Essential FINANCE

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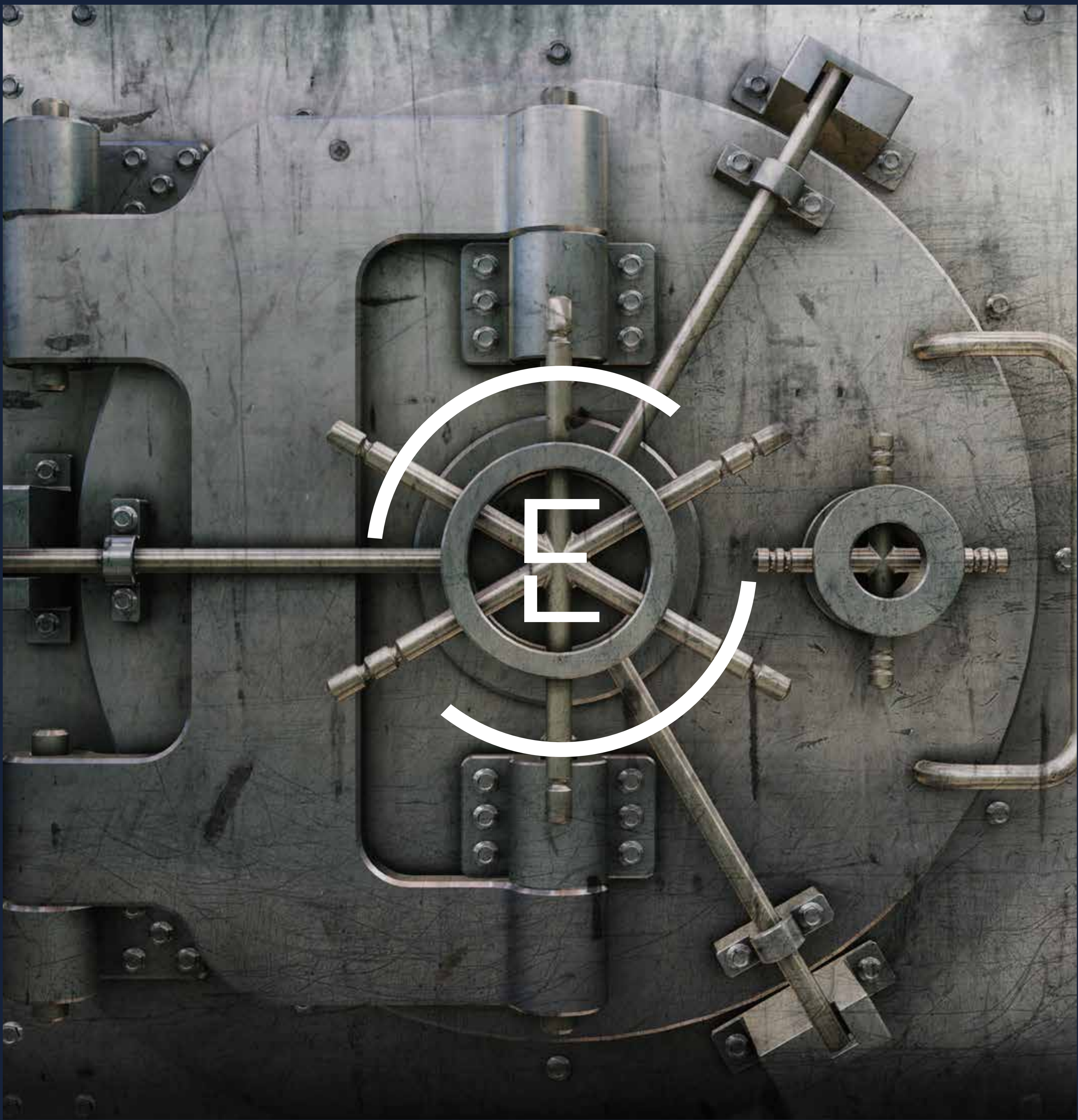
EASTWOOD FINANCIAL SERVICES LTD



DIVERSIFYING YOUR INVESTMENTS
Spreading risk with a range of assets.

THE LONG GAME
The ever increasing state pension age.

INHERITANCE TAX
Will the new nil rate band make a difference to you?

Contents

Welcome to the new Eastwood Financial Services magazine.

In this first edition we'll look to cover key topics relevant in the world of finance and life planning.

