SIMPLYWEALTH

Your logo and details go here

YOUR WINDOW ON FINANCIAL ISSUES

AUTUMN EDITION 2014

INSIDE THIS ISSUE

HOW TO BUILD AN INVESTMENT PORTFOLIO

Whilst most of us aren't destined to win a fortune on the National Lottery or EuroMillions, we all aspire to being financially comfortable. Taking the decision to invest money can seem like a major step, but with help from a professional adviser, building up a portfolio of investments isn't an unrealistic ambition.

To begin with, it's important to take into consideration any existing savings and investment plans you may have and any shares you have acquired or inherited. Calculating your current tax position and ensuring your will is up-to-date are also important steps. You'll need to have ready access to a cash fund to cover everyday living expenses and unforeseen expenditure.

Setting goals

You need to be clear of the reasons you are investing and of your goals. Life events that people often invest for include children's education, a daughter's wedding, to repay a mortgage, retire at fifty-five; the list can be a long one. Armed with this information, your adviser can develop the right investment strategy to help make this happen.

How much do you have to invest and how long do you want to invest for? Do you have a lump-sum available or do you want to make regular contributions? Do you want to invest for income or growth or a combination of the two? Are you happy to invest world-wide? If you're putting your money into investments in another country, then their value will move up and down in line with currency changes, as well as being subject to share price movements.

More than one home for your money

When it comes to investing it's worth heeding the maxim 'don't put all your eggs in one basket'. It's good to spread your money around so that a poorly-performing investment doesn't greatly damage your returns. A portfolio that includes a range of assets alongside shares, such as bonds, property, and cash, has been shown to perform better over the medium to long term than one that is only invested in one type of asset.

You will need to establish how much risk you're comfortable with and the impact that has on the rate of return you can realistically expect to earn. You should bear in mind that the level of return can vary from year to year and that past performance is not a guide or a guarantee of future returns.

While building a profitable portfolio means taking a longer-term approach, your adviser will want to schedule regular reviews with you so that your investments can, if necessary, be altered or rebalanced in response to economic and market forces.

What's more, they will be able to ensure your plan continues to meet your financial needs as your life changes, regularly reviewing it and updating or amending it to meet your circumstances.

CITY CHAT

Scams still rife

It seems some UK investors are still falling for the scams of persuasive salesmen based abroad. Sometimes they access share registers to create a plausible entrée when contacting a victim, so Equiniti, Capita and other registrars sometimes warn shareholders of the risk.

The Financial Conduct Authority is also active in protecting the interests of investors, though it must be careful what accusations it levels at overseas firms. This may mean it issues a general warning about dealing with unauthorised firms, adding that a named firm has no authorisation to provide financial services or products in the UK.

Best advice from the City is to shun any suspect approaches received by phone, post or email and stick with a verified FCA authorised firm.

HOW TO GIVE MONEY AWAY TAX-EFFICIENTLY

If you're thinking of making gifts of money to your family, it's worth talking to your financial adviser, as it's possible to make them in such a way that can improve your prospective inheritance tax position.

With more estates passing the Inheritance Tax (IHT) threshold (£325,000 in 2014-2015, an effective £650,000 for many married couples) it makes sense to make any gifts tax efficiently.

Normally, for a gift outside the annual, small gift or wedding exemptions to be fully effective for IHT planning purposes, the donor must survive the gift by seven years (the liability reduces during the seven years). In addition, a lifetime gift put into a trust may give rise to a 20% upfront charge to IHT.

The advantage of using what's called the 'surplus income exemption' is that, provided conditions are met, the gift is immediately exempt from IHT. If it's made into a trust there will be no upfront IHT charge.

The conditions that apply

Gifts must come out of income and not from capital. You can't part with so much cash that you're unable to maintain your usual standard of living. Gifts must be made as part of an established pattern of giving, rather than on an ad hoc basis. Put simply, they must be seen as part of your normal pattern of expenditure. The gifts don't have to be for the same amount each time.

