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H&P Review

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> *New U.S. home sales surged 16% in January to the highest rate since July 2008.*

by Steven Pyne, Partner

Welcome to the latest edition of the H&P Review. This time last year we featured an article in our newsletter comparing the contrasting approaches of the UK and the US to the economic downturn and speculated whether austerity or continued government expenditure would provide a smoother path out of recession.

The UK government has adopted a policy of aggressive expenditure cutting, the logic being that we cannot return to growth until the debt issue is addressed. The US administration, has, until recently, taken a different approach and allowed public debt to rise whilst the deficit has been seemingly tolerated.

Whilst it is still too soon to make a definitive judgement, the signs for the US economy are starting to look brighter. New home sales, a lead component of past recoveries, surged 16% in January to the highest rate since July 2008. Whilst the closely-watched Case Shiller index of home prices in 20 major US cities suggested prices were 6.8% higher in the three months to December 2012 than they had been a year earlier. The seasonally-adjusted percentage increase in new home sales registered in January was the biggest since 1993. Meanwhile despite a reported increase in economic growth (0 - 0.3% by the Office of National Statistics), the prospects for the UK economy still look gloomy as demonstrated by the recent decision of Moody's to downgrade the much cherished AAA credit rating . Some commentators are beginning to question whether "normal" growth in the economy at rates of 3% plus per annum is now possible at all. The pressures of rising resource, fuel and agricultural prices, an ageing population and the effects of climate change point towards a more long-term shift in the economic paradigm.

So what should investors do? Our view is that whilst a balanced and diversified portfolio should be maintained, holdings which focus on resource efficiency and clean energy will become more important. Effective asset allocation should help mitigate short term volatility but in the long term investments in efficiency led technologies (especially in areas such as power generation, forestry, water and agriculture) will be rewarded.

In this issue we look at Japan, a country which has struggled for nearly twenty years to return to long term growth and question whether the latest signs of recovery will actually prove to be more than a short term blip. We feature an article by Professor Peter Tavner former professor of New and Renewable Energy at Durham University who considers the latest wind power developments in Scotland and responds to political criticism of wind power.

We also consider the merits of employing a chartered financial planner for those returning to the UK after a stint overseas. Finally, September this year marks our 10th Anniversary so we'd like to thank all our clients for their loyalty and support over this period. It's been an eventful ten years economically to say the least and we are now proud to be recognised as both a Chartered firm and a Top 25 IFA with over 500 clients and £300M under advice.

Freeze on inheritance tax

by Steven Pyne, Partner

It has been announced that inheritance tax (IHT) will remain frozen at the £325,000 threshold which has been enforced for 10 years now. It was expected that this would rise to £329,000 from 2015, saving the tax payer an additional £1,600 per estate.

It's not an enormous amount but it does highlight the importance of clients taking early estate planning advice. Careful planning and the use of allowances and exemptions could see this amount and more saved.

In part, this boost to the Treasury coffers will pay for the additional costs associated with the capping of long term care costs, also announced recently. From an advice point of view, having a known cost can shape how people save, and how they plan to transfer wealth to their families.

Key facts

IHT is charged at 40% on an estate valued above £325,000. So if the estate is worth £350,000, the tax bill is 40% of £25,000 or £10,000.

However, inheritance tax can be enforced differently. For examples, couples don't pay any IHT on money inherited from a spouse or civil partner. The surviving partner is allowed to use any allowance that has not been used by the first person to die. If a husband leaves everything to his wife when he dies, she can leave an estate worth up to £650,000 without anyone facing an IHT bill.

