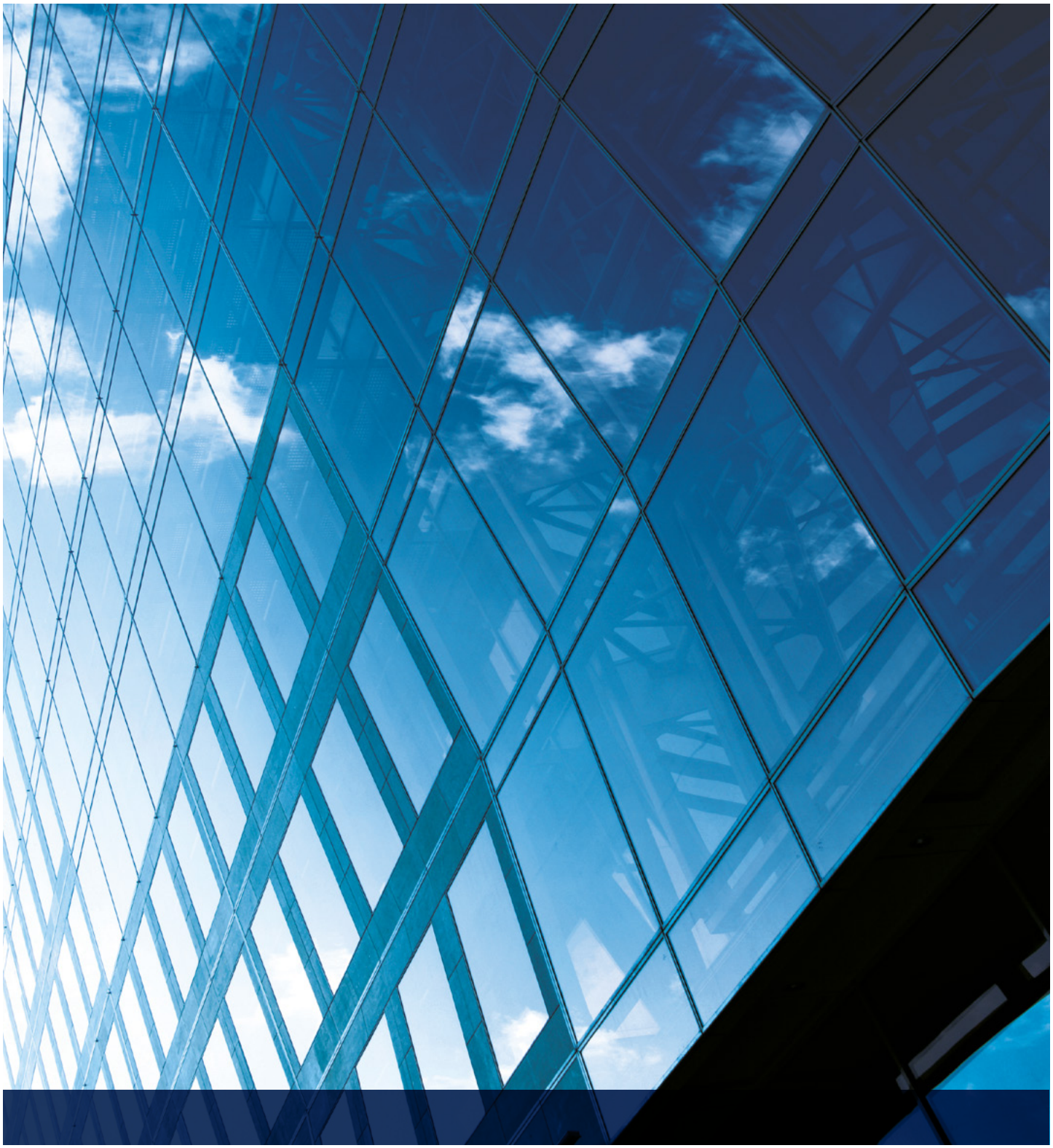
BRI Wealth Management PLC

BULLETIN

April 2017

We hope you enjoy our **Newsletter**



Contents

BRI Wealth Management plc
BRI House
Elm Court
Meriden Business Park
Meriden
CV5 9RL

Telephone: 01676 523550
Email: invest@brigroup.co.uk

www.brigroup.co.uk

@BRIWealth

Market Commentary

Seeing as though Donald Trump was inaugurated as the 45th President of the United States and Theresa May invoked Article 50 of the Lisbon Treaty, markets have been surprisingly calm.

