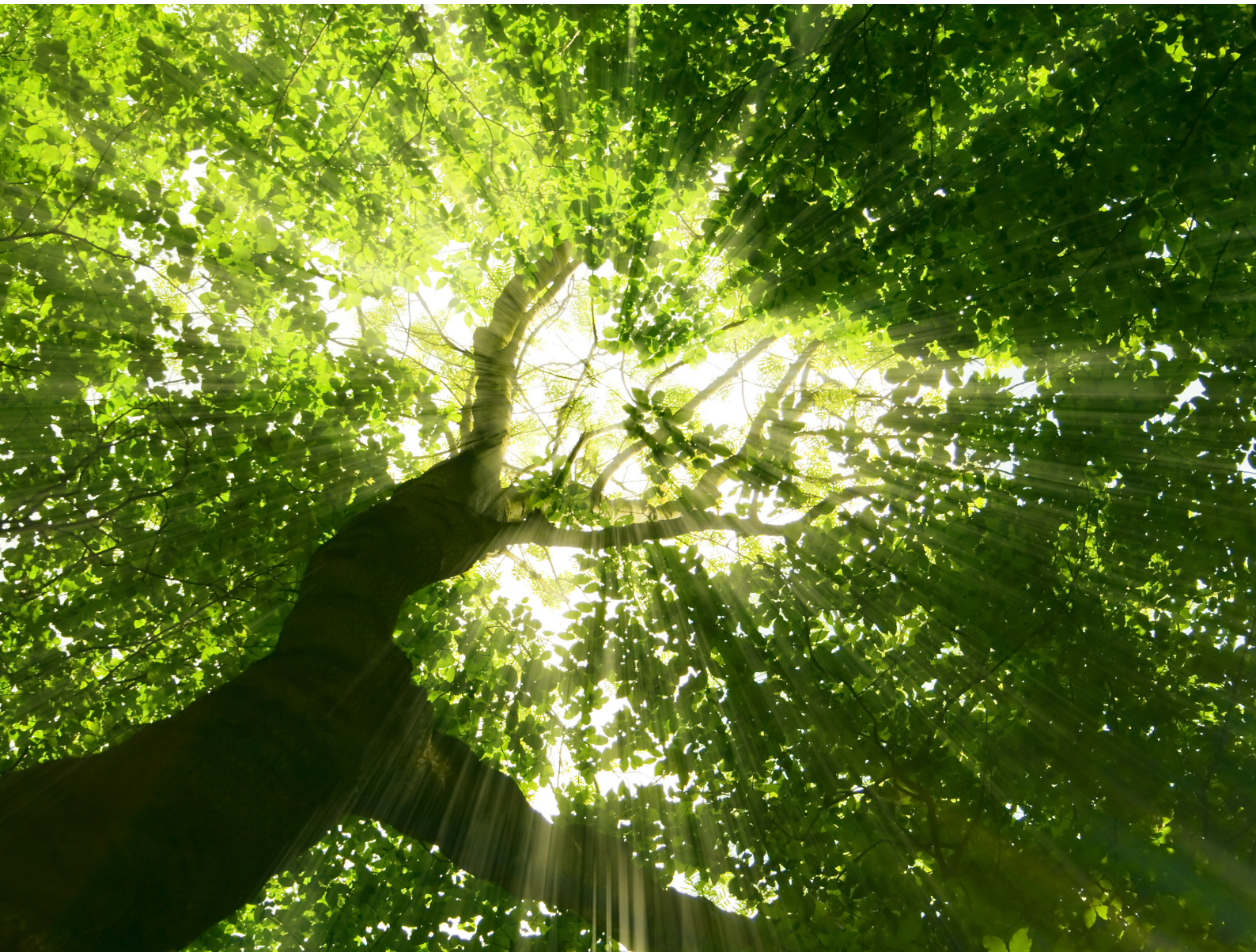
MOORE Kingston Smith

SPRING 2022 BULLETIN

IN THIS ISSUE



PERSONAL FINANCE MYTH-BUSTERS

Like many areas of life, personal finance has its own set of myths. Spring is a good time to clear up some common misunderstandings.

