news

BRI Wealth Management PLC

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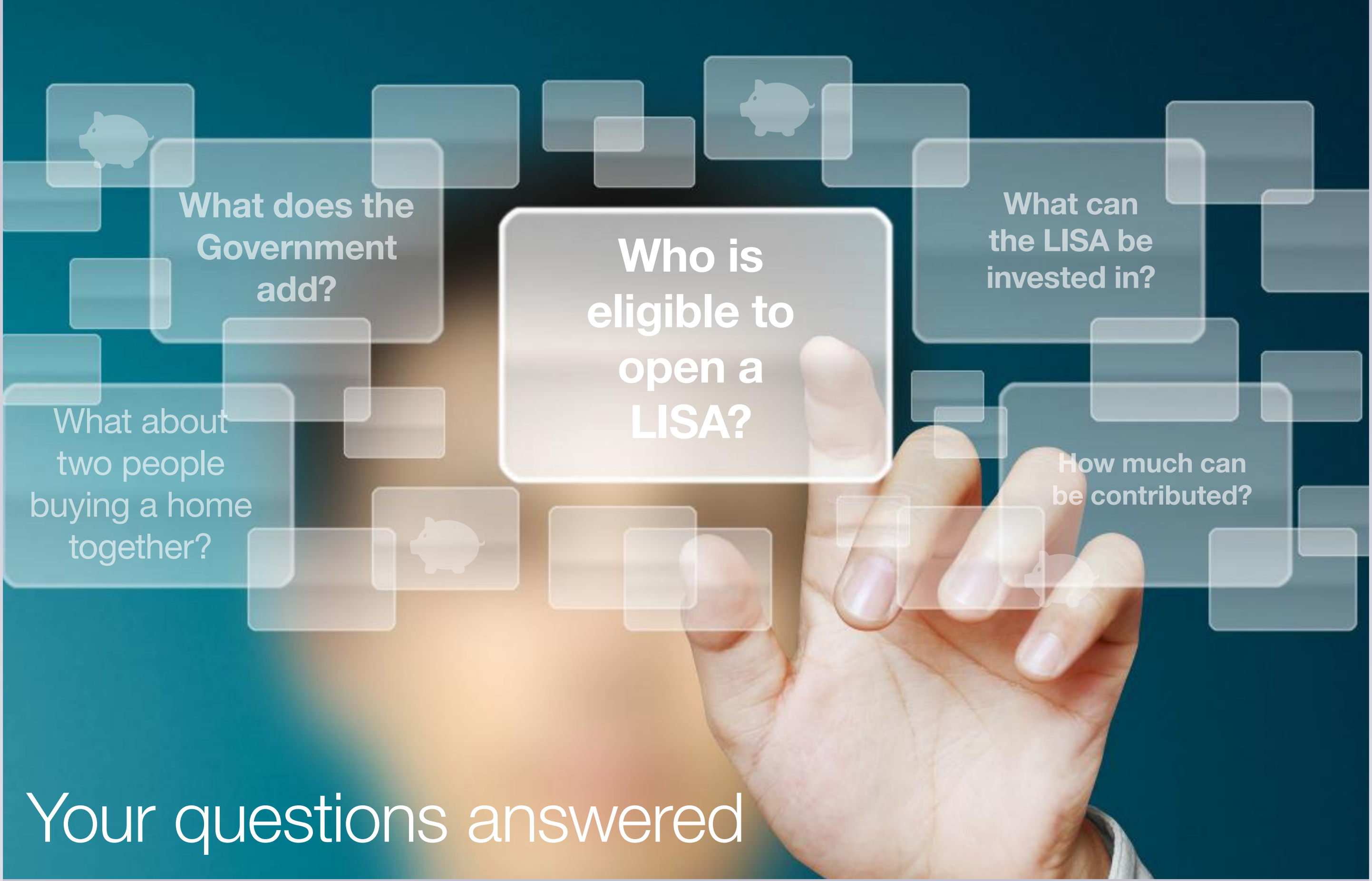
Knowledge . Service . Trust

inside:

Lifetime ISAs



Your questions answered

Lifetime ISAs (LISAs) are due to be made available from 6 April 2017 (subject to any changes in the autumn budget!). Here we take a look at the key features of these and who might benefit:

