

BIRCHWOOD

INVESTMENT

MANAGEMENT LTD

NEWSLETTER



April 2021

It's plain sailing...

Intergenerational Planning

Whilst this may be an unfamiliar term, essentially this is about planning for you and your family generations, to take control of ensuring the right amount of money goes to the right people, at the right time. If you wish to provide for your children, grandchildren and even great grandchildren, intergenerational planning should potentially be viewed with greater urgency within your future planning. People are living longer so families are getting bigger and also more 'blended' as relationships change over time and therefore traditional Inheritance Tax (IHT) planning may not be sufficient.

Thanks to increasing asset values (especially property), a recent freeze in IHT levels in the recent Budget, means you could be sitting on a huge IHT bill without even realising it. With property prices still rising, you could find yourself easily breaching the IHT barrier, or heading further beyond the taxable threshold. If you would prefer the wealth you have accumulated to go to your family rather than the tax man then you need advice on how to reduce the tax your estate could attract.

No two circumstances are the same and therefore your individual situation will be unique to you. You may think you can simply give your family monetary gifts over the years, but there are limits on how much you can give away, tax free, each year. A seven-year survival rule applies, so start gifting earlier rather than later. If you die before the seven years expire, the gift will remain liable for inheritance tax (albeit with tax tapering after 3 years) and of course there is also the possibility that the Government could change the rules and extend this timeframe. You are also giving away your money! You will no longer have this to hand should you need it in later in life due to unforeseen circumstances so do discuss this with your Financial Planner.

Owning your home will mean your property or properties will form the lions share of your estate subject to additional investments.

As part of your potential intergenerational Planning, you may want to pass your home on to your family.

These are two ways in which this could be done:

1. For example you could transfer your home into your children's names. In order to continue living there you will need to pay rent at a market rate to avoid IHT implications which is not always appealing.

2. You could downsize or move to a less expensive area, passing on the surplus proceeds. But bear in mind the 7-year rule still applies so your estate will still pay inheritance tax if you die before then.

Trusts are a way of saving money for your grandchildren or great grandchildren, safe in the knowledge that they won't gain access to these funds until you deem them old enough. They can also potentially reduce your inheritance tax bill, when planned correctly. Trusts are a long-term planning tool for your Intergenerational Planning. The assets you put aside could be used for school fees, or to help your relatives get that first foot on the property ladder.

Types of trusts:

Bare or Absolute Trust

This is the most basic option; it allows the beneficiary to access the funds in the trust when they turn 18 or 21.

Discretionary Trust

This option offers you more control. It allows trustees to control how the investments are managed and paid out to the beneficiaries until the trustees believe the beneficiary to be mature enough to have full access.

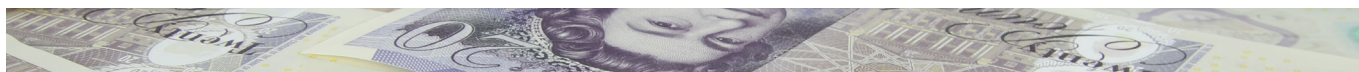
Trusts can continue for several years so, if you have a large sum to gift, you could help to provide a financial safety net for generations not yet planned. As a general rule, the more control trustees retain over the cash and assets in a trust, the more tax the trustees have to pay. One of the advantages of an Absolute trust is

that these assets are taxed based on the status of the beneficiary. As they tend to be young(er), they are usually subject to lower levels of taxation and therefore proceeds received from the Trust are taxed relatively lightly or sometimes with no additional tax liabilities at all. Discretionary Trusts have the most control but at a cost. Trust income tends to be taxable at 45% after a small band at 20% (usually £1,000, although it can be lower) and no tax-free band at all. Equally capital gains are taxed at 20% (property 28%) and dividends at 38.1%.

Also don't forget about your pension – this can be put to good use once you are gone. So completing an Expression of Wishes is important. For Defined Contribution pensions, if you pass away before the age of 75, the money in your pension pot can be passed on to your dependants, tax free. Once you have reached 75 your funds become taxable. It may, however, be possible to pass what is left in your pot into the pension of a beneficiary, taxed at their own marginal rate.

