



A Very Warm Welcome to our New Year Newsletter

NO one can have escaped the relentless media coverage on the financial markets these last few months. One thing is certain – we live in a volatile world and over the short term this can affect investment values both positively and negatively! Here, we remain confident that regular portfolio reviews and close analysis of market conditions will produce long term returns towards our clients' objectives. Thank you for your confidence in us.

In our view, the grim news in the Western economies will continue for a while yet. But we are hopeful that for the governments, the penny is finally starting to drop – you cannot keep spending what you don't have and can't possibly earn. There is plenty of good news and opportunity that sadly the

international playacting often blots out: the growth of emerging markets, new technology and alternative investments to name a few. We are positive that confidence will return, and in the meantime, diversification is the key.

We have enjoyed researching and carefully preparing several articles that we hope will be of interest. These include a view on Solar Panels as an investment and a welcome update on tax free savings for children. As always, we value your feedback and opinion. If you have any comments at all, we welcome them and invite you to contact us

All of us here at Edward T James & Company wish you an enjoyable Christmas and a happy New Year!



Simon Bullivent and Chris Polawski

The Cost of Care

Confirmed – it is unfair and unsustainable

SINCE 2004, the number of Britons aged over 85 has risen by two-thirds, and demand for care has outstripped supply. The UK's elderly population will continue



to expand. In response, the coalition government set up the Commission on Funding of Care & Support – headed by economist Andrew Dilnot – to undertake an independent review of the cost and funding of social care in England.

The Dilnot Report found that the current system is "unfair and unsustainable," and called instead for a form of collaboration between the state and the individual. It recommended that the means-tested threshold – above which individuals are liable for the cost of residential care – should be reset. The system should be national and portable, in order to ensure that those who move house are not disadvantaged. In addition, the Dilnot Report proposes that the value of the person's home should only become a factor if they move into a residential care home.

At present, according to the Dilnot Commission, one in four people will spend little or nothing on social care. Half will spend more than £20,000, and one-quarter will spend more than £50,000. One in 10 will spend more than £100,000. Looking ahead, insurance companies are expected to step into the breach and offer solutions to help individuals and advisers to plan ahead. It is difficult for individuals to forecast the cost of their future needs, but it is important to consider how you are going to fund the cost of any care that falls below the recommended cap.

The government is currently looking at options to practically improve this situation, although we are probably in for a long wait. The policymaking is likely to be difficult, emotional and theatrical.

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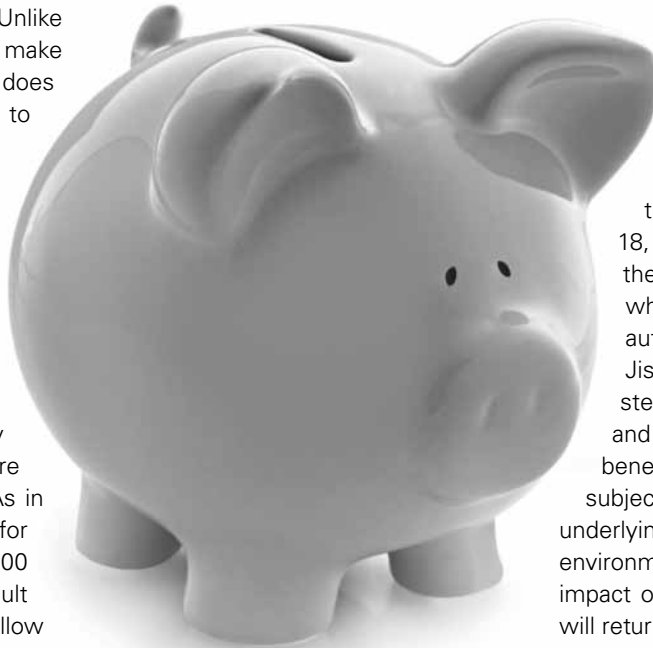
Junior ISAs

A new tax free option to benefit children

THE Junior ISA (Jisa), available from 1 November, replaces the Child Trust Fund (CTF) scheme, which closed to new entrants in January 2011. Unlike with CTFs, the government will make no contributions but the scheme does extend the popular Isa structure to those under 18.

