WEALTH PERSPECTIVES

Winter 2016

LET'S FOCUS ON INHERITANCE TAX

With the number of families affected by inheritance tax on the rise, taking specialist Advice and making plans now is crucial.

FINDING INCOME IN A TRICKY SAVINGS CLIMATE

If interest rates stay at their current low levels, those looking for income from Investments may need to change their strategy.

IS YOUR FAMILY FINANCIALLY PROTECTED?

It's not possible to quantify the value of someone's life in purely financial terms, but careful planning can help provide for your loved ones when you die.

AUTUMN STATEMENT – HAIL AND FAREWELL

A look at the key points of the new Chancellor's first (and last) Autumn Statement.

TAYLOR BURKE PARTNERSHIP

CAERUS Capital Group

WELCOME TO THE LATEST EDITION *of* WEALTH PERSPECTIVES

in which we focus on the issues that affect your finances.

Sound Advice
The myriad of financial planning information can be intimidating. However, the role of the Adviser has developed, as have Regulations, to help people navigate their way through the often complex challenge of putting their financial affairs in order.

Market Commentary
A look at the highs, lows and surprises of the last quarter.

Let's focus on inheritance tax
Recent statistics revealed a massive 96% increase in IHT receipts, so what planning can you put in place to avoid being dragged into the IHT net?

Does a pension beat property?
Residential buy-to-let is popular with many Investors, but is it really a better Investment for retirement planning?

Finding income in a tricky savings climate
The Bank of England says interest rates may not rise much above 1%, bringing implications for those needing income from their Investments.

LISA reappears after a summer redesign
The launch of the Lifetime ISA was met with some criticism. An 'updated design note' has revealed several changes to the initial proposals.

Is your family financially protected?
With an overhaul of the bereavement benefits' system due in April 2017, it's time to ensure your loved ones would be provided for in the way you want.

What is a £5,000-a-year pension worth?
Long-term interest rates have led to increases in transfer values but there are many pros and cons, which need to be carefully considered.

Two wrongs and a right – tax evasion, avoidance and planning
New consultation papers published by HMRC detail a clamp down on tax dodgers and those promoting tax-avoidance schemes.

A third quarter Investment lesson
The surprise 6% rise to UK shares in the third quarter of this year proves how difficult it is to predict the stock market over the short term.

Autumn Statement – Hail and Farewell
The new Chancellor, Philip Hammond, took to the stand on 23rd November to deliver his first (and last) Autumn Statement.

If you wish to discuss your finances or any of the issues raised in this edition, please do get in touch.

Best wishes

Colin Burke,
Sandra Taylor

Partners: Colin Burke & Sandra Taylor
Taylor Burke Partnership

Colin Burke

Sandra Taylor

In this issue:

THE CAERUS SENTIMENT DASHBOARD

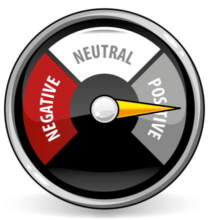
The CAERUS Sentiment Dashboard provides, in a single view, current attitudes to the main asset classes.

Cash

Government Bonds

Other Bonds

Property



UK

Developed Markets ex-UK

Emerging Markets

Please note, this information is for indicative purposes only.

SOUND ADVICE

As usual, this edition of Wealth Perspectives is rich and varied in content…

Members of the public can be assured that today's community of Financial Advisers is well positioned to help them navigate their way through the diverse and often complex challenge of putting their financial affairs in the best possible order.

From inheritance tax, through the relative attributes of pensions versus property; the search for strong income returns; LISAs; and several aspects of life insurance, experts chart the pluses and the minuses, the threats and the opportunities, the dos and the don'ts.

However well written, all this information and intelligence can be intimidating for even the most interested of audiences. In fact, Retail Financial Services is now so extensive and diverse, it is impossible for any single Adviser to be an expert in all aspects, let alone members of the public.

The role of the Adviser and the nature of Advice have changed over the decades as this complexity developed.

Prior to the arrival of Regulation in the first half of the 1980s, some 400,000 or so 'salespeople' were out and about selling products to the British public. Most had graduated from the 'school of life' rather than through professional qualifications.

As Regulation developed, the demands made of Advisers became existential for many. So much so, today, there are less than 30,000 'CF30' fully qualified Financial Advisers in the UK.

Before Regulation arrived, Financial Advisers mostly followed the standard sales process used to distribute products the world over. I call it the 'SOS' process. This started with the salesperson advocating the benefits of the range of Solutions ('S'). As such, the salesperson needed to overcome any Objections ('O'), that implied one or all of these products was inappropriate for the individual and/or their circumstances.

As and when any objections were dealt with, the Adviser moved to the closing 'S' in 'SOS', namely, the Sale.

This approach was pragmatic and, in most cases, provided the Client with a suitable proposition.

There is no question, however, that the new way, triggered by the arrival of Regulation, represented an improvement.

I call this the 'OAS' process – and Regulation has made it mandatory for all. First, in the 'O', the Adviser gathers extensive data on what the Client feels he or she needs and wants ('Objectives'). The Client's circumstances are then extensively investigated. As a result of this detailed 'discovery' phase, the Adviser can move on to the Analysis ('A'), where he or she carries out research to find the most Suitable Solutions ('S').