If you are unwell this is a particularly useful tool for passing on large sums of money to a family member, ensuring they remain financially supported after the worst happens. It's important to talk to your family about making intergenerational plans, as they will be benefiting from it. However, you may wish to discuss your plans with us first. We do recommend that you introduce your family to your Financial Planner who fully understands you and your family's wishes.

At Birchwood Investment Management we are happy to act as financial mentors for younger family members. Helping to build a relationship between your family and your trusted adviser means you can be confident your family are in good hands, building their wealth and continuing to benefit from the services you have been enjoying.



Savers called upon to take full advantage of ISAs

£18 billion has been saved by UK households during the last 12 months with the lockdowns stopping people from being able to spend. New research suggests 71% of respondents said they had saved money by not visiting restaurants, 51% had saved by forgoing their holidays and 27% said working from home removed their commuting fees. This all added up to average savings of between £1000 and £3000 but this is only one snapshot of savers.

Whilst 41% are considering blowing their extra pounds on a new car, as one tax year ends and another begins it is important to consider keeping all or some of that money invested wisely – let's face it we will probably never say the phrase "saving for a rainy day" without a level of irony that 3 lockdowns has left in their wake.

It is also borne out statistically that savers who take full advantage of the tax-free savings offered by the annual ISA allowance earlier in the year, rather than later, stand to make a far bigger return.

Although the Government has once again frozen the allowance for another year at £20,000,

savers should arrange their income to make full use of these tax-advantageous saving schemes – even if many of the products on the market offer marginal rates of interest.

From 6 April, a saver's ISA allowance will be reset for the new tax year. Unlike other forms of tax allowance, the ISA allowance from the previous tax year does not roll over to the new tax year.

You can save up to £20,000 in one type of account or split the allowance across some or all of the other types. However, you can only pay £4,000 into your Lifetime ISA in a single tax year.

There are five types of ISA:

Cash ISAs – A standard savings account where there is never tax to pay on interest earned. There are several types of ISA including, easy-access cash ISAs, notice cash ISAs and fixed-rate cash ISAs which offer different levels of access to the saver. Interest rates on many ISAs at this time are exceptionally low.

Stocks & Shares ISAs – This type of ISA allows you to invest money in funds, bonds and shares. These allow investors exemption from capital gains tax (CGT), bond interest tax and

dividend income tax. However, there is a greater risk involved as savings are not protected from losses, and these accounts are usually seen as long-term investments (at least five years in most cases).

Lifetime ISAs (LISA) – Unlike other ISAs, there is an allowance limit of £4,000 per year for a LISA, to which the Government adds a 25 per cent bonus for each month savings are deposited. A LISA is open to savers aged between 18-39 and you can only withdraw if you are buying a first home or are aged 60 or over.

Innovative Finance ISAs – Companies who offer IFISAs lend your money to borrowers and businesses with the interest earned added to your account. Where a borrower is unable to pay you back the money saved the saver is not be protected.

Junior ISAs – A junior ISA allows you to save or invest up to £9,000 for your child. This is separate from your own £20,000 limit. Children are unable to touch the money until they turn 18. Paying your income into a Junior ISA could help you to reduce your overall income tax burden with careful planning.

More people are now proactively seeking out financial advice

The last 12 months have reshaped many of our preconceived ideas around money; a global pandemic was a plot twist in a Hollywood movie, it was never meant to happen 'in real life'.

But happen it did, and it has left a number of generations reconsidering their attitude to financial risks and wondering what path to take going forward.

Younger people (between 18-24) may not have been a demographic who previously would have chosen to invest rather than spend, however during Covid-19 according to a Halifax survey, 16% of them began their first foray into investing.

Whilst this could be attributed to having more time on their hands, evidence is predicting this to be a trend that will remain with Barclays Smart Investor finding nearly half of their investors plan to cut their 'normal' spending once restrictions lift, to preserve their new investing practises.

Unsurprisingly online brokerages are seeing a surge in engagement however young people are proving to be cautionary investors with traders under 25 years only trading small amounts and less frequently than older age groups. However, up to 80% of this Generation Z population sought out financial advice versus 60% of Baby Boomers (57-75 yrs) and 64% of

Gen X investors (41-56 yrs) – but this was often through social media and online influencers.

