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As we live longer, a guaranteed income could appeal

UHY Financial Planning

Review

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WINTER 2018

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The rights of marriage

There are many misconceptions around the rights of the 3.3 million unmarried couple families in the UK.

Heterosexual couples will soon be able to enter into civil partnerships in England and Wales, but there will still be many unmarried couples who see no advantage in a marriage or civil partnership.

However, there are many common misconceptions about co-habitation. First, there is no such thing as 'common-law' marriage in the UK: co-habiting relationships have a different legal status.

> *There is no such thing as 'common-law' marriage in the UK.*

In case of the worst

If an unmarried couple splits up, an ex-partner has no right to claim spousal maintenance or share of the other's pension(s). They can only make a claim in respect of solely owned property if they can show they have made a financial contribution or have carried out repairs or improvements, which may not be the case if the non-owner stayed at home to care for children during the time they were together.

If a cohabiting partner dies without leaving a will, the survivor will only automatically inherit property the couple owned as joint tenants. If the unmarried survivor does inherit under their partner's will – including automatic transfers of jointly owned property – they could incur inheritance tax, even if it is their home.

Surviving unmarried partners also won't receive the state bereavement support payment. A recent Supreme Court judgement questioned this practice, but as yet the rules have not changed.

To understand the position for you and your partner, please talk to us.

✢ *The value of tax reliefs and tax treatment depends on your individual circumstances.*

The Financial Conduct Authority does not regulate will writing, trusts and some forms of estate planning.

Tax laws can change.

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INVESTMENT

Long-term lessons from a record bull run

The US stock market recorded its longest ever bull run in August.

A new record was set for the Standard & Poor's 500 (S&P 500) index on 22 August 2018, when the market reached the 3,453rd day of a run that started on 9 March 2009.

The S&P 500's current bull market saw the index increase in value by 331% since March 2009, equivalent to an annual growth rate of 16.6%, before any dividends are considered. Over the same period the UK benchmark, the FTSE 100, little more than doubled in value.

Investment strategies

The nine years of US bull markets offer investors some lessons:

- **International diversification of investment can deliver rewards.** Many leading UK-listed companies are multinational, but none have matched the performance of the likes of Apple or Facebook.

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- **Currency can play a part in adding to returns – or reducing them.** Changes in currency valuations impact on both foreign-listed shares and UK-listed shares of companies with overseas earnings.

- **Timing entries and exits to markets can be difficult.** US markets have seen a few small dips since 2009, but staying invested and ignoring the market 'noise' has proved to be a sensible strategy.

✢ *The value of your investments and the income from them 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.

PROTECTION

Don't ignore your credit report

It pays to be aware of your credit history to ensure no-one is applying for loans or credit cards in your name.

The three main credit reference agencies (CRAs) are Experian, Equifax and TransUnion. All will provide consumers with a copy of their credit report and you can apply online.

Lenders will use the information in these reports to determine whether or not to grant credit – and potentially what rate of interest will apply.

Your credit report will probably go back at least six years and include:

- Your current and previous credit accounts, including bank accounts, credit cards, mortgages, store cards and mobile phone contracts.
- Details of all late or missed payments. This will include details of your outstanding balances with utility companies.
- Records of county court judgements, home repossessions, bankruptcies, or any Individual Voluntary Arrangements.
- Details of any joint financial relationships, such as joint mortgages or bank accounts.
- Whether you are on the electoral register.

It is worth paying attention to your credit history. If you have unpaid debts or a history of missed payments you are less likely to get credit, at least at preferential rates. There are other things that can also count against you, such as putting in a lot of credit applications in a short space of time or having no credit history at all.

If the information held by the CRAs is incorrect you can contact them to have it amended. It is also possible to add a note to your file, for example explaining the circumstances that led to a missed payment.

These reports should show if anyone has tried to apply for credit in your name. If this has happened contact the agency immediately and alert the relevant company.

TAX

HMRC focusing on inheritance tax returns

HMRC investigated almost one in four inheritance tax (IHT) returns in 2017/18, according to research published in September by UHY Hacker Young.

HMRC can impose penalties of up to 100% of the tax due on UK estates that underpay. These penalties apply even though it is often a family member who acts as executor after a relative has died. This is a stressful time, but executors have a legal duty to ensure all information is correct when applying for probate or filing an IHT return.

