

BIRCHWOOD INVESTMENT MANAGEMENT LTD NEWSLETTER



July 2016

It's plain sailing...

Brexit: What is next?

On 23 June 2016 the UK public spoke and decided to take the country out of the EU. As the UK begins the process of leaving the EU, many businesses will be wondering what is around the corner.

The first thing is that the UK is unlikely to leave the EU within the next two years and a final settlement may take longer, depending on whether the other 27 member states in the EU agree to extend the deadline.

However, this two year deadline only begins on the date the new Prime Minister, Theresa May,

formally declares the UK's intentions to leave the EU under Article 50 of the Lisbon Treaty.

One thing that should be clear is the uncertainty of this situation. Mitigating this uncertainty and risk for potential investors will be crucial to minimising any negative impact on the UK economy and businesses, which is why The Treasury and The Bank of England are currently carefully monitoring the situation and have said they will do their best to prevent an economic slowdown.

At a more local level, businesses will need to decide how they wish to act or not act during this period. Making the right decisions, at the right time is vitally important to their future, which is why it is important for businesses to have someone that understands them on their side.



What happens when you inherit an ISA from a Spouse or Civil Partner

Were you aware that you can inherit your partner's ISA savings? New rules came into being in April last year that mean ISA assets can now be passed on to a spouse, or civil partner, and still retain their tax-free status. Although you may not feel comfortable thinking about it, it could make a huge amount of difference financially should the time come.

Under the previous system, when someone died, any savings held in an ISA automatically lost their tax-free status. This meant that the surviving partner would have to start paying tax on any returns or income earned from it.

This rule was felt to be generally unfair, especially as many couples tended to save from their joint incomes and on a partner's death they used to have to pay tax on money they thought was protected. Thousands of people were caught out by these unexpected tax charges every year, however things have now changed.

Under the new rules, if an ISA holder dies, the surviving spouse or civil partner will be able to inherit the ISA and retain its tax benefits. This is because of an additional allowance that the surviving partner is given called an 'Additional Permitted Subscription' (APS), which is a one-off ISA allowance that is equal to the value of the ISA at the date of the holder's death, which will not be counted against the normal ISA

subscription limit but instead it will be added on to the survivor's own ISA limit.

In other words, you will be entitled to an additional allowance that would combine both the value of your partner's savings as well as your own. For example, if your partner had £50,000 in ISA savings on their death, your total ISA allowance for that year would be £65,240 (this being the total of your partner's savings of £50,000 plus your own ISA allowance for the 2016/17 tax year of £15,240).

Basically, these rules mean that the tax-efficiency of the ISA will not be lost on a partner's death. The changes have been specifically designed to ensure that bereaved individuals will be able to benefit from the tax advantages they had previously shared with their partner, offering more flexibility and a much fairer outcome.

Rules at a glance

- **Eligibility:** Anyone whose spouse/civil partner died on or after 3 December 2014 is eligible, and the APS could have been claimed since the start of the 2015/16 tax year.
- **Pot size:** The rules apply irrespective of the size of the deceased's ISA pots – no matter how much they had saved in an ISA, you will have that amount as an additional allowance. In the event that more than one ISA was held

by your partner, the pots will be combined to give an overall additional subscription amount that you can claim.

- **Subscriptions:** APS allowance subscriptions (referred to as payments) can be made to a cash ISA and/or a stocks & shares ISA, either with the deceased's ISA provider, or with an alternative that will accept APS subscriptions (not all will). Some ISA providers will allow payments to be made in instalments whereas others only allow a lump sum, so ensure that you check.
- **Time limit:** Arranging your new allowance won't necessarily be at the forefront of your mind on the death of your partner. In most cases, at least for subscriptions made in cash, the allowance is available for three years after the date of death.
- **Process:** ISA providers will require key information and personal details from the spouse/civil partner to open a qualifying ISA, and they will also require an application form to use the APS allowance.
- **Transfers:** The APS allowance can be transferred to another ISA provider, subject to the new provider's acceptance. It can only be transferred once and only where no subscriptions have been made under the allowance. However, after an APS allowance payment has been made, the cash and/or investments related to that subscription can be transferred to another ISA.

The taxman's new tax collecting powers

July 2016 sees the introduction of a new set of tax collecting powers that HM Revenue & Customs (HMRC) will be able to use when it believes tax is due that is not covered by a self-assessment tax return.

The Finance Bill 2016 heralds the introduction of a new tax assessment system similar to the one operated prior to self-assessment. From July 2016, HMRC will have the power to issue simplified income and capital gains tax assessments to individuals and trustees.

The new system is similar to the department's current non-enforceable tax collecting powers for those who don't use self-assessment (Form P800), but allows HMRC to pursue the tax shown as payable by the new style assessment.

