PRIVATE CLIENT

Newsletter

PROSPERITY

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ALBERT GOODMAN

CHARTERED ACCOUNTANTS, TAX CONSULTANTS & FINANCIAL PLANNERS

welcome

Welcome to the latest edition of the prosperity newsletter.

This edition focuses on personal tax, which for some can be a dry, or even a tricky subject to understand. If this is you, you are in good company. Albert Einstein once said, "The hardest thing in the world to understand is the income tax". In this newsletter, Alex Covey from our Tax team will enlighten you on some of the planning opportunities to utilise tax allowances and minimise tax on your pensions and investments.

We also have several articles from our Financial Planning Team. Paul Holt explains the impact of buying your business premises using your pension for investment, whilst Christian Hartnell explains the types of investments available.

Making investment decisions can be difficult in the politically uncertain times we are experiencing across the globe. Callum Butt will help us by taking a look at the foundations of a successful investment experience. He covers how a highly-diversified portfolio helps investors prepare for an uncertain market, as well as how working with an investment adviser can help with a more, disciplined approach, and help drive better long-term returns.

Louise Osborne
Partner

ALBERT GOODMAN

CHARTERED ACCOUNTANTS, TAX CONSULTANTS & FINANCIAL PLANNERS

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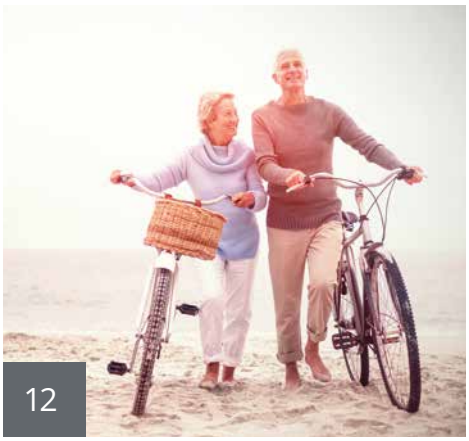
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UPCOMING TAX DEADLINES

OCTOBER

1st	Companies with a 31 December 2018 year end will need to pay their corporation tax by this date
5th	Deadline for Self Assessment registration for 2018/19 tax returns for the self employed
14th	Form CT61 filed and tax paid for the quarter ended 30 September 2019
19th	Income tax and Class 1B NIC paid in respect of PAYE Settlement Agreements (PSAs) - for **non-electronic** payments
22nd	Income tax and Class 1B NIC paid in respect of PAYE Settlement Agreements (PSAs) - for **electronic** payments
31st	Deadline for individuals to submit a paper Self Assessment tax return to HMRC

Professional Adviser

BEST FINANCIAL ADVISERS TO WORK FOR 2019

The Albert Goodman Financial Planning team was announced as one of the 'best financial advisers to work for 2019' by Professional Adviser.

INVESTMENTS

Christian Hartnell
Consultant

Many clients ask for investment advice; they have worked hard for their money but are keen to generate investment returns. They often ask where is best to put excess cash? Are stocks and shares what they used to be? Is crowdfunding the thing?

Interest rates remain at historic low levels and around 93% of all adults have a cash savings account. Savers have different reasons for holding cash, either saving for a specific purpose such as home improvements.

With cash, my advice is that it is not the interest rate that is important, it is simply the short term home for your cash and how you bank that is just as important. The rate on the high street may not be that great, but if you prefer to pop in to the branch and see someone then that is the price of the service you want.

Peer to peer lending can provide greater returns than your high street bank, but it is a greater risk and you should be prepared to lose some, or all, of your capital. Remember that peer to peer lending is not covered by the Financial Services Compensation Scheme (FSCS).

Stocks and shares are still the mainstream for the majority of investors; it provides long term returns for the risk you are prepared to accept. Low cost collective investment funds are a good way to start, and with an asset allocated portfolio you could achieve long term growth for your surplus cash.

