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SPRING 2014

rosan helmsley quarterly

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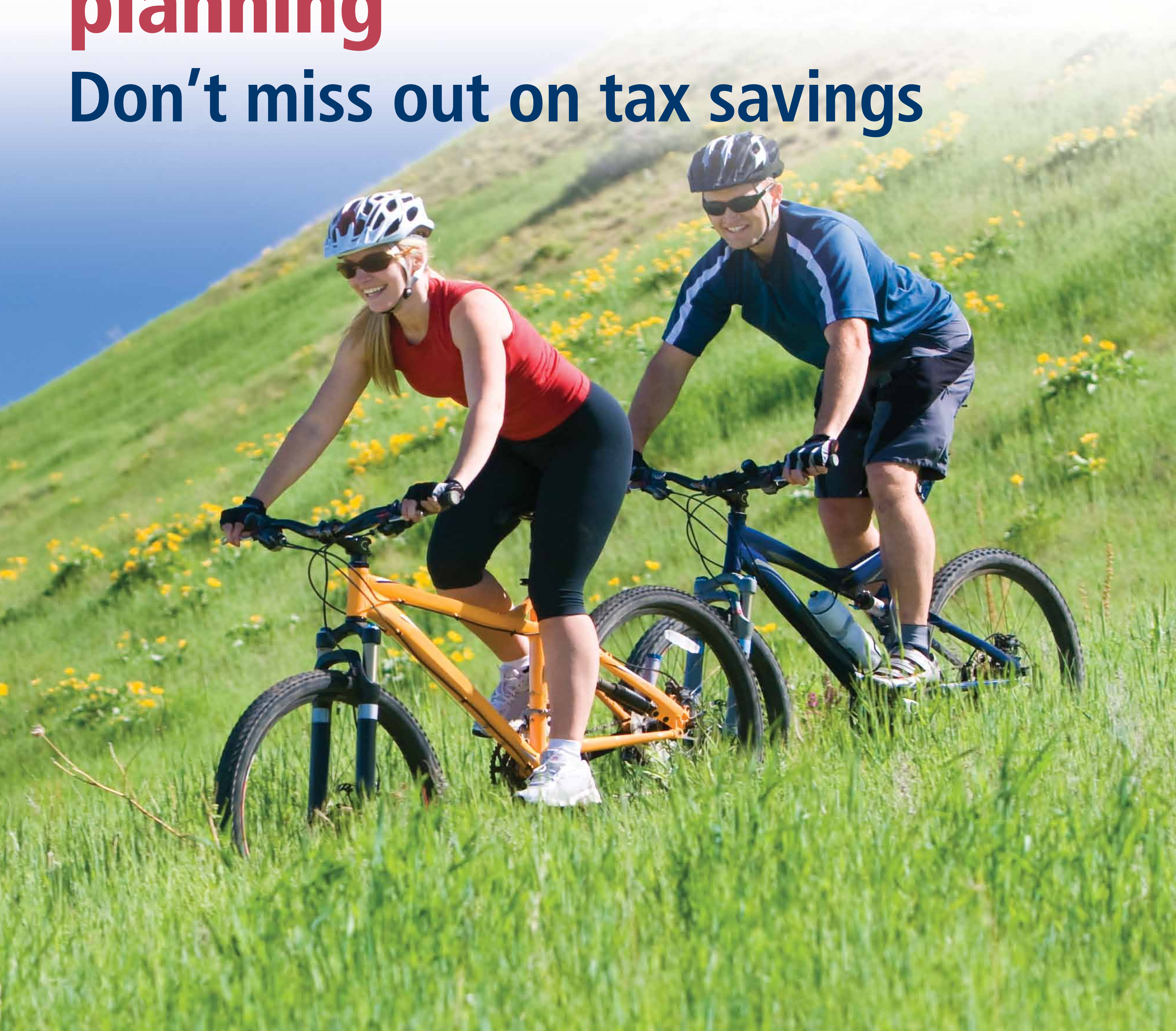

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Low interest rates to last for years

Savers face yet more years of negative real interest rates, the Bank of England Governor warned in early February. "The Bank rate is expected to rise only gradually", he said. "The degree of stimulus will need to remain exceptional for some time."