Whilst there's no strict rule governing when this should be done, it's often better to give gifts after the end of the relevant tax year (5 April), as at that point you should have a clearer picture of your income and expenditure for that year.

There is no minimum period of time required to qualify for the exemption. The first gift made in a series of gifts can qualify for the exemption provided there is a clear (and evidenced) intention from the outset to establish a regular pattern of giving.

The exemption doesn't apply automatically; your executors would need to claim it on your death. They have to prove that each gift you made met all the conditions. So it's important to set up a proper programme of income giving and record all the details.

NISAs – NICE AND SIMPLE DOES IT

NISAs have found favour with savers, with a record £4.9bn going into cash NISAs in July 2014 according to the British Bankers' Association.

So what's changed?

- The annual allowance from 1 July 2014 is £15,000 – a big jump
- More choice – you can put up £15,000 in either a cash NISA or a stocks and shares NISA, or any combination up to the £15,000 limit
- Savers can hold cash and investments within their stocks and shares ISA, so no need for two separate accounts (if the provider allows this)
- More flexibility to earn tax-free interest (with freedom to switch NISA investments – and ISAs from earlier years – from stocks and shares to cash and vice versa, subject to provider terms)
- Junior ISAs – the limit is now £4,000.

With interest rates low, cash NISAs offer enhanced returns because of their tax-free status (a major advantage is that you don't need to record NISAs on your tax return). For a basic-rate taxpayer, the return in a NISA is worth 25% more because of the tax effect, for higher-rate taxpayers, it is worth 66.6% more.

Stocks and shares NISAs are slightly different. Investments inside a NISA aren't completely tax-free, but there are advantages:

- No tax on gains. Invest outside an ISA and any profits made above the annual capital gains tax exempt amount (£11,000 for tax year 2014-15) would be subject to tax at 18% for basic rate taxpayers and 28% for higher-rate and additional-rate taxpayers.
- Income earned from any share investments is taxed at 10%. So while basic-rate taxpayers would pay the same outside a NISA, this is a significant saving for higher and additional-rate taxpayers who would otherwise pay 32.5% and 37.5% respectively (tax year 2014-2015).

Levels and bases of and reliefs from taxation are subject to change and their value depends on the individual investor

IS IT WORTH MARRYING FOR MONEY?

Most of us marry for love, but tying the knot still brings financial advantages too. It's commonly believed that co-habitees have the same rights as married couples, but in fact this isn't the case.

The Government plans to introduce a married person's tax break in April 2015. Rather than rewarding all married people with a higher tax allowance, the marriage transferable tax allowance will allow married couples and civil partners to transfer up to £1,050 of their personal allowance to their partner. This is only available where neither person is a higher-rate tax payer.

Some married people already benefit from an income tax break. If either person was born before April 1935, they are entitled to the married couple's allowance. The maximum allowance in tax year 2014-2015 is £8,165.

There are Capital Gains Tax (CGT) advantages too. CGT is payable at 18%, or 28% if your income pushes you into the higher rate tax band, on gains you make in excess of the annual exempt amount (£11,000 in 2014-2015). Married couples and civil partners can transfer assets to each other without triggering a CGT charge. This means they can take advantage of both their annual allowances to reduce a tax liability.

Pension perks

When it comes to pensions, being married has advantages also. For example, although a spouse will be eligible for a widow's or widower's pension, this isn't automatically the case if the couple aren't married. There are often conditions that apply that typically require the couple to be financially dependent on each other and living as if married. They also need to be free to marry, so this would exclude anyone who wasn't divorced from a previous spouse.

But where it's particularly advantageous to be married or in a civil partnership is if your partner uses drawdown to access their pension. A pension fund can pass tax-free to anyone at all on death before retirement but, once income is being drawn from it, it will be subject to a tax charge on death unless it passes as pension income to a surviving spouse or civil partner.

