BIRCHWOOD
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NEWSLETTER

April 2018

It's plain sailing...

Inheritance tax put under review

Chancellor Phillip Hammond condemns overly complicated rules on passing on wealth after death and has ordered a sweeping review of inheritance tax and whether it 'causes any distortions to taxpayer decisions'.

The Property boom of recent decades means more people now have to shell out 'death tax' and Phillip Hammond calls the current inheritance tax regime 'particularly complex' in a letter to the Office of Tax Simplification - an independent arm of the Treasury, which will carry out the review.

The Chancellor asked for proposals for simplification, 'to ensure that the system is fit for purpose and makes the experience of those who interact with it as smooth as possible'. 'The inheritance tax system is complicated and has a number of legacy clauses and exemptions that the government might look to reform.

One of the best examples of over-complication in death taxes is the residence nil rate band (RNRB), which is incredibly complex and causes a lot of misunderstanding. Research revealed that 70 percent of people have no idea how the RNRB works. A simpler method of achieving the same outcome would be to simply raise the standard nil rate band amount to £1million. ' Sean McCann, chartered financial planner at NFU Mutual said: 'This review is long overdue. Inheritance tax is fiendishly complex with many tax traps for families who don't take financial advice.'

A simpler and more straightforward system that people can easily understand is desperately needed. Even the most recent change, the RNRB, which was introduced last April to help people pass on more of the value of their family home to their children and grandchildren, is full of ifs and buts. In theory a married couple, or civil partners, will be able to pass on an estate worth £1million including their home from 2020. However, the additional threshold will gradually reduce, or taper away for an estate worth more than £2 million, even if a home is left to direct descendants. The additional threshold will reduce by £1 for every £2 that the estate is worth more than the £2 million taper threshold.

So what changes could the Chancellor make to inheritance tax?

Seven-year rule on gifts: 'The current rules state that after seven years, any gift is considered out of your estate for inheritance tax purposes'. This is provided you have not benefitted from the gift (eg: continuing to live in a house you have gifted to someone).

This rule confuses a lot of people, and in certain circumstances IHT can still apply to gifts made up to 14 years before death. It can also encourage people to give a lot money away even though it doesn't make financial sense for them to do so but there has been some speculation that this time period might even be reduced to two years.

£3k gift rule: 'Each year, anyone can give away £3,000 of their assets in gifts, free of inheritance tax but this figure has not changed for over 30 years and if you take inflation into account it could have increased to around £9,500 by now.

Although most estates don't pay IHT, inheritance tax is hugely unpopular, and families might be worried that a simplification, or overhaul could be used to grab more tax instead of reducing the amount that might have to be paid.

GDPR – don't leave it too late!

By now, you will have already received our letter and information on the new GDPR (General Data Protection Regulation) rules that come into force on 25th May.

In Great Britain we are legally obliged to comply with these new guidelines, which are intended to stop nuisance spam calls and emails that we are so often bombarded with. As a consumer, we will all have to give specific consent to any company who wishes to send us marketing and promotional messages.

Following our mailing, we have had a great response so far and we are pleased with the results coming from those people who have responded.

We have found that some people are comfortable with receiving our newsletters and general information by any method but so far there are more people who prefer to receive data by email, which we are happy to do. However, if this is your preferred choice could you also include your current email address when you send the form back to us.

We hope everyone will still want to continue to receive our newsletter, newswires, Budget and spring statements, financial legislation changes and ISA information etc but we will not be able to carry on sending this to you, if you do not return the option form duly completed. If you are unsure about GDPR regulations and wish to speak with someone about it, please feel free to contact us.

Divorcees could face significant shortfalls when they retire...especially as gender gap widens

New research by Prudential has indicated that the divorce rates are once again rising, especially among those over the age of 55 years.

Divorce can have a major financial impact on people's lives, especially when retirement is drawing closer and pensions are incorporated as part of a final settlement.

As if surviving a marriage break up is not hard enough, Prudential's findings have shown divorcees retiring in 2018 have a projected annual income of £17,600 compared to £21,400 for those who have never gone through this experience. In fact 15% are more likely to have no pension savings at all when they retire, compared to 11% who have never divorced plus they are more likely to retire with debt but at lower levels than non-divorcees.

It's understandable that the divorce process forces couples to look at the immediate priorities and focussing on maintaining a comparable standard of life. However, as pension values increase, especially for those divorcing later in life, focussing on income in retirement is as important as the day to day living expenses and both legal and financial advice should be sought as early as possible.

Pensions built over a longer marriage can become a valuable asset and it's crucial that divorced couples continue to pay into their pensions even after a final settlement has been reached, regardless of how the pension has ultimately been shared.

