RT FINANCIAL PLANNERS LTD

NEWSLETTER – APRIL 2021

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New Tax Year – New Tax Rates and Allowances

Despite the fact that in this new financial year there is very little change, we have, as usual, provided the current rates and allowances for residents of England (rates of tax in Scotland, Wales and Ireland may vary).

Income Tax
The personal allowance – the amount below which no income tax is payable increased to £12,570, and the higher rate tax threshold has increased to £50,270. These rates will remain fixed until April 2026. There is no change to tax rates.

The dividend allowance remains at £2,000, and the Personal Savings Allowance stays at £1,000 for basic rate taxpayers and £500 for higher rate taxpayers, which is the amount of savings interest that can be received without tax being due.

Capital Gains Tax
The CGT annual exemption has increased to £12,300, and this will also remain at this level until April 2026. The CGT rates are unchanged at 10% for lower rate and 20% for higher rate taxpayers (18% and 28% for gains made on sales of residential property that do not qualify for relief as your private residence).

Inheritance Tax
The IHT Nil Rate Band and Residence Nil Rate Band are unchanged at £325,000 and £175,000, with the level at which the latter allowance is tapered remaining at £2M.

Pensions
The pension lifetime allowance will be frozen at £1,073,100 until April 2026. The annual allowance for contributions remains at £40,000 and will not be tapered until 'adjusted income' exceeds £240,000. Anyone having accessed pensions flexibly still has a reduced allowance for contributions limited to £4,000.

ISAs
The standard annual ISA limit stays at £20,000, with the Junior ISA allowance still at £9,000.

Corporation Tax It was announced in the Budget that in 2023 the main corporation tax rate will increase to 25% but for companies with profits of no more than £50,000 the rate will remain at 19%. There will be a tapering of the rate for companies with profits between £50,000 and £250,000.

Stamp Duty Land Tax The temporary cut has been extended, with the £500,000 nil rate band remaining until 30 June 2021, and then reducing to £250,000 until 30 September, and returning to £125,000 on 1 October 2021.

A Reminder of the Importance of a Power of Attorney

The majority of people appreciate the importance of having an up to date and valid Will, but many aren't aware of the importance of having a Power of Attorney (POA) to deal with the position in the event of loss of capacity during their lifetime. Although we have covered this topic in previous newsletters, the Covid-19 pandemic has, unfortunately, highlighted the difficulties that can arise when one isn't in place, so we feel a reminder is timely. It is often assumed that close family are entitled to make medical decisions and to deal with assets, but that is not the case.

I read an article recently about the difficulty TV presenter Kate Garraway had when her husband was seriously ill with Covid – she was reported to say there were issues she hadn't considered, such as the car being registered in her husband's name together with the car insurance, which is a headache if it needs renewing when he is incapable of acting. The lack of a POA can create problems at a time your family has enough other issues to deal with. I have also heard reports of individuals facing difficulties accessing their family or spouse's medical records without a power of attorney.

A power of attorney in more recent years is known as a Lasting Power of Attorney (LPA), and is a legal document put in place when a person has capacity to make it. The person appoints attorney(s) to make decisions and to act for them if they are unable to do so themselves. This appointment continues beyond the donor's loss of capacity, which includes both mental and physical capacity.

There are two parts to a LPA, the Property and Financial Affairs LPA, authorising the attorney to deal with the donor's property and assets, such as paying bills, maintaining or selling their house, accessing bank accounts and dealing with investments. There are, understandably, limitations on the attorney's ability to make gifts.

The second part is the Health and Welfare LPA, which gives the attorney authority to make decisions about the donor's health and well-being, including where they live, their care and medical treatments.

It is not a requirement to complete both LPAs, but it is advisable. Without a POA, family members will not be able to deal with the assets of an incapacitated person, and they will also have far less say in the care and medical treatment of their loved one. If someone does not have a POA, family members will need to apply to Court of Protection for authority. This process can take some time and is a much more costly process than putting an LPA in place before you lose capacity to do so.

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How Ethical Is Your Investment?

With the growing acknowledgement of our impact on the environment, there has also been an increase in the desire for investors to take a more socially responsible or ethical approach to investing.

As a result, ESG, which stands for 'Environmental, Social, and Governance', has become a very important issue in the financial world. ESG is a list of criteria used by fund managers, to measure the ethical impact of companies they are considering investing in within their ethical funds. Before investing, fund managers will look at a wide range of factors, such as how much waste a company produces, how much energy it uses, what it does to champion gender and race equality, whether it gives back to local communities, and what rights it gives it's shareholders.

