360

from **AW Financial Management LLP** **August 2017**

Welcome to our Summer 2017 edition of 360. This is our quarterly update on all things financial and we hope you find the articles, reports and commentary both useful and informative.

In this issue

Strong & Stable?

By simply reviewing the headline piece from our last quarterly newsletter, we see how quickly things can change in the world of tax and financial planning. In April we were explaining the impact and implications of the new Probate Registry fees. You can safely ignore those now because no sooner had the ink dried, the proposals were dropped!

This (backtrack) was of course just ahead of the General Election and might have been seen as a sop to the older generation of the population—was it a way of trying to secure their votes? The General Election was of course meant to give a stronger hand to the Tories to enable them to boldly go into the Brexit negotiations, but with mixed messages on the future of long term care funding, the potential withdrawal of the “triple-lock” on pensions and the prospect of means testing the winter fuel allowance, swathes of typical Tory voters turned their back on Mrs May thus clearly weakening her hand, as we well know.

We are left therefore with a “confidence and supply” informal arrangement between the Conservatives and the DUP to both run our country and to tip-toe through the Brexit negotiations. Only time will tell whether this liaison will work out practically in the long run but it is certainly not what Theresa May was expecting when she announced the snap election back in April.

Regardless of which political party you voted for, we are all now keen for the Brexit negotiations to gain momentum and alight on a fair and appropriate solution to move forward with. There is more than a little voter/electorate fatigue right now. Most of us now just want to know what will happen, what the impact will be and when it is all going to be over so that we can get on with talking about something different. To this end, we do trust that our politicians will be able to cure a good and fair outcome for the UK.

Global markets and your portfolio

Investment returns at the time of writing have again been very positive. It is not always the case that the higher the risk you are prepared to take, the better return you will achieve but in this period, it has so far been true. The table also shows that ethical investments have in the main produced as good as or if not even better returns over the relative short term.

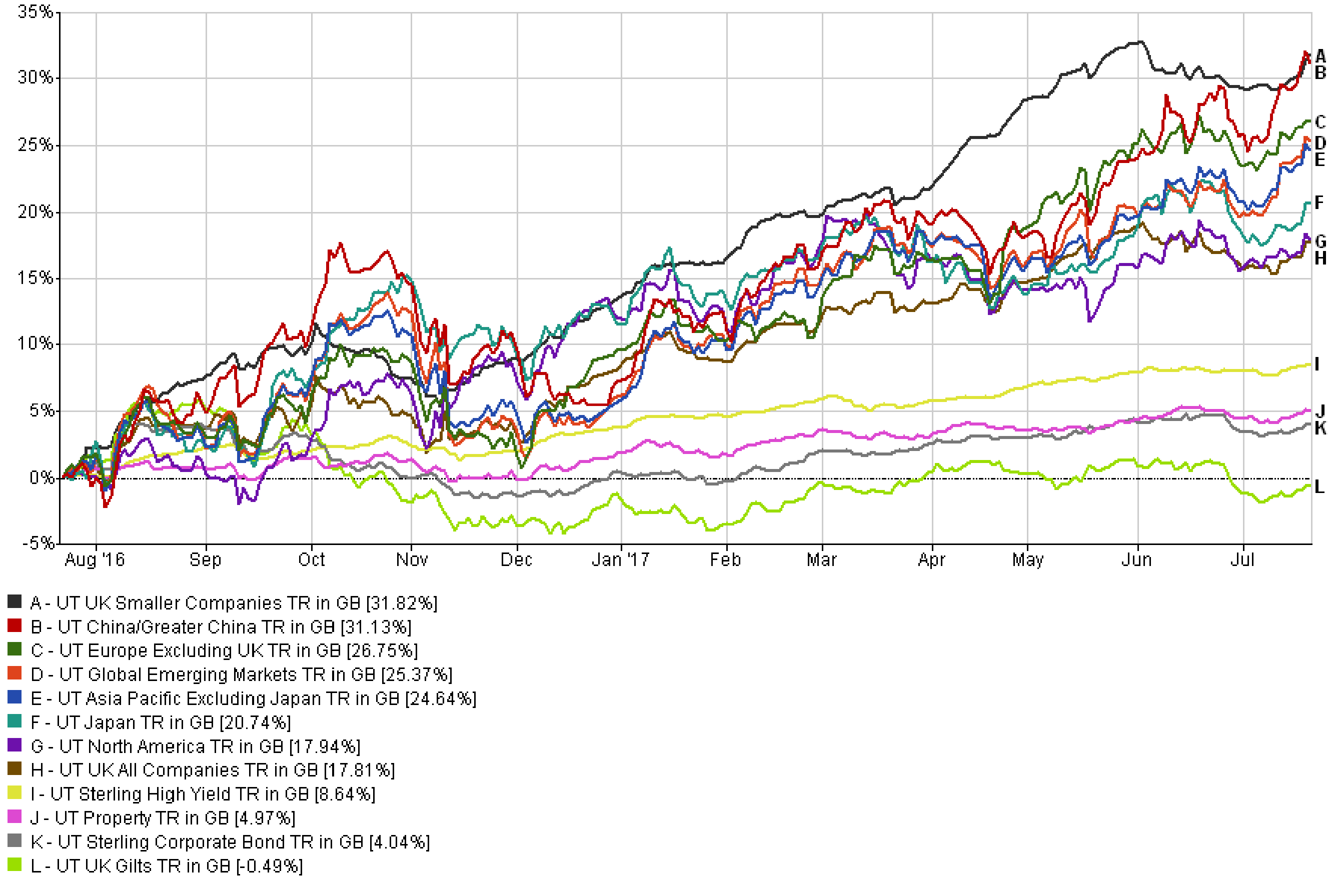
Our Ethical portfolios have performed particularly well over the last 3 months due mainly to their higher allocation to UK Equities. As the pound has strengthened in recent months, our Ethical portfolios with a higher allocation to UK Equities have produced in some cases, better returns.

