PRIVATE CLIENT

Newsletter

PROSPERITY

www.albertgoodman.co.uk

NOVEMBER 2020

ALBERT GOODMAN

CHARTERED ACCOUNTANTS, TAX CONSULTANTS & FINANCIAL PLANNERS

welcome

Welcome to the latest edition of the Prosperity newsletter.

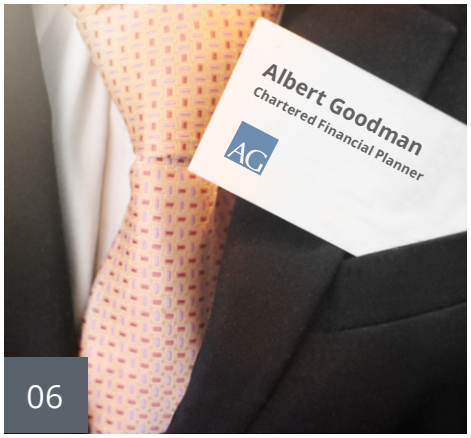
As I'm writing this, we are in the midst of a second national lockdown, it's safe to say 2020 has been an unprecedented year globally, and it would be hard to find someone that hasn't been in some way affected. Just like everyone else, our teams have had to be flexible and adapt to the constantly changing rules surrounding business, fortunately our IT systems have served us well and allowed for our close client relationships to continue with ease.

Government assistance schemes are still ongoing as the pandemic continues, however, there may be a light at the end of the tunnel with talk of a successful vaccine potentially being available in 2021. Sufficed to say it's as important as ever to plan for the future, as unexpected things can happen, whether it be on an individual or global scale. I hope this edition can provide you with some sound advice, whether it be managing your money post-crisis or being aware of how the potential changes to pension freedom's age may affect you.

The very best thing one can do in uncertain times is to take stock, have an awareness of your financial situation and plan ahead.

Stay safe and enjoy the festive period.

Louise Osborne
Partner



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UPCOMING TAX DEADLINES

DECEMBER 2020

1st Due date for payment of corporation tax for period ended 28 February 2020.

7th Deadline for VAT returns and payments for accounting quarter ended 31 October 2020.

30th Deadline for online filing of self assessment tax returns for year ended 5 April 2020 if you want HMRC to collect tax through your PAYE code and liability is less than £3,000.

JANUARY 2021

1st Due date for payment of corporation tax for period ended 31 March 2020.

7th Deadline for VAT returns and payments for accounting quarter ended 31 November 2020.

14th Income tax payment to HMRC for CT61 period to 31 December 2020.

31st Deadline for online filing of self assessment tax returns for year ended 5 April 2020 and for payment of income tax and capital gains tax.

FEBRUARY 2021

1st Due date for payment of corporation tax for period ended 30 April 2020.

