Clarity

Newsletter Spring 2021

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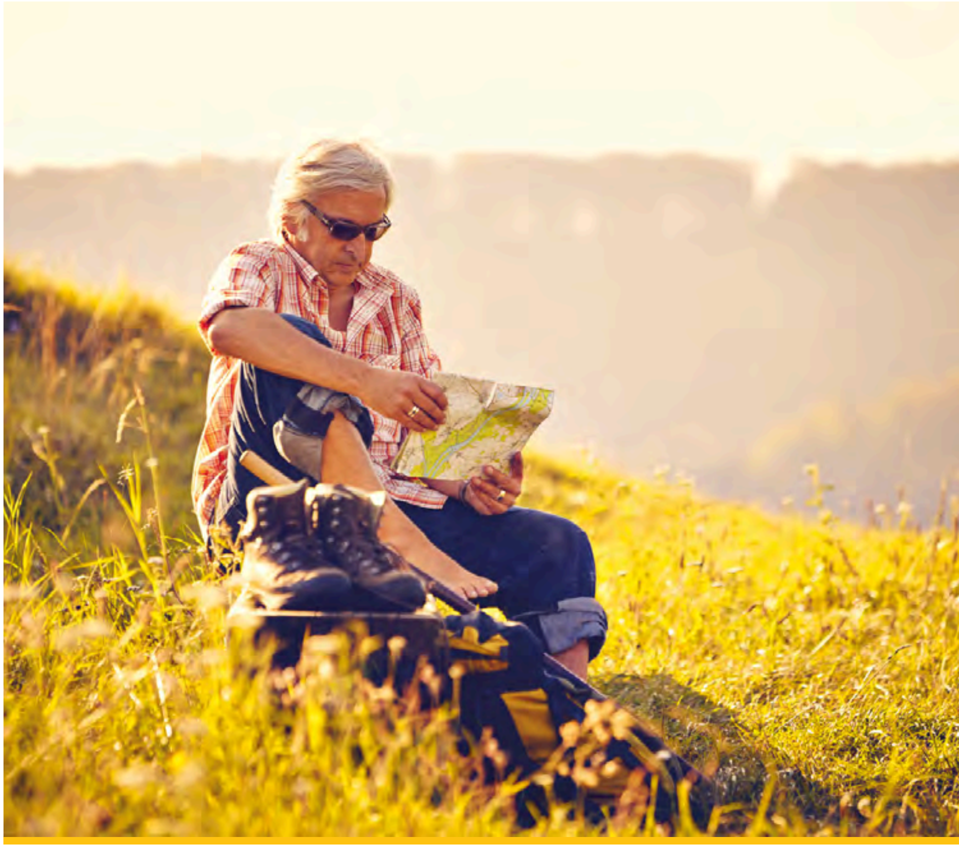


Welcome

To our latest newsletter highlighting some important changes within the insurance and financial services industry and our latest news.

In this issue:

If you'd like to find out more about any of the topics covered in this issue, or have any comments, please get in touch. We look forward to hearing from you.

Accessing property wealth

The coronavirus pandemic brought unprecedented financial challenges to our lives and the economic impact is likely to continue for some time yet.

Many people rely on the investment performance of their portfolios as a source of income and over the last 12 months market volatility may have reduced the value of such investments and the rate of dividend pay-outs, and subsequently impacted on income.

On the other hand many people will have seen their house values grow over the same period. UK house prices rose by 7.5 per cent in 2020, according to the latest figures from Nationwide, the UK's biggest mortgage lender. This was the highest growth rate for six years and came off the back of a stamp duty cut and changing housing requirements, as a result of more people now working from home.

For those over 55, Equity Release may now be a solution to a variety of issues. By releasing equity from the home, parents or grandparents can release a tax free lump sum which could be used to supplement income or for gifting purposes. If gifts are made this can help reduce future inheritance tax and the beneficiaries of the gift get capital to spend when they may need it most.

A growth in house prices increases the value of the estate so by releasing equity from your home, you can reduce any potential future liability to inheritance tax. One key benefit of equity release is that it allows borrowers to stay in their home for the rest of their lives, while providing a regular income or cash lump sum at the same time.

However, when considering equity release, it is important to thoroughly research the options available and ideally such proposals should be talked through with family members first. We also strongly recommend you seek independent financial advice from a qualified financial adviser so that you fully understand any risks associated with Equity Release, as well as the potential benefits.