Demonstrating the need for finance professionals to ensure they are attracting a younger audience, a report by Prudential illustrates that more than half of UK adults (53%) have sought out financial advisers for advice during the pandemic.

Of this 53% a third have already spoken to a professional, 20% are planning to and even the 47% who stated they weren't looking for guidance, 15% said they may well change their minds in the future.

This comes partly through concerns for the next 12 months as the UK starts lifting its way out of lockdown, with some now having depleted savings and others losing money on their investments. Older generations also have adult children to consider, in terms of supporting them through job losses, reduced wages, as well as their parents who may need assistance for long term care.

Encouragingly only 3% felt that fees would refrain them from seeking professional advice as an independent adviser can save far more in the long term than any fees levied as well as provide that crucial peace of mind that they are taking back a level of control that has been cruelly ripped away during Covid-19.



Market Report

April 2021

Global Review



Global equities have continued their recovery from the pandemic induced sell off in March of last year. Markets have taken confidence from government support and the massive levels of stimulus provided by the world's central banks that have helped economies through a series of enforced lockdowns. Policy is set to remain easy whilst the rollout of vaccines continues around the world with many economies expected to return to pre-pandemic levels of activity in the coming twelve months.

Recent market leadership has been taken by "out-of-home" stocks on the expectation that economies will be able to sustainably re-open and this will lead to a boom in household spending after global lockdowns.

Conversely, "stay-at-home" stocks, together with bond markets, have been hit by the headwind of potential inflation as markets absorb the possible impact of both pent-up household demand and the massive spending promises of global governments.

UK



The final three months of 2020 saw improvements across all main areas of the UK economy but activity still contracted by 9.8% for the year as a whole following the lockdown measures that were introduced to combat the Covid-19 pandemic.

The UK's third lockdown in January inevitably stalled the recovery before rebounding in February as businesses prepared for reopening. With restrictions

set to remain in place until the summer, the Office for Budget Responsibility has pushed back its timetable for recovery with estimates for record growth in 2022.

The OBR have also projected that the UK's total debt will exceed the size of its economy over the next year as borrowing, largely to mitigate the impact of Covid-19, is set to hit £600bn over 2020-2021.

A large proportion of this money has funded the Job Retention Scheme with the Chancellor extending support until the end of September during his March budget.

US



Joe Biden was sworn in as the 46th US president on 20th January, one day after the Georgia senate election results were certified that gave the new president's Democratic Party an effective majority in the upper chamber.

This paved the way for the further stimulus measures promised by Biden and he duly delivered when the \$1.9tn "American Rescue Plan" was quickly approved. The plan adds to the \$900bn package already passed in December and totals close to 15% of US GDP.

The continued wave of stimulus has led to upgrades in growth forecasts for the US economy with a consensus 7% expansion now anticipated in 2021. This has boosted equity market confidence but raised expectations that a rapid recovery fuelled by pent-up demand will stoke inflation.

The US Federal Reserve has remained steady in its guidance that inflation expectations remain subdued and does not anticipate raising interest rates before 2024 to stem rising prices.

Europe



The Eurozone economy contracted by 0.7% in the last quarter of 2020, a better return than consensus expectations, with lockdown measures in many countries less strict than earlier in the year. However, economic output for the bloc shrank by 6.8% in the full year, the deepest fall since records began in 1995. The slow introduction of vaccine programmes on the continent and the rise of a third wave of infections will be a further drag on economic performance with Germany, France and Italy imposing additional lockdown measures in recent weeks.

The European Central Bank has agreed to accelerate its bond purchase programme in an effort to keep the costs of borrowing low. Yields have been rising as inflation expectations have increased, driven by the unprecedented levels of stimulus being introduced across the globe, particularly the most recent US measures. The European Parliament ratified the EU's €672.5bn "Recovery and Resilience Facility" in February, just days before former European Central Bank chief Mario Draghi was sworn in as Italy's new prime minister.

