

» We live in interesting times. We've got Brexit, a Trump Presidency, elections coming up in both France and Germany, and an emboldened Russia. Additionally, the Pound has fluctuated, and UK inflation is on an upward cycle. However, we have also seen some fairly resilient Stock Markets in the UK, US and elsewhere.

What it may mean for you

Challenging times can be good, as well as bad, for financial planning. Either way, it often introduces even more elements that have to be considered.

But first, it's worthwhile to take a step back and consider that, whilst Brexit will have a generational effect; much of what is occurring may relate more to the short-term. Yet, financial planning should often address the longer-term picture.

To put this into perspective, let's think back just 10 years. In 2007, the iPhone had only just launched, Facebook was in its infancy, and Woolworths was on every high street! As for the financial marketplace, the term 'sub-prime mortgage crisis' was only just coming into common usage.

Financial check-up

Much has changed over the ensuing 10 years. But while it's important to think longer-term, the demands of daily life mean that, understandably, many of us live largely in the 'here and now'. Perhaps juggling a busy family and social life, alongside work commitments, which may leave little time to focus on finances.

So that's why it makes sense to **seek professional advice** from individuals, such as us, who will work with you to assess the bigger picture. For us, this means being mindful of meeting both the shorter-term needs along the way (such as property purchase, university costs, or special treats), and longer-term planning to ensure you can fully enjoy your later years.



As part of this process, we'd consider your needs and financial position, the mood of the financial markets, product choices, various initiatives introduced, and the tax benefits on offer.

Numerous developments

Spring Budget - UK growth forecasts for 2017 were revised upwards to 2%, and inflation is expected to increase to 2.4% this year.

(Source: Office for Budget Responsibility, March 2017)

Business owners and investors may be affected by the announcement to change the recently introduced £5,000 tax-free allowance on share dividends. This will now be reduced to £2,000 from April 2018. Above the threshold amount, the dividend is taxed at 7.5% for basic rate taxpayers, 32.5% for higher rate, and then at 38.1% for additional rate taxpayers.

It was also proposed that some self-employed would see their National Insurance contributions increase from April 2018, however, this plan has now been shelved!

This was the last Spring Budget; the next one will be this Autumn and thereafter it's every Autumn, with simply a Spring Statement from Spring 2018 onwards.

Pensions - since Pension Freedoms were introduced in April 2015, £9.2bn has been removed via 1.5m individual payments!

(Source: HM Revenue & Customs, January 2017)

Tax savings - the reduced Capital Gains Tax for individuals sits at 10% for a basic rate taxpayer, whilst higher and additional rate taxpayers face a reduced 20% tax. However, the tax applicable to the sale of second homes and buy-to-let remains at the previous levels of 18% & 28%, respectively.

Investments - plenty for you to consider here, with some key options covered across the following pages.

Please get in touch to find out more.

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Welcome....

to this newsletter, which covers some of the key issues of the moment that may affect your financial wealth.

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TAX BENEFITS for you...

There are plenty of allowances to consider in 2017, and here are a few of the main ones...

Inheritance Tax (IHT) is a fairly emotive tax, as many view it as double taxation. A tax paid by the beneficiaries on money that may have already been taxed throughout the life of the person providing the inheritance.

As it stands, the individual threshold is £325,000, and beyond that there's 40% tax to be paid. Married couples and civil partners can also combine their thresholds meaning the last remaining person's estate can be worth £650,000 before the 40% tax is applied.

From April a new 'home allowance' will also be added - the Residence Nil Rate Band (RNRB) - which is designed to make it easier to pass on the family home to direct descendants without incurring IHT.

This will be phased in gradually from the 2017/18 tax year and (if the value of the estate is less than £2m) it could increase each individual's threshold to £500,000 by 2020/21. Thereby, raising the threshold for a couple to £1m before the 40% tax is payable.

Individual Savings Accounts (ISAs)

This is one of the most obvious and available tax-saving devices.

An ISA is basically a 'wrapper' into which you can place cash or stocks and shares up to a certain limit each year.

For the 2016/17 tax year the total individual limit is £15,240. Which means that a couple, for example, could invest just over £30,000 in this period. For the 2017/18 tax year, it gets even better, as the individual threshold rises to £20,000.

Any interest, income or growth that you receive within an ISA will be free from any personal liability to Income or Capital Gains Tax.

