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NEWSLETTER

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It's plain sailing...

Why parents should involve their children in financial decisions

With one in five parents now giving away money to their children to avoid high inheritance tax bills, it is more important than ever to include your children in your financial decisions, to avoid them having a nasty shock or trying to deal with something they know nothing about should the worst happen.

Research undertaken by Direct Line* found that a total of £227 billion has been transferred, with £32,920 being the average amount that parents are gifting their children. Another 19% of parents had not given any money away as of yet, but planned to do so in the future. However, 34% of parents said they did not have the assets to give away, with one in 10 saying their children are too young and 13% were worried that they will be short of money themselves when they are older.

Times are changing. In our grandparent's day the financial decisions were normally carried out by the breadwinner of the family (typically the male) and sometimes only the sons were made executors of the will, which was kept a secret until the parent(s) died. Nowadays, thankfully executor responsibility is split equally between all the children to ensure everything is kept fair.

More parents are realising they need to look at their finances before it's too late to ensure their children know their wishes and who to contact from a financial point of view, whether it is another family member or a Financial Advisor. The latter is especially important to help children know who to turn to for help with investing their parents'/grandparents' money when the time comes. Even if gifting money to your children before you die is the route you decide on, there are still implications to be considered, such as if you give the money away you need to do so 7 years before you die, otherwise your children will still be liable for inheritance tax.

Talking about finances is uncomfortable for both children and their parents, but doing so can alleviate stress and worry in the future - especially if you are suddenly taken ill or suffer from dementia and can't make your own decisions. You may feel too proud to talk to your children, feel it is a private matter, don't want to lose control of your money or don't want your children to take advantage. Whilst these concerns are valid there are considerable benefits to having this discussion with your (grown up) children whilst you still can.

It may help to open discussions around children potentially needing a small 'early inheritance' to help them out, whether this facilitates higher education, assists them to buy their first property or simply to alleviate any money concerns. It can also save time when they know details of your wills, powers of attorney, where vital documents are held and even meeting your financial advisor so a relationship is formed.

It is also helpful to talk about options should you no longer be able to care for yourself; waiting lists for retirement/care homes can sometimes be long, so it means your children can move faster should the need arise. No one wants their parents to become ill and lose their judgement but there are several studies that show the ability to make financial decisions declines by about 2% a year after age 60.

It is important that discussing family money matters does not become a taboo subject and you try to get everyone involved in financial planning and budgeting from an early age as it instils good financial awareness. This can start from saving money in a piggy bank, having a bank account as children get older and even bringing them into family businesses or taking up part-time jobs encouraging them to budget for what they need, whilst showing them the real costs of living and what expenses you have as a family each month.

By being open and honest regarding the financial history of the family it means your children will also learn from your experiences, good or bad, and it will help shape their financial future.

End of the Tax Year Considerations Summary

Maximising your finances before the end of the tax year is always recommended and now is a good time to get prepared and look at your financial options. No-one wants to be completing their tax return at the last minute and it's also an opportunity to top up your pensions, utilise your Capital Gains allowances, consider ISA options and potentially gifting cash or assets to your loved ones.

When it comes to your pensions, UK taxpayers are entitled to tax relief on contributions of up to 100% of their earnings, or the £40,000 annual allowance, whichever is lower. However, these levels change if you are withdrawing pension income from a Flexi Access Drawdown arrangement, so you need to look at what you can withdraw under your tax-free cash lump sum.

The annual ISA allowance is currently £20,000 and income and capital gains are tax-free and available to any UK resident over the age of 16, with parents able to invest up to £4,260 per annum into a Junior ISA fund for children under 18.

Taxpayers only have to pay CGT on their overall gains/profits above the tax-free allowance of £11,700 when they dispose of assets, which is 10% for basic rate taxpayers and 20% for high rate taxpayers. By utilising this allowance, you can reinvest the profits into an ISA (depending on allowance already used) and if your spouse or civil partner is a lower rate taxpayer, you can also transfer assets into their name to reduce your tax liability, as this is exempt from capital gains tax and inheritance tax

Making a gift to your family and friends while you're alive is a good way to reduce the value of your estate for IHT (inheritance tax) purposes. However, do seek financial advice as even with your yearly allowance you can only give away assets or cash up to a total of £3,000 without incurring IHT. Any gift over £3,000 allowance is subject to IHT and the amount payable depends on whether it was given within the seven years before the person died.

There are a range of other gifts that are not liable for IHT, including charity donations so it is recommended to contact your adviser to help you look at options.

