BIRCHWOOD INVESTMENT MANAGEMENT LTD

NEWSLETTER

January 2017

It's plain sailing...

Things to consider before the end of the Tax Year

With the Christmas festivities all but a distant memory it's the time of year where people are tidying their tax affairs before the end of January. In addition to this they should also be thinking about maximising the allowances that are available before the end of the tax year on 5th April. The start of the new tax year will bring in a raft of changes which will impact all taxpayers.

Income Tax

The tax-free personal allowance is going up to £11,500 from the 6th April 2017 and with the 20% basic rate tax level increasing to £33,500, it will mean that the new Higher Rate Threshold will increase to £45,000. We also had the introduction of a Personal Savings Allowance of £1,000 for basic rate taxpayers and £500 for higher rate taxpayers which will remain the same for 2017/2018. This allowance means that you can earn up to £1,000 or £500 respectively in savings income before it is subject to income tax.

Individual Savings Accounts (ISAs)

In addition to the Personal Savings Allowance you also have your annual ISA allowance which you may not have used so far this year. The current maximum you can invest is £15,240 for 2016/2017 which will increase to £20,000 in April for the tax year 2017/2018. Remember:

- Income and capital gains from ISAs are tax-free
- UK residents over 16 years of age can invest up to £15,240 in an ISA (stocks and shares ISAs available to over 18s)
- Parents can contribute up to £4,080 into a junior ISA fund for children under 18
- Help to buy ISA's – aimed at first time buyers

In the coming weeks, we at Birchwood will be considering some ISA investment ideas, which will be sent out in our usual ISA bulletin for your consideration and there may be some options that could be a useful addition to your current portfolio.

Capital Gains Tax Allowance (CGT)

The CGT tax-free allowance is £11,100 and will remain at this level until at least April 2018. You only have to pay Capital Gains Tax on your overall gains/profits above the tax-free allowance (called the Annual Exempt Amount) when you dispose of assets. The CGT rate for basic rate taxpayers is now 10%, while the rate for higher rate taxpayers is now 20%. Where possible it is extremely useful to capitalise on this allowance and it is also worth considering putting the proceeds of any sales that are held directly, into an ISA when reinvesting the capital, particularly if you haven't used your allowance and do not have any new money for investment. Another consideration is if your spouse or civil partner is a lower taxpayer, then transferring assets into their name can reduce your tax liability. Moving assets between spouses and civil partners is exempt from capital gains tax and will not incur inheritance tax either.

The rates of CGT payable on residential property sales (this does not include the house that you live in) remains at 18% for basic rate taxpayers and 28% for higher rate taxpayers.

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Inheritance Tax

Although this is only payable on death, making a gift to your family and friends while you're alive can be a good way to reduce the value of your estate for Inheritance Tax purposes and benefit your loved ones immediately. Estate planning can be a complex area so getting the right advice from your advisor can help you avoid several big pitfalls when making a gift.

However, we all have allowances each year and while we are alive we can give away assets, or cash up to a total of £3,000 without incurring Inheritance Tax. Gifts worth more than the £3,000 allowance are subject to Inheritance Tax and the amount of tax payable depends on whether it was given within the seven years before the person died. If the death falls outside of the seven year period it becomes fully exempt from Inheritance Tax. During the seven year period, your gift is known as a 'potentially exempt transfer' or PET. There is no limit to how much and how often you can give to a charity without incurring IHT. You can also give smaller gifts under £250 to anyone other than a person who has received the whole £3,000 and you can give a wedding gift to a child of up to £5,000. There are a range of other gifts that are allowed and if you want to discuss this with your adviser or any other IHT issue, please contact them and they will be able to help you.

Pension Contributions

As a UK taxpayer you will get tax relief on pension contributions of up to 100% of your earnings, or a £40,000 annual allowance, whichever is lower. For example, if you earned £20,000 but put £25,000 into your pension, you will only get tax relief on £20,000.

However, you can carry forward unused allowances from the previous three years, providing you were a member of a pension scheme during those years.

These are just some of the issues that tend to be forgotten about and although we are all used to paying tax on our income, it does make sense to use these allowances where possible to work for us and save tax. As they say **'Use it, or Lose it'**. Please give us a call if we can help with any of these matters.

Economic confidence post Brexit

British businesses are becoming more and more confident that they will perform well in the coming years despite fears that there would be an economic meltdown following the referendum, which did not materialise.

According to the Confederation of British Industry, Britain's science and technology industries are expected to lead another spike in hiring in 2017, in another vote of confidence in the economy following the Brexit vote. The UK's business group's annual employment survey has found that in 'almost every part' of the private sector there will be more staff hired over the next twelve months. The research also showed that 41% of companies expect to grow their workforces in 2017, compared to just 13% who believe their payroll's will shrink.