Whilst most Advisers today have very good technical knowledge, their primary expertise is in running the OAS process. They can identify what is truly suitable for the Client and then manage its implementation. However, to do this, they rely on extensive, expert resources who provide the different kinds of technical expertise that are invariably essential to an optimal outcome.

The move from 'SOS' to 'OAS' was not smooth, easy, painless, or inexpensive. However, members of the public can be assured that today's community of Financial Advisers is well positioned to help them navigate their way through the diverse and often complex challenge of putting their financial affairs in the best possible order.

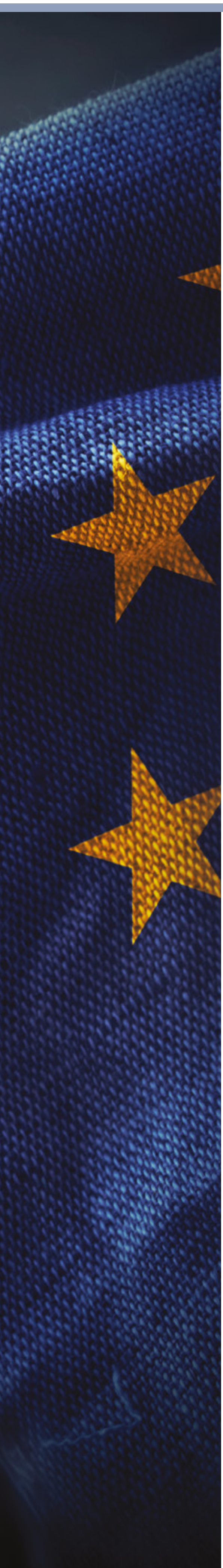
If you have any questions about the content of any of the articles in this edition of Wealth Perspectives, your Adviser will be only too pleased to explain.

CAERUS Capital Group

Keith Carby
Chairman and CEO
CAERUS Capital Group

market COMMENTARY

This has certainly been a year of surprises. From the the effects of Brexit on the market, to the election of Donald Trump, it’s been a rollercoaster ride that looks set to continue into 2017.



The rise of populism

The last few months have seen the pollsters confounded by the Brexit vote and more recently the election of Donald Trump. These unexpected results upset the composure of the Investment markets, which dislike all the uncertainty any unforeseen event creates. The cause of these reversals, which is now clear for all (the pundits!) to see, is that living standards for the middle third in society, not the very poorest and certainly not the rich, have fallen significantly over the last 10 years. The top third have been able to expand their incomes from employment, and their Investment wealth has been boosted by the ultra-low interest rate policy of Quantitative Easing. The rise of populism will now be traced in Europe, which heads for the polls in 2017, with key elections in France and Germany. By the end of next year, 70% of the European population will have cast a vote on the direction of their country and the EU.

Year of the Fire Monkey

While these dramatic political events have been unfolding, two rather positive background developments, in China and in the USA, have been underway, which may come to have a rather greater bearing on Investment returns over the next 12 months. 2016 was the year of the Fire Monkey in the Chinese calendar, supposedly ambitious and adventurous, a much more propitious character than 2015. Last year, Chinese shares were ramped up by private Investors buying with borrowed money, and the Chinese market rose to a record high. It then plunged, paused for breath at the end of the year and then fell again this January, having halved in value over six months. The steady recovery in China, this year, has been supportive of world markets, and fed into confidence in wider Emerging Markets, which have been through a tough few years. These less-developed nations now represent over 50% of world GDP and are contributing the greater share of international growth.

The Year of 'The Donald'

Donald Trump did not win the popular vote but is President elect of the USA. Only a very few saw it coming. Countless leading figures in his party disowned him in the last few days of the campaign. The year began with markets digesting Janet Yellen's decision, in December 2015, to raise interest rates for the first time in seven years. If there is a single thermostat for global Investment it is probably the cost of borrowing in the US, and more rate increases were forecast for 2016, on the basis of the hints from the Federal Reserve. Some were concerned that America might topple into a recession, and Yellen held back from further action. But its recovery has continued and a growing US economy is the best backdrop of all for Investment.

Year of the Rooster

Portfolios in the year ahead will see headwinds blowing in from the political scene, the return of inflation from increasing energy prices and a weaker pound; our fixed interest, bond Investments will be under pressure from rising interest rates, and there are possible strains in geopolitics. Diversification, a basic optimism that there is value to be found across a wide selection of asset classes, has a strong case to support it. Next year, the year of the Rooster, is supposed to be a good one for hardworking, confident and resourceful people. It's the positive attitude that can see through the short-term alarms, which is needed to secure the rewards that flow from a long-term view towards Investment.

Parmenion
It's your future.

Simon Brett
Chief Investment Officer
Parmenion Investment Managers

LET'S FOCUS ON INHERITANCE TAX

Back in the day, when I was sitting in my statistics class at high school, little did I think that the syllabus would ever come in useful. I have, however, been proved well and truly wrong, given that the HMRC website has a whole fascinating area simply called 'statistics', and part of my job here at Prudential is to keep on top of everything forthcoming from HMRC – including, of course, statistics.

To be fair, I'm not so interested in the monthly sea fisheries statistics or milk utilisation by dairies, but other relevant data can reveal interesting (and alarming) trends, which are important in the world of financial planning and help shape Prudential's suite of products and trusts, available through Financial Advisers.

> Inheritance tax receipts are rising, and the number of families affected is on the rise.