Recent DWP (Department of Work & Pensions) statistics only exacerbate this shortfall showing the gender gap still rages on with the average retired single woman's gross income in 2016/17 being £316 per week compared to £401 for the average man – an unjustifiable gap of £85 per week. This chasm is largely due to the differences in occupational pensions and earnings, with men's occupational pensions leaping to £125 per week as opposed to women's £81 per week average income. The ability to top pensions up with earnings is key to boosting how much money women will have to live on so it's critical that more is done to bridge this inequality and support women to build an effective pension pot in their own right, particularly if they've already relinquished a share through divorce.

On a positive note, with the increasing freedoms and flexibility pensions now provide, people can be less nervous about divorcing if they've already built up a degree of financial security by planning as early as possible.

Where "clean break" agreements are feasible, divorcing couples are regaining control and effectively planning their financial futures including lowering debt and building up wealth in their own right, for a more secure future.

Market Report

April 2018

Global Review

After a strong start to the year, global equity markets fell back as robust economic data and higher wage growth fuelled inflation fears. Political developments also weighed on markets as the US government was forced to shut down after the Senate failed to agree a new budget, Janet Yellen was replaced as US Federal Reserve Chair, UK Brexit negotiations made little headway and the German election failed to deliver a majority government.

Share prices did recover from their lows only to fall again as central banks became more hawkish and US President Donald Trump announced new import tariffs. Incoming US Federal Reserve Chair Jerome Powell's first testimony reinforced the positive outlook for the economy and prepared markets for more interest rate rises this year. The Bank of England also suggested that interest rates would need to rise earlier and to a greater extent than anticipated.

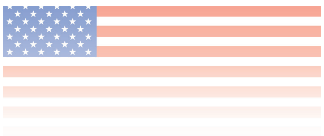
UK

The UK economy expanded by 1.7% in 2017 as growth in the fourth quarter was revised down to 0.4% and in-line with expectations. The UK's withdrawal from the European Union is being blamed for the slowest growth in the G7 as investment spending remains subdued.

However, economic activity is greater than predicted in the wake of the Brexit referendum with potential to benefit further from a weaker pound and greater clarity on the terms of the UK's exit deal.

The Monetary Policy Committee voted seven-to-two to keep interest rates at 0.5% in March having voted unanimously to hold in February amid the equity market volatility. Weaker economic growth and falling inflation, albeit still well above the Bank of England's 2% target, supported a dovish stance but the robust global economic expansion and agreement on a Brexit transition deal puts pressure on the Committee to begin normalising monetary policy.

US



The US Federal Reserve continues to balance market expectations with the need to move closer to normal interest rate levels. In their first meeting since the appointment of Jerome Powell as Chair, the Federal Reserve increased the cost of borrowing by a further 0.25% as both economic activity and wage growth exceeded forecasts.

Whilst the US central bank is still projecting three rate hikes in 2018, they have increased 2019 expectations from two to three hikes.

US President Trump boosted growth expectations with the introduction of wide ranging tax reforms. Initially criticized as having a disproportionate benefit to businesses, many corporations have passed tax cuts on to employees in the form of higher wages and bonuses.

However, President Trump later undermined sentiment with the announcement of import tariffs for China, prompting fears of trade wars and a reduction in global trade.

Europe

Echoing results across Europe in 2017, populist parties made large gains in the recent Italian general election. The result is a hung parliament with a real threat that Eurosceptic parties will gain control of the Eurozone's third largest economic power. The same outcome has been avoided in Germany as Chancellor Merkel's Christian Democrats have finally agreed a grand coalition with the Social Democrats after months of negotiations.

Economic growth in the eurozone achieved a 10-year high in 2017 of 2.5%, significantly ahead of the 1.8% recorded in 2016. However, there is no indication that the European Central Bank is preparing to tighten policy with confirmation at the latest meeting that interest rates will stay near zero and its quantitative easing programme will continue until at least September. The Bank remained concerned that there is little sign of inflation with sizeable slack in the labour market.

Japan

The Bank of Japan surprised markets by reducing its asset purchase programme at the beginning of the year. This led to global government bond prices falling as markets digested the idea of an end to economic stimulus, a significant driver of demand and asset price growth since the global financial crisis. However, with Prime Minister Abe nominating BoJ Governor Kuroda for a second term, the first governor for over fifty years to be re-appointed, monetary stimulus is likely to prevail in Japan. At the Bank of Japan's most recent meeting the Policy Board voted 8-1 to leave monetary policy unchanged, with the lone dissenter arguing for more aggressive action. Investors were further encouraged by Governor Kuroda's suggestion that targeted purchases, intended to control government bond yields, would continue until 2019. Whilst economic activity has expanded for eight consecutive quarters, the longest period of growth for thirty years, the 0.5% annualised figure in the final quarter of 2017 fell well short of expectations.