Myth 1: Maybe past performance is a reliable indicator of future performance

The sort of sudden, sharp falls in investment values such as those seen due to the war in Ukraine can turn normal assumptions upside down. Turbulent markets and dire headlines can make the future investment outlook appear unavoidably grim. However, the past is not a wholly reliable indicator of the future. A few weeks of volatility do not define future performance, which should have a long-term perspective measured in years.

Myth 2: I don't need a will as everything will automatically pass to my other half

If you are not married or in a civil partnership, then only property you own jointly (as joint tenants) will pass to your partner. The rules of intestacy, which vary between the UK's four constituent parts, do not automatically confer everything to the surviving spouse or civil partner.

Myth 3: I don't need a cash reserve as I can always borrow

While borrowing is easy today, financial conditions can change. Mark Twain's remark that a banker is someone who lends you his umbrella when the sun is shining but wants it back when the rain begins has more than an element of truth. The greater your need for cash, the less willing lenders may be to supply it.

Myth 4: You can never lose money buying residential property

The notion that house prices never fall was behind the global financial crisis of 2007/8. In the UK, average house prices fell by over a fifth between October 2007 and February 2009. They did not regain their 2007 peak until May 2014.

Before you succumb to anything that might turn out to be a financial myth, make sure you seek out expert advice. As we know, relying on unverified assumptions can be costly.

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice or will writing.

GIFTING FROM INCOME AND OTHER ESTATE PLANNING OPTIONS

The question marks hanging over inheritance tax (IHT) have disappeared, but as the impact of the tax on families and individuals is growing, there are strategies to mitigate your liability.

When the then Chancellor, Philip Hammond, asked the Office of Tax Simplification (OTS) back in January 2018 to consider how to simplify IHT, two reports followed. The second, issued in July 2019, proposed a range of significant reforms to IHT. Then all went silent.

Finally, on 30 November 2021, a letter from the Treasury to the OTS was published stating, "...the Government has decided not to proceed with any [IHT] changes at the moment, but will bear your very valuable work in mind if the Government considers reform of IHT in the future".

By the time clarity had arrived, the current Chancellor had frozen the IHT nil rate bands until at least April 2026. By then the main nil rate band will have been stuck at £325,000 for 17 years. As many are learning from the freezing of the personal allowance (also to 2026), inflation turns a freeze into a tax increase and HMRC is feeling the benefit.

Between April 2009 and December 2021 IHT receipts rose by 118% while prices increased by 34%.

Mitigation

In highlighting several features of the current IHT rules that it felt needed reform, ironically the OTS report supplied a list of planning opportunities worth considering. These included:

- Normal expenditure gifts If you make gifts that are:
  - regular;
  - out of your income (including ISA income); and
  - do not reduce your standard of living

  then they are exempt from IHT, regardless of their size. In its second report the OTS said it had heard "...from a few respondents that the exemption has on occasion been used to exempt gifts worth more than £1 million for individuals with a very high annual income".

  At more modest levels the exemption could mean, for example, that if your regular spending pattern has fallen because of the pandemic, you could use the savings to make gifts free of IHT. Similarly, any investment income usually automatically reinvested is a potential source of normal expenditure gifts.
- Outright lifetime gifts Outright gifts suffer no immediate IHT liability and are free of IHT if you survive seven years after making them. If you do not reach the seven-year point, any IHT liability on the gift is reduced by 20% a year from the start of the fourth year, e.g. at five and a half years only 40% of the full IHT is payable on death. The OTS had proposed that the sliding scale of tax should be abolished, commenting that "taper relief is complicated and not well understood".
- Pensions While the OTS did not make any specific recommendations on the IHT treatment of pensions, its report did say "...it appears anomalous that some pension policies can be included within an estate for Inheritance Tax purposes while other comparable pension savings are not". The pension flexibility regime introduced in 2015 has increased the value of some pension arrangements in IHT planning.

