DIVIDEND PAYMENTS RETURN
Shareholder payments rise again in 2021

FAMILY TAX PLANNING
Benefits of legal partnerships on using allowances

GREENWASHING WARNINGS
Check investment funds' green credentials

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SUMMER 2021

Plan ahead on inheritance tax

Do you know your potential liabilities?

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In this issue...

After the last 18 months, looking ahead is very appealing to many of us. However one critical area of future financial planning is often overlooked. Since the inheritance tax (IHT) threshold is now frozen for the next five years, many more estates will be subject to the tax. Our feature looks at the current rules surrounding IHT, what you can do now to mitigate your liability and possible changes coming in the future. Such forward tax planning can also make a difference in the short term. Ensuring that you and your partner make the most of existing tax allowances and reliefs can make a difference to your family finances as we also explore. And we look at keeping on top of portfolio management - both the importance of active reviews in maintaining the diversity of your investments, and understanding what some of the 'green' labelling on increasingly popular sustainable investments really means.

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Making the most of your pensions

It is essential that you review your pension situation regularly to ensure that you remain on track for retirement; if there is a shortfall to be made up, the earlier you start to address this, the easier it will be to put your retirement savings back on the right path to provide you with income you want, or need, when you retire.

There are several things to consider.

INCREASE CONTRIBUTIONS!

The easiest way to boost your pension savings is to save more, if you can. If you have surplus income each month, a pension contribution is one of the most tax-efficient ways of saving, with anything additional you save being topped up with tax relief.

If you have access to a workplace pension that your employer contributes to, depending on their rules, if you boost your contributions, your employer may do the same.

ARE YOU RECEIVING THE RIGHT TAX RELIEF?

If you are a higher rate tax payer making pension contributions to a workplace or personal pension, you will automatically receive basic rate tax relief as this is claimed by your pension provider. However, any higher-rate tax relief will need to be claimed on your self-assessment return.

If you make contributions via salary sacrifice, you automatically receive tax relief at your highest marginal rate of tax.

ARE YOU INVESTED IN THE RIGHT FUNDS?

You are normally able to choose the way in which your pension fund is invested. If you have joined your employer's pension scheme, there will normally be a default investment fund choice which will remain unchanged until you provide an instruction to do so.

It may be that this default fund is the most appropriate solution for you however, it may be worth reviewing your attitude to risk and capacity for loss to ensure this is the case.

Each investment fund has a different weighting to various asset classes which offer different levels of risk and potential return. These asset classes include cash, fixed interest, property and equities. As a general rule of thumb, you can afford to take more risk when you are just starting out in your career, and less when you are older; the longer your funds are invested for, the more scope you have to recover any investment losses suffered in the short to medium term. It is important to bear in mind that if you do take more risk with your pension, there is no guarantee that higher growth will be achieved.

IS PENSION CONSOLIDATION RIGHT FOR YOU?

If you have a number of different pension pots, there are advantages and disadvantages to consolidating these pensions into one:

ADVANTAGES CAN INCLUDE:

- Keeping track of and managing your pension savings more easily.
- Cost-savings if you transfer from a higher-cost scheme to a lower-cost scheme.
- Potentially better investment choice.

DISADVANTAGES INCLUDE:

- On transfer, some pension providers make a charge for moving money away; it is important to understand the impact of this.
- There may be valuable guarantees that would be lost as a result of transfer.

It is important that you consider taking financial advice if you are looking to change the level of risk within the pension scheme, or if you are looking to consolidate your pensions; as part of the advice process, you can be guided through the various options that you have, ensuring you make the right decision for you.

For further information on any of these issues please contact Sarah Levett at EBCam and we will be happy to help.

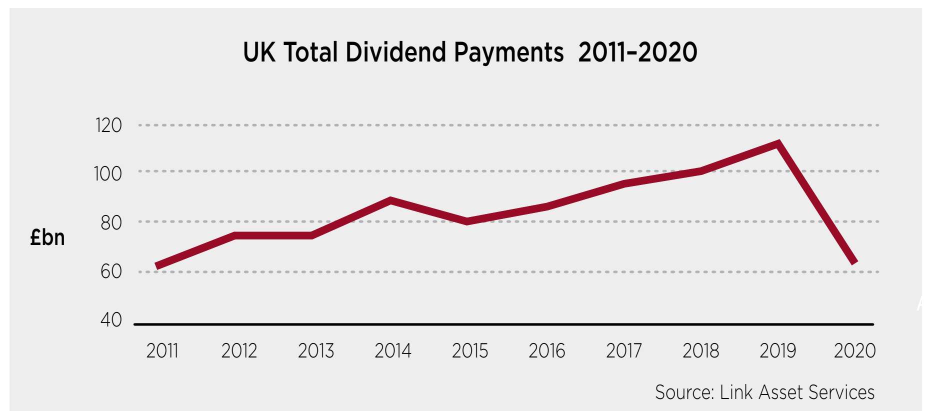
INVESTMENT

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.