When a person receives a simplified assessment they will have until 31 January following the end of the tax year to which it relates to pay or it will be due three months later if the assessment is issued later than 31 October after the end of the tax year.

HMRC will base its simplified assessment on information it receives from individual taxpayers and various other organisations, such as banks,

employers and other financial institutions signed up to disclose information to the Revenue.

As a safeguard, the assessment must state where the information was collected and it is believed that HMRC will not be allowed to inflate tax demands by using estimates of incomes or gains.

Anyone who receives an estimate that they believe is incorrect will be able to lodge an

appeal against it and they will have 30 days to ask HMRC to suspend all or part of the tax assessment.

In an interesting twist, HMRC will be able to reject some self-assessment requests and issue a simplified return in its place, in cases where it has reason to suspect that an individual may avoid paying tax by simply not filling in their self-assessment tax return.



Market Report

30 June 2016

Global Review



Equity markets lost momentum in April after negotiations to freeze global oil production collapsed bringing into doubt the sustainability of the recent rally in prices that have been highly correlated to the direction of stock indices year-to-date. The European Central Bank and the Bank of Japan also held back from further immediate stimulus measures with these announcements quickly followed by a report that corporate defaults were rising at their fastest pace since the global financial crisis.

Investors were provided some succour by the US Federal Reserve's decision to further delay interest rate hikes but sentiment suffered on the shock news of the UK's decision to vote leave in the EU referendum. With equity market volatility expected to increase ahead of the Brexit vote, the Fed had adopted a more dovish stance helped by disappointing US employment numbers in May. Coordinated action from the Bank of England, the ECB and the US Federal Reserve following the referendum have helped push stock markets back into positive territory.

UK



Domestic financial markets have been dominated by the EU referendum and the see-sawing of opinion in a closer than expected vote. With early polls and bookmakers favouring a vote to remain markets had continued to grind higher before falling sharply as the surprise result was announced. Financial sectors and the stocks of housebuilders were hit particularly hard with

trading in Barclays, RBS and L&G suspended temporarily. Sterling also fell heavily as the Bank of England reacted with suggestions of interest rate cuts rather than the rises expected at the beginning of the year.

In coordinated action the world's central bankers stepped in to provide additional liquidity with the Bank of England also hinting at fresh stimulus to combat an expected slowdown in economic growth as both corporate investment and household spending falters. In response to the uncertainty 10-year government bonds yields dropped below 1% for the first time in history. The vote to leave has also triggered political turmoil with Prime Minister David Cameron resigning, challenges to the opposition leadership and calls for a second vote on Scottish independence.

US



In the aftermath of the EU referendum an immediate rise in US interest rates now appears remote and the Federal Reserve are likely to hike rates even more slowly in 2016 than the most dovish expectations. The US economy expanded by just 0.1% in the first quarter, its weakest pace for two years. This compares to the 0.4% growth recorded in the final quarter of 2015. The addition of just 38,000 jobs in May was well below expectations and supports the idea that the Fed will struggle to achieve the four interest rate rises pencilled in at the beginning of the year.

Global equity markets have been very sensitive to the direction of US interest rates and the S&P 500 approached its all-time high in April ahead of the Federal Reserve's decision to hold rates once again. Energy stocks, driven by a more stable oil price, contributed to a broadly positive start to the quarterly US earnings season.

Europe



The European Central Bank held back from further stimulus measures in April after surprising with stronger than anticipated action in March. Instead the ECB released full details of its expanded asset purchase programme. In addition to government bonds the €80bn a month programme will be able to purchase non-financial Eurozone corporate bonds in an attempt to inject further liquidity whilst penalising banks for holding cash via negative deposit rates. The announcement has pushed bond yields to historically low levels with German 10-year government bonds trading at below 0% for the first time.

Uncertainty over Brexit has also increased demand for 'safe haven' assets as the potential for political change rises. Looming elections across the continent are expected to see an increase in popularity for separatist parties following the UK's vote to leave the EU. Contagion would further damage economic output at a time when Eurozone growth is showing signs of acceleration. GDP growth doubled to 0.6% quarter-on-quarter in the first three months of 2016 with an equally encouraging fall in unemployment.

Japan



Economic output in Japan also surprised as GDP growth of 0.5% quarter-on-quarter in the first three months of the year was boosted by private consumption. Prime Minister Shinzo Abe again delayed the planned increase in consumption tax to October 2019 in support of consumers with business spending declining over the period. This suggests the economy is still too fragile to absorb the tax increase

despite the Bank of Japan's aggressive stimulus programme. Like the European Central Bank, the BoJ is continuing with a massive asset purchase programme and shocked markets with the introduction of negative interest rates in January.