Tax planning can be complicated; it's always a good idea to seek professional advice.

DOWNSIZING IN RETIREMENT – IS LESS MORE?

With property prices continuing to make headlines, many people nearing retirement are contemplating the financial advantages of downsizing to a smaller property.

Moving somewhere smaller can slash household running costs such as heating bills and council tax. And if you end up with spare cash you can invest tax efficiently to augment your retirement income. With the annual allowance for tax year 2014-2015 standing at £15,000, a New Individual Savings Account (NISA) could be a great place to deposit a lump sum or make regular payments of smaller amounts and get tax benefits.

You could otherwise use the cash you've released to help family members buy a place of their own by helping with their deposit, or invest in a property for them to live in that you jointly own. (You would need advice on the Capital Gains Tax and Inheritance Tax implications.)

A step too far?

Moving house later in life can be too much of a wrench, but there is an alternative way of raising cash against the value of your property that means you could continue to live in it and avoid moving. Equity release allows you to benefit from the 'equity', or value tied up in your home, in the form of a loan. (As releasing equity from your home might result in your relatives inheriting less than they had anticipated, it makes good sense to discuss the implications with your family and financial adviser).

Downsizing shouldn't be a substitute for proper retirement planning; it would be dangerous to assume that property prices will continue to rise for years to come.

This is a lifetime mortgage. To understand the features and risks, ask for a personalised illustration.

TIME FOR A WEALTH CHECK?

Whilst we regularly service our cars, we don't always pay the same attention to our money. Are your finances in good shape? Or are they in need of a tune-up? If you're not sure about the diagnosis, it's time to get a financial health check.

Have you reviewed your savings and investments recently?

Savings and investments you acquired a while back may not meet your current financial needs or represent the best options currently available. Also, if your investments aren't currently held on a platform you may want to consider moving to this on-line way of managing your finances. It makes sense to talk to your adviser about reviewing your portfolio now.

Are you using all your tax breaks?

The annual limit for New Individual Savings Accounts (NISAs) is, from July 2014, a massive £15,000. NISAs represent an excellent tax-efficient way of saving, so don't miss out on this major tax advantage.

Pensions offer generous tax breaks. If you are a basic-rate taxpayer making a pension contribution of £10,000, this will in effect only cost you £8,000, once income tax relief has been applied. If you are a higher-rate taxpayer, the net cost to you would be just £6,000.

Should you be thinking about Inheritance Tax planning?

As house prices continue to rise, many more people find that their assets exceed the threshold for Inheritance Tax (£325,000 for 2014 -2015 tax year, an effective £650,000 for most married couples or civil partners). Fortunately, with professional advice you can minimise this figure while you're still alive. This could mean giving income or assets away or setting up trusts.

Is your pension plan in good shape?

Everyone should ensure they are maximising their pension contributions. If you're due to retire shortly, it's worth talking to your adviser about the changes in legislation that come into effect from April 2015, which give you more options for your pension pot.

Is your will up-to-date?

Having no will means that your assets, money and possessions may not end up where you intended if you die. If you have a will, it's worth reviewing the content and ensuring it reflects your current wishes.

It makes sense to review your finances regularly with your financial adviser to ensure they're running smoothly.

Will writing and estate planning services are not regulated by the Financial Conduct Authority

CITY CHAT

Tesco, eggs and baskets

In past years, investors were shocked when major companies cut their dividends or suspended them altogether. BT, Lloyds Banking Group and transport operator FirstGroup have been among them. Lloyds and First have yet to resume dividend payments.

More recently, in late August, came the news that Tesco was cutting its interim dividend by three-quarters after a fall in profits. This further highlighted the importance of spreading risk – perhaps through a unit trust or OEIC – particularly if reliant on dividend income.

Even where a company is in the FTSE100 or 250 and a household name, it remains risky to put all your eggs into just one basket. (This is not a recommendation to buy, sell, hold or avoid any particular company's shares.)