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BUDGET HIGHLIGHTS

- New 'Lifetime' ISA available from April 2017
- ISA allowance increase to £20,000 from April 2017
- Capital Gains Tax reduced to 20% for higher rate taxpayers and 10% for basic rate tax payers from 6 April 2016 (exclusions apply)
- Personal allowance to rise from £11,000 in 2016–17 to £11,500 in April 2017
- Higher rate tax threshold to rise from £43,000 2016–17 to £45,000 in April 2017
- Insurance premium tax increase to 10%
- Class 2 National Insurance contributions to be abolished from April 2018
- New tiered system of stamp duty rates for commercial property, effective 17/03/16
- Reduction in Corporation Tax to 17% by 2020

THE ECONOMIC OUTLOOK – SEPARATING THE DATA FROM THE DRAMA

Anyone who watches the fortunes of the Financial Times Stock Exchange 100 Index, more colloquially referred to as the Footsie 100, could be forgiven for having developed an almost permanent crick in their neck from watching prices go up and down with increasing regularity. Volatility has become a regular fact of stock market life.

Whilst there are some commentators who believe that the world is approaching another financial crisis akin to that experienced in 2008, many still believe that the economic outlook is not that gloomy. Many well-respected experts are advising us all to dismiss much of the negative reporting and pay more attention to the underlying data instead.

FACTORS AT PLAY

In a recent report* Stephanie Flanders, Chief Market Strategist for Europe at JP Morgan Asset Management, recently wrote about the longer term effects of the pivotal events at the end of last year, *"it's possible that the key events that will shape the global economy and markets in 2016 have already happened in the closing weeks of 2015. December saw three meetings – by the European Central Bank, OPEC oil producers and the US Federal Reserve – which between them have set the tone for global investors for the first part of 2016, and quite likely the rest of the year.*

The risks we worry most about are another significant bout of dollar strength, due to mis-steps by the Federal Reserve or the European Central Bank, and/or a further weakening in global growth due to continued adjustments in emerging markets and disinflationary forces coming out of China."

UK OUTLOOK

In late February, the International Monetary Fund (IMF) praised the UK's economic progress saying that it expected growth to continue and anticipated that it will average around 2.2% over the medium term.

HOW TO WEATHER STORMS

Volatility in markets is a timely reminder to review your investment portfolio regularly. One of the most important ways of managing the risk of volatile markets is to diversify your holdings; while it won't guarantee you won't have losses, it can help to limit them. Making sure you have an investment strategy that gives you exposure to a range of sectors and markets, and has the right risk profile to suit your financial circumstances, is a sound approach to follow.

Rather than focusing on the turbulence, it makes sense to have a sound investment plan in place and be realistic about expected returns in the current market.

The value of investments and income from them may go down. You may not get back the original amount invested.

*JP Morgan, Insights, Outlook 2016

INVESTING FOR A CHILD'S FUTURE

Parents and grandparents often want to save to give a child a good start in life. The good news is that small amounts saved regularly from a child's birth can really add up and produce a worthwhile lump sum by the time he or she reaches 18.

TAXATION BENEFITS

Most parents choose to save in their child's name rather than their own for tax purposes. Junior ISAs (JISAs) are a tax efficient way to build up savings for a child and can be opened for any child under 18. Contributions of up to £4,080 (tax year 2016 –17) per child can be saved into a cash JISA, a stocks and shares JISA or a combination of both.

They work in a similar way to adult ISAs in that interest on cash is paid tax-free, and there's no tax to pay on stocks and shares on encashment. They can also be transferred between providers to get a better return. However, unlike adult ISAs, children can't take out a new JISA every year.

One great advantage of a JISA is that once it's been opened by the parent or guardian, anyone can make contributions, including grandparents, friends and family.

Children gain control of their JISA at age 16 and can access their fund from their 18th birthday. The account is automatically rolled over into an adult ISA when the child reaches 18, a real plus point for those who want to continue saving or investing tax efficiently.

There are other opportunities to consider; premium bonds, ordinary savings accounts, bonds and even the option of setting up a pension plan for a child, including a stakeholder pension or a child's own Self-Invested Personal Pension Plan. True, they won't be able to access their pension funds until they are 55, however the tax advantages of pension saving shouldn't be overlooked.