In this issue

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Japan
Paradigm shift

By Robert Allinson, Investment Analyst for Holden & Partners

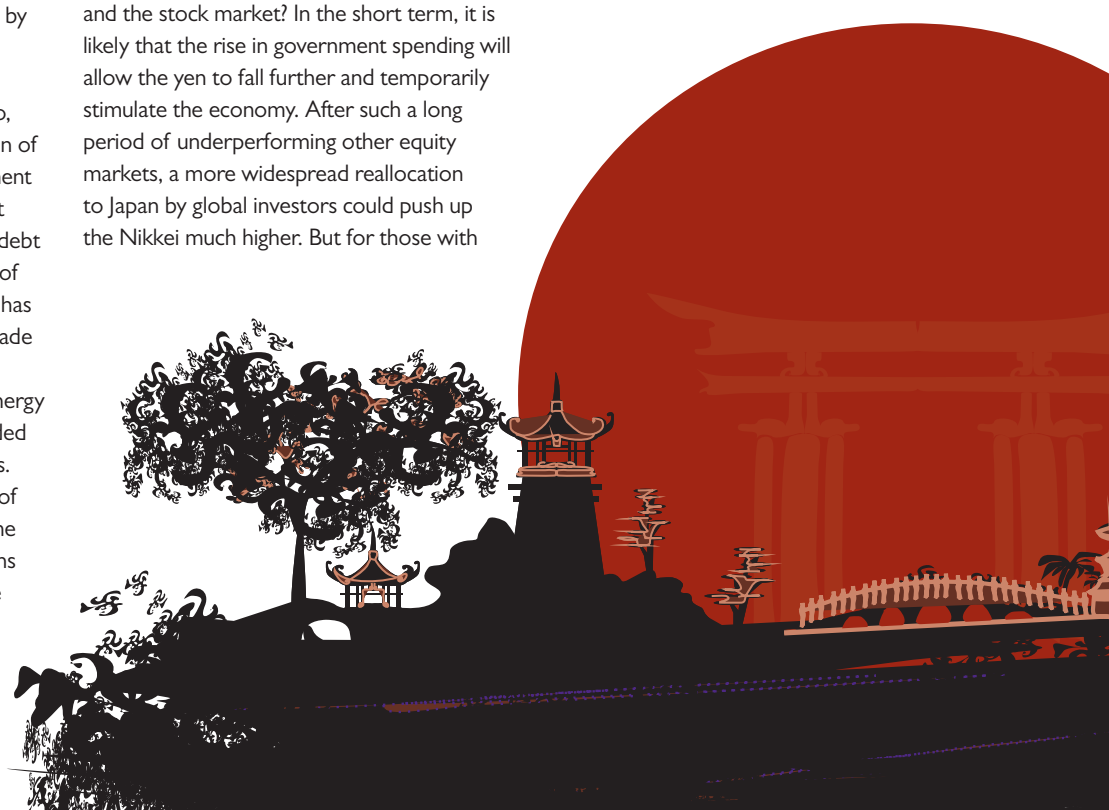
At first glance, Japan is not a compelling investment story. The country enjoyed a spectacular property and stock market bubble in the 1980s, the unwinding of which has produced more than 20 years of declining asset and consumer prices (deflation). Nominal economic growth (GDP) has been largely stagnant since 1992 and based on the latest data it appears that Japan is back in recession, its fourth since 2000. The Japanese stock market is 70% below its highs reached in 1989 (the US stock market has risen by over 400% over the same period). Japanese property prices are at the same levels as 1981. Short term interest rates are around zero and 10-year Japanese government bonds yield around 1%. Yet, this must be old news, because Japan's stock market has surged in the last few months and many analysts believe that we are witnessing a paradigm shift.

The factors that have caused Japan's persistent stagnation are manifold, but the key contributors include a dysfunctional banking sector, poor demographics (a large proportion of senior citizens), a dependence on exports, high domestic savings, low consumption and a persistently strong currency (exacerbated by the post-2008 financial crisis).

Has anything fundamentally improved? No, but it has become worse. The combination of chronic stagnation and excessive government spending has produced an enormous debt burden, with Japan now sporting a public debt which exceeds 230% of GDP, the highest of any nation. The 2011 Fukushima accident has also substantially changed the country's trade position, increasing its reliance on thermal power and hence necessitating massive energy imports. As a result, Japan recently recorded its first current account deficit for 30 years. Yet, paradoxically, it is this clear evidence of deterioration which could offer Japan some respite because it creates (a) the conditions needed for a weaker currency and (b) the pressure for political change. And this is precisely what we saw in December with the landslide victory of the LDP led by Shinzo Abe, elected on a popular mandate for change.

Therefore, in a fashion consistent with what we've seen since the start of the debt crisis in 2008, government intervention on a massive scale has once again shifted financial markets. Prime Minister Abe has promised aggressive policy action in order to overcome deflation and revive the economy. These policies boil down to a 'helicopter drop' in which the government will expand further its spending and the central bank will finance the larger deficit through quantitative easing (buying government bonds). This rhetoric, together with a pledge from the central bank that they will explicitly target a higher inflation rate of 2%, has already had a dramatic effect in weakening the yen (down 16% versus the euro since December). In turn, the anticipated benefit to Japanese companies has created a surge of buying interest, rallying the Nikkei 225 index by 17% over the same period.