Japan



Within days of the announcement of the "American Rescue Package" and ratification of the EU's "Recovery and Resilience Facility", the benchmark index of Japan's largest listed companies, the Nikkei 225, breached 30,000 points for the first time in more than 30 years. Investors were also buoyed by robust economic performance in the fourth quarter

of 2020 with official figures indicating annualised growth of 12.7% between October and December, well ahead of economists' 9.5% forecast.

Economic activity in the country contracted by 4.8% in 2020 overall, making it one of the most resilient in the world last year. The fall was less than half the 9.8% suffered by the UK. The ability to keep the economy largely open throughout the pandemic was a significant contributor but there are also signs that the country's multi-year programme of structural reforms introduced by former prime minister Shinzo Abe is beginning to bear fruit.

Asia



Official figures indicate that the Chinese economy expanded by 2.3% in 2020 despite the country being the epicentre for the outbreak of Covid-19. This strong economic performance has accelerated in recent months despite the government moving to unwind its pandemic driven stimulus measures. Mirroring record highs in US and Japanese stock markets, local equity indices have regained levels not seen since the 2008 global financial crisis.

India leapfrogged both the UK and France to become the fifth largest economy in the world last year according to the International Monetary Fund. The Reserve Bank of India has forecast GDP growth of 10.5% in the coming financial year with the government planning to avoid further national lockdowns despite recent highs of over 100,000 in new coronavirus infections. During the first wave, Indian authorities built up a credible track record and performed significantly better than all expectations. Mortality rates were relatively low with less than 7% of the population aged 65 and over.

What is Financial Wellbeing?

There are an increasing number of references made about Financial Wellbeing – whether these are from financial firms who state they implement it into their businesses or as part of a swathe of Employee Benefits that large firms are now feeling under more pressure to implement, especially after the last 12 months that will have challenged the vast majority of the UK's population attitudes to several areas of wellbeing.

But what is the definition of Financial Wellbeing, if indeed a definition exists?

When we think of seeking financial advice, we traditionally perceive the conversations to revolve around 'products' or jargon, ie pensions, ISAs, portfolios, retirement planning etc. Whilst these are all highly relevant and necessary, undeniably if we don't plan ahead for our retirement at a reasonably early stage, we could find ourselves teetering on a dangerous cliff edge; one question remains unanswered which is what will make us happy?

The phrase "money will make you happy" is a well known and somewhat cliched quote that is frequently both challenged and revered, depending on your lifestyle status and mindset. But surely it is how we use our money that can bring us happiness. According to the Initiative for Financial Wellbeing, there are 5 pillars that

need to be met to achieve Financial Wellbeing:

- A clear path to identifiable objectives
- The ability to cope with financial shocks
- Clarity and security for those we leave behind
- Control of daily finances
- Having financial options

Some of these, we could argue, we do naturally. Managing our daily finances is necessary to ensure bills are covered, savings are made and debts are repaid; as we start families and gain lifetime responsibilities our thoughts turn to making wills and assessing our inheritance liabilities.

We already know the importance of saving for that 'rainy day' which nobody could have foreseen recently sliding into a 'rainy year', meaning it has never been more critical to either maintain or rebuild a degree of emergency funds.

These are all elements you would expect to discuss with a financial adviser or even do for yourself. But as one of the largest contributors to our overall wellbeing is our social relationships, how will accumulating extensive wealth really influence your future happiness.

Will buying a holiday home, another luxury vehicle or booking a further tropical holiday

(when we can travel) really make us fulfilled?

Maybe it will.....but is there more to it?

One of the identifiable objectives surely needs to form how you can use money for the greater good and ensure you have the financial options you want.

Millennials are known to seek out experiences rather than amassing lots of 'stuff'; we are as a nation, becoming more focussed on sustainability and building a better future for the new generations yet to come, so can we use our money with a more philanthropic bias?

Or to provide legacies for loved ones? Also once you retire what are you going to do with yourself? How will you fill your time? Can you volunteer or support others? Essentially, what is your purpose?

These are all questions where the answers will be unique to you.

The use of behavioural finance plus an understanding of financial wellbeing theories (which may include existing research into money & happiness as well as the general theories of wellbeing) can be used by financial planners to help steer you in the right direction.



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