Let's focus on inheritance tax (IHT)

HMRC recently published statistics revealing that IHT receipts have risen from £2.4 billion in 2009/10 to £4.7 billion (provisional) in 2015/16. That's a staggering 96% increase. Tax year 2009/10 isn't simply a random year. Instead, I chose it because since then, the IHT nil rate band (NRB) allowance has been frozen at £325,000. Prior to this, it tended to increase every year, just like the income tax personal allowance, the capital gains tax exemption, the annual ISA limit and so on. For a tax allowance to be frozen for (now) seven years is a very long time indeed and simply drags more families into the IHT net.

With this in mind, how is IHT charged and how does the NRB work?

IHT is a tax on the estate (the property, money and possessions) of someone who has died. Any part of the death estate that is left to a spouse or civil partner will typically be free from IHT. In that case, the IHT charge will arise on second death and not first death. Where the estate is left to friends and other family members, such as children or grandchildren, then IHT will be payable on the amount that exceeds the NRB. As we know, this is currently £325,000. Tax rules make it possible to transfer any unused NRB to the surviving spouse or civil partner.

Harry dies and leaves his entire estate to his wife Sally. There will be no IHT due on Harry's death. He has not used any of his NRB. When Sally dies, her personal representatives can claim Harry's 'unused' NRB, a 100% increase to her £325,000 NRB, giving rise to a combined figure of £650,000.

If you have seen reports in the financial press suggesting a £1 million NRB per couple, then you might be scratching your head. How does a combined allowance of £650,000 translate into an allowance of £1 million? The explanation is a new, separate and additional NRB called the residence nil rate band (RNRB). Again, this is transferable and applies where the second spouse or civil partner of a couple dies.

This broadly applies where you leave your house to children and grandchildren. The maximum allowance is being phased in over four tax years, starting at £100,000 in 2017/18 and rising to £175,000 in 2020/21.

Confused? Perhaps this example will help

Victor dies in February 2016 and leaves everything, including his share in the family home, to his wife Margaret. No IHT is due on Victor's death. In December 2020, Margaret dies and leaves her entire estate to her two children. The NRBs available on Margaret's estate are:-

Margaret's own NRB	£325,000
Victor's unused NRB	£325,000
Margaret's RNRB	£175,000
Victor's unused RNRB	£175,000
Total	£1,000,000

If Margaret had no children and left her estate to nieces and nephews, then her estate would have been denied the RNRB. Another point to be aware of is that there will be a gradual withdrawal of the RNRB for estates with a net value of more than £2 million.

Alert readers will have spotted that I have used the current NRB figure of £325,000 for a death in December 2020. That's not an assumption, it's government policy. The combined £1 million allowance being promised in 2020/21 only works if the figures are as set out in the example. Accordingly, the £325,000 will remain frozen from 2009/10 to 2020/21. Truly an eternity in tax terms.

Will we see a decline in IHT receipts when the impact of this RNRB kicks in? HMRC statistics indicate otherwise and predict IHT receipts rising to £5.6 billion in 2020/21. Incidentally, older HMRC statistics revealed that in 2012/13 there were a little under 18,000 families paying IHT, but that figure is expected to more than double to 41,000 for 2015/16.

IHT receipts are rising, and the number of families affected is on the rise – what planning can be done?

Firstly, certain business owners and farmers can enjoy up to 100% relief from IHT, in respect of their business and farming interests. This is an area requiring specialist Advice. For others, lifetime gifting can reduce the taxable estate. For example, gifts to charities, gifts up to £3,000 in a tax year and regular gifts out of income can all be immediately exempt from IHT. This latter exemption is particularly useful and can be utilised by someone with surplus income, who makes regular pension contributions on behalf of family members. The donor enjoys an IHT saving and the recipient can enjoy a boost to their pension and tax relief. Other 'one-off' outright gifts are exempt, but only if the donor survives for seven years or more.

Where larger lump-sum planning is anticipated, then it may be more appropriate for gifts to be made through the medium of a flexible trust, where the trustees have control over who benefits and when. If this sounds rather complicated, then a range of trust wordings can be obtained free of charge from insurance companies. These can cater for different situations – for example, some may want to fully give up access to the trust fund, others might retain access to regular payments for life, or perhaps some might require access to the full amount originally invested. It is critical to carefully consider the nature of the Investment inside the trust. For example, the Investment might comprise a fund, which is available in an insurance bond 'wrapper', aiming to protect the trustees against some of the ups and downs of the markets, by using a smoothing process. Such a fund spreads Investment risk by investing in a range of different assets. An added advantage of an insurance bond is that it is a non-income producing Investment, which simplifies tax return and administration requirements.

IHT planning can be a complex area but, working with your Financial Adviser, you can achieve an understanding of IHT in relation to your own circumstances.

PRUDENTIAL

Graeme Robb, Senior Technical Manager, **Prudential**

The Financial Conduct Authority does not regulate tax and trust advice.

IS YOUR FAMILY FINANCIALLY PROTECTED?

The existing system of bereavement benefits is being overhauled from April 2017. A key change will be the end of widowed parent's allowance, which is currently paid until the youngest child leaves education, to be replaced by just one year's payments for new claimants. What would happen if your family were affected?