- **Who is eligible to open a LISA?** Anyone between the ages of 18 and 40.
- **How much can be contributed?** Up to £4,000 per tax year, up to age 50. Any contribution to a LISA will count as using part of your overall ISA allowance (which is increasing to £20,000 from 6 April 2017).
- **What does the Government add?** At the end of each tax year, the Government adds a 25% bonus for any contributions made in that tax year. Where an individual is purchasing a home having contributed in that same tax year, they will be able to receive the bonus early so this can be included for the purchase.
- **What can the LISA be invested in?** There will be cash LISAs and investment LISAs but you can only contribute to one type of LISA in any one tax year.
- **What are the restrictions on taking money out?**
  - Tax-free funds, including the Government bonus and any returns, can be used to buy a first home to live in (not as a buy to let) worth up to £450,000 at any time **from 12 months after opening the account.**
  - Alternatively, the funds, including the Government bonus and any returns, can be withdrawn from the Lifetime ISA from age 60 for any purpose.
  - If monies are withdrawn before age 60 for any purpose other than buying a first home, the holder will lose the Government bonus (and any returns on that Government bonus) on the amount withdrawn. A charge of 5% will also be applied.
- **What about two people buying a home together?** If both are first time buyers, they can each use their LISAs (including the Government bonus) to put towards the house purchase. If only one is a first time buyer, then only they can benefit from the Government bonus.
- **How will LISAs fit with a Help to Buy ISA?** You can only use the Government bonus from one of the ISAs (either the Help to Buy ISA or the LISA) when buying a house. However, during the 2017-18 tax year only, existing holders of a Help to Buy ISA will be able to transfer those monies into a LISA and receive the Government bonus on those savings. Any savings made into a Help to Buy ISA prior to 6 April 2017 and then transferred to a LISA will not count as part of the annual limit. The funds and Government bonus can then be used to buy a first home 12 months from the date of opening the LISA. The LISA compares favourably in a number of ways to the Help to Buy ISA and so it is expected that most people will switch (unless looking to buy within 12 months of any transfer).

Market Commentary

It might prove a challenge but I'm going to try not to use the 'B word' in this commentary...

Whilst the summer months are usually a relatively quiet affair for stock markets, this summer has been full of political and economic drama, worthy of a hit ITV Sunday night soap. Whilst initial focus has been on our own domestic situation, the markets have gradually become more globally orientated with their concerns.

The post-referendum markets feel as if they have been split into two phases, with the initial rally focussed on quality, defensive dollar-earning companies that have benefited from the marked depreciation in sterling. This initial rally powered the market higher whilst more domestically biased stocks lagged. However, as scant pieces of economic news surfaced that seemed to suggest the economy was performing better than expected, the rally started to be fuelled by more UK-focussed stocks. This was exacerbated by the Governor of the Bank of England cutting interest rates to the lowest level in history at 0.25%. This assuaged market concerns over the impact of the vote, though it does leave little room for monetary policy to manoeuvre if economic conditions deteriorate in the future.

> "All eyes are firmly fixed on the November Autumn Statement to see what support Chancellor Hammond may offer to the economy"

All eyes are firmly fixed on the November Autumn Statement to see what support Chancellor Hammond may offer to the economy, more specifically house building and infrastructure spend. Having already abandoned Osborne's pledge to balance the books by the end of Parliament it gives him leeway to capitalise on historically cheap Government borrowing costs of 0.70% for 10 year gilts. It does feel that this excessively cheap borrowing might have a finite life span as inflation starts to creep into the economy in 2017 due to a sharply weaker Sterling versus the Dollar and Euro which would put upwards pressure on Gilt yields.

Across the Atlantic, the two main areas of focus have been upon whether the Federal Reserve will raise interest rates, and the surge of support for Presidential candidate Trump. US economic data has been mixed over the summer, with robust employment figures countered by poor business confidence and generally weak Purchasing Managers' indices. These conflicting pieces of data gave the Fed enough reason to hold rates at present levels whilst leaving the door open to a further increase before the year end, possibly after the Presidential elections in November.

What has been a surprise to many is how well Donald Trump appears to be polling, with the latest figures suggesting a marginal 2.5% lead for Hilary Clinton. It's quite remarkable that he is so popular with the electorate, given that his campaign has been full of controversy. His particular political message does seem to resonate with a certain demographic in America that may not have experienced the economic recovery of the last 8 years and is disgruntled with the establishment. From a global perspective, it does seem that less centrist parties are gaining ground by tapping into this dissatisfaction. This is especially evident in Europe with the rise of AFD in Germany, the National Front in France and the Party for Freedom in the Netherlands. The potential success of Trump cannot be ruled out; and this could have serious consequences for the geo-political scene and the global markets.

Elsewhere in the world, there have been several interesting developments that have so far, largely, left markets unaffected. In China, the economic picture looks slightly healthier although the build-up of debt in the system has been vast and will lead to some serious policy challenges in the future. In Japan, the Bank of Japan – which has been in the vanguard of global monetary policy – has announced some slightly different policies that have left the market confused as to how effective they have been and whether their new strategy is actually possible. A deterioration of confidence in Central Banks seems likely; and this will have adverse effects on equity and debt markets globally.

