UHY Financial Planning

Review

Nottingham: 0115 959 0900 • **London: 020 7216 4600**

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IN THIS ISSUE:

UHY Financial Planning Ltd
14 Park Row
Nottingham
NG1 6GR

t: 0115 959 0900

Adviser – Adam Wing BA (Hons) DipPFS
Financial Planning Manager

Quadrant House
4 Thomas More Square
London
E1W 1YW

t: 020 7216 4600

Adviser – Peter Miller APFS
Chartered Financial Planner

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Pros and cons of joint finances

There are benefits and risks for couples who decide to manage their money together.

Many couples maintain independent finances, but operate one or more joint accounts to cover bills or for savings. But differing attitudes to spending and saving can be a source of tension.

Once you buy a home together, or just open a joint account, your finances become inter-linked. You will then be 'co-scored' when applying for credit, and a partner's poorer credit score can impact on your rating. If you have a shared mortgage or loan, you will also be liable for the whole debt if your partner can't, or won't, contribute to the repayments.

Switching investments

Where one partner is a basic rate taxpayer or non-taxpayer and the other pays income tax at a higher rate, it could be worth switching savings or investments to the lower earner to reduce the overall tax payable. Husbands, wives and civil partners can normally transfer assets freely between each other without incurring tax on any gains realised by the gift.

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Higher earners can choose to contribute to the pension of a lower-earning spouse, with the amount of tax relief available the greater of £3,600 or their relevant UK earnings. This could help couples make best use of both of their personal allowances for income tax in retirement.

One word of warning: if an account is also in a partner's name, they are then legally entitled to the money. Trust is key. Couples must be comfortable discussing their finances.

✣ *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.

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

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INVESTMENT

A new era for VCTs and EISs as rules change

There has been a major overhaul for venture capital trusts (VCTs) and enterprise investment schemes (EISs).

The changes come as a response to a government consultation paper published last summer on "patient capital". The paper criticised some EIS and VCT providers, saying, "Industry estimates suggest that the majority of EIS funds … had a capital preservation objective in tax year 2015/16, and around a quarter of VCTs have investment objectives characteristic of lower risk capital preservation".

Two key points emerged from the new rules:

- **'Risk to capital' condition** VCT and EIS investments must now be made in companies that have objectives to grow and develop, and where there is a significant risk of loss of capital, after allowing for tax relief. This is to prevent an emphasis on capital preservation that was criticised in the consultation paper.

Credit: iStock/donald_greuner

- **Tax reliefs** There were no changes to the levels of tax reliefs given to VCTs and EISs. The main rate of income tax relief for subscriptions remains at 30%. The relief can be clawed back if the investment is sold prematurely or ceases to qualify, with clawback periods remaining at five years for VCTs and three years for EISs. Similarly, the capital gains tax advantages of VCTs and EISs were left intact.

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PROTECTION

Reduced protection for mortgage payments

What would happen if you were unable to pay your mortgage?

Changes to the government's scheme supporting people unable to make their mortgage repayments – Support for Mortgage Interest or SMI – could have significant consequences for struggling home-owners. From 6 April 2018 SMI ceased to be a benefit payment and became a loan secured against the mortgaged property.

That SMI loan carries interest which is rolled up at a rate linked to government borrowing costs (currently 1.5%). It becomes repayable if the recipient moves home, dies or transfers the property in any way. SMI only helps to pay a claimant's mortgage interest – no support is given for the capital repayments of the amount borrowed.

Credit: iStock /BrianAJackson

Before the changes SMI was a means-tested social security benefit. Under the new rules, SMI:

- Covers a maximum mortgage amount of £200,000, a figure set in 2009.
- Pays a 'standard rate' of interest, currently 2.61%, based on Bank of England average mortgage rate data. This means the interest on many mortgages will not be fully covered.
- Payments generally only begin after a waiting period of 39 weeks (13 weeks prior to April 2016).

