FinancialLandscape

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Keeping it in the family

ISA subscriptions now available to a surviving spouse

Last year, the Chancellor announced a significant change to Individual Savings Account (ISA) inheritance rules – a change that has the potential to improve the situation of around 150,000 widows or widowers a year.

TAX-EFFICIENT STATUS

When an investor passes away, the savings in their ISA lose their tax-efficient status, and whoever inherits the ISA investments (often the surviving spouse) starts paying tax on any income or returns received from the investments held within the ISA.

Under the new rules, additional ISA subscriptions are now available to a surviving spouse or registered civil partner where the ISA holder passed away on or after 3 December 2014. This applies whether or not they inherit the deceased's ISA.

ADDITIONAL PERMITTED SUBSCRIPTION

This comes in the form of an Additional Permitted Subscription (APS) ISA allowance (additional to their personal annual ISA), equal to the amount that was held in the ISA on the day the holder died.

These changes mean that the APS ISA allowance is now available to their spouse or registered civil partner, even if they are not resident in the UK.

NEW INVESTMENT OPTIONS

This APS can be invested in either stocks and shares or cash. If you stay with the same ISA provider as your spouse, you can invest the cash value in the investments available to you or use the assets that they held in their ISA as an 'in specie' subscription (a transfer of assets from one person to another without those assets being sold), assuming that you inherit those assets.

The additional allowance can also be transferred between ISA providers, but you will need to select from the new provider's investment options (the in specie option will not be available). However, it is important to note that this additional allowance has to be used within a specific time limit.

TAX-EFFICIENT SAVINGS

Significantly, these allowances are available whether or not the surviving spouse or registered civil partner inherited the deceased's ISA assets, so even if a spouse decides to bequeath the investments held within the ISA to an alternative beneficiary – perhaps passing them on directly to children or grandchildren in their will – their surviving spouse will still benefit from the equivalent worth of tax-efficient savings potential.

So while ISAs don't currently offer the upfront tax relief of pension schemes, the ability to make withdrawals and take a tax-efficient income means they can play a valuable part in retirement planning. ■

Source data
www.gov.uk

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

AN INTEGRAL PART OF YOUR RETIREMENT SAVINGS

Now that there is arguably much greater flexibility to move money between types of ISA – and the ability to pass the tax savings on to a spouse or registered civil partner – many more investors may choose to make ISAs an integral part of their retirement savings. To discuss the options available to you, please contact Carpenter Rees on 03330 100777 or email hello@carpenter-rees.co.uk.

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Carpenter Rees
Financial planning for people and business.

Investing for success

Achieving your goals by weighing the potential risks alongside the prospective returns

Successful investing involves making choices that meet your unique needs today and your financial goals for the future. A well-defined investment strategy is one of the cornerstones of a successful financial life. Investing is about building wealth slowly rather than getting rich overnight.

It's important to have a solid, dependable core to your portfolio and to consider an equity income strategy where reinvesting dividends compounds your returns over time.

While investment techniques vary widely, all good strategies are built on the same foundation. The principles for investing over the long term require holding a portfolio of investments and weighing the potential risks alongside the prospective returns.

TAKING A LONG-TERM VIEW

An investor who puts money aside over the long term for the proverbial rainy day is far more likely to achieve their goals than someone looking to 'time the market' in search of a quick profit.

The longer you invest, the greater the potential effect of compound performance on the original value of your investment. Many investors will be familiar with the term 'compounding' from owning cash savings accounts. The term refers to the process whereby interest on your money is added to the original principal amount and, in turn, earns interest. Over time, compounding can make a significant difference.

Your investments can also benefit from compounding in a similar way if you reinvest any income you receive, although you should remember that the value of stock market investments will fluctuate, causing prices to fall as well as rise, and you may not get back the original amount you invested.

SPREADING RISK – THE IMPORTANCE OF DIVERSIFICATION

Shares, bonds, property and cash react differently in varying conditions, and opting for more than one asset class can help to ensure your investments won't all rise or fall in value at the same time. Holding a portfolio of investments with a low level of correlation can help to diversify your investments when investing in individual assets and markets, as well as protecting you from less visible hazards such as inflation risk – the possibility that the value of assets will be adversely affected by an increase in the rate of inflation.

Geographical exposure and long-term investing are other ways of spreading risk. Investing in vehicles such as Open-Ended Investment Companies (OEICs) can remove a lot of the difficulty associated with managing a broad portfolio. It's important that you aim for a level of risk you are comfortable with which reflects your investment objectives.