Finally, what does the future of the European Union look like? The consequences of Britain leaving the EU are unknown for both sides of the equation but will Britain simply be the first in a long line of EU members that may want to leave? Especially troubling seeing as anti-EU sentiment is rising sharply across the continent.

As we head into the last few months of the year, we enter a world that is more uncertain than it has been in a long time. Global politics are evolving with the rise of Trump, the uncertainty over Article 50 and the surge in anti-EU rhetoric across Europe. Economics looks murkier still with global debt well over $200tn (well in excess of the $150tn at the start of the debt crisis in 2007), the future path of the UK economy uncertain, and globally declining profitability for companies.

> "As we head into the last few months of the year, we enter a world that is more uncertain than it has been in a long time."

To paraphrase John Maynard Keynes, the market can remain irrational for a lot longer than you expect; and we are acutely aware of this. We have taken steps to try and reduce risk within portfolios by holding higher than normal levels of cash and diversifying into lower risk assets for our clients. Our job is the stewardship of your capital; and with the growing risks around the world, we feel tilting portfolios towards capital preservation and not taking undue risks remains a prudent strategy for the short term. After the summer months, we are finding more appealing investment ideas and remain well positioned to capitalise on these opportunities as and when they arise.

I didn't say Brexit, not even once…

The **pros** and **cons** of **active** and **passive** investments

The differences between active and passive management start with an investment index, or benchmark, such as the S&P 500.

The manager of a passive mutual fund or exchange traded fund (ETF) will seek to achieve the return of a particular index, before expenses – nothing more, nothing less. Typically, passive funds own most of the same securities, and in the same weightings, as their respective indices. Passive fund managers make no active decisions, potentially resulting in less trading – which reduces fund expenses as well as potential taxable distributions to shareholders. The performance of a passive fund should mirror the index it's tracking, which means that the fund will share both the ups and the downs of the index.

This type of simplicity means that many investors feel more comfortable with passive funds as they know what they're getting – an investment that tries to follow an index. However, a risk of passive investing is concentration. Although markets contain a wide range of companies, they are concentrated towards the very largest. In some cases indices are over-exposed to one or a small number of stocks or sectors that have a large impact on performance. For example, in the 1990s, technology and telecoms stocks became a large part of the FTSE 100; index funds benefited from their growth until their subsequent spectacular decline; financials then became dominant; and then mining shares featured heavily.

In contrast, an active manager will seek to outperform an index by achieving higher returns or taking lower risk, or by combining these two techniques. Because active fund managers choose investments, they have the potential to outperform the market on the upside and limit losses when the market declines, relative to the index. They seek to do this by using their knowledge and skill to analyse the market (hence the higher fees). Then they buy shares (equities) which they believe are presently undervalued, and so have potential to increase in price – or pay increased dividends – over time. This process is known as stock-picking. Managers can also adjust their portfolios to minimise potential losses. However, there is no guarantee that actively managed funds will outperform the index.

	Passive	Active
Pros	• Likely to perform close to index • Generally lower fees • Typically more tax-efficient • Simplicity: investors know what they are getting	• Opportunity to outperform index • Potential for limiting the downside • Buy/sell decisions based on research
Cons	• Unlikely to outperform index • Participate in all of index downside • Buy/sell decisions based on index, not research	• Potential to underperform index • Generally higher fees • Typically less tax-efficient

Inheritance Tax (IHT) Case Study

Nobody likes paying taxes, and even on your death, your children or grandchildren could be subject to 40% tax on some of their inheritance. There are a number of potential tax-efficient solutions which could be considered to mitigate the possible IHT liability on death. However, the suitability of these solutions will depend on your personal circumstances and objectives. Please see our case study below.

Case Study

Mrs Jones is a 68 year old widow who retired two years ago. She is in good health and has three financially independent children. She has made a Will and upon her death the estate will be passed to her children equally. One of her children is married with one child, one is in a long-term relationship and has a child with her partner, and one is divorced. Mrs Jones would like to ensure that her estate remains within the family bloodline and would like to protect any inheritance to her children should they get divorced.

Mrs Jones' estate is worth £1.5 million and consists of a property worth £800k with the remainder being held in cash deposits, ISAs and an investment portfolio.

Mrs Jones has no liabilities. She repaid her mortgage a couple of years ago utilising the Tax-Free Cash Lump Sum from her pension. She has an annual pension income of £39,000 derived from her State Pension and a private pension. Her income is in excess of her expenditure requirements.

