KENNEDY BLACK
WEALTH MANAGEMENT

QUARTERLY PRIVATE CLIENT NEWSLETTER — ISSUE 22: NOVEMBER 2015

Welcome to the latest edition of Kennedy Black Wealth Management's Private Client Newsletter.

We include a brief overview of yesterday's Autumn Statement and Spending Review from George Osborne. We had hoped for more clarity about proposed pension changes but were sadly disappointed.

We also touch on a few other topics that we hope are of interest: Enterprise Investment Schemes, some pitfalls to beware when it comes to home insurance and a warning to anyone overly reliant on employer-based life assurance.

AUTUMN STATEMENT

George Osborne announced his half-yearly Budget yesterday. This is in fact his third visit to the despatch box this year after the Budget in April and the Summer Budget in July.

The build-up was very much focused on the continuation of Mr Osborne's austerity measures. There was plenty of that, as well as a few items that our clients are likely to find interesting.

However, given the upheaval in pension rules recently, we were disappointed that little was announced in relation to pensions. The whole system of pension tax reliefs remains under review and will be announced in the Budget in March.

The biggest bombshell for a lot of our clients was the announcement of a new rate of stamp duty for 'second properties' from April 2016. Anyone buying a BTL property or holiday home will face a rate of stamp duty three percentage points higher.

A consultation on the policy details has been started so it is not clear as to how it might be implemented. However, anyone with more than one property looking to buy a new property in the near future (including one to live in) should be warned they may have to pay significantly higher Stamp Duty.

For Buy-to-Let investors, this bombshell comes after the removal of higher-rate tax relief on mortgage interest payments in July. Mr Osborne clearly wants to squeeze Buy-to-Let investors and keep a lid on property prices.

A new "London Help to Buy" scheme will be introduced for buyers with a 5% deposit: providing a 5-year interest-free loan of up to 40% of the value of a property in London (as opposed to 20% outside).

Renewable (e.g. solar) energy has been removed as an eligible investment for Venture Capital Trusts and Enterprise Investment Schemes.

The Basic State Pension will rise next year to £119.30 a week (£6,203 a year).

Working families earning less than £100,000 a year will be entitled to 30 hours a week of free childcare for 3 and 4 year olds.

If you would like to discuss how any of the above impacts you, don't hesitate to get in touch.

ENTERPRISE INVESTMENT SCHEMES

As we approach the end of the tax year, Enterprise Investment Schemes (EIS) and "Seed EIS" (SEIS) will be high up the agenda for a number of our clients.

These are high-risk investment vehicles that attract significant tax benefits because they invest in small businesses. The government has repeatedly asserted its commitment to EIS in recent years. While tax avoidance has become a sensitive issue lately, we see EIS as an important and well-established opportunity for clients to optimise their tax position.

EIS are only suitable for certain types of clients, so we thought it might be helpful to set out the circumstances where they make most sense. That is, to outline a *perfect* EIS/SEIS client.

If a client can tick the following boxes, then EIS and SEIS can form part of an effective investment portfolio:

- An adventurous attitude to risk;
- A high 'capacity for loss' (i.e. their lifestyle won't be impacted by a drop in the value of their investments);

- A 40% or 45% income taxpayer, who expects to pay a similar rate for the foreseeable future;
- Someone who has already made sizeable pension contributions and may be approaching Annual or Lifetime Allowance limits;
- Someone who has paid a Capital Gains Tax bill in the past three years, or expects to pay one in the next twelve months;
- An estate worth more than the nil rate band (currently £650,000 for a married couple)

In such circumstances, the tax benefits can be extremely attractive:

- 30% tax relief on investment (so every £1 invested costs 70p)
- The ability to reclaim, defer and potentially extinguish previous Capital Gains Tax bills;
- No CGT on disposal;
- The ability to off-set investment losses against one's future income tax bill;
- No Inheritance Tax if held for two years

In the right circumstances, it adds up to an attractive 'satellite' investment opportunity to sit alongside a larger 'core' portfolio.

Beware relying on 'Death-in-Service' life assurance

A relatively sobering conversation recently highlighted the risk of relying on employer-based life assurance (often referred to as "Death-in-Service").

Most employers offer life cover as a benefit for employees: often a multiple of salary (3 or 4 times being most common). There are a number of benefits of doing it this way, for employees, employers and insurers.

While some cover is better than none, it is worth bearing in mind that you have to stay at your employer for cover to be maintained. Most employers will cancel cover the day you leave employment.

In the event of being diagnosed with a serious illness, you may find it hard or even impossible to get new cover at a new employer, effectively tying you into your job.

While employer-based cover is often low cost (partly because employers are effectively buying in bulk, but also because insurers know that the average length of these policies will be low), it is important to balance this against the flexibility of a personal policy not linked to employment.

Get in touch if you would like a review of your life cover.

Home Insurance

Effective home insurance is an important part of protecting your family's finances. We often find clients are under-insured, which means any prudent planning could be undone through events beyond their control.

Part of the problem is that online comparison sites primarily focus on price. That means insurers are incentivised to reduce core levels of cover and exclude any extras, in order to keep headline rates low.

But another part of the problem is that clients often fail to realise that their valuables (art, jewellery, even road bikes) may not be covered by their current policy.

We can recommend a very good insurance broker who has offered to review our clients' existing policies at no cost to you. They may be able to combine policies, increase cover and reduce premiums all at the same time. Do not hesitate to get in touch if you are interested.

Why am I doing this? #2:

"A retirement of my choosing"

Here is the second of our series of "financial objectives" to help our clients think longer-term and identify what is important to them.

In this edition, we want to define a retirement worth saving for:

> "A retirement of my choosing, where life is filled with family, friends, travel and mental stimulation, and not having to stack shelves at a local DIY store to make ends meet."

A big challenge when it comes to encouraging young people to engage with their pensions is the inability to empathise with one's older self. We would encourage you to try to picture your older, wiser self enjoying the freedom of retirement, while the majority have to keep working into old age.

The contents of this newsletter do not constitute advice and should not be taken as a recommendation to purchase or invest in any of the products mentioned. Before taking any decisions, we suggest you seek advice from a professional financial adviser. Past performance is not a reliable indicator of future results. Levels and bases of, and relief from taxation are subject to change. All figures and data contained within this document were correct at time of writing. Not all areas of tax planning are regulated by the Financial Conduct Authority.

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