Jisas can be opened in the name of anyone not entitled to a CTF, which includes all those born before 2002 as well as those born after January 2011. Jisas are similar to their 'senior' equivalents in that all income and capital gains generated by investments held within them are tax-free. But Jisas differ from ISAs in a number of important respects – for example, the annual limit is £3,600 compared with £10,680 for an adult stocks and shares ISA. Jisas also allow

switching from cash to shares and vice versa, which is not currently permissible for the senior version.



Children will be allowed to hold one cash and one stocks and shares Isa at a time and split the £3,600 limit between the two.

The money cannot be touched until the child reaches 18, but the child can assume management for the trust at 16, should they wish. At 18, the child becomes entitled to the money held within the Jisa, which if it is not encashed, will automatically roll into an Isa. A Jisa could provide a significant step-up for children whose family and friends get together for their benefit. Final values will always be subject to factors such as the chosen underlying assets and the investment environment, both of which can have an impact on how much – or little – a Jisa will return.

The Unwanted Beneficiary

Think you know who benefits on your death? Think again!

WILLS are traditionally read at a table with the beneficiaries seated, listening intently. How many people really consider that a further person could be seated there who was not invited: George Osborne on behalf of the Treasury.

Obviously Mr Osborne is unlikely to actually attend in person. But this is a powerful image that demonstrates the potential consequences of Inheritance Tax (IHT) on an estate when a death occurs.

The threshold for Inheritance Tax (IHT) has risen in recent years, to £325,000 for individuals and, with the option now to transfer any unused threshold to a spouse or civil partner, a total of £650,000 for legally joined couples (tax year 2011/12). The relative level of house prices, however, particularly in the South East, means IHT is still a concern for many homeowners. It is therefore sensible to take some time to consider in advance the potential liability you may be leaving behind.

The problem with this tax is not just the fact it has to be paid, but also that it becomes due quite quickly – generally within 6 months. When your home and certain other volatile assets are involved, there is a provision which allows your beneficiaries to pay their liability through installments whilst they arrange for the home to be sold - but this means that whilst waiting for that sale (or up to ten years, whichever is the shorter), other heirlooms could

be compromised as, without planning, some may need to be sold to meet the bills.

As the Government looks to close potential tax loopholes it is always worth getting professional advice on what can and cannot be done to ease potential IHT burdens. In the long run, it may help your family preserve some of your family's most valued possessions, sentimental or otherwise.



Emerging Markets

A strong case for continued growth



ACCORDING to a study of 40 major Emerging Market economies by The Royal Bank of Scotland in collaboration with the Judge Business School at Cambridge University, demand for infrastructure in emerging markets will reach \$1 trillion a year through to 2030. This is triple the level of the previous two decades, with Asia accounting for the lion's share.

The study notes that fast-growing populations and rising urbanization rates in emerging markets have led to a global shortage of infrastructure services,

such as roads, rail, mobile and fixed-line telecommunications, and electricity. According to the study, BRIC countries will continue to account for the largest shares of total EM spending, with about 55% coming from China, followed by India with 20%, Brazil with 3% and Russia with 2%.

It is generally recognized that countries which invest in infrastructure enjoy enhanced productivity and competitiveness, which ultimately results in higher consumption and economic growth.

Pension Changes Age 75

Compulsory purchase of annuities no longer required

BRITONS could soon enjoy greater financial flexibility in retirement thanks to legislation advanced by the UK Treasury. From 6 April 2011, individuals are no longer forced to buy an annuity with the proceeds of their personal pension scheme at any age. Instead, they will continue to have the options to save it or move to a drawdown (unsecured pension) arrangement in which their pension is left invested and money is taken directly from that pot.

