NEWSLETTER June 2016

Closed for the holidays

We will be closed from 5pm 17th June and reopen 9 am 11 July. We will be checking messages. Our email is info@cwfp.co.uk this is the preferred method to contact us. Our messaging service is (0113) 314 2385 (please allow time for this to connect) or you can text us on (07918) 032836 (extra network charges may apply). Our website is www.cwfp.co.uk

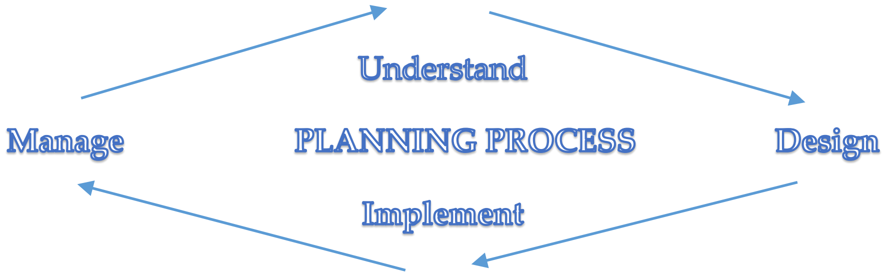
Frugality is the guardian of virtue

Fundamentally financial planning is simple, what makes it complex are the legal and financial rules and regulations which get woven into it and that most people prefer to postpone the task of planning until they are playing catch up. In our newsletter we cover in some detail topics we think will be of interest or benefit to you but before that some good old-fashioned reminders about thrift! They may be old but they are still relevant:

- Have enough money saved up in accessible bank accounts to cover all those sudden and unexpected issues that occur in life for which you need money and do not want to borrow. 3 to 6 months net income should be the minimum
- Use any surplus income above your "cash buffer "to pay down debts, remember the old adage "neither a borrower nor a lender be". We generally need to borrow to put a roof over our heads or start or build a business. Borrowing for discretionary spending is generally best avoided
- Make sure you have taken out insurance cover for the financial consequences of long term disability. Your employer and the state may provide very limited benefits, your whole future will likely depend on income, make sure it is protected. If you do not know how much and for how long your employer pays you, your first task is to ask them or read your contract of employment
- Cover the financial consequences of premature death with life insurance. Your family rely on you and the cost of life insurance is a small price to pay for peace of mind
- Make a will and if you are older make lasting powers of attorney in case you lose capacity
- Start saving for income in retirement as soon as you start work, your employer will soon be required to contribute to a scheme. Keep those savings

going throughout your working life wherever possible, the long-term compounding effect of your investment will be worth it in the end

- Once you have an adequate cash buffer, reduced debt and are working towards pension then you can consider other investments. Do not leave all your money in cash and make sure you are not being overcharged for your investments
- As you get older think about how you will pay for care in old age, this is likely to be the biggest risk to you post retirement
- Unless you want to pay the state inheritance tax take action on estate planning and tax mitigation to make sure what you have accumulated cascades down to the future generation
- Those who think about what they want to do, where they want to get to, set a plan, review their plan fairly regularly and are prepared to adapt to changing circumstances generally find they succeed. If you are not confident in preparing a plan we can help



Tax doesn't have to be taxing!

Unfortunately it is but there are benefits of spending time understanding the complexities

Tax on savings interest

From 6 April 2016, most people can earn some income (interest) from their savings without paying tax. This is called a Personal Savings Allowance. It applies to each tax year, from 6 April to 5 April the following year.

Personal Savings Allowance

If your total taxable income is £17,000 or less you will not pay any tax on your savings income. Otherwise your allowance depends on your income tax band

Income Tax band	Tax-free savings income
Basic rate	£1,000
Higher rate	£500
Additional rate	£0

You will pay tax on any income above this at your usual rate of income tax

The allowance applies to interest (not dividends or rent) from:

- bank and building society accounts
- savings and credit union accounts
- unit trusts, investment trusts and open-ended investment companies
- peer-to-peer lending
- government or company bonds
- life annuity payments
- some life insurance contracts

Savings already in tax-free accounts like individual savings accounts (ISAs) and some National Savings and Investment accounts do not count towards the allowance. There are different rules for tax on foreign savings and children's accounts.

If you go over your allowance

If you are employed or get a pension, HMRC will change your tax code so you pay the tax automatically. If you complete a self-assessment tax return report the extra income there.

If you already paid tax on your savings income

You can reclaim tax paid on your savings income if it was below your allowance. You must reclaim your tax within 4 years of the end of the relevant tax year. Fill in a For R40 and send it to HMRC. It normally takes 6 weeks to get the tax back.

Tax on share dividend earnings

You may get a dividend payment if you own shares in a company including shares held in unit trusts, investment trusts and open-ended investment companies. From 6 April 2016, you will not pay tax on the first £5,000 of dividends that you get in the tax year. This is from 6 April to 5 April the following year.

Above this allowance the tax you pay depends on which income tax band you are in. Add your income from dividends to your other taxable income when working this out. You may pay tax at more than one rate.