By Sue Stevens

What's in store for the property market going into 2021?

Amongst many other things 2020 was one of the most interesting years for the property market. The lockdown in early 2020 saw a lot of transactions placed on hold and then a surge in demand driven by the stamp duty incentive.

In addition, those working from home in small flats were looking at options for greater space and for many, perhaps, a more rural location. When we emerged from the first lockdown the paused property sales and purchases could recommence and there was considerable pent up demand and an urgency to get cases completed.

This has carried over into early 2021 and with the stamp duty holiday deadline looming on the 31st March, there remains considerable pressure within the lending and legal system to get cases completed. Will this deadline be extended? At the moment there are signs that the Government is considering a six-week extension but can anyone claim to know what 2021 will bring? Rather than take a guess we should take a look at what the housing market looks like now.

How does the housing market look now?

First things first, how does lockdown impact the housing market? The good news is that, currently, actions associated with moving house are exempt from the 'stay at home' restrictions, including property viewings. So, if your New Year's resolution is to buy or sell, you're in luck.

Construction is also allowed to continue, so if you've got your eye on a new build, the lockdown shouldn't cause much delay.

For the latest information on how the restrictions impact your local area, you should speak with your mortgage consultant.

At the start of January there were far more mortgage options available than there were six months prior, including 90% LTV (loan to value) options. That is good news for first- time buyers, prospective landlords and house movers alike.

The increased number of options also allows much more choice for current property owners who are looking to remortgage; you may find you can switch to a better rate than your current one. However, there can often be costs associated with changing mortgage lenders so it is best to check and review your mortgage options before jumping in.

As we have moved through January we have seen evidence of reduced lender mortgage appetite and fewer product options.

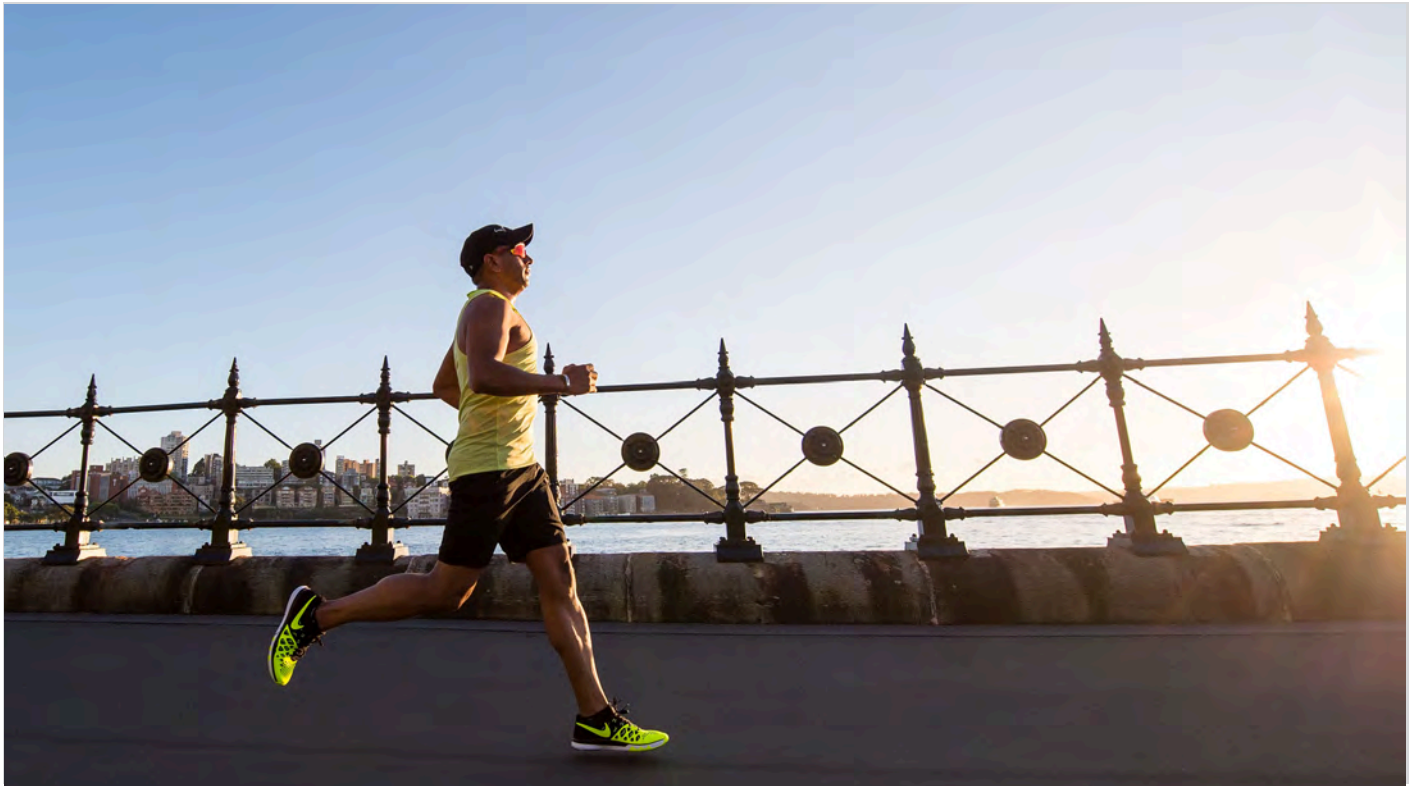
Rates remain competitive but this is only important if you can actually access the products.