A 2.5% rise for the first three months of 2017 is a good start to what has the potential to be a volatile year. Whether one is looking at politics or stock markets, the world seems increasingly uncertain. Now, don't get me wrong, the world is, and always has been, full of uncertainty but the current cocktail of risks seems incredibly potent.

Stock markets seem to be happily glugging down this particular drink because of a weak currency and some loose promise of fiscal stimulus. Whilst the market may enjoy this 'fiscal fizz' or 'old fashioned currency collapse' at the moment, a bull market of this age is likely to have quite a significant hangover. What is at the forefront of our minds as stewards of your capital is how to avoid the hangover, whilst still enjoying the odd cocktail or two. As such, our emphasis for the management of your money continues to tilt more towards prudent capital preservation rather than rampant capital appreciation. In spite of this, portfolios have continued to make steady progress over the last few months.

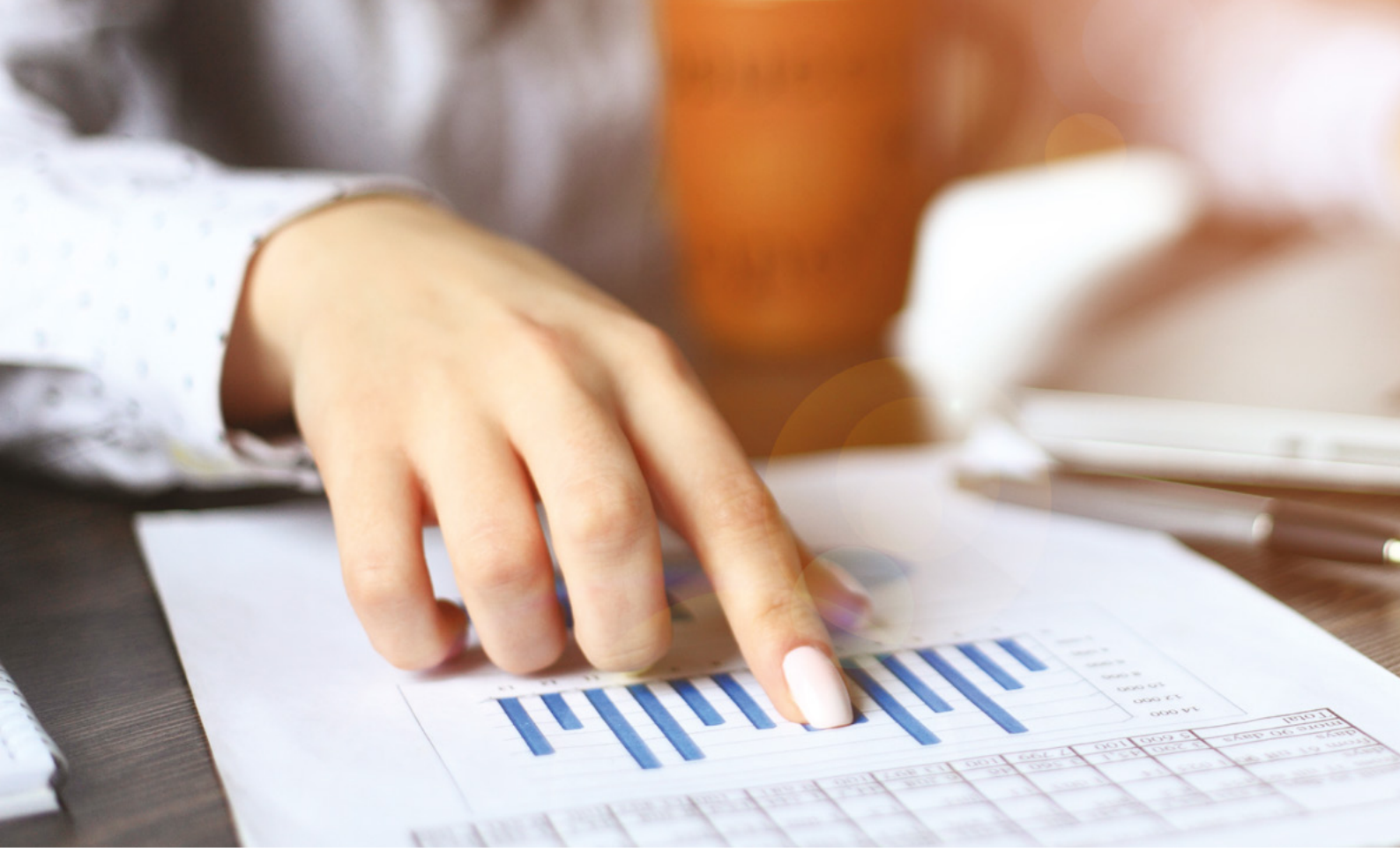
Despite all of the well-known risks in the world, the market has moved very little on a day-to-day basis. A marginal appreciation of Sterling hasn't dented domestic or foreign investors' appetite for UK Equities, bonds or property.

