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YOUR WEALTH SUMMER 2018

INSIDE THIS ISSUE

DIVIDEND ALLOWANCE – FINDING A SHELTER

From the start of this tax year, the amount of unsheltered dividend income paid out by companies to shareholders, that can be earned tax-free, was reduced from £5,000 to £2,000 per year. This reduction comes just two years after the allowance was first introduced, and leaves many investors considering their options.

The government estimates that in the 2018–19 tax year, the dividend cut will affect around 2.27m investors with portfolios not sheltered within tax-efficient savings vehicles such as ISAs and pensions.

It will also have tax implications for small business owners who have in the past typically taken a low salary which they have topped up with dividends, as this represented a considerable saving in income tax and National Insurance contributions.

Any dividend income above the £2,000 limit will be taxed at 7.5% for basic rate taxpayers, 32.5% for higher rate tax payers and 38.1% for additional rate taxpayers.

Tax-efficient wrappers such as ISAs and pensions look set to become more important for investors with dividends in excess of the allowance who are looking to mitigate their increased tax exposure.

INHERITANCE TAX – KNOW YOUR NUMBERS

IHT is a tax payable on money, savings or any other assets in your estate, and potentially on some gifts you make during your lifetime. If the estate is liable for IHT, it is payable at 40% on assets above a set threshold.

The current individual threshold is £325,000, and any unused nil rate band can be passed to the surviving spouse or civil partner on death. In addition, there's a residential nil rate band that applies (£125,000 in tax year 2018-19 rising to £175,000 in April 2020) if you want to pass your main residence to a direct descendant, like a child or grandchild.

In the 2016–17 tax year, HMRC raised a hefty £4.84bn in IHT, brought about largely by rising property and prices that are seeing more and more families drawn into the tax net, despite doing nothing more than owning their own home.

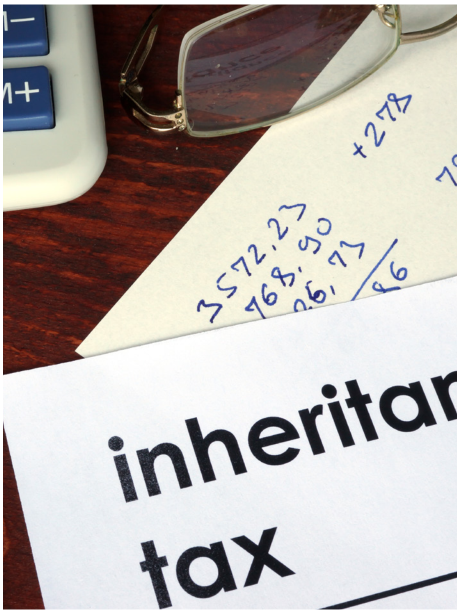
GIVE MONEY AWAY

To reduce the amount of IHT payable, families can consider giving assets away during their lifetime. Such gifts are called 'potentially exempt transfers'. For these gifts not to be counted as part of your estate on your death, you must outlive the gift by seven years. If you die within seven years and the gift was in excess of the nil rate band, taper relief applies, reducing the tax payable, the longer you survive.

MAKE GIFTS THAT ARE EXEMPT FROM IHT

Each financial year you can make gifts of up to £3,000 (in total, not per recipient) and you can carry any unused allowance over to the next year, which means you could give away up to £6,000. Gifts of £250 per recipient per tax year to any number of people are exempt.

Weddings are another opportunity to make



tax-free gifts. Each parent of a bride or groom can give up to £5,000; grandparents or other relatives can give up to £2,500 and any well-wisher can give £1,000.

CHANGES MAY LIE AHEAD

Many families will be encouraged to hear that the Chancellor, Philip Hammond, has written to the Office of Tax Simplification (OTS) asking them to put forward proposals for the reform of IHT "to ensure that the system is fit for purpose and makes the experience of those who interact with it as smooth as possible."

His letter asked the OTS to look at the technical and administrative aspects of IHT and the process of submitting returns and paying the tax. He also called for a review of the issues surrounding estate planning, and whether the current framework causes 'distortions' to taxpayers' decisions regarding investments and transfers.

TAKE PROFESSIONAL ADVICE

These days, many more estates are likely to be subject to IHT, so taking expert advice could save your beneficiaries substantial amounts of tax.

ARE BABY BOOMERS SPENDING THEIR KIDS' INHERITANCE?

Well, some perhaps are, but according to recent research carried out by the Resolution Foundation[1], today's millennials are likely to receive the biggest inheritance boom in decades.

WILL IT COME IN TIME?

The analysis finds that the large sums of wealth accumulated by older generations will provide a major boost to younger generations' wealth and living standards in years to come. Inheritances are set to more than double over the next two decades and peak in 2035, as the well-off baby boomers currently holding more than half of Britain's wealth progress through old age.

