news

BRI Wealth Management PLC

April 2015

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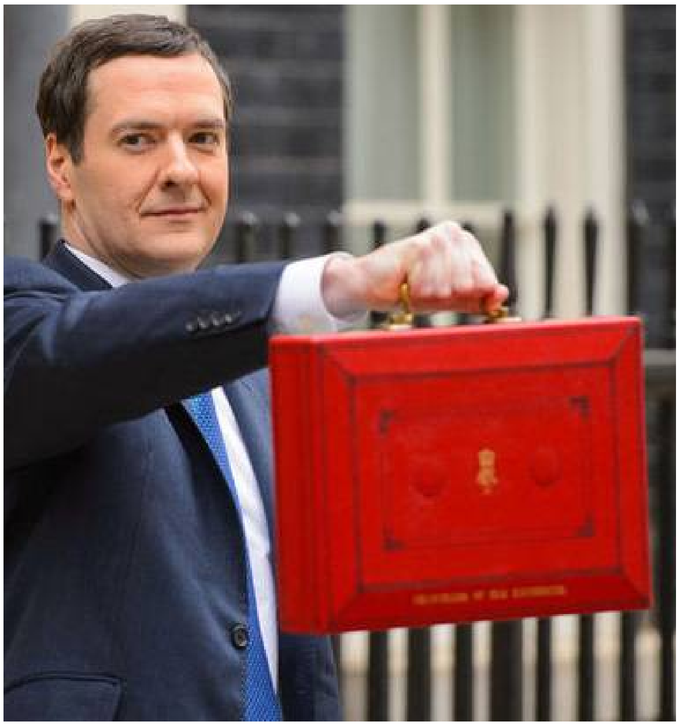
inside:

Budget 2015: The Highlights

In his sixth and final Budget of this parliamentary term, Chancellor George Osborne took the opportunity to highlight the achievements of the coalition government. Growth forecasts were marginally increased, future debt levels were softened, and expected unemployment rates were nudged lower. According to the Chancellor, "Britain is walking tall again."

With May's general election looming, the lack of pre-election tax cuts and vote-winning giveaways may have been somewhat surprising. Instead, it seems that the focus of this Budget was to show commitment to the "long-term economic plan" of boosting the country's fiscal position (with a little help for savers and struggling industries thrown in).

Here are some of the highlights.



For savers...

The biggest change was the introduction of a new personal savings allowance in an effort to reward those who have suffered through this agonising period of negligible interest rates. Basic rate taxpayers will enjoy having their first £1,000 of interest on savings tax-exempt, while higher rate taxpayers will get their first £500 tax-free. Savers will also benefit from more flexible ISAs, which will allow users to withdraw money from their cash ISAs and return it in the same tax year without it affecting their annual allowance.

> "the lack of pre-election tax cuts and vote-winning giveaways may have been somewhat surprising"

For pensioners...

The Lifetime Allowance will be cut from £1.25m to £1m from April 2016; there will, however, be transitional protection in place for those who have in excess of £1m at 5 April 2015. Also, those who want to cash in their annuities can do so by selling them on the secondary market from April 2016. Pension income can now be taken directly or drawn down over a number of years and will be taxed using their marginal rates of Income Tax. Funds, when drawn down, may also be passed to any nominated beneficiaries, without a specific tax charge other than Income Tax, if the death of the member occurs after age 75.

For first-time buyers...

The Chancellor introduced a new "Help to Buy" ISA, which will boost the deposits of those struggling to get on the housing ladder. The Government will top up an additional £50 for every £200 saved monthly for a deposit (up to a maximum of £3,000 on £12,000 of savings). With the housing market currently under-supplied, leading to frothy valuations in some areas, the reasoning behind this policy could be more political than economical. House-builders should be major beneficiaries, given that 40% of new homes are purchased by first-time buyers.

For tax payers generally...