We understand that financial matters for both private and business clients can seem a complex and daunting task, and as trusted advisers for over 25 years, it's our responsibility to help our clients understand what is available and how it can be applied to suit their individual life situation.

As a long standing business we are conscious that time moves on and couldn't ignore the fact that our current look had become outdated and perhaps didn't represent all we had to offer today.

So we've been working behind the scenes to give our business a rebrand! To achieve this, we invested in some advice of our own, from a local business of branding experts. After all, no matter how proficient we are in our field, there are just some things that need an expert eye.

On behalf of the whole team at Eastwood Financial Services we hope you enjoy our new look and content, tailored to you, our valued clients. I'd love to hear your feedback and if there is anything in this issue that piques your interest, please don't hesitate to get in touch with us.

Karen

Karen Wynard
Managing Director

Focussing on your future

Several important changes to tax and benefits were introduced at the beginning of 2017. It makes sense to review your financial planning regularly to make sure it's still fully effective. After all, last year's sensible strategy could be this year's tax trap.

DISCIPLINED PLANNING

It's a good idea to check your investment portfolio at pre-determined intervals. This is preferable to looking at it almost daily when markets are soaring or falling through the floor, as those are just the times when your emotions can override your good intentions to be a long term investor.

You will get more out of these reviews if you make a short list of what you want to discuss, to supplement our agenda. You can start with basic things like checking your use of the current ISA allowance. This tax year there have been two important developments to ISAs: first and most important, there has been a big increase in the annual amount you can invest in ISAs, now £20,000 – up from £15,240.

EFFICIENT SAVING

The other big change is the introduction of the new Lifetime ISA or LISA (see Budget tax changes – set for a comeback? pg6). You can start with one if you are between the ages of 18 and 40 and you can either use it for buying a first home worth up to £450,000 or leave it to be drawn till you are 60. The good news is that the contribution (up to £4,000 each tax year) qualifies for the equivalent of basic rate tax relief.

Reviews can prompt you to consider some of those things that sometimes get left undone – such as your will, which might still need to be arranged or updated. Or perhaps there is a lasting power of attorney that has not been progressed or a life assurance policy that should be placed under trust. Life has a habit of springing unpleasant surprises on us when least expected.

The Financial Conduct Authority does not regulate tax advice. The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate will writing and some forms of estate planning.

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Our years of experience mean we are well-placed to find the right protection for clients, however complex their requirements. We work hard to build trusted relationships and only work with insurers who deliver an exceptional claims service.

WAYNE JOHNSON
DIRECTOR

All the fine things...

When it comes to the finer things in life, you want to make sure that your personal effects are adequately protected.

Sourcing the appropriate insurance for your prized possessions can be a worrying prospect. With such a wide range of options available it is important to make a well informed decision.

We're delighted to introduce Eastwood Private Clients, a specialist division of our sister company Eastwood and Partners who work with a panel of hand picked specialist insurers to provide bespoke buildings and contents cover for high net worth individuals in the UK and overseas.

Specialist account handlers are with you every step of the way providing a personal and discreet service, from the initial meeting, through to making a claim.

The portfolio includes:

HOUSEHOLD

From mansions, stately homes and converted chapels to properties with underground shooting galleries and discos, Eastwood Private Clients offers a bespoke service for household cover which usually begins with a home visit.

COLLECTIONS

Including works of art, jewellery, antiques, wines or designer bags.

The experience and passion of Eastwood Private Clients means that they are ideally placed to source the best bespoke cover for your most valued possessions.

BLOODSTOCK

Many clients of Eastwood Private Clients own or part-own racehorses therefore the team has an excellent understanding of the industry and the sport to provide specialist advice and cover.

YACHTS

From small pleasure boats to super yachts, Eastwood Private Clients will find the right cover at the right premium. The team understands that having this protection in place is crucial to your enjoyment on the water.

MOTOR INSURANCE

Eastwood Private Clients understands that insuring numerous cars can be time-consuming and complex therefore obtaining insurance for a fleet of vehicles under one policy can make life much easier to manage.

Classic cars need to be properly protected should the worst happen. The panel of hand picked insurers have been chosen for their specialist knowledge in providing cover for all types of prestige, performance and high-value vehicles.

If you are looking for a highly personalised and specialist service for your prized possessions, contact Eastwood Private Clients on 01484 820022.

Eastwood Private Clients Ltd is an appointed representative of Eastwood & Partners Ltd which is authorised and regulated by the Financial Conduct Authority.

Diversifying your investments

“The only indisputable truth that the past teaches us is that the future will always surprise us – always!”

