BFP

Broadway Financial Planning

"planning for peace of mind"

BROADWAY BULLETIN

Winter 2011

Welcome to our Winter newsletter. 2011 seems to have passed us by at a rate of knots. Whilst the investment markets remain unsettled and at the forefront of our minds, it's difficult to remember all of the events that have occurred in the last 12 months and how those may (or may not) have affected the long-term investment outlook.

We have seen huge political unrest in the Middle East resulting in riots and protests in Bahrain, Saudi Arabia, Tunisia, Syria, Egypt and Libya. Egypt saw the eventual resignation of President Hosni Mubarak and Libya saw the overthrow, and eventual death, of Colonel Gadhafi in Libya. The USA also claimed the death of Osama Bin Laden.

This year has also had its fair share of natural disasters. The earthquake and Tsunami in Japan resulted in the death of over 15,000 people with nearly 4,000 reported missing. Earthquakes also occurred in Turkey and New Zealand causing the deaths of hundreds of people, with tropical storms claiming many lives in Rio de Janeiro and, more recently, the Philippines.

On a more positive note, the USA finally declared an end to the war in Iraq after ten long years. We were also able to enjoy the wedding of our future King and Queen in April which gave great cause for celebration (and an extra bank holiday!)

Whilst the Eurozone crisis has not yet been resolved, we hope you will take some Christmas Cheer from our chosen economic commentary below, provided by Stephanie Flanders, the economics editor for the BBC.

THE SQUEEZE WILL EASE IN 2012

I've been drawing up a list of reasons to be cheerful in this last week before Christmas and that is one of the better ones.

As usual, all bets are off if the euro blows up, but if the Europeans can manage to hold on to their single currency, the average UK household probably won't get to the end of the year poorer, in real terms, than they were at the start.

In fact, there's a good chance their real incomes will have edged up.

That may not sound like much, but it would be better than 2011; and 2010.

Think about it: there isn't going to be another VAT rise and I don't expect to see another big rise in the price of petrol. In fact, I think the OBR is underestimating the possibility that oil prices will fall sharply in 2012 and 2013, but that's a reason to be cheerful for another day; I don't want to run out.

With VAT and the Arab Spring falling out of the figures, 2012 is the year when the headline rate of inflation should come tumbling down. The upshot is that incomes, especially for working households, ought to start going up.

As Michael Taylor, of Lombard Street Research points out in a recent note, it was the consumer who disappointed the economic forecasters in 2011. This time last year, independent forecasters expected private UK consumption to go up by 1.1% over the following 12 months. Instead it fell, by roughly the same amount.

Part of the blame for that might lie with the chancellor, but most in the City would put it down to inflation, which also came as a rude shock to the forecasters, not to mention the Bank of England and commentators like me.

At the end of 2010, the consensus was that the target measure of inflation would be 2.7% in the last three months of 2011. Instead, it was nearly two percentage points higher. Households couldn't buy more stuff, because they were finding it hard enough to buy what they did before.

With a fair wind from across the Channel, that should change in 2012. Though don't get too excited: we're not talking about a big rise, and we're probably not talking about the next six months.

Michael Taylor now expects consumer spending to rise by 0.1% in 2012. The consensus is for it to grow by all of 0.4%,

THE SQUEEZE WILL EASE IN 2012 cont...

but there's going to be a big difference between the first and second half of the year.

We'll probably continue to feel poorer until the summer, because it is likely to take that long for inflation finally to fall below the rate at which cash incomes are going up.

On the World at One , a deputy governor of the Bank of England, Charlie Bean, put a date on it. "Around the time of the Olympics", he said, the squeeze would start to ease and "people might start feeling better about things".

It's not much, but it's a start!

Stephanie Flanders, BBC Economics Editor

JUNIOR ISAS

Junior ISAs are now available and are a great way to create a nest egg and help provide some financial backup for your child or grandchild when they reach 18. As with adults there are two types of Junior ISA, cash and stocks and shares. Children will only be able to hold one cash Junior ISA and one stocks and shares junior ISA at any one time. The allowance is £3,600 per child and this will rise with inflation from 2013.

