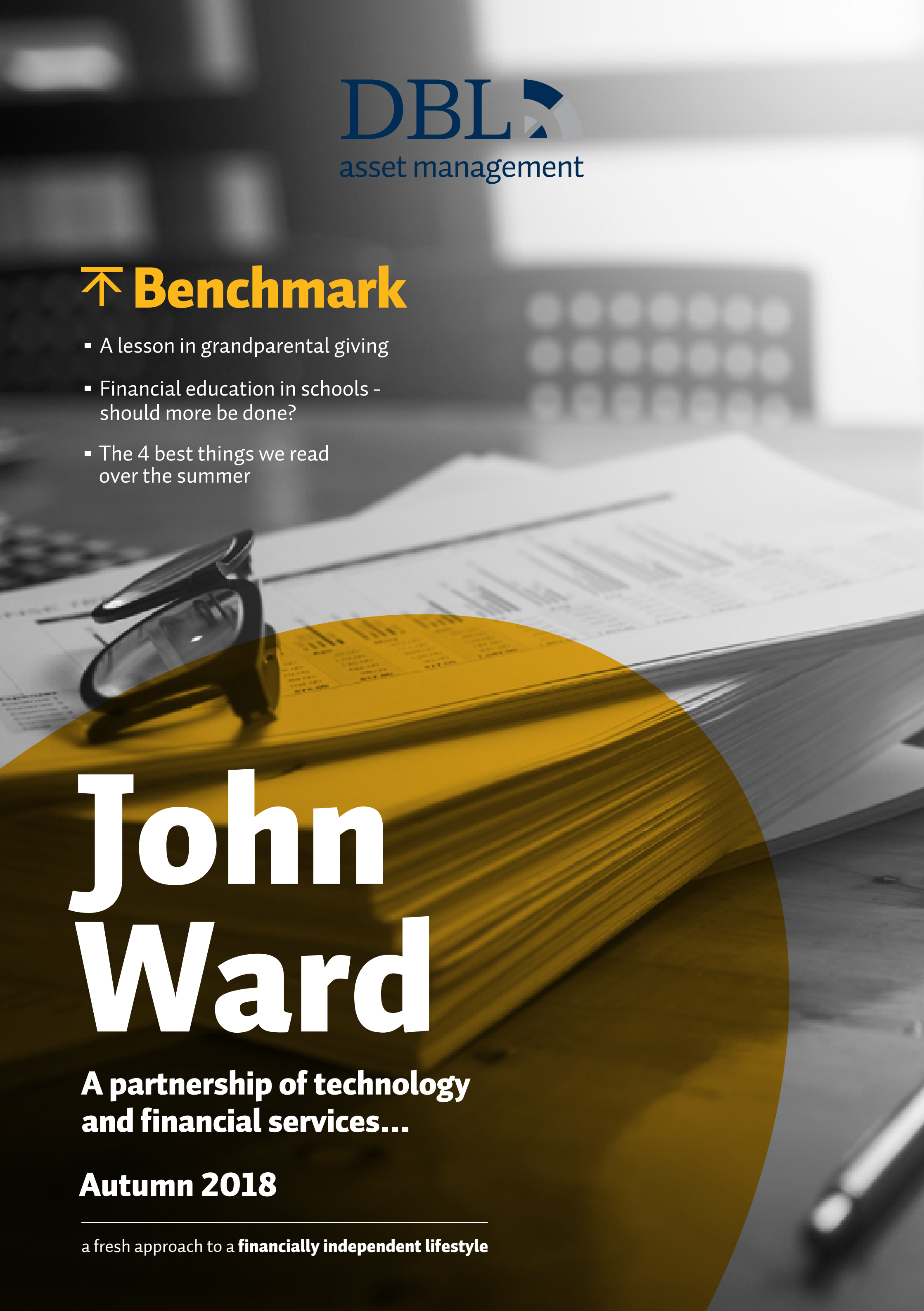

DBL asset management

# Benchmark

- A lesson in grandparental giving
- Financial education in schools - should more be done?
- The 4 best things we read over the summer

# John Ward

## A partnership of technology and financial services...

**Autumn 2018**

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a fresh approach to a **financially independent lifestyle**

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# Introduction

Welcome to our autumn edition of Benchmark. This issue has a bit of a back to school theme about it. We hope you find the syllabus full of interesting and educational articles.

