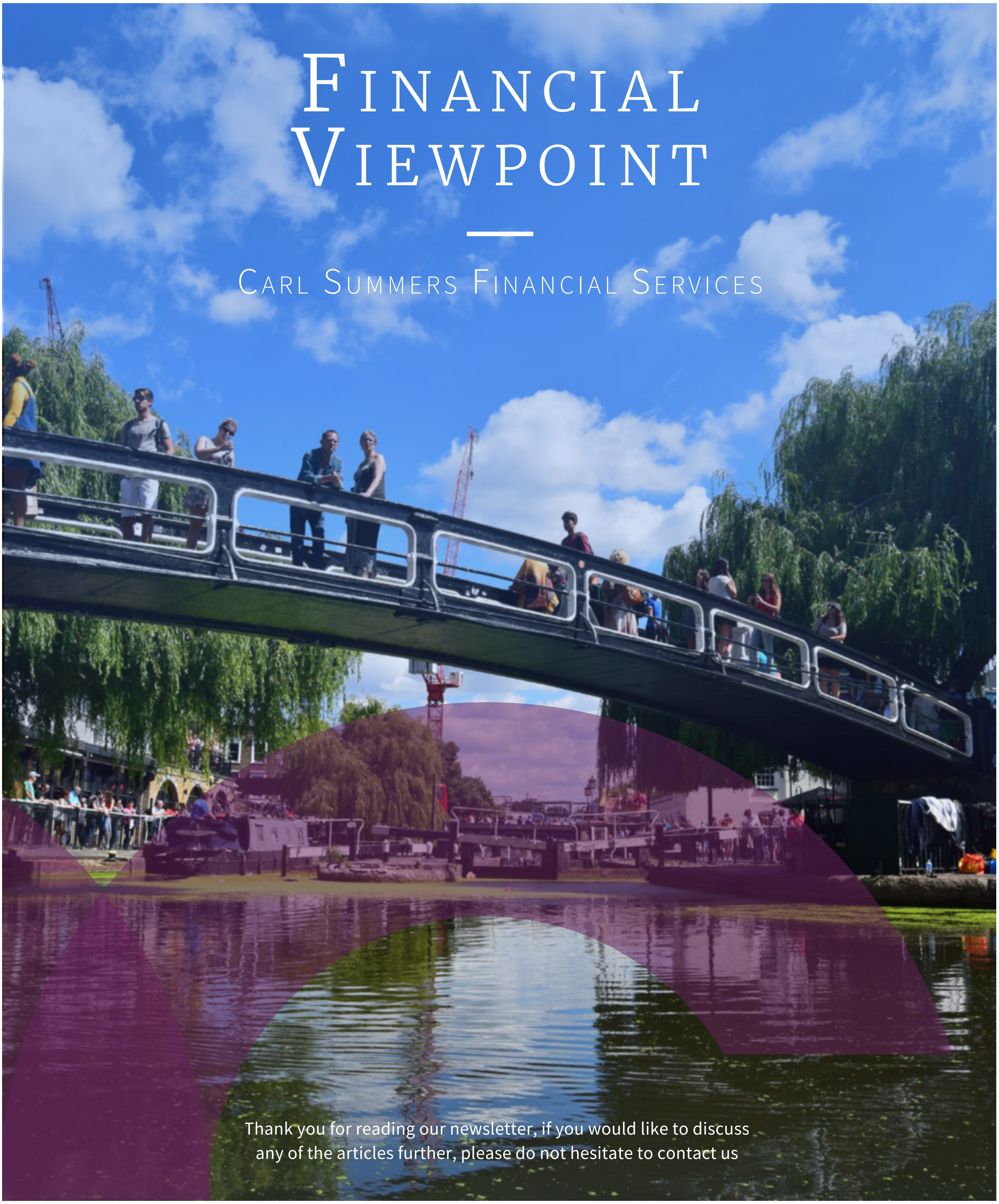
Financial Viewpoint

Carl Summers Financial Services



Thank you for reading our newsletter, if you would like to discuss any of the articles further, please do not hesitate to contact us

CARL SUMMERS
FINANCIAL SERVICES

1 Abbey Court, High Street, Shropshire, Shropshire, TF10 7BW
info@summersheaney.co.uk | 01952-815930 | www.summersheaney.co.uk

Succession planning: Minimising liability to IHT

The **next three decades** are set to witness the largest ever intergenerational **transfer of wealth as baby boomers** – the richest generation in history – prepare to pass on their assets. And **careful planning** will be a necessity if the value of these estates is to be bequeathed in full **without** the imposition of **potentially hefty tax bills**.