A parent or guardian can open and manage the Junior ISA and once opened anyone; friends or family can make a contribution up to the annual limit. Once the child reaches 18 the account is automatically converted to an adult ISA and they are entitled to full access to their investments and savings.

Junior ISAs are available to any child born on or after 3rd January 2011 and any child under 18 born before September 2002. If your child holds a Child Trust Fund (CTF) they are not eligible. However, this situation may change so that CTF funds may be transferred into a Junior ISA but not for the time being.

CONTRACTING OUT TO BE ABOLISHED

From 6 April 2012 the Government has confirmed that contracting out of the State Second Pension (S2P) through defined contribution schemes will be abolished.

However, you can still stay contracted out for the 2011/12 tax year. Protected rights will become ordinary benefits and you will no longer have to provide a pension for your spouse/civil partner when you retire - although you can if you wish.

How will this affect you?

These changes mean that you'll be automatically contracted back into the State Second Pension (S2P) from 6 April 2012. Depending on your level of earnings you may build up a S2P from then. No further National Insurance contributions will be paid to the above plan in respect of tax years starting on or after 6 April 2012.

The funds that have built up in your plan as a result of contracting out of S2P are called 'protected rights', the rest of your benefits are called 'ordinary benefits'. The changes will not affect any past protected rights payments for the tax years before 6 April 2012; they will remain invested in your plan until you decide to take your benefits. But you'll now have more flexibility about how to take these benefits.

How will you have more flexibility at retirement?

At the moment from your protected rights benefits you have to provide a pension for your spouse/civil partner when you take your retirement benefits. From 6 April 2012 your protected rights will become ordinary benefits and you'll no longer have to provide a pension for your spouse/civil partner when you retire - although you still can if you want.

What happens if you die before retiring?

If you die before 6 April 2012, a pension will have to be set up for your surviving spouse/civil partner from your protected rights. However if you die on or after 6 April 2012 your protected rights will be treated as ordinary benefits and can be paid using the same rules as for ordinary benefits. This would be likely to mean that the benefits would be paid as a lump sum.

If you are currently contracted out, the Government will make your last payment to your plan, for the 2011/2012 tax year, in 2012.

"GIVING WHILST LIVING"

We have for many years included Estate Planning as part of the services we offer to our clients. This could be as straightforward as making sure their Wills reflect their current wishes and that they have a Lasting or Enduring Power of Attorney in place. However, it could also involve some more esoteric tax planning to ensure that potential Inheritance Tax liability is reduced, wherever possible, or provided for.

Currently, any gifts made to Charity on your death are deducted from your estate before calculating any liability to Inheritance Tax. Legislation has been introduced in Finance Bill 2012 to provide for a reduction in the rate of IHT from 40 per cent to 36 per cent where 10 per cent or more of a deceased person's net estate (after deducting IHT exemptions, reliefs and the nil-rate band) is left to charity. The measure will apply to deaths on or after 6 April 2012. On a £500,000 taxable estate, a charitable gift of £50,000, can reduce the Inheritance Tax bill from This can have the effect of reducing a tax charge of £200,000 by £20,000 – a sizeable addition to any beneficiary!

Gifts made to family or friends on death will be paid from your net estate, after the deduction of any tax due. This may not be the most tax efficient way of ensuring your loved ones receive the intended gifts – nor are they able to thank you personally!

However, one of the areas that is becoming more popular is that of gifting either to family, friends or charities whilst still living enabling you to enjoy the benefit and joy this can bring.

"Giving whilst Living" will allow you to plan who receives the gift(s) and when. It may be for a relative who has fallen on particularly hard times; or a young adult who needs assistance through University or buying their first home. It could, of course, be to your chosen charity (ies).

If you want to donate to your favorite charity or Community Amateur Sports Club (CASC) and you're a UK taxpayer, there are a range of tax incentives and schemes available to help you get the most from your donation.

