DBL
asset management

Benchmark

a fresh approach to a financially independent lifestyle

FEATURING

Geoff Parling - If I was nineteen again...

Spend now or save for tomorrow

What Brexit means for your money

Spring 2017

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Introduction

Welcome to the Spring 2017 edition of Benchmark.

We always aim to offer a dynamic blend of news and analysis and this edition is no different. The EU referendum has of course proven to be an historic event and everything now looks set for Article 50 to be triggered at the end of March. In our article, we look at the potential impact of Brexit on your personal finances in more detail, helping you to plan for anything which might affect you in the months and years to come.

This month's case study looks at how one of our clients planned ahead to 'leave a legacy'. It provides plenty of helpful tips for anyone looking to do the same. Our client interview is particularly enjoyable, offering some fascinating insights and we have a look at getting the balance right between spending now and saving for the future. In our piece we explore what it takes to be a good saver.

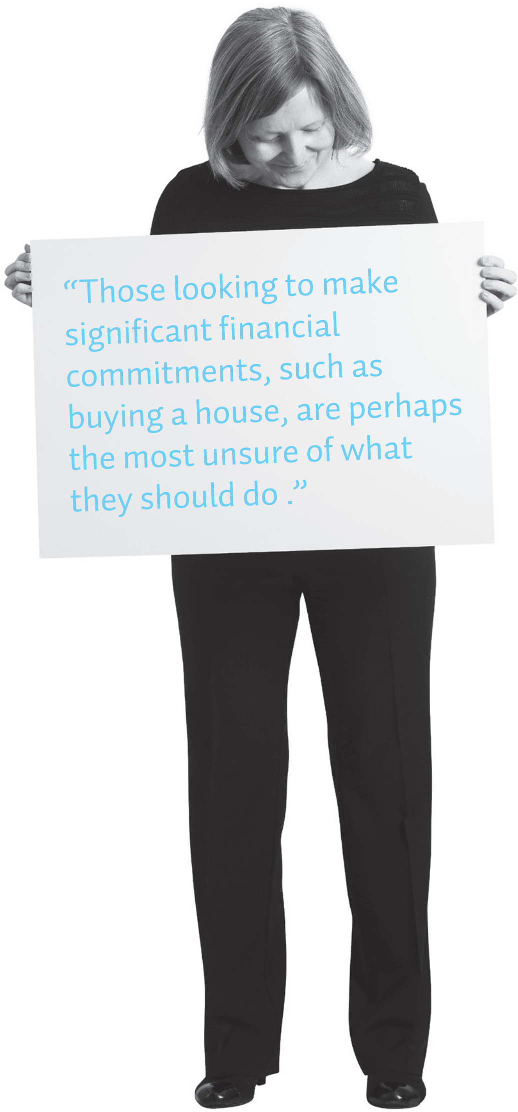
This time of year is always a good time to consider your end of year tax planning and we hope the article on capital gains tax and ISAs will prove helpful. There is also a useful checklist on pre-retirement planning.

In internal news, after giving birth to a gorgeous baby girl in January, our former Client Services Manager, Kim, has decided to leave the business to become a full-time mother. Whilst we are always sad to lose a valued member of the team, we would like to wish Kim every happiness as she moves on to an exciting new chapter in her life. We have since welcomed Michelle Glover as our new Client Services Manager; you can find out more about her in this edition's team profile.

Hopefully the articles in this issue will be revealing and engaging for you. Should you have any questions linked to anything you read in any of the articles, or anything related to your overall financial planning needs, please do not hesitate to contact us directly.

All the very best,

Dacre Staines



What Brexit means for your money

As the dust finally begins to settle following the EU referendum result, many across the UK are now managing to gain some perspective on what Brexit will mean for the country. After an initially seismic impact upon the economy, with many consequences nobody had anticipated, we are all now in a better position to begin making judgements on the months and years ahead as matters stabilise once again.

Understandably, there are still many questions about how Brexit is likely to affect your personal finances. Those looking to make significant financial commitments, such as buying a house, are perhaps the most unsure of what they should do. However, whilst forecasts before the referendum were of a negative impact on the property market should Britain vote to leave, many in the sector are now suggesting that this is not the case.

Legal & General Mortgage Club recently stated that "we have not seen the negative reaction that was predicted as a result of Brexit, and at the moment, it is still very much business as usual in the mortgage market. Lenders are still very keen to lend and in some cases have dropped longer term fixed rates, making now a prime time to take out a mortgage".