What could the future hold?

As for the future a lot rests on how the market reacts to the end of the Stamp Duty holiday. Currently, the government doesn't intend to extend the holiday any further. The deadline in March may cause collapsed property chains and frustration. If you are in the process of buying or selling, you do need to ensure that all parties are well ahead in the transaction already and you have a realistic idea of whether you'll complete in time.

2021 will no doubt have many more twists and turns and so it does help to have a good mortgage consultant by your side to respond and anticipate the ever changing circumstances for property and mortgages.

If you'd like to discuss the options available to you, contact your mortgage consultant today.



Sprint finish - end of year tax planning

The run up to the tax year end can be used to consider your annual allowances, reliefs and exemptions as some of these will be otherwise lost. Whether your marginal rate of income tax is 20% (basic), 40% (higher) or 45% (additional), this can play a vital role as a means of minimising tax payable and so maximising net income, capital gains and wealth. There are various options available.

Individual Savings Accounts (ISAs)

ISAs are a method of investing savings free from income tax and capital gains tax (CGT) without giving up the flexibility of access. The current annual contribution limit is £20,000. Savings of a deceased person's ISA(s) are also now tax-free during the administration of their estate.

However, it is not possible to carry forward unused allowances from previous tax years and so, if at all possible, investors should consider paying as much as they can into an ISA each tax year.

Junior ISA (JISA)

Available to any UK resident child, under age 18, who does not have a Child Trust Fund (CTF) account. The current maximum annual contribution is £9,000. Withdrawals, however, before age 18 are only allowed in very restricted circumstances, e.g. terminal illness. The overall tax benefits are the same as for ISAs. Children with a CTF do not qualify for a JISA but given its tax free status, consideration should still be given to paying further contributions to a CTF or transferring the CTF to a JISA.

Pensions

The annual allowance is currently £40,000 and this represents the maximum amount of pension savings that can be made in the tax year before a potential tax charge. Personal contributions attract tax relief at the investor's marginal rate of income tax (20% at source with any higher or additional rate relief reclaimed via a tax return). Unused allowances from the three previous tax years can also potentially be carried forward and added to the current tax year's allowance.

The annual allowance may be tapered based on annual earnings and this can be reduced down to £4,000. Tapering only applies to those with a 'threshold income' of more than £200,000 and an 'adjusted income' of more than £240,000. Also, there is a lifetime allowance (LTA) of £1,073,100 (for tax year 2020/21) against the value of an individual's total pension benefits.

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If the lifetime allowance is exceeded following a benefit crystallisation event (BCE), for example moving into drawdown, purchasing an annuity, taking take tax free cash or reaching the age of 75, a tax charge will apply.

Your pension is not normally accessible until you have reached the age of 55.

Venture Capital Trust (VCT)

VCT offers income tax relief of up to 30% for an investment up to £200,000 with relief being restricted to the amount of income tax otherwise payable. There is no ability to defer CGT but dividends and capital gains generated on amounts invested within the annual subscription limit are tax free.

Enterprise Investment Scheme (EIS)

An EIS also offers income tax relief at 30% on an investment of up to £1 million (or £2 million where at least £1 million is invested in 'knowledge intensive' companies), with relief being restricted to the amount of income tax otherwise payable.

In order to speed up relief, it may be possible to elect to carry back up to 100% of the investment to the previous tax year. CGT tax deferral relief is also available on an investment in an EIS.