BOOMING PROPERTY WEALTH

Fast-rising home ownership rates for the generations born before and after the war also mean that, as well as bigger total inheritances each year, a greater share of young people today are likely to benefit from inheritances than did in the past. Almost two-thirds of young adults (20-35 year olds) have parents who own property, which they might expect to receive a share of in future. By contrast, only 38% of adults born in the 1930s received an inheritance.

However, the Foundation noted that while inheritances and gifts have a large and important role to play in boosting the wealth of younger generations, they are not a silver bullet for addressing their much lower home ownership rates and ability to save for their futures.

The report points out that those who can expect a share of parental property wealth are likely to inherit it too late in life to be able to rely on it to support them in their expensive family-raising years. On average, the Foundation expects millennials will have to wait until age 61 to receive their inheritance.

If you'd like to discuss how to plan your finances in a tax-efficient way so that you enjoy your later years whilst helping family members get a good start in life, do get in touch.

[1]Resolution Foundation, 2017

WHAT TO DO WITH A DOG FUND?

You may have heard of the term 'dog fund' – but what does it mean and what should you do if you are invested in one of these funds?

The financial press regularly publish lists of 'dog funds', simply put this refers to a fund which is deemed to be poorly performing, usually underperforming the allocated benchmark by, say, 5% or more, over a set period of time.

All investment funds fall into sectors – for example, UK equity income, technology and telecommunications or global emerging markets. Classifying them under these headings means that it's easier to make comparisons. They can be compared both against each other and against the average performance for all the funds in that sector. If a fund is consistently showing as being below the sector average, then it can earn the 'dog' tag.

KEEP YOUR COOL

What's really important to remember is that companies producing these lists aren't giving specific advice or recommendations and results are compiled using past performance, which isn't necessarily an indicator as to how the fund will perform in the future.
Just because a fund may appear on this list doesn't mean it should be sold immediately, as funds that have historically underperformed could turn performance around. A fund management company may take action to improve performance by altering the investment strategy or by appointing a new fund manager with a strong track record elsewhere.

Also important to bear in mind is that some funds adopt styles that are out of favour with the markets, such as contrarian or value styles, but might come back in favour soon. Some managers are suited to tougher times, others to rising markets. Some funds focus on growth, others on income.

RELY ON US TO KEEP A CLOSE EYE

Regular reviews are the key to ensuring your investments are still right for you. Keeping a close eye on the performance of your assets will mean that under-performing funds can be identified and, if necessary, changes made to your portfolio.

The value of investments and income from them may go down. You may not get back the original amount invested.

REALITY BITES AS RETURN EXPECTATIONS NORMALISE

Last year was a remarkable one for investors. Markets shrugged off rising interest rates, political events, faltering Brexit negotiations and much more besides to end the year on an upbeat note, with strong growth sending equity prices higher. This momentum carried on into the New Year, with strong gains seeing equity indices around the world soar. This run was halted at the end of January and the market subsequently witnessed a correction with indices retreating from record highs.

The generosity of returns seen in previous years is unlikely to replicate in 2018. Although many predict further growth in equity markets, they do caution that returns over the next few years are likely to be less rewarding. So the overriding message is – if you've become used to double-digit returns on your portfolio over the last decade or so, now is perhaps the right time to temper your return expectations somewhat.

STEADY AS SHE GOES?

Macroeconomic conditions around the world seem to have improved in recent months. The second half of 2017 saw a pick-up in the pace of global economic growth. This improvement in economic prospects is reflected in the latest forecasts published by the International Monetary Fund (IMF) which suggest that economic activity continues to strengthen across the world. With stronger economic growth comes the prospect of higher interest rates and inflation. The expectation that monetary policy is set to be tightened at a quicker pace and to a greater extent than previously envisaged has begun to weigh on market sentiment.

LONG-TERM GAME PLAN

Stock market performance is unpredictable and investing is all about adopting a longer-term view, diversifying risk and allowing your money time to grow. Even though political and economic concerns exist, so too do investment opportunities. The value of financial advice includes clearly outlining your financial objectives and identifying investment opportunities, with the aim of enhancing returns in line with your attitude to risk. We aim to manage the inherent volatility of markets, so your savings have the best chance of growing for the future – without giving you sleepless nights in the process and whilst ensuring you aren't taking too much, or too little, risk with your money.

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WHY DIVERSIFICATION MATTERS

Diversification is the process of spreading your money around different types of investments, so that your exposure to any one of them is limited. Allocating your money around the different asset classes, including cash, equities, bonds and property – helps reduce your exposure to risk and volatility.