Many are keen to know what they should do to protect their savings from any post-Brexit financial issues, particularly those with pension funds which have been earned at least partially through working in the EU.

The impact upon both state and private cross-border pensions will be determined by the agreement made between Britain and the EU once the process of leaving begins. There is no need to panic, however: if you have a pension pot held in an EU country and are worried about what Brexit could mean for your savings, you have at least two years before making a decision such as transferring it to a UK registered pension fund.

With the Bank of England recently cutting the base rate to a record low of 0.25% following the economic uncertainty of the last couple of months, many are worried about the impact that Brexit might have on their cash savings. The current situation gives no cause for rash decisions, but now may be a good time to review your holdings.

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Cash, though still the most secure and liquid of assets, is likely to produce even lower returns than it has over the last few years, so the weighting to cash in your portfolio could be one source of such a review.

Overall, however, the message regarding Brexit should very much be taken as: 'do not panic'. Your financial plan and the savings your hold are all still aligned to your goals and we will of course continue to work with clients to ensure that this remains the case, whatever surprises the UK and European political situation may create next!

Case study - Leaving a legacy

For those who have already reached retirement age, it is natural to begin to think about leaving a legacy for your children and grandchildren to enjoy.

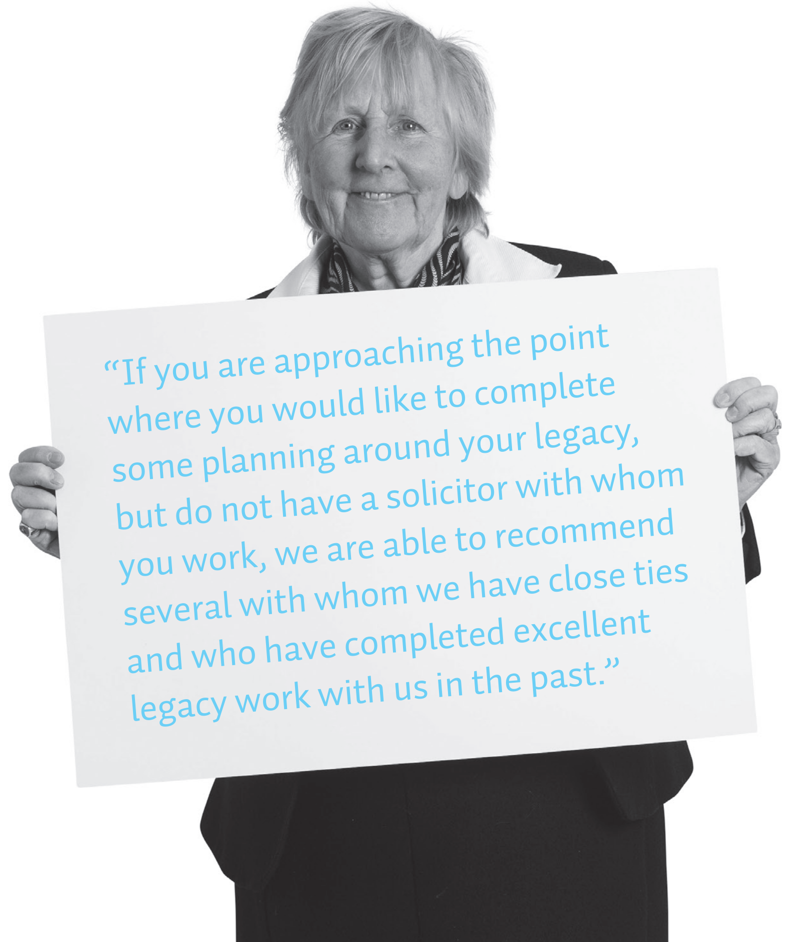
How best is it to do this? With ever-changing legislation around inheritance tax and other areas that impact on your legacy, how are you able to be sure that your family will receive the maximum amount of your wealth, rather than it passing to the tax man?

These were pertinent concerns to Mr T, who we had worked with for many years, when we began to think in more detail about his inheritance plans.

The first course of action was to ensure that Mr T had enough money to last for his entire retirement, before his thoughts turned to how much he would be able to leave to his family. Through careful planning, we had already ensured a situation where Mr T had a guaranteed income for another twenty-five years, at a rate which would see him able to maintain his desired lifestyle.

Due to recent changes in pension and inheritance tax legislation, there were a number of options to consider when deciding how best to organise Mr T's funds in order to provide a legacy.