Credit: nelea33/ Shutterstock.com

Many income-seeking investors would prefer to forget 2020. Global interest rates stayed around zero (or below), while many companies throughout the world cut or suspended their dividend payments. The average fall in global dividends in 2020 was 12.2%, according to one leading international investment manager. However, the global picture is distorted by the resilient performance of North America, which saw a small rise in dividends. Strip out North America from the world data and the picture elsewhere was mostly grim.



Dividend cuts were particularly prevalent in the UK, as the graph shows. Between 2019 and 2020 the total value of dividends (regular and one-off) paid by UK companies fell by 43.1%. Most of that reflected the decline in regular dividends, although proportionately there was a much greater fall in one-off payments. From April 2020 to December 2020, nearly a third of UK companies cancelled their dividends, while close to another quarter cut them.

In some instances, the companies had no other option. The main UK banks were effectively ordered by the Bank of England to end dividend payments as a way of preserving their capital. Others, such as airlines, had little choice because their revenue disappeared. There were also businesses that took the opportunity presented by the pandemic to make overdue adjustments to how much profit they passed out to shareholders. Arguably, the 'rebasing' of dividends by the UK's two oil majors, BP and Shell, was an example of this pragmatism.

LOOKING UP IN 2021

In 2021, the clouds seem to be lifting. The banks have been allowed to resume dividend payments, although at a lower level than in 2019. Some companies that suspended dividends as a precaution 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.

Inevitably, there are companies in sectors such as hospitality and retail that continue to conserve cash, but these should benefit from the bounce back that is emerging in economic activity.

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.

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Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.

TAX

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. With change on its way, understanding IHT may be more important now than ever.

The £325,000 IHT threshold (or £650,000 for married couples and civil partners) has remained unchanged since 2009. The Budget 2021 freeze on this nil rate band until 2025/26 means that many more estates could be subject to IHT, as inflation – particularly of house prices – pushes up many people's total net worth.

IHT is generally charged at 40% on the value of assets over the threshold. There are exemptions, the most significant being assets left to a spouse or civil partner. These transfers are normally free of IHT, 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 give away money or other assets during your lifetime. But it has to be a genuine transfer – giving away a property while 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, plus up to £3,000 per tax year – as one gift or multiple gifts – under the 'annual exemption' rule. None of these gifts are included within your estate for IHT purposes.

- **Exempted gifts** Further gifts are permitted each year for specific reasons, e.g. £5,000 or £2,500 towards a child's or a grandchild's wedding; or payments to help with an elderly parent or a child's (under 18) 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 seven full years following the date of the gift.

POTENTIAL REFORM

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 reforms 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. The OTS did not specify an amount but noted that £25,000 would cover just over half of all normal expenditure claims.

- **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, but the Chancellor might take a different view, given the growing popularity of certain portfolios

Credit: Air Images / Shutterstock.com

> *Changes to IHT may be on the horizon... recommendations include a 10% tax rate on lifetime gifts over £30,000 per year, and 10% on gifts on death up to £2 million.*

(including ISAs) tailored to benefit from business relief.

PUT PLANS IN PLACE

While the future shape of IHT is uncertain, the tax itself is unlikely to disappear. You should not defer IHT planning – which should be interwoven with your will and other estate planning – waiting for changes that may not happen. 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 Financial Conduct Authority does not regulate tax advice, and levels and bases of taxation and tax reliefs are subject to change and their value depends on individual circumstances. Tax laws can change.

TAX

The rise of second homes

The number of people purchasing second properties in the UK has boomed according to government figures, with the total number of second homes 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 concession.

Second home-owners include those buying properties to rent out, either as short-term holiday lets or on longer-term rental contracts to tenants, 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. There are several rules for a property to qualify: for example, 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.

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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.

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TAX

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 that the following thresholds and bands will not change until April 2026:

- The personal allowance – £12,570;
- The higher rate threshold – £50,270 outside Scotland;
- The capital gains tax annual exempt amount – £12,300;
- The standard pension lifetime allowance – £1,073,100; and
- The inheritance tax nil rate band (£325,000) and residence nil rate band (£175,000).

The Chancellor said nothing about the many other tax thresholds and limits that are not subject to automatic inflation-linking. For example, the starting point for additional rate tax has been £150,000 since it first appeared in 2010/11.

This form of stealth tax is favoured not only by Mr Sunak, but also appealed to many of his predecessors. Unless inflation falls to zero – and the forecast is for prices to rise faster in the short term – such freezes mean that more people become taxpayers and those who are already taxpayers will pay more tax.

The government estimates that by 2025/26 it expects 1.3 million more people to be paying income tax and one million more to be higher rate taxpayers than would have been the case if the tax thresholds were 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 or either of a child's parents, or adults in the child's household (married or not), has income exceeding £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.