First of all, thank you to those who completed our annual client survey. It provides us with a very useful snapshot of how we are doing and what we could do differently. Do take a look at the results.

One subject that might be giving you a headache is inheritance tax. We have an interesting article on the proposed simplification of IHT and the review being commissioned by the Chancellor.

A topic that you may feel does not feature enough on the school curriculum is financial education. The article on page 10 explores what steps we can take to ensure our young people are sufficiently well equipped to cope with budgeting and staying out of debt when they enter the real world.

If you are a grandparent, you may be interested in the practical ways you are able to help your grandchildren financially. There is also an article on Social Investment Tax Relief and how the take-up rate might be improved.

We love our books at DBL and thought we would share with you, "The 4 best things we read over the summer".

This issue's client interview is with John Ward of Awareness Software Limited. John was just across the corridor from me when I started training as a financial adviser in Springfield House, Wilmslow. John has been helping with our technology and we have been helping John and his team with retirement planning. It has been a privilege to grow together.

We hope you find this issue of Benchmark has given you plenty of food for thought. If you have any questions or queries, please do not hesitate to contact us directly.

With kind regards,

Dacre Staines

Many of you may live in households where August was a tense time waiting for examination results. At DBL we have had our own results day as we received the feedback from our annual client survey. We were absolutely delighted with the scores and positive comments.

Thank you to all those who took the time to complete the survey. It helps us enormously to provide a service that is important to you and enables us to identify areas where we can introduce improvements.

Here is a snapshot of which words came to mind when you thought of us...

Professional

Efficient Thorough

Caring Trustworthy

Structured Helpful Clear

Dedicated Personal

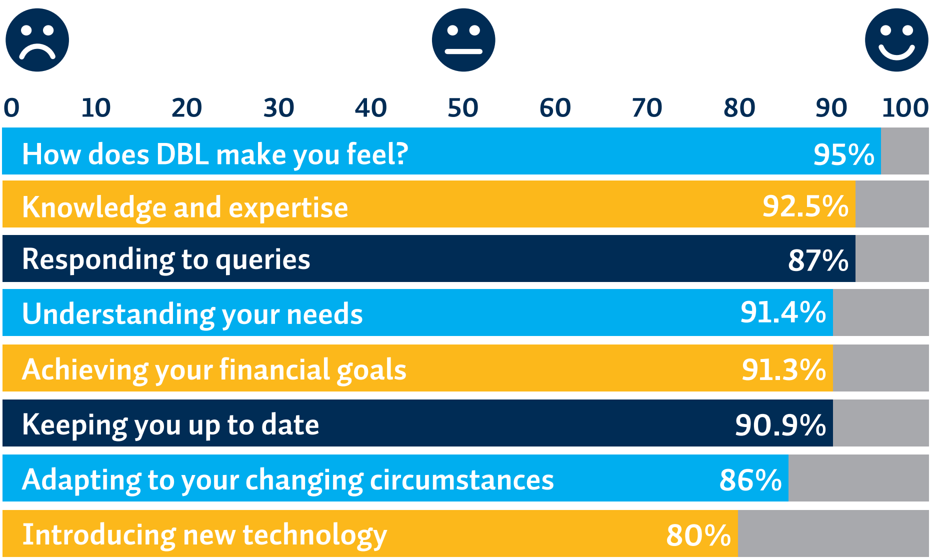
Friendly

“I think you provide an excellent service.”

“Happy with the service I receive.”

“We get an excellent service.”

“You provide first class service.”



# A lesson in grandparental giving

## by Emer Fitton

Whether playing hide and seek, getting the chess set out again or baking cookies, being a grandparent is full of fun activities. What is even better is that when you are shattered after a day of looking after the grandchildren, you get to hand them back to their parents.

It is also a time of life when you may be in a position to help financially.

First of all, think carefully about the timing of your gift. Does your family need help right away? If there is a newborn in the family, their parents may appreciate financial help in moving to a more spacious home. Your family may need help with childcare or nursery fees. Later on, assistance with private school fees may prove welcome. Even further down the line, your grandchildren may appreciate cash for driving lessons, money for university fees or help with finding the deposit for a house.

