FOCUS

SHARING A WEALTH OF WISDOM

WINTER 2019

ISAs

IHT PLANNING

PEER TO PEER LENDING

PENSION DEATH BENEFITS

OFFICE NEWS

BOOLERS

Chartered Financial Planners

> "...THE UK IS STILL IN A PRETTY GOOD POSITION ECONOMICALLY SPEAKING."

ANDREW WHITE

By the time you receive this newsletter we will hopefully have a little more clarity on both the leadership of the UK and also Brexit.

It is perhaps somewhat surprising that, despite a distinct lack of participation from Government over the last two years or so, the UK is still in a pretty good position economically speaking. One would therefore hope that a new Government will bring a little more direction and that the fiscal measures promised by all parties during the campaign will lead to the economy making further progress – if implemented correctly, this should certainly be the case.

Whilst there has certainly been a fair amount of coverage in the media regarding some faults of current pensions legislation (most notably the effect that the Lifetime Allowance (LTA) appears to be having on the NHS), not much has changed for a while. That said, it remains a complex area and we see an ever expanding need for advice, not least in the area of the LTA.
In fact, we seem to be taking on a steady stream of new clients with significant pension benefits where the LTA has not been discussed.

Chris Ward's article on Death Benefits hopefully provides useful information and perhaps will prompt some clients to give their 'legacy' arrangements further consideration. We realise not everyone likes to consider their mortality too much, but death and taxes are more certain than most things in life.

In this regard, Simon Watts also provides some up to date and useful information on Inheritance Tax, in particular HMRC's involvement in estates post death and how the Government's need for cash post the GFC stretches to many areas.

Duncan Pickering's article deals with an area that we do not operate in, Peer to Peer (P2P) lending, but is one that investors need to consider very carefully indeed. Some money is there to be made, and such investment can be a useful diversifier, but such investment is certainly not without risk.

On a more general business note, we were all extremely pleased to be awarded winner of the 'Retirement Adviser of the Year' at the recent Moneyfacts Awards 2019. As Gavin commented in his acceptance of the award, it is testament to the hard work of everyone in the organisation.

On behalf of all the Partners and Staff at Boolers, I wish you all a very Happy Christmas and Prosperous New Year; let us hope for a lot less talk and a little more action in 2020.

Andrew White

ISAs

Gavin O'Neill
Chartered Wealth Manager

Tax planning is centric to our advice process and never more so than when considering investing into Individual Savings Accounts (ISAs).

The valuable tax wrapper allows investments to be held free from assessment to Income Tax or Capital Gains Tax and is a topic that we have often covered in our newsletters. This time, we look at the actual benefits and consider are they really worth doing and how best to maximise these. ISAs are also having an increasing importance in long term financial planning where the pension Lifetime Allowance comes into play.

Income Tax

First of all, one of the key benefits of the ISA wrapper is the ability to accumulate wealth free of ongoing tax assessment and benefit from gross roll-up. For a higher rate tax payer, tax on dividends is at the rate of 32.5% and therefore holding and accumulating savings in the ISA wrapper over time will provide a powerful compounder on overall growth. In the example below, over a 10 year period, a 3% dividend and 2% growth rate can create a significant tax saving.

Starting Value	Total Dividends	Total Growth	Final Value	Higher Rate Tax Saving
250,000	94,334	62,889	407,224	30,659

As the fund builds up, moving into retirement will allow a strong, tax-free dividend income to be paid out and in the example above, this would be over £12,000 per annum based on a 3% dividend yield.

Capital Gains Tax

In addition to an Income Tax saving, ISAs also benefit from being exempt from Capital Gains Tax. This allows any amount to be withdrawn from an ISA without tax considerations. Technically, this benefit will reduce as time goes on as there is no Capital Gains Tax on death for non-ISA assets. That being said, the ISA value is transferrable to a spouse on death and again this allows for tax efficient income to be generated.

The relatively new Flexible ISA status, which our Discretionary Fund Management service benefits from through our custodian, Pershing, also allows for any amount to be withdrawn and replaced within the same tax year.

