Welcome to April's 2019 Newsletter.

At Financial Advice Centre, April is always an important time of the year where we reflect on the previous financial year and look ahead to a new tax year.

This tax year also sees some changes come into effect regarding taxable allowances which we will be discussing with our clients as part of the financial review process. This will ensure these changes are incorporated appropriately into your financial planning.

In this newsletter we have revisited the highly relevant subject of Inheritance Tax planning to give you an update on the changes from 6.4.19 and an insight into some of the financial planning opportunities available.

The changing investment climate continues to be a source of much discussion and with so much going on around the world and on our own door step, we think it is useful to reflect and provide some insight in the Market Commentary section.

As always, we would welcome your feed back, and interaction with our clients, as such if there are any areas in this edition you wish to discuss or simply wish to book a review meeting with your Adviser for a financial health check we would be delighted to hear from you.

Piers Mepsted,
Managing Director

In this Issue

For questions and advice get in contact today...

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Market Overview | part 1

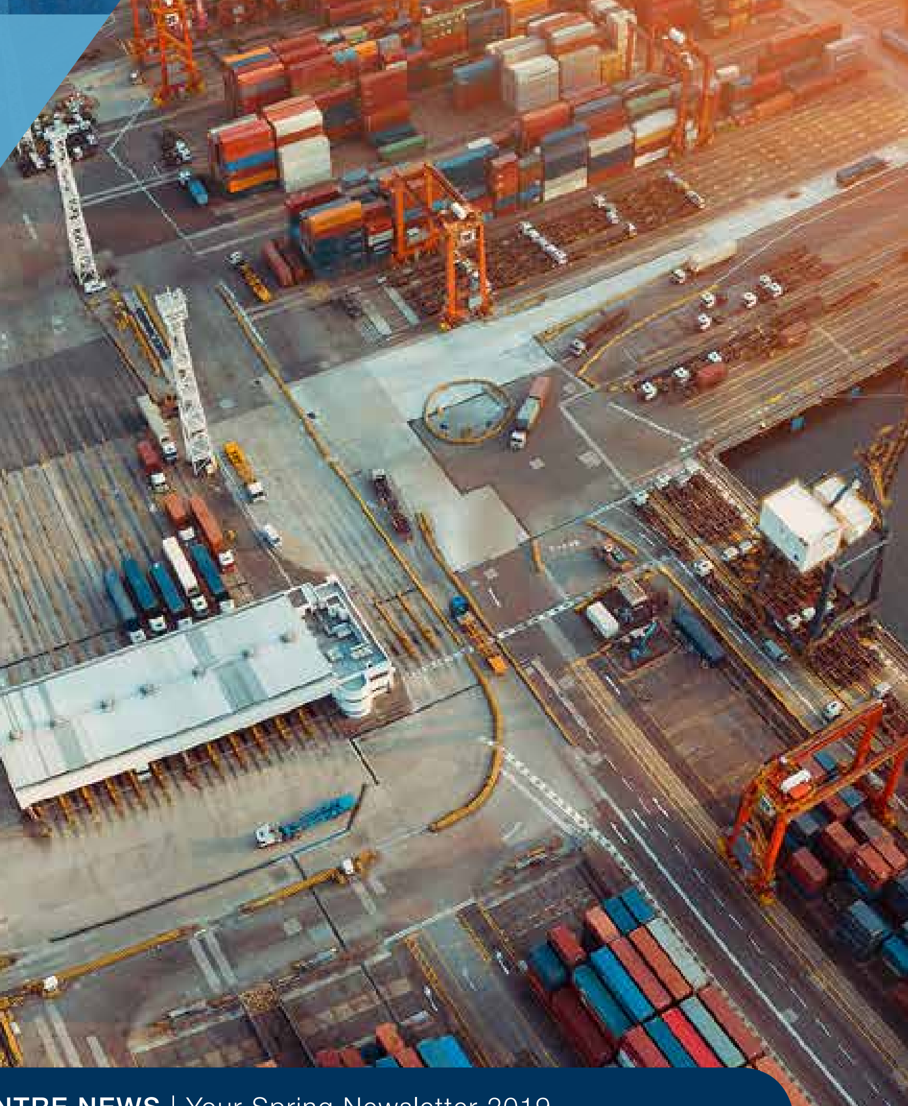
The growing uncertainty of late 2018 gave way to hope of new-year resolutions to some of the political battles that affected the fourth quarter of 2018.