The goal of a diversified strategy is not necessarily all about boosting performance, but once you've established the level of investment risk that you're comfortable with, based on your chosen investment goals and time horizon, diversification has the potential to improve returns for your preferred level of risk.

THE THEORY BEHIND A MIX OF ASSETS

It tends to be the case that the value of different assets moves independently and for different reasons. In broad terms, the performance of equities is affected by the results and prospects of the company and the economy, bonds are influenced in part by interest rates, whilst property values are more closely aligned with economic performance.

You can further diversify by sector, and you'll find that many managed funds will have a wide spread of differing industry types in their portfolios for this reason. Geographic spread helps too, and means that you're not just affected by the economic conditions applying in one country; exchange rate fluctuations, positive or negative, may also come into play.

THE BENEFITS OF A DIVERSIFIED APPROACH

If one investment in your portfolio performs poorly over a certain period of time, other investments you hold may perform better over the same period, reducing the potential losses that could have arisen if you'd concentrated your capital in one type of investment. Low correlation of assets is desirable. If they were highly correlated they would move in the same way.

Not all investors are in the accumulation phase of life, some are close to or in retirement and diversification can help protect their savings. Investments don't always perform as expected, so if you're taking an income from your portfolio, by holding a spread of investments you're not relying on just one investment to provide it.

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YOUR CHILDREN AND MONEY – WHERE TO START?

Children today are growing up in a world where the money landscape is dominated by financial issues such as austerity and cut backs, the struggles of home buyers to find affordable housing, and the proliferation of online financial frauds and scams. Against that background, parents can help children by teaching them how to save for the future, budget, and guard their financial and personal information when using the web.

Financial literacy isn't something we're born with. Learning how to manage money effectively requires acquiring a few important life lessons that parents can share with their children from a young age.

GETTING THE SAVINGS HABIT

Getting children used to money by earning their pocket money will help them recognise its value. Parents can explain to young children how, by putting aside some of their pocket money on a regular basis, they'll be able to save enough money to buy a new toy or book with their own money.

UNDERSTANDING WHAT BUDGETING MEANS

By the time they're ready to leave home, teenagers need to know how to handle their money responsibly. They'll need to understand how credit cards work, and how interest and charges are calculated, and how they can mount up if the balance on the card isn't cleared each month.

When it comes to borrowing money, they'll need to be aware that there are many different types of loan available and that it's important to understand how to compare charges and interest rates, and shop around for the most appropriate and cost-effective deal.

It's also worth explaining to older children the value of having a good credit score, and how this can improve their financial chances when the time comes to enter into life's major transactions such as applying for their first mortgage.

LEARNING TO SAVE

Junior Individual Savings Accounts (JISAs) are a good way for children to learn about the benefits of accumulating money for the future, and develop good savings habits that will stand them in good stead throughout their lives. Your child can have a cash JISA, or a stocks and shares JISA, or a mixture of the two.

The advantage of a JISA is that they are tax-free, and once the account has been opened by the parent or guardian, anyone can make contributions, including grandparents, friends and family. The savings limit for the 2018-19 tax year is £4,260 per child.

Children gain control of their JISA at age 16, but the money cannot be withdrawn until they are 18. At that point, the account is automatically rolled over into an adult ISA, a valuable facility for teenagers who want to continue saving or investing tax-efficiently.

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DIVIDEND INCREASE FOR GLOBAL SHAREHOLDERS

In a demonstration of rising corporate profitability, many shareholders saw an increase in dividends as global payouts hit a record high at the start of the year.

Investment firm Janus Henderson[1] revealed that global dividend payouts rose over 10% to $244.7bn, making it a record-breaking Q1 for shareholders across the globe. Dividend payments to shareholders in the UK in the first quarter of the year grew by over 21% to $18.7bn (£16.4bn) from $15.4bn (£13.5) in Q1 last year. This figure was elevated by a host of factors, including a hike in dividends by mining firms, a special dividend from Sky, the addition of new companies to the index and British American Tobacco's first quarterly dividend. Adjusted underlying growth, taking these factors into account, was a more modest 4.2%.

In the US, underlying dividend growth was 7.6%, boosted by President Trump's corporate tax cuts.

In the first three months of the year, dividend payments by US companies totalled $113bn, 5.2% higher than Q1 2017 payouts. Financial, healthcare and technology stocks recorded the highest growth. Shareholders have benefited as corporate profitability has risen and companies return some of the cash they have accumulated via dividends.

Dividend growth in Japan topped 8.2% (underlying basis), whilst Continental Europe registered dividend growth of 3.9%. The research forecasts global payouts will rise by 6% to $1.36tn this year.

[1]Janus Henderson, Global Dividend Index, May 2018