KILSBY WILLIAMS & GOULD

Newsletter November 2013

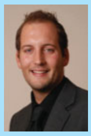
Introduction

Welcome to our November Technical bulletin. The UK economy now appears to be in recovery and this is expected to impact positively on the fortunes of Smaller UK Companies. Venture Capital Trusts offer access to this market and I provide an update of their benefits in the run up to the end of the tax year.

Secondly, Andy Gait comments on the pending changes to the state pension system. Finally we provide an overview of the feedback received from our clients with regard to the periodic review and the changes you will see in your next valuation review.

For those of you who are eagle eyed you may have seen Andy's name in The Times newspaper on 19th October where he was voted as one of the top 200 rated Independent Financial Advisers in the UK by his clients. Andy was obviously thrilled to make it into the VouchedFor.co.uk Top 200 and wishes to thank all of those clients who went out of their way to support him.

vouchedfor



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Venture Capital Trusts (VCTs)

We are now entering the season where VCT providers look to raise capital and therefore provided below is a reminder of the key benefits of these funds for the investor:-

1. Access to investments in small, young companies with high growth potential.
2. Income tax relief up to 30% of the amount subscribed (maximum subscription £200,000 per tax year) as long as the shares are held for five years.
3. Tax-efficient dividend income with no further tax liability, even for higher rate taxpayers.
4. No capital gains tax to pay upon the eventual sale of shares.

At this stage I should point out that these products are high risk and therefore they are not suitable for everyone. At Kilsby Williams & Gould we only consider recommending these products to clients who have either an income in excess of £100,000 or net financial assets of over £250,000 excluding their main residence and pension funds. Even then the suitability of VCT investments depends on a number of factors including the client's financial circumstances, attitude to investment risk, and financial objectives.

We have been recommending VCTs to our clients for a period stretching back over 10 years, and we believe these now represent one of the most exciting opportunities for investors to invest in this market.

Richard Haines, who chairs our Investment Committee, comments:

"A VCT fund manager has a far greater population of companies to pick from than in previous years in a period where the prospects for growth appear more positive than at any time in the last 5 years."

"Let me explain, the popular view is that the UK is now out of recession with media commentators speculating on the type of recovery our economy will experience. Compare this to 12 months ago when economists were concerned about if and when the UK economy would recover. History suggests that a recovery should benefit smaller companies, and in the UK we have a reputation for running small companies well, which is assisted by a strong entrepreneurial spirit."

"Secondly, small companies are still finding it difficult to raise funds from banks meaning that they are looking to alternative methods of funding growth in their businesses."

The VCT market is a vast one, and determining the good from the bad is never an easy task.

Our Investment Committee will be reviewing the market in the coming weeks in order to short list suitable funds.

Continued...

Our process starts by utilising the third party expertise of Martin Churchill and his team at Tax Efficient Review. Martin undertakes reviews of new entrants to the VCT world as well as existing, mature VCTs looking to raise new capital. A range of factors are reviewed such as experience of the management team, track record, costs and strategy, awarding each fund with a score.

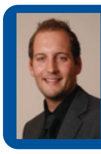
From here we are able to determine which products should be included on our shortlist. As a rule, we will only select funds with a proven track record and established dividend stream as we believe this reduces risk.

Secondly, we favour VCTs with an exit strategy. Shares in VCTs can be difficult to sell and therefore we will give preference to those companies which have a 'share buy-back facility' or look to arrange exits from investments after the five year qualifying period has elapsed.

Finally we look at the strength of the management team and whether they are able to call upon the expertise of any third parties. For example, there are providers who use a 'Business Angels' team giving them a potential edge over the competition.

Risk warnings

- VCTs are high risk investments and can be difficult to sell.
- Invested capital is at risk with a stronger possibility of losses than more traditional types of investments.
- The tax treatment of VCT investments may be subject to legislative change in future.
- Advice should be taken prior to making an investment into a VCT.



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State pension reforms – all the changes

The government has announced a raft of reforms to the state pension this year, with the changes due to take place from April 2016. Here's how you will be affected.

Flat-rate state pension (known as the single-tier pension)

This is the largest overhaul to come from the reforms. It will mean that everyone who qualifies for the full single-tier state pension will receive the same amount of £7,488 per annum (in 2012/13 earnings terms). This is subject to transitional arrangements for those currently accruing state pension entitlement (pre-2016).