Death duties

When someone dies, the value of their estate, including all property, possessions and money, becomes liable for Inheritance Tax (IHT). This tax, at a rate of 40%, is chargeable on the excess of an individual's estate above the nil-rate band, which is currently £325,000. In some cases, this threshold may be higher, for example if a home is passed on to children or grandchildren, or unused allowance from a spouse or civil partner is taken into account.

IHT receipts at record levels

While the concept of death duties consistently raises strong emotions amongst the public, the nation's total IHT bill has continued to climb over the past decade. Indeed, the latest figures released by HMRC show the tax raked in was £5.4bn during 2018-19, a 3% increase on the previous year and the highest figure ever recorded. This rise continues a long-term trend, with IHT receipts having doubled in the last nine years, partly as result of the nil-rate threshold being frozen since April 2009.

Early planning key

Understandably, most people want to maximise the amount passed on to their beneficiaries and minimise any potential tax bill. However, the relatively low level of IHT thresholds, allied with soaring property values over the last decade, has resulted in an increasing number of estates facing the prospect of a significant IHT liability. But it is possible to minimise or eliminate any tax due on an estate through forward planning: undoubtedly, the key is to formulate a plan at the earliest opportunity as options for mitigating IHT become more limited the longer you leave it.

Difficult regime to navigate

A number of exemptions and reliefs are available for people seeking to mitigate the impact of IHT on their estate. Making annual gifts while you are still alive, for instance, can be a good way to reduce the value of an estate for IHT purposes. However, estate and tax planning is a devilishly complex area and a thorough understanding of the current rules and regulations is a prerequisite in order to avoid potentially costly pitfalls.

Expert advice essential

The complexity of the regime therefore means it's imperative to seek professional advice before implementing any measures designed to mitigate IHT. So, whether you're planning to leave your estate to your children, grandchildren, nieces, nephews, or to charity, speak to us fi st in order to ensure you adopt the most appropriate options for your personal circumstances.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

Working from home – are you covered?

Due to the lockdown, many firms have closed workplaces, meaning that millions of people across the UK have been temporarily required to work from home.

Should I inform my insurer that I am working from home?

The Association of British Insurers (ABI) has issued reassurance that, if you are an office-based worker and you are working from home because of government advice or because you are self-isolating, your home insurance cover will not be affected.

The ABI has stated: 'You do not need to contact your insurer to update your documents or extend your cover'

Will my work laptop be covered by my home insurance?

If you're using company property such as a laptop or mobile, you should check with your employer whether they have the correct insurance policy in place to cover these items outside of the usual place of work should any damage, loss or theft occur.

Such equipment is not usually covered by a standard household insurance policy, but it is worth checking your insurance policy document to check.

I need to see business clients at my home – will this affect my insurance?

If you are receiving visitors to your home on business matters, you should check this with your insurer as having additional people coming to your house could be an insurance risk and affect your insurance premium. There may also be restrictions in the cover provided, such as theft and loss of money being excluded, unless there is evidence of forcible and violent entry to the property.

What if I have an accident whilst working from home?

Your home environment is under your own control so there is a significant duty upon you to look after your own safety. If you were to suffer an accident whilst working at home, your employer would generally only be responsible if it was due to their negligence, meaning that they had failed to take reasonable care for your safety and the accident was due to that negligence.

If you have a protection policy such as Accident and Sickness or Income Protection, and you have an accident or suffer an illness that prevents you from working, you may be able to make a claim.

I need to make a claim on my insurance – will this be difficult at the moment?

ABI home insurers have implemented business continuity plans and are continuing to handle claims and support customers, as well as prioritising those in vulnerable circumstances.

Do you have the right cover in place?

If you are unsure whether you have the right insurance cover in place, contact us for advice on your own individual circumstances.

As with all insurance policies, conditions and exclusions will apply

OW2767 Exp. 03/06/2021

Keep your pension planning on track

The coronavirus outbreak is having a widespread impact across all aspects of our financial life, with many people finding their income reduced. At times like this it can be challenging to stay focused. No matter what age you are, now is not the time to neglect your pension. Try your very best to keep your pension planning and contributions on track – don't allow the pandemic to cast a cloud over your long-term plans.

It's never too early to start saving into a pension...