A well-known fund manager was recently in the press due to their collective fund being closed to trading; savers are barred from either adding more money or taking their savings out. This is a reminder that even collective investment funds can go wrong and the some of the best known fund managers make mistakes.

A collective investment fund is the often the cheapest method of investing and can achieve a diverse allocation of assets. Annual costs can be between 0.20% - 1.00% per annum depending on the fund and whether you opt for an actively managed or passive fund. Typically there are no costs to purchase or sell the fund.

Some investors like alternative investments such as wine, art, gold bars or cryptocurrency, and these are all about risk; your ordinary adviser will not be able to invest in such things. Think about dealing costs, storage, whether you need to insure the asset and how to sell the investments if you need your cash back. These types of assets would be regarded as high risk and so can provide high returns, but also large losses.

Long term gains come from long term investing and so trying to pick the next best thing is very hard and generally won't work.

My advice to investors is to start with the basics, build your knowledge alongside your portfolio and start with a low cost diverse portfolio.

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BUYING YOUR BUSINESS PREMISES USING YOUR PENSION

There are a number of reasons why you, as a business owner, might want to consider buying your business premises by way of a pension.

Let's remind ourselves of some of the reasons why this could be an option to explore, along with some of the potential risks that should also be considered.

WHAT TYPES OF PENSION CAN BE USED TO PURCHASE A PROPERTY?

There are two types of pension. A Self-Invested Personal Pension (SIPP) and a Small Self-Administered Scheme (SSAS).

A SIPP is an individual personal arrangement, whereas a SSAS is an employer sponsored occupational pension scheme. A SSAS can have more than one pension member.

HOW CAN I FUND MY PENSION?

Pensions can be funded by both personal and employer contributions. If you are making a personal contribution, tax relief may be available. Employer contributions have the potential for corporation tax relief.

The tax relief system is complex. Personal tax relief can inflate contributions. Where payments are made by the company (employer), pension contributions are one way to efficiently extract profit from the business.

In certain circumstances you may also have the option to transfer existing pension benefits into a new scheme.

CAN A PENSION BORROW TO FUND A PROPERTY PURCHASE?

In short, yes it can. It is sometimes overlooked however, a pension scheme can borrow funds subject to certain conditions being met, including a limit of 50% of scheme assets.

WHAT TYPE OF PROPERTY COULD A PENSION SCHEME BUY?

The principle is that the property should be deemed commercial. As such, properties listed as residential will not qualify.

The property must be income producing and the SIPP must be able to have the prospect to make a gain over the longer term.

A formal lease needs to be in place and the expectation is that rent will be set at a market value rate.

Typical properties include retail premises, offices, factory units and commercial units. However, farmland and woodland can also qualify.

WHAT IS INVOLVED IN BUYING A PROPERTY THROUGH A PENSION SCHEME?

The process can be more complex than if you were to buy the property yourself. This means that it can take more time. It should be remembered that pension trustee approval is required prior to the property being purchased.

The property will need to be valued on the open market by a RICS surveyor when you are selling a property to a pension scheme to which you have a connection (connected party transaction). Consider the capital gains tax position at this point.

WHAT COSTS ARE INVOLVED?

The pension scheme will be responsible for the fees associated with both the property purchase and general ongoing management costs. Professional fees and scheme fees also need to be considered. These costs can be expensive. However, most pension scheme providers offer a transparent fee menu with fixed fees for the services they provide.

WHAT ARE THE BENEFITS OF HOLDING A PROPERTY WITHIN A PENSION?

The rent can boost the value of the pension fund benefiting the business owner rather than a third party landlord.

The rent will be treated as a business expense, and therefore offsettable against both profit and the company's potential corporation tax liability. Furthermore, the rent is received tax free by the pension scheme.

The pension scheme will benefit from the efficiencies of a tax shelter with no liability to either capital gains or income tax within the scheme. This would allow the property to subsequently be sold without giving rise to a capital gains tax liability.

