SIMPLYMONEY

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YOUR WINDOW ON FINANCIAL ISSUES

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INSIDE THIS ISSUE

HOW WILL YOUR GARDEN GROW, FOR YOU AND FUTURE GENERATIONS?

The Royal Horticultural Society website asks: 'why wait until spring to get the most out of your garden?' It goes on to explain the importance of forward planning if the garden is to yield a good crop for you next year and for future generations over the long term.

Whether planning just your own financial future or with future generations also in mind, maybe there are useful lessons in this gardening wisdom, such as: think ahead while others' minds are elsewhere; give the things you hope will grow healthily time to bed in during the winter season; and avoid last-minute planting with possible short-lived yields.

We cannot claim investments made now will perform better, but we believe winter can be the time to take a cool look at finances and make measured decisions in collaboration with your adviser. Then, if new or revised investments, mortgage arrangements or insurances are to be selected, there is ample time to get any changes with tax implications completed by 5 April 2014.

Individual Savings Accounts give major income tax and Capitial Gains Tax advantages. The 2013-14 ISA allowance is £11,520, including up to £5,760 in a cash ISA; the Junior ISA allowance is £3,720. Unused allowance cannot be carried forward; avoid rushed decisions at end-March.

Pensions are a very attractive form of long-term saving, but limits on tax relief may bite when making very large contributions. Annual and Lifetime Allowances apply; both are being reduced, but 'carry forward' and 'fixed protection 2014' can help mitigate the impact.

Nearly everyone liable to Capital Gains Tax gets an annual tax-free allowance, £10,900 for 2013-14. Above this, CGT is levied at 18% or 28%, depending upon marginal income tax rate. The timing of disposals can affect CGT's impact.

As for mortgage deals, plus the protection and other insurances that often tie-in with them, winter is a time to minimise costs whilst you and your family remain well covered in the event of misfortune – from illness or accident to burglary or weather damage during the dark, cold months ahead.

So tax, investment, mortgage and insurance issues – against a backdrop of improving economic outlook and increasing investor and housing market confidence – are key reasons to arrange a financial review now. You could also talk to your adviser about ways to help future generations with things like education fees and property purchase.

KEY FACTS

Some unused annual allowances can be carried forward, others cannot

The Capital Gains Tax annual tax-free allowance for 2013-14 is £10,900

Gains on your only home or main residence are usually CGT-free

TAX BREAKS FOR ALL GENERATIONS

Like the Personal Equity Plans (PEPs) and Tax-exempt Special Savings Accounts (TESSAs) that preceded them, Individual Savings Accounts (ISAs) have proved immensely popular with savers and investors – from those with a few hundred pounds saved to the fortunate investors that now have £1m-plus portfolios after contributing the maximum since PEPs started. The introduction of Junior ISAs two years ago opened up the concept to younger generations as a tax-sheltered home for their capital, including gifts from family and friends.

Whilst saving income tax on interest earned through a Cash ISA can help the compounding effect over the years, sums invested can have their value eroded by inflation. In happier economic times, interest earned on a Cash ISA could easily outstrip inflation. Today's low interest rate climate, plus persistent above-target inflation, has made it harder to counteract inflation, even in a tax-free Cash ISA.

> **"The funds accumulated in their JISA can help a young adult with university or housing costs when really needed."**

The unfavourable interest versus inflation setting has led more people to consider the Stocks & Shares ISA (which also escapes Capital Gains Tax). This option does not guarantee the return of amounts invested, although stock market performance over the past two or three years has been positive, when measured by the FTSE 100 and similar indices that value a basket of shares. This growth trend may or may not continue.

Many analysts believe that one reason for advances in share prices has been the switch in the relationship between interest available on deposits, including Cash ISAs, and the dividends on equities. Historically, interest on deposits often exceeded the yield on UK shares; for now at least, the boot is on the other foot, as some equities provide attractive levels of income – with the 10% deducted from dividends being the only tax payable if held through an ISA. Note that even major companies can cancel or reduce their dividends.

When considering ISA investment, it is important to decide whether a Cash ISA, a Stocks & Shares ISA or a combination would suit your needs and objectives, in terms of access to your money if needed and your preparedness to accept risk to capital and income. In any event, only up to half of the annual ISA allowance may be held in cash, whilst up to the full allowance (£11,520 for 2013-14) may be put, in one go or perhaps monthly, into stocks & shares – optionally through a collective investment scheme that can spread risk across many different companies' shares, in the UK or globally.

The annual allowance for Junior ISAs for 2013-14 is £3,720. Within this, a qualifying minor may have a mix of cash and shares, but their money cannot normally be touched before they reach 18. Anyone can pay in, but an adult 'registered contact' is usually responsible for overseeing the account. The funds accumulated in their JISA can help a young adult with university or housing costs when really needed.

SCHOOL FEES HOMEWORK BRINGS RESULTS

As every parent knows, decisions about the children's schooling are among the most important and difficult, never more so than when these involve a long-term commitment to spend a five or six-figure sum on private education. Some parents are fortunate enough to have capital in hand to cover school fees and university costs, but those who do not must plan how to meet these recurring expenses from savings or income – or a combination of both.

School fees represent a frequently repeated and generally increasing outlay over a broadly predetermined number of school terms and, of course, multiplied if you have more than one child, with some likely overlapping. The most forward-looking parents begin setting funds aside for private education before or soon after children arrive, thus spreading the cost beyond their years in education.