For many, reviewing their life insurance is likely to be as enjoyable as visiting their dentist. However, it is arguably even more important than making sure you are financially prepared for retirement or that your Investments are in good order. The reason is simply that an early death robs a person of the time needed to achieve their financial goals. It is one thing to plan for retirement in, say 15 years, or build up a capital sum over five to 10 years. It is quite another to make sure your loved ones are provided for in the way you would want, knowing that the date of your death could be anytime from today onwards.

Well over a million people currently have funeral plans in force, however, the true financial loss experienced by a family when a breadwinner dies is out of all proportion to the £4,000 or so that an average funeral costs. Someone aged 35 earning £50,000 a year, with a £200,000 mortgage and children aged five and seven, could easily find that their partner would need £1 million simply to make up for the loss of income over the next 18 years and the repayment of half of the mortgage.

Pure life insurance is not expensive

In fact, the monthly premium for an 18-year family income plan for that 35 year old, to provide £50,000 a year to their family in the event of their death, could be as low as £25 a month. For them to provide £1 million in cash, as an alternative using an 18-year level term insurance plan, would still be possible for just under £45 a month.

How much is enough?

It is not possible to quantify the value of a person's life in purely financial terms. On the other hand, the ability to provide adequately for your family if you are suddenly taken away from them, so that they can still fulfil their hopes and dreams, is an act of love that cannot be measured.

As a minimum, it is generally important to cover any outstanding mortgage or other debts. If you are self-employed, you need to make sure that you have sufficient cover for business debts. For those with children, your priority should be to provide sufficient cover to replace your income until your children are no longer dependent, and it would be prudent to assume at least age 23 for this. Parents should not overlook the fact that the surviving partner may need to meet the cost of university education or private school costs.

If you receive life insurance cover as a benefit of your employment, please bear in mind that this will need to be replaced if you change jobs and this may be at a time when your health could have deteriorated.

Although there is mention of 'breadwinner', please be mindful of the true value of homemakers and insure with that in mind.

If you are single with no children, you should still be protecting your income from the risk of a serious illness or accident. Such things can undermine your ability to meet your financial objectives.

In any event, it is important to take individual Advice based on your own particular situation, so please get in touch to review your life and health protection needs.

The ability to provide adequately for your family if you are suddenly taken away from them, so that they can still fulfil their hopes and dreams, is an act of love that cannot be measured.

DOES A PENSION BEAT PROPERTY?

Residential property beats pensions as an Investment for retirement planning, according to the Bank of England's Chief Economist. But is he right?

Andy Haldane, the Bank's Chief Economist, grabbed a few headlines recently when, in an interview with the Sunday Times, he suggested his favoured Investment for retirement savings was residential property. It is a view many people with a less profound understanding of economics would share, as evidenced by the popularity of buy-to-let property as an Investment.

Mr Haldane's main justification for choosing property was that in the UK demand has consistently outstripped supply, which, to an economist, means prices can react only one way – 'relentlessly heading north'.

In practice, residential property prices have not always increased. The market is cyclical – like most markets – and if you invest at the top of the cycle (e.g. the third quarter of 2007) you can wait a long while (e.g. until the second quarter 2014) before you see any capital growth, even if you ignore expenses.

Moreover, the government is intent on raising those expenses:- the list includes an additional 3% across each band of stamp duty land tax (land and buildings transaction tax in Scotland) for all second homes, including buy-to-let properties, a phasing out of higher rate mortgage interest relief, a less generous allowance for replacement of furnishings and a higher rate of capital gains tax than applies to other asset classes.

But the best reason for not increasing the weighting of property at the expense of other asset types, as part of your retirement planning, was recently given in a speech by one of Mr Haldane's former colleagues at the Bank of England, Andrew Bailey. He was once a Deputy Governor and is now the Chief Executive of the Financial Conduct Authority.

Shortly after Mr Haldane's interview appeared, Mr Bailey gave a speech in which he looked at *"the two big Investments in the lifecycle model – a home and pensions"*. He said that the main problem with buying residential property instead of a pension was the lack of Investment diversification. In other words, owning your own home probably gives you enough exposure to the residential property market, not just in terms of asset value but also in terms of the amount of money you invest in your own dwelling over a lifetime. In any event, it is important to take individual Advice based on your own particular situation.

FINDING INCOME

IN A TRICKY SAVINGS CLIMATE

Real interest rates may not rise much above 1% – even in the longer term – according to the Bank of England. If the Bank is right about this, where can Investors find income now?

The Bank of England asked two key questions last December – first:- how far have ‘real’ interest rates (that’s after allowing for erosion by inflation) fallen globally? Second:- how likely are they to stay at their current low levels?

The Bank argued that the fall in real interest rates over the last 30 years was driven by a mix of changes, including population aging and increased levels of saving, especially in emerging markets. They thought these trends would persist for some time and didn’t see that interest rates would rise much for some time.

If the Bank turns out to be right, what are the implications for people who need income from their Investments – especially those in retirement?

Both cash and fixed interest securities look unpromising at the moment – yields are at, or near, all-time lows. That doesn’t mean that there is there is no place for holding cash and bonds as part of a diversified Investment portfolio. But it does mean that Investors should be looking for income from shares and property as well.

Dividends from equities (company shares) have traditionally provided the answer for Investors wanting a reasonably dependable income. This involves them giving up some of the capital security provided by cash deposits or even some fixed-interest securities. The value of their capital in shares can go down as well as up, and the dividends aren’t guaranteed either.