Government bonds have started to claw back some of the losses from autumn of last year and now stand at a yield of 1.08% for ten year debt. This seems surprising given the increasingly inflationary environment we are in (currently 2.3%) and the protracted period of negotiations we are about to enter with the European Union. Maybe the low yields suggest that bond investors are more concerned about the state of the world than equity investors? Equity investors generally seem to be adopting a panglossian view of the world. This is probably due to the financial apocalypse that many predicted would happen if Trump and Brexit ever happened. They did happen and markets didn't nosedive (for very long). In fact, markets went up very sharply. Investors seem overly focused on the short term positives from these surprising events (currency and fiscal spend) and do not seem willing to accept that there may be some serious implications for stock markets in the medium term.

Apart from watching everything that the Daily Mail says about Brexit and everything Donald Trump says on Twitter, this quarter has been exceedingly boring. This is no bad thing.

The public often get a romanticised view of stock markets and think of men in loud blazers, gesticulating to one another in front of flashing stock prices, buying and selling things every minute of the day. This does happen to a certain extent, but investing is for the long term and things usually happen very slowly in business. Just because stock prices change every second of the day, doesn't mean that the worth of a business changes that often. However, this second by second changing of prices can often lead to good opportunities to capitalise on market irrationality.

Looking ahead at the next few months, we have the French elections to consider, EU negotiations and whatever Donald Trump decides to do next. Whilst we are wary of what is going on in the world, we are still finding the opportunities to invest in good quality companies at attractive prices but we will continue to be more defensive in our positioning until we have greater certainty on the aforementioned issues, or prices fall materially.



Spring Budget 2017

The Chancellor has delivered his first and last Spring Budget. From now on, Budgets will be delivered in the autumn, with the first one taking place in autumn 2017 with a toned down statement on the economy delivered each March.

We have prepared a summary of some key points from the budget and how they may affect you.

Reduced Money Purchase Annual Allowance (MPAA)

The MPAA is to be cut from £10,000 to £4,000 from April 2017. This only affects those who have accessed their pensions under the new pension flexibilities and wish to continue paying into their pension. Those only accessing their tax-free cash, or who were already in capped drawdown and haven't exceeded the cap, will keep the full £40,000 annual allowance.

Higher earners Tapered Annual Allowance

The Tapered Annual Allowance remains in force and will continue to reduce the standard annual allowance by £1 for every £2 of adjusted income over £150,000 down to a minimum of £10,000 and subject to maximum reduction of £30,000.

Reduction to the dividend allowance

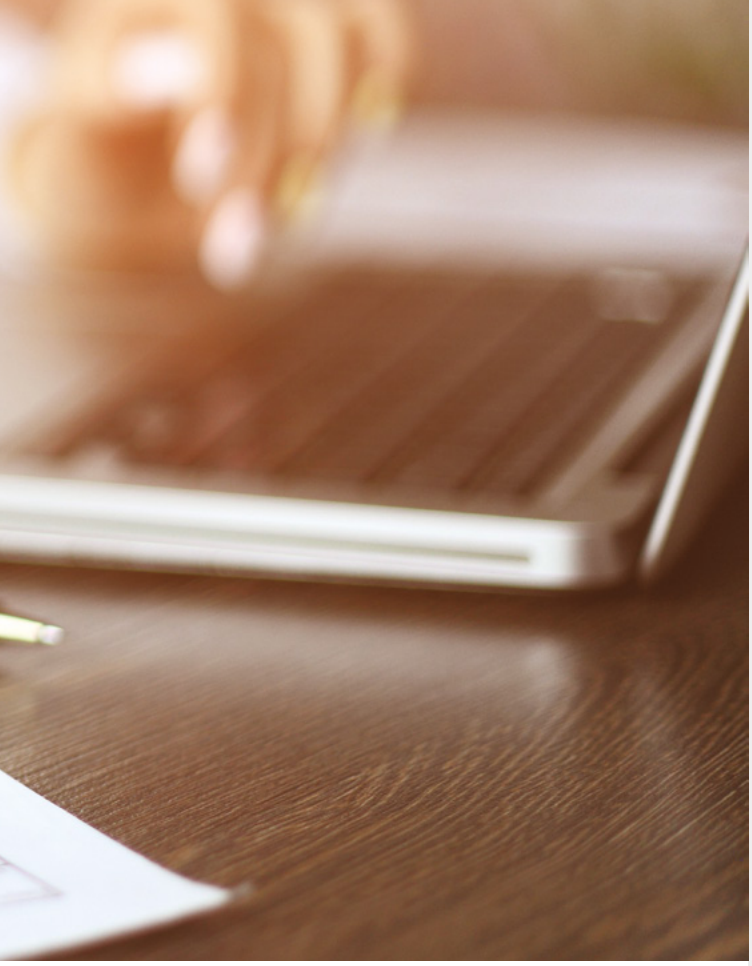
The annual dividend allowance introduced last year will remain at £5,000 for the 2017/18 tax year, but will then drop to £2,000 from April 2018. In particular, this will hit small and medium sized business owners who take their profits as a dividend and those with investment portfolios.