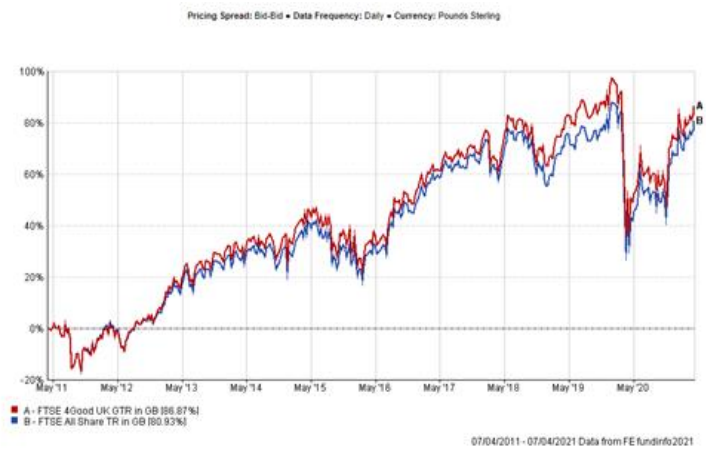
Fund managers will then give an ESG rating to each company they examine, and the better a company's ethical standards are, the higher its ESG score will be and the more likely they are to invest. But it's not just 'best-of-breed' companies that are selected. Organisations that are working hard to improve their practices will also be considered by fund managers. Once they're included in the fund, companies will be actively monitored to ensure their ethical standards are maintained and if the ESG rating of a company falls dramatically, fund managers will remove it from the fund.

As with more traditional investing, there are two types of ethical funds, active and passive funds. Active ethical fund managers conduct thorough research and due diligence to ensure the sustainability of the investments. They also have the power to drive positive change, because if they own a reasonable share, they can use their shareholder voting power to influence how the organisation does business. Passive ethical funds are lower cost than active funds, but they offer less flexibility as they use a fixed ESG score to screen companies and are unable to exert their shareholder voting power to make a difference.

So ESG funds give investors a way to invest in a manner that reflects their principles, and can also stimulate change, because the underlying companies are held accountable for their actions and are encouraged to improve. Increasingly, businesses understand that they have to actively find ways to increase their positive contribution to the environment and society, or they might miss out on financing if they continue to ignore such issues.

Historically, ethical investing often had a detrimental effect on returns but more recent research shows the performance of ethical investments being as good as other types. If we compare the FTSE All Share, which lists over 600 UK companies, and the FTSE4Good index, that solely focuses on ethical UK companies, over the last decade, the FTSE All Share returned 80.93% against 86.87% for the FTSE4Good. The graph opposite illustrates this position. In other words, you don't necessarily need to compromise on potential returns to take an ethical approach to investing. It is true that actively managed ethical investments can be deemed as higher risk given the manger can only pick from a more limited range of companies but this difference has certainly reduced, which must be a positive change for the our future.

FTSE All Share Index Compared to FTSE 4Good UK Index



(Source: FE Analytics)

Personal Protection

In many of our newsletters we focus on different aspects of investments, markets, and making the most of allowances and tax breaks, but an issue that is often overlooked, while ensuring that your personal finances are healthy, is protection in the event of the unforeseen happening. We all have insurance for our homes and cars, and often life assurance, but we do not all consider what might happen in the event of serious illness, which might prevent you from working for a prolonged period, and may have devastating effects on future planning.

There are various types of cover available, one type of policy is Critical Illness Cover, which is designed to pay a lump sum in the event of diagnosis of a critical illness during the term of the contract. The illnesses covered are extensive and include, among others, cancer, heart attack, stroke, multiple sclerosis and generally total and permanent disability. With medical advances, fortunately many more people recover from these conditions than may have been the case historically, but it may not be practical to return to work at the same level as pre-diagnosis, recovery may take some considerable time, or it may have even been the stress of work that contributed to the illness. So, a lump sum can enable you to take a little more time out for recovery or to reduce responsibilities in the future.

Income Replacement Cover is a different form of cover that pays a regular monthly income in the event of you being unable to work due to ill health or disability, and the income continues until you return to work or health. It is different from Critical Illness Cover mentioned above as that pays a lump on the diagnosis of a specified illness irrespective of your ability to work. Income Replacement Cover pays a regular income if you are unable to work irrespective of the illness.

If you would like to discuss your personal circumstances, or obtain costs for these types of policies, please do contact us.

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