You should start saving for retirement as soon as possible, as the sooner you begin, the longer your savings have to grow. Other financial challenges can make this difficult but investing regular amounts in a pension throughout your working life gives you the best chance of enjoying a prosperous retirement.

...but better late than never

Don't think it's too late to start saving for your retirement. The favourable tax treatment pensions enjoy and their potential for investment growth, means any contributions you make later in life can still make a huge difference to your standard of living in retirement.

Take control of your retirement

When you reach 55, it's important to carefully consider what you can do with your pension pot. For instance, you could keep your savings invested, take a cash lump sum, draw a flexible income (drawdown), buy a fixed income (an annuity), or a combination of these. While this flexibility may enable you to retire earlier or semi-retire, it's vital you take full control of your retirement options at this stage. This should include seeking advice to discuss the pros and cons of the different avenues available to you.

Know your numbers

You can contribute as much as you like into your pension, but there is a limit on the amount of tax relief you will receive each year. The Annual Allowance is currently £40,000, or 100% of your earnings, whichever is lower. You can, however, carry forward unused allowances from the past three years, provided you were a pension scheme member during those years.

For the 2020-21 tax year the Tapered Annual Allowance limits altered. The Threshold Adjusted Income limit is £200,000 and the Adjusted Income Limit is £240,000. If your income plus pension contributions exceeds the Adjusted Income Limit, your Annual Allowance is reduced by £1 of every £2 you are over the Adjusted Income Limit. A Lifetime Allowance also places a limit on the amount you can hold across all your pension funds without having to pay extra tax when you withdraw money. This limit is currently £1,073,100.

Get good advice

Retirement planning is never a case of 'one size fits all'. It is vital you obtain sound financial advice tailored to your individual needs. We offer advice and help with all aspects of pensions and retirement planning, whether you're just starting out and want help choosing the most appropriate pension products, or you're approaching the stage of life when you need to utilise your pension pot and want to know the most efficient way to access your funds. We are here to help.

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

OW2805 Exp. 02/04/21

As the property market thaws lenders are open for business

Estate agents are open, lenders are open, and we are open!

On Monday 11 May, the government surprised many by announcing the reopening of England's housing market from the following Wednesday. Rightmove reported nearly 5.2 million visits were made to its website on the first day of the lockdown easing, which was a 4% increase on the same day a year earlier.

Under the announced changes, both estate agents and members of the public were given the green light to travel to properties for viewings and to undertake house moves – albeit with certain rules in place to enforce continued compliance with social distancing.

These included, sellers being outside the property while viewings are completed, the number of viewings per day being restricted and potential buyers being encouraged to view the property virtually in the first instance. Some estate agents are asking prospective buyers to complete a health declaration before allowing them to view a property.

Mortgage rates fall to record lows

The Bank of England's base rate cuts to 0.1% have resulted in mortgage rates now sitting at all-time lows. The average overall two-year fixed rate is now 2.09%, a drop of 0.34% between March and May.

