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WEALTH MANAGEMENT

with you for life

JANUARY/FEBRUARY 2021

NEW YEAR, NEW START TO YOUR FINANCES

TAKING TIME TO UNDERSTAND YOUR FINANCIAL PLANS WILL REALLY PAY OFF

DON'T MISS THE ISA DEADLINE
Saving and investing for a future that matters. Yours.

TAX SAVING OPPORTUNITIES
It's time to identify, plan for and potentially mitigate your tax burdens

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INSIDE THIS ISSUE

Welcome to our first edition for 2021. In a year of renewal, hopefully we'll see a world that is steadily returning to normal, while also rapidly accelerating into a transformed future.

Although lockdown restrictions are easing, the coronavirus (COVID-19) pandemic will continue to impact on our lives in many ways. Where will we be in six months, a year, ten years from now? One thing is certain, COVID-19 has reshaped all of our futures.

This global pandemic created overwhelming anxiety. Many people are anxious not just about the virus, but the resulting financial pressure and uncertainty. Getting our financial life in order will be a top priority for many as we enter 2021. On page 06 we focus on two key areas: goals related to being prepared for the unexpected this year, and those related to what you want to be different at the end of the year.

There are many ways that you can save or invest. Individual Savings Accounts (ISAs) are an incredibly effective means of shielding your money from both Capital Gains Tax and Income Tax. To utilise your ISA allowance, you should make use of it before the deadline at midnight on Monday 5 April 2021. The date marks the end of the 2020/21 tax year. Read the full article on page 08.

The Government has spent hundreds of billions on measures to support businesses and jobs, and fight the coronavirus pandemic. But how will it pay for these? We won't know what the extent of the final bill will be until long after the crisis is over. While the Chancellor is looking to reduce the tax gap, there are nonetheless still opportunities to review your financial arrangements for saving tax throughout the tax year. Find out what to consider on page 10.

A full list of the articles featured in this issue appears opposite.

TIME TO REASSESS HOW TO SHAPE YOUR PERSONAL FINANCIAL JOURNEY?
The start of a new year is the perfect time to reassess how to shape your personal financial journey. Whatever your circumstances and needs, we're here to listen to your future plans and support you in achieving them. We look forward to hearing from you.

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WEALTH NEEDS MANAGING – NOW MORE THAN EVER

ACHIEVING YOUR FINANCIAL GOALS THROUGH INVESTING, AND ONE SIZE DOES NOT FIT ALL

Even as we hope to put the coronavirus (COVID-19) pandemic in the rearview mirror in 2021, uncertainty regarding both the virus and Brexit is likely to continue to weigh on the UK and global economies as well as on our personal finances during this year.

While we hope volatility is less elevated this year, financial markets and the economy could still remain at the mercy of COVID-19 developments.

SETTING SPECIFIC INVESTMENT GOALS IS KEY

Understandably investment volatility can make it easy to focus on the short term and those temporary peaks and troughs. Setting your specific investment goals is important to keep you focused when you need it and will enable you to build a portfolio to get you where you want to be. Investment strategies should include a combination of various investment and fund types in order to obtain a balanced approach to risk and return. Maintaining a balanced approach is usually key to the chances of achieving your investment goals, while bearing in mind that at some point you will want access to your money.

MARKET FACTORS THAT DETERMINE VOLATILITY

Market volatility can be nerve-racking, even for the most seasoned investors. Many different factors can impact market volatility, sending values of investments in either direction. Some of the most common factors that determine the volatility of the market include investor concern, political events, natural disasters and major events in foreign markets. But it's important to keep matters in perspective. Avoid making rash decisions and focus on your long-term goals. Keep investing as you normally would. Also don't attempt to pick the market bottom or the turnaround to jump in. Fight the impulse to think you can.

RIDING OUT THE MARKET UPS AND DOWNS

Investments don't always go in a straight line – they have the potential to react and recover from short-term market events. Rather than looking at short-term volatility, it pays to look at the bigger picture. Over the long term, investments will usually deliver returns that allow you to grow your wealth. Looking at a twelve-month snapshot of your investment portfolio may show that investments have underperformed but look back over the last five or ten years, and you'll hopefully be on track.

TOLERANCE FOR RISK

One of the first steps in developing an investment strategy is to identify your tolerance for risk as an investor, referred to as your 'risk profile'.
Every investor has a different risk tolerance with regard to their investment selections. Making investment decisions can depend on your personality as well as the goals you are investing towards. Weighing up the level of risk you're willing to be exposed to can be challenging. Whether you're reviewing your pension or building a personal investment portfolio, balancing risk is a crucial part of the process.

WELL-ALLOCATED INVESTMENT PORTFOLIO ASSET CLASSES

During volatile times, asset classes such as stocks tend to fluctuate more, while lower-risk assets such as bonds or cash tend to be more stable. By allocating your investments among these different asset classes, you can help smooth out the short-term ups and downs. Portfolio diversification may reduce the amount of volatility you experience by simultaneously spreading market risk across many different asset classes. By investing in several asset classes, you may improve your chances of participating in market gains and lessen the impact of poor performing asset categories on your overall portfolio returns.