- The rules around pensions have recently changed, making them easier to use as a 'store of wealth' to pass to other family members.
- Inheritance Tax legislation was changed in the 2015 'Summer Budget', essentially meaning more can now be passed to family members without incurring Inheritance Tax.
- Mr T has a commercial property with current tenants. This provides him with a level of retirement income, but creates a potential liability for inheritance purposes.



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Case study - Leaving a legacy

continued

After carefully analysing all of the potential variables and looking further at Mr T's situation in detail, as well as that of each of his beneficiaries, we decided upon the following steps. This ensures that Mr T continues to live a happy and prosperous retirement, but also ensures that his assets are organised in a progressive and effective manner, to continue to benefit his family.

- When deciding on an income for Mr T now, his pensions were the best fit, rather than using other assets and leaving the pensions to be passed on as part of the inheritance. Mr T is a 20% rate taxpayer, so he could continue to drawdown from his pension fund, without sacrificing too much in tax.
- Mr T's remaining pension was left to his grandchildren. This helped his children to avoid a larger tax liability, as both of his sons are 45% tax rate payers and would have incurred the same rate on Mr T's pension.
- Mr T's commercial property was moved to be under the ownership of his children. This helped to ensure that the property would not be an Inheritance Tax liability and meant that the family could continue to receive an income from it.
- Annual gift allowances and other allowances were maximised to ensure Mr T's wealth could be passed on in the most efficient manner possible.

As part of Mr T's inheritance planning, and in all of the cases where we work with clients to secure their legacy, we worked closely with Mr T's solicitor. This enabled us to make recommendations and quickly complete work, such as moving the title deeds of Mr T's commercial property.

If you are approaching the point where you would like to complete some planning around your legacy, but do not have a solicitor with whom you work with, we are able to recommend several with whom we have close ties and who have completed excellent legacy work with us in the past. As with Mr T's case, we will co-ordinate the whole process and ensure the easy completion of work such as your Will, Power of Attorney and the creation of any trusts.

Although not a feature of Mr T's case, our work with clients on leaving a legacy, frequently includes work on leaving a business legacy, such as passing on shares, setting up a discretionary trust and/or leaving a legacy outside of the immediate family.

Protect your legacy

The changes to Inheritance Tax announced in 2015 will begin coming into effect from April 2017. One of the key changes is the 'Family Home Allowance', which provides a gradual rise in the value of estates that are able to be passed on before Inheritance Tax has to be paid.

The allowance is worth £100,000 next year, increasing by £25,000 each financial year up to £175,000 in 2020-21, and rising in line with the Consumer Price Index beyond that. If you are downsizing, or have done so since July last year, you may be eligible for an Inheritance Tax credit which allows you to still qualify for the increased threshold.

With only a few months to make sure you do everything necessary to ensure you do not get caught out in protecting your legacy, it is important that you act soon.

It would be our pleasure to assist you in managing and organising your estate in line with new legislation; just get in contact with your adviser who will be glad to help.

The Financial Conduct Authority does not regulate trusts, wills or estate planning.

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Tax year end planning: tax allowances and exemptions

With the tax year end approaching, you will be keen to know that you are making the most of all your allowances and exemptions. In this article, we have focused on Capital Gains Tax and ISAs, both of which you hear a lot about, but which are often misunderstood or the allowances not fully utilised.

Capital Gains Tax (CGT)

The three main elements to consider in tax year end CGT planning are:-

- Ensuring you make use of your Annual Exempt Amount (AEA)
- Realising losses
- Making negligible value claims

The current AEA is £11,100, which means any gains up to this amount are CGT free. Just to clarify: any gain is calculated by taking the amount of the sale proceeds less the amount you originally paid and any expenses incurred. The gain is then offset against the annual allowance.

It is possible to reduce your CGT liability on total chargeable gains for any given year of assessment through allowable losses and the AEA. The treatment of the losses does depend whether they are of the same year or from earlier years of assessment, so it is worth investigating which losses can be carried forward and set against future gains.

Where negligible value claims are concerned, if it can be agreed with HMRC that your shares are of negligible value, the loss arising from them can be treated as a realised loss, which can be offset against any gains.

What impact does this have on your planning?

Judging when and how to make full use of the AEA and any losses incurred is important, particularly in the case of couples. If one spouse or civil partner has received gains which take them over the AEA limit and the other spouse has uncrystallised losses, it is worth considering what is known as an exempt inter-spouse transfer, followed by a disposal. You do not pay Capital Gains Tax on assets you give or sell to your husband, wife or civil partner, unless there are very specific circumstances, so careful planning in this area can really make a difference.