The tax-free personal income tax allowance will increase to £10,600 in 2015-16, to £10,800 in 2016-17 and to £11,000 in 2017-18. The threshold for paying the higher 40% tax rate will also rise to £43,300, but not until 2017-18.

The question remains whether we will actually see all of the above proposals come to fruition. With the most recent polls suggesting a remarkably tight race between the two main parties, it is by no means certain whether the Conservatives will be around long enough to implement these changes. Even with Shadow Chancellor Ed Balls recently suggesting that Labour would be willing to keep Osborne's measures, it seems very unlikely that we will see either party win an overall majority. A coalition may require compromise in policy, and this Budget may show little resemblance to what is actually implemented.

Capital Gains Tax – time to reconsider?

Political uncertainty in the UK is growing as the election approaches. One of the areas of focus is capital gains, with one of the major parties having talked about raising the rate of Capital Gains Tax to 35% and cutting the annual allowance to just £2,000. Capital Gains Tax is often seen by investors as a largely optional tax (if gains aren't crystallised, the tax isn't payable); but could it be time to think again about the pros and cons of exceeding the capital gains allowance and incurring some tax as a result?

Why should I pay Capital Gains Tax?

1. **To protect capital:** In some situations, there might be a risk of losing more in value by holding the investment than you would pay in tax if you sold it. Preserving capital is a good reason to pay some tax.
2. **To protect income:** Improving the security of income which is relied upon can be a very good reason to pay some tax. Highly concentrated sources of income can be a very big risk.
3. **To supplement income:** Sometimes, capital is used to supplement other income streams. Paying Capital Gains Tax at 18%/28% is better than paying Income Tax at 20%/40%/45%. Using capital, even if Capital Gains Tax is payable, can therefore be a more tax-efficient way to supplement income compared to generating extra taxable income.
4. **To change strategy:** Many investors invest for growth in younger years and then typically prefer higher levels of income later in life. As well as considering the point above regarding using capital to supplement income, paying some tax to specifically change strategy for the future can be worthwhile.
5. **For Inheritance Tax and estate planning:** Significant capital gains can sometimes appear prohibitive in terms of using the monies as part of estate planning and Inheritance Tax strategies, since these often involve giving the money away or investing into different types of investments, both of which can trigger capital gains. However, the Inheritance Tax savings need to be considered in the context of the Capital Gains Tax being paid, because sometimes it is better to accept some tax in the short term to ensure longer-term benefits for future generations.
6. **Because of opportunity cost:** Sometimes there are better investments available where the returns are expected to more than make up for the Capital Gains Tax. Paying some tax in the expectation of recouping this and more through better long-term returns is a valid reason.
7. **Inevitability:** Sometimes the payment of Capital Gains Tax is inevitable, perhaps in a takeover situation. Delaying payment is sometimes possible through loan notes etc.; but if there is inevitability about the payment of tax, it is important to weigh up opportunity cost and political risk when deciding whether to pay the tax sooner or later.

Remember the Autumn Statement? The ISA changes announced for surviving spouses and civil partners

As we discussed in our January newsletter, from 6 April 2015 an additional permitted subscription, **on top of** the annual subscription limit (£15,240 2015/16 Tax Year), is available to the surviving spouse or civil partner of a deceased ISA holder in respect of deaths on or after 3 December 2014.

The survivor will be able to make an 'additional' subscription to a cash or stocks and shares ISA which the survivor holds with the deceased's ISA manager, or the survivor can open a new ISA with that manager or a new manager.

Additional permitted subscriptions:

- can be made with the manager who held the deceased's ISA, or another manager who agrees to accept the subscriptions;
- are limited to the value of the deceased's ISA at their date of death;
- must be made within specific time limits (dependent on the type of subscription);
- can be made to a cash or stocks and shares ISA;
- can be made in cash or inherited non-cash ISA qualifying assets;
- are available whether or not the surviving spouse inherited the deceased's ISA investments;
- can be made by non-residents.

The deceased and the surviving spouse must have been living together at the date of death, must not be separated under a court order, under a deed of separation or in circumstances where the separation was likely to be permanent.