There is no doubt that ISAs allow for significant wealth over time to be accumulated. This will provide flexibility in planning your retirement, generating income from tax-efficient sources and maximising wealth for Inheritance Tax.

Gavin O'Neill accepting the Retirement Adviser of the Year award from Meera Syal and the award sponsor.

Simon Watts
Senior Investment Manager

INHERITANCE TAX RECEIPTS ON THE RISE

There have been some interesting details released by HMRC re Inheritance Tax (IHT) which we thought would be of interest.

In the financial year 2018/19, a record £5.4billion was paid in Inheritance Tax (IHT), with the average IHT bill reaching almost £200,000. Receipts and the proportion of estates incurring an IHT liability have risen steadily since 2009/10, as the following chart illustrates:

IHT RECEIPTS AND TAXPAYING ESTATES

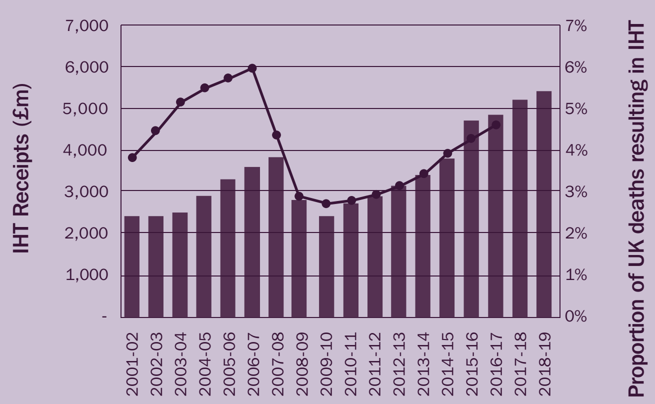

Figure 1:
IHT Receipts and Proportion of UK Deaths resulting in IHT, 2001-02 to 2018-19

Source: HMRC

In 2016/17, almost 5% of UK deaths resulted in an IHT charge. The main reason for higher levels of tax being levied on a greater proportion of estates is the freezing of the £325,000 Nil Rate Band (NRB) in April 2009, since when asset prices (including residential property) have increased substantially.

Estates valued above this threshold will generally suffer a tax charge of 40%, though spouses can claim a deceased spouse's unused NRB and the recently-introduced Residence Nil Rate Band (RNRB) can provide further exemption on residential property where an estate value is below £2.25million.

The steep drop in 2008-2009 of both the tax receipts and the proportion of estates affected is largely due to the introduction of transferable NRBs in October 2007, but this is merely a pause in what has been a pretty consistent succession of rises since IHT replaced Capital Transfer Tax in 1986.

It is unlikely that the RNRB will have a significant impact on reducing IHT liabilities, partly because of the lower amounts of relief and the cap on the value of estates it will apply to. However, this new exemption is more complex and not as widely understood, with some solicitors refusing to advise on it at all.

Expert advice for executors and trustees is essential, not only to ensure all available reliefs are claimed, but also to ensure any potential IHT is accounted for correctly, settled punctually and tax penalties avoided. In response to a Freedom of Information request in July, HMRC confirmed that over 5,000 IHT investigations are opened each year, representing around 25% of estates that pay the tax. This is a significant proportion and reaffirms to us the need for owners of significant amounts of assets to keep good records.

In 2016/17, exemptions on transfers between spouses accounted for the largest IHT saving (almost £10billion in chargeable assets and around 70% of total reliefs and exemptions). The next largest exemption was transfers to eligible charities, accounting for almost £2billion. This enabled over 2,000 estates to benefit from a lower rate of IHT of 36%.

However, much can be done by owners of potentially chargeable estates during their lifetime to reduce the potential IHT bill further for their beneficiaries, several of which I outlined in our Summer 2018 newsletter. We would be happy to provide advice in this area of financial planning and work with solicitors, trustees and executors where required.

PEER TO PEER LENDING

Duncan Pickering
Investment Manager

Peer to Peer Lending (P2P) has become an increasingly popular area of alternative finance over the past decade. Figures from the UK Peer to Peer Finance Association suggest their members saw lending break through £11.3 billion in June this year. But what exactly is it? And just what are the risks involved?

What is it?