To give you a feel for what this could amount to, consider this. If someone used up all of their individual ISA allowances since its launch in 1999 (including the 2017/18 tax year), this could have added up to over £186,500 of contributions, with any growth on that amount being sheltered from tax!

ISAs and Death

According to HM Revenue & Customs, 150,000 married ISA savers die each year.

Tax benefits can now even be applied to ISAs beyond a person's death, if it's passed onto the surviving spouse, or civil partner.

In the past, the ISA tax 'wrapper' passed away with its owner, and the money that had been sheltered became liable for Income and Capital Gains Tax, but rule changes mean that it can be passed on tax-free at death to the surviving spouse, or civil partner.

The surviving partner is then able to invest as much into their own ISA as their spouse/civil partner had at death, on top of their usual allowance.

However, the tax-efficient wrapper of an ISA does not apply if, for example, the surviving partner then dies and the ISA was left to another family member or beneficiary. In this instance, it may be subject to 40% tax, if the IHT threshold for the estate was exceeded, unless you've planned accordingly.

Please get in touch to find out more.

A stocks and shares ISA is a medium to long-term investment, which aims to increase the value of the money you invest for growth or income or both.

The value of investments and the income from them can go down as well as up and you may not get back the amount originally invested.

Past performance is not a guide to future performance.

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A NEW ISA...

Lifetime ISA (LISA)

This scheme is available from April 2017 and applicable to those aged 18-40.

It's designed for people buying their first home, or to be held in the ISA until they are 60 years-old, to help assist retirement planning. In these instances the investor will enjoy a tax-free withdrawal of funds from the scheme.

Additionally, the current proposals set out that you can save up to £4,000 each year, and get a government bonus of 25% (to a maximum of £1,000 each year, up to age 50). The bonus can only be realised if it goes towards

your retirement, or your first home (which has to be located in the UK, your only residence, and up to a value of £450,000).

Lifetime ISAs can hold cash, stocks and shares qualifying investments, or a combination of both.

For those saving for retirement, be aware that you can withdraw the money at any time before you turn 60. BUT, you would have to pay a withdrawal charge of 25% of the amount you withdraw.

Contributions to this scheme will count towards the 2017/18 ISA allowance.

An evolving Investment Strategy

In the same way that your lifestyle will change over the years to reflect your differing needs, tastes, wealth, etc, so might your attitude to investments.

» In the early years of your working life you may feel more invincible, and inclined to take greater risks with your investments. Perhaps reasoning that you have got time ahead to recover any possible losses. Conversely, as you move closer to retirement, you may have a greater degree of wealth and a desire to protect what you now have, by adopting a more risk-averse strategy.

Additionally, your investment strategy will be influenced over the years by various life goals, such as:

- Meeting the costs of school fees, university, weddings, a new car and, maybe, the holiday-of-a-lifetime.
- Undertaking improvements to your current home, moving up the property ladder, or looking to secure an additional one elsewhere in the UK, or overseas.
- Providing a financial buffer to deliver breathing space should you face illness, unemployment, or unexpected household costs.
- Ability to offer financial support to help get your children (or grandchildren) onto the property ladder, or to assist your parents with long-term care.

Your approach

Broadly, if you were to consider four key asset classes: **equities**, **property**, **fixed interest** (ie. government gilts/corporate bonds) and **cash** - it's equities that are likely to deliver the greatest level of risk (and potential reward).

There's no rule that says you must have a balanced portfolio that embraces the asset classes mentioned above, or that you need to have it within a spread of UK and overseas sectors - but diversification possibly makes sense.

In which case, you may look at the current low return on savings, and feel that a hoped-for return on a range of equities may be something to also consider. However, first take a look at the chart below which sets out seven key investment sectors and positions each sector's return over the last 10 years, with the best performers in descending order.

It quite clearly shows two immediate issues:

- First, investment returns can change markedly from year to year.
- Second, this can be more pronounced when looking at specific sectors.

For example, back in early 2016 you may, understandably, have taken a view to avoid 'Emerging Markets', as it delivered a 9.4% loss in 2015. Yet, by the end of 2016 it was the top performer, with 31.6% growth!

Help is at hand

We can't guarantee future winners, but we will have extensive market knowledge and various tools at our disposal to help make your investments as effective as possible.

