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YOUR WINDOW ON FINANCIAL ISSUES

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INSIDE THIS ISSUE

HOW WILL YOUR GARDEN GROW, FOR YOU AND FUTURE GENERATIONS?

The Royal Horticultural Society website asks: 'why wait until spring to get the most out of your garden?' It goes on to explain the importance of forward planning if the garden is to yield a good crop for you next year and for future generations over the long term.

Whether planning just your own financial future or with future generations also in mind, maybe there are useful lessons in this gardening wisdom, such as: think ahead while others' minds are elsewhere; give the things you hope will grow healthily time to bed in during the winter season; and avoid last-minute planting with possible short-lived yields.

We cannot claim investments made now will perform better, but we believe winter can be the time to take a cool look at finances and make measured decisions in collaboration with your adviser. Then, if new or revised investments, mortgage arrangements or insurances are to be selected, there is ample time to get any changes with tax implications completed by 5 April 2014.

Individual Savings Accounts give major income tax and Capitial Gains Tax advantages. The 2013-14 ISA allowance is £11,520, including up to £5,760 in a cash ISA; the Junior ISA allowance is £3,720. Unused allowance cannot be carried forward; avoid rushed decisions at end-March.

Pensions are a very attractive form of long-term saving, but limits on tax relief may bite when making very large contributions. Annual and Lifetime Allowances apply; both are being reduced, but 'carry forward' and 'fixed protection 2014' can help mitigate the impact.

Nearly everyone liable to Capital Gains Tax gets an annual tax-free allowance, £10,900 for 2013-14. Above this, CGT is levied at 18% or 28%, depending upon marginal income tax rate. The timing of disposals can affect CGT's impact.

As for mortgage deals, plus the protection and other insurances that often tie-in with them, winter is a time to minimise costs whilst you and your family remain well covered in the event of misfortune – from illness or accident to burglary or weather damage during the dark, cold months ahead.

So tax, investment, mortgage and insurance issues – against a backdrop of improving economic outlook and increasing investor and housing market confidence – are key reasons to arrange a financial review now. You could also talk to your adviser about ways to help future generations with things like education fees and property purchase.

KEY FACTS

Some unused annual allowances can be carried forward, others cannot

The Capital Gains Tax annual tax-free allowance for 2013-14 is £10,900

Gains on your only home or main residence are usually CGT-free

TAX BREAKS FOR ALL GENERATIONS

Like the Personal Equity Plans (PEPs) and Tax-exempt Special Savings Accounts (TESSAs) that preceded them, Individual Savings Accounts (ISAs) have proved immensely popular with savers and investors – from those with a few hundred pounds saved to the fortunate investors that now have £1m-plus portfolios after contributing the maximum since PEPs started. The introduction of Junior ISAs two years ago opened up the concept to younger generations as a tax-sheltered home for their capital, including gifts from family and friends.

Whilst saving income tax on interest earned through a Cash ISA can help the compounding effect over the years, sums invested can have their value eroded by inflation. In happier economic times, interest earned on a Cash ISA could easily outstrip inflation. Today's low interest rate climate, plus persistent above-target inflation, has made it harder to counteract inflation, even in a tax-free Cash ISA.

> **"The funds accumulated in their JISA can help a young adult with university or housing costs when really needed."**

The unfavourable interest versus inflation setting has led more people to consider the Stocks & Shares ISA (which also escapes Capital Gains Tax). This option does not guarantee the return of amounts invested, although stock market performance over the past two or three years has been positive, when measured by the FTSE 100 and similar indices that value a basket of shares. This growth trend may or may not continue.

Many analysts believe that one reason for advances in share prices has been the switch in the relationship between interest available on deposits, including Cash ISAs, and the dividends on equities. Historically, interest on deposits often exceeded the yield on UK shares; for now at least, the boot is on the other foot, as some equities provide attractive levels of income – with the 10% deducted from dividends being the only tax payable if held through an ISA. Note that even major companies can cancel or reduce their dividends.

When considering ISA investment, it is important to decide whether a Cash ISA, a Stocks & Shares ISA or a combination would suit your needs and objectives, in terms of access to your money if needed and your preparedness to accept risk to capital and income. In any event, only up to half of the annual ISA allowance may be held in cash, whilst up to the full allowance (£11,520 for 2013-14) may be put, in one go or perhaps monthly, into stocks & shares – optionally through a collective investment scheme that can spread risk across many different companies' shares, in the UK or globally.

The annual allowance for Junior ISAs for 2013-14 is £3,720. Within this, a qualifying minor may have a mix of cash and shares, but their money cannot normally be touched before they reach 18. Anyone can pay in, but an adult 'registered contact' is usually responsible for overseeing the account. The funds accumulated in their JISA can help a young adult with university or housing costs when really needed.

INVESTMENT FOR FUTURE WELL-BEING

Some oil-rich countries in the Middle East and elsewhere have created investment funds for the benefit of future generations of citizens. Yes, their governments are spending money on infrastructure and raising living standards, but not blowing the lot right now, because one day their future generations must manage without today's massive oil revenues.

There may be a parallel here with Britain's middle classes. The thriving family business or senior salaried position may not actually be enough to ensure that future generations of the family will maintain its position financially or, better still, advance to greater things. They face uncertain times, with education fees, housing costs and other challenges waiting in the decades ahead.

You may not be an oil-producing country, but the notion of a future generations fund could make sense. Once you feel comfortable about your own financial position in later years – whatever they may hold – there is satisfaction in helping descendants. This may mean ensuring that Inheritance Tax has no avoidable erosive effect on your estate and deciding how best to invest for children and grandchildren, through Junior ISAs for instance, and other methods if the JISA allowance is too restrictive.

