

The Business Review

Financial Insights

GLOBAL INVESTMENT MARKET UPDATE

8 TAX SAVING STRATEGIES

**TURN COMPANY PROFITS
INTO PERSONAL WEALTH**

Global Investment Market Update



A review of recent movements

Markets in 2018 could be characterised as a standoff between fundamentals, specifically economic and earnings data, and geopolitical concerns focused on escalating global trade tensions, most prominently between the US and China. This scenario led to prolonged periods of heightened volatility in equity markets, even while economic growth stayed above long-term trend and earnings remained positive. Equity markets displayed considerably heightened levels of fear in 2018, with volatility peaking in December with huge losses on all the major exchanges.

So, as 2018 turned into 2019 markets looked oversold on the back of panic selling, valuations looked much more reasonable and buyers recognised an opportunity. The result has been a quarter which has witnessed a very strong bounce-back across the globe and, largely, a restoration of investor confidence. In the US, all sectors showed gains with information technology (+20%), industrials and real estate (both +17%) the leaders. In Europe, consumer staples (+17%) and information technology (+16%) were the biggest winners with telecommunication services (+1.8%) last in the pack. The global economic environment continues to evolve and does face notable headwinds moving deeper into 2019. Diverging monetary policy remains a key theme for equities and whilst the backdrop remains positive, it is less synchronised than previously.

Global Interest Rates

Eurozone interest rates have not changed since they were nudged downwards a fraction in March 2016. In the US, the Federal Reserve raised rates in June, September and December but recently signalled that the process had come to an end. Additional monthly bond purchases in the ECB's QE programme decreased to €15bn per month in Q4 and have ceased

altogether since year end. Rates, it appears, will stay steady until at least late 2019.

Oil & Gold

The price of Brent crude fell almost 40% in Q4 of 2018 and has reversed a substantial portion of that in Q1. It finished the period at over \$68 per barrel, a 27% increase, despite worries about decelerating growth in many regions. The price of gold peaked at \$1,348 in late February, tailing off somewhat in March to close at \$1,298 per ounce, down nearly 4% from its peak but up 1.3% on the quarter.

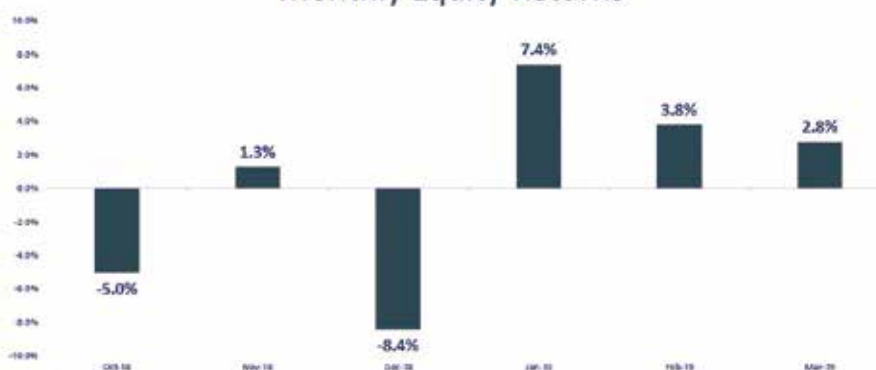
Investing & Volatility

It can be difficult for investors when the markets are volatile, but that's why at Heritage Wealth we have strategies in place that prepare clients, both financially and psychologically, to handle market volatility.

- Have a clear financial plan in-place
- Ensure your portfolios are well-diversified
- Maintain a long-term view
- Don't let your emotions blur your decisions
- Remember that market volatility is normal and an important driver of long-term returns

It's normal for investors to be nervous during volatile markets. We encourage investors not to yield to the stress of a volatile market by selling out or chasing the latest asset class that is doing well. As a rule of thumb, we encourage our clients to focus on a global, multi-asset class portfolio strategy to deliver superior risk-adjusted returns over time. And when the markets are volatile, remember the importance of a long-term plan for your personal situation that will ultimately provide the best chance to get the financial returns you need.

Monthly Equity Returns



Tax Tips

Pension Funding

For employees, company directors and the self-employed, tax relief is available for personal pension funding at your top tax rate. Pension funding can be used to reduce last year's tax bill.

Example:

- *Married person one spouse working at salary of €60,000 and age 45. This person could make a personal pension contribution of €15,000 and get a tax refund of up to €6,000.*

Permanent Health Insurance (PHI)/Income Protection

Full income tax deduction is available at your top tax rate for PHI policies. If an individual is paying for this cover personally, they need to claim it back from Revenue on their personal tax return.

Married couples – income splitting to reduce marginal rates of income tax and USC

Spouses divide investment or rental income between them. If one spouse has low income then this may avoid or reduce marginal rate of Income Tax and USC.

Example:

- *Married couple. Spouse A has income €60K per annum and rental income profit of €8K per annum. Spouse B no income.*
- *Tax saving of circa €2k per annum by transferring rental property to Spouse B. Potentially no capital gains tax or gift tax involved.*

Retired Couples

Retired couples can receive assistance from family members by transferring income from children to parents through formal deeds of covenant. Depending on circumstances, parents could be tax exempt on the income received while their children obtain tax income tax relief at 40% on the annual income payments to their parents.