If the deceased held a number of ISA accounts with the same manager, the subscription limit will be the combined value; or if the deceased held ISA accounts with different managers, the survivor will have additional subscription limits with each manager or another manager who agrees to accept the subscriptions.

This change means that it is more important than ever for couples to try to use as much as possible of both ISA allowances, especially as ISAs can now offer shelter from Income Tax, Capital Gains Tax and potentially even Inheritance Tax if invested in a specific way. Our Financial Planners will be happy to speak to you regarding your ISA investments if you require advice.

New tax year, new tax allowances

With the new tax year now upon us, we are presented with new tax allowances which are shown below:

- £15,240 new ISA allowance
- £11,100 Capital Gains Tax allowance
- £10,600 standard personal Income Tax allowance
- £4,080 Junior ISA allowance
- Child Trust Funds can now be transferred to a Junior ISA

Various other personal allowances remain unchanged:

- £40,000 maximum pension contributions qualifying for tax relief
- £3,600 stakeholder pension (for under 18s and non-earners)
- £250 small gifts allowance
- £3,000 annual gift exemption for Inheritence Tax

Market Commentary

Where does one start a market commentary following what has been the most eventful quarter in a long time? Quantitative (T)easing in Europe? Escalating Middle Eastern unrest? Or the continued lack of clarity about the strength of the global economy? Let's start with a number.

5560. That's how many days it took for the FTSE 100 to break through the significant 7000 level. The previous peak was reached at the end of 1999 when markets were ebullient and addicted to technology, media and telecom stocks. Today, markets are less exuberant and are dominated by the out-of-favour miners, banks and oil companies. The market has been poised, for nearly a year, to break through the psychologically important 7000; the initiation of Quantitative Easing in Europe and the strong dollar acting as a tailwind to many corporate profits created the right conditions for the breakthrough. As short-lived as staying above 7000 was, the FTSE managed to post positive gains of over 4% for the quarter.

This was significant in a global context as it marked the first time in recent years that the FTSE started to outperform the rampant US market, which only just about broke even for the first three months of 2015. However, all of this was inconsequential relative to the 18% return that European stock markets achieved over the same period, after the eagerly anticipated Quantitative Easing (QE) policy for €1.1tn was announced. The effect of this led to an 11% depreciation of the Euro, which will be a boon to continental exporters (especially the Germans) and overall corporate earnings. Although QE is often perceived by equity and bond markets as a positive, it does lead to the creation of distortions and asset class bubbles. European Government bonds are a prime example, with over one third of the market now giving you a negative yield to redemption. To clarify, that means investors are guaranteeing themselves a loss if they hold onto their bonds. As opposed to risk-free return, the phrase 'return-free risk' springs to mind.

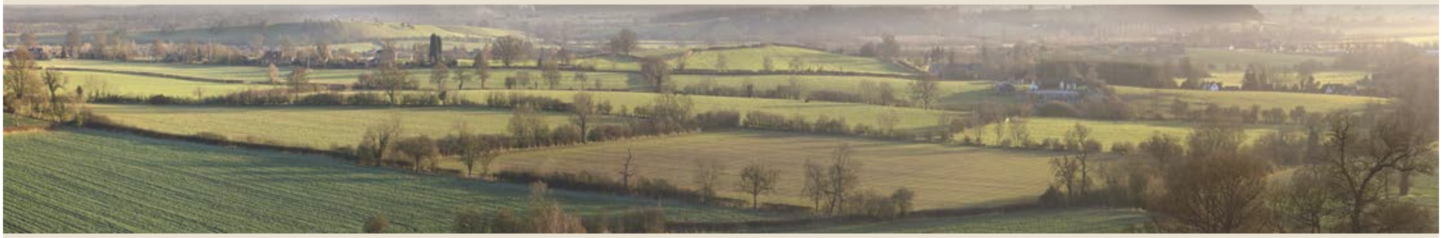
With markets continuing to do well, one would naturally assume that the global economic backdrop remained strong and companies were improving their earnings.