Alternatively, if you have decided to pass the money on as legacy, when you die, it is important to think about the gifts you can make in advance to minimise the amount that will be paid to the taxman in inheritance tax.

Once you have decided when to make your gift, consider the most effective way of doing so.

## IHT and gifting

If your estate is worth more than £325,000, any amount over this threshold will be taxed at 40%. Giving money away is one way of taking it out of the IHT net but bear in mind that this only applies if you survive more than seven years after making the gift. Your annual exemption allows you to make £3,000 of gifts per tax year so giving little and often under this amount is an effective way to avoid tax.

## Trusts

It is also worth doing your homework on trusts. These are a useful vehicle to give money to your grandchild before they are 18, while still maintaining a degree of control on how it is used. Setting up a trust structure for school fees is often a popular option. Gifts made to the trust are also a way of saving on inheritance tax.

## JISA

If the money is needed for something specific, like university fees or driving lessons, you may want to consider a Junior ISA or JISA. These can be opened for any child under 18 and grow free of tax up to this point. You can not personally open the JISA on your grandchild's behalf, but you can pay into it up to the current annual limit of £4,260.

## Lifetime ISA

The Lifetime ISA or LISA was specifically designed to help individuals save for a property or top up their pension savings. It is only applicable for people between the ages of 18 and 39 so you would not be able to open an account for them, but you could give them money to put into one. Under the scheme, your grandchild could save up to £4,000 a year and would get a 25% bonus from the government. There have been rumblings recently though, that the LISA may be scrapped, so it could be worth taking advantage of it sooner rather than later.

## Pensions

Contrary to what many people think, pensions are not just for the elderly. Children can have them too and anyone can contribute to those savings to a maximum of £2,880 a year and get 20 per cent tax back. The amount is topped up by the government to £3,600 a year. When you think that this will mean your grandchild will not have to worry so much about saving for old age, it is the sort of grandparental gift that makes a real difference.

# Social Investment Tax Relief and how to make it work

Launched in 2014, Social Investment Tax Relief (SITR) is a relatively new topic for investors. It is designed to increase access to reasonably priced investment capital for a range of eligible organisations, which may struggle under traditional channels. These could be community interest companies, accredited social impact contractors, community benefit societies and charities.

By providing a tax incentive, it is based on the more well-known Enterprise Investment Scheme (EIS), but its aim is to generate a positive social return as well as a financial one. Another key difference with EIS, is that any investment can be structured as a loan or equity, as opposed to just equity.

## What does it involve?

SITR offers various tax reliefs, such as:-

- Income tax relief at 30 per cent, with carry back.
- Capital Gains Tax ( CGT) deferral, if a chargeable gain, which is made after 5 April 2014 is invested into an SITR qualifying investment.
- Tax-free capital gains on disposal.
- Possible loss relief against income and IHT exemption, if the SITR qualifying investment is structured as equity rather than debt.

The following limits apply:

- Individual investor limit of £1 million per tax year, on top of the £1 million EIS amount or £2 million if it is a knowledge intensive business.
- Only up to £300,000 can be raised in any rolling three-year period.
- £1.5 million can be raised over the enterprise's lifetime, if it has been trading for less than 7 years.

## What has the success rate been like?

To continue the school report terminology of this issue, SITR could, quite frankly, have been doing better. There has been little take-up of the scheme by the organisations it was designed to help. Anecdotal evidence suggests around £2 million was invested last tax year, 2017-18, while the official figures for 2016-17 reveal that only 25 social enterprises received investment and £1.8 million of funds were raised.

This is disappointing, when there seems to be no shortage of investors interested in social impact investment. They do not have many options at their disposal. Gift Aid is one alternative, but that is donating, not investing and potential investors seem to like the fact that SITR enables them to generate a modest financial return, at the same time as high social impact.

Rather than a demand issue, the problem appears to be at the supply end. It would seem that the government needs to re-examine the restrictions on SITR to encourage more UK venture capital schemes with a social investment element.

The current regulations are hampering accessibility, so it would make sense to:-

- Adjust the eligibility criteria to be more in line with the needs of the social enterprise. For example, allow EIS qualifying companies to access SITR capital.
- Reallow the refinancing of debt so that social enterprises with high interest loans could replace them with SITR loans.
- Revisit current care home investment restrictions so that SITR investment into care homes is made possible through an accreditation scheme.