Where the business presently owns the property from which it trades, there could be opportunities to purchase that property. This would allow the pension scheme to release funds back to the business. Funds could then be used, for example, to help with future expansion plans.

WHAT ARE THE POTENTIAL DRAWBACKS?

Trustee approval will be required before making any alterations to the building.

Regular rent reviews will be required to ensure that an open-market rent is paid.

Once the property has been transferred to the pension scheme, the asset is no longer available as security for future business borrowing.

Holding property within a pension could present a lack of diversification. If the property was to fall in value, or the property no longer has a tenant, this can impact on the pension scheme's future value.

This may also present an issue if you are at a point where you need to start drawing your pension benefits, but access to liquid funds becomes difficult.

Paul Holt is a Chartered Financial Planner and a recognised Pension Transfer Specialist. This area of retirement planning is complex and we would recommend that you always seek professional advice to ensure that taking this route is right for you.

Paul Holt
Chartered Financial Planner

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SYSTEMATIC INVESTING:

THE FOUNDATIONS OF A SUCCESSFUL INVESTMENT EXPERIENCE

As the old saying goes, "investing is simple but not easy". It is simple enough to pick a few shares of well-known global companies to hold in an online brokerage account, yet it is not easy to know whether the portfolio you build is sensible, or that your portfolio will be able to meet the goals that you are aiming to achieve.

Investing money well requires a logical and robust framework on which to build a lifelong investment programme. It needs to be grounded in investment theory, supported by empirical evidence and enhanced with an insight into the behavioural traps and pitfalls that all investors face. We have spent considerable time researching the theory and the evidence to come up with an investment programme that we fully believe in.

FIVE INVESTING PRINCIPLES

We start by looking at five guiding principles that provide the backbone for how we think about investing, rather than what we should invest in.

1. HAVE FAITH IN CAPITALISM AND CONFIDENCE IN THE MARKETS

Investors need to keep faith in capitalism as a robust and resilient economic system. We need to recognise that the markets are an efficient mechanism for rewarding those who provide capital to those engaged in the pursuit of wealth creation.

2. ACCEPT THAT RISK AND RETURN GO HAND IN HAND

One of the inescapable truths of investing is that to achieve higher returns, you have to take on more risk. Many risks exist but appropriate risk should not be feared, because it is the source of returns that investors seek.

3. LET THE MARKETS DO THE HEAVY LIFTING

Trying to beat the market – through either market timing or stock picking – is a tough game, with very few winners. Therefore, we prefer to let the markets do the heavy lifting, which will take a great weight off your shoulders. You no longer need to worry about picking the right stock, the right manager or deciding if you should be in or out of the markets.

4. BE PATIENT - THINK LONG-TERM

There is no short cut to investment success. Use the time on your side to capture the returns of the markets slowly, but effectively.

5. BE DISCIPLINED

Combine patience with discipline. Stick to your plan and don't be tempted to tinker, or chop and change. Discipline is key in successful long-term investment planning.

FIVE INVESTING PRACTICES

Having established a sensible set of investing principles, let's turn our attention to five key investment practices that the evidence and theory suggest we should focus on.

1. BUILD A WELL-STRUCTURED PORTFOLIO

Compiling a well-thought-out mix of different investments (referred to as asset classes) should sit at the heart of your investment programme. Successful investing is all about taking well-understood risks that deliver a positive return and, avoiding taking risks that add little to the portfolio.

2. USE DIVERSIFICATION TO MANAGE AN UNCERTAIN FUTURE

No-one knows what the future holds and owning a highly-diversified portfolio, spread widely across asset classes, global markets, industry sectors and companies, helps make sure that systematic investors are prepared for whatever the markets throw at them.

3. AVOID COST LEAKAGE FROM YOUR PORTFOLIO

Good investment performance can be wiped out by high costs. A systematic approach to investing incurs far lower costs over time than the average actively-managed fund seeking to beat the market.

