YOUR WEALTH

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NEW YEAR CHANCE TO LOOK AHEAD

It has been an interesting 2012. The UK stockmarket held its own for much of the year, while number-crunchers at the Office for National Statistics made calculations to the nearest 0.1% of gross domestic product that determined whether we were in or out of recession, then they revised them. Inflation eased for a while in Q3 and then some upward pressure resumed. There remain uncertainties ahead for 2013, not least over Europe. One thing that will definitely emerge on the first day, however, is a new financial services regime based on the Retail Distribution Review conducted over several years by the Financial Services Authority.

The changes now occurring in financial services could serve to remind some of us that preoccupation with the Jubilee, Olympic Games and other 2012 activities may have meant our financial planning slipped down the list of priorities. New Year is always a good time to make changes for the better in our lives and that includes longer-term issues that should not fall by the wayside like so many broken New Year resolutions. So, as 2013 gets under way, it makes real sense to take a fresh look at personal finances, start planning for known future events and be prepared for any misfortune that could derail things.

FINANCIAL REVIEW SUGGESTED

With your financial adviser keen to make an auspicious start to the New Year under the upgraded rules, now is an excellent time for a financial review, to look at existing arrangements and make any decisions about action to improve your position for the twelve months ahead and beyond. House moves, marriage, starting a family, inheriting money and other changes can make

it even more important to have a financial review. Then there are the long-term issues like retirement planning, highlighted by the recent launch of pension auto-enrolment that will potentially affect almost all UK employees over the next few years. It can be tempting to put off pension planning when facing other more pressing commitments, but this could bring regrets later.

The new 2013-14 Tax Year starts only three months or so after Big Ben strikes 12 on New Year's Eve. This makes the first quarter of the year an opportunity to think about matters that could affect your current and future tax position. Those with younger families and an income within or a bit above the £50-60k range may want to look at ways – perhaps extra pension contributions – to reduce 'net adjusted income' in relation to Child Benefit, which may incur a pound-for-pound tax charge under changes effective from 7 January. Some clients may wish to look at their estate's potential inheritance tax liability and how to mitigate that. Almost everyone needs to explore maximising ISA and Junior ISA allowances for 2012-13 before it is too late.

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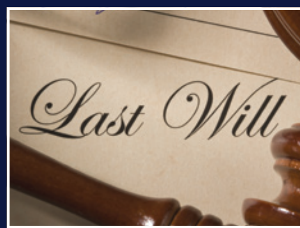

GET THE MOST FROM SELF-FUNDED CARE

Ill treatment of care home residents and reports from the Care Quality Commission expressing further concerns about wider problems in the care sector have caused worry for some families. Many compassionate carers in the sector do marvellous work, often carrying out unpleasant tasks and usually for quite low pay. Money is not everything in care quality as there are other factors involved, but we get what we pay for in most things and residential care is probably no exception to that principle.

Elderly care has become controversial and that is understandable. Statistically, we are living longer. Medical advances keep our vital organs functioning when we have lost the ability to care for ourselves properly. Argument surrounds not only quality of care but also that tricky question of who foots the bill. Some people think care fees should come from the state whatever a person's means; others feel the individual should pay if they can, selling the family home if necessary.

GET FINANCIAL AFFAIRS SORTED

It is quite normal to feel pressurised when it seems that someone close may need long-term residential care. It is a need that may result from the loss of a caring partner or from the failing health of a widow or widower. Arranging the right long-term residential care takes a while, so it can pay to think ahead. With professional support and with their agreement, get their financial affairs sorted, possibly including an updated Will and a Lasting Power of Attorney.

Having personal assets available to fund residential care does give someone more choice, avoiding dependence on where a local authority that needs to cut its spending decides they should go. It is important to make optimum use of available financial resources to maximise that choice, and not to overlook any contribution that may be available from the state. Current arrangements may differ in parts of the UK, but if you have assets above a certain value, often you will not get outright local authority funding.

Local authorities may help some self-funding residents with their fees through a loan, secured against their home and repayable upon sale. Self-funding residents keep their entitlement to Attendance Allowance and, if they receive nursing care, the NHS may contribute to the cost. It is important to establish whether these various means, coupled with pension income and investments, are likely to cover fees for their remaining years. This is often an uncertain calculation, so a care fees annuity taken out with an insurance company may help. A capital sum is paid in to create income for future fees, perhaps with provision for fee increases, while fee payments continue. Remaining assets should not then be needed for fees, even if someone lives much longer than average.

TAKING THE PULSE OF RECOVERY STOCKS

In some ways, corporate financial health behaves rather like our own. A company's health my be good, it may be dragged slowly downhill by a concealed long-term malaise, a more obvious chronic ailment may affect it, an acute condition requiring more urgent treatment may emerge, or a major medical emergency or accident may require a blues-and-twos response and some form of life support.

The concealed long-term corporate malaise may arise from poor management, lack of response to changing markets and a failure to invest for the future. Where these shortcomings are substantial or prolonged, the symptoms of chronic financial illness may become more apparent through declining sales and profitability. Waning demand for a company's core products or services is often the underlying cause.

