RT FP

RT FINANCIAL PLANNERS LTD

NEWSLETTER – JULY 2022

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To avoid unnecessary paperwork and printing, we now only email newsletters rather than posting them. Please advise if you need to receive a hard copy in the post.

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Income Solutions For Falling Markets

The tried and tested advice of "sitting tight" in times of falling markets, when investment values are particularly distressed is, without doubt, sound advice. But that is all well and good unless investors need to withdraw income for meeting living costs – for example in retirement. It may not be desirable – or even possible – to leave the investments untouched, particularly when the downturn is as protracted as we are seeing at the present time. So, we need to consider options that may enable the capital to be protected as far as possible whilst still meeting an investor's need for monthly liquidity.

One option is to draw on cash or liquid assets as a temporary measure. Most investors have emergency or "rainy day" funds. Under normal circumstances we would not suggest using this for day to day living, but in times like these it may be preferable to deplete this and replenish the emergency funds in future when investment values have rallied. If emergency funds are needed in the short term, then we would just fall back on the invested funds to generate this.

Another possibility is that we carefully review the levels of income that are being taken. Many people loosely estimate the amount of income they require and may be withdrawing a generous level to cater for all potential needs. It may be possible to reduce the drawings for a period of time and reinstate at a higher level once values have recovered.

Typically, funds are invested for growth with withdrawals being taken from small, regular capital encashments. In these difficult times we could consider an alternative approach, with more focus on higher yielding dividend or interest paying funds. Whilst this may involve some buying and selling of funds, it will be short term movements, and the money would remain invested largely for the long term still. The natural dividend income can be retained in cash holdings to be used to generate some income withdrawal. Although this is still a withdrawal, it isn't involving units being enchased at low values.

Another option may be to take a course of action that isn't deemed ideal for just a part of the fund. For example, this could be selling an amount cash which can facilitate a whole year's income need. This would simply mean that if values do get worse before they get better, the money is readily available without the need to worry for this period of time.

In these very difficult market conditions there isn't a right or wrong solution and every investor's needs and concerns will vary. So, please do speak to your adviser here if you would like to discuss or consider any variation in your strategy for generating income.

The Residence Nil Rate Band

The Inheritance Tax (IHT) Residence Nil Rate Band (RNRB) rules are notoriously complex. Furthermore, the increasingly intricate family dynamics that are now so common adds to the layers of complexity in planning to maximise allowances.

The basic premise is that exemption of up to £175,000 is available when the family home passes to direct descendants. Any unused allowance on the first death of a spouse or civil partner can be claimed on the death of the second spouse. For the RNRB to be claimed the family home has to pass on death to direct descendants which includes stepchildren and adopted children.

Complications may arise for a number of reasons. For example, co-habiting couples will only able to claim the RNRB if the property passes to their own children not their partners children. Unless a couple are married, one partner's child from a previous relationship is not considered the stepchild of the other partner.

Where a couple each have children from a previous relationship they very often consider owning their home equally as tenants in common. On the first death, half of the property is transferred into a trust created by the Will, giving the surviving partner a right to live in the deceased's share of property for life. On their subsequent death the property share passes to first partner's own children.

If the couple are married, there will be no IHT payable on the first death as the transfer will be covered by the spousal exemption. The estate on the second death will include both the 50% share of the property they own outright plus the other 50% held in the life interest trust. The executors will be able to claim the first spouse's unused RNRB and it can be used against their own share should it pass to direct descendants and also the 50% in the life interest trust as this will pass to the life tenants stepchildren. But unmarried couples will not enjoy the same IHT benefits. There is no spousal exemption on creation of a life interest for the surviving partner and the first RNRB would be lost and only half the property value will be available to claim RNRB against. The property share inside the trust will not pass to direct descendants as the deceased partner's children are not deemed to be the survivor's stepchildren. This is a huge disadvantage and can create a very significant tax liability.

The RNRB can currently mean up to £140,000 can be saved in IHT for a couple. Therefore, it makes sense to plan carefully, where ever possible, taking account of how family dynamics interact with how the home is inherited to maximise the benefit of this valuable but complex allowance.

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Equity Release
What is it, how does it work and why do it?

In recent years, Equity Release has become increasingly popular as it can be a very effective means of facilitating intergenerational wealth transfer. Essentially it is simply a way of releasing some of the capital tied up in your home without the need to downsize to do so.

