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The \$4.2 Billion Chinese Takeaway

November saw China's A-share stock market opened up to foreign investors through the Shanghai-Hong Kong Connect Initiative. The pilot scheme will give international investors access to around 850 equity lines on the two linked exchanges, which hitherto had been the preserve of a handful of select institutional investors.

It's not just overseas investors getting in on the act. The initiative also clears the way for mainland residents in China to trade shares in Hong Kong for the first time. Proponents of the scheme envisage it will help to drive liquidity flows in and out of mainland China, while opening up a \$4.2 trillion capital pool to the outside world.

Premier Li Keqiang believes the move will strengthen the two cities' status as global financial centres, and it also sends a clear message that China is opening up to inward direct investment. Though the Shanghai-Hong Kong tie-up may eventually become to be seen as a definitive step towards the liberalisation of China's financial markets, for now foreign investors will be allowed to trade a small proportion (a daily \$2.1 billion limit) of the Shanghai market capitalisation. City institutions have been expanding Asian teams in anticipation of the initiative, which probably indicates that 'managed money' believes the trading restriction in place will be relaxed or rescinded.

The good news is that China's Ministry of Finance have also recently stated that international investors will be exempt from CGT. I believe that China will continue to be a good place to allocate investment capital over the coming decade despite the inevitable bouts of market volatility that will prevail periodically. There are excellent closed end and open-ended funds in this space, so please contact us for further information.



China's A-share market opens up to foreign investors

We hope you enjoy the articles in this newsletter and we wish you and your families a very happy and relaxed festive season.

Rob Sandwith | Chief Executive

Auto-enrolment: employers need to be prepared

It is over two years since larger businesses and other organisations first started to bring their employees into pensions schemes under the new automatic enrolment rules that are due to apply to all employers.

Things have gone very well according to The Pensions Regulator (TPR), but there are warnings that many smaller employers are still unprepared to meet their legal duties.

Under the automatic enrolment rules, all employers will have to enrol their employees into qualifying pension schemes. Employees can opt out if they wish, but it is a criminal offence to induce them to do so.

A good start

The first two years of automatic enrolment have been hailed as a great success. Four and a half million people have been automatically enrolled, which is around half the expected final total. TPR has flexed its muscles with 23 formal actions against employers by the end of June 2014, but no fines yet. All of this is much more positive than many feared.

The National Employment Savings Trust (NEST), which the Government set up to ensure that no employer is unable to find a pension provider, enrolled its millionth member in April 2014. Like other similar schemes, it continues to grow rapidly. NEST recently revealed that around one in ten employees is choosing to opt out. Some pension providers and payroll systems have experienced teething problems, but generally administration appears to be running smoothly.

An uncertain future

To guard against complacency, TPR marked the anniversary by issuing a strong warning to smaller employers: "the numbers of times we will need to use our compliance powers will rise." There are two main reasons for this warning:

- The vast majority of employers still have to reach their 'staging dates', and the number who have to implement automatic enrolment each month has been described as a tsunami, with peaks and troughs but with each wave much bigger than the last. The first wave saw around 12,000 employers a month due to stage in both May and July 2014. There is now a pause before numbers start to build up again in late 2015, becoming a flood in the second half of 2016, with around 35,000 employers each month, and peaking at 70,000 a month in the summer of 2017. The massively higher numbers mean that, inevitably, there will be less individual support for employers than has been the case up to now.
- Most large employers already had some pension provision which could be adapted to meet the new requirements, but that is not generally true of small companies. A recent TPR survey found that 20% of small employers (under 50 staff)

and almost half of micro employers (under 10 staff) do not even know when their staging dates are.

Act now

The automatic enrolment requirements are complex for employers, and TPR found that 89% of smaller and medium-sized employers and 64% of micro-employers plan to consult an external adviser. That will greatly assist the process of understanding the requirements, dividing staff into different groups as the legislation requires, choosing an appropriate pension scheme, enrolling staff and communicating with them.

TPR recommends starting planning 12 months before your staging date, at which point it will write to you, but there will be benefits in getting ahead of the game and avoiding the last-minute rush. As TPR said, "Act now, be prepared or risk a financial penalty."

If you need help in planning for and implementing automatic enrolment, please get in touch to discuss what you have to do.

Auto-enrolment is regulated by the Pensions Regulator.



Making the most of your investments



Interest rates are unlikely to increase in the near future, according to the chief economist at the Bank of England. His view does not come as good news for people who depend on bank and building society deposit accounts to generate much of their income. But other options are available.

Peer-to-peer lending

Peer-to-peer (P2P) lending has grown in popularity because you can receive higher rates of interest than may be available from a traditional deposit account. Essentially, instead of lending to your bank, which then lends to its customers, you lend direct to many different customers via one of the specialist P2P websites.

