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Thomas & Co Financial Services

INDEPENDENT FINANCIAL ADVISERS

MoneyMatters

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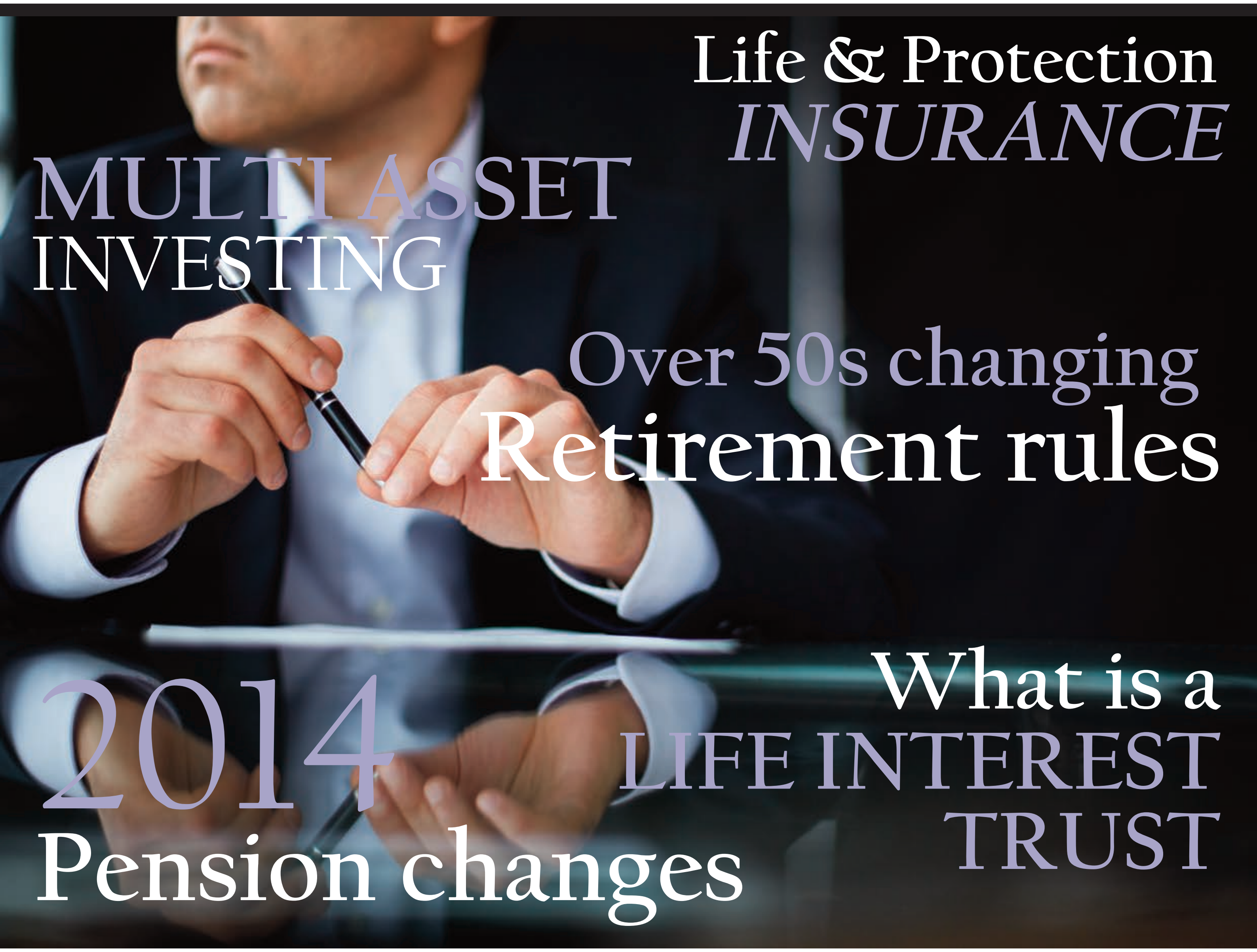

● Lifestyle Protection ● Creating Wealth ● Tax Rules ●

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Junior ISAs

A boost to Junior ISAs

On 1 July 2014 the Junior ISA allowance increased on to its highest ever level of £4,000 per tax year.

Children have a significant advantage when it comes to investing - time. When investing for a child there is sufficient time to ride out the highs and lows of the stock market. Most importantly time allows the power of compound returns to take effect.

Even small amounts invested regularly can build up a substantial nest egg. Assuming a growth rate of 7% a year (the average growth provided by UK shares over the past 20 years) the table below shows how even a small monthly amount could add up to a significant sum over time. Of course, the stock market will perform differently in future, and the value of the Junior ISA at age 18 will depend on the performance of the underlying investments chosen. Please remember that inflation will reduce the buying power of capital over time.

All investments can fall as well as rise in value so you could get back less than you invest.

The new allowance of £4,000, or £333.33 per month could be worth an extra £9,681 over 18 years when compared with last tax year's allowance of £3,720.