Seed Enterprise Investment Scheme (SEIS)

Reliefs are similar to an EIS, however, SEIS is aimed at smaller, early stage, companies. The SEIS offers income tax relief of up to 50% for an investment of up to £100,000.

Like an EIS it may also be possible to elect to carry back up to 100% of the investment to the previous tax year, and CGT tax deferral relief is also available.

For the VCT, EIS and SEIS it is essential that investors are aware of the likely greater investment risk and lower liquidity involved in return for the attractive tax reliefs.

By Mark Dunning

The importance of making a will

It cannot be underestimated as to how important it is to make or write a will. This is regardless of whether you consider yourself wealthy or not.

If you die without a will, there are specific rules that govern how your money, property or possessions should be distributed and these rules are unlikely to be how you would have wanted your money, property and possessions to be bequeathed.

If you are unmarried, have a partner and you are not in a registered or civil partnership, then your partner may not be able to inherit from your estate in the way you might have wished as the laws of intestacy will apply and these are usually not so generous. Therefore, the death of one partner could create serious financial problems for the remaining partner.

Furthermore, if you have children, you should make a will so that arrangements for them can be made if either one or both parents die.

It may also be possible to mitigate, or reduce altogether, the amount of inheritance tax payable on death, if advice is taken in a timely fashion and you write a will.

However, please remember - if your circumstances have changed after you have written your will, then it is important that you re-write or update your will to ensure that your money and possessions are distributed according to your wishes, if these have changed too.

If, for example, you have separated and your ex-partner now lives with someone else, you probably will want to change your will.

Continues onto page 5...

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Or if you get married or enter into a registered civil partnership, then this will make any previous will you have made invalid and you should write a new will.

Should you use a solicitor?

It is not necessary for you to use the services of a solicitor when writing your will. Nor is it necessary for your will to be witnessed by a solicitor.

You are more than entitled to write your own will, however, this is probably only advisable if your affairs are simple and uncomplicated.

If this is not the case, then it is probably advisable to employ a solicitor. Failing that, if you have written your own will, then employ them to check what you have drafted to ensure that it does what you want it to do as it is very easy to make mistakes. If your will does contain errors, then, in all likelihood, these would lead to problems after you have passed away. Trying to sort out these types of mistakes at this time can be very costly and can impact on the amount the beneficiaries might receive.

When is it especially advisable to use a solicitor?

You may also not be aware of the rules whereby, for someone who dies, their dependants can make a claim on the estate of the deceased, if they believe they are not adequately provided for. If their claim is successful, they can overturn the provisions in the will.

In certain situations it is particularly advisable to use a solicitor. These include when a property is owned with another person who is not your spouse or civil partner or if you have a dependant who is unable to care for themselves and you wish to make provision for them. Also, if there has been a second marriage, particularly where there are children from more than one marriage, or where a number of family members could make a claim on the will.

Furthermore, they include where your permanent home is not in the United Kingdom, where you have overseas property or where you have significant business interests.

At Dentons Wealth we do not provide a will writing service but recommend that clients speak to a solicitor local to them.

By Nigel Cobb

Thank you.

We recognise that 2020 was anything but normal for everyone but with the potential easing of lockdown and roll out of the vaccination programme to fight Covid-19, we are hopeful that 2021 will bring better times.

However we would like to thank our clients for their patience throughout this period where we have had to carry out reviews through online meetings or over the telephone. Where we were allowed, we did manage a few 'distant' meetings in gardens, taking advantage of the fantastic summer weather we had. Let's hope the Spring and Summer of 2021 will be as lovely.

We've continued our sponsorship of some local clubs - the Guildford Rugby Club and Holloway Hill Bowling Club, both of which have been badly affected by the virus outbreak, through articles in their magazines and supporting online events.

We now look forward to being able to catch up in person with many of our clients this year, and in the words of the late Captain Sir Tom Moore, 'Tomorrow Will Be A Good Day.'

Image courtesy of GRFC where a staff member trains guide dogs for the blind.

Contact us

For a review of your personal, business or financial circumstances, or to find out more information about any of the subjects mentioned in this newsletter, please contact one of our Advisers.

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Important notes

The value of investments and the income from them can go down as well as up and you may not get back your original investment. Past performance is not an indication of future performance.

Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances.

The content of this newsletter should not be taken as being professional advice and reflects Dentons Wealth's interpretation of the current law and HM Revenue and Customs practices.

Please update your details

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We look forward to hearing from you.

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