Griffins
Financial Solutions

Money++

from Griffins Financial Solutions

Summer 2021


Credit: Annette Shaff /Shutterstock.com

Contents

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:

- **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.

Griffins
Financial Solutions

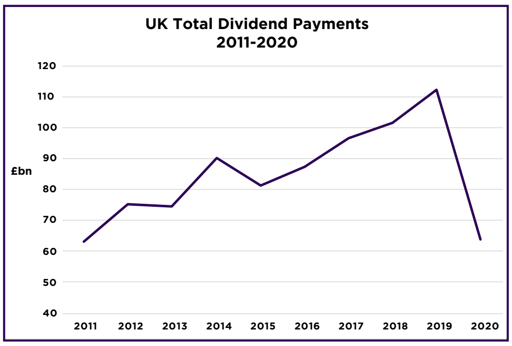
Dividends recover in 2021

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.

✣ 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.

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.

✣ 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.

Griffins
Financial Solutions

The future of inheritance tax

Most over 55s have no idea whether there might be inheritance tax (IHT) to pay on their estate – or what the liability might be.

Since 2009 the threshold above which IHT applies – known as the nil-rate band – has stood at £325,000 (or £650,000 for married couples and civil partners). The recent Budget froze the threshold at which IHT becomes chargeable for a further five years.

Above the nil-rate band, IHT is generally charged at 40%. However there are exceptions, in particular when assets are left to a spouse or civil partner; these transfers are normally IHT-free, regardless of their value. In addition, if parents leave a home to children or grandchildren the threshold increases to £500,000 using the residential nil rate band of £175,000. For married couples and civil partners this effectively means an estate of up to £1 million can be left to their children tax free.

Simple steps to reduce IHT

You can reduce your IHT liability by giving away money or other assets before you die. But it has to be a real transfer – so, for example, giving away a property but continuing to live in it wouldn't count.

- **Small gifts** You can make unlimited gifts of up to £250 per recipient during the tax year. In addition, you can give away up to £3,000 per tax year – as one gift or multiple gifts – under the 'annual exemption rule'.
- **Exempted gifts** Further gifts are permitted each year for specific reasons, e.g. towards a child or grandchild's wedding; or payments to help with an elderly parent or child's living costs.
- **Larger gifts** If you give away more than £325,000 in the seven years before your death these gifts may be subject to IHT. If you survive three years or more after making a non-exempt gift, taper relief reduces the tax payable on a sliding scale and no tax is payable if you survive the full seven years.

Potential reforms

Significant changes to IHT may be on the horizon. Last year an All-Party Parliamentary Group made a series of recommendations including a 10% tax rate on lifetime gifts over £30,000 per year, 10% on gifts on death up to £2 million and possibly 20% thereafter.

Meanwhile the Office of Tax Simplification (OTS) has also published recommended reform including:

- **Exemptions** The three main exemptions – the £3,000 annual exemption (frozen since 1981), the £250 small gifts exemption (frozen since 1980) and the normal expenditure exemption (with no monetary limit), together with marriage gifts (frozen since 1975) – should be consolidated into a single annual gift allowance.
- **Business relief** IHT business relief and capital gains tax (CGT) uplift on death can mean business assets pass with no IHT and no CGT, if sold immediately. The OTS proposed ending the CGT uplift.

While the future shape of IHT is uncertain, the tax itself is unlikely to disappear. If IHT is a concern for you the time to talk to us is now, especially as any reform could see the removal of some opportunities.

✢ The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice.

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.

The importance of portfolio rebalancing

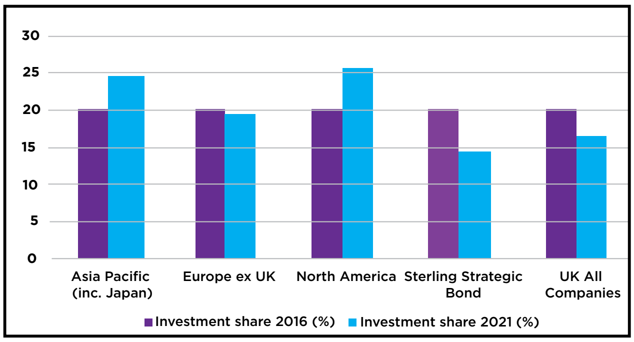
Inertia can be a dangerous trait, especially for investment.

You know the feeling. Sometimes it just seems easier to leave things be for another year rather than take any action. However, putting things off means risking costly problems that could be avoided with regular maintenance. As it is with central heating boilers, so it is with investment. A portfolio created several years ago can alter over time without the changes being obvious. The names on the investment will generally be the same, as will your share/unit holdings, but much may have happened underneath.

As a simple example, imagine a portfolio split equally across five major investment sectors that was established on 30 April 2016. With each holding 20% of the total, the investment is an even spread. Five years later, based on the average performance for each of the sectors, the picture is rather different.

The North America sector (basically the US) is now 25.5% of the portfolio, while the Sterling Strategic Bond has shrunk to 14.4% and the UK All Companies to 16.5%. The overall result is a less diversified portfolio with 69.1% in overseas share markets against 60% in 2016.

If the portfolio had been reviewed and rebalanced each year, it would not have drifted so far from its starting point. That is the penalty for investment inertia and why we recommend regular reviews, even if the result in some years is 'no change'.



✢ 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.

Responsible investing and 'greenwashing'

There has been huge growth in the number of 'sustainable' and 'responsible investment' funds, which now look at a company's environmental, social and governance (ESG) track record as part of the investment process. However not every 'green' label should be taken at face value.

In some cases these terms are simply being used as a marketing tool – a trend known as 'greenwashing'. Investors might assume they are in a climate-friendly fund, but the reality could be quite different.

MPs are now calling on regulators to do more to address this issue and there is a growing push for European regulators to police how the fund management industry reports ESG issues. Until regulations are in place, investors will need to take a closer look at funds, which can be complicated by financial and technical jargon.

To select a fund that is aligned to your values it's worth considering the following issues.

- **Active or passive** Passive funds may have limited ability to exclude stocks, but there are specialist indices weighted on carbon emissions as well as the FTSE4Good indices.
- **Top ten holdings** Most funds publish their ten biggest holdings on fact sheets, indicating where your money is invested.
- **Commitments and pledges** Make My Money Matter and the Net Zero Asset Managers Initiative, among others, work with the financial industry to address climate change. Fund managers can sign up to the aims of one or more of these organisations.

For guidance on making your investments more sustainable please get in touch.

✢ 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 with your overall attitude to risk and financial circumstances.

Newbury
Elizabeth House | 13–19 London Road
Newbury | Berkshire | RG14 1JL
T 01635 551333 F 01635 551121
E info@griffinsfs.co.uk

achieving your goals, together
info@griffinsfs.co.uk