This quotation is from what the highly successful investment guru Warren Buffet has described as “by far the best book on investing ever written”. The author was a university lecturer called Benjamin Graham – someone who Buffet acknowledges was one of his early mentors.

We have seen how unexpected events can impact on investment markets – with Brexit, Donald Trump’s election to the US Presidency, the run up to the French Presidential polls and Theresa May calling a surprise UK general election.

With the lesson of uncertainty in mind, how can we arrange our investments to cope with future uncertainty? Another very successful investor, Sir John Templeton, who was “arguably the greatest global stock picker of the century,” according to Money Magazine, said that “to avoid having all your eggs in the wrong basket at the wrong time, every investor should diversify”.

WHAT IS DIVERSIFICATION?

The aim of diversification is to create a set of investments – a portfolio – that includes a range of types of assets that will behave in different ways whenever events occur.

So as an extreme example, if you were to invest all your money in the shares of a single company, the risk would be very high. You would do really well if it prospered, and really badly if it encountered difficulties. But by investing in several different companies – preferably in different industries and economies – you would reduce the risk. When some shares might disappoint, others could be doing well and the risk would be much lower.

Of course, in worldwide booms and recessions almost all companies in all markets will move together – at least to some extent. In the 2008/09 crash, most markets turned sharply downwards, while in the subsequent years, there has been a general if sometimes uneven recovery.

A sound strategy, therefore, is to diversify into a range of other assets as well as shares, in particular bonds and cash. Bonds are fixed interest investments like gilts (loans to the UK government) and corporate bonds (loans to companies). These types of assets are less volatile than shares: they lose less value than shares when times are tough and may even grow at such moments. But the scope for growth from bonds and cash is normally rather less than from shares – although this is by no means always the case.

RISK VS REWARD

The more you are prepared to take on risk, the more you should expect to be rewarded for it - at least in the longer term - although this is not guaranteed. Likewise, where you are not likely to lose money, the returns are mostly relatively low. Cash, for example, is currently generating very low returns, especially after taking into account tax and inflation. And the position is much the same for short-dated bonds (i.e. where the capital is due to be redeemed in less than five years).

At the core of your portfolio is likely to be equity funds that hold shares in a range of different companies, as well as bond funds that hold government and corporate fixed interest investments. The mix will depend on your ability to cope financially – and also psychologically – with fluctuating markets. But there are other types of assets that can provide diversification. Property funds do not necessarily move in line with either shares or bonds. Nor generally do commodities and absolute return funds (where the managers aim to provide positive returns in all market conditions – at least in the medium term).

Working with you to decide the right mix of investments to meet your aims and approach to risk is at the centre of what we do.

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Budget tax changes: set for a comeback?

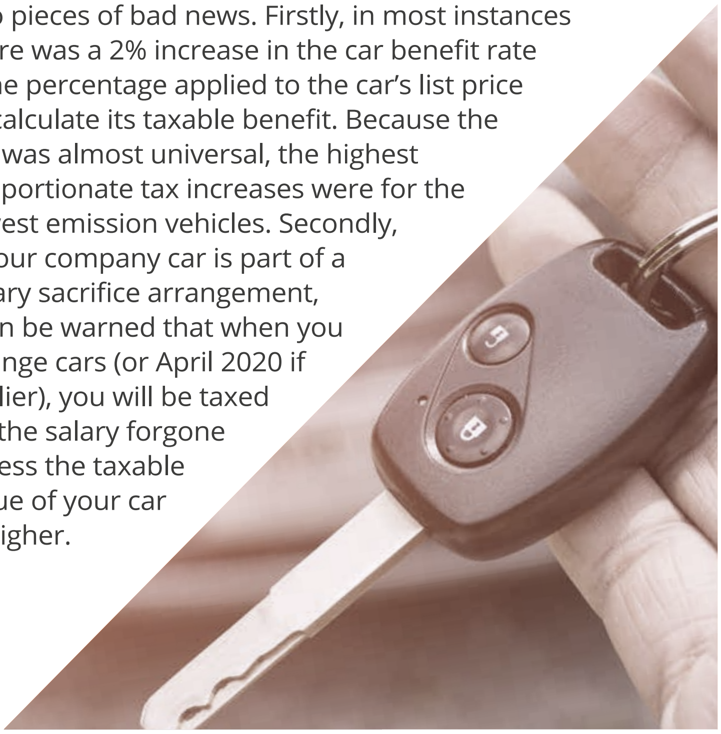
The Spring Budget contained a few surprises, but came before the big surprise – a snap election.