Over 50's would need £500,000 to consider advice

According to the London Institute of Banking and Finance, the majority of over 50s would not consider consulting a financial adviser unless they had more than £500,000 in the bank.

Women were more reluctant than men to consult an adviser, according to the research. The average man set a limit of £499,171 for speaking to a specialist, while the average woman said a figure of £544,249 or more in their bank would encourage them to make contact with a professional.

The London Institute of Banking and Finance asked more than 2,000 UK adults about their attitude to financial advice and found that 47 per cent of people thought they could look after their money on their own, while 28 per cent said they did not think they had enough money to justify the advice of a financial expert.

More than a quarter also said that they felt that the cost of financial advice was too high, while an incredible 19 per cent said they would never consider getting financial advice, regardless of how much money they had.

Despite these findings, only around half of the people surveyed (53 per cent) said they were well-prepared for retirement, while a further 38 per cent said they were worried about their future prospects for life after work.

The Dean of the London Institute of Banking & Finance, Peter Hahn, said: "Statistically, a 50-year old Briton is expected on average to live to 81, so most will have to fund a minimum of 14 years in retirement.

"That means having a long-term investment strategy with less inflation-exposed cash – a balance many may not be confident about. So, while over-50s say they feel well prepared, these findings suggest a poor understanding of long-term risk and reward, risking poorer retirements."

The London Institute of Banking & Finance stressed that "advice can be really helpful in all sorts of circumstances and with much smaller 'pots' of money and assets."

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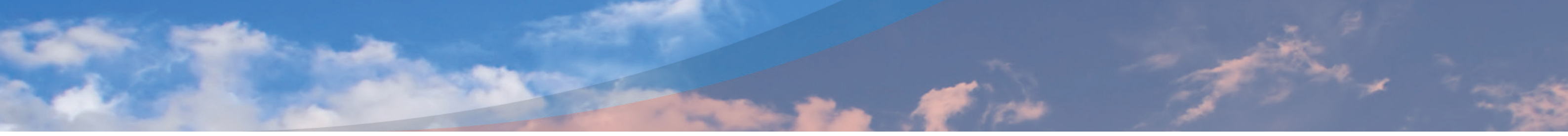


Market Report

January 2019

Global Review

Global equity markets have struggled to gain ground in the second half of the year as heightened trade tensions between the US and China continue to dampen investor sentiment. The US central bank's decision to steadily hike interest rates in the face of these concerns has seen price declines across many asset classes. Tighter monetary policy and greater protectionism are both headwinds to further market progress.

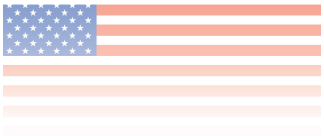
In Europe, the UK's exit from the European Union is no closer to a resolution and continues to dampen growth prospects, whilst the new Italian coalition government have been at loggerheads with the European Commission over their budget plans. Stresses have also been evident in the emerging economies with Argentina, Venezuela and Turkey all struggling with high levels of debt.

UK

The UK economy expanded by 0.6% in the third quarter, accelerating from the 0.4% growth recorded in the previous three months, with all sectors of the economy contributing. The numbers were above expectations and a strong rebound from the weak growth registered in the first quarter. The Bank of England held interest rates at 0.75% in December, citing Brexit uncertainties as the greatest obstacle to further hikes.

With the scheduled date for the UK to leave the European Union looming, news that a transition deal had been agreed was met with some optimism. However, this quickly faded as details of the agreement were revealed and a slew of government ministers, including the newly appointed Brexit Secretary, resigned in protest over the proposed terms. As it became clear that the proposed deal would be rejected by Parliament, Prime Minister May postponed the vote leading to both a leadership challenge and vote of no confidence from the opposition.

US



Robust economic growth and strong corporate earnings had propelled the S&P 500 to a new all-time high in September before a combination of tighter monetary policy and trade worries undermined investor sentiment. The benchmark US equity index began its retreat after the US Federal Reserve raised interest rates for the third time in 2018 whilst signalling an additional hike in December and three further moves in 2019. The announcement coincided with news that the Italian government had set a higher than expected budget deficit and within days of the Trump administration imposing further trade tariffs on imported Chinese goods.

The success of the Democrats in the recent US mid-term elections, gaining control in the House of Representatives, was considered broadly positive for risk assets. With the Republicans remaining in control of the Senate, the expected gridlock on Capitol Hill should equate to greater stability. However, President Trump has already refused to ratify budget proposals that do not fund the border wall with Mexico, resulting in a partial shutdown of government.