Is this a turning point for Japan's economy and the stock market? In the short term, it is likely that the rise in government spending will allow the yen to fall further and temporarily stimulate the economy. After such a long period of underperforming other equity markets, a more widespread reallocation to Japan by global investors could push up the Nikkei much higher. But for those with a longer time horizon, it is difficult to find a compelling argument that this latest wave of political rhetoric will produce anything other than a burst of infrastructure spending and an even larger debt pile. There are additional complications that arise when assessing the merits of investing in a country whose stated policy is to devalue its currency, and hence tax foreign investors. Further out, it seems logical that the best hope for a sustained turn in the fortunes of Japan will come when developed countries as a whole are able to reach an 'escape velocity', when debt burdens are more manageable and growth rates are self-sustaining rather than artificially sustained – this will provide a much more favourable backdrop for Japanese exports. Until then, more attractive regional investment opportunities can be found in the broader Asian markets, where debt levels, demographics, politics and other factors are very supportive. And on a company-specific basis, investing in flexible, global equity managers remains a highly appropriate way of backing first class companies anywhere, be that the US, Europe or indeed, Japan, without taking a concentrated bet on the fortunes of a particular country.



Wealth Protection

Ideas for the end of the tax year

By Mark Pate, Partner.

With the end of the tax year rapidly approaching, now is the time to focus on ways to mitigate any tax liability. To make the most of the opportunities available, if you've not already done so, you should start putting plans in place now. Here we look at some of the areas you may need to consider to minimise a potential tax liability.

Married couples and registered civil partners
If your partner pays a lower rate of tax than you, you could consider transferring assets into their name. This makes particular sense if one of you is a non-taxpayer, as your taxable income will be lower than your tax allowances, which means you won't have to pay any tax on savings interest. Interest on savings accounts is usually paid after 20 per cent has been deducted by the provider. Higher rate tax payers pay 40 per cent interest.

To receive your interest paid tax free, you will need to complete an R85 form available from the HM Revenue and Customs (HMRC) website. If you are a non-taxpayer, but have paid tax on your savings, make sure you claim it back. You need an R40 form.

Children
Children have their own allowances and tax bands. Therefore it may be possible for tax savings to be achieved by the transfer of income-producing assets to a child. Generally this is ineffective if the source of the asset is a parent and the child is under 18. In this case the income remains taxable on the parent unless the income arising amounts to no more than £100 gross per annum.

Taxpayers
The 50 per cent additional rate of income tax on taxable incomes above £150,000 reduces to 45 per cent on 6 April this year. This means that those who are able to defer income from 2012/13 to 2013/14 could benefit from a 5 per cent or more reduction in the tax charged on the amount deferred.

Non-taxpayers
Children or any other person whose personal allowances exceed their income are not liable to tax. Where income has suffered a tax deduction at source a repayment claim should be made. In the case of bank or building society interest, a declaration can be made by non-taxpayers to enable interest to be paid gross (form R85).

Tax credits on dividends are not repayable so non-taxpayers should ensure that they have other sources of income to utilise their personal allowances.

Pension contributions
There are many opportunities for pension planning but the rules can be complicated.

The rules include a single lifetime limit, currently £1.5m in 2012/13 but reducing to £1.25m in 2014/15, on the amount of pension saving that can benefit from tax relief. There is also an annual limit on the maximum level of pension contributions, currently £50,000 for 2012/13 reducing to £40,000 in 2014/15. The annual limit includes employer pension contributions as well as contributions by the individual. Any contributions in excess of the annual limit are taxable on the individual.

Employer-provided cars and fuel
If applicable, you should also check that an employer-provided car is still a worthwhile benefit. It may be better to receive a tax-free mileage allowance of 45p per mile (up to 10,000 miles) for business travel in your own vehicle. If an employer-provided car is still preferred, consider the acquisition of a lower CO2 emission vehicle on replacement to minimise the tax cost.

Where private fuel is provided, the benefit charge is also based on CO2 emissions. You should review any such arrangements to ensure no unnecessary tax charges arise.

Capital Gains Tax (CGT)
With 5 April fast approaching, it is a good idea to be thinking about using up your CGT exempt amount to make the best use of tax advantages. For 2012/13 every individual has a CGT exempt amount of £10,600 where no CGT is payable. Any capital gains on disposal of assets or investments are added to income and taxed at 18 per cent over this exempt amount to the basic rate limit of £34,370 for 2012/13 and then at 28 per cent for any gains over this.