With inflation still well below the central bank's 2% target, markets were expecting further action in April. However, the BoJ felt it was too early to assess the impact of current measures and instead delayed its forecast to reach the inflation target until 2017, the fourth postponement in the last year. This further strengthened the yen, hurting exporters and negatively impacted domestic equity markets. Consensus is expecting further stimulus to support growth with Abe promising 'bold' economic measures in the autumn.

Asia



Chinese economic data added to positive sentiment in April as annualised GDP growth of 6.7% in the first quarter hit the government's full year target. Whilst this was slightly lower than the previous quarter there was strength across the board with investment in industrial assets and infrastructure rising 10.7% in a boost to commodity sectors. Retail sales also jumped 10.5% in March adding to confidence that China would be able to rebalance to a consumption led economy without excessive risk to global growth.

Equity markets in India, as measured by the benchmark Sensex index, registered their highest return in the second quarter since Prime Minister Modi came to power in 2014. Fading prospects of an immediate rise in US interest rates together with the prospect of further stimulus in Europe and Japan increased foreign participation despite Brexit and the resignation of Raghuram Rajan, the governor of the Reserve Bank of India, in June.

Financial Education for all ages

Although financial education is not statutory within the primary school curriculum, it is believed that educating children in financial skills should really begin by the age of nine at least. This is because attitudes and life skills are forming by this stage and we know that children from an early age have an awareness of money. Research by the Money Advice Service has showed that more than four in five teachers believe that financial education must begin in primary school, not secondary for maximum effectiveness. The findings also suggested that habits in adulthood are established by the age of just seven years old. Although not compulsory, many primary schools have included money management lessons in their curriculum and many of these are offered by some charitable trusts.



As reported in the Mail on Sunday, the situation for secondary schools is different and pupils in England are in their second academic year of officially learning about money, under a compulsory element of maths and citizenship lessons. However, many people think this education should go further. Professionals from across the financial services industry, the Government and charities have formed an alliance to strengthen personal financial education among all age groups, from school children to people in retirement. This task force launched a ten year 'financial capability strategy' last October with the aim of improving people's ability to manage money on a day-to-day basis, deal with milestones and cope when facing financial adversity. Its research showed a significant number of people with meagre savings and debt issues are unable to comprehend a bank statement or work out interest on savings. With these findings it is encouraging that such initiatives are being acted upon to ensure that children have a good financial grounding before going on to further education and beyond.

Leaving home for the first time and going off to college can be both exciting and daunting and one of the biggest challenges is learning how to manage your own finances. Budgeting can sound pretty boring to most teenagers but it is absolutely essential that they get on top of it quickly before it gets on top of them. Realistically, for most students, debt plays a big part in the budget and they should realise that

most of the money they are spending is coming from borrowed money, which will have to be paid back at some stage. However, this is a fairly typical situation in modern day University life. It is important to get on top of the budget in the early days and work out the difference between 'wants' and 'needs'. 'Needs' being the rent, utilities, food, study books and other essentials and 'wants' is everything else. If they can get this cracked in the early days it will be a good grounding for life as according to Laura Whitcombe for 'This is Money', a third of 18 to 24-year-olds are too scared to check their bank balance and are suffering from 'ostrich effect' – preferring to stick their heads in the sand rather than find out how much money they have, or don't have. With many young adults getting into debt after University and some losing track of their spending, research released as part of 'National Student Money Week' has said that 46% have said that they lose sleep over the state of their finances.

It will be some time before we can evaluate the benefits of the early teachings of money management but the signs are promising. There are also some companies who are starting to provide workplace financial sessions, which will be invaluable to employees who will need to make medium and longer-term plans to achieve their financial goals and to provide a comfortable retirement for themselves. With all of these financial lessons and initiatives for young and older people, hopefully we should all become financially savvy.

Mortgage lenders raise age limits

Major lenders are beginning to raise their maximum age limits on mortgages, following recent criticisms that secure borrowers are increasingly turned down by banks on account of their age.

Nationwide has made headlines by raising its maximum age limit from 75 to 85 – the highest of any major lender in the UK to date. Competitor Halifax has also raised its maximum age limit to 80.

Nationwide have announced that they are

willing to grant mortgages of up to £150,000 to older borrowers, providing they can prove that they have a sturdy enough pension to keep up their repayments.

However, there is a catch – the lender will only open their higher age limit deals to borrowers seeking a loan of no more than 60 per cent of the value of their property.

Up until fairly recently, Britons in their early 60s have typically been turned down by major lenders, or offered impossibly expensive, short term deals.

Henry Jordan, Nationwide's Head of Mortgages, said: "We are taking a series of steps to meet a growing demand from customers to be able to borrow in later life. These customers are often asset rich, with significant equity in their home, and they wish to have the flexibility to borrow against it.

"Access to the mainstream market has been a challenge for older customers, resulting in their needs going unfulfilled. This measure helps to address these needs in a prudent, controlled manner."

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