Description	AWFM Risk Model	Ethical		Unrestricted	
		3m	1yr	3m	1yr
Cautious Risk	1	2.15%	6.81%	2.24%	6.24%
Cautious to Moderate Risk	2	4.25%	12.71%	3.65%	10.84%
Moderate Risk	3	4.91%	14.29%	4.29%	14.43%
Moderate to Adventurous Risk	4	5.63%	16.86%	4.76%	19.93%
Adventurous Risk	5	7.27%	20.38%	8.01%	25.56%

“Good will come to those who are generous and lend freely, who conduct their affairs with justice.” - Psalm 112 verse 5

Investment returns & outlook

Smaller companies funds in the UK have been the most positive sector over the last year but of course they do sit towards the higher end of the risk spectrum along with investments in China which have produced similar returns. In both cases, the returns have been over 31% as can be seen from the graph below. We tend not to hold China funds per se, but some of our Global Equity fund managers will gain exposure to this market as they see fit.



21/07/2016 - 21/07/2017 Data from FE 2017

A long and well rehearsed theme amongst fund managers has been to avoid investment in Gilts. The chart above shows that Gilts were the one sector producing negative returns over the last year. Corporate Bond funds on the other hand have produced positive returns although in both cases fluctuating forecasts regarding the timing of interest rate rises and have at various times suppressed valuations and increased yields. Some of the movement in bond values has, as ever, been down to interpretation of what central bankers are or are *not* saying regarding interest rate policy and latterly any plans to reduce the rate at which they are buying bonds. In the meantime with UK 10 year gilts yielding around 1.1%, CPI now 2.9% and your realistic personal rate of inflation possibly higher, like cash this asset class is currently more a safe haven in times of turmoil than a source of real returns.

The table below shows that European equity is currently still favoured by the majority of fund managers surveyed regularly by Old Mutual Wealth and performance (reflected above) has been strong. Particularly in the last three months as some of us prepare to head to the Continent for guaranteed summer sun the currency has appreciated around 7% against Sterling — good news for European equities but less so for our holiday spending money! Further afield, Japan and the Emerging Markets are the only other two sectors to join Europe as having a positive outlook with the rest of the sectors being either neutral or negative. As we write, the US Dollar continues to slide— good news for US exporters— and the S&P500 breaks new territory— led by the banking sector and despite the brief tech sell-of in late June / early July. Looking ahead, just as we go to press the recent swathe of US corporate earnings results ahead of expectations might alter the negative outlook detected by the Old Mutual survey.