There are two aspects to helping future generations; one relates to individuals such as your grandchildren and the other to the society and wider world they find themselves in decades from now. On the latter aspect, it could be worthwhile looking at the role of ethical investment funds. In broad terms, they aim to invest in companies perceived as doing good for the environment and society, or are at least seen as benign, and avoid investing in companies whose activities damage the environment or have a corrosive impact on society.

We all have our own views on the trade-off between progress and environmental impact, so not all ethical funds will suit all investors, or spread risk widely enough. Nor will ethical funds necessarily perform better or worse than funds that are not so described. Finding an ethical strategy to cover both aspects of investing for future generations could be worth the effort.

TRIM THE TAX TAKE AS YOU LEAVE

Tax is a necessary evil that can get emotions running high. If you use £1 of higher-rate taxable income on petrol, about 24p covers your 'splash and dash'; the taxman gets the other 76p (source: Deloitte/RAC Foundation). Inheritance Tax grabs less per £, but can seem worse than taxes you pay whilst still motoring, as it were.

A pledge to ditch IHT could swing the 2015 election but, as governments have deployed death duty and its successors since the 18th century, don't expect abolition anytime soon. It not only brings revenue for the Chancellor but also helps reduce the wealth concentrated upon relatively few hugely rich families. Fans of Downton Abbey will understand the impact of tax on landowning families' ability to bequeath stately homes intact to their offspring, with some handing estates to the National Trust.

In 1986, when IHT superseded Capital Transfer Tax, the new 40% tax applied only to estates above an inflation-linked £67,000 nil-rate band. A change in 2007 saw an effective doubling of the then threshold of £300,000 for many couples, but two years later the nil-rate band was frozen at £325,000/£650,000. This looked set to rise to £329,000/£658,000 in 2015, but the Chancellor has signalled the freeze will now last until 2019 or beyond.

Probate valuations applied for IHT purposes include property, so ordinary homeowners' estates can be hit. IHT liability can be cut by reducing an estate's value; gifting assets to younger generations is one simple way. IHT can still be levied on gifts made (other than to a spouse or civil partner) within seven years of death, but can be avoided altogether, within limits. Exemptions apply to gifts up to £3,000 in total per tax year; gifts up to £250 per recipient per tax year are exempt too. Special allowances apply to wedding gifts, whilst regular payments may qualify for exemption without limit.

Other ways to ease IHT pain involve specialised insurance policies, trusts and substantial charitable donations. Advice on these methods is vitally important.

Tax and estate planning are not regulated by the Financial Conduct Authority.

SORT YOUR PENSION AND FEEL THE RELIEF

For many people, state pension provision simply won't be enough when they retire. So, the Government has initiated pension reforms, aimed at increasing retirement savings, through changes to workplace pensions. A key aspect, auto-enrolment, should help encourage a stronger pensions savings culture, but may not supplement the State Pension sufficiently to meet individual retirement needs, making it important to review pension savings levels now and then, as personal circumstances change.

It is possible to boost retirement income prospects with other options such as investment in a personal pension. Provided that more immediate financial needs are covered, additional pension contributions can be an appropriate and tax-efficient channel for long-term savings. For every £1 you pay in, the pension provider can reclaim 20p in basic rate tax to add to your contribution. That means for every £160 paid in, £200 goes into the pension pot, less any charges. Higher rate taxpayers can reclaim the further 20p per £1 to which they are entitled.

The tax relief available on pension contributions is adequate for most people's needs, but high earners may come up against the annual allowance of £50,000 in contributions (reducing to £40,000 in 2014-15). There is also a lifetime allowance, the application of which can be quite complex; those making large pension contributions should talk to their adviser about the effect of these limits on tax relief and HMRC concessions that can often mitigate the impact. An adviser can also guide you through the investment options available and explain the risks and administrative charges associated with products that offer the opportunity for long-term growth.

Where lower levels of pension savings are involved, it may be worth investigating the advantages of stakeholder pensions, which were introduced more than a decade ago as a voluntary arrangement designed to widen access to pensions. The rules for such schemes include limits on charges, to reduce erosion of pension pot values. Providers cannot charge more than 1.5% of a plan's value annually during the first ten years and this reduces to 1% thereafter. Low cost, flexibility and tax relief can also make stakeholder pensions beneficial for non-earners, including children, though for them an annual contributions ceiling of £3,600 gross applies.

For business owners and senior executives in particular, alternative pension arrangements may be suitable. Self-directed pensions such as SIPPs and SSASs offer very wide investment options, whilst pension drawdown can sometimes be an attractive alternative to annuity purchase at the point of retirement. Your adviser can run through the features of all the pension propositions available.

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NEWS BITES

Economic recovery fastest in the west

The Institute of Chartered Accountants in England and Wales' recent survey reported business confidence at a ten-year high. Their 'Business Confidence Monitor' rose from 24.0 points to 31.7 in the third quarter of 2013.

Businesses expect to see employment grow, with an average increase in headcount of 1.7%.

Help to Buy a success

The Government's 'Help to Buy' scheme has proved a success with over 2,000 people accepting a mortgage via this in just one month.

Average prices for the properties have been £160,000 and 75% of those were first-time buyers with joint incomes - of those applicants in the South East - being £56,849.

Oil price drops on Iranian nuclear accord

After protracted negotiations, Iran has agreed to limit its production of enriched Uranium.

As a result economic sanctions will be lifted on the country allowing them to ramp-up their oil production. They have one of the world's largest proven reserves of oil and gas.