Acute conditions that may affect a company's finances can include situations where a major contract is lost unexpectedly, mass-produced goods are found to be defective by users and must be repaired or replaced, or where a competitor launches a far superior product and thereby grabs a huge chunk of market share. As for those rushed to A&E, the cause may be a physical disaster hitting the company's operations or perhaps some form of financial irregularity that leaves a big hole in the balance sheet.

SHARES THAT HAVE SEEN A FALL

Quoted companies do not have immunity to these financial health problems and we can all probably think of some examples in each category. In most cases, the financial ill-health of a company is reflected in a substantial fall in its share price, due to fear either that it may not respond to treatment at all or that it may need the equivalent of a blood transfusion – an emergency rights issue that could water-down share values.

It is in this context that we often hear the expression 'recovery stocks', meaning shares that have fallen substantially in price when companies have hit hard times, but are seen to have some prospect of a return to good health. This sounds like a promising investment formula but it is important to remember that, in the way that sick people don't always pull through, some ailing companies end up in the hands of liquidators.

One strategy for exploiting the opportunities presented by recovery stocks is to spread the risk across a number of companies, by investing through a specialist collective investment scheme. Its managers should also have diagnostic capabilities that few individual investors possess. But this is not an area for the risk-averse; the best approach may be to discuss the recovery fund option with your professional adviser to decide whether a holding would be compatible with your objectives and risk profile.

DEATH TAX IMPACT CAN BE EASED

Death duties in some form have been levied in the UK for over two centuries. The unpopular charge we now know as inheritance tax (IHT) can compound the stress and sadness of bereavement with what can be a large tax demand. This is payable from the deceased's estate in advance of probate, so can delay distributions to beneficiaries if there are insufficient liquid assets to meet it. Sometimes the executors may need a loan to settle the bill.

The rate of IHT is 40%, levied on estates above a certain figure – basically, £325,000 for a single person and £650,000 for married couples and civil partners until 2014-15, rising to £329/658k in 2015-16. It is payable only on the amount above the threshold. Estate valuation includes property; so you do not have to be hugely wealthy to leave your successors an IHT bill. Can IHT be planned for? Yes, and the expression usually linked with IHT planning is 'mitigation'.

WAYS TO MITIGATE IHT

Some arrangements depend on legitimate but potentially controversial use of sophisticated trusts. A simpler way to shrink your estate is gifting assets to upcoming generations while you are still around. There are risks. For instance, IHT may still be due on such 'potentially exempt transfers' (PETs) if you die within seven years of making them. Smaller gifts up to

specified annual amounts, with extras for such occasions as weddings, are exempt from IHT.

When giving money away, consider whether the recipient is responsible enough to handle it and also how much you need to retain to cover your own future costs, including possible residential care fees. If you opt to offload very a large amount, any IHT liability arising on it within seven years can be met by a 'gift inter vivos' plan, held in trust. This is a decreasing term assurance policy designed for the purpose. If an IHT liability on remaining wealth still looks certain, it is wise to plan for its payment. Paying before probate can be difficult for executors if the estate is tied up in property and other illiquid assets, so they could need a loan, as mentioned.

Funds available fairly quickly to pay IHT can come from a whole of life policy. The 'sole' or 'joint life second death' policy, as appropriate, can be held in trust for the beneficiaries. The effect is to exclude its proceeds from your estate. Premiums paid on such policies effectively cut the estate's value and the IHT due on it if the premiums qualify as exempt. In some circumstances, they may be treated as PETs or chargeable lifetime transfers. Acceptance for cover may depend on health and other issues; your professional adviser can guide you through insurers' stipulations.

CLIENTS SHOULD GAIN FROM 'RDR' CHANGES

It has been in the pipeline since 2006 but now the Financial Services Authority's legacy to one of the new regulatory bodies that will succeed it sometime in 2013 is coming into effect. That legacy to the Financial Conduct Authority is a new regime intended to improve the way in which advice on investment products is provided to the public. Its introduction with effect from 1 January follows the FSA's lengthy Retail Distribution Review, known to many simply as RDR.

The FSA's declared objective, very much in line with what we have long focused upon, is to lift professionalism, integrity and credibility in retail distribution of financial services. The three main improvements are: a clearer explanation of services provided, tougher minimum qualification standards and fully transparent charging. Authorised advisers must be described as giving either 'independent' or 'restricted' advice. If independent, they must advise on products and providers across the whole market. Advisers giving restricted advice will need access to at least a limited range of products from selected providers. .

BAR SET HIGHER FOR ALL ADVISERS

Whether offering independent or restricted advice, all advisers must reach a higher level of qualification than previously required, although many were already qualified to standards at least as stringent as the new minimum. Your adviser must also adopt a code of ethics and undergo continuing professional development, requirements that largely reflect existing best practice.

A completely new obligation is for your adviser to gain an annual Statement of Professional Standing from an accredited body.