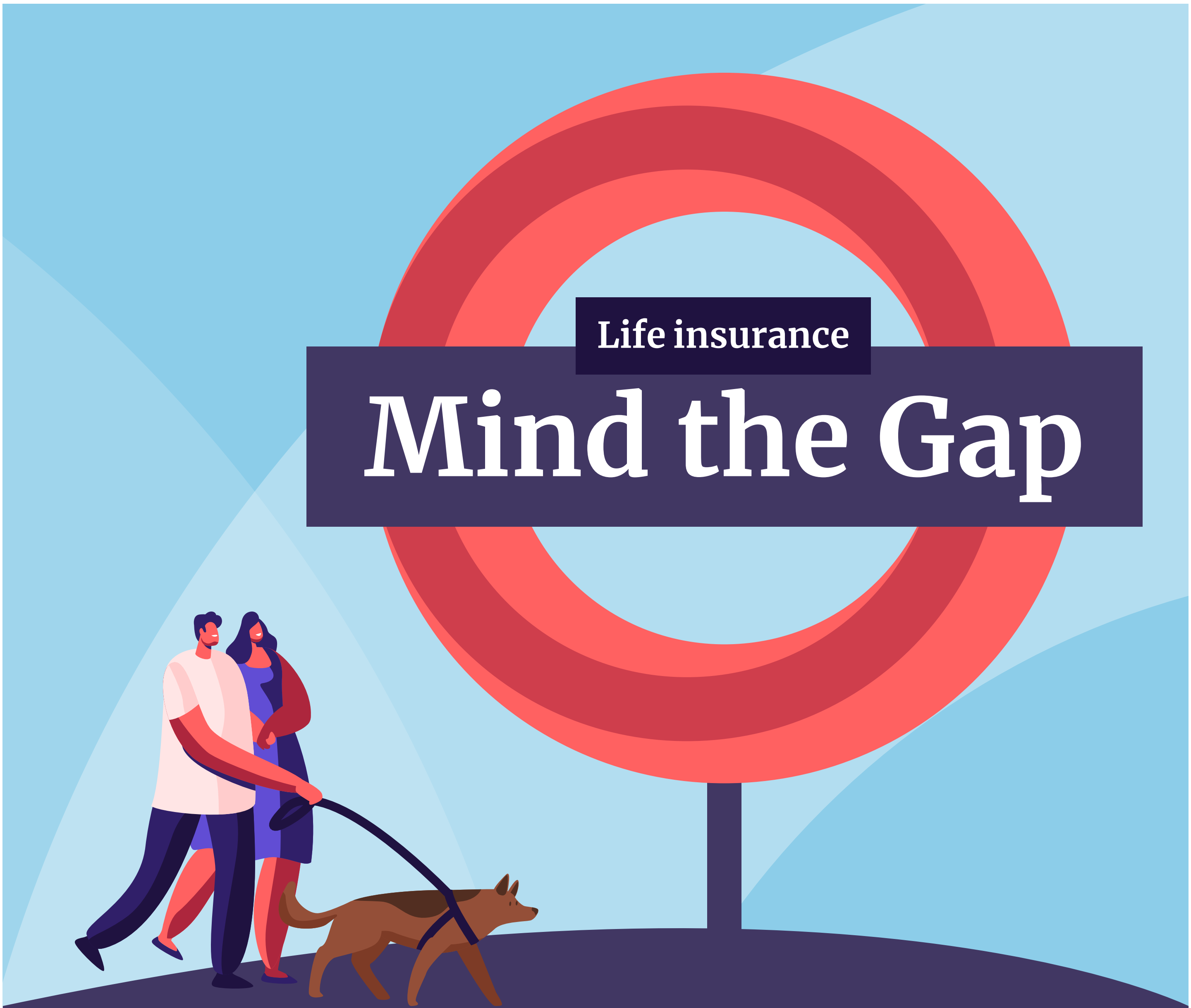
While those on variable rate and tracker mortgages stand to benefit, it has proved to be more difficult for those in the higher loan-to-value (LTV) ranges to secure a mortgage, with many lenders pulling mortgage products from the market and increasing rates, particularly for 95% LTV mortgages. Encouragingly, lenders are now beginning to reintroduce products and starting to relax their LTV restrictions.

Borrowers with a 10% deposit or equity will be pleased to see an average drop of 0.17% and 0.26% in rates for two and five-year fixed deals.

Speak to us early in the process

Whether you are moving up the ladder, looking to downsize, purchasing another property or remortgaging, getting a mortgage is one of the biggest financial decisions you will make. So, it's important to get it right.

With the property market starting to thaw again and mortgage rates now sitting at all-time lows, it's worth speaking to us. If you're looking to move or remortgage, we can help you work out how much you're likely to be able to borrow, prepare your mortgage application, and find the right mortgage for your circumstances.



Life insurance

Mind the Gap

With policies like home insurance or car insurance, we're all in the habit of reviewing our cover annually. With a life insurance policy potentially lasting for 20 or 30 years, it goes without saying that over that time, your lifestyle and therefore your cover requirements can change, sometimes substantially. Whenever you mark life's important milestones, it makes good financial sense to reassess your protection needs.

Overlooking the need to revisit your protection policies over time could mean that your family wouldn't have enough money to pay the mortgage or meet household bills if you were to die. A review is an opportunity, not only to assess your current cover needs, but also to consider newer plans that might be more appropriate to your circumstances and potentially more cost-effective.

Updating your cover as your life changes

Major life events can signal that your cover might need updating. If you've moved to a new house and taken on a bigger mortgage, you will need to review the sum assured (cover provided by the policy) to ensure that there won't be a shortfall in the event of a claim.

Starting a family can be an overwhelming experience and it's understandable that parents don't automatically think about their life insurance needs at this exciting time. However, at this stage family expenditure is likely to increase and it's often the time when parents should think about additional types of insurance cover.