- *Charitable gifts* that qualify for gift aid automatically receive basic rate relief at source, meaning that an £80 net gift is worth £100 to the receiving charity. What many people don't know is that higher and additional rate taxpayers can claim extra personal tax relief.

  For instance, a higher rate taxpayer can claim £20 relief (£21 in Scotland) on the same £80 net gift. Couples making joint decisions about charitable donations therefore need to decide who should make the gift.

The government estimates that by 2025/26 there will be one million more higher rate taxpayers than if the tax thresholds were inflation linked.

- *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.

RELATIONSHIP STATUS MATTERS

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.

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INVESTMENT

Portfolio rebalancing

Inertia can be a dangerous trait, especially for investment.

You know the feeling. Sometimes it just seems easier to leave things as they are for another year rather than take any action. Call it the 'If it ain't broke don't fix it' syndrome. But putting things off risks 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:

- Different sectors and different global markets will have performed differently. That is why diversification is so often highlighted as important: you do not want all your eggs in one basket.
- The relative importance of markets or sectors may have changed. A classic example is China, which has risen from being just another emerging market to becoming the third largest global stock market after the US and Japan.
- Funds may have changed ownership, manager and/or investment approach, but still retain the same name.

UNMANAGED FUNDS DRIFT

As an example, imagine a portfolio split equally across five major investment sectors that was established on 30 April 2016. Each holding would account for 20% of the total. Five years later, based on the average performance for each of the sectors, the picture is rather different as illustrated in the chart below.

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'.

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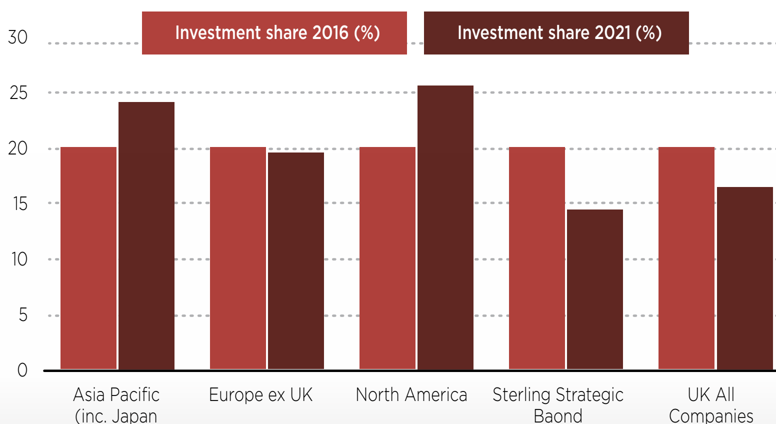

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PLANNING

Track down lost assets

Up to £15 billion is believed to be sitting in 'lost' savings accounts, premium bonds and pension and investment accounts.

Credit: dmitry_islentev/Shutterstock.com

Many people lose track of accounts when they move house, misplace statements or even change computer and forget to update their login details. Tracing these assets can be complicated, particularly after banks or investment companies merge or rebrand.

SHARE, RECORD, RESEARCH

Even if you have kept a meticulous record of your finances, it's important to make sure family members know how to access them. Recent research suggests that one in seven people take hidden assets to the grave, as family members don't know about long-lost savings accounts.

Avoid your hard-earned savings getting lost by updating your will, making sure executors have a copy of all financial accounts – or nominate a charity for some of these funds.

To track down lost accounts contact mylostaccount.org.uk – an online portal that traces old bank, building society, and NS&I accounts.

Rates on the rise...

Although the Bank of England's base rate has been 0.1% for over a year, other interest rates have been on the move. Most notably, yields on long-term government bonds have more than doubled. That is good news if you are nearing retirement and thinking about a pension annuity, as rates have risen.

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Minimum pension age

The government has confirmed that the normal minimum pension age, the earliest age at which private pension benefits can normally be drawn, will increase from the current 55 to 57 from 6 April 2028. The timing coincides with the end of the next phased increase in State Pension Age from 66 to 67.

Make sure your retirement plans are flexible

Nearly two in five people brought their retirement age forward in the past year, according to a recent survey of those retiring in 2021. It's a salutary reminder of the importance of building flexibility into your retirement plans.

INVESTMENT

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 more widely there is a growing push for European regulators to police how the fund management industry reports ESG issues.

It is likely to be some time before there is regulation on this issue. Until then, investors will need to take a closer look at funds. This process isn't always easy and is complicated by the raft of financial and technical jargon used. 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 fund fact sheets, giving an indication of where your money is invested.
- **Commitments and pledges** There are numerous organisations working with the financial industry to address climate change, such as Make My Money Matter, Climate Action 100+ and the Net Zero Asset Managers Initiative. Check whether a fund manager has signed up to the aims of one or more of these organisations.

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

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