Reduced protection

The new form of SMI will leave recipients with a debt to pay, so it could be wise to arrange your own cover. You may not have such protection in place, particularly if your mortgage is more than two years old and started when the waiting period was thirteen weeks. If so, it may be time to review your mortgage protection arrangements.

✢ *Your home may be repossessed if you do not keep up repayments on your mortgage or other loans secured on it. Think carefully before securing other debts against your home.*

INVESTMENT

Don't forget the FSCS safety net

The Financial Services Compensation Scheme (FSCS) offers a vital safety net for savers.

This government-backed scheme protects the first £85,000 of savings if a bank or building society collapses.

This doesn't just apply to UK-based institutions like Lloyds or Nationwide. Banks outside the European Economic Area that offer savings products in the UK have to sign up to this scheme.

European banks can offer 'passport' arrangements to their own safety net schemes. These offer broadly the same level of cover, but savers would have to apply via that country. However, in practice many are full members of the FSCS.

The £85,000 limit covers all brands under the same banking license. So, if you have money in accounts with both Halifax and Bank of Scotland – part of the same group – make sure the total doesn't exceed £85,000 to ensure maximum protection.

The limit applies per person, so joint accounts are protected up to £170,000.

SAVINGS

Which ISA is right for you?

You can maximise your tax-efficient savings through a range of Individual Savings Accounts (ISAs) – and the earlier you start, the better.

You can invest up to £20,000 in the 2018/19 tax year under your main ISA allowance using a mix of different types. Each has its own rules including limits, investment vehicles and access.

Regular ISAs

An ISA is a tax-wrapper, through which you can invest in cash, stocks and shares, or a mixture. You don't pay UK tax on interest earned on cash, or on income or capital gains derived from funds or other investments in a stocks and shares ISA. Nor do you have to include these accounts on a self-assessment form. There are no general restrictions on when you can withdraw funds, but special terms may apply for individual providers – for example with fixed-rate cash ISAs.

Innovative Finance ISAs

This ISA allows investment in peer-to-peer lenders or crowdfunding activities. These may offer attractive interest rates, but be aware that these higher–risk investments are not covered by the Financial Services Compensation Scheme.

Lifetime ISAs

You can put up to £4,000 a year into a Lifetime ISA and receive a 25% government-funded bonus, but you must be under 40 when you start. You can contribute until your 50th birthday. The funds can be used to help buy your first home or save for retirement and there are investment and cash options.

If you withdraw funds before the age of 60, and are not buying your first home, there will be a withdrawal charge equivalent to 25% of the amount you withdraw, unless you are terminally ill.

Help to Buy ISAs

These cash accounts are for first-time buyers, but you can only open a new one until November 2019. You can save up to £200 a month, and an extra £1,000 in the first month. The government adds a 25% bonus, up to a maximum of £3,000, in addition to any interest earned. There are no age restrictions on starting, but you will lose the bonus if you use the savings for other purposes.

Junior ISAs

Parents and others can save up to £4,260 tax free for a child, each year. Junior ISAs (JISAs) work in a similar way to regular ISAs, with cash and investment options available. The key difference is that the child cannot withdraw funds until their 18th birthday. At this point they can convert it into a regular ISA.

Contributions to JISAs are in addition to your main ISA allowance. It's a great way to help a child build up assets for the future.

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INVESTMENT

UK dividends continue to perform

UK dividend yields are better than you might imagine.

Dividends have been rising. UK companies paid out £94.4 billion in dividends in 2017, a 10.5% increase over the previous year. The increase for 2018 is expected to be markedly smaller, as last year's payouts benefited from exchange rate gains that are unlikely to be repeated.

Nevertheless, UK shares are well worth considering if you are looking for income from your investments. The overall dividend yield for the UK stock market is currently about 3.6%, with shares in the FTSE 100 offering an average yield of 3.7%, in part because of the rise in dividends and the fall in share prices since the start of the year. And don't forget personal tax on dividends is less than on interest.