Tax band	Tax rate on dividends over £5,000
Basic rate (and non-taxpayers)	7.5%
Higher rate	32.5%
Additional rate	38.1%

You do not pay tax on dividends from shares in an ISA

Allowances

You can put up to £15,240 into the tax-exempt ISA in the current tax year. This can be entirely in cash deposit, entirely in investments including shares on the alternative investment market, or in a combination of both without any lower limit. Because up to £1000 of cash deposit interest can now be paid tax-free under the savings allowance the Isa allowance may be better used for medium long-term investments in shares, fixed income and other speculative assets.

You can put up to £3600 into pension and receive tax relief on your contribution. If your allowable earned income (but not pension payments) exceeds this amount you can contribute up to the maximum of your annual income. If your income exceeds £40,000 in the tax year you cannot contribute more than this. If you have already taken pension benefits in certain ways this income may be limited to £10,000.

The rules around pension contributions are complex please contact us to discuss your individual circumstances.

Longevity and the likely success of estate planning.

Nobody likes to contemplate death while they still feel fit and healthy. There can also be practical reasons to wait. None of us can be sure how long we will live and what sort of care and support we will need as we get older. It is hard to know how much money we will need, so planning for inheritance tax, which often involves giving up control of our assets is understandably pushed down in the to-do list.

Unfortunately the problem is that estate planning cannot be left until the last minute. Common inheritance tax mitigation strategies including lifetime gifting and transfers into trust require you to survive for a further seven years. Statistically the probability of making it to that milestone starts to plummet.

Intuitively we know we must have more chance of surviving for 2 years than for 7 but the differences may be more pronounced than you realise. A 75-year-old male has an 11 year average life expectancy and a 93% probability they will survive 2 years but the probability of surviving 7 years is 71%. An 85-year-old female has a 6 year life expectancy and 84% chance of surviving for 2 years but only a 44% probability of surviving for 7 years.

One way of providing a non-contentious solution to the longevity risk is to use business property relief. This was first introduced in 1976 targeted at business owners to allow them to pass business assets down within a family. Before the introduction of business property relief it was not unusual for a family business to have ceased trading when the senior family member died as they simply could not afford the tax bill. Accessing business property relief qualifying assets does not have to involve owning your own business. A number of management firms have developed investment opportunities designed to help you access the benefits of business property relief.

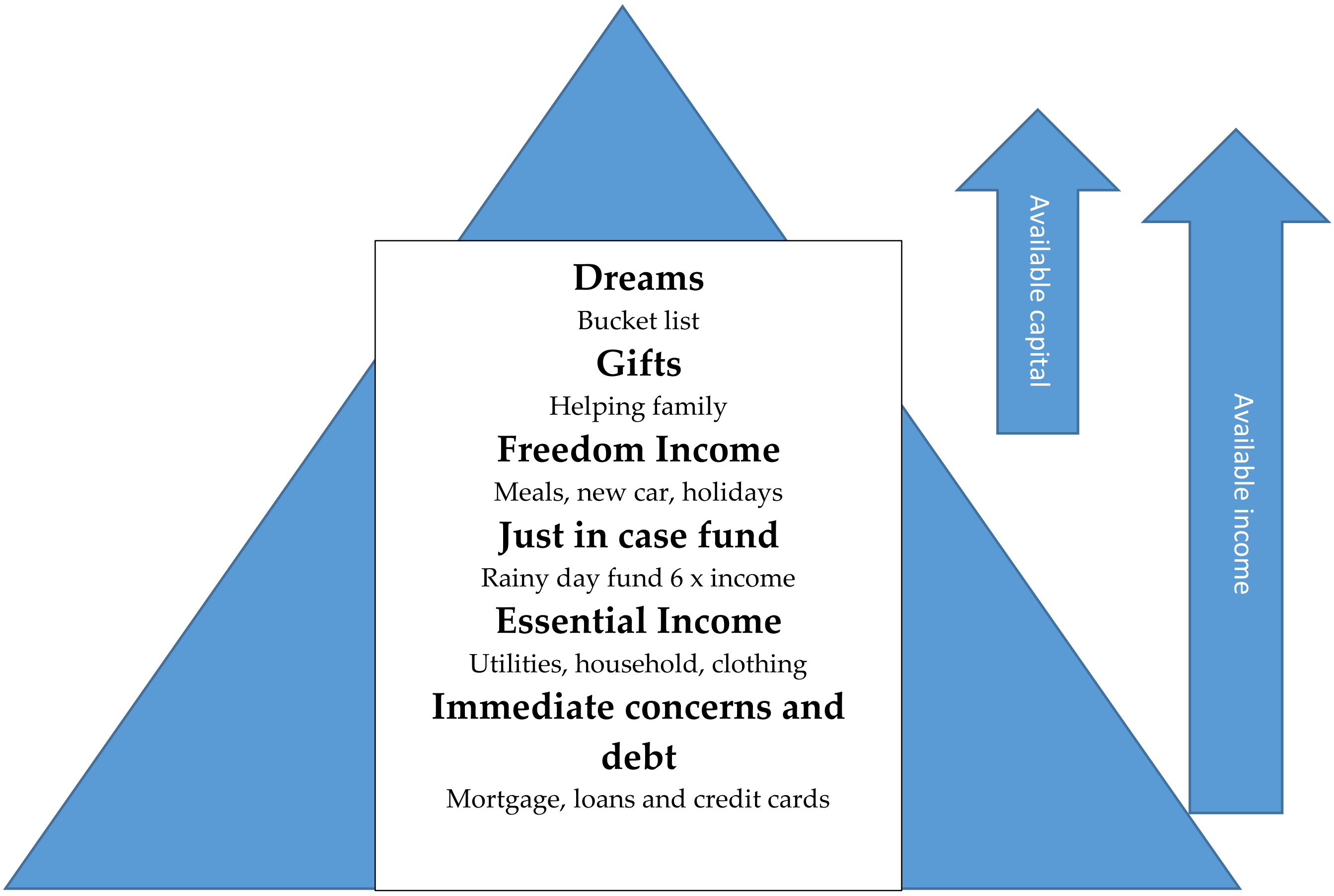
These types of schemes are either investing in portfolios of shares listed on the alternative investment market or they are asset backed investment schemes which are generally designed to preserve the value of the capital but with modest annual returns. Either way you are dealing with an investment which can fall as well as rise and there is always the possibility of getting back less than you invested.