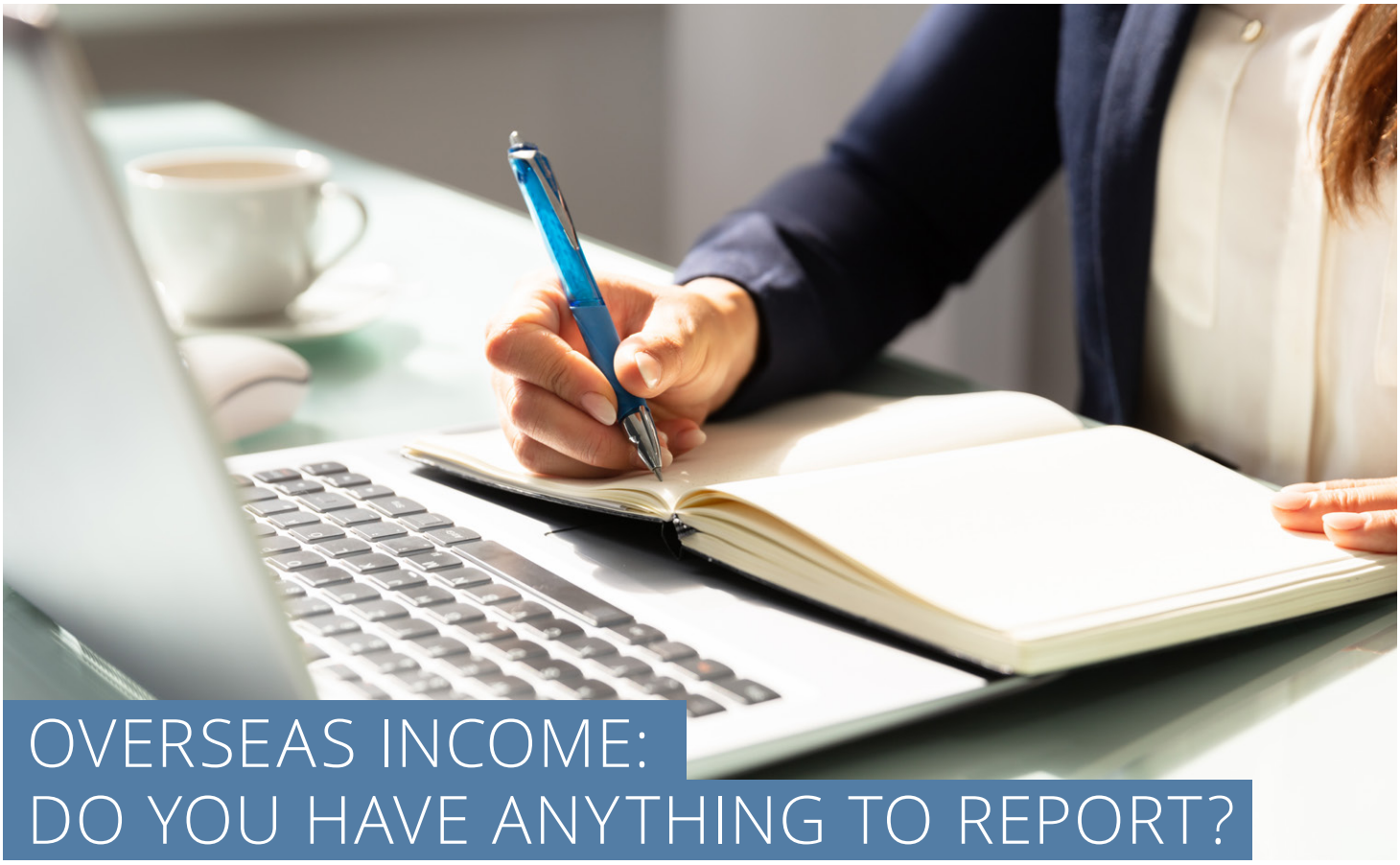
2nd Deadline for submitting forms P46(car) for quarter ending 5 January 2021.

7th Deadline for VAT returns and payments for accounting quarter ended 31 December 2020.

MARCH 2021

1st Due date for payment of corporation tax for period ended 31 May 2020.

7th Deadline for VAT returns and payments for accounting quarter ended 31 January 2021.



OVERSEAS INCOME: DO YOU HAVE ANYTHING TO REPORT?

It is commonly believed that income arising overseas – especially if it is subject to taxes in the other country – does not need to be reported in the UK. Unfortunately, this is unlikely to be the case and we are often engaged by our clients to help disclose historic overseas income (sometimes as far back as 20 years) where it has not been previously reported.

If you are UK tax resident (and not a non-domiciled 'remittance-basis' taxpayer) then you will need to consider the assessment of UK tax on your worldwide income, regardless of where this arises, how it is paid, where it is kept or whether you have paid tax on it elsewhere.

Of course, no-one expects to pay tax in two countries on the same source of income, and the UK has an extensive system of double taxation agreements (also known as treaties) with most countries around the world to ultimately prevent this from happening. Each treaty will have its own provisions which dictate which of the two countries have the primary right to tax depending on where the taxpayer is resident, and the outcome may differ for various sources (for example, dividends may be treated differently to pension income).

In a further layer of complexity, depending upon the specific treaty and the type of income, one country may have no right to tax the income at all, or both countries may be able to tax the income, but with the availability of tax relief ('foreign tax credits') in one of the countries to alleviate any double charge. In any case, it is likely that a claim will need to be made to HMRC - whether on your Self-Assessment tax return, or via a specific claims form - for this favourable treatment.

Alternatively, where the treaty dictates that the UK has the primary right to charge tax on the income, it may be necessary for you to make the claim for exemption or relief in the overseas country, with full tax being payable in the UK.

In any case, the resounding message is that just because it's not in the UK, it doesn't mean that it can be ignored!

We would be happy to review your overseas income sources (whether current or historic) and determine the correct UK tax treatment for you - if you would like this assistance, please do get in touch.

