

**DIVERSIFICATION FIRST**

Don't forget to apply the investment basics

**RETIRING DURING COVID**

The pandemic effect on retirement plans

**SAVINGS SQUEEZED**

Rate cuts hit options

**SIGNET** FINANCIAL SERVICES  
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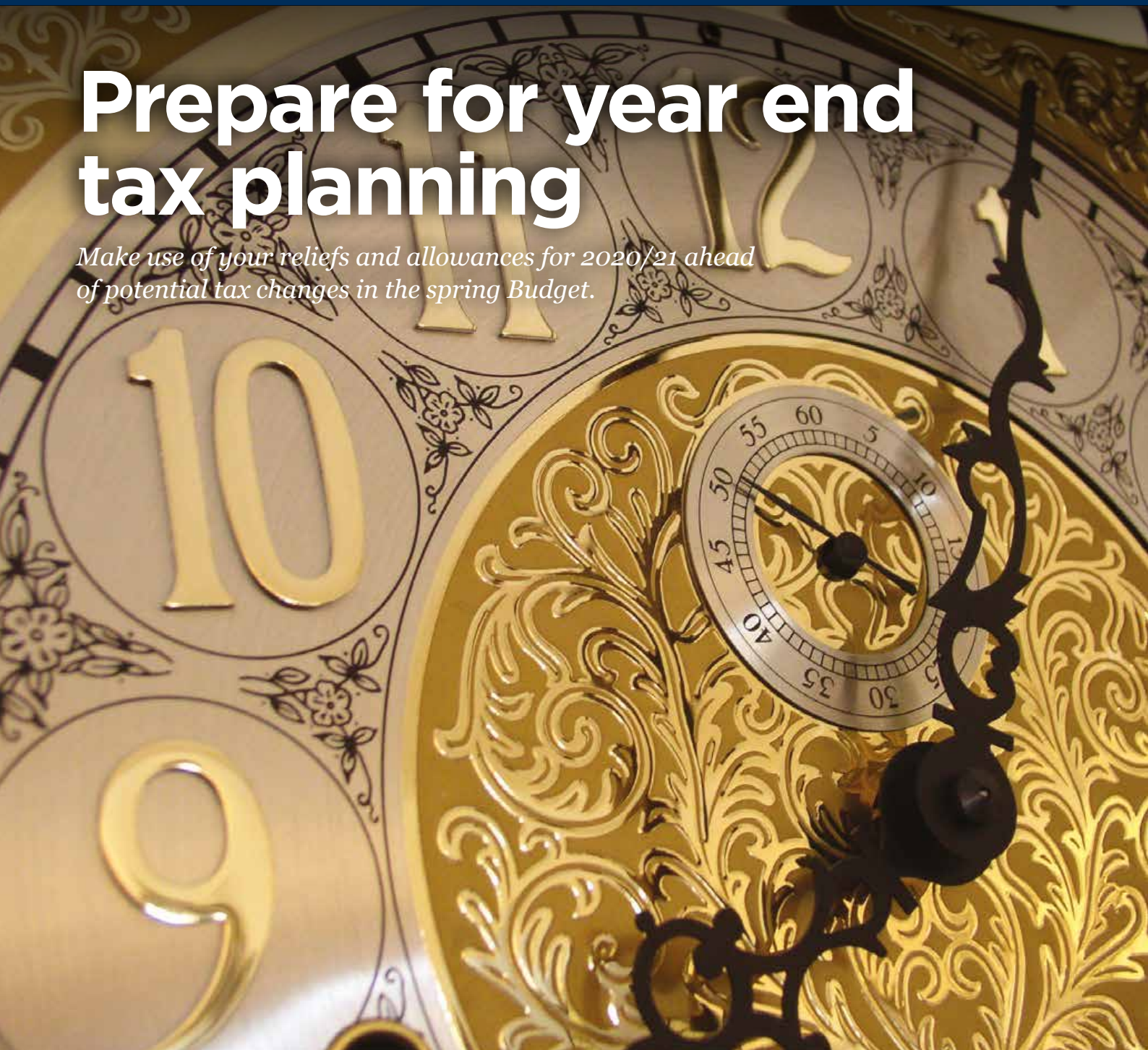
# Financial FOCUS

Tel: 020 8455 8555 • [www.signetfinancialservices.co.uk](http://www.signetfinancialservices.co.uk) • [admin@signetfinancialservices.co.uk](mailto:admin@signetfinancialservices.co.uk)

WINTER 2020

## Prepare for year end tax planning

*Make use of your reliefs and allowances for 2020/21 ahead of potential tax changes in the spring Budget.*



## Child Trust Funds grow up

*The first Child Trust Funds (CTFs) have reached maturity, but many have been overlooked.*

The first CTFs reached their maturity date on 1 September 2020, when their owners celebrated their 18th birthdays. The life span of the CTF itself, however, is not quite 18 years, as they were launched in January 2005 for any child born on or after 1 September 2002 – hence this year's first maturities.

