sector will be transformed

More than 30 credit unions have signed up to a "landmark" expansion drive which will save consumers up to £1 billion in loan interest repayments in the coming years.

The Government has previously agreed to invest £35.6 million to transform the sector and help it to double its membership by attracting around one million new members over the next five years. It wants to see people on low incomes, who often pay a "poverty premium" for loans, becoming less reliant on expensive credit providers such as payday lenders.