Protection policies can provide not only a lump sum on death or the diagnosis of a critical illness, but also an income for families impacted by an accident, sickness and unemployment. They can also help parents pass their wealth on to future generations and play a major role in Inheritance Tax planning too.

Keeping your needs covered

Insurance is one of the most important financial products anyone can take out and one of the best ways of ensuring your family is provided for financially, if one of life's unexpected and unwelcome events should happen.

As with all insurance policies, conditions and exclusions will apply.

OW2804 Exp. 22/06/2021

Mortgage Payment Holidays

The Chancellor's announcement back in March, offering 3-month mortgage payment holidays for homeowners experiencing financial difficulties due to COVID-19, came as welcome news to many people. Mortgage lenders agreed with the Treasury that any customers who are in 'difficulty' will be eligible.

Initial uptake

Recent data has revealed over 1.2 million mortgage payment holidays have been offered to customers impacted by COVID-19. Around one in nine mortgages in the UK are now subject to a payment holiday. In the two weeks to 8 April, the number of mortgage payment holidays more than tripled, growing from 392,130 to 1,240,680, with an average of around 61,000 payment holidays granted each day.

1.2 million

Mortgage payment holidays offered

61,000

Payment holidays granted each day.

How does it work?

Homeowners who are concerned about being able to pay their mortgage should contact their lender. If you progress to applying for a mortgage payment holiday, you will have to self-certify that your income has been affected – no documentation is required. If you're a landlord, you will need to self-certify that your tenant's income has been affected. With many lenders, you can make an online application, your lender should not charge a fee to process your application.

Credit agencies have agreed an emergency payment freeze due to the pandemic, to ensure current credit scores are protected for the duration of an agreed payment holiday.

Lots to consider

The key benefit of a payment holiday is that it provides short-term relief, alleviating some financial pressure. Faced with a temporary drop in income, it can be a reasonable option, depending on individual circumstances.

Taking a payment holiday will not reduce the capital you still owe, nor will interest stop accruing. That means it will cost more to clear your debt once payments resume, so your monthly payments will be higher as a result of taking the holiday.

Need to knows

Banks were under no obligation to have payment holiday processes in place prior to the outbreak. Now most will offer them, although not to everybody. Based on your original mortgage application your lender will know what your job and salary are, and may reject you if you are still earning.

You must not stop making mortgage payments without speaking to your lender. If you do this, you will go into arrears, creating a black mark on your credit file which could prevent you borrowing in the future.

Don't rush in

If you are worried about making your mortgage payments, it is crucial that you speak to your lender. A payment holiday may not be suitable for everyone. Some brokers have reported that people have panicked and arranged a payment holiday too early. If, for example, your partner is still receiving an income and your usual outgoings are down, it makes sense to defer the payment holiday until a time when you might really need it.