The underlying message is use your AEA or lose it!

ISAs

Individual Savings Accounts (ISAs) are still one of the most popular and effective ways of saving. With the deadline for using your allowance approaching, it is worth remembering that if you do not use your allowance in a particular year, it is lost.

There are two types of ISA, cash ISAs and stocks and shares ISAs. Newer investment options known as Innovative Finance ISAs have also become available. In the current 2016/2017 tax year, you can save up to £15,240 and you are able to split the amount between the three types, as long as it is within the overall limit. This is set to rise in 2017/2018 to £20,000.

These are individual allowances, so both a husband and wife can invest these amounts each year. This means assuming current contribution limits with small increases on the limits each year, an individual would be able to save over £150,000 tax free, £300,000 for a couple, over a ten year period which is not an insignificant amount!

As well as checking you have maximised the use of your allowance, if you have all your money in a cash ISA, you might wish to consider transferring it to a stocks and shares ISA to potentially generate an improved return.

Another new type of ISA, the Lifetime ISA, will become available from April 2017 for anyone between the ages of 18 and 40. They will be able to save until they turn 50, meaning even someone at the top end of the scale could receive a five figure bonus from the government, during their period of eligibility. Whilst the yearly contributions are capped at £4,000, monthly contributions are unrestricted as long as the annual limit is not exceeded.

Also, if you have children do not forget to take advantage of topping up their Junior ISAs. These can be any mix between a cash version and a stocks and shares version and the current limit is £4,080 for the 2016/17 tax year.

Whether it is CGT or ISAs, hopefully this all goes to show that simple planning strategies can deliver significant savings. So do not delay your end of year planning and take another look at the basics.

Planning ahead for retirement

We have highlighted five key things you should be doing for your retirement now, not when you get there!

1. THINK

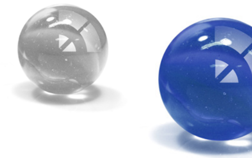
Think about when you actually want to retire, not just when you think you should. Check when you will reach state pension age. It may be that after, through proper financial planning, you realise you can afford to retire earlier than you perhaps thought. After all, the pension freedoms allow you to access your personal pension pot from the age of 55 years. You may also decide to increase your State Pension under the top up scheme, as a way of gaining guaranteed extra income for life.

2. PLAN

Plan for the lifestyle you want in retirement. Visualise how you want to spend your retirement, for example, travelling the world, doing the things you have never really had time to do or spending more time with your family. Then think about whether your retirement income will enable you to live your chosen lifestyle.

3. STAY

Stay enrolled in your workplace pension, which is one of the easiest ways to save for your future. Common wisdom is that if you can also increase your contributions it is normally a good idea to do, in order to take full advantage of the tax relief.



4. TRACK

Track down your lost pensions. The average person will have eleven jobs over their career so it is easy to understand how you might have lost track of your past pension schemes. Do not despair! The Pension Tracing Service https://www.gov.uk/find-pension-contact-details offers a quick and easy service to find previous employers and pension providers. You may be pleasantly surprised as to how much is sitting in these forgotten funds, so do take the time to follow them up.

5. DECIDE

Decide what to do with your pension savings. As the phrase pension freedoms suggests, you now have the flexibility and choice to decide whether you take an annuity, a lump sum or drawdown an income and most importantly, when you decide to do it. You have worked hard for your savings. Make sure you get to do with them what you wish.

Guest Blog: Family Investment Companies ("FICs")

Deborah Clark
Partner Mills & Reeve LLP

The use of FICs to assist clients with their estate planning has grown considerably over the last few years. A FIC is a bespoke company designed to hold, protect and manage investments on behalf of the family for several generations.

A key benefit of using a company for estate planning is that it separates ownership from control. Ownership is reflected in the shares and control is placed with the board of directors. This enables clients to retain control of investments whilst passing on the ownership to family members, thereby reducing their own estates and saving inheritance tax (provided they survive for seven complete years after the initial gift). Bespoke drafting of the articles of association (the rule book of the company) together with a supporting shareholders' agreement, can ensure that the directors maintain total control. They decide on when, how and where funds are invested. They also decide when and how much income passes to the shareholders.

The advantage with this approach is that it is not necessary to retain a controlling shareholding in the company to enable an individual to have control of the FIC. This then enables the value of the FIC to be spread more evenly between family members. It also means that as shares pass through several generations control can be maintained through the board.