Carney's warning does not rest upon pessimism about growth; the Bank expects GDP growth of around three per cent a year in the next two years, with big rises in business investment. Instead, the Bank believes inflation will stay low, helped by low global inflation and the likelihood that the level of unemployment consistent with low inflation will be lower than it previously thought.

BOE Governor Mark Carney has warned that the Bank rate is expected to rise only gradually

What's more, the Bank wants to eliminate "wasteful" spare capacity. It estimates that this is equivalent to 1 – 1.5 per cent of GDP, which implies the Bank wants to see employment rise by at least this much. Carney refused to issue "time contingent guidance", but warned that even in the medium term interest rates will be "materially lower" than they averaged in the decade before the financial crisis, thanks to the long term legacy of that crisis reducing trend growth.

This information won't hearten those living off cash savings with little appetite for risk to their capital. However, it does give some comfort to investors wanting to increase equity exposure, where dividend yields in large funds are close to four per cent with the additional prospect of capital returns on money invested. We can help investors decide on appropriate fund strategies, taking into account risk capacity and investment timescales.

With the financial year-end now a matter of weeks away, it makes sense to appraise available reliefs. Despite generally higher levels of income tax it remains possible to claim back income tax this year of £450,000 using a combination of EIS, VCT and pension investments for those with the appropriate income levels.

In addition, it makes sense to use the available ISA allowance, which can significantly boost all individuals' retirement saving strategies. We have many married clients now with combined ISA assets of over £1 million. Funds of that size are currently able to produce a tax-free income of over £40,000 per annum, a valuable and highly tax efficient source of additional retirement income.

Please contact us if you have questions relating to any of the articles in this newsletter.

Rob Sandwith | Chief Executive

Raking over the Autumn Statement

There were no December giveaways in the 2013 Autumn Statement, but the Chancellor still delivered a few pre-Christmas surprises.

In recent years the Autumn Statement has become a second Budget in all but name. The 2013 version was no exception, with several new measures revealed alongside the usual deluge of tax and economic numbers. Mr Osborne took with one hand what he gave with the other, even though the economy is in a better state than he expected at the time of the spring Budget. With an election now less than 18 months away, he may be keeping his tax-cutting tinder dry. In the meantime there were several points to note.

Income tax

There was confirmation that the 2014/15 personal allowance will increase by £560 to £10,000 and the higher rate (40%) tax threshold will rise by a more modest £415 to £41,865. The higher personal allowance will mean the income band over which the allowance is phased out – and an effective 60% tax rate can apply – will stretch between £100,000 and £120,000.

The Chancellor said little more about the transferable tax allowance, which from 2015/16 will allow couples (married and civil partners) to transfer a fixed £1,000 of allowance between each other, provided neither pays tax at more than basic rate tax. The Institute for Fiscal Studies estimates that fewer than one in three will gain from the proposal, with a maximum tax saving of £200 a year.

Capital gains tax

The annual exempt amount will rise to £11,000 for 2014/15, as previously announced. From 6 April 2014, only the final 18 months of ownership will be ignored for capital gains tax purposes when calculating any tax due on the sale of a private residence. This could affect you if you have a second home or you are a buy-to-let investor, as it reduces the scope for tax planning compared with the current 36 months period.

Individual Savings Accounts (ISAs)

The ISA investment limit will rise by £360 to £11,880 for 2014/15, with the cash limit increasing to £5,940. Whilst the Chancellor made no comment in his speech on earlier consultation to allow Child Trust Funds (CTF) to be merged with Junior ISAs (JISAs), over the Christmas period he announced that from April 2015 it will be possible to transfer CTFs to JISAs.

National Insurance Contributions (NICs)

If you reach state pension age before the start of the new single-tier state pension on 6 April 2016, you will be able to top up your state Additional Pension entitlement by making a new type of NIC, Class 3A. We are waiting for further details, but at first sight Class 3A will be of most interest to non-taxpaying pensioners.

Inheritance tax

Some technical changes to the administration of trusts were announced, but the change that was most widely feared – restricting the advantages of multiple trust structures – was put out for further consultation. The results of this are now expected to take effect from April 2015.

