Medical & Professional
Consultancy & Financial Planning

Insight

Issue 19 | JANUARY 2020

Gifts that keep on giving

Christmas has passed and thankfully with it the overload of adverts for the latest toys and must-have gadgets. But did you think of making a gift to your children or grandchildren that has longer-term value?

Instead of something that is soon forgotten or outgrown, why not consider an investment for a child's later life? The choices include:

- **Junior ISAs** *(JISAs), the maximum overall investment you can make in the current tax year is £4,368 for each child. JISAs make great gifts because the funds are free of UK tax on investment income and capital gains; what's more they are outside the anti-avoidance rules on parental gifts to minor children.*
- **A personal pension** *grows free of capital gains tax, there's no income tax until benefits are drawn, and contributions qualify for income tax relief – even for a non-taxpaying child. The maximum net investment/gift in a tax year is £2,880, which tax relief boosts by 20% to £3,600.*
- **Investment funds** *can be gifted to children, typically by creating a bare trust, although other routes are possible. There are no limits on the amount you can gift, but there are potential income tax and inheritance tax consequences that need to be kept under review, particularly for larger investments.*
- **NS&I Premium Bonds**, *which have become easier to buy for children following changes introduced in August. The minimum purchase is £25, while the maximum holding per person is £50,000.*

Deciding which investments are most appropriate for you and your children or grandchildren, and how to structure them, depends upon a range of factors. Tax – both for you and the recipient – is the obvious one, but so too is the level of control you want to exercise and for how long (age 18 is the usual default – but pensions cannot be drawn until the recipients are in their 50s, currently 55).

For a discussion of your options for making gifts, talk to us soon – it's that time of year.

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax or trust advice. The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.

We wanted to let you know first, we're changing our name...

WealthProfessional
CONSULTANCY & FINANCIAL PLANNING

Many of you have often asked 'where does the name come from'. We work with many medical professionals including Doctors, Professors and Health Professionals. That said our life-changing financial advice has always been to a wider community including business owners, executives, professionals and of course to families, but we appreciate that was perhaps not obvious from the company name.

After some careful consideration and discussion with many of you we reached a point where we needed to update our brand to better reflect who we are and what we deliver.

A name that identifies our great success over the years thanks to your ongoing support and commitment for which we are all very grateful. We wanted to let you know first that we're the same great people providing the same excellent service, just with a new name, Wealth Professional.

In the coming weeks you'll see a new website with some new branding and a slightly different look and feel but as we've always said...

'Times change, our values don't'.

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Still holding a cash ISA? Does a cash ISA still make sense?

The most recent ISA statistics from HMRC show that in April 2018 over £270m was invested in cash ISAs which represents around 44% of the total adult ISA funds.

Whether that is a sensible use of the tax advantages offered by ISAs is a moot point. The introduction of the personal savings allowance in 2016/17of £1,000 for basic rate taxpayers or £500 for higher rate, means that most savings interest no longer attracts tax.

Add to that the lowly cash ISA interest rates – NS&I pays only 0.9% – and if you still have a cash ISA, you may want to consider transferring it to the stocks and shares version.

A stocks and shares ISA is a medium to long term investment, which aims to increase the value of the money you invest for growth or income or both. The value of your investments and any income from them can fall as well as rise. You may not get back the amount you invested. Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.

It won't happen to me... protecting your income

The cornerstone of good financial planning is ensuring you have sufficient income to meet essential bills. For most of us, this will be covered by our earnings. But what happens when this source is cut off?

There is no guarantee that your income will keep rolling in each month and one of the most obvious threats is redundancy. This issue has certainly made headlines recently, with household names like Tesco and HSBC laying off staff, and Mothercare and Thomas Cook going into administration.

Such high-profile cases can create concerns around your own job security. But there are other issues to bear in mind. Your earnings may be seriously reduced if you suffer ill-health, forcing you to take time out of work, or reduce hours on a more permanent basis.

It's easy to assume that this won't happen to you, particularly if you are currently fit and healthy. But government statistics show that over 100,000 people leave the workforce each year, following a period of absence due to sickness.

What protection is in place?

If the worst happens, and you are made redundant or forced to give up work through ill-health, then there is likely to be only limited financial help from your employer and the government.

For those with at least two years continuous service, statutory redundancy pay is limited to one week's pay for each year you've worked (when aged between 22 and 41), with older employees getting 1.5 weeks' pay within capped provisions. Those who are too ill to work will receive just £94.25 statutory sick pay a week for a maximum of 28 weeks. Only those in employment are eligible for these payments, although there are benefits the self-employed can claim for relatively limited protection.

However, it is worth bearing in mind these are statutory minimums: your employer cannot pay less than this, but they may provide more. Check your employment contract for details about your rights around redundancy and the company's policy on sick pay. Some employers will pay a higher amount (for example a fixed proportion of your income) and for longer.