David Scull
Client Services Team Leader

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AGCFP - IT'S ALL IN THE NAME

"Albert Goodman Chartered Financial Planners". 11 syllables, a bit of a mouthful I agree.

But what do we actually mean? And how is this different from the term "IFA" - or Independent Financial Adviser, which some people may be more familiar with.

Firstly, I should clarify that we are Independent Financial Advisers, so let's just spend a moment to look at the two terms, what we're talking about, and why we use them.

INDEPENDENT FINANCIAL ADVISER

Independent – we are independent, which means we can recommend products from anywhere in the market. We are not tied, we don't accept payments from providers to recommend them*, and we don't get given inducements to select a product. This makes us independent.

Financial – we're looking at your finances, from your pension provision, investments, protection, and a wide range of other areas too.

Adviser – we are providing you advice to you on your finances, from holding enough cash for your needs, using the right products, tax, your life stage and protecting against certain eventualities. We have to be regulated to do this.

CHARTERED FINANCIAL PLANNERS

Chartered – this means we have met a number of strict standards, as set out by the Chartered Insurance Institute (see cii.co.uk for more). Not all companies have this high level qualification

Planning – this is a key one, and this is why it's in our name. All of the other aspects of advice really come second to planning. Now more than ever, it's a time of reassessing where we are from a personal perspective, as well as a financial perspective, and it's important to look at where we are trying to get to, from a financial perspective.

These are the most important things; when do we want to retire, do we want to move house, or are there big costs coming in the future, what do we want to leave our children? They are the important things in life, and in order to achieve them you have to have a plan in place.

A good plan badly executed will be better than a bad plan well executed. Our aim is a good plan, well executed. With this in place, your odds of long term success are high in any environment.

ALBERT GOODMAN

Finally, if you were wondering about the Albert Goodman bit, Albert himself started the Accountancy company in 1866, and relatives of Albert are still known to the company. The Financial Planning arm have been around since 1993.

So what should we take from all this? Well we are a highly qualified and authorised team, offering unbiased advice for you to reach your goals.

So think about what you're looking for, what are you trying to achieve, and let your adviser know. We'll just have to put up with all the words in the meantime.

**unless you request that we do.*

David Scull
Client Services Team Leader

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ELECTRIC CARS - £140K PORSCHE FOR FREE

Ok, so I needed something to draw you in, but now I've got your attention I'll explain just how cheap a fully electric car can be as a company car, due to the very generous allowances afforded to them whilst they're in favour with the Chancellor.

The Employee

When an employer company, or business provides an employee/director with a company car, the employee will be taxed on the benefit in kind (BIK) value of that vehicle. The BIK is calculated taking a multiplier based on CO2 emissions and multiplying this by the list price of the vehicle including options to give the BIK value. This is the amount that the employee/director will be taxed on.

Electric vehicles have zero CO2 emissions (officially at least) and the BIK multiplier is as follows;

Tax Year	BIK Multiplier
2020/21	0%
2021/22	1%
2022/23	2%

As you can see, the multiplier for the current tax year is 0% and therefore even if you did purchase the new £140K Porsche Taycan Turbo S and provide this to an employee, or yourself as a director of your business, you would not pay any income tax on the benefit in 2020/21. There would then be small BIK for the following tax years.

Obviously we are currently facing very difficult times, so buying £140K cars isn't going to appeal to many, but it is just an extreme example of how the advantages of providing an electric car can be very tax efficient.

Maybe it is something to consider for your next change of company car with Teslas starting from roughly £40K which is not too far away from the former company car favourite; the BMW 320d. There are also much cheaper electric cars available so this is something that can benefit many.

The Employer

Employers pay Class 1A national insurance at 13.8% on the BIK of employees so electric cars can help to reduce Class 1A bills for company cars significantly due to the lower BIKs.

In addition, for any electric cars purchased up to 31 March 2021, the cost of the car is 100% allowable for a first year allowance, generating corporation tax relief on the entire cost of the car in year one.
The same goes for the cost of installing vehicle charging points at places of work, up to 31 March 2023.

If this is something that you are considering for your next company car or for providing your employees with new cars, then please get in touch to discuss the practicalities.

Alex Covey
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GIFTS FREE FROM INHERITANCE TAX

If you have gifted more than £325,000 in the 7 years before your death, those individuals receiving gifts could be liable to inheritance tax (IHT). However, the good news is there are certain exempt gifts. Firstly, we must establish what constitutes a gift.

What is a gift?