This is just an illustration, not a projection of what your child might receive. It is likely that tax rules and the Junior ISA allowance will change while your child grows up, and the benefits of the tax shelter will depend on personal circumstances.

How to choose the best Junior ISA

In order to maximise the potential growth of your child's investments, it is important to select the right Junior ISA provider, your professional financial adviser can help you find the right one.

What if my child has a Child Trust Fund?

Unfortunately not every child is eligible for Junior ISAs, they are presently not available for children who hold a Child Trust Fund. The problem is that many CTF products often have higher charges, lower interest rates and less choice than their Junior ISA equivalents.

It is believed, that in the future, the government is going to change the rules to allow those children with Child Trust Funds (CTFs) to be able to transfer them to Junior ISAs.

	£50 per month	£100 per month	£333 per month
5 years	£3,560	£7,120	£23,708
10 years	£8,553	£17,105	£56,960
18 years	£21,046	£42,092	£140,166

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Alternative ways to save for retirement

HM Revenue & Customs' new lower lifetime pensions allowance will catch out many middle-to-high earners, to the tune of up to a 55 per cent tax bill. So what are the alternatives to pensions as savings vehicles for retirement?

There are believed to be approximately 360,000 people (according to latest HM Revenue & Customs' estimates) who are liable for a tax bill which is equivalent to several year's salary if they exceed the new lower lifetime pensions allowance, which is being cut from £1.5m to £1.25m, the new maximum permitted tax-exempt pension fund you can build up over your lifetime.

What are the options now? There is a broad choice of attractive alternative investment vehicles and tax wrappers to choose from, but you need to assess their suitability in relation to your own particular pension pot.

Spouse / civil partner pensions: Contributing to a pension for a spouse or civil partner can yield a valuable return. If your spouse is employed you can pay up to the higher limit of 100 per cent of their salary or £3,600, less any contribution already being made by your spouse. They will receive tax relief on the contribution and the 'gift' will be covered by the spouse exemption for Inheritance Tax.

Capital Gains Tax: Use your annual exempt allowance for Capital Gains Tax (CGT) every year otherwise its gone for good. Realising capital gains on mutual funds on an annual basis ensures that you maximise the benefit of your CGT annual exempt allowance all the time.

Fill the gaps in tax wrappers: Re-route money that can't go to the pension fund by making sure you use all your tax wrapper limits. High-risk investors may want to look at Venture Capital Trusts, for example.

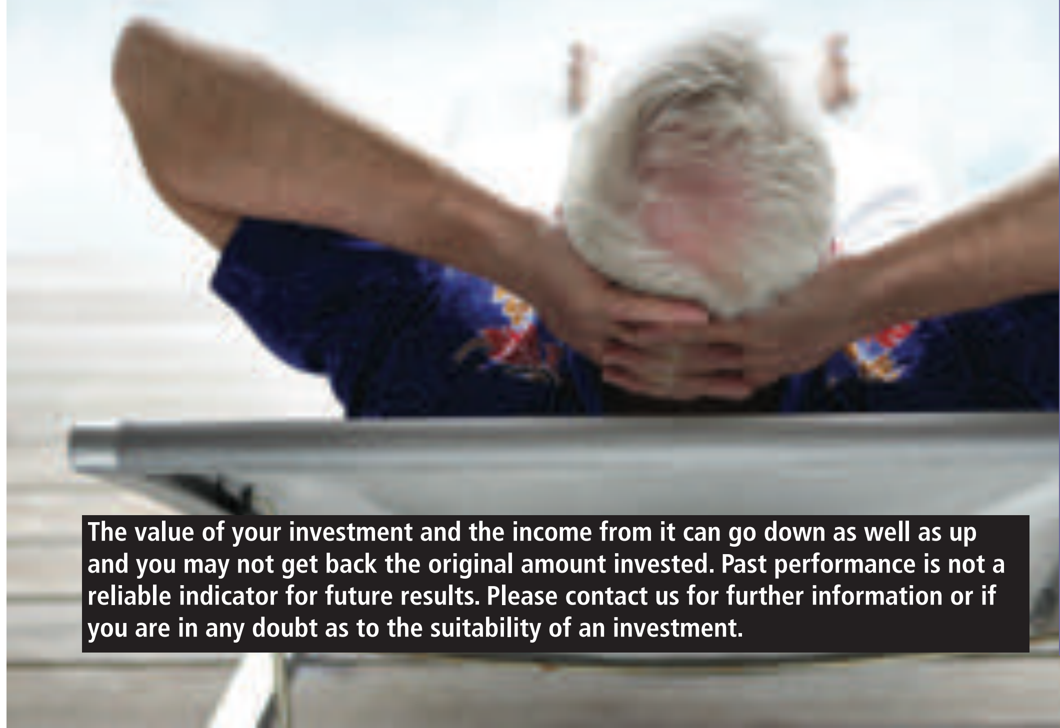
Defer tax offshore: Tax deferred can be tax saved, if it is done correctly. If you are a higher rate taxpayer now, it can be tax-efficient to invest through an offshore bond. Tax is not due until the funds are drawn from the bond, so by planning ahead you can take the gains when paying less tax in retirement, or assigning to a non-taxpayer.