Mr Hammond's first and last March Budget was a relatively low-key affair. Once the general election was announced, its profile shrunk even lower, as most proposals were shelved.

In theory, from now on there will be Autumn Budgets each year, with the first of the new breed due later this year. However, despite the general election muddying the waters, there are still some measures to bear in mind.

Company cars: two turns of the screw

If you have a company car, the new tax year brought two pieces of bad news. Firstly, in most instances there was a 2% increase in the car benefit rate – the percentage applied to the car's list price to calculate its taxable benefit. Because the 2% was almost universal, the highest proportionate tax increases were for the lowest emission vehicles. Secondly, if your company car is part of a salary sacrifice arrangement, then be warned that when you change cars (or April 2020 if earlier), you will be taxed on the salary forgone unless the taxable value of your car is higher.



ANTHONY FLOWERS

A healthy financial future benefits from early planning. The earlier you begin, the better.

Early birds

As financial advisers we always advocate planning early for financial matters, in particular tax.

This is especially important during times of uncertainty. Planning early gives your adviser sufficient time to gather all the relevant information about your circumstances and how any upcoming economic or political changes might affect you. It also offers the luxury to play out different scenarios to understand your aspirations and carefully guide you towards them.

Dividend allowance

The £5,000 dividend allowance, introduced by George Osborne, was represented as a tax reduction for many people, but was aimed at raising extra tax. The tax rates on dividends above the allowance were increased to claw back revenue from small business owners, who sidestep national insurance contributions (NICs) by operating through companies.

In March Mr Hammond said that the dividend allowance would be cut to £2,000 from 2018/19. This would have been the biggest Budget tax raising measure, but in the frenetic end of parliament period the necessary legislation was dropped. The Chancellor had also looked for more money from sole traders and partnerships by proposing to raise class 4 NICs by 1% in 2018/19 and again in 2019/20.

However, backbench opposition to this measure meant it was withdrawn even before reaching the Finance Bill. Given the underlying aim to make the tax and NIC system more consistent, this is very unlikely to be the end of that story.

The dividend allowance cut, which is expected to be reinstated, was aimed at shareholder directors but it has wider ramifications. Far more ordinary investors would find themselves paying tax on their dividends with the allowance at only £2,000. For example, at current average UK FTSE 100 stock market dividend yields, about £57,500 of shares will produce £2,000 of dividends.

If you had thought stocks and shares ISAs were becoming a waste of time, the potentially lowered dividend allowance (and new £20,000 ISA contribution limit) should prompt a re-think.

Higher rate income tax threshold

Mr Hammond confirmed the goal of a £50,000 higher rate income tax threshold by 2020/21, but gave no indication of how this will be reached. He left untouched last year's legislation raising the threshold for 2017/18 to £45,000 (other than for certain income in Scotland). The benefit of this £2,000 increase may not be as significant as it first appears, as the upper limit for class 1 employee and class 4 NICs has also risen by £2,000. So a saving of £400 in tax could be offset by a near £200 NICs increase.

As with the likely dividend allowance change, the higher rate threshold is a reason to revisit the opportunities presented by independent taxation if you are married or in a civil partnership. At present a couple can – in theory, at least – enjoy a £45,000 annual income with no tax liability if they have the right type of income in the right hands.

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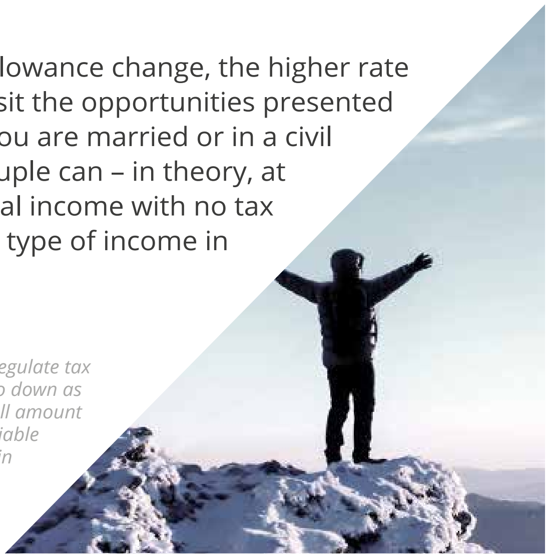

Think before phasing retirement

If you are planning to retire gradually, the Chancellor is making things more difficult.