Particular care should be taken to ensure property values reflect current market conditions, and that assets are not omitted from the return.

Not all estates will be liable for IHT. The rules can be complex, so seek advice if necessary.

✢ *Levels and bases of taxation and tax reliefs are subject to change and their value depends on individual circumstances.*

The Financial Conduct Authority does not regulate tax advice.

Tax laws can change.

TAX

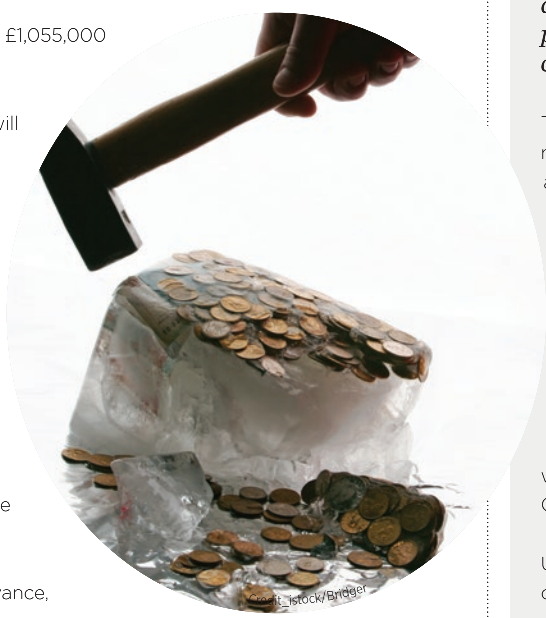
Headline increases and frozen thresholds in the 2018 Budget

The last Budget before Brexit proved to be more interesting than expected.

The 2018 Budget was delivered five months before the Brexit date and the start of the 2019/20 tax year. It threatened to be an interim affair, but in the event Mr Hammond chose to be more radical than expected, declaring that, “austerity is coming to an end, but discipline will remain”.

The main points of interest were:

- On 6 April 2019, the personal allowance will rise by £650 to £12,500, reaching the target originally set for 2020/21 in the 2017 Conservative manifesto.
- The basic rate band will increase by £3,000 to £37,500, making the higher rate threshold (personal allowance + basic rate band) £50,000. This also matches the 2020/21 target.
- Both the personal allowance and higher rate threshold will be frozen for 2020/21. They will rise in line with CPI inflation from 2021/22 onwards.
- Despite rumours, there were no changes to inheritance tax (IHT), which means the residence nil rate band rises to £150,000 on 6 April 2019. However, an overhaul of IHT could still emerge when Mr Hammond presents his Spring Statement.
- The pension lifetime allowance will increase to £1,055,000 for 2019/20. No other adjustments to pension allowances were made.
- The capital gains tax annual exempt amount will increase to £12,000, in line with inflation, for 2019/20.



Frozen thresholds

Many tax rates and thresholds remained frozen, which offers a subtle way of raising additional revenue to Chancellors.

For example, the main IHT nil rate band stays at £325,000 – the threshold set back in 2009. The starting points for additional rate tax (£150,000) and the phasing out of the personal allowance (£100,000) also haven’t increased since their introduction in April 2010.

Combined with the increase in the personal allowance, these frozen thresholds mean that the band of income potentially subject to 60% marginal tax (currently 61.5% in Scotland) covers half of the income between the £100,000 taper starting point and the £150,000 threshold for additional rate tax (45% or 46% in Scotland).

The increase to the higher rate threshold for 2019/20 has three knock-on effects:

- The upper earnings/profits limit for full rate national insurance contributions rises to £50,000, effectively clawing back nearly 40% of your income tax saving if you are an employee with earnings above £50,000.
- The income ceiling for pension automatic enrolment contributions could rise to £50,000, £3,650 above the current limit. Such a rise would coincide with the increase in minimum total contributions from 5% to 8% of ‘band earnings’ – £6,032–£46,350 in 2018/19.
- The £50,000 income threshold for the high income child benefit charge is unchanged for 2019/20, meaning it will apply once higher rate tax starts to be paid.

> *Many tax rates and thresholds remained frozen, which offers a subtle way of raising additional revenue to Chancellors.*

If you would like to discuss how the Budget affects you, please get in touch.