For more information on any of these opportunities, please contact us.

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice.

LASTING POWER OF ATTORNEY CLAUSE CHANGE RE-INVESTMENTS WELCOME

It has a complicated back-story, which we summarise here.

The Office of the Public Guardian has announced a change in its guidance concerning the lasting power of attorney (LPA) for finance and the management of investments. This is good news, as attorneys will no longer need to apply to the courts for permission to delegate or change a discretionary investment mandate.

In a bewilderingly fast-moving world with so many different investments available on the market for which decisions need to be taken quickly, it is usual for investors to place their trust in their financial advisers to appoint discretionary investment managers. Advisers can manage investments in the client's interests without needing their instructions every step of the way. Clients are happy, as they do not have to deal with day-to-day investment decisions and are kept updated by receiving regular investment reports.

What happens if the client loses mental capacity? Who is allowed to authorise the financial advisers to deal with the client's investments?

If there is a power of attorney (POA) in place, attorneys appointed under an enduring power of attorney (EPA) or after 2007 a lasting power of attorney can deal with the management of the financial affairs of the incapacitated client.

Delegatus non potest delegare. The law of agency prevents an attorney from delegating their decision-making to a third party.

Some banks started to query if they could carry on acting for their client in such circumstances. In 2015, the Office of the Public Guardian (OPG) provided guidance stating that, if a property and financial affairs LPA did not include a discretionary investment management (DIM) clause, an application to the Court of Protection would be required to allow the attorney to use a discretionary fund manager (DFM). The reaction to this guidance was mixed.

Financial advisers were rightly worried. Their risk and compliance teams insisted that if the LPA did not include the necessary DIM clause, they would not be able to continue to have their clients' investments, via an attorney, managed on a discretionary basis and the portfolio would need to be moved onto an advisory or execution-only basis. Those clients who had already registered LPAs or unregistered EPAs which did not include the DIM clause went to the expense of revoking their existing POAs and putting new LPAs in place to include the necessary clause, rather than take the risk that their attorney would need to apply to court.

Some attorneys had to make a time-consuming and costly application to the court to request permission to continue to use their DFM for those clients who had already lost mental capacity and were unable to put a new LPA in place.

Some financial advisers decided to wait and see. There was enough disquiet in the legal and financial world to suggest that the OPG's guidance was incorrect. It seemed unnecessarily obstructive and not in the spirit of the Mental Capacity Act. After all, if a client trusted their financial adviser to deal with their investments on a discretionary basis before they lost mental capacity, why would they not want their attorney to continue with that financial adviser on the same basis afterwards?

There was talk of a test case being taken to court by the Law Society and other interested parties. However, the years went by and, in the meantime, most LPAs were drafted to include the DIM clause.

Happily, while the jury has been out, a press release issued on 14 March 2022 has confirmed that the OPG has agreed to change its guidance. From now on, an attorney will be able to make use of a DFM even if the LPA or EPA does not include a DIM clause. We have not yet been told when the OPG will publish that guidance nor if they will acknowledge that their 2015 guidance was incorrect.

Even so, this is welcome news. Attorneys will no longer need to go to court for permission to use a DFM.

Should LPAs still include the DFM clause? Our advice is most certainly yes, as its inclusion creates certainty. Even if clients see no need for a DIM clause on the basis that they do not have any investments when they sign their LPA, who knows what may happen in the future? An attorney may need to sell the family home to pay for care fees, the sale proceeds will need to be invested and investment advice sought. Attorneys should always take independent investment advice and will no doubt be grateful that they can delegate the management of the investment portfolio to a DFM.

THE ONLY WAY IS UP: HANDLING INFLATION

After years of slumber, the inflation dragon is stirring. Are you prepared to meet the challenge?