UNDERSTANDING YOUR INVESTMENTS

While a well-constructed portfolio should generate a healthy return for investors, the opposite is also true. It's easy to incur permanent losses by putting money into an asset that behaves in an unexpected way. Investors should always set aside time to try and understand what it is they want to hold.

DON'T JUST GO WITH THE FLOW

As we saw to great effect in 2008 following the collapse of US investment bank Lehman Brothers, unexpected or adverse newsflow can have a significant effect on stock market performance. More recently, the crisis in Greece may well present broader opportunities in European stocks for investors willing to take on a certain level of risk. The same goes for China. Indeed, there have been times when highly cash-generative, defensive businesses capable of creating value in a range of market conditions have been subjected to the same negative sentiment that has driven down the price of stocks more sensitive to economic cycles and those that are poorer quality.

FOCUSING ON THE REAL RATE OF RETURN

Inflation and taxation are factors that can affect the real rate of return on your investment. There are certain options that can reduce costs, including the use of tax-efficient wrappers, namely Individual Savings Accounts (ISAs), pension plans and employment 'save as you earn' schemes. There are also inflation-protected instruments, such as index-linked bonds (interest-bearing loans where both the value of the loan and the interest payments are related to a specific price index – often the Retail Prices Index), National Savings investments or commercial property holdings, where rents can often be increased in line with the rate of inflation. ■

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PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

MAKING THE RIGHT INVESTMENT CHOICES

To make the right investment choices, you need to ask the right questions. And when it comes to answering those questions, we can help you find the best way forward. If you would like to get a sound point of view about what may be right for your unique situation, please contact Carpenter Rees on 03330 100777 or email hello@carpenter-rees.co.uk. We'll review and discuss your financial situation, help you set goals, suggest specific next steps, discuss potential solutions and provide ways to help you stay on track.

Financial protection

If the worst happened, are you fully protected?

It's easy to think, 'I'd cope, that'll never happen to me'. But any of us could become ill, and a critical illness policy may help to give some financial security at a difficult time.

If the worst does happen, it's important to make sure you're financially protected against the impact a critical illness could have on you and your family.

NO PREVENTIVE ACTION

Research from Aviva shows that more than eight million British adults[1] (17%) admit they take no preventive action to reduce their risk of developing cancer, despite it being the most-feared serious illness in Britain.

MOST COMMON CANCER

More people are worried about being diagnosed with cancer (58%) than dementia/Alzheimer's (45%), heart disease (34%) or a stroke (32%). Women are particularly worried about being diagnosed with cancer (62% vs 54% of men), perhaps because breast cancer – which predominantly affects women – is the most common cancer[2].

SIMPLE LIFESTYLE PRECAUTIONS

Despite this, millions are failing to take simple lifestyle precautions to reduce their risk of developing the disease. Only a third say they maintain a healthy weight (37%) or do regular exercise (37%) to help prevent the disease developing. And despite overexposure to UV radiation being the main cause of skin cancer[3], less than half (46%) minimise their exposure to the sun or use a high-factor sun cream.

LACK OF UNDERSTANDING

An estimated four in ten cases of cancer could be prevented, largely through lifestyle changes[4]. However, the lack of action being taken to reduce the chance of developing the disease is partly due to poor understanding among British adults of the factors that increase cancer risk.

AMBIVALENT ABOUT CANCER

This lack of understanding is worsened by conflicting reports on the causes of cancer. More than half (54%) of British adults say they feel confused by reports of what to do and what not to do to reduce their risk. Among these, 26% say it makes them feel worried about what to do for the best, while 21% become ambivalent about cancer advice as a result.

BRITISH ADULTS POSITIVE

Positivity about the progress being made in treatments and survival rates for cancer could be another reason people are failing to take preventive measures. More than three quarters of British adults (78%) expect to see cancer survival rates improve over the next 20 years, while four in five (82%) believe cancer drugs and treatments will improve in the same period.

People are also optimistic that a cure for cancer will be found in the next 50 years, with half (50%) in agreement. ■

Source data

All percentages and figures shown in this release (unless otherwise cited) come from an online survey conducted by ICM research for Aviva UK Health. The survey was carried out in December 2015. Respondents were invited from ICM's online panel, and 2,004 interviews were conducted amongst a nationally representative sample of the British adult population.