The festive period brought further declines to stock markets, with US indices posting their worst-ever Christmas Eve, and the Japanese market falling 5% on Christmas Day. However, in what appeared to be something of a Christmas miracle, the passing of the 25th December brought about sudden and immediate positivity from investors. The 26th December saw the Dow Jones (the index tracking the 30 largest companies in the United States) recorded its largest-ever one-day gain, while other world indices showed similarly impressive increases.

Over the first few weeks of the New Year, progress seemed to be apparent in several of the areas that have caused so much consternation in recent months.

On the 7th January official delegations from the US and China began three days of talks to find a solution to the trade dispute. While no definitive outcome was expected at this stage, the rhetoric was positive. Both sides have admitted that they have their differences but, most importantly, have agreed to continue to work towards finding a truce. The announcement on the 24th February that the tariff increases pencilled in for 1st March would not be going ahead signalled further progress. More recently, at the end of March, comments from Donald Trump that trade talks continue to proceed “very well” bring confidence that an agreement may be in sight.

January saw China post the ‘lowest pace of economic growth in 28 years’, but, as the weeks passed, the fear that this was a longer-term trend seemed to lessen. The slump in Chinese manufacturing data that had set in from August ended with a return to growth in March, indicating that the Chinese slowdown may have reached its nadir, helping to tempt investors back to its shores. This positivity spread to Japan and Emerging Markets, both of which have been taking much of their lead from their larger neighbour in recent months.



Market Overview | part 2

Positive news in Europe was harder to come by for the majority of the first quarter of the year. Signals that once US-China trade negotiations are complete, President Trump may turn his attention to Germany, currently its fifth largest trading partner, caused some nervousness. This was not helped by a significant cut to growth forecasts for the year from the European Central Bank. However, bringing a glimpse of light through the clouds in late March was an unexpected rise in confidence among German companies. The ifo Business Climate Index, a highly-regarded early indicator of economic developments in Germany, rose significantly ahead of expectations. This brings hope that, as with China, we may have ridden out the worst of the storms, at least for the short term.

Across the Channel, in the UK, if we were to attempt to distil the past three months of Brexit negotiations into manageable and meaningful text, then it's fair to say that we may still be writing by the time the 12th April arrives and the UK must decide whether or not to hold European Parliament elections. Suffice to say that the hope at the start of the year, that by the 29th March we would have some clarity on the outcome of negotiations, has ebbed away, with Parliament having failed to reach a consensus.

There remains such diversity in the potential outcomes that may eventually bring an end to the discussions, that attempting to second guess where we go from here is little more than a fool's errand. Even the most learned and political minds are seemingly baffled. As such, the investment analysts we speak to agree they must resist the option to position portfolios for a single outcome and instead ensure they are well diversified.

The outlook for the next quarter seems eerily reminiscent of the last, with hope from us all that some of the ongoing uncertainty may finally be laid to rest. With US-China trade talks seemingly moving in the right direction, and the anticipation that extended Brexit talks should not extend beyond the end of May due to European Parliament elections, we continue with cautious optimism for the coming months.