This approach to control helps to increase the inheritance tax benefits of the structure. Where shareholders retain a minority interest in a FIC, the value of their shareholding will be discounted on death to take account of the size of their holding and their inability to sell the shares or demand income from the FIC. In our experience the discounts can have significant inheritance tax benefits. This is an additional benefit to the inheritance tax saved on formation of a FIC.

FICs are best established with cash but assets can be used to fund all or part of the structure. Where assets are used, capital gains tax and stamp duty charges can apply. Funds are used to subscribe for shares in the company and typically will take the form of ordinary shares and redeemable preference shares. Redeemable preference shares provide a more flexible way to return the original capital to shareholders, at the directors discretion. Income and capital gains within a FIC are taxed as profits and are subject to corporation tax. Currently corporation tax is 20% but this is reducing to 17% in April 2020. These rates compare favourably to the tax rates applicable to trusts where income is currently taxed at 45%, dividends at 38.1% and capital gains at 20% (for non-residential property assets).

A FIC however has some additional reliefs that are very important, namely:

- dividends from most companies (both UK and overseas) are tax free as they are exempt from corporation tax; and
- FICs benefit from indexation relief, reducing their effective rate of tax to below 20% for capital gains.

It is also worth noting that income expenses, such as accountancy fees and investment management fees of the FIC can be deducted from the profits.

Overall, accumulating income, in particular dividend income, within a FIC is very tax efficient.

Income is generally distributed to shareholders in the form of dividends. From 6 April 2016, dividends are taxed at 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers and trusts. Each taxpayer (excluding trusts) also get a £5,000 dividend allowance. A FIC can provide a useful means to ensure that family members take full advantage of their allowance and lower tax bands, to maximise tax savings. Particularly useful for grandchildren.

A FIC is not an efficient vehicle to hold assets that are used personally or to provide lump sum capital payments to a single shareholder. For these reasons they should always be regarded as a long term investment vehicle that produces an income source for its shareholders.

The current low corporation tax rates also make companies an attractive environment for investments and some individuals are choosing to use a company as a pure investment wrapper, often referred to as a personal investment company ("PIC"). These companies have very different objectives to a FIC and are often funded by interest free loans which are repaid over time to produce a tax free source of income. Care needs to be taken if you wish to combine the benefits of a PIC with a FIC and in many cases it will be preferable to have two companies, each with its own objectives.

To summarise, FICs are very flexible vehicles that provide a structure that is tax efficient, protective and ensures that you retain control over the family investments. It is not surprising that they are becoming increasingly popular.

Client Interview: Geoff Parling

If I was nineteen again...

Geoff Parling plays rugby for Exeter Chiefs in the Aviva Premiership. Geoff has played in all or part of thirteen professional seasons and has been capped multiple times by England and the British and Irish Lions. Geoff has been a DBL client for many years and recently took the time to sit down with Benchmark and discuss what advice made a difference when he was younger, what advice young players receive now and what his plans are for the future.

'Young players today are picked up at a much earlier age than I was', says Geoff. 'I started playing at around eighteen, but nowadays the young players are starting much younger. They spend more time within rugby, increasing their earning potential and also spending more time being catered for by clubs and coaches.'

Geoff believes that the structures young players are exposed to throughout their careers can have a big impact on them and that knowing that there is something outside of these structures was important to him as he made his start in the game. 'Young players are told where to be, what to eat, what to wear and how to train. The support and rewards are greater and greater, but I am not sure if that makes them better and better. Sometimes when you are growing up it is useful to your learning if your day is not entirely structured for you. If I was nineteen again and starting to play now, I would want to remember that you have to be motivated to step outside of this constant catering.'

In fact, being self-motivated has been important for Geoff throughout his career. Geoff got into rugby because he wanted to find something that he was good at and enjoyed, but he was aware that there were other options out there.

'You have to appreciate that you only get one career and you have to make the most of it, and the better rugby career you have the greater the reward, but sometimes rugby can be so consuming it can be good to have another focus on a day off. When I was at Newcastle almost every academy player went to University, or did an apprenticeship, or underwent some form of training. I do not think that is the same for young players now and if I was in their shoes I would want someone to tell me that I can step outside rugby. If the players themselves are not too fussed about doing something else then that is fine, but many perhaps do not realise that they can do more; maybe do something part time, or with a sponsor, or educate themselves for a future career.'