Anything that can be done to generate genuine social outcomes and increase greater take-up of the scheme would be welcome. If this type of investment is of interest to you and you would like to know more, do get in touch with us.

# Financial education in schools

## Should more be done?

When you think back to your school days, was it all reading, writing and arithmetic? No doubt there was also a bit of science, history and P.E. thrown in too. One important subject conspicuous by its absence, though, was financial education. For most of us, there was no mention of pensions, taxes or saving schemes. You might have been taught long division and algebra, but not how to apply the principles in the real world.

If we look at the curriculum of today's young people, the same issue exists. Although there may be intriguing-sounding subjects such as PSE, citizenship and food technology, money matters are still sadly lacking. Financial education did actually become part of the curriculum in 2014 in England, but progress in adopting it on a wide scale has been slow. If you take a 2018 timetable, you will be hard pressed to find comprehensive or consistent delivery of it as a subject.

This is partly due to the fact that little teacher training or resources have been devoted to the subject. Research by the Money Advice Service in 2016 showed that only 40% of young people had received any financial education and many teachers said they had not been given adequate assistance in what to address. The topic was also formally introduced just before the academisation of schools, which meant that less than half of all schools have to actually follow the curriculum.

On the positive side, some steps are being made. Funded by money expert, Martin Lewis, there is an initiative to send a personal finance textbook out to all schools. The website, run by the charity Young Money, also has a whole host of useful resources.

When money is increasingly spent, invested or saved online, it is imperative that the next generation is made aware of the importance of budgeting and shown how to keep track of what they are spending. As you have no doubt found yourself, contactless payments and in-app purchases make it all too easy to spend without any real thought. In addition, young people need to understand the dangers of getting into debt and be made aware of standard interest rates, compared with some of the more exorbitant figures charged by some unscrupulous companies. In this digital age, make sure they are not naive in relation to online scams or requests for personal information.

Ideally, the decision to include financial education in schools will receive more commitment and resources so that it becomes commonplace. In the meantime, however, as a parent or grandparent, do whatever you can to ensure financial matters are talked about in your family as a matter of routine. They will thank you for it in later life.

# The 4 best things we read over the summer

Holiday season is a great time to catch up on some reading. Whether you are a Kindle fan or a traditional book lover, there is nothing better than the chance to read the latest publication by your favourite author or even to try something completely different.

Here are some recommendations from Emer Fitton and Michelle Coulton:

## Emer

**In Order to Live: a A North Korean Girl's Journey to Freedom by Yeon-mi Park** is a fascinating account of one girl's struggle to escape from North Korea. Harrowing and inspiring, this book makes you thankful for the freedom we enjoy.

I really loved **'Eleanor Oliphant is Completely Fine' by Gail Honeyman**. Eleanor's view of the world will make you laugh out loud but also shed a tear or two. It is a moving portrayal of modern day society and the isolation that some people face.

## Michelle

**Apple Tree Yard by Louise Doughty** is a real page turner and psychological thriller, describing the life of a high-flying eminent scientist, whose life takes a bizarre twist. I could not put it down.

I was totally gripped by **He Said She Said by Erin Kelly**. It is a cleverly plotted thriller, which kept me guessing right up to the very last page.

# Client Interview: John Ward

## A partnership of technology and financial services...

In this issue of Benchmark, our client interview is with John Ward, who set up Awareness Software Limited in 1999. Based in Hazel Grove, the company provides tailored IT solutions to UK businesses.

Over the last 19 years, the business has steadily grown from being just John and one other director to a company of forty-three staff. Initially, they each worked from home, starting with just three clients, then moving to offices in Springfield House in Wilmslow, where John met Dacre. The company's next move was to larger premises in Bollington, where they were for thirteen years, before moving to Hazel Grove last year.

Awareness Software works in both the public and private sector, in education, construction, distribution, manufacturing etc, with whoever may need help with their IT services. John explained that they position themselves as a company's outsourced IT company. People often need half a dozen people, someone good at networking, printing, email, back-up etc. Instead of needing to take on six staff, by using John's company they get the full service.

## What have the successes been?

Growth of the company has been entirely by client referral or through a number of acquisitions along the way.