Markets and Investments

Outlook	Asset Class	Reasoning
↔	UK Equities	Brexit uncertainty continues to hamper markets. With an extension to the original March 29th deadline now in place, we await each step towards an agreement with interest. The prolonged negotiations have left UK markets looking reasonably good value, but short-term volatility could still prevail.
↔	US Equities	Progress on US-China trade talks has buoyed markets, along with comment from the Federal Reserve that interest rate rises are not on the horizon for the remainder of the year. The end to the Government shutdown that had been in place throughout late December and the majority of January removed any concerns that had been raised over the potential impact on productivity.
↓	European Equities	Weak economic data has left the Eurozone lagging other developed markets in the recovery phase we have seen so far this year. Growth forecasts have been slashed by the European Central Bank, leading to a fresh round of monetary stimulus, as signs suggest that the removal of quantitative easing at the end of 2018 may have been a step too far, too soon. Pockets of value can still be found, but investors must tread carefully.
↑	Asian Equities	March has seen a turnaround in some vital economic data, suggesting that the slowdown in China may have reached its trough. Talks with the US continue with a view to ending the prolonged trade dispute, the resolution of which will be a significant step for both countries. Japan continues to be greatly influenced by factors beyond its control. Positive noises coming from the US-China trade talks have provided a boost to sentiment, but weak manufacturing data reflects lessening demand both at home and abroad. Jobless numbers hitting their lowest rate in almost three decades suggests that there is still room for optimism.
↑	Emerging Market Equities	Stability in US interest rates has removed one of the major risks to the area. However, as has become very apparent in recent years, the divergence of fortunes within the region continues to cause a headache for investors. The potential for technology to drive the area to the same degree as it has in the last five years seems unlikely, but plenty of interesting investment opportunities remain.
↑	UK Gilts	The Brexit outcome and the potential impact on the value of Sterling continues to dissuade foreign investors from delving into the Gilt market. Prices have, however, been robust due to the sectors' position as a safe-haven against the volatility of equity markets. Index Linked Gilts have performed strongly throughout March, as concerns over inflation and currency fluctuations have continued.
↑	UK Corporate Bonds	UK companies have been taking advantage of the low interest rate environment to issue record-breaking levels of corporate debt over the past few years. Credit spreads, the additional yield on offer for holding corporate debt over government debt, have fallen back a little from December's spike, but companies are still facing pressure to reduce their debt pile after years of overextending themselves. This environment could well lead to attractive investment opportunities.
↔	Cash	Despite low levels of return, cash continues to form an important part of a portfolio in a volatile market environment, both to help reduce overall portfolio volatility and ensure investors have the ability to deploy funds quickly as attractive investments materialise.

Your Adviser Discusses

Inheritance Tax (IHT) and the Investment Options

We discussed IHT in our inaugural newsletter in 2017, but as it is a topic clients are often asking for advice or reassurance in, we thought we would provide you with a fresh update and reminder about allowances.

Inheritance tax facts:
What is IHT and who does it affect?

Inheritance tax is a tax payable on the assets (money or possessions) you leave behind when you die, so it's often referred to as 'death duty'.

The assets making up your estate can include:

- Cash and savings in the bank
- Investments
- Property and valuables, such as art, jewellery etc.
- Vehicles
- Businesses you own
- Pay-outs from life insurance policies not held in trust

If you make certain kinds of gifts during your lifetime, but die within seven years after making them, the recipients of the gifts may be liable to pay IHT.

The **Residence Nil-Rate Band (RNRB) allowance**, that was introduced in April 2017, is now at £150,000 for each individual which gives a current allowance of £475,000 for the majority of us with total assets under £2 million.