Read the full article containing more detailed information and end of financial year ideas on our website or contact us for advice.

www.holden-partners.co.uk/news

A Following Wind

What does offshore wind power mean?

By Peter Tavner, **President of the European Academy of Wind Energy**

Peter Tavner is an Emeritus Professor of Durham University and President of the European Academy of Wind Energy. He is author of 'Offshore Wind Turbines: Reliability, Availability & Maintenance', Institution of Engineering & Technology. More information at: www.theiet.org/books-offshore

Wind Power, whilst providing an ever increasing contribution to the UK energy mix has over the last few years, come under increasing press and political opposition. As a topical example, the recent announcement of the planning phase for the Moray Firth Round 3 Offshore Wind Power Station has got people talking about wind power and offshore wind in particular.

Struan Stevenson, for example, the Conservative MEP , is derisory about the project. He says that offshore turbine load factors are poor, with the real project output unlikely to meet the promised energy needs. He also states, that over their 20-year lifespan, turbines will require constant repair and maintenance due to the harsh conditions, meaning, a reliance on constant base-load back-up from coal or gas-fired power stations.

This is an interesting point of view reflecting concerns from many people. However, contrary to Mr Stevenson's belief, they are not concerns disregarded by those developing offshore wind. It is exactly for this reason that its development in the UK has been approached carefully and cautiously, with offshore sites let in 3 licensing Rounds over 10 years, so that experience can be applied to reduce installation costs, run the wind plants as intensively as possible and extend their life beyond the initially planned 20 years.

The Round 1 offshore sites, let in 2002, were limited in size to 30–60 machines, located in shallow water producing 70–180 MW. There was only one Round 1 site in Scotland because Scottish offshore wind resources are stronger and further offshore in deeper waters than south of the border, so Scottish sites were limited to curtail early risks. Round 2 sites were let in 2003 with larger 184–300 MW wind farms being installed further offshore developments have accelerated from this experience. Round 1 and 2 wind farms are now contributing a steady 1,000–3,000 MW to the National Grid, as much as our largest coal-fired or nuclear power stations, and the cautious approach has yielded many installation and operational experience benefits.

In response to Mr Stevenson's first objection regarding load factor, the wind farm's output as a percentage of its rated capacity, it is important to note that all power stations are unavailable for some times and none have a 100% load factor, nuclear plants achieving 75%. Round 1 and 2 offshore wind farm experience shows load factors rising to 50–60% in windy months with annual averages in excess of 35–38%, much higher than the 30% suggested by Mr Stevenson. The estimates for the Moray Firth site will have been based upon this positive experience from UK and European offshore wind farms, all placed in sites less favourable than Moray Firth.

With regards to Mr Stevenson's second point, it is fair to say that one of the main challenges in offshore wind development is to ensure that turbines operate in all feasible wind speeds, throughout their lifespan, which could be extended to 25–30 years.

Onshore wind farms achieve at least 98% availability but offshore to date are achieving 92–97%. Rounds 1 and 2 show clear availability improvement in the first two years of their life but subsequent availability can fall during periods of high resource, sometimes below 92%, because of earlier faults which cannot be rectified due to rough sea conditions. This issue is now being addressed by better planning to ensure maintenance is done in fair weather, in bad weather combined sea and helicopter activities are organised to rectify serious faults.

Mr Stevenson finally suggests that Moray Firth wind farm's output will be highly variable, with the suggestion that it needs investment in back-up generation in the event of low wind. This is simply not the case. The 1.5 GW Moray Firth wind farm, constructed of turbines similar to those installed in the Moray Firth at the Beatrice project, will

be connected directly to the National Grid, with an overall capacity of 78 GW. Again experience from Rounds 1 and 2 is that wind resource is variable but can be forecast and planned into the overall generation mix, being balanced every half hour against nuclear, coal, gas and hydro resources, without the need for additional generation.

In Round 3 we are moving to much larger offshore wind power stations where Scotland's enormous offshore wind resources come into play and Moray Firth, with more than 200 turbines, will be a substantial development providing clean energy and local jobs. The issues that need to be addressed are those set out above but with some additions because of the size of these new installations;

- Ensuring that installation costs are restrained by efficient deployment and project management;
- Keeping turbines operational by well-planned operation and maintenance, hardly a burden considering that the incoming fuel is free;
- Prolonging turbine life by monitoring performance and progressively enhancing the asset;
- Bringing the power ashore to large and convenient grid substations.