But with equities there is also the prospect of some possible long-term capital growth. And that can be very important in boosting Investment returns over the years. The difference between income and capital growth is that the income is usually reasonably regular, while any capital gains tend to come in spurts – with years of no gain, or even losses, followed by sharp up turns.

Most people cannot just live on the income from their Investments; it is necessary to draw on capital gains as well as living on total returns from their Investments.

That means having a diversified Investment portfolio. Part could be invested in equities to provide both income and (hopefully) long-term capital growth. But some of the portfolio should be in cash and fixed interest securities, to help smooth out returns and to provide a reserve of very safe Investments to draw on in turbulent times. The total returns you get from such a portfolio should provide a sustainable stream of spendable income.

The Bank of England specialists expect interest rates to stay lower for longer; that will mean Investors changing their Investment strategy to meet these unprecedented conditions.

WHAT IS A £5,000-A-YEAR Pension WORTH?

If you have pension benefits from an old private sector final salary pension scheme, they could be much more valuable than you think So, how much is the right to a £5,000-a-year prospective pension actually worth, in cash-equivalent transfer terms?

One of the answers to that £5,000 question – and there are many – is 'a transfer value of 30 times the pension, in other words, £150,000'.

If you are surprised, then you are not alone. Two years ago, such a transfer-value figure would have been virtually unbelievable. Back in 2014, a multiplier of around 20:1 was common, making a £5,000 final salary pension worth around £100,000, if you were to transfer the fund close to retirement. The ratio of 20:1 ties in with HM Revenue & Customs' basis for valuing a pension for tax purposes – £1 of final salary pension is generally treated as being worth £20 of your lifetime allowance.

So why the big increase in transfer values?

The impact of interest rates

The main reason for the increase in transfer values is the sharp drop in long-term interest rates. For example, in early October 2014, the yield on the benchmark 30-year UK government bond (gilt) was marginally above 3.0%. Two years later, the yield on gilts had halved to just 1.5%. Final salary pension schemes use long-term yields to assess the value of their pension liabilities, and so the value of those liabilities increases when bond yields fall. One side effect has been a large rise in company pension scheme deficits.

There have even been suggestions in parliament that employers should be allowed to break their pension scheme promises, in an effort to bring down deficits and escalating contribution levels. Some schemes have also increased their transfer values to encourage members with deferred pensions to leave, taking their escalating pension liabilities with them.

Transfer pros and cons

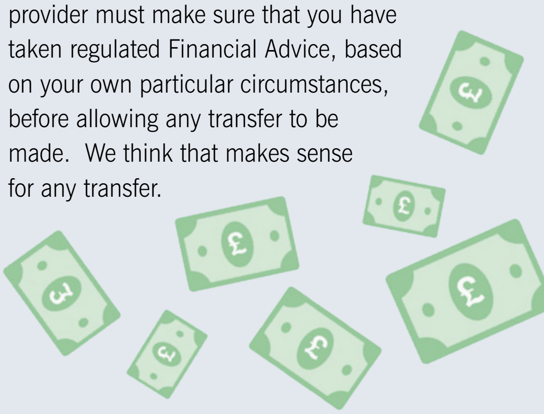
Exchanging £5,000 of pension for £150,000 of pension fund can have several advantages:-

- The maximum tax-free lump sum you can draw is likely to be much higher – £37,500 instead of £23,076, assuming a typical 15:1 commutation basis.
- You will be able to take advantage of the pension flexibilities introduced in 2015, allowing you to draw as much of the fund as you wish, when you wish.
- Death benefits will often also be superior, particularly if you are single. Any pension fund remaining at death is normally inheritance-tax free and the recipients also escape any income-tax charge if you die before age 75.

However, there are also significant disadvantages:-

- You lose the promise of a known amount, usually with in-built increases once payment begins.
- You no longer have the back-up security provided by the Pension Protection Fund, if your employer fails.
- You will almost certainly not be able to turn the transfer value into a lifetime annuity equivalent to your scheme pension, unless you are in very poor health. For example, to match a single life index linked pension for a 65 year old requires a transfer multiplier of over 37:1.

The decision on whether to transfer is complicated. If your transfer value is more than £30,000 – which could mean a pension of £1,000 a year – under government rules, your pension provider must make sure that you have taken regulated Financial Advice, based on your own particular circumstances, before allowing any transfer to be made. We think that makes sense for any transfer.



A THIRD QUARTER INVESTMENT LESSON

Short-term stock market movements are very hard to predict, and the third quarter of 2016 was a salutary reminder of this for all Investors.

If you had been asked at the start of 2016 what would happen to the UK shares in the July-September quarter, if the Referendum vote had favoured Brexit, the chances are you wouldn't have predicted a 6% rise. And that almost certainly wouldn't have been your response if you had been asked the same question at the start of the third quarter – just a week after the vote.

But the fact is, that the FTSE 100 achieved a rise of 6.1% over the three-month period, leaving the index 10.5% higher than when the year began.

It's a reminder that trying to second guess what the stock market will do over a relatively short timescale is extremely difficult. It can also be costly, as those Investors who rushed for the exits after 23rd June now realise.

The value of your Investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. Investing in shares should be regarded as a long-term Investment and should fit in with your overall attitude to risk and financial circumstances.

