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Money++

from Griffins Financial Solutions

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Child trust funds grow up

The first Child Trust Funds (CTFs) have reached their maturity date, but many have been overlooked.

The first CTFs reached maturity on 1 September 2020, when their owners turned 18.

A government payment of at least £250 was made at birth to a CTF, for children born between 1 September 2002 and 2 January 2011. Thereafter government payments stopped. HMRC had to set up nearly 30% of the 6.3 million CTFs where a child's parents had failed to open an account within 12 months of the issue of the government payment voucher.

The default opening process means that many people have lost track of their CTFs, particularly accounts that just received the initial £250 payment. This has prompted HMRC to set up an online tracing tool as part of its programme to handle maturities which are currently running at about 55,000 per month.

A newly adult owner of a CTF has three options when they reach the age of 18:

- Withdraw the CTF's value.
- Invest all or part of the CTF's value in an ISA, without the payment counting towards the normal subscription limits.
- Do nothing, in which case the CTF fund will be transferred to a "protected account" where it will continue to enjoy freedom from UK income tax and capital gains tax.

CTFs were effectively replaced by Junior ISAs (JISAs) from November 2011 – and there were no more government contributions. JISAs offer the same tax benefits as CTFs and in this tax year have a maximum contribution limit of £9,000. For advice on JISAs and maturing CTFs, please contact us. The plans may have started out for minors, but their rules mean they are not child's play.

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

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The importance of diversification

The pandemic has highlighted the value of holding a well-diversified portfolio of investments.

The Covid-19 pandemic has already taught us a great deal; and some people have been faced with relearning old lessons they may have forgotten. Global stock market performance has changed radically. While nearly all markets took a sharp downturn in February and the first three weeks of March, there has been a marked divergence in behaviour since then. The table shows how differently the various main markets have performed.

Market	Index	31/12/19-23/3/20*	23/3/20-30/10/20	Year to 30/10/20
UK	FTSE 100	-33.79%	11.68%	-26.05%
US	S&P 500	-30.75%	46.15%	1.21%
Europe	Euro Stoxx 50	-33.63%	19.02%	-21.01%
Japan	Nikkei 225	-28.61%	36.06%	-2.87%
China	Shanghai Composite	-12.78%	21.22%	5.72%

** 2020 year-to-date low point for UK, US and China markets*

The 2020 performance of the two main UK equity fund sectors, UK All Companies and UK Equity Income, meant that at 30 October they occupied the bottom two slots of the 39 sectors monitored by the Investment Association.

Diversification between markets is not only about capital performance, it can also be visible in comparisons of dividends. For example, in the second quarter of 2020 the year-on-year fall in UK dividends was a brutal 54.2% while in Japan it was just 4.2%.

The turbulence of 2020 has been a reminder that investment diversification can help smooth both capital and income performance. For a review of your existing investment holdings and advice on your diversification strategy, please talk to us.

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The pandemic retirement conundrum

Has Covid-19 disrupted your retirement plans?

The economic effects of Covid-19 stretch far beyond those people infected by the virus. The obvious example is the billions of pounds of government spending, but there are many others, such as the impact on those approaching retirement.

Recent research by the Institute for Fiscal Studies (IFS), discovered 13% of those aged 54 and above had revised their retirement plans. A little over half had increased their planned retirement age, while the remainder had brought it forward. Unsurprisingly the IFS found that the wealthier were more likely to be in the second category. Wherever you are on the road to retirement, there are lessons to be drawn from the IFS work:

- You may not always be able to decide precisely when your working life comes to an end – circumstances may dictate the timing for you.
- You should build in flexibility to your retirement plans as much as possible. As the state pension age continues to rise – it is now 66 – so too does the period widen between an early retirement and the receipt of the state pension.
- Relying on work to supplement lowly pension benefits is a risky strategy. Health and economic issues can bring work late in life to an abrupt end – as we can see right now.

After the tumultuous events of 2020, it makes sense to review your current retirement plans. With the possibility of pension tax reform in the spring Budget, the sooner you start the process, the better.

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Focus on year end planning

The season of year end tax planning is nearly upon us as 5 April creeps closer.

The Autumn Budget has been rescheduled for spring for a second successive year. Once again, that means it is best to complete year-end tax planning before the Chancellor returns to the despatch box. Such a precaution is all the more important in 2020/21 as several areas of tax have come under scrutiny following earlier Treasury-commissioned reviews. With that warning in mind, your year end planning checklist should include the following.

Income planning – Your income may have dropped this tax year because of reduced earnings during the pandemic, falling dividends or miniscule interest rates. So it might be worth trying to estimate your income for the full tax year to 5 April 2021, because it could point to tax-saving opportunities. For example, if your income is above £50,000 and you have or live with someone with children, you could be subject to the High Income Child Benefit Charge. Bringing your taxable income down – for example by making a pension contribution – could reduce or even eliminate that charge.

Pensions – Check if you have any unused pension annual allowance from 2017/18, when the maximum annual allowance (before tapering) was £40,000. You have until the end of the current tax year to mop up this past allowance or lose it completely. However, it can only be used once you have exhausted your 2020/21 annual allowance, which may be higher than in previous years because of changes introduced in the March 2020 Budget.

