Newsletter

ASPEN WEALTH MANAGEMENT

www.aspenwm.co.uk January 2017

An Outstanding Year

2016 provided an interesting year as Brexit and Trump both defied the pollsters. The year also provided good results for our investors, we will cover this in full Market Commentary later this month, a summary of results is attached It was harsh year for Sterling which may predictably lead to the effects of inflation.

As we head into 2017 the pundits will provide us with more predictions. The prudent will continue to take the longer view, invest wisely and diversely. They will make plans and take advice that caters for both the champagne days and the certainty of the less attractive events.

Regular Premium VCTs

Venture Capital Trusts can be a useful way of tax efficient investing as they off 30% relief on investments kept for five years with full tax exemption at the end. This is a great incentive in exchange for the *higher risk* of investing in companies that are smaller and younger.

For those who it is appropriate there are now two trusts (spread across several different companies to diversify risk) which can be invested in on a monthly basis. This could be a particular interest for those who are or could be close to exceeding their Lifetime Allowance for pensions.

Property or pension?

Property investing will be hit by a number of things this April including increases in Stamp Reducing the income tax relief on mortgage interest for buy to let and a higher Capital Gains Tax on the sale of the asset compared to other investments

Those who do understand pensions know that property represents a single asset class, whereas there is a very broad range of investments which can be accessed via a pension scheme, and performance differs widely depending on which investments are chosen.

Chief Executive of the Financial Conduct Authority, Andrew Bailey, has pointed out. First, one of the basic rules of investment is never to put all your eggs in the same basket. Investments should be diversified.

Secondly, the family home is for most people their main financial asset, and it makes little sense to become even more dependent on the property market.

Additionally, property is an illiquid asset. It may take a long time to sell, particularly during the periodic fluctuations in property values. In addition, unlike a pension fund, a property seldom lends itself to partial disposals

Undoubtedly, property has seen rises. Since Halifax created its property index at the end of 1985, property values have increased by around 476% making houses nearly six times their mid-eighties price. Despite this, the total return on the FTSE All share been 1676% and some bias towards value and international exposure revealed even more return.

So, pensions remain a must-have financial asset, and benefit from the crowning tax advantage that private pensions in drawdown can now be passed from one generation to the next without incurring any charge to inheritance tax.

Closing tax loopholes

It is proposed that with effect from April 2017 certain such 'salary sacrifices' would be brought into charge to tax. Three schemes would be excluded and permitted to continue, namely:

- employer-sponsored childcare
- the provision of bicycles and biking safety equipment and
- both Employer Pension contributions and the £500 allowance for advice on financial planning for retirement which it is proposed that employers should make available to their employees.

Schemes which would fall foul of the new restrictions relate to private medical insurance, company cars, workplace parking, health screening and the provision of mobile phones, computers and TVs. Employers will be required to report such schemes to HMRC.

Aside from the loss of tax revenue caused by such schemes, the government is aware that they perpetuate an inequality in that the benefits are largely confined to higher-paid employees.

Tax-assisted childcare

The tax-advantaged arrangements for childcare are about to change. Currently, parents who are employed are able to claim a childcare tax credit or to buy childcare vouchers, with the cost being deducted from their salary before tax is charged. However, no such scheme is available to the self-employed. This deficiency is being addressed in a new scheme which is to be introduced next year which will offer savings per child, rather than per parent.

Basic rate taxpaying parents who use the voucher scheme can spend £243 per month on childcare regardless of the number of their children, representing a saving of £930 per year. Under the new scheme, the government will pay 20% of the childcare costs up to a maximum of £2,000 p.a. But if either parent earns more than £100,000, both parents will be disqualified. Tax-free childcare is also not available to parents receiving tax credits or universal credit.

The voucher scheme will close to new entrants in April 2018 but may be maintained by some employers, and some employees may be better off under this scheme. In particular, it is a condition of eligibility for the tax-free childcare scheme (but not the voucher scheme) that both parents must be working at least 16 hours per week and paid at least the national living wage.

