ASSET Advantage

Your quarterly newsletter from ASSET Investment Management Ltd

wealth management specialists

Autumn 2013

The Burden of Inheritance Tax

The threshold for Inheritance Tax (IHT) rose to £325,000 for individuals and – with the option now to transfer any unused threshold to a spouse or civil partner – a total of £650,000 for legally joined couples (for the tax year 2013/14). The relative level of house prices, however, particularly in the South East, means IHT is still a concern for many homeowners.

This threshold has now been fixed until 2018; if, as we are told, recovery is on the way, then we can expect our assets to grow and the Help to Buy scheme may push up house prices which are on average at their highest ever level. This must be taken with some scepticism though – London prices rose by 9.7% from July 2012 to July 2013 whereas in the East of England the figure was just 1.4% (source ONS).

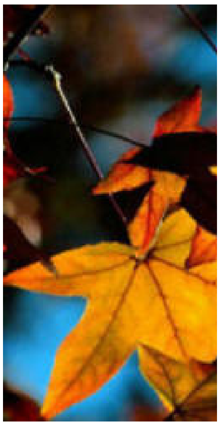
This could mean that in the next few years, if not already, your estate could be in line to suffer 40% tax on your death. Before you look to offset it, however, it is important to establish what will accumulate as a potential liability. For most, the key contributor to their estate will be the value of their home and, even if this lies below the threshold, other elements can push an estate over the limit. For example, although people typically talk of the benefits of Individual Savings Account (ISA) investing – which shelters investors from capital gains and income tax – ISAs are not sheltered from IHT, with the exception of EIS Qualifying plans following a change in regulations in August this year.

Nevertheless, there is action you can take, particularly if your liability is relatively small. Few people realise that they have an annual exempted amount that they can gift to someone. At £3,000 per year, this could go some way to reducing the overall estate. In addition there are gifts that can be made in respect of children and grandchildren's marriages – although these amounts have been frozen for many years.

As the Government looks to close potential tax loopholes it is always worth getting advice on what can and cannot be done to ease potential IHT burdens.

Of course, one also has the knotty problem as to how to deal with potential Care Fees too – if you are concerned, or know of someone who is, then please let us know.

Yields Rise as 'Safe-Haven' Assets Lose Appeal



UK Government Bonds experienced an eventful Summer as gilt prices fell and yields surged. Demand for perceived 'safe-haven' assets might be starting to ease amid hopes the UK economic recovery is beginning to look a little more secure. The yield on the benchmark UK government bond rose to 2.03%.

But what does this actually mean?

Simply, for yields to rise it means that the capital value has fallen. As interest rates will eventually increase, this can only continue to lead to capital values falling on fixed interest funds.

If you are unsure as to how this might effect your

Having previously said that the Summer had been slow to arrive, when it did it was a scorcher!

The soaring temperatures saw the FTSE 100 climbing nearly to its previous high point, only to drop away again, but still posting a positive return over the period. Proof if it were needed that it is virtually impossible to "time" the market.

If you have any requests for articles or information, or want this to be sent to any friends and family, then please let us know.

Our Services

We are able to offer qualified advice in areas other than pure investment, such as:-

- Care Fee Planning
- Equity Release
- Mortgages
- Income Protection
- Life & Critical Illness cover
- Pension Planning
- Inheritance Tax Planning
- Wills and Estate Planning
- Lasting Powers of Attorney

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portfolio, please get in touch.

Lasting Powers of Attorney (LPA)

It is often assumed that a husband or wife will automaticall be able to deal with their spuse's affairs in the event of them not being able to do so themselves; this is incorrect.

To avoid delays and to ensure that the right people can and will look after your affairs, it is vital to effect LPAs when you are able to do so; waiting until they are "needed" is abit like buying house insurance after the fire.

There are two types of LPA - Health & Welfare and Property and Financial Affairs, the scope of each is really described by their name.

We can arrange for either or both to be drawn up through a specialist company - this is vital as incorrect submission to the Office of The Public Guardian can result in rejection and extra costs being incurred right at the time when this can be a real problem

Equity Release

These schemes work by lending you a cash sum against the value of your house which is then paid out either as a monthly income or a lump sum. There are two basic types – Home Reversion Schemes and Lifetime Mortgages; both have their place but in the past, both had been abused and mis-sold by less scrupulous operators.

With these schemes, you take a loan on your house but pay no interest during your lifetime; instead, this is added to the loan until the end of its term, thereby allowing you to stay in your home whilst benefiting from some of its value. The loan and interest are then paid back when your house is sold, either on death or if you move house earlier, for example, into care. Equity release can also be a way to pay for care-home fees, particularly if the move into a care home is sudden and it is not feasible to wait for a house sale to go through.

You will need to meet minimum criteria both in terms of age and in terms of equity in your house. You must also own the freehold. Indeed, for many, it is possible to achieve a similar outcome simply by moving to a smaller house and investing their surplus cash wisely. However, that can incur great upheaval and does not account for the sentimental attachment some people have for the family home.

There are, of course, some downsides to equity release schemes. First, you reduce – or perhaps even cancel out – any value in your house that you might have otherwise passed to your beneficiaries. In addition, the income you receive could affect your income-tax bill and any means-tested benefits you receive.

To advise in this sector advisers need specialist qualifications which we hold. In addition, we only advise on schemes which are part of SHIP – the Safe Home Income Plans scheme which, amongst other things, insist on a “no negative equity” guarantee – i.e. the loan and accumulated interest can never exceed the value of the property.