Once you have held the investment for 2 years it is exempt from inheritance tax and remains so providing you still own it at date of death. However, the investment is owned by you and you have access to it at all times should this be required for care costs or any other reason.

The building blocks of retirement income

Since the pension reforms were announced in 2014 many studies have been conducted showing most people still desire “a secured guaranteed income over an income that might rise or fall depending on financial markets”. This demonstrates a low appetite to take investment risk with hard earned retirement funds. Most people believe that knowing what is coming in every month is of great benefit for them and they see it as a continuation of their working salary into retirement

Key is to build a retirement income and capital suitable for your needs on solid foundations and to bear in mind that if care is needed in later life this will form part of your essential income. In today’s values care costs will fall between £800 and £1100 a week so it is not an insignificant cost.



Capacity for loss and appetite for risk

If you have spoken to us on any investment issue we will have talked about these topics. These are related to suitability and establishing the risk you are willing and able to take in making suitable investments selections.

Capacity for loss is your ability to absorb falls in the value of your investment. If any loss of capital would have a materially detrimental effect on your standard of living we must take this into account when assessing the risk you are able to take. In other words if you invest in something and it drops in value can you withstand the fall? If so, for how long? Measuring this is tricky but often it is related back to income how secure it is and whether there is a surplus.

Appetite for risk is often referred to as attitude to risk, perhaps appetite is more appropriate if we are asking you how much risk you can stomach? Of course most rational people will probably say “none at all” or “as little as possible”. What we are encouraging you to think about is for instance, could the answer be I need to hold enough of my assets to pass on to my family and take sustainable income for the remainder of my life to keep pace with inflation.

In this area we are dealing with human emotion so you may well have a perfectly adequate capacity for loss but absolutely no appetite for risk. Conversely you may have an appetite for risk but absolutely no capacity for any loss. These variations need to be balanced to have any hope of meeting your expectations. It is not sufficient to just pick the best performing investment as shown in the Sunday papers

What is important is to consider realistic goals and not be encouraged to put yourself in a situation you are unsure or unhappy about. We have the expertise to guide you through these sometimes difficult matters to help you feel confident that the decisions you make are in your best interests.

The value of independent advice

We have spent over 40 years promoting higher professional standards and helping our clients deal with the complexities of financial life and achieve their ambitions and goals, a little bit of planning goes a long way! Yes of course you can get a great deal of information online but do you understand what it really means and the nuances of how to act on it in your best interests? Stephen is a Chartered Financial Planner and Chartered member of the Institute of Securities & Investment. He is an accredited adviser for the Society of Later Life Advisers and has specific qualifications for mortgage, equity release and care fees planning advice and a qualification in trusts from the Society of Trusts and Estate Practitioners. He is a fellow of the Chartered Insurance Institute qualified in all aspects of personal and commercial insurance. Where possible our work is charged on a flat fee basis and as we operate a bespoke planning service we will always discuss the options with you to find out what suits you.

We are often asked about our review process and financial health check. Our review process includes:

Your Issues
An update by you - your objectives
Strategic review-recommendations by us
Investment Review
Looking back on the last 12 months performance
Looking forward in implementing changes
Short-term cash: medium and long-term investing
Debt Review
Reviewing your interest rates and debt structure
Taxation Update
Review opportunities & threats created by changes in taxation
Pensions Update
Employer & state benefits

Changes in pension law the opportunities & threats
Income at retirement?
Insurance Review
Review current levels of cover, excess & wordings
Disaster planning-financial consequences
Death
Disability
Employer benefits?
Property
Legal liabilities
Estate Planning & Family Review
Wills & lasting powers of attorney
Financial issues affecting your family
Inheritance tax
Removal of Hassle Service
Sorting out the paperwork that confuses you
Professional update to your accountant & other advisers

Once again it continues to be a very busy year and we thank you for your support, for doing business with us and for your patience whilst we have sought the best solutions for your needs.

Stephen & Veronica