

PLANNING



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Personal finance myth-busters

Like many areas of life, personal finance has its own set of myths. Spring is a good time to reset and clear up some persistent misunderstandings.

Myth 1: Maybe past performance is a reliable indicator of future performance

The sort of sudden, sharp falls in investment values such as those seen due to the war in Ukraine can turn normal assumptions upside down. Turbulent markets and dire headlines can make the future investment outlook appear unavoidably grim. However, the past is not a wholly reliable indicator of the future. A few weeks of volatility do not define future performance, which should have a long term perspective measured in years.

Myth 2: I don't need a will as everything will automatically pass to my other half

If you are not married or in a civil partnership, then only property you own jointly (as joint tenants) will pass to your partner. The rules of intestacy, which vary between the UK's four constituent parts, do not automatically confer everything to the surviving spouse or civil partner.

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Myth 3: I don't need a cash reserve as I can always borrow

While borrowing is easy today, financial conditions can change. Mark Twain's remark that a banker is someone who lends you his umbrella when the sun is shining but wants it back when the rain begins has more than an element of truth. The greater your need for cash, the less willing lenders may be to supply it.

Myth 4: You can never lose money buying residential property

The notion that house prices never fall was behind the global financial crisis of 2007/8. In the UK, average house prices fell by over a fifth between October 2007 and February 2009. They did not regain their 2007 peak until May 2014.

Before you succumb to anything that might turn out to be a financial myth, make sure you seek out expert advice. As we know, relying on unverified assumptions can be costly.

✦ *The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice or will writing.*

INVESTMENT

Are you saving in the right ISA?

Despite bumpy stock markets, the returns on stocks and shares ISAs comfortably outperformed those from cash ISAs over the past year.

You can save £20,000 a year across ISA products, although some, such as Lifetime and Junior ISAs, have lower specific limits. The various tax free options are still worth including in your planning. Data from Moneyfacts show in the year to February 2022, the average stocks and shares ISA grew by 6.92%, compared to just 0.51% from a cash ISA. Interest rates hit a record low in 2020, resulting in meagre returns on these deposit accounts. However, returns on stocks and shares ISAs are volatile, with a drop in returns from 13.55% in 2020/21.

Many people look to open an ISA at the end of the tax year, or start of the new one, using their annual allowance. Cash ISAs are a safe option, and ideal for savings that you might need to access at short notice. But with rising inflation, cash held for long periods of time is likely to lose its value in real terms. Stocks and shares ISAs are better suited to longer-term savers. Historically at least, equity-based investments are most likely to outpace inflation over longer time frames, maintaining the spending power of your savings.

✦ *Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.*

The value of your investment and any income from it 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.

The Financial Conduct Authority does not regulate tax advice, and tax laws can change.



The only way is up: handling inflation

After years of slumber, the inflation dragon is stirring. Are you prepared to meet the challenge?

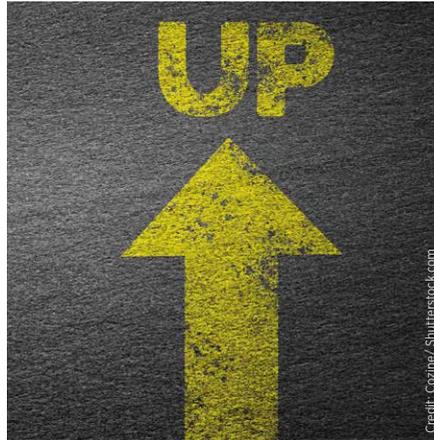
CPI annual inflation reached 5.4% in 2021. Twelve months earlier the rate was just 0.6%. The sudden return of inflation has surprised many, including the Bank of England. It is now busy raising interest rates. But what should you be doing?

Check your protection

The flipside of inflationary price rises is the falling value of money. If you have life cover, critical illness cover or income protection that pays a fixed amount, then inflation is eroding its value to your family. To maintain their protection, you might need to consider arranging some top up cover.

Review your retirement planning

Inflation means that, all other things being equal, you will need a larger pension pot



to fund your desired standard of living in retirement. There is only one way to do that: your pension contributions will need to increase. Even if your contributions are earnings linked, that may not provide a sufficient increase – the latest data show earnings growth lagging behind price inflation.

Beware holding excess cash

The Bank of England is now lifting rates, but there remains a huge gap between deposit and inflation rates. We all need to hold some readily accessible funds, but make sure that you are not holding more than you need as a rainy-day reserve, because it comes at a cost.

Reassess your investment strategy

An investment strategy that has worked well in the era of low inflation and near zero interest rates may not be as appropriate when inflation and interest rates are both rising. An obvious area for review is holdings in fixed interest investments, which suffer when inflation devalues future payments.

✦ *Shares do not offer the same level of capital security as cash deposits. Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.*

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TAX

Counting the cost of the frozen tax landscape

The cost of living squeeze looks likely to be further constricted from April as rising taxes bite. How can you plan for the effect?



The biggest change is to National Insurance contributions (NICs). From 6 April these will increase by 1.25 percentage points across the board. For employees the main rate of NI will increase from 12% to 13.25%.

The new rate will be applied on income between £9,880 and £50,270. Anything over this will be subject to a 3.25% NI charge. The government has also increased the self-employed main rate NI contributions, which go up to 10.25%.

These higher rates are intended first to boost funding for the NHS and then from 2023 to pay for social care costs, both under extra strain from the pandemic. Dividend tax is also up by 1.25%, which will affect those running their own businesses, as well as investors.

The government has also frozen a number of tax thresholds, including the personal allowance, the higher and the additional rate bands. Over time, more people will be dragged into higher tax brackets as earnings rise.

Mitigating tax rises

You may not be able to avoid these taxes completely, but there are planning strategies to try. They are likely to be most effective if your current earnings are just below one of the main tax bands.

Employees can opt for salary sacrifice, where you agree to cut your salary, with the equivalent amount paid into your pension. There is no immediate cash saving, but you'll be boosting your overall reward package (via pensions) rather than handing more to the taxman.

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TAX

Declare your side hustle

Do you have earnings beyond your main job?

One side effect of the pandemic has been an increase in people creating other sources of income to supplement their earnings. Often such 'side hustles' are regarded as self-employment and outside the PAYE system that applies to employees' earnings. However, they still generate income on which you may need to pay tax and National Insurance.

Exemptions

If the extra income is not more than £1,000 gross in a tax year, then it may be tax-exempt thanks to the trading allowance. If your additional earnings are more, then you must tell HMRC and pay any tax that is due. You might still be able to benefit from the trading allowance.

Either way, make sure you keep records and do not think you can hide the income from HMRC.

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