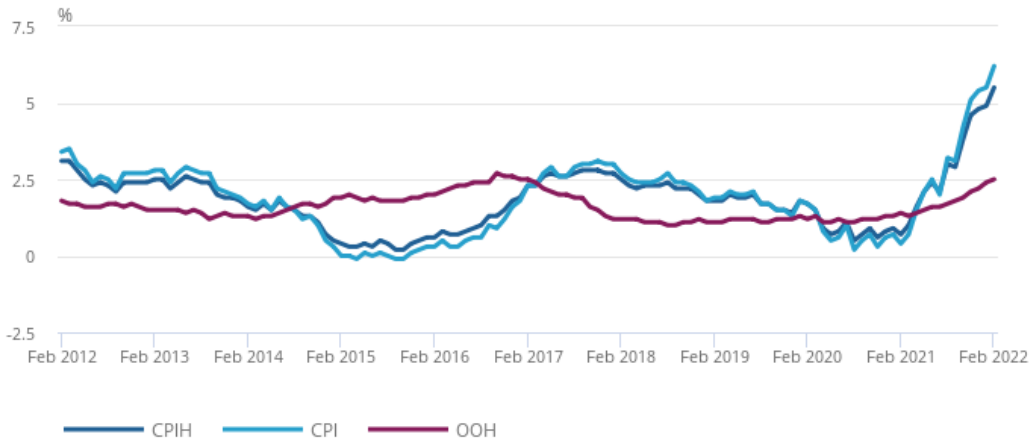
CPI annual inflation reached 5.4% in 2021. Twelve months earlier the rate was just 0.6%. The sudden return of inflation has surprised many, including the Bank of England. It is now busy raising interest rates. But what should you be doing?

Check your protection

As the graph shows, the mirror image of inflationary price rises is the falling value of money. If you have life cover, critical illness cover or income protection that pays a fixed amount, then inflation is eroding its value to your family. To maintain their protection, you should consider arranging some top up cover.

Figure 1: Annual CPIH inflation rate highest since March 1992

CPIH, OOH component and CPI 12-month inflation rates for the last 10 years, UK, February 2012 to February 2022



Source: Office for National Statistics – Consumer price inflation

Review your retirement planning

Inflation means that, all other things being equal, you will need a larger pension pot to fund your desired standard of living in retirement. There is only one way to do that: your pension contributions will need to increase. Even if your contributions are earnings linked, that may not provide a sufficient increase – the latest data show earnings growth lagging behind price inflation.

Beware holding excess cash

The Bank of England is now lifting rates, but there remains a huge gap between deposit and inflation rates. We all need to hold some readily accessible funds, but make sure that you are not holding more than you need as a rainy-day reserve, because it comes at a cost.

Reassess your investment strategy

An investment strategy that has worked well in the era of low inflation and near zero interest rates may not be as appropriate when inflation and interest rates are both rising. An obvious area for review is holdings in fixed interest investments, which suffer when inflation devalues future payments.

Shares do not offer the same level of capital security as cash deposits. Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.

The value of your investment and any income from it can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.

COUNTING THE COST OF THE FROZEN TAX LANDSCAPE

The cost of living squeeze looks likely to be further constricted from April as rising taxes bite. How can you plan for the effect?

The biggest change is to National Insurance contributions (NICs). From 6 April these will increase by 1.25 percentage points across the board. For employees the main rate of NI will increase from 12% to 13.25%.

Announced in the Spring statement, the lower level of earnings on which NI will be payable will increase to £12,570 effective July 2022, and will cover earnings from that level to £50,270. Anything over this will be subject to a 3.25% NI charge. The government has also increased the self-employed main rate NI contributions, which go up to 10.25%.

These higher rates are intended first to boost funding for the NHS and then from 2023 to pay for social care costs, both under extra strain from the pandemic.

Dividend tax is also up by 1.25%, which will affect those running their own businesses, as well as investors.

The government has also frozen a number of tax thresholds, including the personal allowance, the higher and the additional rate bands. Over time, more people will be dragged into higher tax brackets as earnings rise.

Mitigating tax rises

You may not be able to avoid these taxes completely, but there are planning strategies to try. They are likely to be most effective if your current earnings are just below one of the main tax bands.