When Awareness Software moved to Hazel Grove, it was an opportunity to centralise operations, having previously acquired offices in Handforth and Newton-le-Willows.

In John's view, he would highlight the strong team they have developed as one of their major strengths. He says it has taken a long time but through various acquisitions, they have kept the best people.

John is also proud of their high client retention figures. People do not tend to leave them, which he attributes to their excellent customer service. In fact, the only companies they lose are those which go bust or get acquired.

Linked to their high retention figure is the fact that all their new business comes from client referrals, which is a sure sign of happy clients. This also means they do not have to spend any money on marketing.

## What have been the main challenges?

John outlined that managing the clients' expectations was one of the key factors in a successful IT project. This can be made difficult when they get huge price hikes from US providers like Microsoft, which they have to pass on to the client.

Obviously, it is also important to stay abreast of technology, which never stands still. Helping clients recover from ransomware outbreaks through business continuity and disaster recovery plans is a key part of what they do. "It is really rewarding to be able to help in a time of crisis," said John.

## How did John's involvement with Dacre and DBL come about?

Both John and Dacre have grown their companies at a similar time. John was, in fact, just across the corridor from Dacre when he started training as a financial adviser, with Paula. If they needed a new laptop, other hardware or technical support, John would deal with it. When Dacre and Paula moved offices to Kennerley's Lane, Awareness Software provided support and now look after all their IT systems, hosted on the Awareness Software cloud.

On the financial side, Dacre has always encouraged John to put a little bit aside for the future and he advises him on his pensions. John commented that Dacre is accessible, always there when he needs him and a safe pair of hands. Not surprisingly, much of John's investment is into the business and the properties associated with it, although John says he knows Dacre would rather he put more into his pension pot.

'It is a reciprocal arrangement,' said John, 'We advise him on IT and he advises me and some of the directors and staff on their pension planning.'

## Can inheritance tax be simplified?

Inheritance tax (IHT) is certainly a complex subject matter. It has existed in the UK for over 300 years and has been largely unchanged in its current form since 1986. It was originally introduced to replace the old Capital Transfer Tax, which was designed to distribute wealth between the rich and the poor.

Although, in principle, the concept of inheritance tax is quite simple, it has become overlaid with bureaucracy and red tape over the years. As it currently stands, the IHT allowance remains at £325,000, as it has done since 2010. The tax rate is set at 40% so that your beneficiaries will be taxed by this amount on the value of any assets you own on your death above the £325,000 threshold. For those who qualify, the Residence Nil Rate Band Allowance (RNRB) raises this allowance by £125,000. This figure is planned to increase gradually over the next two tax years to £175,000 by 2020/21. By this point, your IHT allowances would total £500,000, a figure which doubles for married couples, producing £1 million in combined allowances. To give an added complication, if 10% of an estate is left to charity, the rate is adjusted to 36%.

As can be seen, the regulations are complicated. Even the Chancellor, Philip Hammond, thinks so and has called upon the Office for Tax Simplification to conduct a review. A consultation process ran from 27th April to 8th June and sought views from individuals and professional advisers about their experience and perception of inheritance tax and in particular from those involved with executing a will. The aim of the review is to make sure the system is fit for purpose and is designed to look at the processes for submitting returns, paying IHT, estate planning and the potentially distorting effect of gifts.

There is some speculation that simplification may lead to the replacement of IHT by an annual property tax or general wealth tax. Such reforms though, would be likely to make any government that implemented them unpopular.

It remains to be seen whether the Treasury would introduce any proposed changes. After all, the tax received from IHT has doubled over the last seven years to close to £5 billion per annum. In the meantime, it is sensible to review your own IHT exposure, consider which assets currently qualify for relief and continue to maximise your lifetime gifts, while the rules still apply. If you would value a review of your IHT planning, do get in touch.

## Did you know?

- Your estate can pay IHT at a reduced rate of **36%**, if you leave **10%** or more to charity.

- You can give away **£3,000** worth of gifts each year.

- You can give wedding or civil ceremony gifts of up to **£1,000** per person (**£2,500** for a grandchild or great-grandchild, **£5,000** for a child).

- If you give away your home to your children, your threshold can increase to **£450,000**.

- People you give gifts to will be charged IHT if you give more than **£325,000** in the 7 years before your death.

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