DIVERSIFICATION TO PROTECT AND GROW INVESTMENTS

Diversify, diversify, diversify – in other words, 'don't put all your eggs in one basket' – is sage investing advice. In addition to diversifying your portfolio by asset class, you should also diversify by sector, size (market cap) and style (for example, growth versus value). Why? Because different sectors, sizes and styles take turns outperforming one another. By diversifying your holdings according to these parameters, you can smooth out short-term performance fluctuations and mitigate the impact of shifting economic conditions on your portfolio. ■

TIME TO REACH YOUR FINANCIAL GOALS?

There's always a purpose behind financial investments. What's yours? For many of us, building a nest egg feels like a natural thing to do. Perhaps it's performance. Or preserving your wealth for the next generation. Or maybe you want your investments to reflect your values. What's important is that you understand your situation and your financial goals. To discuss accessible ways of investing that could help you make your money work harder, please contact us.

/// 97% OF CAPITAL GAINS TAX REVENUE IS PAID BY OVER-35S, WITH MOST PEOPLE CAUGHT BY THE TAX IN THEIR 50S AND 60S

TAXING TIMES ON THE HORIZON!

ARE YOU PROTECTED AGAINST FUTURE CAPITAL GAINS TAX RISES?

It is almost inevitable that taxes will have to rise to help meet the potential £391 billion bill the Government has racked up in supporting the British economy through the coronavirus (COVID-19) pandemic. The Office of Tax Simplification (OTS) published a report[1] in November 2020 outlining the policy design and principles underpinning Capital Gains Tax (CGT).

The OTS acknowledged the consultation has been produced in a shorter timeframe and this hints that change to CGT will be on the cards as the Government looks to counteract the escalating deficit caused by the COVID-19 pandemic.

RAISING REVENUES

In July 2020, the Chancellor of the Exchequer, Rishi Sunak, asked the OTS to carry out a review of CGT. Mr Sunak asked for a review of its use in 'the acquisition and disposal of property' and 'the practical operation of principal private residence relief'. This suggests that reform could be on the cards.

Above an annual exemption of £12,300 (2020/21), CGT is charged on gains at 10% for basic rate taxpayers and 20% for higher and additional rate taxpayers. This rises to 18% and 28% respectively where the gains relate to residential property. Income Tax is charged at a basic rate of 20%, rising to 40% and 45% for higher and additional rate taxpayers.

According to the OTS, 97% of CGT tax revenue is paid by over 35s, with most people caught by the tax in their 50s and 60s. It means that raising additional revenues can be positioned as a tax on those with the broadest shoulders.

Conditions associated with Capital Gains Tax include the following:

- You can carry forward losses from previous years
- Capital Gains Tax arises on disposal of an asset – normally on sale, but gifts, insurance claims or compensation for losses can be chargeable disposals
- The value of the gain is normally the amount you receive, but gifts and certain sales may be valued at the open market value
- Capital Gains Tax is not normally payable on death

REFORMS PACKAGE

The OTS has suggested a package of reforms, some of which are tweaks around the edges that will be relatively quick wins and some which will cause a bit of a stir. The prospect of bringing CGT in line with Income Tax has been touted for some time and so that is relatively unsurprising, although it would lead to a significant rise in tax paid by those subject to CGT.

Other proposals, such as scrapping CGT uplift on death, have far-reaching consequences and need to be considered carefully. CGT uplift means that CGT is overlooked when an individual dies and they hold taxable assets that have gone up in value. This is because when the assets are transferred to someone else, normally a spouse or family member, they are 're-set' for CGT purposes. Instead, the assets may be subject to Inheritance Tax.

ANNUAL EXEMPTION

The OTS also suggest lowering the annual exempt amount. Their view is that while small gains should still be exempt in order to avoid administrative hassle for the sake of a minor tax bill, the current allowance results in too many profits being tax-free.

It seems highly likely that changes are on the horizon. And while it is not suitable for everyone to change their financial plans because of mere policy speculation, it is worthwhile reviewing in light of what will inevitably be a more harsh tax environment. ■

NEED GUIDANCE ON THE IMPLEMENTATION OF PROACTIVE PLANNING AND MITIGATION?

Tax-wrapped pensions and Individual Savings Accounts (ISAs) are just two solutions that are safe from CGT. It is important to fully utilise any unused allowances available and forward planning could help mitigate the tax burden of legislative changes, even if they cannot be eliminated. Speaking to us will give you the best opportunity to utilise these opportunities.

Source data:

[1] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/935073/Capital_Gains_Tax_stage_1_report_-_Nov_2020_-_web_copy.pdf

MORE OVER-55S FORCED TO DIP INTO PENSION POTS

UNDERSTANDING THE DIFFERENT WAYS YOU CAN USE YOUR PENSION MONEY

The UK has seen a rise in the number of people accessing their pension pots or enquiring about doing so. People accessing their pension as a flexible income has increased by 56%[1] according to research since the first lockdown last year. The increase is due to people withdrawing after holding off when stock markets were volatile.