You can go on to pick up more unused relief from the years after 2017/18, although you can also only do this once you have used up your current year's allowance. Unsurprisingly, the calculations can quickly become complex, so do contact us as soon as possible if maximising *today's* pension tax relief is important to you.

Capital gains tax – Capital gains tax (CGT) could soon be subject to some changes. In July the Chancellor asked the Office of Tax Simplification (OTS) to undertake a broad review of CGT. A first report from the OTS appeared in November. One proposal that could appeal to the Chancellor is a reversion to the regime which existed until 2008. Back then, CGT was levied at full income tax rates which would now mean rates of up to 45% rather than the current maximum of 20% (28% for non-exempt residential property and carried interest).

If you have capital gains in your portfolio, you should consider realising gains up to your available annual exempt amount before Budget day.

Inheritance tax – A separate OTS simplification review last year considered inheritance tax (IHT). It was not in the March 2020 Budget, but few experts think it has been left on a shelf to gather dust. Some reliefs could be under threat, such as those which apply to business assets and large regular gifts out of income. Ahead of the Budget you should think about using your £3,000 annual exemption; making individual gifts of up to £250; making regular gifts out of disposable income and whether to make any larger lifetime gifts.

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Tax deadline in January

The clock is ticking for millions of taxpayers who need to file a self-assessment return for 2019/20 by 31 January.

The self-employed, those who are partners in a business, and those who receive an income from savings, investment or a buy-to-let property, are all expected to pay by the January deadline.

As well as completing an online return, savers must pay any tax due by this date. Those that miss this deadline face a £100 penalty, plus interest on the outstanding tax bill. The tax relates to earnings from 6 April 2019 to 5 April 2020.

Delayed payments

Those in the self-assessment system usually make a forward payment on account by 31 July each year. However, HMRC allowed people to delay July's payment this year because of the Covid crisis. If no Time to Pay arrangement is in place, provided this is paid by 31 January 2021 there is no interest or surcharge to pay. While the longer deadline may have helped people manage their finances over the summer, it is likely to mean a bigger bill this January.

If your earnings have been affected by Covid and you are worried about paying you should contact HMRC at the earliest opportunity to discuss options. To file online you need to register with the gov.co.uk website, who will send a secure PIN. This takes up to a week to arrive so don't leave it to the last minute.

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Savers feel the pinch

Those looking for income from their savings face an uphill challenge, with banks and building societies making swingeing cuts to the interest paid on leading accounts.

Credit: Syda Productions/Shutterstock.com

This latest round of rate reductions was started by National Savings & Investments (NS&I), which has imposed brutal cuts to some of its most popular accounts. The interest paid on its NS&I income bonds, for example, has fallen from 1.15% a month to just 0.01%. Returns on ISAs and Premium Bonds have also been squeezed.

A wave of similar reductions has spread to the high street with newer providers such as the online Marcus Bank, as well as more established names like the Coventry and West Bromwich Building societies, cutting rates and, in some cases, removing accounts altogether.

Income seekers prepared to take more risk with their money also face difficulties. At least 35 FTSE 100 companies have cut, cancelled or suspended their dividend pay outs this year. In many cases this is because revenues have been hit by coronavirus lockdowns – meaning fewer surplus profits to distribute to investors.

Savers looking to boost returns need to be nimble when it comes to snapping up best-buys; good rates do not tend to last long. For example, the Skipton Building Society launched a best-buy easy-access account earlier this autumn. Demand meant it closed to new customers after just 48 hours.

Savers need to consider all their options. If you can afford to lock your money away you may get a slightly higher rate from a fixed-term bond, although this risks tying up your money at a time when interest rates are at an all-time low.

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Scams on the rise

Fraudsters preying on people's financial and health fears have been responsible for a sharp increase in scams during the Covid-19 crisis.

Criminals are increasingly sending out fake emails or SMS texts disguised as a trusted body such as HMRC, a local council, TV licensing or even the NHS. These messages may claim you are due a rebate or refund. In some cases people have been told they qualify for "Covid relief funds".

Of course, no refunds or rebates are available. In most cases these messages contain links to websites designed to harvest personal and financial information. They are a variant on many existing phishing email scams where you may receive a fraudulent email purporting to be from a high street bank, utility provider or even a tech company, like Amazon, Apple or Netflix.

Preying on people's current health concerns, an increased number of scams claim the recipient has been in contact with someone diagnosed with Covid-19. Again these will link to a site requesting personal data or asking for payment for a Covid test or other health products.

Spotting scams

Growing sophistication means spotting these scam emails isn't always easy, but spelling and grammar mistakes, plus unfamiliar links are telltale signs. If you are in any doubt, ignore or block the message, contact the named organisation directly and never disclose personal information such as bank details, PINs or passwords to an unsolicited contact. HMRC and banks will never ask you to share personal information in this way.

Much fraud is aimed at making false applications for loans and credit cards, and there is evidence that some of these cloned identities have been used to apply for government Covid support loans.

However vigilant you are, personal data can be compromised in a number of ways, so it's also worth monitoring your credit record for signs of any attempt to clone your identity. You can obtain your record for free through one of the three major credit references in the UK: Equifax, Experian and TransUnion.

If in any doubt, caution is the best option.

Newbury
Griffins Court | 24–32 London Road
Newbury | Berkshire | RG14 1JX
T 01635 551333 F 01635 551121
E financialsolutions@griffinsfs.co.uk

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

Chartered Financial Planners