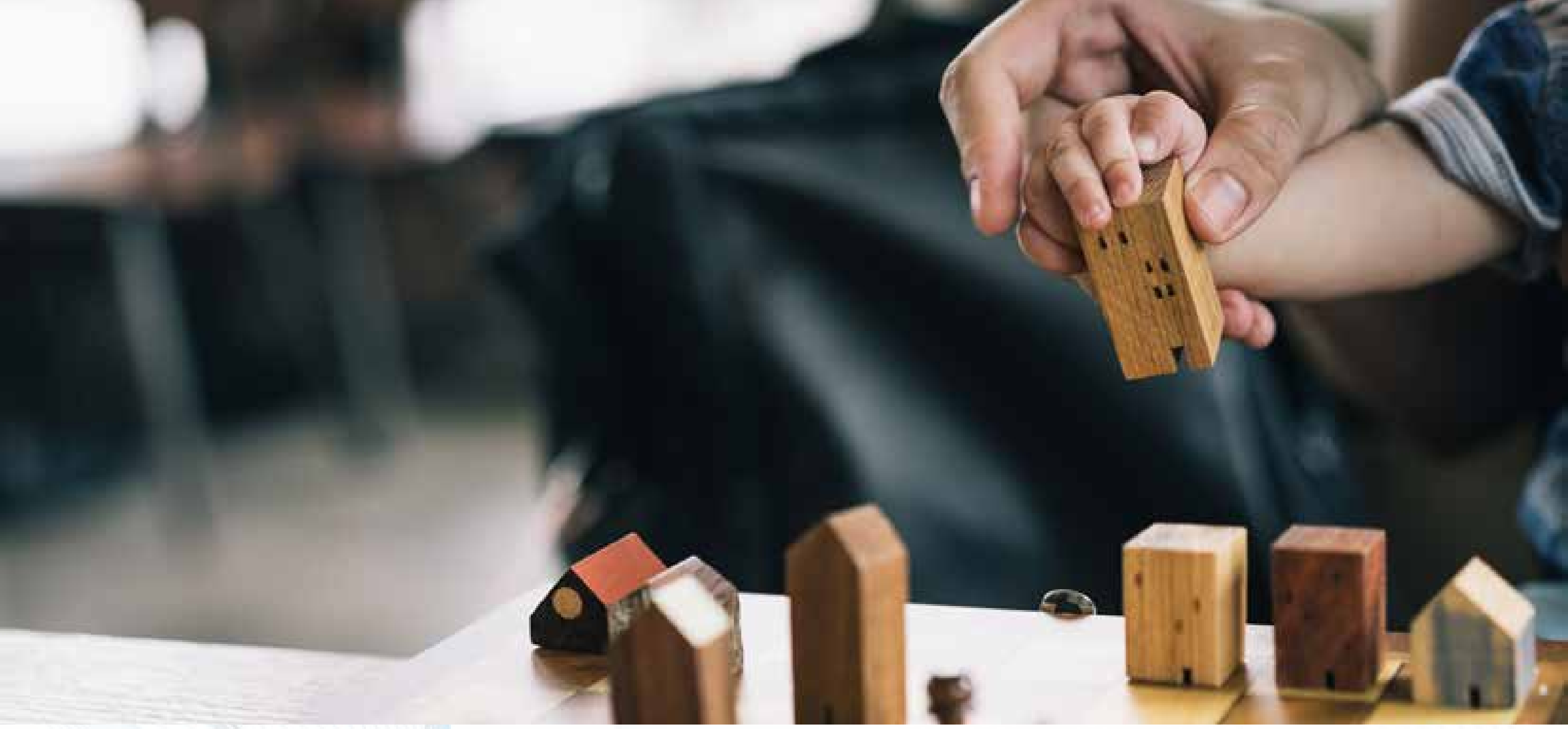
From April 2020 this will increase to £175,000 per person and then increase with CPI each year thereafter. There is no plan at this time to link the Nil Rate Band with CPI so we can see this remaining at £325,000 for the foreseeable future.

	Residence Nil Rate Band (£)		Main Nil Rate Band (£)		Total (£)	
Year of death	Individual	Couple*	Individual	Couple*	Individual	Couple*
2019/20	150,000	300,000	325,000	650,000	475,000	950,000
2020/21	175,000	350,000	325,000	650,000	500,000	1,000,000

* Couple in this context means individuals that are legally married or in a registered civil partnership

The reiterate **RNRB** is fully available to anyone who:

- passes the family home to 'direct descendants'
  - broadly their children/grandchildren and/or their spouses on death; or
- had a family home, then downsized on or after 8 July 2015
  (passing on assets of equivalent value to children/grandchildren); and
- has an estate below £2M.



WHAT ARE MY OPTIONS WHEN IT COMES TO MANAGING IHT?

Of course, there are ways that you can legitimately reduce or even fully mitigate the impact of IHT such as spending it, or setting up Life Cover to pay the tax after your death but there are also specialist investments that achieve IHT relief after just two years.