Of course, everyone will have different objectives, which are partly dictated by **life stage**, **attitude to risk**, **available funds**, **tax position**, and also if you primarily require **income** or **growth**.

In light of the chart below, it shows it is sensible to 'diversify' and spread the investment net in order to deliver measured growth. And, in general, to play the longer-game, rather than chasing potential short-term fluctuations here and there.

So do get in touch if you want to talk further about your existing portfolio, or planned investment approach.

The value of investments and the income from them can go down as well as up and you may not get back the amount originally invested.

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Example of comparative returns by a range of sectors across a 10 year period

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Best Performing	Asia Pacific 35.7%	Japan -2.3%	Emerging Markets 58.1%	Asia Pacific 23.7%	Corporate Bond 5.6%	Europe (exc. UK) 19.6%	North America 31.0%	North America 17.7%	Japan 15.9%	Emerging Markets 31.6%
	Emerging Markets 35.0%	Corporate Bond -9.0%	Asia Pacific 52.2%	Emerging Markets 22.6%	North America -1.8%	Asia Pacific 17.3%	UK 26.7%	Corporate Bond 10.6%	Europe (exc. UK) 9.6%	North America 30.7%
	Europe (exc. UK) 13.3%	North America -18.6%	UK 30.7%	Japan 19.1%	UK -3.7%	UK 15.8%	Japan 26.3%	Asia Pacific 9.7%	UK 4.9%	Asia Pacific 25.9%
	North America 5.3%	Europe (exc. UK) -24.9%	Europe (exc. UK) 19.9%	North America 17.8%	Japan -11.2%	Corporate Bond 14.2%	Europe (exc. UK) 26.2%	Emerging Markets 3.0%	North America 4.9%	Japan 23.5%
	UK 2.2%	UK -31.8%	North America 19.6%	UK 17.1%	Europe (exc. UK) -15.3%	Emerging Markets 12.6%	Asia Pacific 2.1%	UK 0.8%	Corporate Bond 0.3%	Europe (exc. UK) 16.8%
	Corporate Bond 0.7%	Asia Pacific -33.0%	Corporate Bond 16.1%	Corporate Bond 8.9%	Asia Pacific -15.7%	North America 7.5%	Corporate Bond 1.4%	Japan 0.6%	Asia Pacific -3.1%	UK 11.1%
Worst Performing	Japan -10.7%	Emerging Markets -36.8%	Japan -5.2%	Europe (exc. UK) 8.8%	Emerging Markets -19.1%	Japan 3.6%	Emerging Markets -4.0%	Europe (exc. UK) -0.8%	Emerging Markets -9.4%	Corporate Bond 9.8%

Source: Thomson Reuters/Lipper - Investment Association classifications, end of year position 2007-2016, sourced February 2017

There are almost 5.5m SMEs in the UK (small and medium-sized enterprises). These are businesses with less than 250 employees, although the vast majority have less than 10 staff. But is each business doing enough to protect itself?

(Source: House of Commons, Briefing Paper, November 2016)



BUSINESS Protection

» Surely it makes sense for a business to fully protect itself and the personnel who may have helped build up the company over recent years.

Here are a few key areas where some form of business protection may benefit the business, the shareholders, and its employees.

Key Person Insurance

This is designed to provide the business with the funds needed to cope with the financial impact of the loss of a key person in the company. Understandably, the death or serious illness of a key person can cause considerable disruption. This could include loss of sales, loss of customer confidence, the withdrawal of credit facilities and the cost of hiring or training a new recruit.

Shareholder/Partner Protection

This enables the owners to keep control of the company, if one of them dies, or is diagnosed with a critical illness covered by the policy.

This plan will pay out a lump sum, which will help to provide funds to buy company shares. The payout will then benefit his or her family, as the share in the partnership might have been their main financial asset, other than their home. For the remaining partners, it enables the smooth continuation of the business.

Business Loan Protection

If the business has outstanding loans, it may be prudent to take out some form of loan protection to cover the cost of the ongoing payments or to pay off the loan in full, in the event that the bank calls in the loan prematurely.

The latter could be triggered by a fall in sales, a breach of the loan covenant, loss of credit insurance or the serious illness, or death, of a key person. If the finance has come from a director's loan account, and the director were to die, then their estate might demand repayment of the outstanding loan. A business loan

protection policy should apply in such circumstances and hopefully provide the business with a cash sum to help repay the loan.