POS	**A POSITIVE outlook**	European Equity, Japan & Emerging Markets
NEU	**A NEUTRAL outlook**	UK Smaller Companies; US Smaller Companies; Global Property & UK and Global Corporate Bonds
NEG	**A NEGATIVE outlook**	UK Equity; US Equity & UK Gilts

We will of course continue to monitor events and any alterations in our stance for AWFM-managed portfolios will of course be notified to you at our next asset allocation review and similarly, for Discretionary Managed Portfolios, your portfolio manager will be keeping you and us abreast as they adjust portfolios when necessary.

Charitable Donations

For many years the Government has encouraged charitable donations by making tax allowances. The Gift Aid scheme was introduced in the Finance Act in 1990 making it now over 27 years old. It was subsequently amended in the Finance Act 2000 and now the legislation sits within the Income Tax Act 2007.

Gift Aid allows a registered Charity to claim back 25% of the value of any donation made by a UK tax payer. If a donor makes a gift of £100 therefore to a Charity, the Charity can reclaim a further £25 from HMRC, thus significantly enhancing the value of the original gift.

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Furthermore, if the donor - the person making the gift, is a higher (40%) or additional rate (45%) tax payer, they will be able to benefit from paying less tax by virtue of the gift. They will usually have to reclaim the extra tax when submitting their Self Assessment tax return and therefore anyone paying the higher rates of tax especially need to retain a detailed account of their charitable donations made under Gift-Aid in each tax year.

Gift-Aided donations can also help with tax efficiency in other areas for higher and additional rate tax payers. Those whose earnings exceed the £100,000 per annum threshold who would ordinarily lose their Personal Allowance, can perhaps get back their full Personal Allowance (£11,500 in the 2017/18 tax year). Gift Aid donations can also be used to reduce taxable income for the purposes of maximising pension contributions, where income for the individual may exceed £150,000. In such cases, the limit for annual pension contributions may be reduced from £40,000 but with Gift-Aided donations, it may be possible to recover the full £40,000 annual allowance.

Donations to charities under Gift Aid do not necessarily have to be in the form of money. They can be by way of Charity shop donations or museum entry donations (in lieu of entry fees) for example, but in each case in addition to completing the relevant form for the donee charity at the point of donation, a record really ought to be kept by the donor, including the value of that donation.

If an individual only pays a small amount of income tax, but wishes to be generous with charitable donations, they do need to be careful. If the tax reclaimed by the charity is greater than the tax paid by the individual, it is likely to result in the individual tax payer needing to settle the difference. The following example is taken directly from HMRC's website:

> During the 2015 to 2016 tax year (basic rate of tax 20%), a donor (Mr Green) who only pays a small amount of Income Tax each tax year wins a tax free cash prize of £10,000 in a competition. He decides to share his good fortune and makes Gift Aid donations of £800 to charity A and £1,600 to charity B.
>
> Charity A claims Gift Aid tax relief of £200 and charity B £400 - the total Gift Aid tax claimed by the two charities on Mr Green's Gift Aid donations in the tax year is £600. However, Mr Green only paid Income Tax of £250 during the 2015 to 2016 tax year and so he owes the £350 difference in tax (£600 total Gift Aid tax claimed less £250 Income Tax paid by Mr Green) to HMRC.

Payroll Giving if you are employed (probably by a larger organisation) works in a similar way to ordinary Gift-Aid but usually uses an organisation like Charities Aid Foundation (CAF). This can work well especially if an employer match-funds any donations, but organisations like CAF do make a charge of 4% of each donation. Giving direct to Charities *can* therefore be more effective overall.

Legacy Donations to Charity potentially attract relief from Inheritance Tax (IHT) if the Estate of the deceased person falls into the IHT bracket. By 2020 in simple terms we expect every individual to have a personal allowance (Nil Rate Band) of £500,000 and so married couples can pass on £1m free of IHT. Pension fund values sit outside of the remit of IHT currently, in the main.

