ASPEN WEALTH MANAGEMENT

Newsletter

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The UK population increases

The Office for National Statistics revealed recently that the UK population is rising at its fastest rate for more than 70 years. At the end of June 2016 the population stood at 65.6 million people, which represented an increase of half a million over the previous twelve months - an increase which Brexit voters might have suspected. This is the largest increase since 1947.

Inheritance tax receipts rise

Exceptionally high levels of stamp duty are reported to be discouraging house sales and in particular discouraging older people from down-sizing. Stamp duty on the sale of a £2 million home will amount to £143,000 and on a £600,000 home to £20,000.

The government is also benefiting from increased receipts from inheritance tax which result from older people hanging onto their high-value homes, For the first time ever, IHT receipts have exceeded £5 billion, which represents a 9% increase over the previous year and is the highest they have been since the early 1980s. It is estimated that residential property accounts for one third of the typical estate on which inheritance tax is payable.

Some tax changes deferred

The government's precarious majority is preventing it from pursuing some of the more controversial tax changes which had been proposed in this year's Budget.

Among the proposals in the 2017 Finance Bill which have been postponed are the reduction in the annual tax-free allowance for dividends from £5,000 to £2,000
The government had also proposed that the Money Purchase Annual Allowance (which restricts pension contributions for people who are already drawing income from their pensions), should be reduced from £10,000 to £4,000. This proposal was omitted from the Finance Bill but will be introduced retrospectively with effect from 6 April 2017. The objective is to reduce the scope for savers to recycle their savings and claim tax relief twice on the same contributions.

As a result of the omission of this provision, the limit on contributions for people who have already drawn income from their schemes will remain at £10,000 – at least for the time being.

Funding spouses' pensions

MPAA aside, reductions in both the annual pension contribution allowance and the lifetime allowance have curtailed the use of pensions as a savings medium. However, there may be an opportunity to pay contributions to the scheme of a spouse or civil partner or cohabitee.

The person benefiting from the third-party contribution will receive tax relief against their total earnings up to £40,000 p.a. and up to £3,600 if they have no earnings.

If the contribution is made on behalf of the scheme member it will be regarded as a gift for the purposes of inheritance tax (though exemptions are often available). But if cash is given to enable a spouse or civil partner to pay their own contribution, this will constitute an exempt transfer for IHT.

Divorce gets complicated

Perhaps surprisingly, divorce rates are falling. According to the Office for National Statistics, there were 101,055 in 2015, representing a 9% reduction on the previous year. However, the average age at which people are getting divorced is at an all-time high. The average age for men is now over 45 and the average age for women is just under 44.

One of the consequences is that the financial aspects of divorce are getting more complicated. The longer couples live, the greater the value of the financial and other assets which they accumulate.

It is consequently important that solicitors advising on divorce should work closely with appropriately qualified and experienced financial advisers; and Resolution, previously known as the Solicitors Family Law Association, has created a special accreditation scheme for financial advisers.

Pensions are a vital part of the financial mix, and Courts will often either order that the value of a pension should be split between the parties or that it should be taken into account as part of an overall assessment of wealth, including the house, so that estates can be divided in the most equitable way.

The cash available from providers of occupational pension schemes to members who transfer to personal pensions is at an all-time high and could provide an important opportunity in a current divorce. But there are complex issues at stake in assessing the respective benefits, and expert advice is required. Many financial advisers specialising in divorce work have obtained a specialist qualification in pension transfers.

Childcare benefits

In order to assist parents of young children to stay in the jobs market, the government has established a scheme which enables the parents to buy childcare vouchers which benefit from tax relief in the form of 'salary sacrifice'. However, this scheme is not available to the self-employed and provides only up to 15 hours' childcare or education per year.

From September, the 15 hour limit is to be increased to 30 hours, but this will be subject to the parents meeting income criteria: both parents must earn at least £120 per week and less than £100,000 annually; and HMRC requires confirmation of eligibility every three months. It should also be noted that not all childcare providers have signed-up to the scheme.

Two additional schemes are now being introduced which offer other options. In May 2017 a tax-free Childcare Account became available, which is basically an on-line savings account to which the government contributes, and which is used to pay for approved childcare. For every £8 paid by the parent, the government pays an additional £2, up to a maximum of £2,000 p.a. per child.

The second scheme, which will follow in September, enables parents of three and four-year old children to apply for 30 hours of free childcare or education worth about £5,000 per year per child.

For More information: https://www.gov.uk/search?q=childcare+choices and a helpline is available on 0300 123 4097 aspen WEALTH MANAGEMENT

Market Commentary

www.aspenwm.co.uk 3rd Quarter 2017

Equities

Geopolitical concerns (Syria and North Korea) and the proximity of the French Presidential elections combined to keep equities under wraps for most of April. However, the market was relieved by the victory for Macron, leading to a good rally at the end of the month. In Europe, the Dax in Germany (+3%) and the Italian MIB (+3%) led the way, with the UK (FTSE 100) also +2%, though Sterling's rise on the announcement of the General Election meant that in US Dollar terms, it was a laggard, down 1% in April. Further afield, EM equities were up 2% in April, whilst the S&P 500 returned 1%. At the Year-to-Date point, there were some stunning gains, with Spain up 20%, Athens +15% and EM Equities and European Banks 14% higher in the first 4 months on the year.