As a power station operations specialist with offshore wind experience I believe that all these issues will be more than adequately addressed, based upon UK's Round 1 and 2 experience, and that we are on the verge of a very important development to secure local energy from renewable sources on a scale which is no longer marginal, using skills at which the UK excel.

Panel Show

My experience of PV solar panels under feed-in-tariff.

By Giles Chitty, retired Partner.

While the national picture on renewables policy suffers from mixed messages from Whitehall, the decision to invest in these technologies is such a no-brainer that the better heeled or more courageous power companies and institutional investors are moving ahead anyway. Wind energy grew by 25% in the 15 months to September 2012, as long-planned wind farms came on-stream. Phase 1 of the London Array, to be the world's largest wind farm, came on-stream in October.

Whatever the big boys are doing, the government's Feed-in Tariff (FIT) offers generous incentives to households to invest in up to 4KW capacity in photovoltaic (PV) panels . My wife and I invested £16,000 in a 4KW array on ideal S and W facing areas of our roof in S Wiltshire in October 2011. In the first year of operation, we generated 3,057KWH and earned £1,565.

Since the payments are index-linked, if we generate the same amount of power each year, this represents a guaranteed tax-free return of 9.8% p.a., which represents a pre-tax return of 12.2% for a basic rate taxpayer, 16.3% if you are on higher rate and 19.6% on additional rate. Compare this with current savings deposit rates around 3.5% before tax at their highest, with no inflation proofing and considerable uncertainty as to future rates of interest! On top of this, even better returns than we enjoy are already being experienced, because the manufacturing cost of the panels are coming down rapidly as the market expands and technical improvements are enhancing the efficiency of the conversion of sunlight to electricity.

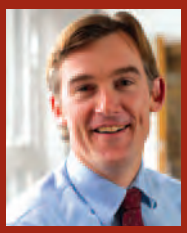
What are the downsides? It is a long term, illiquid investment, the FIT scheme lasting 25 years. The government is hurting because of its cost, has already reduced the tariff and are likely to find whatever means of further reduction they feel politically feasible. If you sell your house the contract is transferable, but inevitably adds complication to the sale. The durability and maintenance of the PV panels benefits from many years of research and development, but the products vary in quality and 25 years is a long time.

The bottom line is invest now, while subsidies are still high and guaranteed! There is also the 'psychic return': watching the power company's meter going backwards whenever the PV panels are producing more electricity than you are using!

Leaving the UK or Returning?

Perhaps all you need is a good financial planner

By Mark Hoskin, Partner.



Advice at a financial adviser's is less about selling a financial product and more and more about its service. This change has in a large part been precipitated in the industry by regulatory change. Commission payable to an IFA from the sale of a product was banned for nearly all financial products by the Financial Services Authority from 1st January 2013 and minimum professional standards have been mandatorily enforced.

While at Holden & Partners this has not resulted in a significant change to either our approach or our qualifications, it has changed the way we present ourselves and the type of enquiry we are getting. One notable change is from people leaving or returning to the UK who are searching for tax advice.

There are so many issues people face emigrating or immigrating, to the UK that seeking financial advice might be at the end of a list of tasks which pushes it to the 'do later' pile and forgotten. Part of this reaction could also be because they simply don't know who to turn to.

An accountant? – 'But don't they fill in tax returns?'

A financial adviser? – 'But don't they sell you financial products?'

And these initial reactions would have been right in the old world and indeed there are many financial advisers whose model still revolves around selling financial products. This is not because of any regulatory issue but because of the business model of the financial adviser and the way that they are paid. Regulation will never get rid of the salesman.

From a UK perspective there are two statuses which a person needs to understand prior to leaving the UK or returning:

Are you UK resident and when do you lose or acquire this status?

Are you deemed UK domiciled?

Then there are a number of assets a person will have for which a working knowledge of the tax position in the UK and in the country you are returning from, or going to, may save you a significant amount of money. The key assets which are most likely to be impacted are over pensions and property assets.

As a Chartered Financial Planner, with a good working tax knowledge we have a happy mix of skills which take in pensions, investments and tax. At Holden & Partners we believe in clients paying their fair share of tax but with their eyes open and not because they did not understand what they were doing. It is difficult in an article such as this to highlight what may impact any one individual but it is our experience that any fees we charge are marginalised by the potential income tax, or capital gains tax that could be levied immediately on the unsuspecting. Taking advice before leaving or returning to any country is generally a good idea.

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