However, this is unfortunately not the case. While America and the UK remain the bastions of economic prosperity, the rest of the world looks a little more anaemic, with China, the Eurozone and many emerging markets still suffering from weaker or non-existent growth. This is evidenced by the 26 interest rate cuts that we have witnessed across the globe this year to try and spur on growth. Whilst growth and profit growth broadly remain elusive, it becomes difficult to justify some of the high valuations that companies trade on.

Coupled with these high valuations and weaker profit growth, there is an enormous amount of geo-political risk that has the potential to destabilise markets. In the UK (at the time of writing) we have 36 days to go before the closest general election for some significant time. It appears increasingly likely that a hung Parliament will be the outcome, with the potential for the Scottish National Party to be kingmakers in Westminster. Markets intensely dislike uncertainty and the next 36 days will be full of uncertainty as the Punch and Judy politics continues to trundle along. Coupled with the election is the Greek issue, which seems to be a perpetual problem due to the firebrand attitude of Messrs Tsipras and Varoufakis towards their European brethren. However, one of the most important issues on our mind is the continuing escalation of conflict between Sunni and Shia Muslims in the Middle East. This has now spilled into Yemen and is viewed as a proxy war between Iran and Saudi Arabia. It has the potential to evolve into a larger Middle Eastern conflict which one cannot ignore.

The markets remain remarkably relaxed over the heightened levels of geo-political and economic uncertainty in the world. This is not a stance we share. We continue to expect more volatility from equity and fixed interest as the known knowns are ignored, the known unknowns evolve and the unknown unknowns surface.

How the pension landscape is changing



The new pension rules that come into force from 6 April 2015 represent the biggest shake-up to UK pensions in history and reflect the Government's vision for a more flexible regime that gives clients extra choice, control and responsibility over how they access their pension savings.

Pensions have in the past been something of a 'forgotten' pot of money, with many people only paying closer attention as they approach retirement. However, the changes now make pensions a much more significant part of an individual's overall wealth planning, as in many cases the rule changes also alter the priority and purpose of the pension assets.

Pensions offer a valuable shelter from Income Tax and Capital Gains Tax, and now greater Inheritance Tax efficiency too, which may turn them from being an income-producing part of an individual's wealth to a feature of Inheritance Tax planning.

It is important that everyone understands what the new rules mean for them as individuals and how their pension assets now fit into their overall plans for the future. This is relevant for individuals saving for retirement as well as for those who are already drawing from personal pension assets. The best way for a client to use their pension monies may have changed.

While the changes allow greater freedom, there are areas to consider fully before making changes or withdrawing funds. For example, taking money out of a pension can make a significant difference to what may be allowed to be invested into a pension in the future.

There are also changes concerning how benefits are paid from an individual's pension upon death. Should an individual in receipt of their pension (known as drawdown) pass away before the age of 75, their beneficiaries can inherit their pension tax-free, either as an income or alternatively as a lump sum. If an individual passes away after the age of 75, there will be a tax rate of 45% applied to any lump sum inherited (reduced from 55%); or alternatively, an income can be paid subject to the beneficiary's marginal rate of tax. In addition, once a beneficiary has inherited a drawdown plan, they can nominate their own successor who can take over the fund following their own death. This will potentially allow accumulated pension wealth to cascade down through generations whilst continuing to enjoy the tax benefits that the pension wrapper provides. It is therefore vitally important that clients ensure they review the beneficiaries they have nominated to inherit their pension pots.

Many people have pensions which should be reviewed not only in light of the changes but to ensure that the pensions are on track for their retirement income target and are invested correctly for their age and circumstances; it is wise to periodically check the level of risk and fund choices applied to a pension, as the difference could have a significant impact on the pension pot at retirement.

To ensure you are fully aware of all implications, it is important that you take proper advice before making any changes to, or withdrawing funds from, your pension arrangements; and our Financial Planners will be delighted to talk to you.