4. CONTROL YOUR EMOTIONS USING A SYSTEMATIC, DISCIPLINED APPROACH

This keeps anxiety under control and removes irrational decision-making. Closing the gap between what reflective, patient and disciplined investors should earn from markets and what emotional, irrational and intuitive investors tend to earn is of enormous value.

5. MANAGE RISKS CAREFULLY ACROSS TIME

Managing risks rather than performance means we avoid being blinded by returns. This can be achieved by rebalancing your portfolio back to its original agreed structure, reviewing the best-in-class fund choices and challenging and refining the approach where necessary.

To summarise, at Albert Goodman Chartered Financial Planning we embrace the efficiencies of markets, their pricing and accept market returns, rather than trying to second-guess market movement.

Our client's savings represent years of hard work so it's essential to remember that investors are likely to be best served by trusting the plan they have put in place, and focusing on the issues they can control.

By owning a well-diversified portfolio, having faith in the markets, being patient and remaining disciplined, we are confident that the Albert Goodman Chartered Financial Planning approach will provide clients with every chance of successful investing.

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TAX FREE INVESTMENTS - ISAS

Alex Covey
Tax Consulting

Another way to build wealth in your own name is through the use of certain tax free investments. The most well known of these are ISAs.

Whilst cash ISAs have become less interesting in recent years due to low interest rates, stocks and shares ISAs could still be a great way to build your wealth, whilst sheltering the income and capital gains arising on those investments from income and capital gains tax (CGT) respectively.

This is particularly valuable if you are a higher rate or addition rate taxpayer due to the rates of tax payable on interest and dividend income, as well as CGT. The tax rates for the different types of income and gains are as follows:

Investment	Basic Rate	Higher Rate	Additional Rate
Interest	20%	40%	45%
Dividends	7.5%	32.5%	38.1%
Capital Gains	10%	20%	20%

The annual ISA allowance is £20,000. Therefore, if you are investing each year and not currently using your ISA allowance, it would make sense from an income and CGT perspective to invest funds in an ISA to avoid suffering income tax and CGT on the income and gains that the investments produce. Again, this is most valuable if you are a higher or additional rate taxpayer.

As well as not being subject to income tax and CGT, ISA income and gains does not need reporting on a personal tax return.

The use of ISAs might be even more attractive if you are a shareholder in an unquoted (Limited) company, in which case you might be using the dividend allowance and basic rate band as part of the company remuneration strategy. You may even be taking income from your company up to the £100,000 threshold and, therefore any other investment income could actually result in you losing your personal allowance.

If you have any investment income, particularly if you are a higher or additional rate taxpayer, please give me a call to see if you could benefit from using ISAs to reduce the tax paid. Equally, to consider your overall investment return and financial position, please get in touch with our Financial Planning Team to discuss ISAs and other investments.

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USING YOUR PENSION ANNUAL ALLOWANCE

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Tax Consulting

Contributing to a pension can be a great way to help build wealth, particularly due to the tax relief that is available.

For most people, the amount that they can contribute to a pension fund each year will be dictated by what they can afford, whether as a percentage of their earnings, or based upon any cash savings that they may wish to contribute to a pension fund.

For some, it will be restricted to the pension annual allowance of £40,000. This is the maximum that can be contributed to a pension fund in one tax year on which tax relief can be obtained. Any contributions in excess of this amount could actually result in a tax liability.

Furthermore, as soon as your income, inclusive of employer contributions exceeds £150,000, your pension annual allowance starts to get reduced by £1 for every £2 of income above it. This is known as the tapering of the annual allowance and, the taper is restricted to £30,000. Therefore, by the time your income, including any pension contributions your employer makes, hits £210,000 or more, your pension annual allowance is restricted to £10,000, and this will be the maximum that you can contribute to a pension each year and receive tax relief. This includes employer contributions.