Driven by a lack of ambition from traditional banks to lend money to consumers and businesses in the wake of the Global Financial Crisis, this area of innovative finance aims to replicate a bank's role by matching those individuals and small businesses with excess cash balances to those that are in need.

By removing the middle man and directly connecting lenders and savers, the idea is to generate better terms for both parties. A quick google search will find a wide variety of platforms available, each doing things slightly differently but all purporting to give investors a far superior return than cash (or conventional bonds for that matter).

But as we in the investment world like to remind ourselves, nothing comes for free and higher returns are almost always linked with higher levels of risk!

The Risks

Opaqueness – Funds are often divided amongst many different loans making it difficult to pinpoint exactly who the money is being lent to. Alongside this, it is the platforms themselves that develop the credit ratings for each loan, calling into question the appropriateness of the ratings in assessing the underlying risks faced by investors.

Liquidity – Loan terms will vary and despite some platforms offering a secondary market, the ability to liquidate loans and the cost of doing so could seriously impact the overall return received. Money is often tied up for fixed periods of time without accessibility.

Default – Given the unsecured nature of many P2P loans, there is a real possibility that individuals or businesses may not be able to pay back their loans leading to default and capital loss. Some platforms may offer "Guarantee Schemes" that will buy back loans in the event of late or defaulted payments, but that only works as long as any one platform itself remains solvent.

Market Maturity – P2P is still a relatively new concept and lenders are as intrinsically linked to the overall economic wellbeing as investors in more traditional assets. Industry commentators have already referenced falling returns and rising rates of default in 2019. Any further downturn in overall economic health is likely to accelerate this process and the industry's ability to weather such problems is unknown.

Protection – Although P2P has been regulated by the FCA since 2014, enhanced rules being implemented in December underline their growing concerns toward the industry. One key difference for investors is that P2P does not benefit from the same FSCS Protection scheme as cash deposits at banks, or FCA regulated collective investment funds. This year we have already seen the collapse of popular property platform Lendy, with one of its offerings appearing to be linked to car park spaces at the now defunct Bury Football Club. The platform entered administration with around £160m worth of outstanding loans, £90m of which were in default leaving investors unsure of what, if any return, they are likely to recover.

Not like cash savings!

Whilst not being a product that we would actively promote, we are aware that some clients may have used or be using P2P each with varying degrees of success.

Our overriding message for those that may be tempted would be one of caution though and to draw the distinction between P2P and typical Savings Accounts. Any involvement must be thought of as an Investment, with the same risks (if not more) as buying Shares and Bonds, and should definitely not be viewed as an alternative to having Cash in the bank!

Chris Ward
Pensions Manager

PREPARING FOR THE INEVITABLE – PENSION DEATH BENEFITS

Although there has been much commentary with regards to the flexibilities surrounding taking benefits from pensions which were introduced in 2015, much less has been written about the changes to pension death benefits also introduced at that time.

For those with Defined Contribution pension savings, perhaps the biggest change is that it removed previous barriers with regards to who can benefit from their remaining pension savings, so these can now be paid to any beneficiary.

Another change is that on death prior to age 75, any remaining pension savings after any associated Lifetime Allowance charges can be paid out tax-free to beneficiaries. Post age 75, any payments made to the beneficiaries will result in them paying Income Tax, at the appropriate rate.

> “LIKE MUCH IN LIFE AND SEEMINGLY DEATH, BEING ORGANISED IS KEY.”
>
> CHRIS WARD

Where the pension is held via Trust, the associated Trustees are required to determine who should benefit from any residual fund, with it often reverting to dependants and remaining family. Although this is the case, the pension saver is able to exert some influence on this decision by completing an expression of wish or nomination form.

Using an expression of wish or nomination form, as applicable, means they are able to confirm to whom they would like any residual pension benefits to revert. If the pension policy is not held in Trust, the residual fund is likely to be paid to their estate and potentially be subject to Inheritance Tax.

A flexible friend

Depending on the pension scheme, the beneficiary is likely to be able to receive their share of the residual fund as a one-off lump sum or as regular income via an annuity purchase. Often, and this is potentially one option available with our SSAS and SIPP Focus arrangements and many other Defined Contribution policies, they could retain the residual funds in the arrangement, keep it in a tax-free ‘drawdown’ environment and look to take benefits only when they are needed.