Boosting protection levels

Regular saving is one way to create a financial cushion. But it's also possible to buy insurance to help protect your income should you be unable to work through illness or injury.

An income protection policy can cover both physical and mental health. These policies will pay out a proportion of your salary, typically 50 to 70%, until you return to work, or the end of the term or your death. Most will include a deferral period of a set time you have to be off work before you can claim. As a rule of thumb, a longer deferral period will lower premiums.

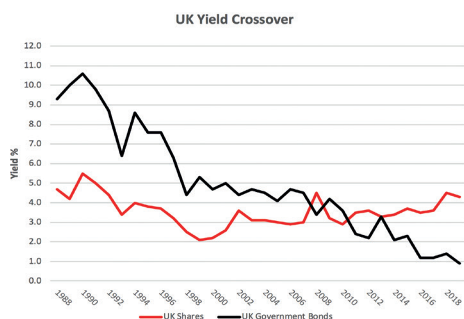
The cost will also vary depending on the type of work you do: most insurers group jobs into different 'classes' of risk, so those who do a lot of driving or heavy manual work, for example, may pay more than an office-based workers. These policies differ from critical illness policies, which pay a one-off lump sum on the diagnosis on one of a specified set of serious illnesses.

For increased peace of mind in troubled times, we can help you work out what type of protection arrangements are right for you.

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice. The Financial Conduct Authority does not regulate will writing, trusts and some forms of estate planning.

Reversals of fortune – the value vs income challenge

Where can you find value in today's investment markets?



Source: Barclays Equity Gilt Study

These are interesting times in the investment markets. The looking glass world of negative interest rates – where borrowers are rewarded for taking out loans and savers pay interest – has become a reality in parts of continental Europe and Japan. In the UK, the Bank of England base rate has been below 1% for more than a decade. In the US, the central bank started cutting rates from a peak of just 2.25%–2.50%, set last December. The idea that interest rates would be 'lower for longer' is edging towards 'lower forever'.

Fixed interest securities (bonds) have also come under the spell of negative interest rates. At the time of writing, there were about $11.4tn of bonds, mostly government paper, offering a negative return to those investors who held them through to maturity. There was a time when an investor in bonds would look forward to a return on their capital (i.e. interest); now some cannot even expect a return of their capital.

The decline in interest rates and bond yields since the 2007/08 financial crisis has overturned some traditional relationships in investment markets. For instance, it was once the case that the longer the term of a bond, the higher the interest rate. In many countries, such as the UK, US and much of the Eurozone, the return on a 10-year government bond is now lower than the central bank's short-term interest rate.

Another example of a norm that has been overturned is the difference in immediate income available from bonds and shares. It used to be that government bonds provided a higher income than shares because the latter offered the possibility of growth, not only of income but also capital value. The graph above shows the historic yield advantage of bonds in the UK up until the time of the financial crash.

The yield gap

Since then, the picture has changed with a marked widening in the last few years of an income yield gap favouring shares over bonds. Ten-year UK government bonds currently have a yield of under 0.8%, while the average dividend yield on UK shares is over 4.3%.

There have been similar reversals in many other world markets. Even in the US, where interest rates are relatively high, the average share yield was 1.85% in mid-November compared with 1.88% for a 10-year government bond.

But the average figure can itself hide a significant difference between individual shares, as is often the case.

- **Value shares** *generally have a higher than average yield, but relatively limited growth prospects. A typical example would be a utility company; and*
- **Growth shares** *are expected to see earnings grow faster than the norm and thus carry a relatively higher than average rating (and lower yield). The classic example would be a technology company.*

In the last three years, value shares and the funds that favour them underperformed growth shares on a global basis, despite the higher dividends on offer. However, as the global economy shows increasing signs of slowing down, there could be an argument for taking a second look at the value sector. Many funds target value investing, although it is important to select the right ones.

The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.

Easier being green: investing on principle

Whether it's the Extinction Rebellion protests or Greta Thunberg's speech to the UN, there has been a renewed focus on climate change in recent months and what individuals can do about it.

This has led to high profile calls for governments and institutions to divest funds away from 'harmful' industries and sectors such as oil and gas, mining and airlines, which are some of the biggest producers of carbon and other damaging greenhouse gases.

But this doesn't just apply to large organisations with millions of pounds at their disposal. Ordinary investors also have opportunities to 'green' their ISAs and pensions by reducing their exposure to carbon-heavy industries. You can choose instead to invest in companies that support and promote more sustainable strategies.

Many people are changing their everyday habits as they become more environmentally aware, through reducing plastic, recycling or cutting down unnecessary car trips. If you want your investments to follow suit then there are several options — from ethical funds to ESG (environmental, social and governance)-based investments.