Mrs Jones has inherited 100% of her deceased husband's Nil Rate Band (currently £325,000 in 2016/17), which gives her a total of £650,000 including her own Nil Rate Band. Assuming that Mrs Jones has not taken any financial planning advice, she could be liable to 40% tax on the chargeable portion of her estate of £850,000 should she pass away imminently, as shown below:

Total estate	£1,500,000
Nil Rate Bands	£650,000
Taxable estate	£850,000
40% tax	£340,000

The new IHT Residence Nil Rate Band (RNRB) will be introduced in April 2017. It is in addition to an individual's own Nil Rate Band of £325,000, and conditional on the main residence being passed down to direct descendants (e.g. children, grandchildren).

There are some complex aspects of claiming the residential Nil Rate Band and advice should be sought.

The maximum amount will be phased in as follows;

Year	Maximum main residence Nil Rate Band
2017-18	£100,000
2018-19	£125,000
2019-20	£150,000
2020-21	£175,000

The following example demonstrates how the impending RNRB could affect Mrs Jones' Inheritance Tax liability, assuming that she survives until 2020/21 (the tax year from when the RNRB is extended to £175,000). This means that the combined Nil Rate Band would receive an uplift to £500,000 for herself and she will also inherit 100%* of her deceased husband's RNRB. Therefore, based on the current value of her estate, it would reduce the liability from £340,000 to £200,000 (£140,000 IHT saving), as shown below:

Total estate	£1,500,000
Standard Nil Rate Bands (including 100% inherited from Mr Jones)	£650,000
Residential Nil Rate Band (Mrs Jones in 2021)	£175,000
Residential Nil Rate Band (inherited from Mr Jones)	£175,000
Taxable estate	£500,000
Residential Nil Rate Band (inherited from Mr Jones)	£200,000

(*Since Mr Jones died before the legislation was introduced initially the RNRB inherited would be £100,000 but this would be uplifted to the residential enhancement value at Mrs Jones date of death which is £175,000. The legislation is yet to receive Royal Ascent and therefore the final details could be subject to change.)

However, the IHT problem would still be there; and it is important to consider taking appropriate financial planning advice in order to minimise the potential IHT liability.

Suitable solutions will depend on your personal circumstances, objectives and requirements. Such solutions could be:

- Using available exemptions and reliefs.
- An appropriate Trust arrangement.
- Appropriate life insurance policy written under Trust.
- An investment into a scheme which will qualify for tax reliefs, including business property relief.
- Gifts that will qualify as Potentially Exempt Transfers or Chargeable Lifetime Transfers.

If you would like to discuss your circumstances and address the potential IHT issue, please contact our financial advisors who will be happy to explore this with you and advise accordingly.

BRI Seminars

BRI have several upcoming seminars in the calendar, details of which are below:

Family Wealth Tax Planning Seminar

BRI are hosting a Family Wealth Tax Planning Seminar in conjunction with the tax team at BDO LLP. The seminar will take place in two locations. The first will be at our office in Meriden on Wednesday 19 October and the second at Sixways Stadium in Worcester on Wednesday 9 November.

Market Update Seminar

Dan Boardman-Weston will be hosting BRI's next Market Update Seminar on Friday 20 January. The breakfast seminar will take place in Worcester and the lunch seminar will take place at BRI's office in Meriden. Further details will be available later this year.

If you are interested in attending any of the above seminars, please contact **Harriet Troth** on **01676 523 550** or email her on **ht@brigroup.co.uk** to book your place. Further details can also be found on our website **www.brigroup.co.uk**.

Exam Success

Congratulations to **Joshua McCathie** (right) for passing his Portfolio Construction Theory exam. This final exam has resulted in Joshua passing the CISI Level 7 Diploma in Wealth Management.

This Chartered Wealth Manager Qualification is a postgraduate level specialist qualification which encompasses the breadth of knowledge needed to provide the highest quality service to clients.

Be a **ScamSmart** investor

£1.2 billion is lost to investment scams every year, and experienced investors are often targeted. Be suspicious of any cold calls. The Financial Conduct Authority (FCA) recommend hanging up on cold callers and advise seeking impartial advice from a financial adviser.

If you have received unsolicited contact about an investment opportunity, be a ScamSmart investor and check the FCA Warning List **http://scamsmart.fca.org.uk/warninglist/**

BRI are on Twitter!

Follow **@BRIWealth** for our current thoughts on the market and hot topics in the news at the moment.

Do we have your email @ddress?

Would you like to hear from us via email? If you don't think that we have your most up-to-date email address on our records then please let your BRI advisor know by emailing **invest@brigroup.co.uk**

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