- Anything that has a value. For example a property, money or objects.
- If there is a loss of value, to the donor, when something is sold or transferred, for example you sell your property to your child for less than market value. The difference between for amount received and the market value would be considered a gift.

Exempt gifts

However, there are exempt gifts that are not liable to IHT. Everybody has a £3,000 IHT 'annual exemption'. You can make £3,000 worth of gifts each tax year (6 April to 5 April), tax free. You can also carry any unused annual exemption forward for one year. For example, if you did not make a gift in the current tax year, in 2021/22 you can make up to £6,000 worth of gifts IHT free.

Each tax year you can also gift the following IHT free:

- **Wedding or civil ceremony gifts** - £5,000 per child, £2,500 for a grandchild or great-grandchild and £1,000 to anyone else. The gift has to be made before the wedding and the wedding has to happen.
- **Family maintenance expenses** – you can cover certain costs of an elderly dependent, a child under the age of 18 or in full-time education, or an ex-spouse to help with their living costs.
- **Small gift exemption** – gifts of up to £250 can be made to unlimited individuals, if you have not used another allowance on that person.
- **Gifts to charities or political parties** – any gifts to UK charities, including community amateur sports clubs (CASCs) in your lifetime or in your Will are exempt from IHT. The same goes for qualifying political parties.
- **Regular gifts from surplus income** – regular financial gifts from income after-tax will qualify, if you have enough income to maintain your normal lifestyle after making the gift. Income includes employment, pensions, interest, dividends, and rental income. The gift must form part of your 'normal expenditure' and are paid out on a regular basis. It is important that a record is kept of these gifts.

In conclusion, there are many ways you can reduce your estate, that are free from inheritance tax. Please make us aware of these gifts, so we can keep a record. This information could be simply be provided with your tax return information annually. If you would like further information on how to reduce your inheritance tax liability, please get in contact.

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FAMILY INVESTMENT COMPANIES

Wealthy individuals often want to put funds aside for future generations but wish to retain some control over how it is invested and when family members get access to it. The family investment company (FIC) became a popular tool for doing so after the change in trust taxation in 2006.

There are many variations but typically an FIC is an ordinary company in which family members hold shares. The founder will inject cash into the company, normally as a loan but it could be in the form of shares, which is then invested as appropriate. The founder will normally be the director and in this way will retain control over how cash is invested and how income is distributed.

The other family members who are to be involved acquire shares at the point when the company has little value so that no tax charge arises. The company then grows in value as the investments grow and as the founder is repaid any loans. This benefits all the family shareholders and in effect value is being passed down from one generation to the next.

This is a very flexible structure and is a useful way to provide children with an income, for example for school fees, when they are going to university, or buying their first home, usually in the form of dividends.

The founder can retain control of the company and can take some income themselves if they wish to, without creating any inheritance tax issues under the gift with reservation rules. It should be noted that this structure holds the capital for the long term and would normally only distribute capital at the end of its intended life, so there are limitations to its use, of course. It is also worth noting that companies have a low tax environment and do not pay tax on dividend income.

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RISK – IS IT 'WORTH IT'?

Everyone seems to be talking about risk at the moment. Everyone is having to make decisions; from whether to go to a restaurant to whether to go on holiday. All these decisions involve some thought about what the covid risks are, and whether we feel it's 'worth it'. Some people don't mind taking a risk, will be willing to take a long haul flight somewhere exotic, others would prefer to stay at home, get their food delivered to them by a nice man in a Tesco van, and see what box sets are on Netflix.

The same sort of thinking should go into investment risk. Is it 'worth it'? Well just like visiting restaurants and going on holiday, everyone has a different view. There are those who don't mind taking a risk, and seeing stock market falls reported on the BBC won't phase them, happy with the knowledge that it'll come back at some point. After all, statistically speaking, it certainly should, we just don't know how or when. Others would be terrified to see even a small drop in the value of their portfolio, and are much more happy holding cash in the bank or building society.

I'm certainly no expert on covid 19, and we'll all come to our own decisions, but here's 4 quick thoughts, on investment risk.

1. Whilst covid is a largely single risk; that of catching the virus, and can be analysed as such, investments have many different types of risk, such as;

a. Inflation risk; the chance of the value being eroded in real 'purchasing power' terms

b. Liquidity risk; the chance of not being able to access funds, and

c. Capital risk; the risk of the value going up or down.

2. All money or investments have some risk. Even stuffing money under your mattress has the risk of being stolen, and cash in the bank has a very high risk of being eroded by inflation.