It is difficult to know just how much will be needed, because fees vary with the location and status of a school and, obviously, whether or not boarding will be involved.

Once decisions have been made about where and on what basis a child might be educated and whether they will first attend a preparatory school, the big unknowns are school fees inflation and the prospects of winning a scholarship or bursary that could reduce fees.

It follows that savings targets may be unavoidably imprecise, but if you are not already making full use of the annual allowances, tax-sheltered ISA savings may be the place to start, with an annual limit of £11,520 per adult for 2013-14. Grandparents wishing to contribute could use this route, too.

Further funds for the university years could go into a Junior ISA (£3,720 per qualifying child in 2013-14, accessible once they reach 18). Other options for tax-efficient savings could include a venture capital trust, but seek expert advice to ensure that you understand the advantages and the risks of this specialist investment vehicle.

This is not intended to represent a recommendation for any specific investment. If you are uncertain as to whether an investment (or investing in any particular market or sector) is suitable for you, you should consult a financial adviser.

SLEEP EASIER WITH THE RIGHT COVER

Everyone knows that life insurance to provide for your family if you die prematurely is vital, but there is always a danger of underestimating their immediate and ongoing financial needs after your death, so do talk the numbers through with your adviser. The life cover available may be term-dependent (such as level term, decreasing term or family income benefit) or whole-of-life.

Level term policies pay out a fixed lump sum on death within a specified period. With decreasing term assurance, the life cover reduces over the policy term, so the premiums for a policy with initial cover of, say, £100,000 would usually be lower than for a level term policy providing that cover throughout. So, decreasing term is efficient for a need that lessens over time – such as the reducing balance on a mortgage.

Family income benefit provides for your family to receive a regular income after your death until the policy term expires, rather than a lump sum. If you died two years into a 20-year policy, for example, your young family would receive support for longer than if you died 18 years into the same policy, by which time your children might be gaining independence.

Whole-of-life policies pay out on death whenever that occurs. Death is inevitable and a paid-up policy will see a claim eventually, so policies are more expensive than term-defined policies. A whole-of-life policy could bring a useful sum for a surviving spouse or enable family to meet an inheritance tax bill if the policy had been written in trust and fell outside your estate.

Sometimes illness can devastate family finances. Critical illness cover will pay out if you suffer a specified medical condition or injury, but not all conditions are covered and the policy will specify the severity of illness that would trigger payment. The existence of critical illness cover would significantly ease the financial burden on you and your family if such misfortune struck.

We would encourage an early discussion with an adviser about your protection needs. Please note that tax and trusts planning is not regulated by the Financial Conduct Authority.

A TOEHOLD ON THE LADDER

Mortgage availability and choice have improved greatly since the depths of the property market inactivity that followed the global financial crisis. The Council of Mortgage Lenders and Land Registry have confirmed that both turnover and prices in many regions have increased, although larger deposits may now be required than pre-2008. For long-standing homeowners, with equity in their homes, moving or remortgaging can look viable again – though things may still be tough for their children and grandchildren, unless they or a government-sponsored scheme provide support.

It has indeed been a difficult few years for the UK property market, with stagnation in some areas making it hard for chains of transactions to hold together, causing problems and frustration for people that must move for work or other crucial reasons and turning some of them into unplanned landlords over their unsold former homes. Now the logjams of unsold properties are clearing, thanks to increased buying interest and improved buy-to-let and owner-occupier mortgage availability. A major snag for the often young first-time buyer has been the mortgage lenders' requirement for greater security – with a 20% deposit requirement typically replacing what might have been 5% a few years ago.

The Government and others were concerned that even couples with two good jobs were being forced reluctantly into renting long term because, despite having the income to service a mortgage, they could not raise the required deposit. It was widely, and probably rightly, claimed that for young adults to get a little toehold on the bottom rung of the property ladder, they require help from somewhere – more often than not from their parents, the so-called Bank of Mum and Dad. That will remain a vital option for many, but the Government's Help to Buy scheme launched in 2013 has reportedly helped thousands of homebuyers, by easing the need for such large deposits.

So, whilst some older homeowners may themselves be thinking about relocating, retiring or remortgaging on better terms if possible, others are looking at whether they can help the next generations of the family. There are various possibilities here, though eagerness to help should not override cautious financial instincts, as there can be risks involved. Among the options is a loan or gift within your means towards the deposit needed for a mortgage the borrower can afford to service from their own income. Potentially riskier are options putting your other assets at risk, by securing an offspring's loan against your home or providing a guarantee to the mortgage lender. Careful thought and sound advice are needed.

NEWS BITES

Economic recovery fastest in the west

The Institute of Chartered Accountants in England and Wales' recent survey reported business confidence at a ten-year high. Their 'Business Confidence Monitor' rose from 24.0 points to 31.7 in the third quarter of 2013.

Businesses expect to see employment grow, with an average increase in headcount of 1.7%.

Help to Buy a success

The Government's 'Help to Buy' scheme has proved a success with over 2,000 people accepting a mortgage via this in just one month.

Average prices for the properties have been £160,000 and 75% of those were first-time buyers with joint incomes - of those applicants in the South East - being £56,849.

Oil price drops on Iranian nuclear accord

After protracted negotiations, Iran has agreed to limit its production of enriched Uranium.

As a result economic sanctions will be lifted on the country allowing them to ramp-up their oil production. They have one of the world's largest proven reserves of oil and gas.