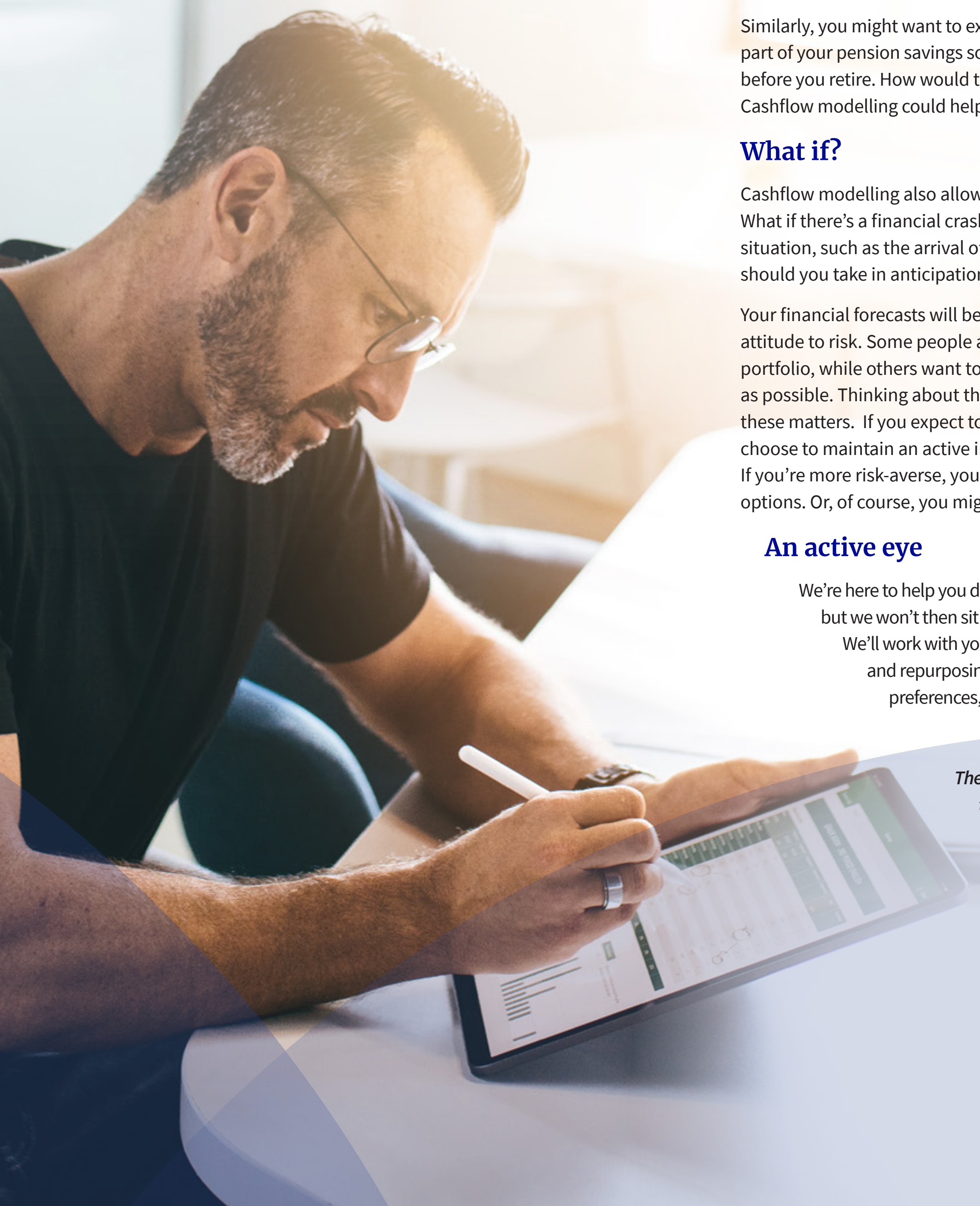
YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE

OW2754 Exp. 01/09/2020

What is cashflow modelling?

"In this world nothing can be said to be certain, except death and taxes."

Financial planning is all about preparing for those things that may not be so certain (and taxes). Plans should be reviewed regularly so they adapt to changes in your circumstances and reflect developments in the wider economy and financial markets.



Cashflow modelling, sometimes known as cashflow forecasting takes a view of investments, debts, income and expenditure. It takes in to account things like inflation, changes in income and interest rates. It can then be used to model a range of different scenarios to help you make informed choices about your finances.

The heart of any sensible long-term financial thinking

In essence cashflow modelling provides a rolling balance sheet that has your income, savings, investments and other assets on one side and your spending requirements and commitments on the other.

With this information to hand, it is possible to assess your current situation. By adding in assumptions about the possible direction of variables such as inflation and investment returns, predictions can be made about how your situation might change over time.

In turn, this can help inform decisions such as when might be the optimum time to retire and how best your retirement income might be funded. It can also embrace estate planning, allowing you to put plans in place that can mitigate any potential Inheritance Tax liability.

Flexible forecasting and planning

Cashflow modelling is endlessly flexible and takes account of your personal preferences. You might want to determine the impact of moving to a smaller property at some point – perhaps when your children are financially independent, or when you retire.

Similarly, you might want to explore the merits or otherwise of accessing part of your pension savings sooner rather than later – in other words, before you retire. How would that affect your income after retirement? Cashflow modelling could help provide the answers.

What if?

Cashflow modelling also allows for examination of "What if?" scenarios. What if there's a financial crash? What if there's a change in your family situation, such as the arrival of grandchildren or a divorce? What action should you take in anticipation, either now or in the future?

Your financial forecasts will be shaped to a significant degree by your attitude to risk. Some people are bullish about potential gains from their portfolio, while others want to achieve as much security and certainty as possible. Thinking about the future will help confirm how you feel on these matters. If you expect to generate investment growth, you might choose to maintain an active interest in equities even beyond retirement. If you're more risk-averse, you might prefer more safe haven assets or options. Or, of course, you might opt for something in between.

An active eye

We're here to help you decide on a strategy that suits your preferences, but we won't then sit back and simply watch how events unfold. We'll work with you to maintain your cashflow model, refining and repurposing it so that it continues to match your preferences, however they develop.