Europe

The Italian coalition government's initial draft budget for 2019 set a deficit of 2.4% at a time when the European Commission were insisting the country cut debt to comply with Eurozone fiscal rules. Italy is the region's third largest economy and has debt of 130% of GDP, a level only surpassed by Greece. Despite some concessions, the country's credit rating has been cut by ratings agencies and higher borrowing costs will be felt across the economy. Fears of contagion have also been raised across the Eurozone financial system due the levels of Italian government debt held within the bloc.

Eurozone GDP expanded by just 0.2% during the third quarter, the lowest level for four years. Germany, the region's largest economy, contracted by 0.2% as international trade disputes weighed on exports. This was compounded by the protests in France and stagnation in Italy. Despite the economic environment, the European Central Bank ended its programme of quantitative easing as planned in December but dismissed the idea of interest rate rises in the foreseeable future.

Japan

The Japanese economy also contracted in the third quarter as natural disasters disrupted factory output and subdued consumer spending. The worst flooding in decades caused more than eight million people to evacuate their homes in July, whilst both a 6.7 magnitude earthquake and typhoon storms struck the country in September. Economic activity had already been compromised by the ongoing trade disputes, particularly relevant to Japan as one of Asia's most crucial links in the supply chain.

The Bank of Japan has continued with its programme of quantitative easing, albeit at a level below official targets. The central bank became the first of the G7 nations to own assets worth more than the country's entire economy in November. The Bank's balance sheet totalled almost £3.8 trillion. The current ultra-loose policy, coupled with negative interest rates has so far failed to lift inflation close to the Bank's 2% target.

Asia

The trade dispute with the US is being blamed for the continued slowdown of economic growth in China. GDP expanded by 6.5% in the third quarter, only 0.2% lower than activity in the second quarter, but the trend has subdued expectations for 2019. The government has reacted with measures to stabilize lending activity but this has yet to offset the impact of US tariffs that are expected to rise in January should the two nations fail to reach an agreement.

The ruling Bharatiya Janata Party suffered heavy losses in recent Indian state elections, causing many to doubt Prime Minister Modi's chances of returning to office in next year's general election. The BJP have not delivered on promised job creation whilst the cost of living has increased sharply. The country's economy also slowed abruptly in the third quarter, with activity falling from 8.2% to 7.1%. The rupee has also been among the worst performing currencies in Asia this year.

One in five Britons have no savings to fall back on

According to a new study, three-quarters of people in the UK – from across various social and economic backgrounds – are worried about their current financial situation.

The research, put together by Salary Finance, revealed that 20 per cent of the 2,000 people surveyed had no savings to fall back on in emergency situations.

In fact, a quarter of respondents said a long period of unpaid or statutory sick leave would leave them in trouble, while 23 per cent said a large bill, such as a boiler breakdown, would leave them in the red.

Incredibly, 14 per cent of respondents said they have less than £100 in savings, while only 39 per cent said they had up to £1,000 tucked away for an emergency.

Most of the employed adults surveyed said that their savings would last them around five weeks if they were to lose their job. However, one in 20 said they would struggle to last even a week without being paid.

Half of those polled reported having to rely on their savings to get them through a difficult period, with their funds lasting for 38 days on average.

Despite reporting having little by way of savings, more than half recognised that they needed to do more to boost their savings, with 46 per cent "regretting" not putting more money into an emergency fund.

According to Salary Finance, only 29 per cent of the people it polled described themselves as a "saver".

Asked why they did not save more, around a third of respondents said they would rather enjoy their money now than save it for something that might never happen.

Higher-rate tax threshold increases a year early - but comes with a sting in its tail

Hailed as the centrepiece of this year's Budget, the Chancellor's increase to the higher-rate tax threshold looked to offer a boost of up to £3billion to high earner's, however, further investigation reveals half of the gains could be lost due to higher National Insurance Contributions.

In his speech, the Chancellor brought forward a promise to increase the basic personal allowance to £12,500 and raise the higher-rate tax threshold to £50,000.

Changes to both allowances, which are the starting points for paying 20 per cent and 40 per cent income tax, mean that those at the bottom end of the allowance will pay £130 less a year in tax, while those at the top end of the income scale could benefit from £860 a year.

However, further inspection of the Budget documents reveal that National Insurance Contributions will increase to 12 per cent – almost cutting in half the bonus that higher-rate taxpayers will receive.

This move, while still putting more in the pockets of high earners, is not the promise sold to many in Mr Hammond's initial speech to the Commons.