The consequence of the reduction in the dividend allowance would be that a basic rate taxpayer will increase his tax bill by £225, a higher rate taxpayer by £975 and an additional rate taxpayer by £1,143. Therefore, it is crucial to constantly utilise your annual ISA allowance.

Employer pension contributions will become an even more attractive way of extracting profits from a business. And, if the director is over 55, they can now have full unrestricted access to their pension savings.

Class 4 NICs for the self-employed are scrapped

The Chancellor, Philip Hammond, has dropped plans to increase Class 4 National Insurance Contributions (NICs) paid by the self-employed.



He had announced an increase from 9% to 10% in 2018, and then up a further percentage point to 11% in 2019.

After the Spring Budget was announced, the Chancellor was accused of breaking the Conservative party's 2015 manifesto pledge to not raise income tax or national insurance. Even though the manifesto pledge only related to class 1 national insurance, the Chancellor has said that he wanted to make sure the government stuck to the 'spirit' of its manifesto pledge.

2017/18 tax rates and bands confirmed

The personal allowance for 2017/18 is confirmed as £11,500 and the higher rate threshold will rise to £45,000. Increases are planned to £12,500 and £50,000 respectively by 2020.

Capital Gains Tax

The individual capital gains tax allowance will increase to £11,300 from 2017/18.

ISA allowance increase

The amount savers can add tax-free into an ISA account will increase from £15,240 to £20,000 from 6 April 2017. That will provide an additional tax-free investment of £4,760.

Junior ISA allowance will increase in line with the Consumer Price Index (CPI) from £4,080 to £4,128.

Lifetime ISA (LISA) introduction

Providing you meet certain criteria, the LISA has been designed for two purposes; to help first-time buyers get a foothold on the property ladder, and secondly for retirement, by providing penalty free access to your savings after the age of 60. Up to £4,000 per annum can be paid into the LISA and this will receive a 25% government bonus.

Residence Nil Rate Band (RNRB)

From April, you may be entitled to an extra £100,000 Inheritance Tax nil rate band where the family home or the value passes to direct descendants on death. Please note that this is a complicated area and professional advice should be sought. Our financial planners can assist you should you need further information.

Probate Costs

The cost of administering a deceased person's estate will substantially increase from May. In England and Wales, probate is the process of applying for the right to deal with a deceased person's property, money and other possessions – known as their 'estate'.

If a person has left a will, they usually appoint a will executor. This executor then has to apply for a 'grant of probate' from the probate registry. Currently, a flat fee of £215 applies on all estates (or £155 if the application is made by a solicitor).

However, from 1 May this year, the cost will be linked to the size of the estate. There will be no fees on estates worth less than £50,000, but those in the £50,000 to £300,000 bracket can expect to see costs rise to £300.

Fees, however, soar for those dying with even greater estates. People with estates between £300,000 and £500,000 will see fees increase to £1,000, while people with estates between £500,000 and £1 million will be forced to pay £4,000.

Where estates are worth between £1 million and £1.6 million, the fee will be £8,000, or £12,000 for those worth between £1.6 million and £2 million. Fees peak on estates over £2 million, where a £20,000 charge will be applied.

The increases mean that if you are administering an estate currently and it is worth more than £50,000, it's important to get your application for probate in before the fees increase.