TWO WRONGS AND A RIGHT

– TAX EVASION, AVOIDANCE AND PLANNING

While others were enjoying August sunshine, HM Revenue & Customs (HMRC) was busy publishing consultation papers on tax avoidance and tax evasion.

As Theresa May announced in her final speech to October's Conservative Party Conference:-

"So it doesn't matter to me who you are. If you're a tax-dodger, we're coming after you. If you're an accountant, a Financial Adviser or a middleman who helps people to avoid what they owe to society, we're coming after you too. An economy that works for everyone is one where everyone plays by the same rules. So whoever you are – however rich or powerful – you have a duty to pay your tax. And we're going to make sure you do."

Three months earlier, HMRC had started two separate consultations on tackling promoters of tax avoidance schemes and dealing with offshore tax evasion.

> At present it is usually only the taxpayer who suffers when a scheme is successfully challenged, while promoters and developers suffer little or no financial loss.

The attack on promoters – and others involved in the development, sale and use of schemes – is designed to *"influence [their] behaviour"*. That 'influence' will take the form of new penalties based upon the amount of tax that was purportedly avoided by the scheme's users, if a scheme fails. At present it is usually only the taxpayer who suffers when a scheme is successfully challenged, while promoters and developers suffer little or no financial loss.

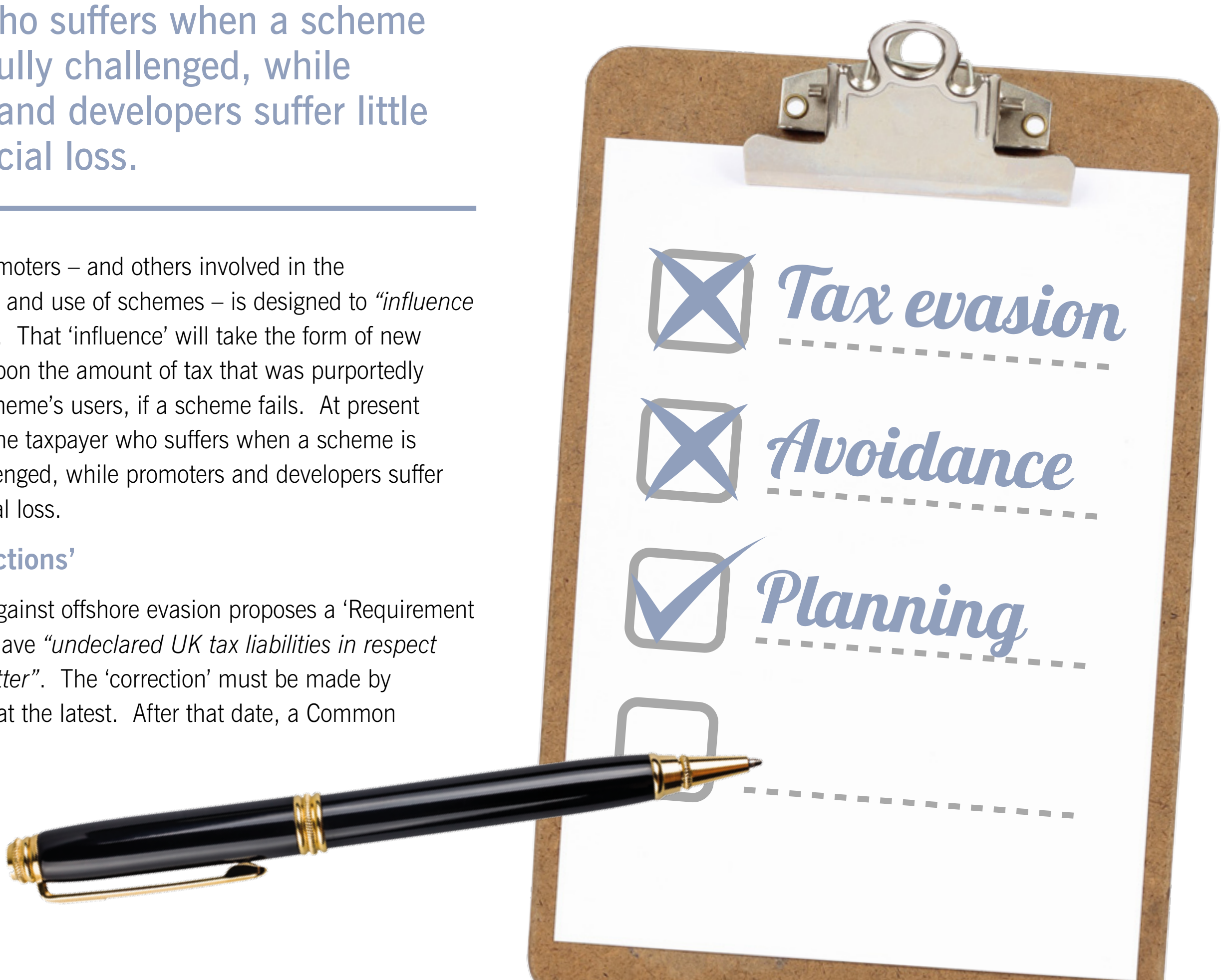
Making 'corrections'

The latest move against offshore evasion proposes a 'Requirement to Correct' if you have *"undeclared UK tax liabilities in respect of an offshore matter"*. The 'correction' must be made by September 2018 at the latest. After that date, a Common Reporting Standard (CRS) is due to come fully into force. Under the CRS, over 100 countries will automatically exchange taxpayer information, making evasion more difficult. Indeed, you probably would not want to have money invested in the countries outside the CRS.