Diversification reduces tax exposure: Spreading your investments across assets that are subject to income tax, instead of those that are primarily subject to capital gains tax, puts you in a stronger planning position for any variations on either or both of these categories that may be introduced at a later date.

Maximum Investment Plans (MIPS): annual payments for a period of 10 years or more are on the increase as alternative investment vehicles to pensions because they mirror a saver's contributions to a pension, generally over a shorter time frame. Payments incur a low tax rate and the fund matures after a set period, typically 10 years.

Because the initial investment is protected, it works like a short-term endowment that doubles as a life assurance policy.

Retail Bonds: Retail Bonds are loans that individuals can make to businesses, including blue chip companies like Tesco Personal Finance or RBS and these are becoming increasingly popular investments. The advantage is, they have a fixed maturity date, so you can buy a bond knowing how much income it will pay each year at an annual average return somewhere between 5-6 per cent. You also know when your capital will be returned.



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LIFETIME ALLOWANCE

From April 2014 the maximum amount that you can hold in your pension during your entire life dropped from £1.5m to £1.25m. Therefore, anything that you have in your pension pot over the limit will be subject to a 55% tax charge.

Let's say you currently have a pension pot of £1.47m. This means that you will be over the new limit by £220,000. That amount will be taxed at 55%. £220,000 X 55% = £121,000.

The government introduced two methods of protection.

Fixed Protection

Fixed protection will enable you to secure maximum benefit of the greater of £1.5m or the Standard Lifetime Allowance. If the legislation changes in the future and we see a rise in Lifetime Allowance then you will benefit from that. You had to apply by the 5th April 2014 and the protection will be lost if any further contributions are made or if there are any further benefits accrued after that date.

Personalised Protection

Personalised protection means that the maximum benefits for the member will be the greater of an individual's pension rights on the 5th April 2014and the Standard Lifetime Allowance.

2014 pension changes and you

As of April 2015 investors aged 55 and above will be able to take their pension either by a secure income, a flexible income or even just cash, the decision is theirs. The age you plan to start drawing your pension will determine how you will be affected by the new rules and what actions you might consider in the short and long term.

Investors planning to retire within the next 12 months

Investors who plan to retire soon are the most affected by the new pension rules.

Waiting for the "kick-off" in April 2015 is an option, but that means you will not receive any tax-free cash and/or income from your pension for another eight months at least. It is also currently unclear when the pension providers will grant the freedoms of the new rules.

If you would like to take money from your pension now, there are some options you could consider.

1: You could buy an annuity now

If you want the security and simplicity of guaranteed income, you could consider buying an annuity now. After you've taken any tax-free cash, in most cases, up to 25% of your pension, you can buy an annuity with some or all of the balance.

2: You could take tax-free cash and some income from your pension now

If you want to take tax-free cash and maybe some income, you could opt for income drawdown, as a bridge. It is a stop-gap solution for investors, aged at least 55 who do not need secure income yet and want to keep their options open.

- **Take up to 25% tax-free cash.**
- **Take an income if you want:** from no income up to the limits set by the government, which are currently between 7% and 12% of your pension fund, depending on your age.
- **Benefit from the new rules from April 2015:** when the income limits are removed (April 2015) you can benefit automatically and make unlimited withdrawals if you wish.
- **Keep your fund in cash for the short term or invest for the long-term:** your pension fund can be held in cash until April 2015 to protect its value, gaining only a small amount of interest. Alternatively, you can choose your own investments, as cash alone is not likely to be an appropriate long-term solution.
- **No tie-ins:** freedom to buy an annuity at any time, or choose to stay in income drawdown and invest for the longer term.
- **Flexibility on what happens to the pension if you die:** the fund can be passed on to your dependants when you die, including a continuing income or a lump sum, which is currently subject to 55% tax. These options are more flexible than an annuity, but not as flexible as those available if you don't go into drawdown, particularly the tax treatment of death benefit lump sums.
- **The Retirement Bridge is flexible:** it could be a practical solution to tide you over until April 2015. There are, however, several factors and risks you must consider carefully before deciding if it is right for you.

Investors years from retirement: impact of the pension changes

Investors years away from retirement are going to have two main concerns.

1. Will their pension provider allow them freedom at the point of taking an income.
2. They want to be sure of having all the tools they need to make the most of their pension in the meantime.

History shows that when pension rules have changed, some providers have not offered the new options at all and some have but only after a delay. Could this be the case this time round?

Addressing this issue of ensuring you have the tools to make the most of your pension, you will need to be able to control your pension and have investment choice.

- **Control:** can you check your pension value and performance easily? Does it offer online access? Can you switch investments quickly?
- **Investment choice:** apply 'lifestyle' strategies. These move people's pensions into bonds as they approach retirement, in the expectation they will buy an annuity. If your pension is invested in such funds and you plan to use the pension freedom available from April 2015, you may want to check your pension investments are still fit for purpose.

