eNews
SUMMER 2021

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Chartered Financial Planners

INVESTMENT

Handling high markets

Most of the world's major stock markets are at or close to their all-time highs, but that is not necessarily a reason to stop investing.

Global stock markets have been performing strongly since the first successful vaccine trials in November 2020. Even the UK, which has lagged behind in recent years, has picked up, with the FTSE 100 index crossing the 7,000 barrier again.

If the flow of "...hits new high" headlines has given you doubts about investing now, there are several strategies to consider:

> *Global stock markets have been performing strongly since the first successful vaccine trials. Even the FTSE 100 index has crossed the 7,000 barrier again.*

- **Drip feeding** Instead of investing a lump sum all at once, spread the investment over a period. That way all your money will not get invested at a market peak. The corollary is that you may miss out on some investment return.
- **Keep an adequate cash reserve** Make sure you have sufficient instant access deposits so you can avoid cashing in your investments if you need funds quickly. A paper loss is just that until investments are realised – as events since February 2020 have demonstrated.
- **Be aware of sequencing risk** If you intend to draw on your investment immediately – for example by starting pension drawdown – a sudden market drop can have a dramatic effect on the sustainability of withdrawals. There are several approaches to limit this risk, such as holding a separate low risk reserve.

For more information on these and other high market strategies tailored to your personal circumstances, please contact us.

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

TAX

Second home sales rise

Second property purchases in the UK have boomed according to government figures, with second home sales rising 30% over the past five years.

The recent Stamp Duty holiday has further increased activity in the housing market, as people look to benefit from this short-term tax concession.

Second home-owners include those buying a property to rent out, either as short-term holiday lets or on longer-term rental contracts, as well as those buying a property solely for their own use. Many will do a bit of both: using a second property for weekends away, while also letting it to friends, family and also commercially for some of the year to help cover costs. However, this can affect how much tax you need to pay on any income the property generates.

Homes that are classed as a 'furnished holiday let' (FHL) benefit from several extra tax breaks. For example, owners can deduct as expenses the cost of furnishing the property and mortgage interest charges. Income from FHLs can be used to make pension contributions, which is not permitted for income from buy-to-let property. To qualify, it must be available for letting at a commercial rate for at least 210 days a year and it must not normally be let to the same person for a period of more than 31 days in the tax year.

If you are renting out a second property, you should seek qualified tax advice to ensure you make the most of the rules.

✢ The Financial Conduct Authority does not regulate tax advice. Levels and bases of taxation and tax reliefs are subject to change and their value depends on individual circumstances. Tax laws can change.

Your home may be repossessed if you do not keep up repayments on a mortgage or other loans secured on it. Business buy-to-let and commercial mortgages are not regulated by the FCA. Think carefully before securing other debts against your home.

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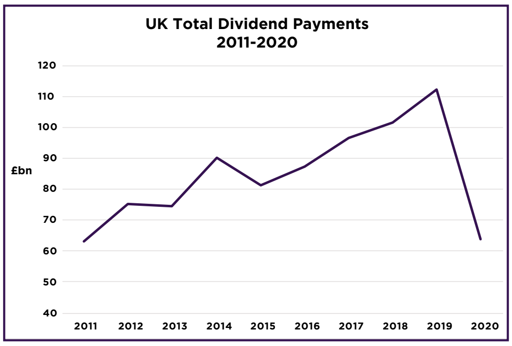
INVESTMENT

Dividends recover in 2021

Last year many companies were forced to cut or suspend dividend payments. This year, the reverse is happening and dividends are generally on the up.

Many income-seeking investors would prefer to forget 2020. Global interest rates stayed around zero while many companies cut or suspended dividends. According to one leading international investment manager, the average fall in global dividends in 2020 was 12.2%.

The UK was particularly hard hit. Between 2019 and 2020 the total value of dividends (regular and one-off) paid by UK companies dropped by 43.1%. From April 2020 to December 2020, nearly a third of UK companies cancelled their dividends, while close to another quarter cut them.



In 2021, the clouds are lifting. The Bank of England has allowed UK banks to resume dividend payments. Other companies that suspended dividends have begun making payments again. Even Shell, which cut its quarterly dividend from 47¢ to 16¢ in June 2020, has started to increase its quarterly payments.

Link Asset Services, one of the largest share registrars in the UK, has estimated that in its best-case scenario, regular dividend payments will rise 5.6% in 2021. Its worst-case scenario is still positive, with dividends rising by just 0.9%. Link says that “companies are increasingly declaring dividends in line with our best-case scenario as the economy comes back to life and constraints on pay-outs are lifted”.

If you want to invest in the UK equity income sector and potentially benefit from rising dividends, please ask our advice on the wide range of funds available. You might also consider overseas equity income funds. As 2020 showed, international diversification can be a wise strategy.

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TAX

Coming in from the cold: tax planning for families

The freezing of many tax thresholds and allowances has increased the importance of family tax planning.

In his spring 2021 Budget, the Chancellor announced many tax allowances and thresholds will not change until April 2026. By 2025/26 the government expects 1.3 million more people to be paying income tax and 1 million more to be higher rate taxpayers than would be the case were thresholds inflation linked.

The eroding effect of these freezes means that many couples who have not had to think about their tax planning jointly now need to do so. For example:

- *The high income child benefit charge* only applies if one of a child’s parents, or adults in the child’s household (married or not), has income of over £50,000 – a figure unchanged since January 2013. When combined with higher rate tax, the result is a marginal tax rate of up to 58.3% (59.3% in Scotland) for a two-child family. By rearranging ownership of their investments – and hence receipt of investment income – some couples may be able to avoid either of them reaching the £50,000 trigger point.
- *Capital gains and capital losses for married couples and civil partners.* You each have a capital gains tax (CGT) annual allowance of £12,300. If you make a capital gain of £15,300 in a tax year and your partner makes a loss of £3,000, you end up with a CGT charge on that loss, even though your *joint* net gains match the annual exemption. On the other hand, if your partner transferred their loss-making asset to you and then you sold it, the loss could offset your gain.

As with any area of tax planning, make sure you take advice before acting. For instance, the capital gains tax example above will not work for couples that are neither married nor civil partners – the transfer of shares would crystallise the loss.

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INVESTMENT

Track down lost assets

Up to £15 billion is believed to be sitting in ‘lost’ savings accounts, premium bonds and pension and investment accounts.

Many people lose track of accounts when they move house, misplace statements or even change computer and forget to update their log-in details. Tracing these assets can be complicated, particularly after banks or investment companies merge or rebrand.

Share, record, research

Even if you have kept a meticulous record of your finances, it’s important to make sure family members know how to access them. Recent research suggests that one in seven people take hidden assets to the grave, as family members don’t know about long-lost savings accounts.

Avoid your hard-earned savings getting lost by updating your will, making sure executors have a copy of all financial accounts — or nominate a charity for some of these funds.

To track down lost accounts contact mylostaccount.org.uk – an online portal that traces old bank, building society, and NS&I accounts.