eNews
SUMMER 2018

SANDRINGHAM
FINANCIAL PARTNERS
Your Financial Partner for Life

INVESTMENT

Credit: iStock/dashk

Pros and cons of joint finances

There are benefits and risks for couples who decide to manage their money together.

Many couples maintain independent finances, but operate one or more joint accounts to cover bills or for savings. But differing attitudes to spending and saving can be a source of tension.

Once you buy a home together, or just open a joint account, your finances become inter-linked. You will then be 'co-scored' when applying for credit, and a partner's poorer credit score can impact on your rating. If you have a shared mortgage or loan, you will also be liable for the whole debt if your partner can't, or won't, contribute to the repayments.

Switching investments

Where one partner is a basic rate taxpayer or non-taxpayer and the other pays income tax at a higher rate, it could be worth switching savings or investments to the lower earner to reduce the overall tax payable. Husbands, wives and civil partners can normally transfer assets freely between each other without incurring tax on any gains realised by the gift.

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Higher earners can choose to contribute to the pension of a lower-earning spouse, with the amount of tax relief available the greater of £3,600 or their relevant UK earnings. This could help couples make best use of both of their personal allowances for income tax in retirement.

One word of warning: if an account is also in a partner's name, they are then legally entitled to the money. Trust is key. Couples must be comfortable discussing their finances.

✣ *The Financial Conduct Authority does not regulate tax advice.*

Levels and bases of taxation and tax reliefs are subject to change and their value depends on individual circumstances.

The value of your investment can go down as well as up and you may not get back the full amount you invested.

INVESTMENT

UK dividends continue to perform

UK dividend yields are better than you might imagine.

Dividends have been rising. UK companies paid out £94.4 billion in dividends in 2017, a 10.5% increase over the previous year. The increase for 2018 is expected to be markedly smaller, as last year's payouts benefited from exchange rate gains that are unlikely to be repeated.

Nevertheless, UK shares are well worth considering if you are looking for income from your investments. The overall dividend yield for the UK stock market is currently about 3.6%, with shares in the FTSE 100 offering an average yield of 3.7%, in part because of the rise in dividends and the fall in share prices since the start of the year. And don't forget personal tax on dividends is less than on interest.

There is a wide range of UK Equity Income funds to choose from, so care is necessary when making a selection. Last year 60% of dividend payments by value were accounted for by just 15 companies. This can mean funds have highly-concentrated portfolios.

For advice on fund selection don't just look for the highest yield, talk to us.

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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.


Credit: iStock/light_fire

INVESTMENT

Interest rate rises prove hard to predict

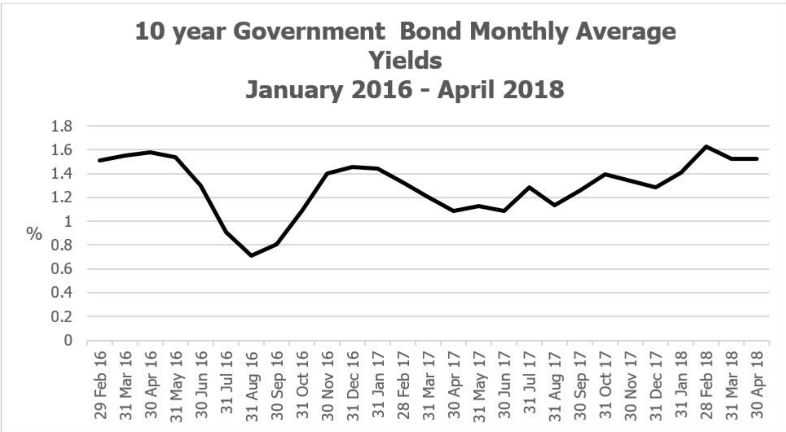
The Bank of England did not raise interest rates in May, despite earlier suggestions that it would.

About four years ago a member of the Treasury Select Committee compared Mark Carney, the Governor of the Bank of England, to “an unreliable boyfriend”. The remark was prompted by Mr Carney’s record of talking about future interest rates increases that never became reality. The epithet came back to haunt the Governor last month.

The Bank had been hinting strongly that rates would rise in May, and by early April the money markets were effectively putting the odds on a May increase at 90%. However, a combination of surprisingly bad economic numbers – growth fell to just 0.1% in the first quarter – and downbeat business surveys prompted a rethink. By the time the Bank announced the rate would be held at 0.5% on 10 May, nobody was surprised.

The next opportunity for changes to the interest rate will come on 2 August 2018, when the Bank publishes its next Quarterly Inflation Report. The medium-term expectation is still that interest rates will rise, unless something disastrous happens to the UK economy. For its part, in May the Bank repeated its familiar mantra that, “any future increases in Bank Rate are likely to be at a gradual pace and to a limited extent”.

If you have investments in fixed interest funds, now could be a good time to review those holdings. As the graph shows, the yield on 10-year government bonds is already around double the low hit in the wake of the Brexit vote. It could rise further – depressing bond prices – if the Governor becomes more reliable in his rate rise forecasts.



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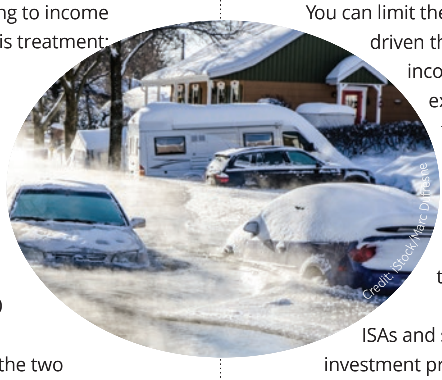
TAXATION

Stuck in frozen tax thresholds?

The value of key tax thresholds is being eroded as elements of the income tax system lag behind inflation.

Three key thresholds relating to income tax have been subject to this treatment:



- **High income child benefit tax charge** This tax charge, introduced in January 2013, claws back child benefit at the rate of 1% for each £100 of income over £50,000 (based on the higher of the two parental incomes). That £50,000 threshold has not changed since its introduction.
- **Personal allowance tapering** The personal allowance is reduced by £1 for every £2 you earn over £100,000, and has not been revised since it was introduced in 2010.
- **Additional/Top rate tax starting point** The additional tax rate started in 2010/11 with a threshold of £150,000. Whilst it has since been reduced from 50% to 45% (46% in Scotland), the threshold has not increased.

You can limit the effect of these income-driven thresholds by reducing the income being measured. For example, you may be able to transfer investments to your spouse or civil partner, or use personal pension contributions to reduce your income for tax purposes.

ISAs and some other investment products can also shelter your income and prevent it counting towards thresholds.

As it is early in the tax year, there is more scope for reducing the effect of these freezes in 2018/19, with professional advice.

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PENSIONS

Pension scams and cold calling

Be wary of cold-callers who offer a ‘free’ pension review – it could cost you more than you think.

Cold-calling has increased since pension freedoms were introduced in 2015, including from fraudsters trying to persuade people to move their pension into unregulated investments.

The government has proposed legislation banning these calls, but this has yet to take effect. Government figures suggest pension savers have lost more than £43 million through such scams. Pensions transfers potentially put your savings at risk, and if you are under 55 you may face additional tax charges. Some cold-callers aren’t trying to pocket your pensions savings, but may recommend higher–charging pensions, from which they receive an
‘introducers’ fee.

Please get in touch if you want to review existing pension arrangements, particularly older company schemes.

✢ *Occupational pension schemes are regulated by The Pensions Regulator.*