Legacy donations to Charities can therefore help to relieve the burden of IHT for those larger Estate values. The relief comes in two ways. Firstly, any Charitable donation reduces the IHT taxable Estate of the individual. So if a single person had an Estate value of say £600,000 and they decided to give £100,000 to Charity on their death, they would completely escape IHT on death. If they hadn't made the donation in their Will, the IHT would have been charged at £40,000 (40% on £100,000).

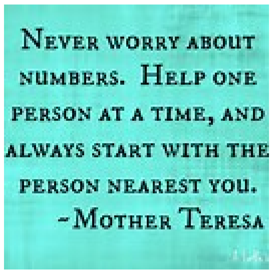
Secondly, if an individual were to donate 10% or more of their "net estate" to Charity on death, the IHT rate also reduces by 10%. The "net estate" for IHT purposes is essentially the amount of the estate chargeable to IHT. So in the example above, the net estate (in the year 2020) would be £100,000. So a charitable donation of just £10,000 out of the £600,000 estate value would reduce the IHT rate on the net estate from 40% to 36%. The IHT charge would therefore be 36% of £90,000, £32,400 instead of the original £40,000 if no donation were made.

1997?

This edition of our 360 newsletter coincides with the marking of the establishment of the business 20 years ago.

Things were different back then.

Soon after establishing the business out of an office just on the outskirts of the City in Widegate Street E1, Martin purchased a Suzuki 600 Bandit to commute to work and occasionally visit clients at their homes or premises (some clients still remember those days!). Incredibly the Bandit is still in Martin's possession, although it hasn't seen the light of day for 13 years! For those who long to know what a Bandit is, a picture is included.



Enough talk of motorbikes, we thought we'd have a little look at what has changed over the period. We take you back to 1997 therefore:

- The average house price in the UK in December was £68,866 (now £223,110)
- The Bank of England Base rate ended the year 7.25% (now 0.25%)
- The FTSE 100 ended the year at 5,135 (now circa 7,400 at time of writing)
- Tony Blair was the Prime Minister
- Princess Diana died in a car accident in Paris
- Tiger Woods became the youngest ever winner of the Masters at the age of 21
- The first Harry Potter book was published
- Mother Teresa died

Meanwhile, a Financial Planning and Wealth Management business was incorporated under the Martin Andrews & Associates Ltd brand. Then in 2010 Martin and Gary Wilson merged their two respective businesses to form AW Financial Management LLP. The rest is history.

News in brief

- The IHT Main Residence Nil Rate Band continues to create interest and intriguing situations. Whilst the concept of getting each individual up to a Nil Rate Band of £500,000 on death is well meant, the complications in the legislation do need careful consideration.
- Don't forget to look out for the old style pound coins. They will cease to become legal tender on 15th October 2017. This reminds us a little of the card game "Old Maid". Who is going to be left holding old coins when the deadline falls?
- Providers introducing the new Lifetime ISA have started to come to the market. Please refer to the last edition of 360 (on our website) if you need more information but we would encourage clients to consider this new form of savings for younger people (perhaps funded by gifts) to take advantage of a 25% uplift in contribution value from the Government.

AWFM News

The business continues to grow and flourish. It is tremendously pleasing to note a history stretching back 20 years now and we are grateful to all of our clients who have helped us build a strong business with ethics and integrity at our core.

We are currently recruiting for two new people to join us and hopefully we will be able to bring you news of new appointments in due course. If you know of anyone who would potentially like to join our team, please do refer them to our website where they will find details of the roles.

Meanwhile, we are now into the period of Summer holidays when inevitably things slow down a little. As I write the long hot summers seem to have been dispersed by heavy rain showers—ho hum!

Contact us
w: www.awfm.co.uk
t: 01322 669059

Partners:
martin@awfm.co.uk
jon@awfm.co.uk
sean@awfm.co.uk

Administrators:
nicola@awfm.co.uk
edward@awfm.co.uk

River House
1 Maidstone Road,
Sidcup,
Kent,