An increasing number of pension savers have started to withdraw funds after many pressed pause at the start of the coronavirus (COVID-19) pandemic. The number of people taking only a tax-free lump sum has increased by 55%. Worryingly, the number of people withdrawing all of their pension in one lump sum increased by 94%.

COMPLEX TAX RULES AROUND PENSION WITHDRAWALS

Once you reach age 55 you can now access your pension pot. You can take some or all of it, to use as you need, or leave it so that it has the potential to continue to grow. In September last year the Government confirmed it would legislate to enact proposals to increase the minimum access age from 55 to 57 in 2028[2].

Due to COVID-19, many people's incomes have been significantly reduced and so taking money out of their pension pot seemed like a quick cash-flow solution. But there are complex tax rules around pension withdrawals so people should be aware of the potential consequences.

NEEDING MONEY AFTER A CHANGE IN CIRCUMSTANCES

While a tax-free lump sum can be withdrawn from a pension without incurring any tax liability, any balance withdrawn is subject to income tax. The number of people buying a guaranteed income for life (annuity) increased by 41%.

The increase in withdrawals is due to a combination of factors, including some people returning to withdraw after pausing earlier last year due to stock market volatility and some people needing the money after a change in circumstances.

FACTORS WEIGHING ON PENSION SAVERS' MINDS

Data from August and September last year showed withdrawal levels got closer to levels seen in 2019 but many pension savers still resisted the urge to access their pension pots in the face of continued financial uncertainty. When you take your pension, some will be tax-free but the rest will be taxed. You need to be aware that tax depends on your circumstances, which can change in the future.

Stock market volatility, coronavirus (COVID-19) and employment prospects are just some of the factors weighing on pension savers' minds when considering taking money out of their pension pot. Everyone is different and it is important to find the right solution for your circumstances.

TOP 5 THINGS TO CONSIDER BEFORE WITHDRAWING MONEY FROM YOUR PENSION

1. Pensions freedoms: Familiarise yourself with the pensions freedoms so you are aware of your options. You can now do a lot more with your pension pot than previously. Everyone is different and it is important to find the right solution for your circumstances. What risks are you willing to take?

2. Saving requirements: Consider the amount of money you will need each month to maintain your lifestyle. Ask yourself: How much might I need? How much might I get? Do I still have a mortgage to pay off? What other sources of income do I have, and do I need my pension to keep up with inflation? Could I consider working for longer? Do I want to have annual holidays?

3. Costs later in retirement: Think about costs later in your retirement. What will your living costs be in the future? Care needs are not a subject we are comfortable thinking about but it is important to have conversations about it with your family, as well as Powers of Attorney, Wills and inheritance.

4. Health and life expectancy: We often vastly underestimate this, but evidence shows we are mostly living longer, with a growing variation in healthy life expectancy. If you have a partner, do you need to provide for them financially after you die, or are you relying on them?

5. Time to talk to us? Few of us may expect to give up work altogether in our 50s. But a growing number of us are dipping into our pension before retirement age. Before we get into the different ways you could withdraw money, there's some more general things to think about first. Try asking yourself the following questions: How long will I need my money to last? How long do I want to keep working? How much tax might I pay? Could my health and lifestyle affect what I get? How much do I want to leave behind? ■

GUIDANCE TO ENABLE YOU TO MAKE AN INFORMED DECISION

Whether you have plans to retire completely or want to scale down your work hours, there are now more options than ever to choose from when thinking about making your savings work for you. If you are considering accessing your pension it is essential that you receive professional financial guidance to enable you to make an informed decision. If you get it wrong you could end up with a large tax bill. To discuss your situation – we're here to help you.

Source data:

[1] https://www.abi.org.uk/news/news-articles/2020/11/big-jump-in-pension-savers-accessing-pots-after-pressing-pause-in-the-first-lockdown/

[2] https://questions-statements.parliament.uk/written-questions/detail/2020-08-28/81494

THE TAX IMPLICATIONS OF PENSION WITHDRAWALS WILL BE BASED ON YOUR INDIVIDUAL CIRCUMSTANCES, TAX LEGISLATION AND REGULATION WHICH ARE SUBJECT TO CHANGE IN THE FUTURE.

ACCESSING PENSION BENEFITS EARLY MAY IMPACT ON LEVELS OF RETIREMENT INCOME AND YOUR ENTITLEMENT TO CERTAIN MEANS TESTED BENEFITS AND IS NOT SUITABLE FOR EVERYONE. YOU SHOULD SEEK ADVICE TO UNDERSTAND YOUR OPTIONS AT RETIREMENT.

NEW YEAR, NEW START TO YOUR FINANCES

TAKING TIME TO UNDERSTAND YOUR FINANCIAL PLANS WILL REALLY PAY OFF

At the start of every year we have great intentions, as financial promises are renewed. Getting our financial life in order will be a top priority for many as we enter 2021. Consider focusing on two key areas: goals related to being prepared for the unexpected this year, and those related to what you want to be different at the end of the year.

