RT FP

RT FINANCIAL PLANNERS LTD

NEWSLETTER – JULY 2020

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The information in this Newsletter is to be viewed as general information and does not constitute advice. It is based on our understanding of current legislation and market conditions, all of which are subject to change. If specific, individual advice is required, you should contact your IFA.

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Investments and "The New Normal"

Apologies for the title of this article – we dislike the term as much as the next person!

We have just seen the first half of a year we will remember for all of the wrong reasons. We saw the worst performing quarter since the 1930s and the sharpest recovery since around that time. The "Fear & Greed Index" produced by CNN Business (a measure of investor sentiment, on a scale of 1-100) has swung wildly, seeing a low of just 3 in March, before seeing a similar recovery.

But have markets recovered too fast? Many analysts don't think so. Markets in March had lost all confidence due to economic shutdowns and a lack of clarity about economic prospects. As many economies have begun to reopen, markets have regained some ground, but remain a long way below their January levels. The benchmark UK Index, the FTSE100 Index, is still down by more than 18% in 2020. Other indices, notably the US, have fared better, but this is largely due to the companies listed more than any economic outperformance. The UK is a very "services" related economy, so we were particularly vulnerable to a shutdown.

The cost of this is enormous. In March, the World Economic Forum (WEF) thought the slowdown in the global economy caused by the virus outbreak may cost $1 trillion but recent estimates are around $6.3 trillion – where will it end? Major economies announced eye-watering stimulus packages to protect jobs and boost economic growth. For now, paying for this has to be a problem for another day. Unprecedented measures were needed in reaction to the unprecedented situation. Record levels of government borrowing are possible because interest rates are so low, but this makes any rise in interest rates very hard to see any time soon, and tax rises over the medium term feel inevitable, but for the moment anything that may slow the economy is not likely.

Think of this as a play with three acts. The first act was the period at the beginning of the year, from the initial measures taken and shutdowns of most of the global economy. We are now in act 2, and seeing measures put in place to slowly unlock economies. This is unlikely to happen in a straight line and there will be setbacks, as the residents of Leicester will confirm. More local restrictions and lockdowns seem more probable than shutting the whole economy again, because the economic pressures would be too high.

Ultimately, we will either develop a vaccine, establish herd immunity or simply learn to live with this new virus and deal with it accordingly. Part of the human race's success story is our ability to adapt and change.

So, act 3, will be the establishment of this new normality, but the six trillion-dollar question is what this may look like. An article by the WEF reported that Coronavirus could trigger the largest ever annual fall in carbon emissions with bluer skies and smog free cities, but will it continue? It seems likely that some of the trends that were already happening will see their progress accelerated by the recent changes.

Certainly, the trend to more home working probably won't end abruptly. This increased use of computer software for meetings is efficient, but has dire implications for a number of sectors. The airline and train companies are carrying less passengers, hotels are putting up less guests, companies are looking for smaller offices, and city sandwich providers have seen demand collapse.

It is not likely though that councils will need to employ tumbleweed clearers to clean their deserted city centres just yet! As effective and efficient as electronic communication is, it is hard for social animals like us to replace face-to-face contact. There will probably still be a demand for good quality property in good locations, just not as much as there was.

So, what does this mean for investments? As ever, I think it is essential that we focus on the quality of the investment funds that we hold and the longer term prognoses for the industries that they operate in. People will, ultimately, fly again, and although we will need retail, it is not certain if we will use shopping centres and high streets in quite the way that we did. Companies need to be able to adapt to succeed. Some companies that have seen sharp falls in their share prices will recover, but some, sadly, will not.

This marks another step in the transfer of economic and geopolitical power away from the "Old World" to the "New World". I am not suggesting that we are seeing the end of the "Old World" just yet. Many of the companies that are at the forefront of the changes – from Solar and Wind Power, from Cloud computing and teleconferencing, from New Media to Electric Cars are based in the Old World. It is just that for every Amazon, the US retail giant, there is now an Alibaba, its Chinese equivalent.

Will Inheritance Tax increase because of COVID-19?

Of course, it wouldn't have been possible to produce our newsletter without a mention of Coronavirus, which continues to impact almost every facet of our lives. As the lockdown restrictions are eased, many are considering the longer-term financial implications of COVID-19, and one suggestion is whether Inheritance Tax (IHT) is likely to increase.