This increase in flexibility ends a compulsory purchase system which was introduced by the previous government. Increasing life expectancy and the fact that older people are working longer, coupled with the current environment of low interest rates and therefore poor annuity rates, were making their original 75-year cut-off appear a little draconian.

The National Association of Pension Funds (NAPF) welcomed the additional flexibility, though they do believe that the new rules will benefit mostly those with larger pension funds. Indeed, many people are still likely to choose an annuity simply to fix their income expectations and

enable them to plan.

More fundamentally, however, the NAPF warned that most people are simply not saving enough into their pension schemes. They have therefore urged the government to do more to

encourage and support strong occupational pension schemes and "creative, flexible" ways for individuals to save for their retirement in the first place.



Solar Panels

A personal view by Simon Bullivent



QUITE a few clients now have contacted us for our opinion on investing in this technology, particularly for domestic installations. I suspect that this high profile industry will in years to come become as significant as double glazing – but the market for now is in its early stages.

Solar photovoltaic systems are often marketed as a way for you to make money, as well as save on your electricity bills. This is because you get paid for the electricity that your solar panels produce. Under the government's feed-in tariff (FIT) scheme, payments are guaranteed for 25 years, the price per kilowatt of energy is index-linked and all proceeds you make from the FIT are free of tax. From 12th December rates payable from the FIT have dropped significantly and is not as good a deal as it was when the scheme first launched in 2010 – but it is still worth looking at.

The basic choice is to pay for the installation of panels upfront and in full, or to use 'free' solar schemes, also known as rent-a-roof schemes, or sometimes a combination of both.

Up front payment means that you benefit from all the FIT income and free electricity yourself. The Consumer Association's Which? Magazine has estimated a return of £16,340 on a typical installation over 25 years, with an initial outlay of £11,700. This does

not take account of electricity price inflation, so logically the return should be much greater.

Free solar schemes are run by companies eager to cash in on the feed-in tariff. These companies would typically lease your roof for 25 years in exchange for which they install and maintain solar panels on it. This means that no cash is required for the panels and you benefit from the free electricity produced by the system that you use. The rent-a-roof company generally takes all of the income from excess power feeding the grid.

So which way to go? I would advise great caution with 'free' and 'hybrid' schemes. Similar to the bewildering array of mobile phone and power company deals, these are often complex and ambiguous. Assumptions used in illustrations can be questionable and inconsistent, and it is virtually impossible to compare like with like.

My own view is that paying up front is definitely the most cost effective option, with the expectation of receiving all the FIT income. However, I believe that it is worth considering waiting for a while. This is a new technology, and I believe that the cost of producing it will come down significantly. Can you recall a few years ago when flat screen TV's cost between two & three thousand pounds? Enough said!

Cash ISA

Shop around for the best rates

ACCORDING to consumer group Which?, more than 18.6 million people have a cash Individual Savings Account (ISA), while consumer rights campaigner Consumer Focus states more than one-third of savers have held their cash ISA for more than five years. Many cash ISAs offer high introductory interest rates that fall after a year and savers who fail to keep track of their account's rate of interest risk missing out if they do not switch to an ISA with a better deal.

However, the process of switching from one cash ISA account to another is not completely straightforward and, in order to maintain their account's tax-free status, savers have to undergo a transfer process that has, in the past, proved arduous. Nevertheless, the transfer process is set to become easier and less tortuous, following a 'super-complaint' from Consumer Focus, which put the inefficiency of the ISA transfer process under the microscope.

The Office of Fair Trading investigated and, last year, announced new guidelines that should reduce the amount of time taken to transfer between two ISAs. Moreover, annual ISA statements must clearly communicate the account's latest interest rate from early 2012, allowing savers to see whether their rate remains truly competitive.

A good impartial source for checking the best rates available is www.moneyfacts.co.uk.



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