CTFs started life with a government payment of at least £250 and there was a further £250 for children with CTFs in the first wave who reached the age of seven before 1 August 2010. Parents and others could contribute to the accounts – up to the annual limits. Children of families on lower incomes were given up to £500 for each payment on a means-tested basis.

All government payments ended on 2 January 2011, and no new CTFs were available after that date. But in the six years from 2005 to 2011, around 6.3 million CTFs were set up. However, HMRC had to create nearly 30% of these CTFs, where a child's parents or guardians had failed to open an account within 12 months of receiving the government payment voucher.

The default opening process means that many people have lost track of CTFs, particularly the accounts that just received the £250 payment. This has prompted HMRC to set up an online tracing tool as part of its programme to handle maturities which are currently running at about 55,000 per month.

A newly adult owner of a CTF has three options when they reach the age of 18:

- Withdraw the CTF's value.
- Invest all or part of the CTF's value in an ISA, without the payment counting towards the normal subscription limits.
- Do nothing, in which case the CTF fund will be transferred to a 'protected account' where it will continue to enjoy freedom from UK income tax and capital gains tax.

CTFs were effectively replaced by Junior ISAs (JISAs) from November 2011 and there were no more government contributions. JISAs offer the same tax benefits as CTFs and currently have a maximum contribution level of £9,000 per tax year. For advice on JISAs and maturing CTFs, please contact us. These plans may have started out for minors, but their rules mean they are not child's play.

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## In this issue...

As we come to the end of this difficult year, the effects of the pandemic are still playing out. While there is good news on the efficacy of vaccine trials, there is still some way to go before we regain a sense of normality. Many have seen a dip in incomes, with both investment and pension portfolios affected by market turmoil over the year. We look at the need for ensuring your portfolio is suitably diversified, as well as the impact on retirement plans. Elsewhere savers have been hit by interest rate reductions, while pandemic confusion has seen a huge rise in fraud schemes and scams. One way you can take some control, however, is in your year end tax planning, making the most of your reliefs and allowances before expected tax changes in the spring.

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## INVESTMENT

# The importance of diversification

*The pandemic has highlighted the value of holding a well-diversified portfolio of investments.*

**T**he Covid-19 pandemic has already taught us a great deal, from government ministers to trapped-at-home office workers. Some people have been faced with relearning old lessons they may have forgotten.

Global stock market performance has changed radically since February when the world first began to pay attention to Covid-19. While nearly all markets took a sharp downturn in February and the first three weeks of March, there has been a marked divergence in behaviour since then. The table opposite shows how differently the various main markets have performed.

## BEST RETURNS OUTSIDE THE UK

A UK-based investor who only invested in UK-focused equity funds would have paid a heavy price for staying with their home country and not diversifying internationally. The 2020 performance of the two main UK equity sectors, UK All Companies and UK Equity Income, has been such that at 30 October they occupied the bottom two year-to-date slots of the 39 sectors monitored by the Investment Association. The best performing UK sector over the period was UK Index Linked Gilts, with an average return of 12.9% – a reminder of the diversification benefits of bonds.

Market	Index	31/12/19 – 23/3/20*	23/3/20 – 30/10/20	Year to 30/10/20
UK	FTSE 100	-33.79%	+11.68%	-26.05%
US	S&P 500	-30.75%	+46.15%	+1.21%
Europe	Euro Stoxx 50	-33.63%	+19.02%	-21.01%
Japan	Nikkei 225	-28.61%	+36.06%	-2.87%
China	Shanghai Composite	-12.78%	+21.22%	+5.72%

\* low point for UK, US and China markets

The relatively strong performance of the US has much to do with the dominance of the US technology sector – the five largest companies in the S&P 500 index are Apple, Microsoft, Amazon, Facebook and Alphabet (the holding company for Google). The pandemic has given a massive boost to this sector, from online shopping in all its forms to video conferencing. The UK has no companies that come near to competing – in September the value of Apple exceeded the total worth of the companies of the FTSE 100.