If on their death there is still a residual fund, this could be passed to further beneficiaries, again subject to tax or not depending on whether they died post or pre age 75, respectively.

Not nominated

Unfortunately there was a major flaw in the legislation enacted regarding pension death benefits, which restricts the options available to beneficiaries who are not nominated specifically by the member and are not dependant on the member prior to their death. For these specific beneficiaries the only option is to pay out the residual pension fund as a lump sum.

To help, the nomination form for our SSAS and SIPP Focus arrangements includes an option to nominate any individual who is eligible to receive the lump sum, so that the Scheme can offer ‘drawdown’ to them as an alternative. This option needs to be ‘ticked’ to allow the Trustees to be able to maximise the options to the widest range of beneficiaries in the event of their death.

Please speak to your consultant at your next meeting about your objectives in regard to the death benefits, who you would like to benefit and who you feel should not, with reasons.

Our Trustee responsibilities

Trustees’ discretion is a requirement to avoid Inheritance Tax.

Once we have been notified who is dealing with the estate of a former member we will ask for a copy of any will and for a questionnaire to be completed to confirm all remaining relatives, dependants and any recent changes to the deceased’s personal circumstances leading up to their death, which may be relevant in determining who should receive death benefits.

This information, together with any nomination form and the consultant’s understanding of the deceased intentions, will be considered in the decision making process that follows.

Like much in life and seemingly death, being organised is key.

To discuss any of these areas in more detail please speak to your usual consultant.

Jo Clamp
HR Manager

OFFICE NEWS

New Recruits

It has again been a busy few months since our last newsletter as we have continued to welcome new recruits to the Business. These include: -

James Randall joined the Investment team in July 2019. James came as an intern during the summer of 2018 and after achieving a 2:1 in Economics from the University of Derby he joined us as a Graduate Trainee in Investments.

Luke Smith joined the SSAS team in August 2019. Luke graduated from Leicester De Montfort University with a 2:1 in Accounting and Finance in June 2017 and has worked in the Financial Services industry as a Client Relationship Manager since then.

Prabhdeep (Bobby) Gill joined the Investment team in October 2019. Bobby also graduated from De Montfort University, obtaining a 1st class degree in Economics and Government and an MSc in Global Finance and Investment. He too has over 2 years' experience as a Client Relationship Manager so brings with him significant experience in the field.

Goodbye

Michelle Mason will sadly be leaving us at the end of the year. She has decided to take a well-earned retirement after more than 10 years working as a Consultant in the Business and a long and illustrious career in financial services. She will be greatly missed by all her colleagues as well as her many clients with whom she has built up close and long term relationships.

We wish Michelle a very long and happy retirement!

SSAS news

Zarielle Bloxham, a member of the SSAS team, had a beautiful baby boy, Harvey, in July. She is currently on maternity leave and returns in mid 2020.

Charity events

As we reported in the last newsletter **Traci Law,** one of our secretaries, sadly passed away very suddenly in the early part of this year. In her memory we arranged a 5 mile circular walk in the Enderby area which members of staff took part in. This allowed us time to remember her as a group but at the same time raise money for charities chosen by her family – Leicester Dogs Trust and Leicester Hospitals. Over £600 was raised. Other events and collections such as a cream tea afternoon have also raised funds for the charity.

The annual Macmillan coffee morning which we hosted in September for both Boolers staff and staff from other local businesses in the area raised an amazing £687.

The Movember campaign is designed to raise awareness of men's health and remove the taboo associated with it. In supporting this campaign the 'Boolers bristle batons' had varying success in creating some very interesting moustaches throughout November and in doing so raised much needed monies for the campaign. Well done **Chris, Jon, Luke** and **George**.

As ever, the Business and individual staff members have participated in a number of other charity events throughout the last few months such as Jeans for Genes Day, the Loros Twilight Walk and Save the Children's Christmas Jumper Day, raising funds for good causes. We intend to continue to support worthy charity events and collections throughout the coming year.

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