The only asset class to retreat in April was Commodities; Oil fell 3%, Agricultural products (Wheat, Corn etc) were off 2%, whilst Silver fell 6% on the month. Strangely, Gold was up 2%. Year-to Date, Oil (Brent Crude) is down 11% since the start of the year.

May was a very strong month, with gains both large and widespread. Europe saw 5% plus gains in both France and Germany, with the FTSE 100 not far behind, up 4.9%. In the US, the Nasdaq also rose 4.1% but both the S&P 500 and the Dow lagged a little. Politics was the driver, as Investors flocked to European assets en masse, having been very bearish (and underweight), prior to Macron's victory. The Euro rose 4 cents versus the Dollar to close the month near €1.13. The weakening value of Sterling, which benefits the majority of FTSE 100 bigger companies as they are Multi Nationals, pushed UK markets up in line with their European neighbours; a fall in Unemployment in Europe, combined with improving Economic confidence indicators in both Germany and the UK, also provided a headwind for buyers. In contrast, the news of a possible Trump impeachment saw 370 points wiped off the value of the Dow Jones Index mid-month, leaving US markets (excluding the Nasdaq) off the global market pace. In EM land, Brazil fell 6% on more corruption allegations surrounding the Country's President, whilst China's sovereign credit rating was downgraded by Moody's. Still, the flood of money going into the region allowed the MSCI EM Index to rise 3.2% in Sterling terms. Asia (ex-Japan) was up 4.6% over the month too.

The much-anticipated OPEC meeting allowed a 6% intra-month rally in Brent Crude, but doubts about the ability of the cartel to make production cuts stick led to a May close $4 off the $54 per barrel highs. Both Silver and Gold were flat on the month, despite some sharp price swings in May.

In June, he first two weeks saw decent gains, but were wiped out by month end, with markets affected by the rise in US bond yields (see below). Only the Italian MIB Index rose on the month, but Germany and France lost 1.5-2% with the FTSE All Share down 2.5%. The Dow did better than most, as the announcement that the Big Banks would be allowed to re-start dividend payments boosted those shares. Elsewhere, markets had a much better time of it, led by Asia (ex-Japan) which was up 1.2% and Japan itself which rose 0.7%. Emerging Markets in general were flat on the month, though Brazil was once again down 2.5% as the political crisis showed no sign of resolution.

Commodities rallied at the end of June, (Copper was up 5.3%), as signs appeared to suggest that China was preparing to relax its recent monetary tightening measures. Oil rose sharply towards month-end to reduce its monthly losses but still down 5.3% on the month.

Bonds

Although most Government bond markets were higher in USD terms, the strength of the Euro and Sterling tended to blunt the local currency effect of the gains. Gilts were up 3-4% in USD but less than 1% in their own currencies in April. US Treasuries were up 1%, as were EM Bonds in April. European Credit generally did better than their US equivalents,

May saw smaller gains, with Spanish, Italian and US Government bonds up 0.7-0.8% on the month. Germany and Japan were down fractionally. Corporate bonds (Investment Grade) had a strong month (+1.7% Globally) followed by High Yield (both European and US) which rose 0.9%. As the risk appetite increased, Index Linked bonds fell out of favour somewhat, but still managed a 0.2% monthly gain.

June brought with it a sharply weaker US Dollar and some heavy selling in US Bonds, with yields rising the most since November 2016. Interestingly, the Long Bond (30 year) actually rose with all other maturities falling, as the yield curve ending unchanged, after flattening dramatically in early June. The market seemed to be starting to take the Fed's word that further rate rises were coming, with 5 year bonds bearing the brunt of the selling. In Europe, both Bunds and Gilts saw losses of 2-3 points, a sharp reversal of recent months. Corporates did better, basically flat on the month, as were High yield bonds, despite the weakness in Oil. Higher US rates left US Mortgage bonds lower, down around 1% on the month.

Property

April saw a huge range in returns across the Globe; the UK was the best performer (+4.8%) whilst the US saw declines of 3.5% on the month.

May saw a continuation of the trend towards European assets (see equity and bond comments above), with European property rising 5.6% on the month. Again Developed -ex US outperformed the Developed World Index by 2.4%, as the US saw another 1% decline on the month. Asia and Japan rose 3-3.5%, as global portfolio money flows continued to favour Emerging Markets in general and the Far East in particular (as it is seen as politically more stable and thus In June, US Property saw a near 2% gain, whilst most other regions were flat/slightly down for the period. *Commentary courtesy of A. Meadows (EBIP)*

Example Returns

Based on Models Net of adviser and Investment Charges for portfolio worth under £1M.
Shown below are 4 portfolios out of 21 numbered according to their percentage exposure to equites & property

Aspen EBIP Portfolio	40	60	80	100
This Quart%	0.74	1.17	1.59	2.00
12 months %	4.49	7.44	10.43	13.44
36 months %	16.18	22.43	28.90	35.59
60 months %	28.93	41.33	56.64	68.90
120 months %	54.85	62.94	69.16	73.04

Individual returns may vary accordingly to asset allocation and timing. Past performance does not determine future return. Investments can fall as well as rise.