If you believe your current pension plan is not up to date and want to make the most of the changes, you may want to consider a pension that provides the tools you need.

Pension reforms confirmed on 21 July 2014 give investors unprecedented freedom over how they use their money from their pension pots.

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What should I invest in?

Which is the right investment vehicle for you to consider? As each has its own features, choosing the one - or even two or three - that's right for you could bring additional benefits to your investment strategy.

SHARES

If you invest directly in shares you are holding a small part of a company and will benefit financially if it is successful, through an increase in the share price or by dividends.

Shares are purchased through a stockbroker or an online share dealing service and charge around £10 plus stamp duty of 0.5 per cent of your investment. However, shares listed on the Alternative Investment Market (AIM) are free of stamp duty from 6 April 2014.

Advantages

- You can choose which company shares to buy.
- As a shareholder you usually have the opportunity to vote on some company decisions.

Disadvantages

- Lack of diversity - unless you hold a portfolio of shares your investment is concentrated in one company.
- Dealing charges can make this an expensive way to invest if you are a small investor.

INVESTMENT FUNDS

Funds such as unit trusts and Open-Ended Investment Companies (OEICs) are collective investments which allow investors to pool their money together to create a large fund that invests across a range of different shares and/or other assets such as bonds or property. This is run by a professional manager in line with the fund's objectives.

You buy units with minimum investments as low as £500 or £25 a month, and there are no restrictions on when you sell. Charges vary depending on the type of fund, but are typically an initial charge of up to 5 per cent with an Annual Management Charge (AMC) of up to 1.5 per cent.

Advantages

- Instant diversification without a large upfront investment by you
- Investment decisions are taken by an experienced financial adviser
- Thousands of funds to choose from investing in equities, bonds and property as well as other types of assets

Disadvantages

- Management charges can be high.
- The manager doesn't always get it right.

INVESTMENT TRUSTS

An investment trust is a form of collective investment, you buy shares in a company, which then uses the money raised to invest in a range of assets on your behalf.

There are some key differences between trusts and funds. Trusts are more sophisticated, and therefore slightly riskier, investment than funds.

Investment trusts are able to borrow money, known as gearing, which can help to increase profits but can also magnify any losses in a falling market.

Additionally they are closed-end. This means that a finite number of shares are available, so the share price will be affected by supply and demand as well as the value of the underlying assets. This means the shares can trade at a discount or a premium to the net asset value.

Advantages

- Instant diversification without a large investment.
- Gearing means gains can be magnified, although the same also applies to losses.
- Normally lower annual management charge than an equivalent fund.
- Returns can be enhanced if you buy on a discount and it narrows as the trust becomes more popular.

Disadvantages

- Dealing charges can make this expensive for a smaller investor.
- More sophisticated and potentially more risky investment than a fund.

PENSION FUNDS

A pension fund operates exactly the same as a fund, a manager investing according to the fund's objectives, but because it is a wrapper specifically for pension investments, there are some important tax advantages.

Subject to earnings and the annual "lifetime pension allowance", anything paid into a pension fund receives tax relief at the basic rate, effectively topping up an £80 contribution to £100. Higher-rate taxpayers receive tax relief at their highest marginal rate. Additionally, although you cannot reclaim the 10 per cent tax credit on dividends, all income and gains in the fund are tax-free.

However when you come to take benefits, either as an annuity or when drawing income from a personal pension, these are subject to income tax.

Advantages

- Instant diversification.
- Tax breaks.

Disadvantages

- Money cannot be accessed before age 55.

VENTURE CAPITAL TRUSTS

A venture capital trust (VCT) is a trust which invests in fledgling companies that are looking to develop their business. The nature of these companies means that this is a higher risk investment.

Due to the risk there are a number of tax incentives to encourage investment. These include tax-free income, dividends and gains and an income tax rebate of 30% of your initial investment into new VCT shares, providing you have paid sufficient income tax that year and you hold the shares for at least five years.

Advantages

- Generous tax breaks.
- Opportunity to invest in very small companies.
- Income payouts make them very attractive for retired investors.

Disadvantages

- Higher risk and more suited to sophisticated investors.

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Life & Protection Insurance

Whether it's dealing with the loss of a loved one or the consequences of coping with a serious illness, accident or unemployment, it is comforting to know the financial worries are taken care of. Most of us don't think twice about insuring our car or home, we even make sure our pets and holidays are covered. So why don't we feel the same about protecting ourselves and our loved ones? It's therefore sensible to consider how you would protect your finances and those of your family if the worst were to happen.

LIFE INSURANCE

Life Insurance also known as Life Assurance helps provide financial security for your loved ones, should you die.

WHY YOU MIGHT NEED IT

It will provide for those left behind to cope financially. For example, it could pay off the mortgage or provide an income to cover regular household expenditure.

TYPES OF LIFE INSURANCE

There are different types of Life Insurance; the most appropriate for you will depend on your circumstances. Life Insurance pays out either a single lump sum (sum insured) or a regular income when you die.