3. Everyone's risk preference is different, and sometimes risk is to be embraced, sometimes not. It will always depend on your own individual circumstances.

4. We all know the obvious; in the long term, the higher the risk, the higher the reward. Whilst there are no guarantees of course, cash will eventually be beaten by inflation, but a pure stock market investment will normally make higher returns in the long term.

So what can we conclude?

- Talk about risk with your adviser; it's important they understand what you want.
- Think about how long you are investing for; if it's a long time, it can be easier to ride out rises and falls.
- Finally, be comfortable, sleep well, whether you are a low or high risk investor, it's unlikely to benefit you looking at the value every day. Every few months is plenty. Spend that time thinking instead about what you want to do when restrictions are finally lifted.

So have a think, and get in touch with your adviser if you want to talk.

David Scull
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PENSION FREEDOMS AGE TO RISE TO 57 - HOW COULD THE CHANGE IMPACT YOU?

Under new rules coming in from 2028, some pension savers may have to wait an extra two years before being allowed to take money out of their pension. Whilst you might not be thinking about taking money out of your pension it's important to understand how the new rules might impact on you.

Currently the earliest age you're permitted to take money out of a pension pot is generally 55. The only time it is possible to access pension benefits before minimum pension age is for individuals in ill-health (generally this rule only applies to occupational pensions), or if the person has a "protected pension age" or is in certain specified occupation. Apart from this, a payment out of a pension made before minimum pension age is an unauthorised payment and subject to hefty tax charges.

The Government has confirmed that the normal minimum pension age will rise to 57 in 2028, The change was first announced by the Govt in 2014 when the pension freedoms were announced to reflect he trends in longevity and to encourage individuals to remain in work while also helping to ensure pension savings provide for later life. However the change to the rules were not put into legislation. It has recently confirmed the change will definitely take place, however it is not clear yet how the government is actually going to implement the changes or communicate the changes to pension savers.

Whether the change will be a 'cliff edge' one remains to be seen but this seems likely based on past changes to pension age. When the minimum pension age increased from 50 to 55 from 6 April 2010, a member had to take benefits before that date to avoid being affected by the change to 55, in other words if someone had placed funds into drawdown before 6 April 2010 they were still allowed to a lifetime annuity after 6 April 2010, even if they were still under 55.

The change could happen on a specific date which is most likely to be at the beginning of the tax year i.e. 6/4/2028 – in which case anyone who has their 48th birthday before 6 April 2021 will still be able to access their pension from age 55, but anyone even a day younger, will have to wait another 2 years to start taking an income from their pension. Of course the government could pick a different date later in 2028 to bring in the changes.

Or

The change could be phased in i.e. similar to the gradual increase in state pension age. This could see the minimum age gradually increase a month at a time from age 55 to 57 with people currently in their late 40's eligible to draw pensions from different ages based on their exact date of birth. This avoids a cliff-edge but would of course be much more complex to communicate.

Finally the other point that needs clarification is what would happen if someone reaches age 55 before the cut off date, would they keep the right to access their pension earlier than age 57. For example if the changeover date is set as 6/4/2028, an individual born 5/4/1973 will reach age 55 just before the cut-off, could they access their pension that day, but if they don't will they need to wait until age 57?

Claire Musson
Director

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CASE STUDIES

Can I afford to gift to my grandchildren?

We helped demonstrate to an 82 year old widow that he could afford to gift £10,000 to each of his 6 grandchildren. This enabled him to experience seeing some of them buy their first homes.

How much can I afford to spend in retirement?

A 71 year old woman, recently widowed was concerned about her expenditure. Using our modelling we were able to reassure her that not only could she afford to spend at current levels, she could afford to spend a further £13k per annum. This has enabled her to have more extravagant holidays to New Zealand and other places, treating her sister and more recently she has purchased an electric vehicle.

How much do I need to save for retirement?

A 60 year old divorcee was keen to ensure she was saving enough for her retirement in 6 years time. We were able to demonstrate that her current provisions were more than enough for what she wanted to spend in retirement and in fact, she could afford to repay her mortgage with immediate effect which provided her with enormous relief.

Can we afford to retire?

A married couple in their late 50's had recently sold their business and wanted to understand whether they could afford to retire or needed to keep working in the business that they no longer owned and for them the spark had gone, they wanted to move on. We could demonstrate that they could afford to retire immediately and even stress tested their finances against major falls in the markets. They took our advice and retired shortly before the impact of the COVID-19 pandemic and their financial plan has remained strong. They had peace of mind that they could afford to endure the pandemic.