If your donations are under the Gift Aid scheme, your chosen charity can also claim tax back from the Government. Gift Aid is an easy way to help charities and CASCs get extra money on your cash donations. Your Gift Aid donation is treated as if basic rate income tax has already been deducted by the donor. Charities and CASCs can then reclaim that tax from HM Revenue & Customs (HMRC).

To make a Gift Aid donation, you must pay at least as much Income Tax (and/or Capital Gains Tax) as the amount of tax reclaimed by the charity or CASC. This is currently 25 pence for every pound you donate. Basic rate tax is 20 per cent, so this means that if you give £10 using Gift Aid, it's worth £12.50 to the charity.

If it's a registered Charity then you should enter any gifts made on your tax return as you may be eligible for relief against higher rate tax.

Many clients already make charitable donations on a regular basis but you may wish to increase this or put together an agreed "philanthropic strategy" that not only achieves some useful tax planning but, more importantly, provides you with the joy of giving to your favourite charity or club and seeing the benefit that your gift can bring!

Gifts in excess of £3,000 per annum are potentially chargeable to Inheritance Tax but will not be liable if you live for a period of seven years from when the gift is made. In addition, if these gifts are made regularly out of "income" without affecting your standard of living, these are exempt of any charge.

If you haven't already considered making gifts, you may wish to do so. Having regular funds to allocate can be a richly rewarding experience. There are numerous ways of doing this - either through your favourite charities, the Charitable Aid Foundation or you may even wish to set up your own "family endowment fund" and in your own ways, become philanthropists.

OUR NEWS AND REVIEWS

FINANCIAL PLANNER OF THE YEAR

We are delighted to announce that Keri has received the "runner up" accolade in two categories of the prestigious "Financial Planner of the Year" awards held at The Dorchester on 6th October 2011.

Hosted by the multi award winning monthly personal finance magazine, Money Management, part of the Financial Times Group, these awards are designed to uncover the finest Financial Planners in the UK across a range of categories.

Keri was delighted to be "runner up" in two of the categories of this highly acclaimed award. It was necessary to demonstrate the breadth and variety of her expertise via case studies with a limited number of words (*a real challenge in itself—SPW!)*

However, she is without doubt that this award will help to highlight BFP as a leading firm in the Financial Planning profession.

THE ART OF INVESTMENT

We recently launched a new initiative together with local artist, Jeremy Houghton and Broadway art gallery, Trinity Paintings. Aimed at providing an evening's entertainment talking about the synergies found between the world of art and Financial Planning, this has been well received by those that have attended.

Whilst many of our clients will already be well versed in the practice of cashflow plans and the work we do, Jeremy's talk on what to look for when buying contemporary art is educational, entertaining and enlightening. Coupled with a host of impressionist and contemporary paintings, we are sure this will continue to prove a hit with both clients and guests alike.

If you would like further information on the events running in 2012, please let us know.

BFP IS RECOGNISED AS AN ACCREDITED FINANCIAL PLANNING FIRM™

We are delighted to announce that we have been approved by The Institute of Financial Planning (IFP) as an Accredited Financial Planning Firm™. IFP is the professional body for Financial Planners in the UK. It awards this title only to firms which it has assessed as demonstrating the highest professional standards of Financial Planning service and advice to its clients.

To successfully meet the criteria for approval, we had to demonstrate that we provide a comprehensive Financial Planning service for our clients as well having as a clear cost or fee structure. We also had to demonstrate that we had appropriately trained and qualified staff and at least 50% of registered advisers had to be qualified as a CERTIFIED FINANCIAL PLANNER℠ professional—which, of course, we are!

We're delighted to have achieved this powerful recognition of our commitment to professionalism and outstanding client service. Our clients expect and deserve only the highest standards of advice and service as we work with them to plan their finances. We're proud to deliver a service which our clients value and which has now been externally recognised too.

The office will be closed on Friday 23rd December 2011 at 1pm and reopen on Tuesday 3rd January 2012.

In the event of an emergency, please leave a message as these will be picked up periodically.

Merry Christmas and a Happy and prosperous New Year to you all