Whole of Life Insurance: Whole of Life Insurance pays out a lump sum when you die, whenever that is, as long as you are still paying the premiums.

Term Insurance: This is the simplest type of Life Insurance. You choose how long you're covered for, eg. 20 years (the term), and the policy pays out if you die within the agreed term. You can also take out term cover as a couple, with the policy paying out on the first death only during the term. There are several different types of policy:

- **Level:** The amount of cover and premiums remain the same
- **Decreasing:** The amount of cover gradually reduces. Generally used to protect a repayment mortgage where the amount of the loan outstanding reduces each year
- **Increasing (or Index-linked):** The amount of cover and premiums gradually rise in line with inflation
- **Renewable:** You can extend the original term of the policy
- **Convertible:** Lets you convert the policy to Whole of Life Insurance
- **Family Income Benefit Insurance:** This is essentially the same as Term Insurance, but instead of paying a lump sum when you die, it will pay out a regular income instead. This type of payment may be more suitable where the main purpose of the policy is to provide ongoing financial support to dependants.

SERIOUS & CRITICAL ILLNESS INSURANCE

Serious and Critical Illness Insurance often comes as an optional addition to a Life Insurance policy, but can also be purchased on its own. Serious Illness and Critical Illness Insurance plans pay out a tax-free lump sum on the diagnosis of a range of serious (but not fatal) conditions including heart attack, stroke, cancer and major organ transplants plus many other conditions. The conditions covered will vary depending on the insurer.

Policies usually pay out only once, so they don't replace your regular income and you can use the money towards anything you choose.

WHY YOU MIGHT NEED IT

People buy Serious and Critical Illness Insurance when they take on a commitment, like a mortgage, or start a family, for security as the cover is there at any time.

REPLACING AN EXISTING CRITICAL ILLNESS POLICY

If you already have Critical Illness Insurance you should carefully consider all aspects before you cancel your existing policy and take out a new one.

For example, if you've developed any illnesses since you first took out the policy, you may lose some of the benefits when you replace it. That's because pre-existing medical conditions may not be covered by the new policy.

Recent advances in the treatment of certain conditions, such as cancer, may also have an effect, as a new policy might be more restrictive than an older one when it comes to paying claims for certain conditions.

INCOME PROTECTION INSURANCE

Income Protection Insurance pays out a regular tax-free replacement income if you become unable to work because of illness, injury or with certain policies, unemployment. It could help you keep up with your mortgage repayments, rent, loans and general living costs until you are able to return to work. Cover can be purchased that will pay you a monthly income either until your planned retirement age, or for a limited amount of time.

WHY YOU MIGHT NEED IT

If you become ill or suffer an injury during your working life, an Income Protection policy can help protect against any possible loss of income.

OTHER TYPES OF PROTECTION INSURANCE

Payment Protection Insurance and Short Term Income Protection Insurance (along with Mortgage Payment Protection Insurance and Accident, Sickness and Unemployment Insurance) can provide a monthly income to help cover your outgoings if you can't work due to an accident, illness, injury or, often as an optional extra, unemployment. There are key differences between these products and Income Protection Insurance, the main one being that they will only pay a replacement income for a limited time, usually 12 or 24 months. In contrast, Income Protection Insurance will pay out for as long as you are unable to work or the policy expires, although shorter payment periods are available from some insurance companies which reduces the cost of these plans.

WHAT ELSE DO I NEED TO KNOW?

WHAT COVER WILL I NEED AND HOW MUCH WILL IT COST?

This will depend on your own personal circumstances, but to calculate an appropriate level of cover, considering things like:

- Your mortgage and/or any other outstanding loans
- Your current income and household expenditure
- Any childcare needs if you or your partner were to die or suffer serious illness or injury

Clearly, the higher the level of cover you decide you need, the more it will cost. Your age, medical history and occupation are among other factors that will also have an effect. Premiums are presently extremely good value and many people are surprised at how affordable cover can be.

WRITING YOUR LIFE INSURANCE IN TRUST

A Trust is a legal document that allows you to specify what will happen to your money after your death. If your Life Insurance policy is written in Trust, any payout will go to the Trustees who will ensure the funds are distributed to the correct beneficiaries.

A Life Insurance policy that has been written in Trust does not form part of your legal estate and is not subject to Inheritance Tax, allowing more of your money to pass to your beneficiaries. Life Insurance companies also tend to pay the money out much quicker under these circumstances, making things easier financially for your family.

If your partner is your beneficiary, Life Insurance payment would be exempt from Inheritance Tax under current rules. So it can be worth putting your Life Insurance in Trust to ensure payment is made as quickly as possible.

KEEPING YOUR COVER UP-TO-DATE

You should always review your level of Protection Insurance regularly. Getting married or moving in with a partner, buying a home, having children or changing your job can all have an impact on your financial needs.

LOOK BEYOND THE PRICE

It's often tempting to opt for the cheapest policy available. But it is important to keep in mind that whilst many products may look the same, there can be important differences. This is particularly important with Serious/Critical Illness Cover and Income Protection Insurance, where the cover available from different providers varies more significantly.