Ethical funds

As the name suggests, these funds take a more principled stance on investment choice. Many screen out companies, or whole sectors, that do not meet their guidelines, which will vary from fund to fund. For example, some of the oldest ethical funds stem from the Quaker movement, so may not invest in companies that sell or manufacture alcohol, weapons, tobacco or pornography.

Today many 'ethical' funds have a more environmental remit. However, while some funds will automatically exclude whole sectors such as oil and gas, others take a 'best of breed' approach, investing in those companies with better track records on issues like pollution, water waste and recycling. Those who take this approach argue it encourages companies to improve environmental standards and engage with wider issues such as climate change.

ESG investments

Funds that adopt this approach take into account environmental, social and governance factors, alongside standard financial data, when deciding whether to buy or sell a stock. This extra information can help identify future risks.

For example, companies with poor environmental track records may face fines and tighter regulation in future, affecting their appeal as a long-term investment choice. This ESG analysis also tries to identify companies that are ahead of this curve and may profit in a world which is more environmentally aware, for example, electric car manufacturers.

Like any investment decisions, these judgments may not prove to be correct with hindsight.

Many funds combine these two approaches, excluding some sectors or companies, but using ESG screening as part of their investment process.

It is easy to think the relatively small amounts we save as individuals into ISAs and pensions won't make much of a global difference. But it's worth remembering that £28.2bn was contributed to personal pensions in 2017/18 and the UK pensions industry is worth over £2tn alone. While your retirement savings are managed on your behalf, it is your money, and you can choose where it is invested. Please get in touch if you want to discuss your options.

All change on company car tax

If you are changing your company car soon, you need to get on top of the new tax rules.

CO_2 emissions have been the basis of company car taxation for over 15 years, with each new tax year usually seeing a nudge up in the scale charge for most emission levels. However, from 6 April 2020, the tax scales undergo a more radical set of changes:

- *For newly registered cars, the 'real world' WLTP measure of CO_2 emissions will replace the existing and largely discredited NDEC basis (which will still stand for older vehicles). WLTP emission results are on average 20%–25% higher than NDEC figures.*
- *For all hybrid cars with CO_2 emissions of 1–50g/km, the scale charge will take account of the electric-only range.*
- *The scale charge for zero-emissions cars will itself be nil in 2020/21, rising by 1% a year in the next two tax years.*

From January 2021, all newly registered diesel cars must meet the RDE2 emissions standard, which exempts them from the current 4% diesel surcharge.

The government has already published revised company car tax scales for the next three tax years which take account of the reforms. In 2020/21, most of the scales will begin 2% lower than originally legislated for because of the sharper than anticipated increases in emissions under WLTP.

Tax laws can change. The Financial Conduct Authority does not regulate tax advice.
This article is for general information purposes only and for specific tax advice please refer to a tax specialist.

Five ways to develop better spending habits

At a time of year even more focused on spending than usual, there are a few habits you can develop to help you keep a rein on your resources.

Retailers understand the psychological cues that encourage us to spend and deploy them online, in their store layout, advertising and marketing campaigns. Multi-buy offers, or short-term sales such as Black Friday can create a sense of urgency and encourage impulse buying. It can be hard to resist, even in straitened times.

Shrewd shoppers can deploy some simple strategies to help them spend wisely and save more.

Prioritise saving: Move money into your savings account or ISA before you have time to spend it. A simple direct debit going out on pay day is a great first step towards adjusting your spending habits. Set a budget on spending and stick to it.

Pay in cash: Leave your debit and credit cards at home and take cash instead. Studies have shown paying in plastic reduces the 'pain' of paying, because it feels less like 'real' money. Contactless payments can make spending even more 'painless'. Brain scans have shown the 'pleasure' regions of the brain are associated with purchases made on plastic, but both 'pleasure' and 'pain' light up for those paying in cash.

Don't shop until you drop: Avoid hitting the shops when you're tired, which reduces your ability to focus and make logical decisions. Long shopping trips, or hours browsing online, just add to this fatigue, and undermine your willpower when trying to make sensible purchasing decisions.

Take your time: Do you really want or need that item? When shopping online, simple steps, like disabling 'one-click' purchasing and deleting saved cards details on your computer can create useful delay. Better still, keep your wallet in another room when browsing. Even small hurdles like this can nudge us away from an online purchase. Waiting at least 24 hours – or better still a week – before buying also gives you time to shop around on price.

Clear out 'cookies': Delete these regularly to avoid being bombarded with ads for items you've been browsing online. These constant reminders can wear down the resolve of even the most careful shoppers.

Once you get into the habit, it'll be easier to keep that New Year's resolution to save more and spend less…

To discuss any issues raised in this newsletter, or any other aspect of your financial planning, speak to your dedicated Medical & Professional Adviser or Client Support Team at: -

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