Any unused pension annual allowances from previous years can be used, as long as a pension scheme was in place. If you had income of above £210,000 in one year due to a one off bonus payment and, your tapered annual allowance was just £10,000, then it would be possible to make use of any of the unused £40,000 allowances from the previous 3 tax years (assuming income and employer contributions were less than £150,000 in each of those earlier years). In this case, a maximum of £130,000 could be contributed to a pension fund if there had been no contributions in the earlier year, and there was a pension fund in place.

Based on this example, this kind of planning **could save tax of at least 40% (£52,000)** and, the taxpayer could also keep their tax free personal allowance, despite having income of £210,000.

If you or any of your family, friends and colleagues have income above £100,000, please give me a call to see whether either of you could benefit from some significant tax savings as a result of this kind of planning.

Great care needs to be taken if you are in some kind of defined benefit pension scheme where you are guaranteed a pension in retirement based upon your career earnings. Please get in touch with our Financial Planning Team if this is the case.

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MINIMISING INHERITANCE TAX

When building wealth, we often do it to provide for our retirement, but another reason might be to pass that wealth onto our children or grandchildren.

Inheritance tax (IHT) is the tax charged on the estate of a deceased person. It is also payable by the donee on gifts that they have received if the donor dies within 7 years of the gift. IHT may also due when assets are gifted into trust, subject to certain reliefs. This will be paid by either the donor or the trustees. Gifts can include property, money and possessions, and is charged at 40%. IHT is due on death where the estates value exceeds the nil rate band of £325,000.

Estates can benefit from an additional nil rate band when a residence is passed on death to a direct descendant. For the 2019/20 tax year the residence nil rate band (RNRB) is £150,000. However, estates with a value of more than £2 million will suffer from a tapered RNRB. This will be withdrawn by £1 for every £2 over the £2 million threshold. Where possible, it is beneficial to minimise the size of your estate to reduce the IHT payable on death.

Gifting is an effective way to reduce the size of your estate. Everyone has gift annual exemption (AE) of £3,000, and the previous year's AE can also be used if it wasn't used in the previous year. It is also possible to make use of the small gifts exemption of up to £250 to any individual. These gifts have the benefit of falling immediately outside your estate for IHT purposes.

There is also an additional exemption for wedding gifts of up to £1,000 to any individual. This increases to £2,500 for the wedding of a grandchild and £5,000 for a child. As with the AE and small gifts, these also fall immediately outside your estate for IHT.

It is also possible to make gifts out of excess income (gross income, less tax and all living expenses) if you do not spend all of your income. Gifts out of excess income also fall immediately outside the estate for IHT. In order to qualify as gifts out of excess income, the gifts need to be

regular, rather than one offs. For example, gifts that are being made monthly.

Gifts of any size have the ability to be exempt from IHT. These are known as Potentially Exempt Transfers (PETs) and are not subject to IHT as long as you survive the gift by 7 years.

If the gift was made between 3 and 7 years before your death, the IHT due will be tapered, as detailed in the table below.

Years Between Gift and Death	IHT Taper
Less than 3	NIL
3 - 4	20%
4 - 5	40%
5 - 6	60%
6 - 7	80%

IHT can also be paid at a reduced rate of 36% if at least 10% of your net estate is left to charity.

Careful IHT planning can be very effective at reducing the IHT paid by an estate, often because the numbers involved are so much larger.

If your estate is worth more than the limits mentioned in this article, or you would like more information or assistance with inheritance tax planning, please get in touch.

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PENSION CONTRIBUTIONS

Alex Covey
Tax Consulting

When building wealth, often the long term goal might be to provide for retirement. It's only natural that we should consider our pension funds and the level of contributions that we are making.

Here, I look at the income tax savings available for making pension contributions, but why not get in touch with our Financial Planning Team to consider all aspects of pension planning, advice and investment.