As no bank is involved, your loans do not benefit from the £85,000 government protection that most other deposits enjoy. It is riskier than placing money in a bank and it is generally harder to get your money back early if you need it.

Dividend income

Many investors have been attracted to share-based investments because of the higher income yields they can provide. Currently the dividend yield on the top 100 listed UK companies (the FTSE100) is more than double the more competitive savings rate for deposits. Obviously this could change.

The most popular approach is to invest in funds that specifically aim to generate income from dividends. But they are not at all the same as deposits and you should not judge an investment just by the income you receive from it. In the long term, UK equity-based funds have generally paid out a growing income and their capital value has also risen, but this is not guaranteed.

Fixed interest investments

Bonds or fixed interest investments are another type of fund that you may well be considering if you are seeking income. Like deposit accounts they pay interest, but your capital is at risk, although they are normally less volatile than equity-based investments. Bond funds have generally performed well over the last 20 years or so as interest rates have sunk lower and lower. But if interest rates start to rise again at some point, they may well lose value.



“ Interest rates are unlikely to increase in the near future, according to the chief economist at the Bank of England. ”

ISAs

One of the problems with investment income is that it is subject to income tax. ISAs are outstanding vehicles for producing tax-free income – using bonds or equities or both. They are particularly worthwhile for higher rate taxpayers, people who expect to pay capital gains tax (CGT), and basic rate taxpayers who invest in bonds or cash.

Capital gains

Another approach to topping up your income is to invest for growth, at least to some extent, and to encash capital gains on a regular basis. The amount of capital gains you can realise tax-free after taking into account any realised losses is £11,000 in the current tax year.

Life assurance bonds

The special tax treatment of life assurance bonds can be valuable to investors who already make full use of their CGT exempt amount. Five per cent of the original investment in such a bond can be taken as 'income' each year, with the tax normally deferred until the life assurance bond is surrendered. With careful planning, it may be possible to arrange for the year of encashment to be a low tax year, meaning higher or additional rate tax may not have to be paid on this 'income'.

Past performance is not a reliable indicator of future performance. 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.

The Financial Conduct Authority does not regulate cash ISAs.

31 January deadline for self-assessment

One of the most important dates in the tax year for individuals who submit a self-assessment form, 31 January, will soon be here again. It's generally the latest date by which you should have filed a tax return for the previous year without incurring a penalty. So for 31 January 2015, the tax return should refer to the tax year 2013/14 that ended on 5 April 2014.

The balancing payment for 2013/14 will also be due. This is the tax and class 4 NIC payable for 2013/14 less any payments on account that you may have made. The balancing payment includes any capital gains tax and student loan repayments due for the year. What's more, the first payment on account for 2014/15 will be due as well – normally estimated as 50% of the tax and class 4 NIC payable for 2013/14.

The many guises of investment risks

Most people are aware that potentially higher gains go hand in hand with potentially higher risk. However, there are many different types of risk and here we examine some of the main types of risk that are most likely to affect your investments.

Inflation risk

The buying power of your capital will decrease over time as inflation erodes its value. The Bank of England target for UK inflation is 2% a year, with the actual rate of price increases sometimes more and occasionally less. An annual income of £1,000 after 10 years of inflation at 2% will be worth about £820; after 20 years, it will be worth just £673.

Just to keep pace with inflation, an income of £10,000 a year in 2014 would have to be worth at least £13,797 by now. Ideally, you should aim for your investments to keep their real value; so they need to grow at least 2% a year after tax and costs just to stand still. A key aim of much investment planning is to protect portfolios against the effects of inflation.

Risk to capital

Some investments like equities, property and, to some extent, bonds provide the opportunity for growth in their value, but also the risk that they may fall in value. The fall may be temporary, and may be followed by a resurgence after days, months or sometimes even years. But sometimes a loss can be permanent. One of the key reasons for diversification, placing your investment eggs in more than one basket, is to reduce these risks.

Income risk

Your income may be of more immediate relevance to your financial wellbeing than the capital value of your portfolio. If you rent a

flat to a tenant, you may be less concerned about fluctuations to the value of the property than the regularity and security of the rental payments. It is much the same with equity and property-based-funds. The dividends from these investments may be more important than their capital value for many investors.

Shortfall risk

Sometimes investors find that their pensions or other investments do not meet their expectations. This is called shortfall risk. A shortfall could arise for several reasons. The investor might have unrealistic expectations of how their investments will perform; annual investment returns of 10% may occur, but it is not sensible to bank on them year after year. The investor may be starting with too small a sum or simply saving too little.

A common cause of shortfall risk is investing in assets that stand virtually no chance of delivering high enough returns. Pension investing over a period of several decades should generally be based on equities, with some exposure to property and bonds. Prolonged investing in cash is not likely to produce satisfactory long-term returns.