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HOW TO SAVE FOR A 'GOLD STANDARD' RETIREMENT

Although it would be hard not to see auto-enrolment as a very positive step in providing pensions for many more workers than ever before, doubts have been raised in some quarters as to whether the level of savings being made under the scheme will be enough to secure a comfortable retirement.

The minimum amount saved into an auto-enrolment pension is set by the government and will increase over time. It is currently around 2% of salary, made up of 1% employee contribution and 1% employer contribution. By 2019, the contribution levels will be increased to 8%, made up of a 5% employee contribution and 3% (minimum) employer contribution.

PROBLEMS MAY LIE AHEAD

According to the Pensions Policy Institute (PPI)*, even with 8% contributions, pensioners face having insufficient funds for their retirement. The PPI took an example of a person saving from age 22 (the youngest age at which you can be auto-enrolled) and earning an average wage of £27,000 a year, saving the required 8%.

To have a comfortable retirement income (based on two-thirds of working life wages) the worker would need to save enough to generate a retirement income of £18,000 a year in retirement. Their state pension is likely to be around £7,865 by the time they reach their pensionable age of 68, but their pot is likely to be just £56,000. Based on average annuity rates, this would provide just £3,200 a year. After adding in the state pension, that still leaves a shortfall of around £7,000.

ADVICE FOR THE FUTURE

Whilst no one doubts the wisdom of saving via an auto-enrolment pension, employees need to be aware of the amount that this will provide when they retire. With other savings and investment opportunities such as ISAs, personal portfolios or pension provision, it makes sense to look at additional ways to build up funds, and save as much as possible for the future.

A pension is a long-term investment. The fund value may fluctuate and can go down. Your eventual income may depend on the size of the funds at retirement, future interest rates and tax legislation.

*Pensions Policy Institute, 2015

HOW WILL THE NEW DIVIDEND TAX WORK?

From April 2016, the first £5,000 of dividend income each year will be tax-free. Sums above that will be taxed at 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers.

No tax will be deducted at source, and taxpayers must use self-assessment to pay any tax due. It's important to remember that this change doesn't affect dividend income from stocks and shares held within an ISA, or dividends received within authorised pension funds.

WINNERS AND LOSERS

Not everyone will be worse off under this new system. Higher-rate taxpayers with £5,000 or less in dividend income will gain. Under the old system they would have paid 25% or £1,250 on dividends totalling £5,000, under the new rules their dividends fall within the tax-free allowance.

However, basic-rate taxpayers who receive more than £5,000 in dividends are set to pay more.

DIVIDEND INCOME AND THE PERSONAL ALLOWANCE

Dividend income is eligible for the personal allowance, so as a very basic example, assuming an individual has no other income and in tax year 2016–17 they receive £16,000 in dividend income, the first £11,000 would be covered by their personal allowance and the other £5,000 by the new dividend allowance, resulting in no further tax to pay

PLANNING STEPS

Investors need to navigate their way around these new rules to avoid paying too much tax. In order to maximise the benefit of the £5,000 dividend allowance, married couples and those in civil partnerships should make sure that they spread their taxable portfolios between them to make the best use of their dividend allowance, personal allowances and basic-rate bands. Using the annual ISA allowance of £15,240 and making pension contributions can help minimise the impact of this tax revision. Specialist investment plans like onshore and offshore bonds which allow for tax deferment on income are another option for higher-rate tax payers.

If you haven't reviewed your portfolio for a while, this could be a good time to revisit your investments in the light of this new tax regime.

ALTERNATIVE WAYS TO INVEST IN BRICKS AND MORTAR

Whilst investing directly into property has always brought with it the potential rewards of capital growth and rental income, there are always risks too: buying the wrong property, failing to find a tenant, or worse still finding a tenant who doesn't pay the rent or who does damage to the property.

Whilst the costs start with buying the house or flat, they don't end there. Landlords find themselves paying for repairs, insurance, regular safety checks and more besides. With the introduction of the new taxation and stamp duty rules, buy-to-let may no longer be as attractive. However, there are a number of other ways to get into the property market without the need to buy the bricks and mortar, including holding a property fund investment in your portfolio of stocks and shares ISA. Property has a low correlation to other asset classes, bringing benefits of diversity to a portfolio.

SHARES IN PROPERTY

Real Estate Investment Trusts (REITs) are listed property companies that invest in and manage property investments on behalf of shareholders. REITs can be very tax efficient as the property company pays no corporation or capital gains tax on the profits from property investment.