The survey polled 353 large and small businesses employing almost 1.2million people and found that the pace of job creation is likely to be highest in science, IT and construction. At 28%, it is the sixth consecutive year where the balance of businesses that expect to increase the number of employees has been 20% or more.

The survey flies in the face of the dire warnings from the Treasury that said Brexit risked 'half a million job losses' and the CBI's own commissioned report warned before the referendum that leaving the EU could cost 950,000 jobs by 2020.

Josh Hardie, deputy director of the CBI, said the UK's chronic skills shortage remained one of the "biggest worries for the future", as well as access to "highly skilled migrants" if the UK limits immigration from the EU after Brexit. Also, the survey showed that half the companies surveyed believed the UK will become less attractive over the next five years. With the economy on track to grow at a moderate pace in the fourth quarter, the overall confidence of the companies surveyed was good. However, we are in uncharted water and the Government needs to do more to reassure businesses by demonstrating that it has a clear and coherent strategy going forward.

Auto-enrolment staging date nears for 800,000 small companies

The number of small firms to auto-enrol employees is set to more than double, as the boiler room of the economy faces an avalanche of extra costs coupled with uncertainty in 2017. An estimated 800,000 small business expect to reach their staging date in 2017 and by contrast, The Pensions Regulator expects a maximum of 374,300 small employers to have enrolled during the whole of 2016.

A recent survey carried out by market researcher YouGov on behalf of workplace pensions provider 'Smart Pension', found that more than half of small and micro businesses felt auto-enrolment would be a burden and two fifths said it was unfair, however, 72% said it would not get in the way of growth plans.

Many small companies are still in the dark about what they should be doing and will need help to find a way through the maze of options from pension providers and regulatory authorities and we at Birchwood have specialists in this area who can help.

The Pensions Regulator issue fixed penalty fines to businesses who do not meet their auto enrolment duties and missing your staging date is one of these duties. However, they treat each case differently, the quicker you get in touch with an adviser (and depending on your situation) the better positioned you will be to avoid a fine.

Market Report

21 December 2016

Global Review

Elections and referenda have dominated financial markets in recent months as Donald Trump won November's US presidential election, Italy voted 'no' to proposed constitutional change and the UK continued to struggle with the idea of life outside of the European Union. The surprise success of both Trump and the leave campaign resulted in heightened market volatility but losses were quickly recovered after promises of support from government and central banks.

The result of the Italian referendum was widely predicted and has been interpreted as a vote against the establishment. Echoing President-elect Trump's success, voters are demanding change with no real growth in income or living standards since the global financial crisis. The uncertainty of regime change has caused markets to wobble but promises, particularly from Trump, of tax cuts and huge infrastructure spending has pushed equity indices back to all-time highs.

UK

Equity markets in the UK have benefitted from sharp falls in the value of sterling following the EU referendum. The FTSE 100 climbed to a record intra-day high of 7,128 in October after Prime Minister Theresa May confirmed that Brexit negotiations would begin early in 2017. A weaker currency translates into higher overseas earnings for large multi-national companies and therefore boosts sterling profits. The flip side for more domestically focused companies is higher import costs and hence greater pressure on earnings.

The government's Autumn Statement continued to undermine sterling with the Chancellor forecasting weaker growth for the UK economy in 2017 and hence higher borrowing requirements than previously estimated. UK output has been surprisingly strong since the EU referendum with growth of 0.5% in the third quarter driven by robust household spending. Nevertheless, the Office for Budget Responsibility expects the uncertainty of Brexit to cost the country 2.4% in growth over the next few years although talk of recession has been quashed.

US

In a result that was more unexpected than the UK's decision to leave the EU, Donald Trump became the 45th President of the United States. The desire for change amongst the US electorate was strong enough for the President to overcome a significant deficit in the polls. The success of the Republican candidate gives the party control of the White House, Senate and House of Representatives, handing Trump the opportunity to execute his expansionary plans unopposed.

The shock result of the election triggered a sell-off in equity markets before sentiment recovered on news of Trump's plans for fiscal stimulus. The rally in risk assets was the green light the Federal Reserve needed to finally raise interest rates in 2016 at its December meeting. The 0.25% hike was the first since December 2015 and reflected the central bank's confidence in the outlook for the US economy. The economy is forecast to expand by 2.1% in 2017 accompanied by further falls in unemployment and inflation rising to the Fed's 2% target.

Europe

Economic growth in the Eurozone faltered in the third quarter as the German economy slowed in the face of political uncertainty. Expansion of just 0.3% across the region forced the European Central Bank to reaffirm its commitment to the current programme of quantitative easing and then extend this beyond the initial March 2017 deadline, albeit at a reduced level, as Italy voted against constitutional change. Without political union the Eurozone must rely on monetary policy as other developed markets shift to greater fiscal stimulus.