10 AREAS TO CONSIDER WHEN SETTING NEW YEAR FINANCIAL GOALS

New Year's resolutions can be notoriously difficult to stick by. However, there are a few ways to help make sure you start the year on a positive financial footing.

1. NEW YEAR, NEW FINANCIAL GOALS

There's nothing like the fresh start of a New Year. Which makes it the perfect time to sit down and set some financial resolutions for the next 365 days. Having clear financial goals to work towards will give you a sense of purpose and motivation to spend less and to save and invest more throughout the year ahead. To ensure you achieve your financial resolutions, it helps to break the bigger goals down into more manageable bite-sized objectives that you can gradually work through bit by bit to create better financial habits.

2. REVIEW YOUR BUDGET

Review this past year's budget. What did and didn't work for you? If your current budgeting methods and tools aren't working, look for a better way to track your spending. Assess your income and expenses, looking for places to save money. Revise your budget to reflect any changes to your income or expenses in the new year. If you don't have a budget, it's time to make one. Ask yourself: what are my priorities? How can I make this sustainable?

3. REVIEW YOUR BORROWING

Find out if you could save money by refinancing your mortgage, car loan or student loan. If you have high-interest debt, make a plan to pay it down. If you don't have enough extra money in your budget to make a big dent, investigate credit cards with a 0% introductory balance transfer offer. Could you transfer your high-interest balances to a card with a temporary 0% interest introductory period to save on interest? The key is making a plan to pay off the balances before the introductory period ends and you begin paying a standard interest rate. Are you utilising less than 25% of your available credit across all of your cards and loans at any one time? Anything higher could affect your overall credit rating score.

4. CHECK THE INTEREST RATE ON YOUR SAVINGS

Different types of savings accounts have different rules on how much you can put in and when. Could you deposit money into another account where you receive a better rate of interest? It's important to check how your savings are growing and at a rate above inflation, and then decide if you need to make changes. When choosing a savings account, you need to think carefully about whether you will need access to your money, how long you are looking to save for, and how you want to operate it.

5. TAKE A LOOK AT YOUR INVESTMENTS

Whether your goal is to create a nest egg for early retirement or to leave something behind for grandchildren, reviewing what your goals are and whether you're on track is important. Ask yourself these questions: How long should I be prepared to put your money away for? Do I want to invest for income, growth, or both? Are my investments aligned with my values and life goals? How can I grow my wealth? Differing circumstances and goals may mean that what was once appropriate, no longer is. It's important that you feel comfortable with the level of risk you're taking with investments. Should I review my investment portfolio? Is my portfolio sufficiently diversified? Does my portfolio reflect my goals and risk profile?

6. PLANNING FOR YOUR RETIREMENT

Even if retirement seems a long way off, think about what you want your money to do for you when you stop working. Ask yourself: Do I know how much money I may need in retirement? How long will my money need to last for? How much should I be saving today? The earlier you start the process of planning for your retirement, the more manageable it will be, and the less of an impact it'll have on your daily finances. Questions to include: Am I taking full advantage of the tax-efficiency of my Personal Pension or Workplace Pension? What am I looking forward to doing the most in retirement? How much retirement savings will I actually need? How much can I afford to spend yearly once I have retired?

7. COMBINING A NUMBER OF DIFFERENT PENSIONS

It's not uncommon now for people to have built up a number of pensions during the course of their lives. Ask yourself the following: Over my career, have I worked for different employers and built up a number of different pension pots and/or pension schemes? Do I have personal pensions built up during times spent being self-employed? Pension consolidation could potentially be a way to maximise the value of your investments. It can make it easier to track how well a fund is performing in putting your money to work on the markets to boost your investment returns. However, consolidating a pension isn't for everyone.

8. MAKE THE MOST OF YOUR TAX-EFFICIENT ALLOWANCES

Time is running out if you haven't taken full advantage of your tax-efficient allowances before the end of the tax year on 5 April. Every tax year, commencing on 6 April, you receive new Individual Savings Account (ISA) and pension allowances. Questions to ask: Have I fully maximised my contribution levels for the current 2020/21 annual £20,000 ISA allowance, and annual £40,000 pension allowance? Can I take advantage of pension carry forward to make extra pension contributions? Am I fully using my Personal Savings Allowance for tax-free interest payments? What is my financial gifts tax allowance? Can I use my Capital Gains annual allowance to create tax-free returns?

9. REVIEW YOUR ESTATE PLAN

There is never a good reason to not have a Will. How can I write my family's future? Have I written a Will, or does my existing Will need updating? Making a Will is not a task that many people look forward to. It can easily slip down the to-do list – for a number of reasons. A Lasting Power of Attorney for Health and Welfare (LPA) will also allow you to give someone you trust the legal power to make decisions on your behalf in case you later become unable to make decisions for yourself. How can I leave money to charity? How much money can I give away each year in gifts without tax implications? Can I make regular gifts out of my surplus income? Should I put my assets into a trust during my lifetime?