Employees can opt for salary sacrifice, where you agree to cut your salary, with the equivalent amount paid into your pension. There is no immediate cash saving, but you'll be boosting your overall reward package (via pensions) rather than handing more to the taxman.

The value of tax reliefs depends on your individual circumstances and is subject to change. The Financial Conduct Authority does not regulate tax advice.

The value of your investment and any income from it can go down as well as up and you may not get back the full amount you invested.

HMRC URGED TO REFORM CHILD BENEFIT TAX

In April 2022, child benefit rates will increase by 3.1% to £21.80 for the eldest or an only child and £14.45 for any additional children. Anyone living in the UK responsible for bringing up a child who is under 16 (or under 20 if they stay in approved education or training) can normally claim.

While eligibility for child benefit is not means-tested, higher earners pay an additional tax charge, known as the high-income child benefit charge (HICBC). The HICBC was introduced in 2013 and it effectively claws back the entire benefit received if either partner in a family unit earns more than £60,000, and a tapered proportion of it where the higher earner has income of between £50,000 and £60,000.

As the threshold at which the charge applies has not been increased since its introduction, it means that basic-rate taxpayers will be caught by the charge for the first time from 6 April 2022. Those affected must declare and pay the charge via their self-assessment tax return for each year they are liable.

According to the Office of Tax Simplification (OTS), the HICBC raises over £1 billion each year. However, it is a hard tax to administer, as many affected families do not know about the charge or understand how to comply with their obligations. In its report published earlier this month, the OTS said that HMRC is writing to those who could be affected by the charge in the 2020/21 tax year. It also suggested that telling people in advance would be more helpful than landing families with an unexpected tax bill.

Higher earners can opt out of receiving child benefit payments to avoid having to pay the charge and file a tax return. However, the complication is that the benefit still needs to be claimed to preserve entitlement to national insurance credits, which protect state pension entitlements. This involves ticking a box on the claim form to opt out of receiving payments. The OTS suggests that this confusing process puts people off completing the claim form where do they not wish to receive payments and has urged HMRC to review and simplify this process.

HMRC has said that it will consider the recommendations made by the OTS and is in the process of reviewing their communications and guidance on the HICBC. Given that an increasing number of families are likely to be caught by the charge as inflation pushes wages up, they will need to be alerted to how the charge works and their filing obligations.

All eligible parents should be encouraged to make a claim, even if payment is subject to HICBC restrictions. The receipt of the payment can be waived but this will ensure that state pension entitlement is protected.

TAX LOOPHOLE CLOSING ON SECOND HOMES

If you are a second homeowner with a holiday let, you have a year to ensure you won't be caught by the closure of a tax loophole used by some to avoid council tax bills on their holiday homes.

Currently, those with second homes in England can avoid paying council tax and can access small business rates relief if they state they are planning to use their property as a holiday let.

However at present there is no requirement to prove it has been rented to holidaymakers, allowing some to gain a tax advantage, despite the property being occupied solely or primarily for private use and standing empty for much of the year.

Evidenced letting

From April 2023 new rules stipulate holiday rentals must have been let for a minimum of 70 days in the previous year to qualify for this council tax exemption and small business rates. In addition the property must be available to let for 140 days a year.

Property owners will have to provide letting receipts and details of where the property is advertised to holidaymakers, e.g. online or via brochures. Those that fail to let out their property for the required period will have to pay council tax the following year.

Landlords who run commercial holiday let businesses that encourage tourism and provide jobs and local revenue across the country will not be penalised.

As we move towards the holiday season, now is a good time to work out a plan to ensure you don't get caught out next year.

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice.

MORTGAGE MARKET UPDATE

Moore Mortgages UK is a relatively new department in the Moore Kingston Smith Group and we are delighted to be able to service the mortgage needs of our clients.

This year has seen a turbulent start when it comes to mortgage rates and the demand for longer-term fixed rates has increased substantially over the past six months.