A number of UK authorised unit trusts and Open-Ended Investment Companies provide a straightforward and low-cost way to invest in a property portfolio managed by professional asset managers. There are also bonds that invest in both UK and overseas property and represent a tax-efficient way of getting exposure to the property market, and allow the holder to withdraw 5% of the bond each year without an immediate tax charge.

PENSION OPTIONS

Many life insurance and pension companies have funds that invest directly in property and are available within a pension scheme.

A Self-Invested Personal Pension (SIPP) or a Small Self-Administered Scheme (SSAS) can invest in commercial property, including business premises occupied by the pension fund beneficiary, meaning that the rental income is paid into the pension fund.

If you're new to property, it pays to get good advice on which type of investment would work best for you.

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PENSIONS – ARE WE MAKING THE RIGHT CHOICES?

Changes in pension legislation have been referred to by many as a revolution. The new regulations gave wide freedom of choice and more control over their money to those in Defined Contribution pension schemes. These pension savers can now have a greater say than ever before in how the money accumulated in their pension funds can be used to meet their financial needs, before and during their retirement.

Making the most of the new options available requires advice and guidance. Choices made at retirement should be made in a careful and informed way. With life expectancy continuing to rise, many people retiring today can expect to live on into their nineties, and no-one wants to face the prospect of running out of money in later life.

WORRYING DATA REVEALED

Retirement Income Market data* from the Financial Conduct Authority (FCA) reveals that the majority of people reaching retirement are missing out on the opportunity to take advice and aren't shopping around, preferring to take what their existing pension company has on offer, rather than looking to see if a better deal might be available from another provider.

Data collected from July to September 2015 showed that 64% of those taking an annuity, and 58% of those choosing to go into income drawdown, did so with their existing pension provider.

These statistics reinforce the belief that consumers aren't sufficiently aware of the options open to them at retirement. Many pensioners simply opt for the annuity offered to them by their provider, without realising that they are within their rights to shop around amongst other companies and compare deals enabling them to make an informed choice. Whilst staying with your existing provider might well represent a reasonable deal for your financial circumstances, taking advice may well highlight alternative options better suited to your needs.

ADVICE IS CRUCIAL

The FCA also reports that when it comes to making decisions on drawdown, just under half of consumers (42%) did not use a regulated adviser. Many retirees chose to stick with the annuity route, with 63% of consumers who purchased an annuity doing so without consulting a qualified adviser. With annuity providers offering differing rates and terms, it can be a huge long-term benefit to speak to an adviser who has detailed knowledge of what's on offer in the marketplace, and who can explain in detail what the implications of any choice are, for the short and longer term.

It has never been more important to make the right choices at retirement; decisions taken at this point can have a major impact on the quality of life in retirement. Good advice will not only take into account your pension arrangements, it will also encompass a review of your other financial assets, your goals and plans for your future and that of your family.

If you're reaching your retirement, taking advice on your pension could make a world of difference.

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*Financial Conduct Authority, Retirement Income Market Study, published 2015, modified 2016

CASH-RICH FUNDS

According to Bank of America Merrill Lynch*, fund managers around the globe have raised cash balances within their funds to their highest levels since 2001.

In a survey carried out amongst 198 fund managers, they found that they had raised cash positions to a long position of 5.6%, the highest level since 2001. Normally, when cash is at 4.5 % or over this would trigger a buying signal for equities. However, with increased volatility and market uncertainty this may not happen this time around.

With some commentators predicting difficult economic times ahead, fund managers have revised down their forecasts for market expectations and growth; global corporate profit expectations have fallen back to their lowest level since August 2012. Only 19% of fund managers consider that a recession is likely to occur in the next twelve months. Some expressed concerns about emerging markets, energy debt default, and the failure of quantitative easing. Only 8% of those polled consider that the UK's exit from the EU would pose a real risk.

*Merrill Lynch, Global Fund Manager Survey, Feb 2016

It is important to take professional advice before making any decision relating to your personal finances. Information within this newsletter is based on our current understanding of taxation and can be subject to change in future. 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.

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated. If you withdraw from an investment in the early years, you may not get back the full amount you invested. Changes in the rates of exchange may have an adverse effect on the value or price of an investment in sterling terms if it is denominated in a foreign currency.

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