10. CHECK WHEN YOUR NEXT REVIEW IS

You're not sure what to prioritise – your pension, your mortgage or your ISA. You're starting to lose sleep over whether you're saving enough for your children's education. And you can't quite recall whether you have accumulated four, five – or was it six? – pension pots from previous jobs. Now may be time to consider your next financial review so that we can discuss your immediate and future plans, and talk you through your financial goals. ■

HELPING YOU TOWARDS YOUR GOALS

The beginning of a new year is the perfect time to consider your existing financial goals and decide if they still align with your priorities. It may also be a good time to check if you have the right systems and support needed to achieve these goals when you want to. If you'd like to know more about how we can help you achieve your financial and life goals, please contact us.

A PENSION IS A LONG-TERM INVESTMENT AND IS NOT NORMALLY ACCESSIBLE UNTIL AGE 55 (57 FROM APRIL 2028).

THE VALUE OF YOUR INVESTMENTS (AND ANY 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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/// PUT YOUR 2020/21 ISA ALLOWANCE OF £20,000 INTO AN ISA BY 5 APRIL AND DON'T PAY TAX ON THE MONEY YOUR ISA MAKES

DON'T MISS THE ISA DEADLINE

SAVING AND INVESTING FOR A FUTURE THAT MATTERS. YOURS.

Each tax year, we are given an annual Individual Savings Account (ISA) allowance. This can build up quickly, letting you accumulate a substantial tax-efficient gain in the long-term.

The ISA limit for 2020/21 is £20,000. The proceeds are shielded from Income Tax, tax on dividends and Capital Gains Tax. To utilise your ISA allowance you should do so before the deadline at midnight on Monday 5 April 2021.

We've answered some typical questions we get asked about how best to use the ISA allowance to help make the most of the opportunities as this tax year draws to a close.

Q: CAN I HAVE MORE THAN ONE ISA?

A: You have a total tax-efficient allowance of £20,000 for this tax year. This means that the sum of money you invest across all your ISAs this tax year (Cash ISA, Stocks & Shares ISA, Innovative Finance ISA, or any combination of the three) cannot exceed £20,000.

Q: WHEN WILL I BE ABLE TO ACCESS THE MONEY I SAVE IN AN ISA?

A: You can take money out of your Cash ISA but how much, and how often, depends on which type of ISA you have. If your ISA is 'flexible', you can take out cash then put it back in during the same tax year without reducing your current year's allowance. Your provider can tell you if your ISA is flexible.

Stocks & Shares ISAs and Innovative Finance ISAs don't usually have a minimum commitment, which means you can take your money out at any point. That said, you should invest for at least five years. As such, if you're looking to use your money within the next few years, you should probably keep it in a Cash ISA.

There are different rules for taking your money out of a Lifetime ISA.

Q: CAN I TAKE ADVANTAGE OF A LIFETIME ISA?

A: You're able to open a Lifetime ISA if you're aged between 18 and 39. You can save up to £4,000 each tax year, every year until your 50th birthday. The government will pay an annual bonus of 25% (capped at £1,000 per year) on any contributions you make.

Q: WHAT IS AN INNOVATIVE FINANCE ISA?

A: An Innovative Finance ISA allows individuals to use some or all of their annual ISA allowance to lend funds through the Peer to Peer lending market. Peer to Peer lending allows individuals and companies to borrow money directly from lenders. Your capital and interest may be at risk in an Innovative Finance ISA and your investment is not covered under the Financial Services Compensation Scheme.

Q: WHAT IS A HELP TO BUY ISA?

A: A Help to Buy ISA is a government scheme designed to help you save for a mortgage deposit to buy a home. The scheme closed to new accounts at midnight on 30 November 2019. If you have already opened a Help to Buy ISA (or did so before 30 November 2019), you will be able to continue saving into your account until November 2029.

Q: I ALREADY HAVE ISAS WITH SEVERAL DIFFERENT PROVIDERS. CAN I COMBINE THEM?

A: Yes you can, and you won't lose the tax-efficient 'wrapper' status. Consolidating your ISAs may also substantially reduce your paperwork. We'll be happy to talk you through the advantages and disadvantages of doing it.

Q: CAN I TRANSFER MY EXISTING ISA?

A: Yes, you can transfer an existing ISA from one provider to another at any time as long as the product terms and conditions allow it. If you want to transfer money you've invested in an ISA during the current tax year, you must transfer all of it. For money you invested in previous years, you can choose to transfer all or part of your savings.

Q: WHAT HAPPENS TO MY ISA IF I DIE PREMATURELY?

A: If you die, the money and investments you hold in an ISA will be passed on to your beneficiaries. After your death, your ISA will retain its tax benefits until one of the following occurs: the administration of your estate is completed or the ISA is closed by your beneficiary. ■

STILL UNSURE WHAT'S RIGHT FOR YOU?