Most recently, on 17th March 2022, the Bank of England's Monetary Policy Committee met and decided by a majority of 8:1 to increase the base rate by a further 0.25%, from 0.50% to 0.75%. We have now seen three consecutive Bank of England base rate increases.

This has made lenders more cautious, so we have seen mortgage rates increase over the past four months. Mortgage rates being offered by banks and building societies from January 2022 to now have increased by approximately 0.75%. The conflict between Russia and Ukraine has exacerbated the situation and increased the volatility of mortgage and broader financial markets.

Historically, rates are still very low, with fixed rates typically starting from:

1.22% for a 2-year fixed rate

1.53%for a 5-year fixed rate

2.04%for a 10-year fixed rate

3.09% for a term fixed rate

Source: Twenty7Tech. Correct as of 22/03/2022. Interest rates available will depend on individual circumstances.

Help from the mortgage experts

We are offering our clients a free mortgage review service. Whether you are looking to purchase or have a mortgage up for renewal within the next 12 months, please do not hesitate to contact us on mortgages@mks.co.uk.

WHO GETS TO CHOOSE WHEN YOU RETIRE?

The government's recognised retirement age is moving further away from public perceptions of the ideal point to stop work.

Recent research by Aviva revealed that age 60 is the most popular target age for early retirement. Coincidentally, that research was published a couple of weeks after the government launched a second review of State Pension Age (SPA). The current SPA for men and women is 66, rising to 67 between 2026 and 2028.

Changes to life expectancy

The initial independent SPA review in 2017 proposed an SPA of 68 should be introduced between 2037 and 2039. While the government accepted the recommendation, it decided not to legislate until after the second SPA review, due in 2023.

It is unclear whether the new review will prompt any change:

- Assumptions about life expectancy improvements have been revised considerably since 2017. Broadly speaking, the Office for National Statistics (ONS) has now shortened the 2017 lifespan prediction for a 68-year-old in 2039 by about two and a half years.
- Not raising the retirement age, however, ramps up government expenditure because pensions for the relevant age group will begin a year earlier.

Whatever the final decision, the SPA will remain at least 66. If you don't want to wait for your state pension before retiring, then planning for your early retirement is essential. Aviva's report also discovered:

- Nearly half of early retirees said their finances took a hit as a result.
- Close to a quarter of those who returned to work after retiring early said that financial issues were the reason they did so.

The sooner you begin, the better. If you retire early you will need to make up about £9,600 of annual income until your SPA arrives.

The value of your investment and any income from it can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.

ARE YOU SAVING IN THE RIGHT ISA?

Despite bumpy stock markets, the returns on stocks and shares ISA comfortably outperformed those from cash ISAs over the past year.

Data from Moneyfacts show in the 12 months to February 2022, the average stocks and shares ISA grew by 6.92%, compared to just 0.51% from a cash ISA. Interest rates hit a record low in 2020, resulting in meagre returns on these deposit accounts.

However, returns on stocks and shares ISAs are volatile, with a drop in returns from 13.55% in 2020/21.

Cash or stocks and shares?

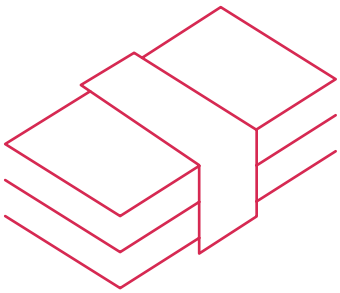
Many people look to open an ISA at the end of the tax year, or start of the new one, using their £20,000 annual allowance. Cash ISAs are a safe option, and ideal for savings that you might need to access at short notice. But with rising inflation, cash held for long periods of time is likely to lose its value in real terms.

While returns on stocks and shares ISAs in recent years have been attractive, these tax-efficient plans are better suited to longer-term savers who can ride out periods of volatility. Historically at least, equity-based investments are most likely to outpace inflation over longer time frames, maintaining the spending power of your savings.

Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.

The value of your investment and any income from it can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.