The most common Equity Release plans are mortgage-based and is simply a loan secured against your home. Typically there are no monthly repayments – the loan, including the interest that is accrued, is repaid from the sale of the property when you die or go into long-term care. With this type of arrangement, the interest is compounded each year meaning the debt will grow year on year.

It is more and more common for grandparents to release some equity from their home to pass on to future generations, particularly to help them with a property purchase. A significant added bonus is that, subject to certain criteria being met, it is also an effective way to pass on wealth and mitigate potential Inheritance Tax.

There are products that allow borrowers to service the interest costs to avoid it compounding and increasing the loan. However, in instances where the equity released is taken to supplement a person's retirement income, this may not be an affordable option. These are known as lifetime mortgages, where the outstanding balance will usually remain constant if interest is paid monthly.

Lenders will base how much you can borrow on your age, the value of the property and sometimes your health. The younger you are the lower the amount you can borrow. Interest rates on lifetime mortgages are typically higher than on standard mortgages but are normally fixed for the life of the loan.

The minimum age at which you can sign up is usually 55. The average age of a new customer currently stands between 68 and 70, according to trade body the Equity Release Council. In our experience clients are often older than this.

The most flexible deals are those that include a feature called drawdown, where a pot of money is set aside for you to draw from as and when needed. The flexible draw-down option is likely to involve a higher rate of interest. This can be ideal as not everyone needs a large lump sum at the outset and, with a drawdown lifetime mortgage, you only accrue interest on the money you have released.

Lifetime mortgages are undoubtedly complex products, and not without disadvantages, particularly if taken at younger ages. At any age, the effect of compounding interest will erode the property value, which is particularly noticeable if property price rises become suppressed. So, these plans should never be taken without careful consideration and specialist advice. We will always be happy to discuss this and advise you with your family if you are considering it.

Reminder and Update About Trust Registration

There is an important change for Trustees, something we have mentioned in previous newsletters, and it is the compulsory registration of all Trusts, which must be registered on the new Trust Register (via Gov.uk) by September this year.

If required we do have a document outlining how to do this, so please ask for a copy if you would like one. If we arranged your trust investment, we wil be able to provide the details you will need to complete the register.

To begin the process the trustee completing the registration needs to set up a Government Gateway account for each Trust being registered. I have spoken with a number of individuals who have now registered their own Trusts, and they have completed the process without too much difficulty. Some Trustees are using accountancy firms who, unlike us, are authorised to do this on their client's behalf.

I have also had an update and I have been advised that Trusts holding bonds based in Ireland will also need to register their Trust in Ireland. This applies to a number of International Bonds held in trusts, such as Standard Life and some from Canada Life. Although they technically required completion last year, the directive was not clear and there were issues registering Bonds such as these which has since been resolved. We also have access to a document about the Irish registration if you would like a copy. Please note this says that we, as advisers are authorised to do this, but the UK regulator and HMRC have advised this is not the case.

I have covered some of the more common questions below:
Do Trusts holding life assurance (protection) policies only need to register? - No they do not, they are excluded.
Is it a taxable trust? This will depend on the assets held, commonly this is an investment bond, and where there is no event giving rise to tax, it will be classed as a non-taxable trust.
Is it an express trust? If it is created by a deed then it is, so usually, this will be yes.
Are there any other exemptions? There are a number but the more likely ones to apply for our clients are protection, children's accounts if they hold bank accounts only, and trusts where the funds are held for a disabled beneficiary only.
Please do get in touch with us if you have ay questions.

Access to our Client Portal

Our back-office system has a client portal called Personal Finance Portal (PFP) which offers a wealth of helpful tools, including, but not limited to the following:

- The facility to sign documents digitally
- The ability to view and edit your personal details
- You wil be able to obtain policy information
- A secure messaging facility

If you are already registered for PFP, we have added a link to it on our website for ease of access. If you are not yet registered for this service but would like to be, please contact us and we will be happy to assist.

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 us. Although the RTFP newsletter does not contain direct marketing information and we do not promote specific companies or products, we want to ensure you only continue to receive this if you want to do so, So, if you would prefer not to receive our newsletters in future, you may opt out by emailing newsletters@rtfp.co.uk