eNews
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Chartered Financial Planners

SAVINGS


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# Cashing in on savings?

*The era of near zero interest rates is ending, but are your savings benefiting?*

The Bank of England raised its base rate again in June, pushing the figure up to its highest level in 13 years at 1.25%.

The Bank's ratcheting up of interest rates has started to permeate through to the interest paid on savings, although it has often been loan rates which have increased earlier and faster. Unfortunately, you cannot assume that your existing savings accounts have benefitted from the 1.15% rise in the base rate since last December. The banks now have a rare opportunity to expand their margins by widening the gap between deposit and loan rates.

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This strategy can be seen most clearly when it comes to accounts closed to new savers. For instance, the rate on Halifax's 60 Days Gold account remains at the 0.01% level to which it fell in July 2020. Switch the money across to a Halifax Everyday Saver account and the interest rate is 0.25% (as of 14 June 2022), with instant access.

At a time of economic uncertainty, when you may wish to build up your cash reserves, you need to look beyond the familiar brand names to find a return that beats the Bank of England base rate. Currently the best instant access rates are around 1.55%.

Contrary to what you might expect, cash ISA rates may be lower than non-ISA rates. National Savings & Investments provides a good example: its Direct ISA pays 0.15% less than its Direct Saver account. While an ISA is UK tax-exempt, in practice the personal savings allowance means you can earn £500 interest tax-free if you are a higher rate taxpayer (£1,000 if your top rate of tax is less).

✢ *The Financial Conduct Authority does not regulate tax advice or National Savings & Investments.*

*Tax treatment varies according to individual circumstances and is subject to change.*

PLANNING

# Travel costs checklist

*Many Brits will take their first holiday to Europe this summer since Covid and the implementation of Brexit. Be aware of extra costs and additional paperwork requirements.*

### Do I need a visa?

Holidaymakers currently just need a UK passport, but from the end of 2022 they will need a ETIAS visa waiver. This lasts three years and allows unlimited trips during this period.

### Roaming charges

You may have to pay roaming charges to use your phone in Europe. Vodafone, Three, Sky and EE all now impose these charges, which typically amount to £2 a day. Other providers, including Virgin, O2 and BT Mobile currently have no extra fees. Exact charges depend on the contract so check before travelling.

### Covid costs?

Most European countries don't require UK travellers to take a lateral flow test now, provided they're fully vaccinated. The website reopen.europa.eu gives details of latest restrictions for each country. It also explains how to download the EU Digital Covid Certificate, proving vaccination status.

### Travel and health insurance

Travel insurance is always essential, particularly to cover medical bills. Some policies may offer cover should you need to cancel or delay arrangements due to Covid, but not all. European Health Insurance Cards (EHIC) are still valid, if in date. Once these expire you'll need the new UK Global Health Insurance Card (GHIC). This allows access to state healthcare in Europe at a reduced cost, or sometimes for free.


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# Could you join the one in five?

*If you are not a higher rate taxpayer now, you may be soon.*

The combination of high inflation and frozen tax thresholds is a toxic mix for taxpayers. Figures from HMRC and the Office for Budget Responsibility show that the four-year freeze to the UK-wide higher rate tax threshold will create over two million new higher rate taxpayers by 2025/26. In Scotland, the freeze only applies to savings and dividend income, but the Scottish higher rate threshold for other income (primarily earnings) is lower at £43,662 and the rate 1% higher.

### Mitigate the hike

If you are – or will soon be – a higher rate taxpayer, there are plenty of tax planning points you should review with us, including:

- Ensure that you take full advantage of all your tax allowances, such as the dividend allowance and the personal savings allowance.
- Explore the many opportunities presented by independent taxation if you are married or in a civil partnership.
- Maximise ISA investments – the UK tax-freedom of ISAs is more valuable once you pay higher rate tax.
- Review investments – investment returns in the form of capital gains (maximum rate 20% other than for residential property and a £12,300 annual exempt amount) will normally incur much less tax than income.
- Business owners may have scope to change the structure or adjust the way profits are extracted.
- The higher rate of 40% (or 41% in Scotland) income tax also means that you can receive 40%/41% in Scotland on pension contributions. However, beware the pension annual and lifetime allowance tax traps.

✢ *Investments do not offer the same level of capital security as deposit accounts.*

*The value of your investment and any income from it can go down as well as up and you may not get back the full amount you invested.*


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*Past performance is not a reliable indicator of future performance.*

*Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.*

*For ISAs investors do not pay any personal tax on income or gains.*

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INVESTMENT

# Keeping it real on returns

*How you think about investment returns may need to change as inflation soars.*

If you could choose between a 3% investment return or a 7% investment return, which would you pick? The answer seems obvious, so let's add some context.

Which is better – a 3% investment return when inflation is 2% or a 7% investment return when inflation is 9%? Once you allow for inflation, the 3% investment return is more attractive as it outpaces inflation; the 7% return means lost buying power over time.

### Consider the real rate of return

In an inflationary environment you need to think of investment returns in 'real' terms, removing the eroding effect of inflation. So, in the example, the 3% return becomes a real return of 1% (3% – 2%) and the 7% return is actually –2% (7% – 9%). Taking this approach means short-term, deposit-based investments are much less attractive, despite interest rate increases.

The past 13 years of near zero interest rates, combined with low inflation, have encouraged investors to focus on the capital growth element of investment returns, favouring technology-related companies. Inflation and rising interest rates have reduced the appeal of distant profits and the other component of investment return, income, has now become important.

However, inflation is not all bad news for investors. Many companies aim to keep their dividends growing at least in line with inflation over the longer term. Link Group, a leading share registrar which monitors dividend payments, recently said that it expected regular dividend growth of over 15% this year.

If you want to protect your capital from the ravages of inflation, there are plenty of potential options, but none is without risk, so advice is important.

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TAX

# Are you a trustee?

*A new measure to prevent money laundering means trustees must now register with HMRC.*

The government has introduced a new requirement for trustees to register details of their trust(s) with HMRC as part of its continuing anti-fraud strategy. For most existing trusts, the deadline registration date is 1 September 2022. New trusts will need to register within 90 days. Once registered, any changes to the trust must be reported by the trustees, also within 90 days.

Certain types of trust, such as property co-ownership trusts, are exempt, but many trusts that do not currently pay tax must be registered. The treatment of trusts linked to life assurance policies is particularly complex and has prompted HMRC to regularly update and expand its guidance. While a trust holding a simple term assurance policy that only pays out on death will not need to register, the treatment of investment-oriented policies is less clear cut.

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