Tax-efficiency is a key consideration when investing because it can make such an enormous difference to your wealth and quality of life. If you want to understand more about our ISA options please contact us.

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PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

THE VALUE OF YOUR INVESTMENTS (AND ANY INCOME FROM THEM) CAN GO DOWN AS WELL AS UP, AND YOU MAY NOT GET BACK THE FULL AMOUNT YOU INVESTED.

INNOVATIVE FINANCE ISA (IFISA) IS NOT PROTECTED UNDER THE FINANCIAL SERVICES COMPENSATION SCHEME. THIS MEANS YOUR MONEY COULD BE AT RISK IF YOU SAVE WITH AN IFISA COMPANY THAT GOES BUST.

5 HEALTHY FINANCIAL HABITS YOU SHOULDN'T IGNORE

HOW TO GET YOUR FINANCES IN ORDER TO MAKE MORE OF YOUR MONEY

Do you feel like your financial life has been turned upside down during the coronavirus (COVID-19) pandemic? Or, has the start of the new year focused you on getting your finances in order to make more of your money? Whatever the answer is, it's important to adopt healthy financial habits.

But just as bad habits can get you into financial trouble, good habits can help keep you out of it – and help you spend wisely, save well and, most importantly, reach your biggest financial goals faster.

To help kick-start this process, we've put together five habits for you to consider.

1. PAY YOURSELF FIRST

Before you pay any bills, develop a habit of paying yourself first. That means saving and investing a portion of your earnings before you do anything else with your money. In the book *The Richest Man in Babylon*, written by George S. Clason, the parables are told by a fictional Babylonian character called Arkad, a poor scribe who became the richest man in Babylon. How did he achieve this? By following the first law of wealth: 'Save at least 10% of everything you earn first and do not confuse your necessary expenses with your desires.'

It's great to start somewhere – saving something is better than nothing. The important thing is that you're building a new habit around making some of your hard-earned money work for you, as opposed to someone else. After you've paid yourself, the rest of your earnings can then be used to pay bills and purchase the things you need.

2. SPENDING LESS THAN YOU EARN

The problem is that if you routinely spend more than you earn, you could be building up more and more debt. In many cases, that may mean turning to a credit card and not paying off the balance each month, leaving you with potentially exorbitant fees and interest rates that can take years to pay off. When considering spending on something you want – always ask yourself if you genuinely need it.

3. EMOTIONS SHOULD NOT AFFECT YOUR FINANCIAL DECISIONS

For many people, money habits are tied to emotions and how we feel. It's easy to fall into the trap of spending money when we're disappointed, or angry, or even happy. While emotions are important, they aren't helpful when it comes to making financial decisions. Develop a habit of taking your time and making level-headed, rational decisions about money rather than allowing spending, saving and investing habits to be dictated by the way you're feeling at a moment in time.

4. CONTROL YOUR DEBT

Debt is not necessarily always a negative; in some cases debt can be a positive stepping stone to help get you closer to a more prosperous future. For example, although a mortgage is a form of debt, purchasing a home could be a necessity for you. Similarly, borrowing money to enhance your education could allow you to get a better paid job. You might even be borrowing money to set up a business.

On the other hand, using credit cards, for example, to cover extra spending is generally considered a bad use of debt, as the repayment terms and interest payments can often be onerous as well as expensive if it's not paid back on time. It's generally considered good practice to avoid carrying a credit card balance over from one month to the next, as over the longer term this can often become very expensive, very quickly.

5. SPEAK TO YOUR PROFESSIONAL FINANCIAL ADVISER

When it comes to managing your money, planning to build wealth, securing your future, and, above all else, drawing up an effective plan for fulfilling your objectives, talk to us. We will provide a wealth of knowledge, qualifications and experience that is difficult or impossible to achieve yourself.

Perhaps the main benefit, more so than any other, is the chance for relaxation. You can properly relax, safe in the knowledge that we are taking care of a wide range of challenges and questions that you would otherwise have to deal with. And if you do have any questions or concerns, you know you can easily contact us to get answers in a timely manner.

HOW TO BUILD NEW HABITS INTO YOUR DAILY LIFE

- Know your why – what's your reason for making the changes?
- Set realistic, measurable goals that are achievable
- Break up bigger goals into smaller actions
- Don't make too many changes at once
- Use rewards as a motivator (within reason) to treat yourself once you meet your goals

Soon enough, these good habits will become hard to break. ■

NEED HELP DEVELOPING BETTER FINANCIAL HABITS IN 2021?

Making the right decisions now can bring peace of mind by offering a clearer future for you and your family. Together, we'll create a wealth plan that goes beyond simply finances, taking care of what really matters in every aspect of your life. To discuss your situation, we're here to listen.

/// NOW IS THE TIME TO REVIEW YOUR FINANCES AND MAKE SURE THAT YOU'VE TAKEN ADVANTAGE OF ALL OF THE TAX PLANNING OPPORTUNITIES AVAILABLE TO YOU.

