BONUM WEALTH
CHARTERED FINANCIAL PLANNERS

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Your Window on
Wealth
WINTER 2021

Glimmers of hope for the New Year

Over the past year, our vulnerabilities have been starkly exposed by coronavirus, and the pandemic continues to present an array of challenges on many different levels. Economic frailties have also been laid bare but, as we enter a new year, shoots of optimism are beginning to emerge, with rising hopes of recovery in 2021 and beyond.

A gradual recovery

The International Monetary Fund's (IMF) final 2020 assessment of global economic prospects was entitled *'A Long and Difficult Ascent'*. This provides an apt description of the current situation, with the international soothsayer's predictions pointing to a moderate rebound in 2021 with a continuing gradual recovery over the following few years.

Reasons to be cheerful

While the IMF forecast does highlight continuing risks and uncertainties, which largely centre on the future path of the pandemic, there are reasons for some guarded optimism. Continuing progress in the search for COVID-19 vaccines and the economic stimuli promised by US President-elect Joe Biden, for instance, should both have a positive impact on market sentiment during 2021.

Look to the future

Whatever the future holds though, the key to successful investing will inevitably remain embracing a long-term philosophy that is based on sound financial planning principles. In practice, this means maintaining a diversified investment portfolio which suits your attitude to risk and resisting any urge to panic trade. It also means looking forwards, focusing on future key trends and longer-term investment themes.

Advice remains paramount

Another key component for investor success will undoubtedly be the provision of expert advice and the construction of a tailored plan setting out realistic and achievable financial goals. Indeed, given the heightened market turbulence and uncertainty, it has arguably never been more important to obtain professional financial advice. So, get in touch and we'll help you navigate your way through the opportunities and challenges that emerge as the new year unfolds.

IHT receipts fall for first time in a decade

Inheritance Tax (IHT) receipts have fallen for the first time since 2009, according to data from HMRC. The amount of IHT collected in the 2019/20 tax year fell 4% (or £223m) to £5.2bn, with the introduction of the main residence nil rate band (RNRB) said to be the primary driver behind the fall.

The RNRB, introduced in 2017/18, is an additional allowance that is available if a person's estate includes their home and is left to their direct descendants (children, stepchildren or grandchildren). The RNRB currently stands at £175,000 and, when added to the nil-rate threshold (£325,000), could give rise to an overall IHT allowance of £500,000, unless an estate exceeds £2m, at which point the RNRB starts to reduce.

If you're married or in a civil partnership, any unused threshold can be added to your partner's threshold when you die, giving a total IHT allowance of up to £1m. Beyond these thresholds, IHT is usually payable at 40%.

Could a review be on the way?

With the furlough scheme alone having already cost the government more than £39.3bn, Chancellor Rishi Sunak may decide to alter IHT rules in the coming months to help fill the hole in his budget. We'll keep you updated with the latest news and work with you so that you can pass on assets in the most effective way.

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated.

Inheritance Tax Planning is not regulated by the Financial Conduct Authority.

INSIDE THIS ISSUE:

Decimalisation 50 years on

Shillings and pence were replaced with 'new pence' on 15 February 1971, in what proved to be quite a complex process. On 'D-Day' businesses had to switch their accounting and pricing to decimal, banks had to adapt their part-computerised, part-manual systems and everyone had to learn the new system, including school children. Decimalisation made life much simpler, even if it meant saying goodbye to old friends such as florins, half crowns and ten bob notes.

Investors increasingly opt for responsible funds

A record quarterly amount of over £7bn had been invested into responsible investment funds by the end of Q3 2020, compared to £1.9bn invested during the same period in 2019. Statistics for September alone show responsible investment funds saw a net retail inflow of £975m for the month. Such funds under management stood at £40bn at the end of September, representing 3% of total funds under management[1].

Capital Gains Tax review

The Office of Tax Simplification (OTS) has published its first of two reform reports on Capital Gains Tax (CGT) which calls for CGT to be set at the same rate as Income Tax, which could raise a substantial amount of tax for the Exchequer. A lowering of the annual exemption is also recommended – the OTS estimate that the number of CGT taxpayers would double if the allowance were reduced to £5,000.