HMRC is adopting a carrot-and-stick approach here, because they would prefer tax evaders to confess voluntarily, rather after an investigation. Thus, the pre-CRS tax penalties will generally be lower than those under the 'Failure to Correct' regime that begins in October 2018.

The targets for these consultations have nothing to do with what might be described as tried-and-tested financial planning and Advice. The Prime Minister and HMRC are after aggressive avoidance schemes and tax evasion – which has always been illegal.

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice.



LISA REAPPEARS AFTER A SUMMER REDESIGN

The Lifetime ISA is back in the spotlight, with a detailed framework published in early autumn.

In what proved to be his final Budget, George Osborne announced the launch of a Lifetime ISA from April 2017. The LISA, as it was labelled by all except the government, was widely seen as a stalking horse for future pension reforms.

When Mr Hammond replaced Mr Osborne in July, it was far from clear that the LISA would survive the change of occupant at 11 Downing Street. The original LISA proposals had been subject to much criticism for their potential complexity and the launch timescale. It was, therefore, a surprise when the government introduced the Savings (Government Contributions) Bill in early September, setting out a broad LISA framework. The Bill was accompanied by an 'updated design note' for the LISA, which revealed several changes to Mr Osborne's March proposals, but left the basic structure intact:-

- You will only be able to start a LISA if you are aged between 18 and 40. The logic is to encourage saving among the young.
- The maximum LISA contribution will be £4,000 per tax year, which will count towards the new overall ISA contribution limit for 2017/18 of £20,000.
- Any LISA contributions made before age 50 will attract a 25% government bonus, meaning that for the maximum contribution of £4,000, a £1,000 bonus will be added.
- The range of eligible LISA Investments will be the same as for the current cash and stocks and shares ISAs. LISAs will enjoy the same tax advantages, meaning returns will be free of UK income and capital gains tax.
- All or part of the value built up in a LISA can be withdrawn penalty free from age 60 onwards, or for the purchase of a first home worth up to £450,000. Any other withdrawals will normally attract a 25% penalty, designed both to claw back the government bonus and to discourage early encashment. If you withdraw £5,000 while you are under age 60, and not buying your first home, £1,250 will disappear.

The 25% government bonus has the same effect as giving 20% tax relief, but there is an argument that it is more easily understood than the tax relief for pension contributions. Unlike pension tax relief, the government bonus is the same for all taxpayers, making it akin to the flat-rate pension tax relief that many expected would arrive in last March's Budget.

There has been some debate about whether a LISA contribution makes more sense than a pension contribution (under current rules). If you are in the position to choose between the two next April, then personal Advice based on your own particular situation is essential. While a LISA and a pension have the same tax benefits during the Investment period, at the stages of making contributions or drawing benefits, tax rules are distinctly different.

The Financial Conduct Authority does not regulate tax advice.

AUTUMN STATEMENT – *HAIL AND FAREWELL*

Philip Hammond's performance at the despatch box on 23rd November was a confident one, a remarkable fact in the light of the difficulties he faces as Chancellor. Perhaps having landed a job he could not have expected to secure a year ago, the pressure has not got to him, yet.

On the other hand, there is hope that after his stints at the Departments of Transport and Defence, and after two years as Foreign Secretary, here is just what the country needs – a seasoned political leader, with top academic, commercial and diplomatic skills. It is easy to forget, seeing his suave somewhat feline delivery, that he had Euro-sceptic credentials before he was persuaded by David Cameron to back the renegotiated deal to stay in the EU. He stayed cool under pressure and ended with a surprise.

OBR forecasts

First there was a warm tribute to his colleague and predecessor George Osborne. Then we got down to the facts, the forecasts and possibly the fantasies. Here are the key numbers, all signed off by the Office of Budget Responsibility, to the end of the current Parliament:-

	This year	2017	2018	2019	2020
Growth	2.1%	1.4%	1.7%	2.1%	2.1%
Spending	£778.8 bn	£797.0 bn	£814.5 bn	£823.7 bn	£855.6 bn
Borrowing	£68.2 bn	£59.0 bn	£46.5bn	£21.9bn	£20.7bn
Debt as % of GDP	87.3 %	90.2 %	89.7 %	88.0 %	84.8 %

Source: **Office of Budget Responsibility**

Hammond put a gloss on these numbers by pointing out how favourably growth in the UK compares to many of our continental neighbours, including Germany. He also pointed out that our unemployment rates and the total numbers in employment were strong, and bore comparison with the most successful economies internationally. But our economy will not be quite strong enough to cope with the new uncertainty and the kick up in inflation, which the choice for a Brexit has meant. For that reason, the Chancellor will be abandoning the Conservative's pledge to bring the deficit into balance by the next election, and Hammond went on to list his own three, new fiscal rules, designed to show markets he has no intention of becoming a spendthrift.

Three golden rules

1. Maintaining the goal of eliminating the deficit and to have it within 2% of GDP by the next election.
2. Public sector net debt to be falling as a % of GDP by the end of this Parliament.
3. To keep welfare spending capped.