These investments are perceived as a higher-risk approach but it offers quick relief, a potential 40% saving as long as you survive two years and means you do not have to give it away if you think you may need it.

These investments are made up of investments within companies that qualify for **Business Property Relief (BPR)**. BPR is an established form of tax relief that gives people an incentive to invest their money into trading businesses. It was introduced in 1976 as a way to ensure that inheritance tax wasn't paid on small businesses. Shares in a BPR-qualifying business can be left to beneficiaries free from inheritance tax, provided they have been owned for at least two years at the time of death.

Different products we use to meet these rules are Enterprise Investment Schemes (EIS) and portfolios of companies listed on the Alternative Investment Market (AIM) which can be held within an ISA.

EIS was introduced in 1994 to encourage investment in new unlisted companies. The finance raised through EIS investment helps to support the UK economy as the capital is used by businesses to develop and grow. EIS offers a range of valuable tax reliefs to encourage investment and reduce inherent risks. To qualify for tax relief, investments must be held for a minimum of three years.

The benefits include:

- Up to 30% Income Tax relief
- 100% Inheritance Tax (IHT) after two years (and if held at time of death)
- Capital Gains Tax (CGT) deferral relief
- Growth free of CGT

As EISs are investing in unlisted and start-up companies there is an inherent risk that some of these companies fail. We look to use investment providers who manage this risk well and use a diversified range of new companies. However, they are not risk free so seeking advice is crucial before entering into these investments.

AIM ISA's were launched in 2013 when the Government changed the rules to allow AIM-listed shares to be held in an ISA. Some of our investment providers launched the full AIM services in 2005 so have great track records over the past 14 years. Investments within or outside of an ISA invest in shares listed on the Alternative Investment Market (AIM) that can qualify for relief from inheritance tax. These tax reliefs are part of a wider initiative to encourage people to invest in smaller companies.

The ISA's might be good for you if:

- Your estate is likely to be liable for inheritance tax.
- You have built up significant ISA holdings over the years.
- You want to keep the lifetime tax benefits of your ISAs while reducing the inheritance tax liability for your beneficiaries.
- You are comfortable with the risks involved with investing in smaller companies.

More than 6 million of the UK's 23 million ISA investors are over 65 years old.

Clients with significant funds invested in ISAs often face a common dilemma. On the one hand, they could keep their ISA money invested and continue to get tax-free growth and income, while recognising that when they die, their family may have to pay inheritance tax on the value of their ISAs. On the other hand, they could reduce the amount of their estate liable for inheritance tax by cashing out of their ISAs, then gift the money to their family, or move the proceeds into trust.

But making gifts or using trusts also presents problems. Not only does taking the investment outside of the ISA wrapper mean you lose the ISA tax benefits, but you also relinquish control over the assets.

What we can do is keep your assets within an ISA, maintaining all the benefits of this tax efficiency but also have them outside your estate after just two years.

With all of the AIM listed investments there are similar risks:

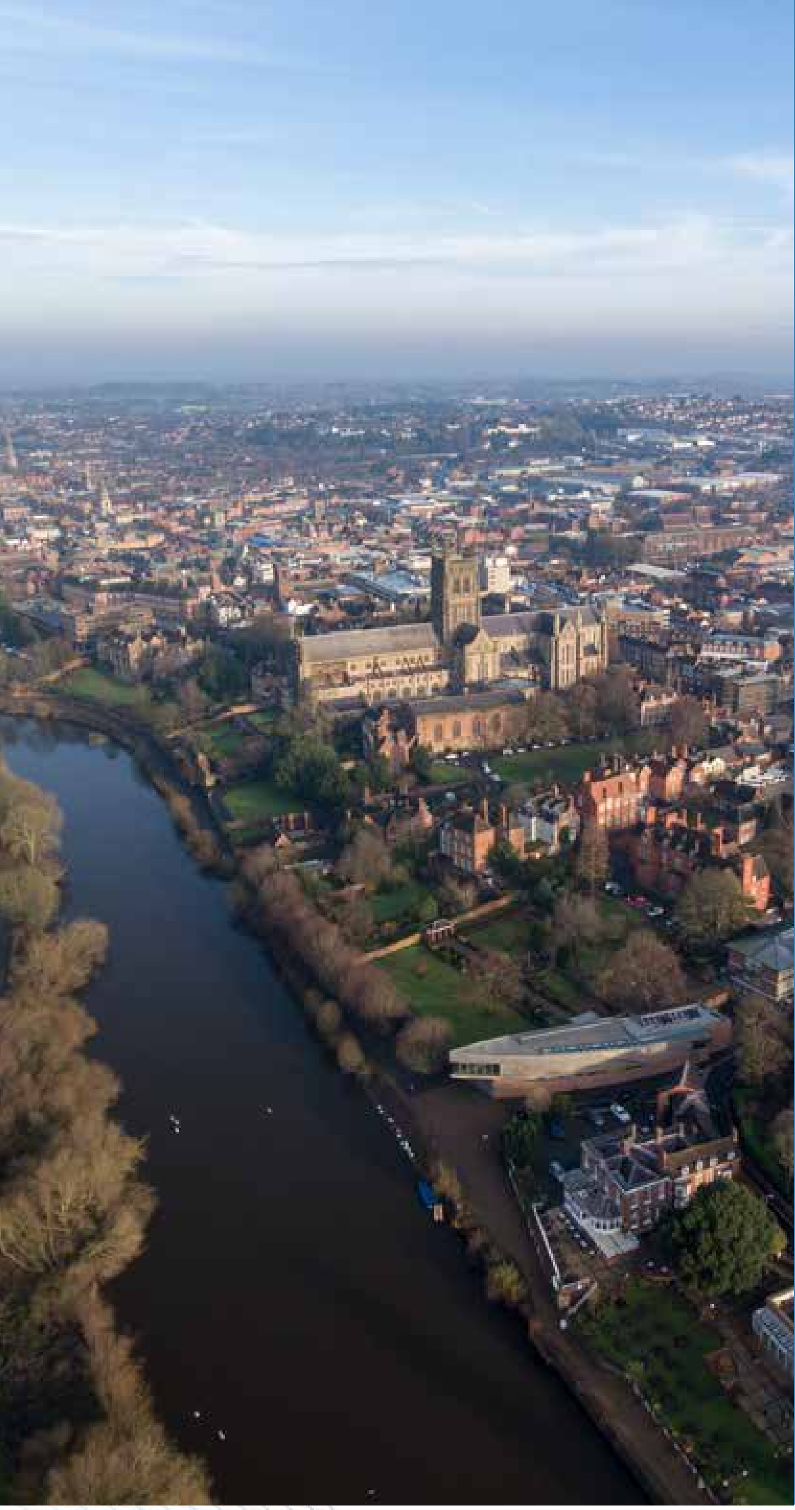
- **Your capital is at risk**

The value of your investment can go up or down and you may not get back the full amount invested. Investing in AIM-listed shares involves more risk than investing in shares of companies listed on the main market of the London Stock Exchange.

- **Your investment could experience volatility**

The performance of AIM-listed shares tends to be more volatile, which means their value can rise or fall by greater amounts on a day-to-day basis.

If you would like more information on these investment types of on IHT generally then please let me know and I would be more than happy to discuss this further with you.



About Financial Advice Centre Limited

Since inception in 1999, Financial Advice Centre Limited has grown to become a leading firm providing progressive thinking, independent financial advice and wealth management.

Our team of Independent Financial Advisers have deep technical expertise across a range of areas including wealth management, inheritance tax planning, bespoke investment strategies and public sector pensions. We offer financial advice of the highest standard as seen through our proven pedigree of successfully managed pension and investment funds.

We are active Advisers with a unique charging structure and holistic perspective that focusses on building long term relationships and consistently adding value to our clients investment propositions. Our aim is to provide a service that is both forward-thinking and objective to help clients achieve their financial objectives.

Our clients choose to work with us because we demystify the increasingly complicated financial environment and consistently deliver results in a way that's easy to understand.

financial advice centre

independent face to face advice

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