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INVESTMENT

FCA advises caution with crypto-currencies

The Financial Conduct Authority (FCA) is warning consumers about investment scams that purport to invest in crypto-currencies.

The watchdog has seen a rising number of cases, with fraudsters often advertising on social media, claiming celebrities have made significant sums investing in digital currencies, such as Bitcoin and Ether. Consumers should be wary of such claims.

It’s important to remember that crypto-currencies aren’t regulated by the FCA, so there’s no way of getting your money back if things go wrong, and you can’t ask the Financial Ombudsman for help.

Unlike conventional currencies, crypto-currencies are created and stored electronically, so there are no printed notes or minted coins. Prices can be volatile, with rapid gains and losses. The value of a bitcoin, for example, rose from just over £3,000 in October 2017 to more than £12,500 by January 2018. However, the following October it was down to around £4,700 again.

Such short-lived but rapid price rises have helped fuel these scams. Investors should be wary of any investments that promise ‘too good to be true’ returns, particularly if they are contacted out of the blue, or pressured to invest quickly.

The value of your investments, and the income from them, can go down as well as up and you may not get back the full amount you invested.

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PENSIONS

Annuity options for long-life planning

Life expectancy has stopped increasing according to a report from the Office for National Statistics (ONS) issued in September, but we are still living longer than ever before.

Between 2000 and 2010, average life expectancy at age 65 rose by 2.4 years for men and by 1.8 years for women. However, since 2010 improvements have slowed markedly and the latest figures from the ONS show that, on average, a man aged 65 in 2015-2017 could expect to live for another 18.6 years, while a woman aged 65 could survive for a further 20.9 years.

The important word here is 'average'. Calculations by the ONS suggest that at age 65 there is a one-in-four chance of a man living for another 29 years, to 94, and a woman living another 31 years, to 96.

The annuity option

Investing in an annuity is the only way to guarantee income for however long you live, but they have recently fallen out of favour. The latest FCA figures suggest over five times as much money is placed in income drawdown as annuities, despite drawdown's greater complexities.

The important role of annuities in providing secure income is in danger of being ignored. Annuity income can be structured in a variety of ways, building in automatic increases – for instance in line with inflation – minimum payment terms and/or continuing until the second death of you and your partner.

If you would like more information on annuities, perhaps to provide a core level of retirement income alongside drawdown, please talk to us. We can supply guidance based on your health and lifestyle circumstances.

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INVESTMENT

Growing ethical investment for sustainable returns

The amount of money invested in ethical funds has trebled over the past 10 years according to the Investment Association.

The growing demand has been backed by increased political pressure for fund managers and pension trustees to incorporate environmental, social and governance (ESG) factors as part of their investment process.

Those that support this responsible investment approach argue that this isn't just about doing the right thing: it is about managing longer-term risks and generating sustainable returns.

Understanding the ethical market

It is important to understand some of the different terms used.

Dark Green Funds: These funds follow strict guidelines and typically screen out certain sectors completely, such as armaments, fossil fuels, tobacco or gambling industries.

Light Green Funds: These funds have a more flexible remit. For example, rather than avoiding all oil companies, they may invest in those with the best track record of developing renewable energy.

ESG Factors: Fund managers may look at ESG factors as part of their selection process. This means looking at a company's record on waste and pollution, deforestation, employee diversity, health and safety, executive pay, board structure and tax strategy.

Impact Investing: Your money can be invested in companies or projects that have the potential to deliver positive social or environmental outcomes.

Please get in touch if you would like to discuss your investment options.

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ESTATES

Make your will the right way

Like all legal documents, your will must meet certain requirements.

A will must be signed and witnessed to be valid. You must have two witnesses who can't be beneficiaries or be married to a beneficiary. If your circumstances change – perhaps by having a child – you will need to update your will. Any changes must be signed and witnessed.

If you marry, any previous will you have made will usually be invalid, so you must make a new one. Remember, unmarried partners don't automatically inherit, and stepchildren won't automatically be included in provisions for 'children'. If you are excluding a close family member, give reasons.

You should name at least two executors to sort out your financial affairs after you die. Executors can be beneficiaries.

If you would like help with your will you can seek professional advice.

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