BRI Wealth Management in association with **John Shepherd Estate Agents**

BRI is pleased to announce a strategic alliance with John Shepherd Estate Agents. John Shepherd Estate Agents was established in 1991 and has grown considerably with offices throughout Warwickshire and the West Midlands. It also has a national presence through the internet, and always strives for excellence, aiming to become the market leader in its field.

Property is bought and sold for a variety of reasons. Sometimes there are financial drivers behind transactions and these can include releasing assets for other needs, increasing income, dealing with tax issues, downsizing ahead of or during retirement, dealing with a deceased's estate or simply consolidating various property holdings. All of these are areas where BRI can help clients with advice. BRI prides itself on recognising, understanding and assisting with the unique personal and financial circumstances of each client.

"Property transactions often take place as a result of wider changes in financial circumstances. Through our association with BRI, we can ensure that our clients have access to high quality financial advice, thereby helping them in more ways than in the past" said John Shepherd.

"We find that many people do not have a coherent plan for their various pockets of wealth," said Paul Cusack, Joint Chief Executive of BRI Wealth Management. "Property transactions can often prompt a wider review of circumstances and a re-assessment of financial aspirations. We are therefore delighted to associate with John Shepherd and look forward to helping more people who are at pivotal points in their lives." John Shepherd and BRI Wealth Management have similar core values including high standards of personal service and knowledgeable staff, thus creating an excellent match. BRI is delighted to support John Shepherd and looks forward to working alongside John and his staff in the future.

John Shepherd
ESTATE AGENTS

New Staff

BRI are delighted to announce the appointment of the following staff members.

Simon Preston

Simon joins BRI as a Financial Planner. Simon previously worked for a major Investment Management firm where he advised clients for over 12 years and was latterly responsible for their Birmingham office. With over 30 years within the Financial Services industry, Simon brings a wealth of experience to BRI, having spent his career looking after and servicing a large number of private clients in relation to investment, Inheritance Tax and lifestyle planning.

Joshua McCathie

Joshua joins BRI after graduating with a 2:1 in his BSc: Economics & Politics from the University of Reading. Joshua is working within the investment and analytical team at BRI.

Exam Success

We are delighted to announce the exam successes of two BRI staff.

Congratulations to Vicki Skinner (right) who has passed the final CII (Chartered Insurance Institute) diploma paper and now holds the Diploma in Regulated Financial Planning.

Congratulations also to Josh McCathie who has completed the CFA Investment Management Certificate

BRI and Lord Digby Jones support Sense's TouchBase project

On 4 February, BRI and law firm Wragg Lawrence Graham co-sponsored a drinks reception on behalf of Sense, an organisation that supports and campaigns for children and adults who are deafblind or have sensory impairment. The event took place at Bar Opus in Birmingham to raise local awareness of the charity's groundbreaking TouchBase project.

Glenn Howells Architects and national deafblind charity Sense have won planning permission for a pioneering new £14m centre called TouchBase, for disabled people and the wider community in Birmingham. Construction of the building will commence in late 2015 and it is scheduled to open in 2017.

The scheme has already received £2.1m from the Regional Growth Fund - a Government fund to create sustainable employment in a wide range of sectors across the country.

TouchBase will offer a range of fully accessible facilities for people with disabilities, businesses, other charities and the wider community. It will include direct Sense service provision, day care services, arts and well-being activities, a family and children's area, conference facilities and a public café.

The event was attended by Lord Digby Jones, Baron Jones of Birmingham, who said: "I'm delighted to support Sense with their ambitious new centre in Selly Oak. It's wonderful to see a major charity investing in Birmingham and I'm delighted that in addition to that, Sense are embracing a social enterprise model to respond to the challenges of supporting some of the most vulnerable people in our society."

For further information, please go to www.sense.org.uk

BRI are on Twitter!

Follow **@BRIMouthpiece** 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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