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FINANCIAL FOCUS

OBJECTIVE WEALTH

A New Year - More Planning Opportunities

I want to start with a quote by star fund manager Terry Smith 'There are only two types of people when it comes to market timing: 1) People who cannot do it; 2) People who have not realised they cannot do it'. This is important in that we provide advice and planning for the long term, negating any focus on market timing. In the short term, our recommendations are focused on tax planning objectives.These two aspects go hand in hand as the end of the tax year draws to a close.

2021 was generally a good year for our investment portfolios, although towards the end of the year some of the good performance dropped off with the pressure continuing on fixed interest assets in the lower risk portfolios. We have covered in previous newsletters the adverse effect that increasing interest rates have on fixed interest orientated funds, and this has come to pass. Therefore, we have encouraged a move to funds that have a higher equity content where necessary. This is a relatively modest move and does not seek to make any sort of adjustment to benefit from market timing and is instead a long-term position.

You have the opportunity to swell your finances in the short term by making the most of your tax allowances with your pensions and investments before the end of the financial year on 5th April. We talk about this every year and generally people consider this to be ISA season, however, we prefer to review all investment and pension wrappers as well as ensuring you are making the most of any tax allowances available. With the tax year deadline looming, timing is imperative.

The top of the tax planning list has to be considering making pension contributions with a payment in to a pension of £10,000 becoming £12,500 immediately (the pension provider claims back the £2,500 on your behalf). If you are a higher rate tax payer you can claim the difference between basic rate tax and higher rate tax (a further 20% of the gross amount) on your tax return. We will be in contact with you in the coming weeks to prompt you on any opportunities that we have identified that you have not made the most of in this area.

Whilst ISAs do not attract the immediate tax benefits of pensions, they do help your tax position in the long term. If you then consider that Cash ISAs offer far fewer growth opportunities for longer term investing than Investment ISAs then you should be choosing an Investment ISA to benefit even further for your future. Whilst market timing is not important, our recommendations and your choices can often be driven by making more immediate tax savings. Please get in contact if you want any further information. **JW**

5 tips of using gifts to reduce inheritance tax

A brief article on what the rules are for gifts and to make you aware of what is available to you and the potential pitfalls.

Know what's defined as a gift

What counts as a gift for inheritance tax purposes? Simply put, it can be anything that's part of your estate. Property, cars, cash, investments, jewellery - even collections of stamps, wine, coins or sports memorabilia can be liable to inheritance tax. One thing to remember is normally you can't add conditions to your gifts. For example, if the gift is a car, you can't continue to drive it. If the gift is a home, you can't continue to live in it rent-free or inheritance tax may apply.

Begin to give early

As soon as you give a gift, an inheritance clock starts ticking. Usually, seven years must pass before your gift is 100% inheritance tax-free. If you die before this time lapses, the person you've given the gift to may owe inheritance tax. It's one reason for giving gifts early. When you're younger you're more likely to live seven years from the time the gift is given. Making gifts earlier also increases your chance of getting to experience the pleasure that comes from seeing those you love enjoy what you've given - and to thank you for it.

Use annual gift exemptions

Each of us has an annual allowance that allows gifts up to £3,000 free of inheritance tax each year. If this full amount isn't taken one year, it carries over into the next year. This means that if you don't give the full amount one year, you can give £6,000 the following year. However, this allowance can only be carried over for one year. Everyone can also give as many gifts as they like up to £250 per person. These gifts are currently inheritance tax exempt - there's no seven year clock ticking. It's important to note that you cannot combine this small gift allowance with any other gift allowance for the same person. This means that you can't give someone a £3,000 gift and then another £250 small gift. Donations to charities, including gifts to political parties, can also reduce inheritance tax.

There are special rules for Weddings

Weddings are gift-giving occasions. But, before handing over a gift to the happy couple, consider inheritance tax. You may not be aware, but a wedding gift offers the chance to reduce inheritance tax. The amount that you can give inheritance tax free depends on your relationship to the couple, the timing and the amount of your gift. Generally, the more closely you're related to the couple, the more you can give. So if one of your children marries, you can give up to £5,000. If a grandchild or great-grandchild marries, this reduces to £2,500 or less. And if you're giving to a relative or friend this drops to £1,000. But don't wait until after the honeymoon to give your gift. It must be given before, not after the wedding to avoid attracting inheritance tax.

Document, document

It's very important that you track the details of any gifts that you've made to reduce inheritance tax. You'll need to record whom each gift was given to, the gift they were given, the date the gift was given, and the value of the gift. It's also helpful to keep evidence of the gift, for example, you can use a bank statement to evidence a gift of money. This will make it easier to establish if there is any inheritance tax due on your gifts.

This article was provided by Prudential

Gifts - A snapshot

- Usually, 7 years must pass before a gift is inheritance tax free
- Give up to £3,000 each year
- As many gifts up to £250 each year
- Wedding gift allowances may apply.

Mortgage Interest Rates

It is starting to look like there is only one way mortgage interest rates are starting to move and that is up.

Reflecting on 2021, it turned out to be a year where some normality had resumed following the extremely challenging 2020. Mortgage criteria is returning close to pre-pandemic levels and whilst it is not fully returned, with self-employed and those with variable income (bonus, commission, overtime) still having some restrictions around affordability with some lenders, it has been a positive year overall.

The big topic of conversation at the moment is interest rates with the increase to the Bank of England Base Rate from 0.1% to 0.25% meaning anyone on a variable or tracker rate have seen an increase in their monthly payments. The major lenders have been increasing their interest rates over the recent months. One lender was offering 0.99% on a 5 year fixed rate at 60% Loan to Value (LTV) as of 29th November 2021. This offer has since been withdrawn and their best rate is now 1.58%. To bring this example to life, it means that on a mortgage of £300,000 over 25 years, you will now be paying an extra £4,860 over the initial 5 year fixed rate period just through this interest rate rise. There are suggestions that interest rates may increase further early this year which means that if you are coming to the end of a mortgage deal, then you may need to act sooner rather than later. Generally, mortgage offers will last for 6 months so in the current climate it is definitely worth getting in contact and arranging an appointment to discuss your requirements. We are in a very fluid mortgage market at the moment so lending criteria and interest rates are changing all the time.

The provision of mortgage advice within Objective Wealth continues to grow and in our first year, we have arranged nearly £15m worth of lending to our clients and their friends and families. **JC**

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