Whilst the one downside of pensions might be that the funds are locked away until retirement, they offer many advantages, particularly if you are thinking long term. The potential tax savings are as follows, showing the savings for personal contributions or those made by salary sacrifice if you are employed:

Type of Contribution	Basic Rate	Higher Rate	Additional Rate
Personal Contribution	20%	40%	*Seek advice
Salary Sacrifice	32%	42%	*Seek advice

Personal pension contributions can be used to extend your basic rate tax band to save higher rate tax at 40%. Half of this comes through the grossing up of the contribution when it is paid into your pension fund and, the other half comes from the tax saving on your self assessment tax return.

If you are an employee and are part of a salary sacrifice pension scheme, the saving comes along with a national insurance saving because the pension contribution is excluded from your taxable pay and, is instead paid into your pension fund by your employer. Hence the salary sacrifice term, as you sacrifice some gross pay in exchange for an employer pension contribution.

As part of a wealth building goal, these proportionately large tax savings help significantly boost the funds available in your pension fund, compared with saving cash as part of your net pay, after it has suffered tax and national insurance.

Please get in touch to see if you could benefit from these tax savings based on your personal circumstances.

**If you are an additional rate taxpayer, the amount that you can contribute to a pension fund may be restricted and you will need to consider taking further advice to ensure that you do not suffer a tax charge. Please read my article on Page 11 for pension annual allowance planning.*

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PROFILING ALBERT GOODMAN STAFF

CALUM BUTT (FINANCIAL PLANNING CONSULTANT)

HOW LONG HAVE YOU BEEN AT ALBERT GOODMAN AND WHAT WERE YOU DOING BEFORE?

I have been at Albert Goodman for 2 ½ years now, which has flown by. Prior to joining, I was working for a small financial planning firm in Burnham-on-Sea where I progressed from an administrator into a Diploma Qualified Paraplanner. Like most people who work in financial planning from a young age, I fell into the role not knowing anything about the financial industry, but haven't looked back since.

CONGRATULATIONS ON RECENTLY BECOMING FULLY QUALIFIED AS A CONSULTANT WITHIN THE FINANCIAL PLANNING TEAM! WHAT DOES YOUR ROLE TYPICALLY INVOLVE?

Thank you, the hard work has paid off. However, as the financial planning industry progresses, the exams don't stop as now I am working towards becoming a Chartered Financial Planner. This will involve a further 3 years of study, but it is definitely worth it as I believe that this will be the industry standard to provide financial advice in years to come.

My role can change so much on a day to day basis which is why I enjoy it so much. Now that I am in a client facing role, my days involve meetings with existing and potential new clients, discussing everything from complex inheritance planning strategies to arranging new pensions and protection policies for younger clients.

I am also a member of the Albert Goodman Chartered Financial Planners Investment Committee so some of my time is spent providing oversight and research into our current investment strategy, as well as looking at potential changes to the investment portfolios that we manage.

WHAT PART OF YOUR WORK DO YOU FIND MOST INTERESTING?

When I first started in the industry I never thought I would say this, but pensions! The bulk of my work is centred around pension planning which I really enjoy. Pensions can be complex and difficult to understand, so I love being able to interpret the jargon filled world of pensions and explain it to clients in a way that they can understand. I find it very rewarding when clients come in to discuss retirement options with little to no knowledge and leave with a solution that they understand and meets their objectives.

DO YOU HAVE ANY HOBBIES OUTSIDE OF WORK?

I am a big football fan and play for my local team on a Saturday afternoon in the Taunton League. If I'm not playing, you're likely to find me watching a game somewhere in the local area or following the scores with my friends. With this being said, as a Newcastle and Yeovil supporter, I find it's usually better to be playing so that I can avoid the pain of watching my teams lose!! Outside of football, my partner and I like to explore the local countryside and coast paths with our dog, Louie (although there must be a cake, or cream tea stop along the way!)

Calum Butt
Consultant

TAUNTON | BRISTOL | BRIDGWATER | BURNHAM-ON-SEA
CHARD | WEDMORE | WESTON-SUPER-MARE | WEYMOUTH | YEOVIL

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