Example

- *Elderly parents living on state pension of circa €23k per annum.*
- *Children paying tax at top tax rate.*
- *Children enter deed of covenant to pay parents €10k per annum.*
- *Parents are not taxable on this income but children receive tax relief at 40% on payment so only costing them €6k per annum.*

Self-Employed – involving family in business

- Working from home – there are various expenses that can be claimed, e.g. e-working allowance
- Spouse – as an employee or business partner in the business, and if not otherwise earning, can get increased 20% income tax rate worth up to circa €5K pa
- Children – can be paid a salary for work completed and can earn up to €8,250 income tax free working part time in the family business
- Extra scope for pension funding
- Generally salaries paid to family members are PRSI free (self-employed businesses only not companies)
- Note that where a spouse or children are engaged in the business, it must be commercially justified.

Annual exemption and losses - Capital Gains Tax ("CGT")

The annual CGT exemption is €1,270. When selling shares, consider selling them over a period of time so you can harvest €1,270 of your gain tax free every year. Also, consider transfer some shares into the name of your spouse so that when you sell them you can each avail of the annual CGT exemption of €1,270. The annual exemption applies separately for spouses so each spouse must make a disposal to avail of it.

Annual gift exemption – Capital Acquisitions Tax ("CAT")

Give (or receive) €3,000 tax free to or from anyone, many times over! For example, both parents can give €3,000 each to child, spouse and grandchild etc each year without erosion of CAT lifetime thresholds. This is essential inheritance tax planning especially with the prior reductions in CAT lifetime thresholds resulting in large CAT liabilities for beneficiaries.

Extracting Value from a Business

Business owners need to be aware of the various reliefs available in order to extract value from their business. For example, retirement relief from capital gains tax can potentially reduce a business owner's tax bill to zero when they dispose of their shares in the business.

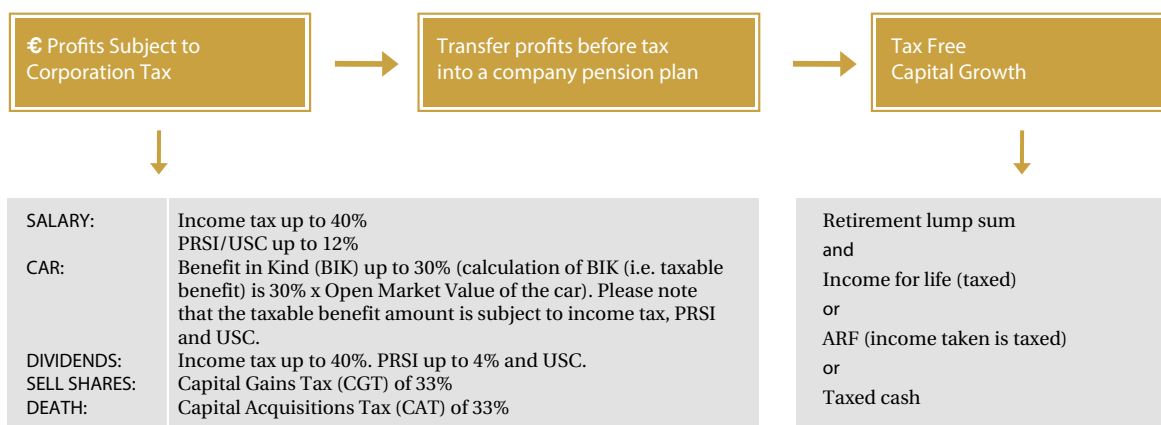
Also, entrepreneur relief was introduced in 2013 with the aim of encouraging serial entrepreneurs to establish new businesses. The relief provides that a 10% rate of CGT applies in respect of chargeable gains on disposals or part disposals of qualifying business assets, on or after 1 January 2017, up to a lifetime limit of €1 million.

The above strategies are not exhaustive, we strongly recommend professional advice if you are considering availing of these reliefs / exemptions.



Turn Company Profits into Personal Wealth

One of the most attractive, tax efficient ways for company directors to extract profits from their company and turn them into personal wealth, is to transfer these profits into a company pension.



Where directors take profit from the company as salary there will be an immediate tax liability, however those who invest in a company pension plan enjoy benefits such as:

- No benefit in kind on employer contributions
- Immediate income tax relief on AVCs and employee contributions deducted from salary
- Corporation tax relief on employer contributions in the year the contribution is made

In order to be eligible to take out a company pension plan the director must be set up as an employee of the company and be in receipt of Schedule E remuneration. At retirement the director will be entitled to a retirement lump sum, some or

all of which may be tax free. The balance of the fund can then be used to

- Purchase an annuity which will provide a guaranteed pension income for life,
- Invest into an Approved Minimum Retirement Fund (AMRF) and / or Approved Retirement Fund (ARF)
- Take as taxed cash, subject to certain restrictions

Pension income in retirement and withdrawals from ARFs & AMRFs are subject to Income Tax, Universal Social Charge (USC) & PRSI (if applicable) & any other taxes or government levies due at that time. Income tax relief is not guaranteed.

ARF – TAX TREATMENT ON DEATH/INHERITANCE

Assets held within your ARF can pass onto your estate. Tax may be due depending on who inherits your fund as follows:

ARF / inherited by	Income tax due	CAT due
Surviving spouse or Registered Civil Partner	None if transferred into an ARF in the spouse's or registered civil partner's name. Subsequent withdrawals subject to PAYE	No
Children under 21	No income tax due	Yes
Children 21 and over	Yes at 30% rate	No
Others (including spouse or registered civil partner if benefit paid out as a lump sum)	Yes, at deceased's marginal rate (either 20% or 40%)	Yes
Death of Surviving Spouse or Registered Civil Partner		
Children under 21	No income tax due	Yes
Children 21 and over	Yes at 30% rate	No
Others	Yes at 30% rate	Yes

Get In Touch

We want to thank you for taking the time to read our newsletter. If you would like to find out more on any of the items discussed in this edition, please feel free to contact us, we are happy to help.

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