[1] GB adult population (aged 18 and over) is 48,455,600 according to ONS census data (2011). 17% of adult population = 8,237,452
[2] Cancer Research UK www.cancerresearchuk.org/health-professional/cancer-statistics/incidence/common-cancers-compared#heading-Zero
[3] Cancer Research UK www.cancerresearchuk.org/about-cancer/causes-of-cancer/sun-uv-and-cancer/sun-facts-and-evidence#sun_facts0
[4] Cancer Research UK www.cancerresearchuk.org/about-cancer/causes-of-cancer/can-cancer-be-prevented

NEED A HELPING HAND TO ASSESS YOUR REQUIREMENTS?

Don't let medical problems become financial problems if you are diagnosed with a critical illness. For more information, a quote or a helping hand to assess your requirements, please contact Carpenter Rees on 03330 100777 or email hello@carpenter-rees.co.uk.

Creativity in finance

David Bowie's estate planning could be a lesson to us all

It's fair to say there was no one else quite like David Bowie. He was truly one of a kind, and his music helped inspire generations of people throughout his illustrious career. However, it would now seem that he could become an inspiration when it comes to estate planning too.

TAKING CONTROL

Very few musicians enjoyed lasting careers as diverse, colourful and successful as Bowie. He remained fascinating and cutting edge until the very end in ways that extended far beyond making music.

Bowie passed away from liver cancer a mere two days after the release of his latest album, *Blackstar*. Knowing that his cancer was terminal, many people believe Bowie intended his last album – featuring lyrics about mortality – to be a farewell. In fact, the song 'Lazarus' begins with the line, 'Look up here, I'm in heaven,' and ends with, 'Oh I'll be free, just like that bluebird, oh I'll be free, ain't that just like me?'

Throughout the 1970s and '80s, Bowie reportedly struggled financially, even coming close to bankruptcy. He hints at his financial difficulties, again through the lyrics of 'Lazarus', singing, 'By the time I got to New York, I was living like a king, then I used up all my money.' Bowie married his second wife, Iman, in 1992 and moved to New York soon afterwards. A few years after that, he took control of his financial legacy through a move now considered to be revolutionary.

BOWIE BONDS

With the help of investment banker David Pullman, Bowie sold a stake in his catalogue of music. Instead of selling the songwriting, performance and licensing rights to his many successful songs, Pullman helped Bowie create 'Bowie Bonds'. Through these, Bowie sold – for $55 million – a 10-year investment which operated like an annuity, providing a fixed-rate of return of 7.9%. The payouts were secured by all of Bowie's royalties and copyrights from his music.

Prudential Insurance Co. of America purchased the Bowie Bonds and was paid off in full during the ten-year time frame. This is despite the change in the music industry brought about by Napster and similar Internet-based music distribution, which dramatically reduced royalties available to songwriters and performers.

FINANCIAL CREATIVENESS

Pullman was recently interviewed about the financial creativeness that allowed Bowie to achieve security for the rest of his life. Pullman said Bowie did the arrangement not to protect himself but for the benefit of his family: his wife Iman; their daughter, Alexandria (who is now 15); and Bowie's son from his first marriage, film director Duncan Jones. Pullman said that Bowie was interested in estate planning at a young age and wanted to make sure that his assets passed on to his family. He did the Bowie Bonds transaction both for tax savings and so that his estate would benefit from his music catalogue.

According to reports, Iman will likely receive the lion's share of Bowie's financial empire, which is estimated to be in the region of $200 million, before factoring in the expected spike in sales that inevitably occur when an iconic singer passes away. Bowie's two children will also each receive substantial bequests.

MAXIMISING THE VALUE OF ASSETS

At the time of going to press, the details of Bowie's estate plan have not been made public. Given the reports about Bowie's advanced planning and financial foresight, it is likely that he used one or more revocable or irrevocable trusts. If so, not only could Bowie have maximised the value of assets passing on to his heirs in the most tax-efficient manner permitted by law, but also his assets could pass privately without the public scrutiny that goes along with probate court. In other words, the public may never know the specifics of how Bowie's assets will be distributed.

Many musicians fail to do proper estate planning, often relying only on a will, which becomes a public document once it is filed with the probate court after death. Or, even worse, many have no estate planning at all. The heirs of John Lennon, Jim Morrison and Kurt Cobain all went through messy estate battles that could have been prevented if those music legends had used the same foresight as David Bowie did. ■

WANT TO REVIEW YOUR SITUATION?

David Bowie's estate planning should serve as a lesson for us all. Follow his example and plan for your loved ones in advance – don't wait until it is too late. To arrange an appointment or to discuss any concerns that you may have in relation to making appropriate protection for you, your loved ones and your estate, please contact Carpenter Rees on 03330 100777 or email hello@carpenter-rees.co.uk – we look forward to hearing from you.