Basic rate taxpayers who spend less than £9,336 per year on childcare will be better off with vouchers, as will higher-rate taxpayers who spend less than £6,252 per year. However, those with large families who spend more on childcare will benefit from the fact that the maximum benefit of the tax-free childcare scheme is £2,000 per year, compared with £930 for the voucher scheme. Parents currently using the voucher scheme will be able to switch to the new scheme next year if they wish to do so.

No comment needed!

The Financial Ombudsman Service has issued a table showing the number of complaints lodged against financial advisers. The three worst offenders were Sesame, Openwork and St James's Place, A testimony to the importance of seeking independent and conflict-free financial advice!

2016 Performance Summary

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1. Data Based on models net of adviser & fund Charges for portfolio worth under £1M. (Source FE Analytics)
2. Individual returns may vary accordingly to timing and any custodian charges.
3. Past performance does not determine future returns and investments can fall as well as rise.
4. Portfolios are numbered from 0 to 100 in intervals of 5, representing the exposure to Equities/ REITS compound to Investment Grade Bonds.

Aspen EBIP Vital Portfolio	**40**	**50**	**60**	**70**	**80**	**90**	**100**
Quarter 4 %	1.68	2.38	3.09	3.79	4.49	5.19	5.88
12 months %	12.13	14.32	16.54	18.77	21.03	23.31	25.61
36 months %	15.73	17.91	20.10	22.31	24.53	26.77	29.01
60 months %	32.72	38.98	45.47	52.20	59.16	66.38	73.85
120 months %	55.53	58.92	61.87	64.33	66.24	67.57	68.26

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Performance Line Chart

FE ANALYTICS
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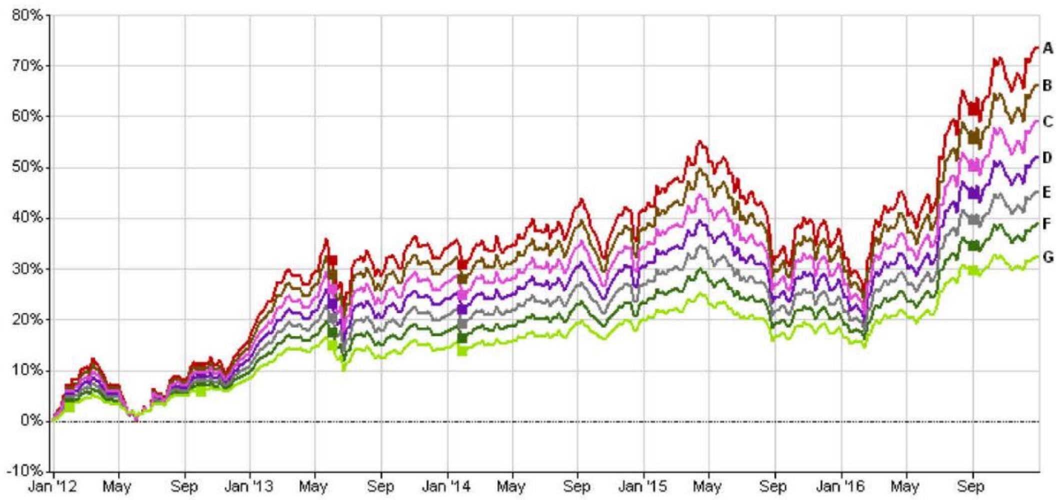
4 January 2017

Pricing Spread: Bid-Bid • **Data Frequency:** Daily



- A - EBIP - Portfolio 100 Inc 1% (Vital) 01/09/2016 GTR in GB [73.85%]
- B - EBIP - Portfolio 90 Inc 1% (Vital) 01/09/2016 GTR in GB [66.38%]
- C - EBIP - Portfolio 80 Inc 1% (Vital) 01/09/2016 GTR in GB [59.16%]
- D - EBIP - Portfolio 70 Inc 1% (Vital) 01/09/2016 GTR in GB [52.20%]
- E - EBIP - Portfolio 60 Inc 1% (Vital) 01/09/2016 GTR in GB [45.47%]
- F - EBIP - Portfolio 50 Inc 1% (Vital) 01/09/2016 GTR in GB [38.98%]
- G - EBIP - Portfolio 40 Inc 1% (Vital) 01/09/2016 GTR in GB [32.72%]

30/12/2011 - 30/12/2016 Data from FE 2017