There are a wide range of UK Equity Income funds to choose from, so care is necessary when making a selection. Last year 60% of dividend payments by value were accounted for by just 15 companies. This can mean funds have highly-concentrated portfolios.

For advice on fund selection don't just look for the highest yield, talk to us.

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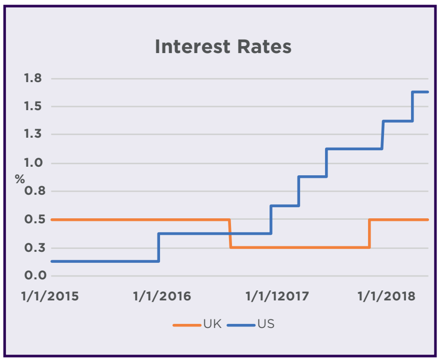
INVESTMENT

Interest rates are set to rise

The Bank of England is indicating the interest rate will increase in the coming months, so it may be a good time to review your investments.

The Bank of England held the interest rate at 0.5% in May, but its Governor, Mark Carney, reiterated that rates will probably need to increase if the inflation goal is to be met. Interest rates are already increasing in the US, with further rises expected in 2018.



The economists' term for what is happening is 'normalisation'. For the rest of us, it is a steady increase in interest rates.

The Federal Reserve, the US central bank, has been raising rates since December 2015. Despite threats to do the same, the Bank of England cut rates in August 2016, after the Brexit vote, but then reversed that change last November.

Impacts

Increases in short-term interest rates could have a variety of consequences:

- The values of fixed interest securities, such as government bonds (gilts), could fall. Much will depend upon how long-term interest rates react – these do not necessarily follow the short-term path.
- Share values could fluctuate further. Rising interest rates usually benefit banks, while companies that borrow heavily can suffer.
- The value of commercial property could come under pressure, although rental yields are currently above those available from gilts.

Credit: iStock/shutter_m

It may make sense to review your investments now in preparation for rising interest rates.

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TAXATION

Stuck in frozen tax thresholds?

The value of key tax thresholds is being eroded as elements of the income tax system lag behind inflation.

Three key thresholds relating to income tax have been subject to this treatment:

- **High income child benefit tax charge** This tax charge, introduced in January 2013, claws back child benefit at the rate of 1% for each £100 of income over £50,000 (based on the higher of the two parental incomes). That £50,000 threshold has not changed since its introduction.
- **Personal allowance tapering** The personal allowance is reduced by £1 for every £2 you earn over £100,000, and has not been revised since it was introduced in 2010.
- **Additional/Top rate tax starting point** The additional tax rate started in 2010/11 with a threshold of £150,000. Whilst it has since been reduced from 50% to 45% (46% in Scotland), the threshold has not increased.

Credit: iStock/Marc Dufresne

You can limit the effect of these income-driven thresholds by reducing the income being measured. For example, you may be able to transfer investments to your spouse or civil partner, or use personal pension contributions to reduce your income for tax purposes.

ISAs and some other investment products can also shelter your income and prevent it counting towards thresholds.

As it is early in the tax year, there is more scope for reducing the effect of these freezes in 2018/19, with professional advice.

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PENSIONS

Pension scams and cold calling

Be wary of cold-callers who offer a 'free' pension review – it could cost you more than you think.

Cold-calling has increased since pension freedoms were introduced in 2015, including from fraudsters trying to persuade people to move their pension into unregulated investments.

The government has proposed legislation banning these calls, but this has yet to take effect. Government figures suggest pension savers have lost more than £43 million through such scams. Pensions transfers potentially put your savings at risk, and if you are under 55 you may face additional tax charges. Some cold-callers aren't trying to pocket your pensions savings, but may recommend higher–charging pensions, from which they receive an 'introducers' fee.

Please get in touch if you want to review existing pension arrangements, particularly older company schemes.

✢ *Occupational pension schemes are regulated by The Pensions Regulator.*