TAX SAVING OPPORTUNITIES

IT'S TIME TO IDENTIFY, PLAN FOR AND POTENTIALLY MITIGATE YOUR TAX BURDENS

The Government has spent hundreds of billions on measures to support businesses and jobs, and fight the coronavirus (COVID-19) pandemic. But how will it pay for these? We won't know the extent of the final bill until long after the crisis is over.

While the Chancellor of the Exchequer, Rishi Sunak, is looking to reduce the tax gap, there are nonetheless still opportunities to review your financial arrangements for saving tax throughout the tax year. Taking action now will give you the opportunity to take advantage of any remaining reliefs, allowances and exemptions before the end of the 2020/21 tax year on 5 April.

At the same time, you should be considering whether there are any planning opportunities that you need to consider either for this tax year or for your long-term future.

WHAT ARE MY TAX PLANNING GOALS?

- To reduce my current overall tax year liability
- Defer my current year's tax liability to future years, to increase availability of cash for investment, business or personal needs
- Reduce any potential future years' tax liabilities
- Maximise tax savings from allowable deductions
- Maximise tax savings by taking advantage of my available tax credits
- Maximise the amount of my wealth that stays in my family
- Minimise a potential Capital Gains Tax liability
- Minimise potential future estate taxes to maximise the amount left to my beneficiaries and/or charities (rather than the government)
- Maximise the amount of money I will have available to fund my children's or grandchildren's education, as well as my retirement plans

FIVE THINGS TO CONSIDER BEFORE THE END OF THE TAX YEAR

The end of the current financial tax year is fast approaching, which means now is the time to review your finances and make sure that you've taken advantage of all of the tax planning opportunities available to you. We've listed five things to consider before the end of the tax year.

1. MAXIMISE TAX RELIEF ON YOUR PENSION CONTRIBUTIONS BY USING ALL OF YOUR ANNUAL ALLOWANCE

Pensions are one of the most tax-efficient ways to save for your longer-term future. The annual allowance for 2020/21 is £40,000, but you can also use surplus allowance from the previous three tax years. Your annual allowance may be restricted to a maximum of £4,000 where your total income plus pension contributions for the year exceeds £240,000, and your net income exceeds £200,000.

For every £80 paid in, your pension provider can claim another £20 in tax relief from the government, so that a £100 contribution actually costs you just £80. Then, if you are a higher rate (40%) or top rate (45%) taxpayer you can claim up to an additional £20 or £25 respectively, making the effective cost of a £100 contribution for you as little as £60 or £55.

There's a key difference in how higher and top rate taxpayers claim tax relief however. While 20% is reclaimed at source by your pension provider, which works for basic rate taxpayers, if you're on a higher or top rate the additional amount has to be reclaimed through a self-assessment tax return and will reduce your overall tax liability at the end of the year.

If you are an employee, an alternative to reclaiming the extra through a self-assessment return is to ask HM Revenue & Customs (HMRC) for your PAYE notice of coding to be adjusted. This way your tax relief is given through a new PAYE code that extends your basic rate band.

2. TAKE ADVANTAGE OF THE INDIVIDUAL SAVINGS ACCOUNT (ISA) INVESTMENT LIMIT TO GENERATE TAX-FREE INCOME AND CAPITAL GAINS

An ISA allows you to save or invest money in a tax-efficient way. An ISA is a tax-efficient savings or investment account that allows you to put your ISA allowance to work and maximise the potential returns you make on your money, by shielding it from Income Tax, tax on dividends and Capital Gains Tax. The maximum annual amount that can be invested in ISAs is £20,000 (2020/21). You can allocate the entire amount into a Cash ISA, a Stocks & Shares ISA, an Innovative Finance ISA, or any combination of the three.

3. START PLANNING AHEAD FOR A FIRST PROPERTY OR RETIREMENT

A Lifetime ISA (LISA) is a dual-purpose ISA, designed to help those saving for a first home and retirement. If you are aged 18 to 39, you can open a Lifetime ISA and save up to £4,000 tax-efficiently each year up to and including the day before your 50th birthday. The government will pay a 25% bonus on your contributions, up to a maximum of £1,000 a year. Your Lifetime ISA allowance forms part of your overall £20,000 annual ISA allowance. You can withdraw your savings from age 60 onwards, if not used to buy a home before then. A penalty of 25% may be applied if you withdraw from your LISA for other purposes.

4. CONTRIBUTE UP TO £9,000 INTO A CHILD'S JUNIOR INDIVIDUAL SAVINGS ACCOUNT (JISA)

A Junior ISA is a long-term savings account set up by a parent or guardian with a Junior ISA provider, specifically for their child's future. Only the child can access the money, and only once they turn 18. There are two types available: a Cash Junior ISA and a Stocks & Shares Junior ISA.

The current annual subscription limit for Junior ISAs is up to £9,000 for the 2020/21 tax year. The fund builds up free of tax on investment income and capital gains until your child reaches 18, when the funds can either be withdrawn or rolled over into an adult ISA.