Fund managers largely optimistic for 2021

A survey[2] has found that 74.5% of all fund managers expect the economy to improve in 2021. Of these, 28% expect it to be 'much better' and 46.5% 'slightly better.' Only 15.5% expected performance to be worse in 2021 and the remainder thought the economy would perform about the same.

[1]Investment Association, 2020

[2]BDO, 2020

New Year's resolution? Get to know your pension age(s)

Did you know that the phased increases to State Pension age (SPA) reached 66 for both men and women in October 2020 and it's set to rise further? The minimum age for taking funds from a personal pension is also set to rise in 2028. Getting to know your pension ages, and what you can expect to receive, is vital in creating your retirement plan.

Your State Pension - age 66, 67 or older?
To find out your State Pension age, visit the government website www.gov.uk/state-pension-age.

The State Pension is paid to anyone who has made at least ten years' worth of National Insurance contributions during their working lifetime. The maximum payment is currently £175.20 a week (£9,110.40 a year), but how much you get depends on how many years you contributed for. Some people who have accrued Additional State Pension may get more than this 'maximum'. To check your State Pension forecast, go to www.gov.uk/check-state-pension.

Personal pensions
Currently, savers who pay into either a workplace or individual personal pension can access their pension pot at age 55. In September 2020, the government confirmed this would rise to 57 in 2028. The change, which has been prompted by increased life expectancy, will mean that those who are currently 47 or under and wish to pursue this option will have to wait an extra couple of years.

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Retirement – it's not ALL about your finances

Whenever we talk about retirement, the focus tends to be on pensions, with an assumption that everything will fall into place, providing there is enough in your pension pot when you retire.

Preparing emotionally

Many retirees simply aren't prepared for how significantly their life will change, and many, while not missing work, will certainly miss the sense of purpose that comes with the organisational structure to which they have become accustomed.

Suddenly stopping work after spending a lifetime focused on your career could be the catalyst for depression and other mental health issues. That's why it's important to prepare ahead to become mentally ready for retirement.

Visualise your retired self

You are likely to still want the same things in life: a sense of purpose, social interaction and activities that interest and stimulate you. Consider these tips to help prepare for a fulfilling retirement:

- Wind down in stages – instead of going from full-time to retired overnight, you could try a gradual retirement to keep the fulfilment of work combined with the free time to pursue other interests
- Exercise - we all know the benefits of exercise for our physical and mental health. Getting into the habit could help your emotional state when you retire
- Review your interests – in addition to solitary hobbies and interests, joining groups and clubs can help you develop new social networks
- Get your finances in order – while preparing emotionally is a big part of retirement, you need money to allow you to live life to the fullest.

Sorting out the finances

This is where we can help, so that you can rest assured you have the resources to spend your retirement free from money worries, allowing you to enjoy your later years.

ESG on the business agenda in 2021

Hello to a new year, a fresh start and forward focus. We aren't the only ones looking forward and appraising the year ahead; a new report has noted that in 2021, Chief Financial Officers (CFOs) are placing a high priority on ESG (environmental, social, and governance) issues and assessing how organisational ESG activities and investments compare with evolving stakeholder expectations and business values.

It seems an increasing number of companies are seeing the value that attention to ESG matters can bring in terms of relative performance and investing in initiatives they care about. The pandemic has certainly highlighted ESG issues and it seems more organisations are embedding them as an integral part of business planning.

The US report[3] outlines, *'Many companies recognise that investing in ESG is the right thing to do, but the real incentive comes from evolving stakeholder expectations... In 2021, customers, employees, suppliers, investors and the communities in which companies operate are likely to place even greater pressure on companies through their consumption choices, preferences regarding the organizations they want to work for and with, and calls for greater transparency on ESG... Finance leaders should expect to invest more time scrutinizing and strengthening ESG metrics and reporting to sustain relevance with institutional investors, asset managers and other investors. They also need to enhance the rigor of the disclosure controls and procedures that generate ESG reports.'*

As the global landscape evolves, ESG is certainly firmly on many businesses' agendas this year, as they shift towards a vision of matching profit, coupled with the pursuit of sustainability and societal impact.

[3]Forbes, 2020

Awaiting the green shoots of spring? Use your time effectively

As we enter a new year, the winter months endure, but the hope of spring hangs in the air, an enticing prospect. So, while you're awaiting the green shoots of spring, why not take the opportunity to get your finances in order before the end of the tax year? It's a good time to double-check you've taken advantage of all the tax-efficient allowances available to you; remember we're on hand to get you organised to avoid a last-minute rush.