The FSA concluded that consumers should be able to relate the financial advice and other services they receive to the charges they pay. So, charges must be more transparent post-RDR and not involve commission the client cannot see, although charges may still be deducted from investment products purchased if a client so wishes. Thus, all charges will be disclosed and agreed in advance between you and your adviser; and you will still have a degree of choice about how to pay. Continuing charges are generally allowed only where your adviser provides an ongoing service or in relation to certain pre-RDR transactions.

In explaining the rationale for RDR and its hopes for the future, the FSA has said: "Our proposals seek to empower consumers and give them confidence and trust in the retail investment market - people will be able to understand more clearly what kind of advice they are getting, how much it will cost and how it will be paid for and, critically, have confidence that their adviser is well qualified and acting in their best interests."

We are confident that our established professional standards, reinforced by the post-RDR regime, ensure a well-focused, tailored service that gives our clients real value for money.

News in brief

The Chancellor of the Exchequer, George Osborne, named Mr Mark Carney as the new Governor of the Bank of England, to succeed Sir Mervyn King in June 2013. Mr Carney, a 47 year old Canadian, is currently Governor of The Bank of Canada. He will hold the position for five years.

Mortgage lending in the UK improved in the third quarter of the year. The Council of Mortgage Lenders reported that their members offered 146,500 mortgages, representing an increase of 13% on the previous quarter. Most encouraging was the fact that lending to first-time buyers increased by 16% to reach 57,000 loans.

The Office for National Statistics (ONS) confirmed that the UK economy grew by1% in the third quarter of 2012. One of the main factors in this growth was the effect of the London 2012 Olympic Games, which boosted consumer spending by 0.6%, which reflected its best performance for over two years.

According to the Society of Motor Manufacturers and Traders, new Car registrations rose by 12.1% to 151,250 units in October, to bring to total sales so far this year to 1,771,861, representing 5% increase on the previous year. Whilst UK sales were buoyant, manufacturers saw a retrenchment in pan-European sales.

ISAS AVOID ICY BLAST

Snow flurries outside the Commons on the December morning before Chancellor of the Exchequer George Osborne delivered his Autumn Statement reminded us that autumn was actually over. Inside, he reminded us that the economic winter had not released its grip. Heart-warming elements in the statement were hard to find, but one small nugget of cheer was the announcement of an uplift to Individual Savings Account investment limits for 2013-4. The new overall limit, he said, would be £11,520, a rise of about 2.1% over the 2012-13 allowance of £11,280.

The ISA was an invention of Tony Blair's Labour government, although it in effect perpetuated a concept that began under the previous Conservative administration. Personal Equity Plans first appeared in 1987, followed in 1991 by the Tax Exempt Special Savings Account. These enabled us to enjoy virtually tax-free savings and investments, albeit within limits, and became very popular. PEPs later became stocks & shares ISAs and TESSAs were replaced by cash ISAs

ISAS NOT ALL THE SAME

ISA accounts are exempt from income tax and capital gains tax, but the 10% tax on UK company dividends cannot be recovered. Currently, up to half of the annual ISA limit may be put into a cash ISA. All ISAs operate under the same tax rules, but they are not all the same. Stocks and shares ISAs may contain collective investments or actual shares and the risk levels and income received vary. Cash ISAs pay varying rates depending on the provider and account terms. You can invest a lump sum or pay monthly subscriptions.

For the past year or so, a new form of ISA has been a tax-efficient way to build up capital for a child, not normally accessibly until they reach 18.

Junior ISAs were launched as successor to Child Trust Funds in November 2011, without making CTFs extinct. Up to £3,600 per eligible child per tax year can be invested in cash or stocks & shares, with tax breaks similar to standard ISAs. Parents and perhaps wider family and friends can help accumulate a useful amount, to help with education costs or whatever the 18-year-old later chooses.

An adult 'registered contact' with parental responsibility may open a Junior ISA for a child aged under 18, provided the child is resident in the UK and does not qualify for a CTF. It is permissible for them to have both a cash and a stocks & shares Junior ISA, but aggregate funds put in each year must not exceed the £3,600 limit. If a child is over 16, they may open and run their own Junior ISA. There are many products to choose from and, as equity investments are permitted, professional advice is valuable.

It is important to take professional advice before making any decision relating to your personal finances. This publication represents our understanding of law and HM Revenue and Customs practice as at the date of publication. It does not provide individual tailored investment advice and is for guidance only. Some rules may vary in different parts of the UK, please ask for details. We cannot assume legal liability for any errors or omissions it might contain. Levels and bases of, and reliefs from taxation are those currently applying or proposed and are subject to change; their value depends on the individual circumstances of the investor.

Think carefully before securing other debts against your home. There will be a fee for mortgage advice. The precise amount will depend upon your circumstances. The maximum amount is 0.5% of the loan value, on a typical £100,000 mortgage, this would be £500. The minimum amount is £250.

Your home may be repossessed if you do not keep up repayments on your mortgage.

Will writing and inheritance tax planning are not regulated by the Financial Services Authority.