5. PLAN YOUR CAPITAL GAINS TO MAKE BEST USE OF ANY CAPITAL LOSSES

The £12,300 (2020/21) allowance is a 'use it or lose it' allowance. You can't carry it forward to future years. But remember that each individual has their own allowance, so a married couple can potentially realise gains of £24,600 this tax year without incurring any tax liability. If appropriate you could transfer assets between your spouse or registered civil partner tax-free, so it might make sense to consider transferring holdings to a spouse in a lower tax bracket or one who hasn't used their allowance.

Gains and losses realised in the same tax year have to be offset against each other, and this will reduce the amount of gain that is subject to tax. If your losses exceed your gains, you could carry them forward to offset against gains in the future, provided you have registered those losses with HMRC. ■

DON'T DELAY AND LEAVE IT TO CHANCE

When it comes to tax, knowing how best to manage your finances can be a complex task. It's important that you get it right, not only because of the financial benefits, but because getting it wrong can have serious consequences for you. To discuss your situation, don't delay and leave it to chance. Contact us for more information.

TAX LAWS ARE SUBJECT TO CHANGE AND TAXATION WILL VARY DEPENDING ON INDIVIDUAL CIRCUMSTANCES.

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

INVESTMENTS SHOULD BE CONSIDERED OVER THE LONGER TERM AND SHOULD FIT IN WITH YOUR OVERALL ATTITUDE TO RISK AND FINANCIAL CIRCUMSTANCES.

A PENSION IS A LONG-TERM INVESTMENT AND IS NOT NORMALLY ACCESSIBLE UNTIL AGE 55 (57 FROM APRIL 2028).

PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

WHY CASH MAY NOT BE KING

HOW MUCH OF YOUR WEALTH DO YOU CURRENTLY HOLD IN CASH?

One paradox of the coronavirus (COVID-19) pandemic is that even as businesses have shut down and jobs have disappeared, some British households have on average been saving more money than they usually do, due to lower spending, according to new research[1].

But the choice between holding large amounts of cash long term in a savings account versus investing could have a big impact on your future wealth. Prior to the COVID-19 outbreak, data also highlighted the fact that a considerable number of people already had substantial amounts of money in cash, including those with £250k or more in investable assets.

MORE MONEY TO INVEST THAN USUAL

The research reveals that 18% of those with £250k or more in investable assets have 40-60% of these assets in cash, or at least £100k. This group have also benefitted from the lockdown as 35.5% have said they have more money to invest than usual.

During periods of stock market volatility, which we've seen over the past year, it's totally understandable that cash feels safe, and can be looked upon as a security blanket of sorts. But in the long run, it can do more harm than good to your financial well-being.

BELOW THE RATE OF INFLATION

By leaving large amounts of money sitting in cash you could be losing out on substantial returns over the long run. The rates of return on cash accounts are extremely low and have plummeted further still since the COVID-19 outbreak, with the average currently below the rate of inflation.

The research also reveals this group are aware of the opportunities, as 42%, the largest of any wealth group, think there are good opportunities in the current market. Indeed, 29% would like to move their cash to investment but don't know what to do, and 37% plan to be more active with their investments overall.

LONG-TERM RETURN FOR SPECIFIC GOALS

Every investor needs a cash buffer in case of emergencies, but too much can negatively impact on returns. A good rule of thumb is to save six months of your salary in cash and then invest in a spread of different assets that can deliver a long-term return for your specific goals.

It's important to do this in the most tax-efficient way, by making sure you fully utilise your allowances, including the Individual Savings Account (ISA) allowance and the pension allowance.

PURCHASING POWER OVER TIME

You might choose to invest because you are looking to achieve potentially higher returns on your money than you might get from holding cash and are comfortable with the idea of setting your money aside for the long term (at least five years or more).

Whether you're concerned that you'll lose your money or just don't know where to begin investing, it's common for some people to hold large cash balances in deposit accounts, especially in times of market uncertainty. But historically cash has not been a good store of value for individuals due to the corrosive nature of inflation eating into its purchasing power over time.

WELL-STRUCTURED AND WELL-DIVERSIFIED PORTFOLIO

This is particularly acute in the current environment where deposit rates on cash are low and in the event inflation starts to accelerate. If you have excess cash balances you should consider how to protect and grow your capital to meet your specific needs.

Investing does, of course, carry its own risks but a well-structured and well-diversified portfolio, tailored to an individual's requirements and managed sensibly, ought to protect capital from inflation and the decline in purchasing power over time. Diversifying your investment portfolio is one of the best ways to reduce risk, and thus promote growth. ■

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UNDERSTANDING YOUR NEEDS

It's understandable that people might choose to hold large sums in cash. However, cash does lose value and this is particularly true in the current low-interest climate. If you'd like to talk about the balance of your assets, please contact us. We look forward to hearing from you.

Source data:

[1] Quilter research of 2,005 UK adults aged 40+ carried out by Toluna. According to ONS figures over-40s hold 90% of the UK's savings.

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