"Simplification" was once a word applied to the reform of pensions taxation. These days, with a nod to the past, pension experts talk about "complification" instead. What started out as relatively straightforward in 2006 has become fiendishly complex as successive Chancellors have attempted to reduce the expense of pension tax reliefs. For 2015/16 their cost was estimated at £38,200 million – a tempting target for the Treasury scissors.

Before the election put a stop to the legislation, the latest example of complification was to have been April's reduction in the money purchase annual allowance (MPAA) from £10,000 to £4,000. The cut was supposed to prevent tax relief on recycled pension savings.

In practice, you could be caught by an MPAA charge if you and/or your employer contribute to a pension while you are simultaneously drawing from a money purchase pension flexibly. Should that happen, the effect is that any tax relief on money purchase pension contributions above the MPAA is clawed back via your tax return. Unrelieved pension contributions do not normally make financial sense, so falling foul of the MPAA is best avoided. The £4,000 MPAA was meant to come into effect on 6 April 2017 and may still do so via new legislation.

ONGOING CONTRIBUTIONS

Paying into and simultaneously drawing from a pension most commonly happens if you are phasing your retirement, working part time and supplementing your reduced earnings with payments from your pension. Such a strategy can be a wise course to take as it avoids the retirement cliff edge and may have tax advantages. However, it might also be a necessity if pension provision is inadequate, or retirement from full time employment comes earlier than planned.

It is usually possible to avoid triggering the MPAA if pension benefits are structured properly. However, it is vital to take advice before drawing any benefits from any money purchase pension arrangement as once the MPAA is triggered, you are subject to it throughout life.

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The long game

The next increase in State Pension Age has edged nearer.

Do you know when you will start to receive your single-tier state pension? You can use the government website (**www.gov.uk/state-pension-age**) to tell you, but the answer may not be the correct one for much longer.

The Department for Work and Pensions (DWP) is due to announce shortly when the next increase in State Pension Age (to 68) will take place. Existing legislation, dating back to 2007, says that this will happen between 2044 and 2046, 18 years after the increase to age 67. However, a recently published report prepared by John Cridland for the DWP has recommended that the schedule should be brought forward by seven years to 2037-39. That would mean that if you are under 47, your State pension age will rise.

The DWP or, perhaps more accurately, the Treasury, is unlikely to contest such a money-proposal. Looking longer term, Mr Cridland suggested that further increases should not be more than one year every ten years, unless there were exceptional circumstances. That might mean anyone born after 1988 will face a State pension age of 70. Perhaps it is time to start reviewing the adequacy of your private pension provision...

Is that it?

In April, National Savings & Investments (NS&I) launched its new Investment Guaranteed Growth Bond, which was originally announced by the Chancellor in last year's Autumn Statement. The Bond has a three-year term and a (taxable) fixed interest rate of 2.2%. In the current low rate environment that counts as a market-leading rate, but the investment limit is just £3,000. Ironically, NS&I's launch date coincided with the Office for National Statistics publication day for the March inflation numbers. These showed the Consumer Prices Index running at 2.3% and the Retail Prices Index at 3.1%, both above the rate NS&I were offering...

ISA family grows again

6 April marked the launch of the Lifetime ISA, an important addition to the ISA family.

The latest innovation to the Individual Savings Accounts (ISA) is the Lifetime ISA, which inevitably has become known as the LISA. This new addition could be very attractive for certain investors.

ISAs used to come in two varieties: cash ISAs and stocks and shares ISAs. Now, depending on how you count, there are up to seven different types of ISA.

THE LISA FEATURES

The LISA is significantly different from her siblings. A quick look at her main features reveals:

- **You can only open a LISA if you are aged under 40 and at least 18.**
- **The maximum contribution is £4,000 a tax year, which counts towards your overall £20,000 ISA contribution limit.**
- **The government tops up any LISA contributions made before age 50 with a 25% bonus: if you contribute the maximum £4,000, you will gain a £1,000 top-up.**
- **As with all ISAs, any gains and income accumulate free of UK tax during the investment period.**
- **With very limited exceptions, any withdrawal you make from a LISA will be subject to a flat 25% penalty unless it is made:**

- once you have reached age 60; or

- to help finance a home valued at up to £450,000, at least 12 months after the LISA was opened.

Up until 5 April 2018, funds held in a Help to Buy ISA can be transferred to a LISA and gain the 25% bonus. However, any contributions to the Help to Buy ISA made after 5 April 2017 will count towards the LISA's contribution limit, and the overall ISA contribution limit.