Even if you already have Life and Protection Insurance now, it's still worthwhile reviewing your current cover levels as personal circumstances can change regularly so it's important to ensure your level of cover is adequate.

JARGON BUSTER

Beneficiary
The individual named in a Life Insurance policy to receive the funds paid out on the death of the Insured.

Decreasing Term Assurance
The sum insured steadily decreases over the course of the insurance term. It's traditionally used to cover the reducing balance on a repayment mortgage.

Exclusions
Circumstances under which the policy won't pay out, be they standard exclusions (eg. death due to alcohol or drug abuse) or specific to you (eg. related to your medical history).

Guaranteed and Reviewable Premiums
The cost of premiums can either be guaranteed throughout the term of the policy, or reviewed at regular intervals by the insurer (which means they may increase).

Increasing (or Index-linked) Cover
A convenient way to compensate for the adverse effects of inflation over the life of the insurance policy. Increasing (or Index-linked) Cover involves both the sum assured and the premiums payable being increased in line with inflation, typically by being linked to a known inflation measure, such as the Retail Price Index (RPI), or a pre-determined fixed percentage.

Policy
The legal document that states all the details and terms of the insurance cover provided.

Policyholder(s)
The individual or couple that owns an insurance policy.

Premium
The amount you need to pay to the insurance company for your cover.

Renewable Term Assurance
Gives the policyholder an option to renew the insurance at its expiry date without having to provide a medical report.

Waiver of Premium
An optional policy cover that provides continued cover (without further premium payment) if you become unable to work due to injury, sickness or unemployment.

Company Pension Schemes

Workers who believe they are too old to save in a company pension are missing out on the chance to triple their money. Automatic enrolment really is for you!

Thousands of workers in their 50s and 60s have rejected the opportunity to join new company pension schemes because they think they are so close to retirement that the savings won't make any difference.

However, new pension reforms mean they could effectively get as much as a 258 per cent boost to their contributions in just a few years and take out all their money tax-free.

Two years ago, firms started enrolling all workers automatically into a pension scheme. This began with the biggest firms; by 2017, all employers will have to do this. Employees don't have to do anything to join, they can opt out.

Once enrolled by your employer, your contributions are deducted from your payslip. Your employer contributes to your pension fund, too, and there is added tax relief from the Government.

Some people have opted out because they believed the amount they could save would be so small it would make no difference to their retirement income, but two things have changed since people made the decision to opt out: the amount of income you can earn before paying tax; and new pension rules, which allow you to take all your money in cash.

It means, in effect, that retiring workers could draw all their money out of the company pension scheme and not pay a penny of tax.

So how does it work?

A worker enrolled in an automatic company pension saves 0.8 per cent of their salary, 80p for every £100 of earnings. Their employer adds another £1. This gives a total of £1.80 on the employees' contributions.

Paying into a pension, you get back the tax you had paid on those earnings.

So, if you pay in 80p, the Government adds 20p to return the 20 per cent income, on a basic rate taxpayer. So your £1.80 is now £2.

Also, because your money is invested, it grows with the stock market. Assuming a rate of 5 per cent a year and earning £24,000 today, an increase in contributions in 2018, a small pay rise every year and 5 per cent annual growth, at these rates, a 55-year-old could build up a sum of £14,134 by the age of 65.

Of this, £5,479 would be their own money, £4,315 from their employer, £1,370 tax relief and £2,970 investment growth. Amounting to a rather nice 258 per cent increase on the amount they put in.

A 60-year-old could save £5,383. That's £2,556 from their own money, £2,181 from their employer, £639 tax relief and £631 investment growth, a 210 per cent boost.

When you draw money from a pension, you can take 25 per cent tax-free, but the rest is taxed at your normal rate.

But everyone gets £10,500 a year before paying tax from April 2015.

The current state pension of £113.10 is worth about £5,888 a year, while the new flat-rate state pension will be worth about £155 a week when it is introduced in 2016, which makes that £8,060 a year.

Meaning that even with the new state pension, you can have £2,440 a year extra income tax free.

Every three years, workers who initially opted out of automatic pensions are put back into the scheme.

Over-fifties
changing the retirement rules

It is wrong to use the term "Baby Boomers", after all there are more people in the UK now than at any other time, but there is a golden generation of the over 50s who are leading a social revolution by redefining retirement and old age.

This 50 plus generation will force companies to recognise the benefits of a gradual and phased withdrawal from the workplace, rather than a sudden cut-off retirement date.

The change was being driven by people living longer with healthier lifestyles, along with poor pension prospects for those heading towards retirement age, said Ros Altmann, a former director general of Saga.

The traditional models of retirement should not be something to which people should aspire, particularly if they have small pension pots and many years of doing nothing ahead of them, she said.

There is a social revolution under way, which is being led by the over 50s, who have redefined everything throughout their lives, particularly around the world of work. They are now going to redefine retirement.