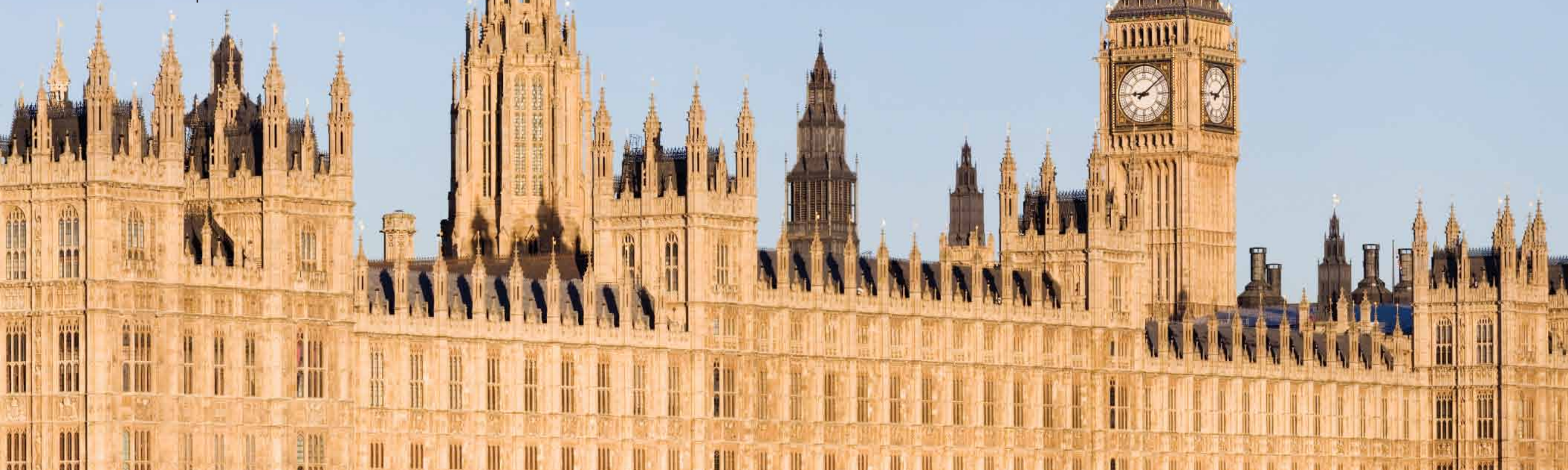
State Pension Age (SPA)

The SPA is currently due to reach 67 by April 2026, but "age 68 could come forward to the mid-2030s, and … increase further to 69 by the late 2040s." At that rate an SPA of 70 could arrive by the early 2050s, bad news for anyone aged 20 or less.

Anti-avoidance

The Chancellor announced no less than thirteen anti-avoidance measures as part of the government's ongoing crackdown.

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The FCA does not regulate inheritance tax and trust planning.



Take action on year end planning

The tax year 2013/14 ends on Saturday 5 April. So don't leave taking tax saving action until the last minute.

Individual Savings Accounts (ISAs)

The 2013/14 ISA allowance is £11,520, of which you can invest up to half – £5,760 – in a cash ISA. You can invest in a wide range of mainstream investments such as OEICs, investment trusts, quoted UK equities and bonds. ISA holdings are generally not exempt from inheritance tax (IHT). Recently, however, the rules changed and investors are now allowed to hold AIM shares in ISAs, some of which can qualify for 100% IHT relief. AIM shares are mostly high risk investments.

Children under 18 can have up to £3,720 invested in a Junior ISA (or a Child Trust Fund if they already have one), which offers the same freedom from income tax and capital gains tax as a full ISA.

Capital gains tax

Everyone, including minors, can realise tax-free capital gains of up to £10,900 this tax year as their annual exempt amount. Married couples and civil partners can benefit from two of them totalling £21,800.

Inheritance tax (IHT)

There are several types of gift that you can make each year without having to wait seven years before they become exempt from IHT. The most useful exemption is regular gifts from income that do not reduce your standard of living. But it is important to organise and document these carefully, so ask us for help.

Income tax

There are several income thresholds above which your tax rate can rise steeply. Some of these are very obvious, like the 45% tax rate on taxable income above £150,000. Others are less visible, like the 60% effective tax rate on the band of income between £100,000

> Investing in your pension is still one of the most powerful tax planning strategies available

and £118,880 where the tax man gradually takes away your personal allowance. Another arises on income between £50,000 and £60,000 where your child benefit can be gradually taxed away. We can advise on various ways to reduce the impact of these high marginal tax rates.