The likelihood of greater political union is receding as populist party support grows across Europe. Following the UK's vote to leave the European Union and Italy's rejection of constitutional change, strong protest votes are expected in Dutch, French and German elections next year. The resignation of Italian Prime Minister Matteo Renzi following the decisive referendum loss is also expected to result in snap elections.

Japan

The Bank of Japan has been struggling to stimulate activity in the world's third largest economy via conventional monetary policy for the past twenty years. Both inflation and interest rates have stayed near zero since the Japanese and wider Asian Financial Crisis of the 1990's. The limitations of monetary easing have resulted in the adoption of Abenomics, programmes of fiscal stimulus and structural reform introduced by Prime Minister Shinzo Abe to supplement the efforts of the Bank of Japan.

As Japan navigates its third 'lost decade' the economy continues to disappoint with growth of just 0.3% in the third quarter of the year. Falling capital expenditure has pushed back the Bank of Japan's forecast on inflation, suggesting its 2% target will not be achieved before the fiscal year 2018/19. More positively, consumer spending is improving as labour markets tighten and the weak yen is supportive of exports. Together with the latest ¥7.5 trillion stimulus package from the government, continued modest growth is the likely outcome.

Asia

On the day of the US presidential election the Indian government announced its own version of unconventional policy by withdrawing 500 (£6) and 1,000-rupee (£12) banknotes from circulation. The surprise move stripped 85% of cash from circulation and is the latest tactic by Prime Minister Narenda Modi to tackle tax evasion. In combination with the government's new ID card scheme, issued to every one of the country's 1.35 billion citizens, this also helps purge the black economy and fight corruption.

Prime Minister Modi has the advantage of an economy that reportedly grew at a rate of 7.3% in the third quarter and should be able to withstand the shock withdrawal of cash. India remains the hottest economy in the world, outpacing China where official numbers confirmed the country's third consecutive quarter of expansion by 6.7%. A greater unknown may be president Donald Trump after his campaign promised greater protection for US workers and industry which has ramifications across the emerging markets.

Longevity, the ticking time bomb!

In 2016 the Public Health England (PHE) found that life expectancy at older ages in England had risen to their highest ever level. Chief Knowledge Officer at PHE, Professor John Newton said, "overall, the report presents a positive picture nationally and life expectancy is the highest it's been since we started measuring. People in England are living longer than ever and that makes achieving a good quality of life in later years even more important. Our current evidence shows that people are living longer but many are doing so in poor health." According to the PHE report, men can now expect to live a further 19 years at age 65, 12 years at 75, 6 years at 85 and 3 years at 95. Women can now expect to live a further 20 years at age 65, 17 years at 75, 6 years at 85 and 3 years at 95. Obviously there are regional differences and this report does not cover the UK as a whole, however, the general trend is an increase in life expectancy.

According to 'Economicshelp', this type of increase has been repeated and life expectancy has risen dramatically in most western economies over the last 50 years, however, combined with declining birth rates it has caused many to worry about the impact of an ageing population. We often hear about a 'demographic time bomb' and the concern that future generations will struggle to meet an ever increasing number of retired workers and pension commitments.

But are we correct to be worrying about an ageing population?

Firstly, in the UK, the ratio of people of working age to people over 65 could fall from 3.7 to 1 in 1999, to 2.1 to 1 in 2040. This suggests a very big increase in the dependency ratio and consequently a cause for concern because with current spending on pension commitments, it will place a higher burden on the shrinking working population.

However, others argue that it is a mistake to base calculations solely on a fixed retirement age of 65. If life expectancy increases dramatically, you would expect a sensible policy is to allow some increase in the retirement age, e.g. keeping the same % of your working life for retirement. The UK government has already made tentative steps to raise the retirement age and increase the role of private sector pensions. These policies will make an ageing population more manageable.

In recent years, the impact of an ageing population in the UK has also been mitigated by a rise in net migration levels. Though with the UK's exit from the EU, there is an expectation net migration levels will fall. A side-effect of this policy, will be a faster rise in the dependency ratio. With the dust yet to settle on the Brexit referendum it is difficult to know how policy changes will affect migration levels.

If there are less workers to support those who are retired, the fear is that it will require high tax rates on the current, shrinking workforce. With all these uncertainties it is more important than ever that we start to prepare ourselves for retirement at an earlier age by taking the opportunity to join company/auto-enrolment pensions and take advantage of tax breaks and allowances when building up savings

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Birchwood Investment Management Ltd, 8 Prospect Place • Welwyn • Hertfordshire AL6 9EN • UK
Tel: 01438 840 888 (Welwyn) • 0161 932 1038 (Manchester) • **Fax:** 01438 840 097 • **Email:** info@birchwoodinvestment.com
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