One third of the British population is now over 50, these people are the wealthiest, healthiest and most active people in that age group in history. By 2030 the number of people aged above 60 will reach 20 million, according to official figures.

The initiative to ensure that more older people remain at work is not only being driven by the Government but by demographic changes, which estimate that in the next ten years there will be 700,000 fewer people aged 16-49 in the labour market, paying less taxes, but 3.7 million more people aged between 50 and the state pension age.

The consequences of diminishing future revenues for the Government will have an impact within the workplace, housing and urban areas, experts have said.

Ms Altmann, appointed last month as the older workers' champion, told *The Times*: "There is a whole new phase of life up for grabs. It is a phase that is after full-time work, where you ease yourself into your later age rather than reach a specific chronological date and your working life is over. Retirement will become a process rather than an event."

She added: "In general, why would you want to stop working, stop using your talents and have a lot less money to live on?"

A recent report highlights how age no longer defines the lifestyle of the over-50s. It says that with fitter bodies, more active minds, higher levels of self-entrepreneurship and fewer worries about what people think of them than previous generations of over 50s, they are increasingly the face of fashion, design and beauty.

The study by The Future Laboratory consultancy, commissioned by the Huawei technology company, said that a "second life" is awaiting the over-50s, during which they will start second or even third careers, by setting up craft-based businesses.

The report highlighted a Nuffield Health Study, which found that gym use reached a peak at the age of 66, with gym visitors of that age working out an average of twenty times more per year than teenagers.

It is widely believed that retirement for the over-50s, now encourages them to push on rather than slow down, to start new enterprises like businesses or careers, to invest and seek adventure, all with experience and confidence.

One third of the British population is now over 50, these people are the wealthiest, healthiest and most active people in the age group

What is a Life Interest Trust

A Life Interest Trust (LIT), also known as an Interest in Possession Trust, is a document that names one or more beneficiaries to an estate and their entitlement to an income from assets held in trust over their life time. This person is called the "Life Tenant". If the asset is a house or property, the Life Tenant is entitled to the rental income on the property if it is rented out, or to live in the property if they choose. However, a Life Tenant is not entitled to receive any of the remaining capital from the Trust.

How many beneficiaries can there be?

The Trust can name many beneficiaries who are entitled to the assets in the Trust once the Life Tenant has died. They are known as Residuary Beneficiaries or Remainder men. However, while the Life Tenant is alive they do not receive anything from the Trust unless the Life Tenant agrees to a distribution of the assets.

Who is protected?

Whilst a Will benefits most, circumstances can change. LITs are designed to protect the children of a marriage or Civil Partnership in the event that one partner dies and the other remarries. If the Will has not been rewritten, once the second partner has passed on, the entire estate will pass to the surviving partner. By drawing up a Life Interest Trust, the children of the original partnership are guaranteed to inherit at least some of the estate. While a Will gives the surviving partner a life interest in his or her share of the property, a LIT ensures that other members of the immediate family are not denied any inheritance that the original partnership entrusted to them.

Is a Life Interest Trust flexible?

Specific requests or instructions can be made on a Life Interest Trust. As a Trust is overseen by Trustees, you can give them specific instructions as to how you would like the Trust to be managed.

- By giving the Trustees the power to provide or lend capital from the estate to the Life Tenant at their discretion, with a property.
- Where a property is involved, you can specify that if the Life Tenant wants to vacate the property they can then direct the Trustees to sell that property and buy another for the Life Tenant to occupy, providing the sale and purchase value is acceptable to the trustee.
- You can give specific instructions as to how you would like any capital in the Trust to be invested.

Tax issues

A Life Tenant is viewed by the Treasury as owning all of the assets held in Trust. Therefore, if the assets are higher than the Inheritance Tax threshold, the Life Tenant will be responsible for paying any taxes due on the estate. There are no Inheritance Tax benefits to LITs.

Any income or rent from the Trust belongs to the Life Tenant and is therefore taxed according to the beneficiary's personal income tax rate. No additional income tax is paid by the Trust.

Should the assets held in Trust increase in value (a property for instance) then Capital Gains Tax may be owed when the property is sold. The Trust will have an annual allowance that can be used to offset the gain. Property that is occupied by the Life Tenant is not taxed.

A major advantage of the LIT is that it protects the assets in the Trust from being used up during the lifetime of the Life Tenant. Therefore, if a Life Tenant needs full time nursing home care, the local authority cannot take the assets in the Trust to pay for the care of the Life Tenant.

A Life Interest Trust is particularly useful if a couple has children and want to make sure that they benefit from the estate of either partner. The LIT is a complex document and normally forms part of a Will, so it is best to talk to an expert if you are thinking of creating a Life Interest Trust.

Multi-Asset Investing

Spreading the risk

The banking crisis events of the past 7 years have made investors very aware of the risks posed by market volatility. Investing always carries a risk, but there are ways to help reduce it.

One of the most effective strategies is called "multi-asset investing".

Why does multi-asset investing work?