Pensions

The government is aiming to reduce the cost to the Treasury of the very valuable pension tax reliefs. So the annual limit on tax-efficient contributions will be reduced from £50,000 to £40,000 for the next tax year. And the total amount that can be held tax-efficiently in a pension will also be cut from £1.5 million to £1.25 million.

Fortunately you can reduce the impact of these changes, but you need to get help as soon as possible. You should decide how much to contribute for the current tax year and whether you need to make a special election to protect your effective maximum benefits if they could be affected by the new lower lifetime allowance of £1.25 million. The options can be complicated and it is essential to take competent professional pensions advice well before 5 April as a matter of urgency.

Investing in your pension is still one of the most powerful tax planning strategies available. There are restrictions on your ability to access the funds until you are 55 and the rules can be complicated, but the tax reliefs are really valuable, especially if you pay tax at 40% or more. Pension funds are broadly free of UK tax on their capital gains and investment income. Then when you draw the benefits, up to a quarter of the fund can be taken free of tax and the remaining pension fund will be taxed as income as and when it is paid out.

The value of tax reliefs to you depends on your individual circumstances. Tax laws can change. The financial conduct authority does not regulate inheritance tax and trust planning.

The changing challenges for retirement

The first ever "comprehensive review of the UK's retirement needs" is how the Association of British Insurers (ABI) – the trade body for the UK insurance industry – has described its new initiative. The outcomes of the review seem likely to affect anyone who is currently building up funds for their retirement.

Pension investors in their twenties will need to look ahead for up to half a century before they retire and the pensions industry will have to design retirement plans that adapt to the new environment. The review will take a long hard look at people's financial needs in retirement, analysing how well the current state pension and retirement income products cater for retirement needs, and what changes are needed to ensure people have adequate pensions. Whatever comes out of the review is likely to affect both the accumulation – savings – stage before retirement and the decumulation phase after retirement, when you gradually run down your pension fund as you convert it from capital into income.

The ABI's aim is to publish the findings and a range of ideas that should stimulate further debate later in 2014 on how the UK pays for life after work. Some key areas have already been identified.

> "Nearly 11 million people are aged over 65, and this figure is expected to rise to over 16 million in the next 20 years."

Rising life expectancy

People are living much longer than they used to. Nearly 11 million people are aged over 65, and this figure is expected to rise to over 16 million in the next 20 years. The chances are that your retirement fund will need to provide you with an income for much longer than your parents or grandparents required. So your pension fund will have to be significantly larger to provide you with the same income that they would have received. Alternatively you might well have to work for longer than previous generations would have done.

Increased pressure on the healthcare system

A very high proportion of National Health Service (NHS) expenditure is focused on the elderly. The ABI review recognises that with more people living a lot longer, the pressure on the NHS is likely to intensify. When planning how much income you will need in retirement, you should consider the very real advantages and the potential costs of having access to private heath provision. Will your retirement income be enough to cover the costs of private medical insurance?

Securing an adequate income in retirement

Saving for retirement in tough economic conditions is really difficult when there are other key imperatives like rising housing and education costs. A recent study from the Institute for Fiscal Studies shows those born in the 1960s and 1970s have so far not saved enough to be better off than their parents in retirement. The ABI review identifies that people will need to save more and save longer. What is more, they will have to achieve this in a tax system that seems likely to become less generous towards higher rate taxpayers.

Another challenge is the current prevailing environment of low interest rates, which depress returns from annuities as well the incomes of retired people generally.

Long term care

The early years of retirement are typically those when people are at their most active. Travel, holidays, hobbies and pastimes as well as providing help to grandchildren make these the most expensive years for many retired people. The later less active years may require less income, except for the one in six of the over 85 years who the ABI estimates will need long term care.

Pension planning and design will need to reflect these changing needs in retirement. Please get in touch to discuss your retirement planning.

Automatic enrolment rolls on

The government's efforts to extend private pension provision are heading towards smaller employers.

At the end of last year the Department for Work and Pensions (DWP) announced that more than two million people had started saving into a workplace pension plan as a result of automatic enrolment. Over 3,500 employers are now involved, but to date the focus has been mainly on larger employers.

From April 2014 auto-enrolment will begin to apply to employers with between 50 and 249 workers. A little over a year later the process will be gradually rolled out to employers with fewer than 50 workers.