Relevant Life Policy

This policy allows companies to offer a tax-efficient 'death-in-service' benefit to its employees (including salaried directors).

It's designed to pay out a tax-free, lump sum on the death (or diagnosis of a terminal illness) of the person insured. With some providers the cover may go beyond this. The proceeds go directly to the employee/employee's family or financial dependants.

- Even though the company makes the payments, they're not treated as a benefit in kind, and would not be included in your income tax assessments. This could be a significant saving, particularly for a higher or additional rate taxpayer.

- Unlike a registered group life scheme, the benefit will not form part of your lifetime pension allowance, and premiums won't form part of your annual pension allowance.

- The payments may be an allowable expense for the company in calculating their tax liability, as long as the local inspector of taxes is satisfied they qualify under the 'wholly and exclusively' rules.

To recap, this plan may be appropriate for:

- High-earning directors and employees who don't want their death-in-service benefits to count towards their lifetime pension allowance.

- Small companies with too few members for a group life scheme that want to provide employees and directors with tax-efficient death-in-service benefits.

Talk to us...

These are just four brief examples of the protection policies on offer for businesses, with each meeting a different need. If this is relevant for you, then we can discuss, in greater detail, the key concerns for your own business, and identify a suitable way forward.

As with all insurance policies, terms, conditions and exclusions will apply.



PENSIONS Landscape

The pensions environment has changed markedly over the last few years.

» Following the complete overhaul of the pensions system in April 2015, planholders, aged 55+, can draw down as much, or as little, of their defined contribution pension savings, at any time.

Since the introduction of the freedoms, in the first 21 months of available data we have seen 1.5m payments being made, with £9.2bn withdrawn, equating to an average payout of around £6,100.

Some of these payments would be part of multiple take-outs by certain individuals, as at most, 549,000 people over this period were responsible for releasing the £9.2bn from their plans.

(Source: HM Revenue & Customs, January 2017)

The expanded range of choices leave pension holders with a number of options:

- Leave the pot untouched.
- Take out some, or all, as cash.
- Purchase an annuity.
- Opt for a flexible income, via a flexi-access drawdown scheme.
- Decide on a mix of the above, which, for example, could deliver a guaranteed income for life, yet leave some funds invested in the hope of future growth.

Tax issues

Put simply, the choice is yours, if aged 55 or more. But it's vital that you take advice to ensure you are fully aware of the opportunities and pitfalls.

For example, let's consider the tax position. The first 25% of the pension

pot will be tax-free, either as one lump sum, or as the first 25% of multiple lump sums, with the remaining 75% being taxed at the individual's marginal rate.

So you'd need to be mindful that taking in excess of 25% as cash could generate a sizeable tax bill, and possibly push some into a higher income tax band.

And it's not just issues relating to taking out funds as cash, it's also important that you seek advice so that you know if, for example, the 'flexible' returns of the income drawdown route may be a better option than the guaranteed income of an annuity.

Pensions at Death

Further changes were made in this respect too, which delivers greater benefits for the pension holder's beneficiaries.

Prior to the changes, pensions that were still invested could be passed on at death, but a sizeable 55% tax was applied.

With the changes, the retirement pot of someone who dies before the age of 75 will, generally, no longer be taxed when passed on. Similar rules now apply to annuities, if it's a joint life one, or an annuity with a guaranteed term.

A pension pot passed on after the age of 75 will, generally, be taxed at the beneficiaries marginal rate. Again, annuities are treated similarly.

However, there are various caveats that may apply, so it's wise to discuss your own specific position.

Pensions take-up

Taking a step back to consider those who are still saving into a pension scheme, the government has also made great strides in this respect through the Workplace Pension. As it stands, around 7m people have been enrolled in the scheme, and more than 370,000 employers have declared that they have met their auto-enrolment duties.

(Source: Damian Green, House of Commons, January 2017)

Sizeable contributions

At the other end of the scale, if you've contributed a great deal into your pension scheme over the years then you need to be aware of the Lifetime Allowance. This was reduced for the 2016/17 tax year to £1m, and with effect from 6 April 2018 will increase annually at the Consumer Prices Index rate.

You usually pay tax if your pension pots are worth more than the lifetime allowance. Although, you might be able to protect them from reductions.

If you'd like to hear more about any of these topics, either as an employee or employer, then do get in touch.

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