We are happy to help you decide how much risk you are prepared and able to take and what you want to avoid. All investments involve some kind of risk, although that might not seem to be the case in retrospect.

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Lasting Powers of Attorney

Any of us could have an accident, an age-related illness or a mental or physical condition at any point in our lives. They can strike anyone at any time, and often without warning, resulting in the person affected losing the ability to manage their own affairs.

Making a Lasting Power of Attorney (LPA) while you are still fit and healthy can ease the burden on your family – and you – by giving them the authority to act on your behalf if you were to find yourself mentally or physically incapacitated.

There are two types of LPA: a property and financial affairs LPA which allows someone else to make decisions about money matters, such as paying bills and running bank accounts; and a health and welfare LPA which nominates someone to make decisions about your healthcare, living arrangements and also expresses your wishes about life-sustaining treatment.

The key difference between the two is that a property and financial affairs LPA can be used while the donor still has capacity, should they wish this to be the case, whereas the Health and Welfare LPA can only be used once the donor has lost capacity.

A costly alternative

If you do not have an LPA in place and later become mentally incapacitated, someone will have to make an application to the Court of Protection to become your Deputy before they

can access and take control of your finances. Making such an application to the Court is far more complicated, costly and stressful than setting up an LPA. What is more, the Court will impose various ongoing costs and duties imposed on the Deputy after granting the Deputyship Order.

It may be necessary to pay an annual supervision fee to the Court of Protection. The Deputy may have to take out a security bond to cover their actions as a Deputy, and every year they have to provide a Deputyship Report to the Court.

By making an LPA now you will avoid these complications in the future if the worst should happen, and it will give you and your family the peace of mind of knowing that you have done all you can to ease the burden on others. You can then get on with your life with the hope that your attorney will never have to use it. We are here to advise you.

The Financial Conduct Authority does not regulate will writing or LPAs. The value of your investment can go down as well as up and you may not get back the full amount you invested.



Making the most of your ISA

Cash is still by far the most popular type of ISA investment, according to HMRC statistics. But it may not be the best use of this precious tax-free facility for many people.

An ISA really comes into its own after an investor has built up plenty of accumulated income and gains. Cash is not usually a very attractive long-term investment, especially at present with the currently prevailing low interest rates.

However, if you cannot afford to invest for the long term, an ISA

can make sense as a home for short-term cash reserves, because it is simple and saves a small amount of tax on the interest.

But if you are saving for the longer term – say for at least five years – then consider looking for a longer term investment, where the tax freedom of the ISA will have a chance to build up some real value. Of course, this will mean investing in assets like property or share-based funds that can fluctuate in value.

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Pension estate planning gets a boost

More generous tax treatment of death benefits that has been recently announced has increased the attractiveness of pensions in estate planning.

George Osborne is developing a habit of pulling pensions rabbits out of his hat. In the 2014 Budget he proposed astonishing new flexibilities for pension plans at retirement. Then at his party conference he announced surprising plans to eliminate taxes on many inherited pension funds. This has made pension savings even more valuable for estate planning and inheritance tax planning.

Death before age 75 Currently, when a pension scheme member dies before age 75 and the remaining fund is paid as a lump sum, there is generally no tax due if you have not started drawing on the pension. To achieve this, the scheme administrator must select the beneficiaries or the money must be placed in a trust established for the purpose. There is generally a 55% charge if the member has received the tax-free lump sum and the pension is in income drawdown. Alternatively, a pension income may be provided for a dependant, taxable at their marginal rate.

From 6 April 2015 the Government plans to remove all tax on death before age 75 if the scheme pays the death benefit to someone nominated by the member. This applies to both lump sums and withdrawals from income drawdown. However, if the payments come from an annuity

they will be taxable as the recipient's income.

The new rules apply to pension scheme members who die before 6 April 2015, as long as no payment is made before that date.

Death after age 75 Currently, on death after age 75 lump sums paid from pre-retirement pension or income drawdown are taxed at 55%. From 6 April 2015 that will reduce to 45%, and it may change to the recipient's marginal rate a year later. Income payments will be at the recipient's marginal rate, as they are at present.

Action required The new rules will increase your control over your pension fund if you die, and they may therefore affect how you fund your income in early retirement. You must also tell your pension scheme who you nominate to inherit your pension fund. We can advise you, taking into account further clarifications as they emerge.

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

Upfront payment of tax

This year's Finance Act gave HM Revenue & Customs (HMRC) the power to require an upfront, or accelerated, payment of tax where a taxpayer has made use of a tax avoidance scheme which is under dispute with HMRC. A list of nearly 1,200 affected schemes has already been published, and HMRC started issuing accelerated payment notices in August. Payment is required within 90 days, and late payment will initially attract a 5% penalty. The notices cannot be appealed. The substantial tax payments now faced by those already notified should act as stark warning that aggressive tax avoidance can end up being costly.

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