The Financial Conduct Authority does not regulate tax advice, and tax laws can change.



DECLARE YOUR SIDE HUSTLE

Do you have earnings beyond your main job?

Monetising hobbies and skills

One side effect of the pandemic has been an increase in people creating other sources of income to supplement their earnings. Often such 'side hustles' are regarded as self-employment and outside the PAYE system that applies to employees' earnings. However, they still generate income on which you may need to pay tax and National Insurance.

Exemptions

If the extra income is not more than £1,000 gross a tax year, then it may be tax-exempt thanks to the trading allowance. If your additional earnings are more, then you must tell HMRC and pay any tax that is due. You might still be able to benefit from the trading allowance.

Either way, make sure you keep records and do not think you can hide the income from HMRC.

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice.

NEWS ROUND UP

Stop Press: War in Ukraine

The impacts of the Russian invasion of Ukraine on 24 February are being felt across Europe and the wider world as share and bond markets have experienced whipsaw moves. The fallout from the humanitarian disaster will prolong uncertainty, with a particular focus on the inflation-driving markets of energy and commodities. As global sanctions were imposed against Russia, pension funds and other major investment institutions have been faced with difficult ethical and financial decisions. During such volatile times, riding out the storm can be the wisest long-term option. If you're concerned about your position, please ask for advice.

Base rates rise again

The Bank of England has raised interest rates to 0.75%. These rate rises are likely to push up interest rates on both mortgage products and savings accounts. However, some financial data providers have criticised banks for being slow to pass on this benefit to savers following the rises.

Probate fees increase

Families face higher probate fees following the death of a loved one from the end of January. Personal representatives or next of kin must now pay a £273 application fee for a grant of probate, which gives them control of the deceased's assets. The cost applies for estates worth more than £5,000. The sum was previously just £215 for families applying for probate, and £155 for those using a qualified solicitor or probate practitioner.

MOORE KINGSTON SMITH

Moore Kingston Smith is a dynamic, leading UK firm of accountants and business advisers. We have been helping clients thrive since 1923.

As trusted advisers to businesses, private individuals and not for profit organisations, we are passionate about helping our clients achieve their ambitions. We are committed to supporting them through good and tough times. Our highly experienced people have the strategic insight, drive and dedication to deliver results.

With over 70 partners and more than 650 people based in and around London, we are a leading member of the Moore Global Network. An international family made up of over 30,000 people across more than 100 countries, members connect and collaborate to take care of our clients' needs – at a local, national and international level.

MOORE GLOBAL NETWORK

We've spent more than 100 years serving clients through our professional services. With more one-to-one support from senior partners than you might be used to, you'll always be working with professionals. Our services will help you navigate new markets effortlessly, and take advantage of every opportunity.

For more information on how our global services and sector expertise can help your business thrive in over 100 countries, just get in touch.

CONTACT US

Call:
+44 (0)20 7566 4000

Or email:
pd@mks.co.uk

City
Devonshire House
60 Goswell Road
London
EC1M 7AD

t: +44 (0)20 7566 4000
f: +44 (0)20 7566 4010

Heathrow
The Shipping Building
The Old Vinyl Factory
Blyth Road, Hayes
London UB3 1HA

t: +44 (0)20 8848 5500
f: +44 (0)20 8848 5501

Redhill
Betchworth House
57-65 Station Road
Redhill
Surrey RH1 1DL

t: +44 (0)1737 779000
f: +44 (0)1737 781555

Romford
Orbital House
20 Eastern Road
Romford
Essex RM1 3PJ

t: +44 (0)1708 759759
f: +44 (0)1708 759758

St Albans
4 Victoria Square
St Albans
Hertfordshire
AL1 3TF

t: +44 (0)1727 896000
f: +44 (0)1727 896001

West End
Charlotte Building
17 Gresse Street
London
W1T 1QL

t: +44 (0)20 7304 4646
f: +44 (0)20 7304 4647

MOORE Kingston Smith

www.mks.co.uk