The standard IHT rate is currently 40% and it is charged on the part of a person's estate above the Nil Rate Band, which is today £325,000 (you may have a higher allowance from the Residence Nil Rate Band or an inherited allowance, both separate matters that I will not cover here). As the average value of inheritances increases, more and more people are already impacted, so if the IHT rate were to increase it could have significant implications for very many people.

History suggests that IHT could increase following a major socio-economic event. So, despite a Conservative manifesto commitment not to raise a number of key taxes, the Chancellor may be forced to go back on these pledges as the Treasury accepts the fallout from the crisis makes this policy untenable. A recent report indicated that the Treasury received £2.2 Billion less in tax receipts by April 2020 compared with the same point in 2019. And the COVID crisis is forecast to cost the Exchequer almost £300 Billion this year alone. To help combat this, it is almost inevitable that a number of taxes will increase, and history suggests that IHT could be one of them.

The precursor to IHT was Estate Duty, which was first set out in the Finance Act 1894. Over time this duty soared from 15% in 1907 to a staggering 80% by 1949 and the conclusion of World War Two. Reforms around the legislation were made due to its complexity and unfairness in how duties were applied. Despite these changes, the tax hit its peak in 1969 with the highest marginal rate fixed at 85%.

IHT replaced earlier forms of the tax in the Finance Act 1986 and has remained consistent at 40% since then. However, a long term history of fluctuation, combined with the necessity to generate substantial sources of income may lead to reforms that raise the level of IHT again. It will take time for official confirmation on which taxes will be impacted and to what extent, but that does not mean that you shouldn't plan ahead.

Traditional methods of IHT mitigation, such as gifts and trusts may be a suitable option, but these often mean that the donor needs to live at least seven years to gain relief from IHT. This delay could pose problems if rates were to increase to anything like the post-war figures of the 20th century.

There are alternatives that take considerably less time to become effective, and do not force you to give away control or access to your capital. One alternative is Business Relief qualifying investment schemes, which is a relief that has been around for a decade longer than the current iteration of IHT. Despite this, many people are unaware of the range of benefits it can offer. Another option to shelter capital from this tax may be pension contributions, which is a planning tool that is often overlooked in the potential mitigation of this tax.

As usual, if you require any advice on this, or related matters, please speak to us about your own circumstances.

Changes at RT Financial Planners
But It's Business As Usual

We wanted to update you on some recent changes at RT, and give a brief update on the situation for our staff, offices and usual services in what continues to be challenging times.

The first change, and a very notable one, is that after many years with the firm, one of our advisers and Directors, Dylan Jenkins has left our service. Sadly, this is for personal and health reasons and was, after careful deliberation, agreed as the best solution for all parties. I would like to reassure our clients that there is nothing to be concerned about, either with regard to Dylan's ongoing health or for your continued services from RT. Thank you to those people who have already sent their best wishes to Dylan and we will of course pass these messages on to him as we stay in regular contact.

We are completely confident you will find that the RTFP team will continue to provide you with a seamless service. If you have not already had contact, you will be able to speak to your newly appointed adviser very soon. We are in the process of contacting people in stages so that we can spend adequate time to engage with you and fully understand your objectives requirements and circumstances.

In preparation for this change, our existing advisers, Rob Tiffin, and Jackie Greenwood were joined at the beginning of this year by Charles Homer. Charles is the newest member of our team and is well qualified and fully supported by the combined advisory experience of over thirty years between Jackie and Rob. Charles will work from both offices and is ably supported by both business support teams and Investment and Operational Director Simon Fell.

Moving on, we cannot avoid the topic of the Covid19 Pandemic! In addition to the significant impact on investments, this has obviously caused some disruption to our normal working practices, as has been the case for most businesses. I am mindful in saying this that some level of difficulty is nothing by comparison to the terrible situation some individuals and firms have had to endure – so we are very thankful for this.

With regard to the day to day running of the offices, we have been able to continue without the need to take advantage of any of the Government schemes, such as business continuity grants or furlough. We have remained open for business throughout and all staff have continued working full time. Some home working and better utilisation of technology ensured we could continue to operate safely and provide continued services to our clients. We are hopeful of a return to full time office working in August – subject to evolving Governmental guidelines. That being said, we have received some positive feedback on our evolving use of technology to support clients through this difficult time – something we will continue to evolve and improve as time progresses.

For everyone's safely we have continued to avoid holding client meetings in our offices, so we have been using video conferencing, telephone calls and email to maintain services. We are also happy to hold socially distanced reviews with clients at their home or in their garden.

If you wish to discuss anything or have any questions, please do get in touch with us.