Geoff graduated from Newcastle University with a degree in Economics and Business Management but feels as though fewer and fewer players are as aware that this sort of option exists for them.

'There is not as much awareness now about the need to plan for the future as there was when I was younger. When I started playing there were players who had been amateurs, so knowing that you needed something else was the norm. Without the right advice there are some of the younger players who are going to struggle. If all you have ever known is rugby and having everything provided for you then it will be tough when your career comes to an end. It is important that younger players know that this could happen at any point. It is up to clubs, agents and us older players to help them with this and point them in the right direction.'

As for his own plans, Geoff is currently enjoying getting involved in the coaching side of the game, but is also keeping his options open.

'I am enjoying gaining coaching badges and working with up-and-coming players. At the moment my approach is to tick things off that I do not want to do and go from there. I do not think that working in the city is for me, for example, but coaching could be something that I carry on pursuing.'

Spend now or save for tomorrow?

There are obstacles we all face when it comes to resisting the temptation to live in the moment. Our brains are naturally inclined towards instant gratification, and we are all psychologically influenced by both our environment and the people within it.

If those around us are all thinking short term, it is easier for us to do that too. Likewise, if we are constantly told that we need the latest gadget or that we will miss out on a bargain price if we do not buy now, our brains will naturally want to make the emotional decision to go along with that.

It is because of this that thinking about the future is often easier said than done. This is especially true when it comes to finances, as the temptation of enjoying your money today can easily outweigh putting something away for whatever tomorrow might bring. However, there is no doubt that the rewards of planning financially for the future can be considerable.

Those who are good at planning for the future are often those who have either been taught to do so from a young age, or who have spent time learning how to make good decisions which will help them to save.

Writing things down into a household budget can be as good a method of keeping track of your spending as any other. Whether it is on a spreadsheet or using old-fashioned pen and paper, successful savers keep track of their incomings and outgoings on a monthly basis. Recording the small purchases you make as well as bigger outgoings helps you to know both where your money is being spent and where you can afford to cut back. What are the 'needs' of your household, versus its 'wants'?

Perhaps the most obvious rule to become a good saver, but also the most important, is to actually commit to saving. Many people give up on changing their financial habits too quickly to make an impact, convincing themselves that they just cannot save money.

But even if you are only saving a relatively small amount each month, getting into a routine of putting that money away regularly is essential.

If you're already at the point of saving successfully then think about a couple of things; helping the next generation to do the same and yes, spending a little of your money. Good financial planning is about having the money to spend on the right things, as well as the money to save. And, as mentioned earlier, successful savers are often young savers, so never miss the chance to give children and grandchildren a push in the right direction, towards a piggy bank.

Team profile: Michelle Glover

Michelle has been a member of the DBL team since June 2016 and we are sure many clients will already have had the pleasure of speaking with Michelle regularly over the past few months, as well as overcoming any initial confusion around the fact that, yes, against all odds, our small team now features two 'Michelles'!

Michelle is part of DBL's client services team who work tirelessly behind the scenes to ensure that we maintain our high standards in financial planning and client communication. Michelle and the rest of the team support our planners, Dacre and Paula, by liaising with clients and providers, keeping our back office systems updated and assisting Dacre and Paula in their day-to-day duties.

As well as her regular duties as part of the client services team, clients will liaise with Michelle on obtaining illustrations, quotes and policy queries. Michelle and the team are available for any query you have, no matter how small or to what aspect of your financial planning it relates.

Having started working in the industry back in 2002, Michelle joined the team from another financial services firm. Prior to that, Michelle trained for and worked in the hotel and catering industry for eleven years. In her current career, Michelle has passed the Financial Planning Certificate: Stage One, the demanding industry qualification developed by the Chartered Insurance Institute for professional and dedicated practitioners within the industry.

Away from the office, Michelle has a young family, comprising of her fiancé Brett and five year old daughter Megan. As the parents amongst you will doubtless understand, much of Michelle's free time is spent with Megan, with a current particular focus being reading. Michelle's family are National Trust members, so much of their time is spent outdoors where Michelle is also trying to catch up with Brett at his main hobby: golf. Despite several trips to the driving range, Michelle has confided with the office that she is not quite ready to be let loose on a full course yet.

Whilst Michelle may still be brushing up on her golf skills, she has already shown herself to be a fantastic addition to our client services team. We are delighted to (belatedly) welcome Michelle to DBL and, if you have not already, hope that you have the pleasure of speaking with her in the near future.

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