If your business is one of the many employers as yet unaffected by auto enrolment, do not assume that you can leave matters until the last moment – if you know when that is.

The director in charge of auto-enrolment at The Pensions Regulator offered some wise words of advice as the two million figure was revealed by the DWP: "If they have not done it already, I would hope the first thing every employer does when they get back to work after the Christmas break is to check their staging date and prepare for automatic enrolment. The clock is ticking and if employers don't plan ahead they could face unnecessary challenges and costs in the new year….It's really important to arrange your pension provision in plenty of time. We urge employers to have an agreement with a provider in place six months before staging."

Larger employers have been able to handle auto-enrolment with relative ease because many have internal resources – HR departments – to deal with such issues. Smaller employers without that back-up may struggle, particularly as there will be many reaching their deadline at the same time.

Changes are still being made to the auto-enrolment rules, partly in response to the lessons learned so far. These include extending the auto-enrolment 'joining window' from one month to six weeks and new alternative definitions of 'pay reference periods'. If neither of those phrases means anything to you, then it is probably time you started talking to us about planning for auto enrolment in your business.

Commercial property looks up

The residential property market is not the only property market showing signs of a revival.

The latest figures from Nationwide show UK house prices rising by 6.5% in the year to November. While this rise has grabbed the headlines, there is another UK property market that has come back to life – the commercial property market.

As in the residential sector, the London commercial property market has been leading the rest of the UK. However, according to the property performance experts at Investment Property Databank (IPD), regional markets "are now seeing growing property values".

Commercial property values rose for seven consecutive months to November 2013, although the cumulative increase was a modest 2.9%. Rents are now increasing as well for office and industrial property, but the retail sector is still under a cloud. Most importantly, rental yields remain attractive.

Investor interest in UK commercial property has increased, with the Investment Management Association reporting that in October 2013 property was the third best-selling sector.

The value of your investment and the income from it can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.

The interest rates vs. yields game

In the week before Christmas, two events occurred on the same day that hinted at the possibility of an end to near-zero short-term interest rates.

The US central bank, the Federal Reserve, announced that it would begin to wind down or 'taper' its long-running programme of quantitative easing (QE), potentially bringing it to a close by the year end. QE had been providing a stimulus worth $85bn a month to the US economy through the buying up of government and mortgage backed bonds.

The UK's Office for National Statistics revealed that the unemployment rate had fallen to 7.4%, an unexpectedly sharp drop of 0.2%. This left the UK's central bank, the Bank of England, in an awkward position. It was only four months earlier that it had given 'forward guidance' that it would not consider any interest rate changes until unemployment fell to 7.0%. Back in the summer, the Bank thought the 7% figure would not be reached until mid-2016. Such pessimism now looks unrealistic.

The Federal Reserve has kept short-term interest rates at virtually zero since December 2008, while the Bank of England base rate has been held 0.5% since March 2009. Despite the moves mentioned above, both central banks seem intent on keeping rates low for as long as possible. Their common concern is that the mere prospect of future rate rises could weaken the economic recovery now taking hold on both sides of the Atlantic.

This is bad news if you hold money on deposit with banks and/or building societies. The interest that you can currently earn on instant access accounts does not keep pace with inflation, even if you are a non-taxpayer. You can earn a little more if you are prepared to lock your money up for several years, but you will still struggle to beat inflation, particularly once tax is taken into account.

Finding income opportunities

If you are prepared to forgo the capital security offered by deposits, there are plenty of income opportunities available. While short-term rates have been anchored at close to zero, the income yields from gilts (UK government bonds) and other longer term fixed interest securities have been rising. For example, by mid-December 2013 ten-year gilts were yielding about 1% more than a year earlier.

Investment in fixed interest funds via ISAs can be a tax-efficient way of boosting your income. All of the interest is free of UK tax and yields of 4% and more are readily available. But remember, the general rule is that the higher the yield, the higher the investment risk.

Many share-based funds also continue to offer attractive dividend yields, despite the solid performance of world stock markets during 2013. In the UK, in mid-December 2013 the average dividend yield on shares was about 3.4%, a figure that takes account of basic rate tax liability. However, you do not have to confine yourself to these shores as there are a growing number of equity income funds focusing on overseas companies from the Far East to the US.

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The value of your investment and the income from it can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.

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