This replaces the current basic state pension of £5,723 per annum, which is currently supplemented by pension credit and the additional state pension, known as state second pension (S2P) (and previous entitlement to SERPS and graduated pension).

The reforms do not include any new changes to the state pension age but, as previously announced, this will be increasing to age 65 for men and women by 2018, 66 by 2020, 67 by 2028 and will then be reviewed every 5 years with reference to changes in longevity.

State pension reform and contracting out

The reason for introducing the single-tier pension is said to be simplification. Currently, the amount people can claim from the state varies wildly – with the maximum total state pension currently over £14,000 per annum. The fact that many people have previously been able to choose to 'contract out' of some state pensions into a workplace scheme has added a further layer of confusion.

Contracting out will also end completely when the reforms are implemented in 2016 (some types of contracting out have already ended). If you're one of the 6.4 million people who have been contracted out, you will be able to keep the pension you've built up – but you'll receive a lower single-tier pension to compensate for the fact that you haven't been contributing to S2P and/or SERPS. From 2016 those people who are contracted out through their employer's final salary scheme will pay more National Insurance than they did previously.

Pension credit changes

The single-tier pension will also mean an end to the savings credit element of pension credit, which is split into guarantee credit and savings credit. Currently, you can claim guarantee credit to top up your basic state pension to £7,561 per annum if you're a single person, and £11,547 per annum if you're a couple, provided your income is below these levels.

You can claim savings credit, worth up to £939 per annum for a single person and up to £1,190 per annum for couples, if you have an income slightly higher than the basic state pension and have a small amount of savings. However, from 2016, savings credit will be abolished.

Guarantee credit will remain as a safety net for lower-income pensioners.

National insurance qualifying years increase

At the moment, you need to have made (or been credited with) 30 years' worth of National Insurance contributions to claim the full basic state pension (as long as at least one year's NI contributions have been made, some basic state pension will be received). But from 2016, this will increase to 35 years for a full single-tier pension and between 7-10 years to receive at least some single-tier pension, meaning that some people may not be eligible for the full single-tier pension. Those who reach state pension age before 6 April 2016 won't be affected. If this is the case for you, you could try boosting your state pension. You can do this for the previous six years' National Insurance contributions, so this could be worthwhile if you were on track for 30 years' worth of contributions but now need 35.

End to the married couple's 'top-up'

The most recent announcement is the axing of the married couples' top-up payment, which currently allows people who haven't made 30 years NI contributions to claim an annual state pension of £3,432 based on their spouse's contributions.

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Possible winners and losers from state pension reforms (the list below is not exhaustive and individual circumstances will determine the actual outcomes):

Winners

- The self-employed. Currently, they receive a relatively low state pension because they can't build up S2P, but now they will be on an equal footing with employees.
- People who have taken time out from work, for example to care for children. The years they spend doing this will be recognised under the new system.
- Low earners. The basic amount is increasing from £5,723 (in 2013/14) to £7,488 a year, which is good news for people on lower incomes.

Losers

- Existing pensioners. They won't be eligible for the new single-tier pension.
- Younger people. State pension age changes mean they are likely to be in their seventies before they can retire.
- Individuals who are currently 'contracted out' of S2P through their final salary pension scheme. They pay lower National Insurance contributions now, but these will rise in 2016 – and employers will not increase scheme benefits proportionately.
- High earners. Currently they can get a higher state pension by building up S2P, but they will get no more than the single-tier amount in future.

Reviewing your review

From November you will notice a change to your valuation report. Recent feedback from clients has identified a number of points which should give our review process greater clarity.

Since the financial crisis of 2008 regulation of financial advice has undergone enormous change. Although Kilsby Williams & Gould has been ahead of the curve on much of this change we have had to face the challenge of keeping our client specific documentation clear and at the same time include all of the necessary regulatory information.

This summer we ran client forums to ascertain what our clients valued in terms of their annual review. The feedback identified the following points:

- The 'face to face' meeting is highly valued.
- The review document is sign-posted poorly making it difficult to navigate and find the information that is of interest. For this reason we are introducing an 'executive summary' of no more than 2 pages that will clearly illustrate where further detail can be found.

In order to increase our efficiency and reduce client costs when carrying out the periodic review we need to follow a consistent process that is then adapted to meet individual client requirements.

Please help us to help you by letting us know what you think. We will be asking for your feedback via a short questionnaire that will be sent to you shortly after your valuation report.

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