At this stage it is unclear whether the rules will affect applications submitted after 30 April 2017, or those that died after this date.

How much would probate cost your estate?

Value of estate (before inheritance tax)	Proportion of all estates in England and Wales	Proposed Fee
Up to £50,000 or exempt from requiring a grant of probate	58%	£0
£50,000 – £300,000	23%	£300
£300,000 – £500,000	11%	£1,000
£500,000 – £1m	6%	£4,000
£1m – £1.6m	1%	£8,000
£1.6m – £2m	0.3%	£12,000
Above £2m	0.5%	£20,000

Source: Ministry of Justice

Premium Bond Prizes Cut

Savers will have a slimmer chance of winning some of the biggest Premium Bond prizes from May, according to National Savings and Investments (NS&I).

The amount of big money rewards are set to fall, with the estimated number of tax-free £100,000 prizes each month going from three to two. It has also been announced that there will be two fewer £25,000 prizes.

The reductions have come as part of a wider cut in interest rates across a range of NS&I's savings products. Cuts of up to 0.25% "reflect market conditions", the government organisation said.

These decreases follow last June's interest rate cuts on the same variable rate products – the Direct ISA, the Direct Saver and Income Bonds.

These premium bonds are issued by the NS&I and are guaranteed by the treasury. With the UK boasting 21 million premium bond holders, they are a particularly popular product.

In May, the total number of prizes will fall from the current figure of around 2,224,513 down to an estimated 2,219,493. Although there will be fewer high value awards, the amount of £25 prizes will increase.

NS&I have revealed that the interest rate for both Income Bonds and the Direct ISA will fall in May, from the current rate of 1% to 0.75%.

The Direct Saver account will see its interest rate drop from 0.8% to 0.7% at the same time.

NS&I blamed the cut on the decision by the Bank of England to decrease the base rate from 0.5% to 0.25% in August, along with the market reaction to that.

Steve Owen, acting chief executive of NS&I, said: "We have taken the time to absorb the impact of the Bank of England base rate reduction and subsequent changes across the savings market. The new rates reflect current market conditions and allow us to continue to strike a balance between the needs of our savers, taxpayers and the stability of the broader financial services sector.

"We appreciate that savers will be disappointed, but we believe that the new rates present a fair offer to customers."

Chancellor Philip Hammond said, in November last year, that a new savings bond offering a "market-leading" rate of around 2.2% would go on sale through NS&I in the spring.

For the moment the rate of 2.2% is only "indicative", and will be fixed when the bond is launched some time after April 2017.

Premium Bond Changes

Prizes	Current rate	New rate (from May 2017)
Prize fund	1.25% tax free	1.15% tax free
Winning odds	30,000 to one	30,000 to one
Total value of prizes	£69.5m	£63.8m
Number of prizes	2.225m	2.219m
No. of £1m prizes (per month)	2	2
No. of £100,000 prizes	3	2
No. of £50,000 prizes	6	6
No. of £25,000 prizes	11	9
No. of £10,000 prizes	31	23
No. of £5,000 prizes	58	47
No. of £1,000 prizes	1,390	1,276

Protecting your State Pension via Child Benefit and National Insurance Credits

Despite what you might think, no one automatically gets the full amount of State Pension when they retire. The full State Pension is currently £8,093.30 per annum and you will only get the full amount if you have paid, or been credited with, National Insurance Contributions (NIC) for 35 years. If you have less than 10 years of NIC records you will not qualify for the State Pension at all.

The key word here is 'credited'.

Even if you're not working while looking after your children, you will get National Insurance credits when you claim Child Benefit until your youngest child is 12. Foster carers get them too.

The credits are automatically added to your National Insurance account when you claim Child Benefit, so you do not need to do anything.

However, what happens if somebody does not claim Child Benefit, or if one of the parents earns more than £50,000 a year?

If you earn more than this, you'll have to pay back some of the money in the form of extra Income Tax. This is called the 'High Income Child Benefit Charge'. Therefore, to avoid the tax charge, some people with income above £50,000 decided not to claim Child Benefit.

But, by doing so their partners may lose the chance to receive the NIC credits if they are not working while looking after their children.

The good news is that you can still register for Child Benefit to protect your entitlement to the State Pension and at the same time you can opt out from the payments of Child Benefit to avoid the tax charge.

It is recommended that the Child Benefit should be registered in the name of the parent who is off work to bring children up to 12 years of age regardless of their partners income and you can re-apply if you have already stopped receiving the payments.