MANAGING YOUR MONEY POST CRISIS

Financial planning and managing your money can be challenging, especially in times of uncertainty. Identifying and understanding your short, medium, and long-term financial planning objectives are the foundations to placing you in a position of relative comfort and security.

Ideally, you should retain adequate cash funds to meet your immediate planned expenditure over the next 12 - 24 months and/or any need to cover a shortfall in the income that you require from your saving and investments over a 24 - 36 month period.

It is also important to ensure that you retain adequate cash reserves, that are available in the event of a financial emergency. The amounts you need will be dependent upon your own individual circumstances. However, the ongoing falls in interest rates have left savers in a situation where interest rates are now so low, that it is difficult, if not impossible, to achieve an interest rate that will give a real return after inflation.

To give your wealth the opportunity to grow at a rate that beats inflation requires an investor to accept and take investment risk. You must therefore be prepared to accept falls and rises in the value of your investment. Returns will not generally be guaranteed and you need to be comfortable with a medium to long term view.

The beginnings of the global COVID-19 pandemic resulted in a significant fall in market values, which typically wiped out returns achieved over the previous 12 months.

To provide some context on this, the FTSE 100 share index closed on the 2 January 2020 at 7,604. By the end of February, the FTSE 100 had slid back to 6,580 a fall of 1,024 or 13.46%.

The FTSE 100 hit the lowest value for the year on the 23 March 2020, when it closed at 4,993, a fall of 1587 or 24.12% from its value at the end of February. Eleven weeks later, at the close of business on 8 June, the FTSE 100 had recovered to 6,464 a fall of 1140 since the beginning of the year – 14.99%

As we now generally invest on a global basis it is important to consider how the US markets fared over the same period. The Dow Jones Industrial Average index closed on the 2 January 2020 at 28,868. However, by the end of February, the same index had slid back to 25,409 a fall of 1,024 or 11.98%.

The Dow hit the lowest value for the year on the 23 March 2020, when it closed at 18,591 a fall of 6,818 or 26.83% from its value at the end of February. Eleven weeks later, on 8 June, the Dow Jones had recovered to 27,572 a fall from the beginning of the year of 1296 - 4.49%

Managing investment risk requires diversification across different assets of which there are four primary classes: Cash, Fixed Income, Property and Equity (stocks and shares). COVID-19 has affected global investment markets including the values of most assets that form part of your investment portfolio. Cash and high-quality Fixed Income assets that hold a high proportion of short duration and strong credit quality bonds have experienced limited downward movement in value, but do not generate an above inflation return.

They have been a perceived safe haven in the current period of uncertainty for the more Cautious investor who holds this asset as part of their portfolio. Other forms of Fixed income assets feature lower credit quality and longer terms to maturity. They have been successful in generating higher returns, as they are higher risk. In recent events some have endured similar levels of volatility to equities, or stocks and shares. Understanding the components in your portfolio and the investment risk you are really taking is important and financial advice essential to ensure you are matching needs with aspirations.

We have seen Markets recover significantly since the early beginnings of the COVID-19 pandemic. This event created uncertainty and a sell off that resulted in market falls over a short period. Those investors that did sell during the period, did not then benefit from the subsequent recovery that took place. Over a 5, 10, 15, or 20+ year investment term, such events form part of history. The Credit Crunch, which started in August 2007, 11 September 2001 downturn and Black Monday, October 1987, all featured notable falls in value which, over time were recovered, with wealth restored and built upon.

Once you have identified the amount of cash deposits you need over the short term and are comfortable with your investment strategy, it is important that you remain focused on your disciplined longer-term approach. Try not to be influenced by short term events.

It is important to recognise that you cannot time the market. Global markets recovered so quickly earlier this year, that for many of those investors that did sell in March and early April, the opportunity to get back in would have been missed.

Diversification across different asset classes in modern portfolios has helped to manage volatility and returns. The markets have recovered to a far greater extent and more quickly than was expected and has been experienced in previous financial crises. This has given many investors an opportunity to review their position, release funds to ensure they retain adequate liquidity and reduce investment risk if appropriate.

If you are uncomfortable with the extent of volatility being experienced, a further review of the investment risk appropriate for you should be undertaken and your investment options discussed with your financial advisor.

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Director

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