Here's a reminder of some of your main tax planning opportunities:

- Pensions – current Annual Allowance of £40,000. For every £2 of adjusted income over £240,000, an individual's Annual Allowance is reduced by £1 (the minimum Annual Allowance will be £4,000)
- Pensions – The Lifetime Allowance places a limit on the amount you can hold across all your pension funds without having to pay extra tax when you withdraw money, the limit is currently £1,073,100
- Individual Savings Accounts (ISAs) – maximum annual contribution of £20,000 per adult
- Junior Individual Savings Allowances (JISAs) – maximum annual contribution of £9,000 per child
- Making Inheritance Tax-free gifts - each financial year you can make gifts of up to £3,000 (in total, not per recipient) and if you don't use this in one tax year, you can carry over any leftover allowance to the next year (some other exempted/small gifts allowable). To reduce the amount of IHT payable, many families consider giving their assets away during their lifetime. These are called 'potentially exempt transfers'. For these gifts not to be counted as part of your estate on your death, you must outlive the gift by 7 years. If you have enough income to maintain your usual standard of living, you can make gifts from your surplus income, advice is essential as strict criteria apply
- Using Capital Gains Tax (CGT) allowances – £12,300 annual exemption per person, £6,150 for trusts – currently under review, correct at time of publication.

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COVID heightens intergenerational issues

One effect of the pandemic has been to divide segments of the population, whether by age, where they live or what they do for a living. When divisions occur, tensions can develop, not least between the generations.

There is now rising concern about the economic impact of the pandemic upon Generation Z. A summary of youth unemployment statistics published in October revealed, '*581,000 young people aged 16-24 were unemployed in June-August 2020, an increase of 35,000 from the previous quarter and an increase of 87,000 from the year before.*'

Students stranded in halls of residence whilst learning online may feel more resentful over tuition fees and worsening job prospects. Many young people are also worried about whether they will ever leave the rental sector, as saving for the deposit for a home can be difficult while paying rent.

The Intergenerational Foundation (IF) says, *'Younger generations are under pressure like never before. IF was established to draw policy-makers' attention to this, and to get a fairer deal for young people. It concentrates on policies in housing, health and higher education, employment, taxation, pensions, voting, transport and environmental degradation.'*

Empathy is the power of connection
COVID has brought added worries for elderly people, too. One concern has been poor access to banking services and cash, with branch and ATM numbers declining due to lower usage. As Age UK puts it, *'We are hurtling towards a cashless society with no real consideration for the many people who will be left behind.'*

Many older people recognise the challenges that upcoming generations face; often they do something about it by helping grandchildren at important life stages, if concern about funding their own future care allows. Those unable to assist hope government will support key elements of young adult lives – a challenge when national finances have been battered by the pandemic.

It's about family
Although the pandemic has certainly heightened intergenerational issues, it has also highlighted health, social, emotional and financial vulnerabilities – and impacted every generation. Plenty of people have reflected on the balance in their lives and the importance of feeling connected. It's reminded us that it's good to talk and not to be afraid to start a conversation.

Although generational divides exist, we're in this together and although we've had to endure time apart, in a strange way it's brought us all together.

If you are in a position where you want to engage your family with a conversation about finances, we understand your apprehension because money can sometimes be a contentious issue. 'Wealth transfer' is such an abstract term for such an emotional topic, but we can help break down those barriers and get your family talking in a positive and productive way.

We're here for you in 2021 and beyond

Whatever 2021 has in store, we want to reassure you that we're here for you and all your financial planning needs.

While the coming months are expected to see the global economy rebound from the COVID-induced recession, the pace of recovery is indeterminable. In addition to uncertainties created by the pandemic, Brexit, trade and political issues will no doubt persist. As always, the only real certainty is that we live in uncertain times.

You can rely on us; we take the time to understand your objectives, apply a rigorous investment process and advise you on the investment and financial strategies most appropriate for you.

We are proud to support you through 2021 and look ahead with hope and confidence.

IF YOU WOULD LIKE ADVICE OR INFORMATION ON ANY OF THE AREAS HIGHLIGHTED IN THIS NEWSLETTER, PLEASE GET IN TOUCH.