The principle is to invest in a variety of assets, each of which reacts differently to changes in the economic and market background. A drop in the value of one asset class may then be offset by increases in other asset classes, leading to a smoother overall performance.

To understand this strategy better and to show how difficult it is to second guess what might happen, look at the example of European Equities.

- Between 2003 and 2007 it occupied the number one or number two spots with positive growth for five successful years
- 2008, this asset class was the second worst performer suffering a huge fall
- 2009, it recovered to be the second best performer
- 2010, European Equities was the second worst performer and then became the worst performer in 2011
- 2012, it rebounded again to be the top performer
- 2013, European Equities remain strong being the second best performer

Source: Threadneedle, Datastream and iBoxx, in GBP as at 31 December 2013

Spreading your investments across multiple asset types can help reduce the risk. Whatever your level of investment experience it is always prudent to get advice from your professional financial adviser.

MISTAKES

1. PUTTING ALL YOUR EGGS IN ONE BASKET

Investment experts agree that investing in just one company, asset class, product or region can be very risky. You need to invest in a range of asset classes from equities to bonds and across different regions from the UK to Asia so if one investment goes bad you won't lose everything.

If you have a separate pension, remember to check what it's invested in so your new portfolio isn't too similar.

2. BACKING LAST YEAR'S WINNERS

The top-performing assets one year can continue to do well or they could just as easily crash the following year.

Asset classes bounce around from top to bottom in the performance tables every year. Unless you can devote the time to study the markets in great detail, a multi-manager or multi-asset fund is often a wise choice.

3. LEAVING INVESTMENTS TO THE LAST MINUTE

If you're investing in an ISA, invest earlier rather than later in the tax year to give your money more time to grow in the market over the long run. This will also give you more time to think about what to invest in. Avoid investing in haste. Don't invest in the first thing you're told about.

4. SWITCHING TOO OFTEN

Switching too often becomes a tax on investments due to the costs of buying and selling. You should invest for the long term; at least five years if you're investing in equities. Avoid high turnover, if you deal too much, turnover is a tax on investments.

5. BEING SWAYED BY ADVERTISING

Investment firms have big budgets and love to advertise their latest funds everywhere. One of the biggest mistakes beginner investors make is buying fad investment funds and getting suckered into investing in a brand new investment fund just because a lot of money has been spent on advertising.

The value of your investment and the income from it can go down as well as up and you may not get back the original amount invested. Past performance is not a reliable indicator for future results. Please contact us for further information or if you are in any doubt as to the suitability of an investment.

Self-Assessment

All Self Assessment taxpayers have to meet several important deadlines throughout the tax year or they could incur penalty charges. Here is our useful guide to this year's Self Assessment deadlines.

Filing Your Tax Return

There are generally three deadlines for filing your Self Assessment Tax return. Which of the three you should use depends on the filing type of tax collection you choose.

You must ensure HM Revenue & Customs (HMRC) receives your completed return by midnight on 31 October 2014, if you choose a paper return.

However, if you decide to file your tax return online, you gain more time than paper filing, it must reach HMRC by midnight on 31 January 2015. Remember that you will need a Government Gateway username and password in order to file online, and this could take around a week to arrive in the mail. So be sure to leave yourself enough time before the deadline.

If you owe less than £2,000, and you want HMRC to collect your tax through your Tax Code, you will need to submit your tax return online by 30 December 2014. If however, HMRC is unable to alter your tax code, you may still be required to file again by 31 January 2015.

Making a Payment

As with filing there are several payment deadlines throughout the year. The most common is 31 January 2015, on which you may need to make several different payments.

The first being the balancing payment, this is, the tax you owe for the previous tax year. If you made payments on account in the previous year, it is likely you have paid some of this tax. You may also have to make the first payment on account. This will normally be 50 per cent of your previous tax bill; excluding student loan repayments and Capital Gains Tax.

The second payment deadline is 31 July 2015. On this date you will be required to make your second payment on account, which is normally the second 50 per cent of your previous tax bill.

Financial Penalties

Legally you have to meet the Self Assessment deadlines. If you fail, you will receive the following financial penalties:

1 day late – A £100 penalty charge.

3 months late – A £10 charge for each following day, up to a 90 days (maximum of £900).

6 months late – A charge of £300 or 5 per cent of the tax due, whichever is the higher.

12 months late – A charge of £300 or 5 per cent of the tax due, whichever is the higher. In serious cases, you may have to pay up to 100 per cent of the tax due instead.

However, you may not have to pay a penalty if you have a supportive reason for missing the deadline. These could be:

- You have a life-threatening illness that has prevented you from completing your Self Assessment Tax return.
- You have experienced technical problems with the online service.
- Your documents have been lost in a fire, flood or theft.
- Your partner has died shortly before the deadline.

Should HMRC accept your reasoning for late filing, they may reduce or decide not to pursue the fine.

For more information on any subject that we have covered in this issue, or on any other subjects, please tick the appropriate box or boxes, include your personal details and return this section to us.

- ☐ Financial wealth check
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