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MORE THAN ACCOUNTANTS

INVESTMENT BULLETIN

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UK RISING HIGH DESPITE NERVES

Although the FTSE 100 index hit a new all time high during March – reaching 7,037.67 points – the share prices of larger and medium-sized UK companies generally fell over the month as a whole. Ongoing speculation over US monetary policy, concerns over Greece's financial commitments and an increasing focus on the forthcoming UK General Election all contributed to this. The FTSE 100 index fell 2.5% in March, while the FTSE 250 index fell 1.1%. For its part, the FTSE Small Cap index rose 1.1% during the month. Over the first three months of 2015 as a whole, the FTSE 100 rose 3.2%, the FTSE 250 climbed 6.2% and the FTSE SmallCap rose 5.3%.

Focusing in on the banking sector, the Bank of England announced its criteria for the latest round of 'stress tests' to be undergone by the UK's financial institutions. The tests are designed to assess whether the UK's banks and building societies could withstand a global or UK based economic shock. US regulators meanwhile warned that HSBC and Royal Bank of Scotland should strengthen their respective 'resolution plans', which outline their strategies to deal with the possibility of collapse. The Federal Deposit Insurance Corp warned the current plans were "not credible". Elsewhere in the financial sector, the government sold off another tranche of its shares in Lloyds Banking Group during March, making £500m from the sale and reducing the taxpayer's stake in Lloyds to just under 23% – down from around 40% in 2009.

Output growth in the construction sector gathered pace during February although Markit warned that uncertainty over the General Election could create a "temporary bump in the road for new work". That said, house builder Taylor Wimpey announced strong full year profits during March and reported "high" customer confidence with "good levels of employment and an affordable mortgage environment".

CARRY ON TINKERING

Anyone hoping George Osborne had finished tinkering with the UK pensions system was left disappointed by the 2015 Budget. Despite campaigning from the retirement industry to let various recent changes bed down, the Chancellor announced modifications to the lifetime allowance and, importantly, to the rules on cashing in annuities. The reduction in the lifetime allowance from £1.25m to £1m from 6 April 2016 will likely prove a headache for those nearing the limit and could see retirees diverting funds into alternative investments, such as Buy-to-let.

Now, if a pension pot grows above £1m, the tax payable when money is later withdrawn will be 55%. Osborne's move to reduce the tax rate applicable on cashing in an annuity – from 55% to a retiree's marginal rate – has proved controversial although the changes are perhaps not as radical as they first appear. Pensioners will not be able to give up their annuities without first taking financial advice. Nor will they be able to sell their annuity back to the issuing company or to other private investors. The scheme relies on the involvement of institutional investors willing to take on the unwanted annuities in exchange for a taxed lump sum or flexi-access drawdown.

Nevertheless, for some retirees, it could offer new options. Historically low interest rates mean annuities have generally offered poor value in recent years and investors may be able to generate a higher income from a lump sum or drawdown, even after tax. Taking advice will be essential.

ISA TAX BREAKS AND LIMITS—2015/16

Individual Savings Accounts (ISAs) are tax-efficient vehicles that allow individuals to save without paying tax on income or capital gains. The introduction of the 'New ISA' (NISA) reformed the system by boosting flexibility and choice for ISA investors. Under the new system, savers can invest their entire allowance (£15,240 in tax year 2015/16) into cash, stocks and shares, or any combination of the two.
Furthermore, for those looking for a different approach, investors can usually transfer their ISAs between providers freely.

Inheritance Tax and ISAs

Since 2014, ISAs have become even more effective tax planning tools.

Not only can ISA Holdings now effectively pass between spouses in the event of death (therefore enabling the tax shelter to continue in the name of the recipient), ISAs are now also able to invest in assets which can attract Business Property Relief and, as a result, once held for 2 years they should be exempt from Inheritance Tax.

Whilst ISAs have therefore always been free of personal income and capital gains tax – they also now offer the opportunity to mitigate Inheritance Tax.