The government left it late in the day to introduce the necessary LISA legislation, with the result that to date only a handful of LISAs have been launched. More are due to emerge in coming months – both cash and stocks and shares types.

MAKING THE RIGHT CHOICES

Whether a LISA is the right choice for you depends upon your personal circumstances. The 25% government bonus may look attractive, but a tax-relieved pension contribution will often be the better option if your focus is on retirement rather than your first home purchase. The LISA might not be the best choice if you forgo a pension alternative that includes employer contributions that you would lose.

While the LISA has grabbed headlines as the new kid on the block, the traditional ISA was also given a boost in April with a near one third increase in the contribution limit from £15,240 to £20,000. In practice, the increase is of little benefit for cash ISAs, which accounted for nearly three quarters of all ISA contributions in 2015/16. Ultra low interest rates – National Savings & Investments Direct ISA now pays only 0.75% for example – and the personal savings allowance have both reduced the cash ISA's appeal.

On the other hand, the likely reinstatement of the election-culled plan to cut the dividend allowance from 2018/19 increases the importance of the stocks and shares ISA: even if you are a basic rate taxpayer, you could be paying 7.5% tax on some of your dividend income from next April.

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A new relief for inheritance tax

The inheritance tax (IHT) residence nil rate band is now available, potentially cutting the IHT bill on your estate by £40,000. This new relief could be valuable for many families, especially as the general nil rate band (NRB) has been frozen until at least April 2021.

The residence nil rate band (RNRB) finally went live on 6 April 2017 and this is how it works:

- The RNRB only applies to gifts of residential property (that have at some point been the main residence of the deceased) made on death (not during lifetime) to your 'direct descendants'. This is defined as including your children or stepchildren as well as any adopted or foster children. The RNRB will not cut your estate's IHT bill if you do not have any surviving direct descendants or if you wish to leave your home to someone who does not fall into this category, e.g. nieces, nephews or siblings. In 2017/18, the RNRB is £100,000, meaning that when added to the NRB, the total excluded from IHT for a couple amounts to a maximum of £850,000 or £425,000 per spouse/ civil partner.
- The RNRB will increase by £25,000 in each of the next three tax years, so that it reaches £175,000 in 2020/21.
- Unlike the NRB, the RNRB is not universal. Instead, it is subject to a tapering reduction of £1 for each £2 by which your estate at death exceeds £2 million. Larger estates will therefore see no benefit.
- To ensure this allowance is not lost there are some highly complicated rules where someone has downsized their home or moved into residential care.

The RNRB will result in some IHT-saving for many estates, although predictions say it will not stop the growth in IHT revenues for the government in the next few years.

Example:
Mr A dies in 2021 when the full £175,000 RNRB is available. He leaves his children a house worth £300,000 and other assets worth £190,000. The £300,000 house is worth more than the £175,000 RNRB, so his estate qualifies for £175,000 RNRB plus NRB of £325,000 = £500,000. So the total estate is covered by the aggregate nil rate bands. Any excess would be taxed at 40%.

The arrival of the RNRB means that you should review your estate planning as soon as possible to see whether any changes are necessary. For example, you may need to revise your will.

Given the complexities of the RNRB, expert advice is essential if you are to maximise the potential IHT savings.

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NEWS

Reservoir (with) dogs

Team Eastwood Financial Services rose to the **'Round the Res' challenge'** competing in a 5k relay event around Scammonden Water. The picturesque spot made for a great day out, whilst fundraising for the very worthy Hollybank Trust; a great local charity focussing on enhancing quality of life at their school, residential homes and various adult daytime activity programmes.

We had two teams, a running team made up of Matthew Remmer, Stephen Gandy and Ian Devlin, along with a walking team formed of Tracey Kaye, Lesley Wall and Michelle Dutton.

All staff competing have done us proud and we'd like to congratulate Schofield Sweeney runners and Simpson Wood walkers, who came in first place respectively.

Well done to all involved!

Welcome aboard to our new staff

We'd like to welcome our new starters Kevin Kilbride, Diane Fosse, Sarah Iqbal and Matt Ford. Kevin joins us as our new Head of Compliance, Diane as Private Client Administrator, Sarah takes up a Paraplanner role and Matt is our new Trainee Administrator.

They are all fitting in with the team nicely and we're delighted to have them join us. Welcome aboard the good ship Eastwood Financial Services!