

Recent Issues

By Mark Penston

Junior ISAs

Following the end of Child Trust Funds (CTFs) for children born after 2nd January 2011 the Government announced that it would introduce a new tax-advantaged account designed for saving for children.

Final regulations for the 'Junior' ISA have now been issued which will bring Junior ISAs into effect from 1st November 2011.

The main points are:-

- Junior ISAs will be available to UK resident children under the age of 18 who do not hold a Child Trust Fund.
- The maximum contribution limit is £3,600 p.a. which will increase from 6th April 2013 in line with CPI.
- Investment can be made into either cash, stocks and shares or a mixture of both providing the £3,600 p.a. limit is not breached.
- Anybody can contribute to the Junior ISA, which could include gifts for inheritance tax purposes, using the £3,000 annual exemption and/or gifts from 'normal expenditure'.
- If contributions are made by parents of the child any income generated will not be subject to tax which normally applies to parental settlements.
- A Junior ISA can be opened and managed by a parent or guardian of the child or by the child if they are 16 or over.
- Access to Junior ISAs is normally not available until the child reaches 18.

Summary

Any development that encourages saving is to be welcomed, as is the increase in the contribution limit from the draft regulation. Additionally, it offers tax-advantageous financial planning opportunities for contributors and plan holders.

It is anticipated that, given time, CTFs will be 'merged' with Junior ISAs in order to simplify the legislation for child savings.



Investment Views

The recent volatility in global markets has again unsettled investors and underlined the fact that 'it's not over yet'.

Constant 'market outlook' revisions by economists become akin to weather forecasts that sometimes seem to do little more than tell you what weather we are experiencing at the moment.

Part of the problem is that the ramifications of the global credit crisis are globally diverse, and understanding the detail and consequences of the problems is intellectually challenging to all.

Our opinion is that market volatility is not over yet. In between, markets recover and then fall again when the next bad news breaks. Excellent news for those close to the market who can time trades to benefit from such volatility!

But what about the 'normal' investor, who trades

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from a distance and doesn't want to be concerned about the volatility that seems to dominate the Press?

The question is, should they be in or out of the market? If they stay in the market they will inevitably have a rocky ride and if they stay out of the market, they will have to suffer low deposit rates.

Our advice to investors has always been that investing in the market is a long term commitment. It therefore makes no sense to be concerned about short term market movements when you are investing for the long term.

Core investment principles of diversification and appropriate asset allocation should not be forgotten and while general global market trends will necessitate us to review and possibly amend our approach over time, knee jerk reactions are often inappropriate and costly.

Summary

Markets will continue to be volatile. The ability for a fund manager to be able to spot good value in stocks is important and our job of ensuring that clients invest in a diversified range of assets commensurate with their appetite for investment risk continues to be an important driver of outperformance.

Pension death benefits

I am conscious that the heading of this section won't necessarily immediately attract many of our readers.

However, an important facet of financial planning, especially for those with sizeable pension funds, is how death benefits are paid from pension funds.

With effect from 6 April 2011 substantial changes were made to the rules applying to registered pension schemes.

In particular tax rules now apply to the tax payable on pensions funds pre and post age 75 depending on whether benefits have started to be taken or not.

For instance, if death occurs after a member has attained age 75 the lump sum benefits will be subject to a 55% tax charge. This tax is called a 'special lump sum death charge'. This effectively includes any IHT charge so no further IHT liability would exist. In most cases where death occurs before age 75 and benefits have not been taken, these benefits will be paid tax free and normally outside of the deceased member's estate, thus there would be no IHT liability.

Care is needed here as there are some situations where IHT may be payable on pension funds. *For example:-*

If a pension member is ill and suspects that their longevity is shortened they may choose not to take pension benefits in favour of drawing income from elsewhere and leaving the pension benefits in what is normally considered to be 'an IHT ring fenced fund'. This action will be deemed 'an omission to exercise a right' and thus the pension fund may be taxed at 55%.

If a pension contribution is made by a member who knows that they are in serious ill health, and then they die within two years of making the contribution, HMRC will consider this a transfer of value which may be assessed within the member's estate on death.

Summary

Recent changes in legislation mean that even greater care needs to be taken when planning pension contributions and the timing of taking benefits.

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