Asia

The recent budget announcement in India was more prudent than feared as the Modi government refrained from further spending ahead of next year's general election. Economic growth of 7.2% year-on-year in the final quarter of 2017 dismissed the suggestion of a long-term drag from demonetisation and tax reforms introduced in the previous 12 months. However, local equity markets were dragged lower by the introduction of a long-term capital gains tax within the budget.

China's economy grew by 6.8% year-on-year in the three months to December, pushing the pace of expansion up to 6.9% year-on-year for 2017. Higher than expected activity was driven by strong investment and export growth that suggests the government is again promoting short-term growth ahead of long-term reforms.

The reversal in focus has been driven by a more severe slowing of the economy than anticipated coupled with significant capital outflows.

Parents missing out on important pension protection

Families across the UK could be missing out on millions of pounds of additional pension income as they fail to realise the connection between claiming child benefit and protecting their state pension record.

In the 1970s, the system of Home Responsibilities Protection was introduced, which was designed to treat women and men who were at home looking after children more favourably when their eventual state pension was provided to recognise the contribution they made at home.

By 2010 this system had evolved and a year at home with a child under 12 contributed nearly as much to a basic state pension as a year in paid work.

However, in January 2013 the Government introduced the High-Income Child Benefit Tax Charge, which saw a tax charge incurred if a parent receives child benefit, but is earning £50,000 per year or more.

This charge increases on a sliding scale until earnings pass £60,000, at which point the value of the child benefit is equal to the charge being levied. Many high-income couples no longer bother to claim child benefit due to this, but as a result, they may be missing out on an integral pension protection.

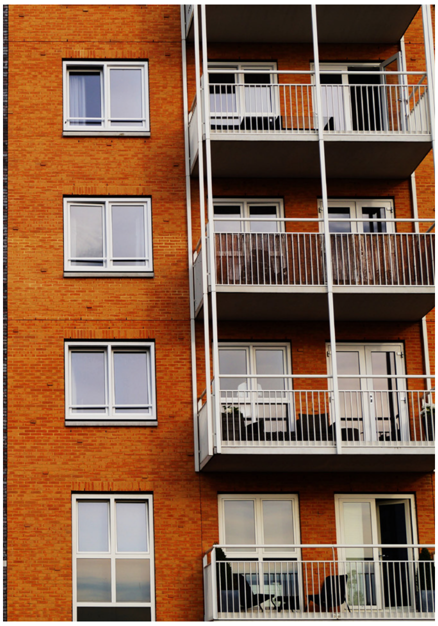
It would seem that there is no point claiming for a credit only for it to be taxed, but the rules also allow partners to get credits towards their state pension, even if they don't receive the child benefit.

To assist taxpayers the Government has even included the option to allow couples to defer the child benefit payment but accept the National Insurance credits.

There is a growing concern that many new mothers and fathers may not be aware of this and could, therefore, miss out on important National Insurance contributions.

Couples who have chosen to opt out of the child benefit system are therefore being reminded to check their current situation to ensure they maintain the state pension protection afforded to them.

One in six first time buyers rely on their parents



Up to 2.2 million first time buyers can only step onto the housing ladder with a long term loan from the bank of Mum and Dad according to new research from Post Office Money.

With the ONS (Office of National Statistics) showing recent figures that the average first time buyer is spending £210,928 on a property with only just over £160,000 mortgage advanced, this leaves a significant gap that parents are bridging. Some are entering into long-term loan agreements (approx. £24,000) whilst others gift their children (approx. £32,000) the required funds, however for those who are lending money, 83% of parents are failing to raise any form of contract or legal agreement, nor raise a deed of gift or letter of intent which could pose a legal risk.

Whilst there is an underlying position of trust within families that the loan will be paid back, even a minor change in circumstances could pose a problem with keeping up repayments and no family wishes to create a rift for the sake of money. It's therefore important to agree terms as early on as possible taking several factors into consideration, such as current and projected incomes, household expenses and the possibility of future grandchildren whom will have a significant financial impact.

Children pay back on average £500 per month to their parents over an estimated 4 years and are seemingly very committed to clearing the loan. This may also help to explain why 46% of young people expect to support their parents financially in later life – this could be due to them borrowing funds that could shore up their parents' pension pot or any health care that could be required – so their gratitude drives them to clear family debt as early as they can.

It goes without saying that as a parent, our responsibility to our children never diminishes so the more we can plan ahead to provide what may be a much needed financial life line the better, even if that planning starts from the cradle.

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