Addressing the productivity challenge

The new Chancellor pointed out that it takes a British worker five days to achieve what a German can in four. This holds back the ability of our economy to pay higher wages and, with the aim of 'an economy that works for everyone', that's his problem, and fairly obviously a source of the kind of disaffection that has been a new factor in politics. To tackle low productivity, there were announcements of Investment across three major areas of the economy.

Research and development

There will be a £23 billion National Productivity Investment Fund to provide major additional spending on transport, traffic pinch points, railway signalling, broadband roll out, and high-end R&D.

Housing

A new £2.3 billion Housing Infrastructure Fund will aim to speed up housing projects held back by a lack of local roads and facilities. A further £1.4 billion will be used to provide 40,000 affordable homes and £1.7 billion used to build homes on public sector land.

Future transport systems

Looking to the future of driverless, electric vehicles, there will be a £390 million Investment in testing the necessary infrastructure, building 550 new electric and hydrogen buses to test, and creating new charging points for ultra-low-emission vehicles

Points for financial planners

A special mention in the Treasury's papers confirms that next year's JISA allowance will be £4,128, and the commitments to achieve a personal allowance of £12,500 and higher rate threshold of £50,000, by 2020, were also confirmed. There is a tightening up of rules on salary sacrifice to provide benefits in kind, but arrangements favouring pension contributions and pensions Advice are unaffected. Rural business rate relief increases for single village shops and petrol stations was a nice gesture.

The promise of fairer taxation of insurance policy redemptions from next April will be important to many Clients with legacy products, especially those badly needing to minimise their tax bill. The idea is to find fairer alternatives to the long-standing 5% tax-free rule on withdrawals from insurance policies.

Generally, the focus was on keeping it simple and putting out a message that people should pay their taxes, with announcements that show HM Treasury is looking to be rid of schemes and loopholes wherever they find them.

The announcement of a plan for a higher interest rate, three year National Savings bond, possibly paying 2.2%, is a straw in the wind, which Clients considering Defined Benefits transfers might want to debate with their Advisers.

One change on pensions to note is that the Money Purchase Annual Allowance will be materially cut from £10,000 to £4,000 next spring. This will impair the ability of those who have begun drawing taxable pension benefits to boost their pension pot, and reduce their tax bill, perhaps on part-time earnings. Its aim is to close a loophole but it makes work less attractive to the over 55s, which may be part of rebalancing things in favour of the young.

Goodbye Autumn Statement, hello Spring Statement

In a surprise finale, Philip Hammond announced that the Autumn Statement will be abandoned and that the timetable for budget and tax will be harmonised in future around a single set of announcements. Historically, the government would talk about its spending plans in the autumn and announce its tax raising proposals in the spring. Both sets of plans will be announced only once a year, in November, from 2018, after a year of transition. As the Office for Budget Responsibility publishes an economic report twice a year, there will need to be a Spring Statement by the government to respond, but it won't contain new measures. It all sounds a bit confusing but the message is that there will be less tinkering, fewer gimmicks. That seems to be the new Chancellor's style.

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Corporate Communications Manager
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LEADING *Indicators*

United Kingdom Stock Markets	3 months	6 months	1 year
FTSE 100[1]	1.10%	11.37%	12.38%
FTSE 250[1]	-0.89%	3.58%	5.76%
FTSE All Share[1]	0.79%	9.98%	11.22%

Source: Financial Express Analytics 28th November 2016

American Stock Markets	3 months	6 months	1 year
NASDAQ 100[1]	2.29%	9.46%	5.57%
S&P 500[1]	2.43%	7.02%	8.30%

Source: Financial Express Analytics 28th November 2016

European Stock Markets	3 months	6 months	1 year
CAC 40[1]	3.53%	2.71%	-3.46%
DAX[1]	1.14%	4.23%	-4.13%
DJ Euro Stoxx[1]	2.45%	0.73%	-8.43%

Source: Financial Express Analytics 28th November 2016

Other Stock Markets	3 months	6 months	1 year
Hang Seng[1]	0.33%	14.47%	4.93%
MSCI Emerging Markets[1]	-1.61%	8.53%	6.24%
Nikkei[1]	11.02%	9.69%	-7.39%

Source: Financial Express Analytics 28th November 2016

Gilts	3 months	6 months	1 year
FTSE British Government 10 – 15 years[1]	-7.30%	1.91%	6.79%

Source: Financial Express Analytics 28th November 2016

Property	3 months	6 months	1 year
Halifax Property Index[1]	1.41%	2.45%	6.09%
IPD UK All Property[1]	0.59%	-1.03%	2.69%

Source: Financial Express Analytics 28th November 2016

Savings	3 months	6 months	1 year
Moneyfacts Instant Access[1,2]	0.12%	0.27%	0.59%
Moneyfacts 90 days notice[1,3]	0.17%	0.36%	0.74%

Source: Financial Express Analytics 28th November 2016

Inflation	3 months	6 months	1 year
UK Consumer Price Index	0.30%	0.80%	0.90%

Source: Financial Express Analytics 28th November 2016

Interest Rates	3 months	6 months	1 year
Bank of England	0.06%	0.17%	0.42%

Source: Financial Express Analytics 28th November 2016

Notes

1 Gross return bid-bid, annualised.

2 Moneyfacts Average of instant access accounts, £10,000 invested, total return, gross.

3 Moneyfacts Average of 90 day notice accounts, £10,000 invested, total return, gross.

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