Diversification between markets is not only about capital performance; it can also help on the dividend front. For example, in the second quarter of 2020, global dividend payments were 22% lower than in the corresponding period of 2019, according to one major investment house. However, the bald figure hid

some enormous regional differences: in the UK, the fall in dividends was a brutal 54.2% while in Japan it was just 4.2%. In the US, dividends rose by 0.1%.

The turbulence of 2020 has been a reminder that investment diversification can help smooth both capital and income performance in challenging times. For a review of your existing investment holdings and advice on your diversification strategy, please talk to us.

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TAX

# Preparing for your year end tax planning

*As 5 April creeps closer, it's a good time to get ahead with your year end tax planning.*

**T**he Autumn Budget has been abandoned for a second successive year, to be rescheduled for spring. Once again, that means it's best to complete year end tax planning before the spring Budget day. Such a precaution is all the more important in 2020/21 as several areas of tax have come under scrutiny following various Treasury-commissioned reviews.

Broad tax increases are unlikely while economic conditions are still fragile, but more targeted tax-raising measures are a distinct possibility. With that warning in mind, your year end planning checklist should include the following.

## **INCOME PLANNING**

Your income may have dropped this tax year because of reduced earnings during the Covid-19 pandemic, falling dividends or minuscule interest rates. So it might be worth

trying to estimate your income for the full tax year to 5 April 2021, because it could point to tax-saving opportunities.

For example, if your income is above £50,000 and you have or live with someone with children, you could be subject to the High Income Child Benefit Charge. Bringing your taxable income down – by making a pension contribution or charitable gift for example – could reduce or even eliminate that charge.



## Tax deadline in January

*The clock is ticking for millions of taxpayers who need to file a self-assessment return for 2019/20 by 31 January.*

The self-employed, those who are partners in a business, and those who receive an income from savings, investment or a buy-to-let property, are all expected to pay by the January deadline.

As well as completing an online return, savers must pay any tax due by this date. Those that miss this deadline face a £100 penalty, plus interest on the outstanding tax bill. The tax relates to earnings from 6 April 2019 to 5 April 2020.

Those in the self-assessment system usually make a forward payment on account by 31 July each year. However, HMRC allowed people to delay July's payment this year because of the Covid crisis. If no Time to Pay arrangement is in place, provided this is paid by 31 January 2021 there is no interest or surcharge to pay. While the longer deadline may have helped people manage their finances over the summer, it is likely to mean a bigger bill this January.

If your earnings have been affected by Covid and you are worried about paying you should contact HMRC at the earliest opportunity to discuss options. To file online you need to register with the gov.co.uk website, who will send a secure PIN. This takes up to a week to arrive so don't leave it to the last minute.

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**ff** *OTS proposals could mean CGT rates of up to 45% rather than the current maximum of 20%, or scrapping the current CGT annual exempt amount altogether.*

in the March 2020 Budget.

You can go on to pick up more unused relief from the years after 2017/18, although you can also only do this if you have used up your current year's allowance. Unsurprisingly, the calculations can quickly become complex, so do contact us as soon as possible if maximising *today's* pension tax relief is important to you.

### CAPITAL GAINS TAX

Capital gains tax (CGT) could soon be subject to some changes. In July the Chancellor asked the Office of Tax Simplification (OTS) to undertake a broad review of CGT. The first report from the OTS emerged in November and is likely to feed into Budget proposals to reform the tax.

One OTS proposal that is popular with think tanks and could appeal to the Chancellor is a reversion to the regime which existed until 2008. Back then, CGT was levied at full income tax rates, which would now mean rates of up to 45% rather than the current maximum of 20% (28% for non-exempt residential property and carried interest). The OTS has also followed the idea of some think tanks in suggesting the CGT annual exempt amount should be reduced from the current £12,300 to a nominal figure.

If you have capital gains in your portfolio, you should consider realising gains up to your available annual exempt amount before Budget day.

### INHERITANCE TAX

A separate OTS simplification review last year considered inheritance tax. It was not in the March 2020 Budget, but few experts think it has been left on a shelf gathering dust. Some reliefs and exemptions could be under threat, such as those that apply to business assets and large regular gifts out of income. Ahead of the Budget you should think about using your £3,000 annual exemption; making individual gifts of up to £250; making regular gifts out of disposable income and whether to make any larger lifetime gifts.

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There are similar opportunities above the £100,000 threshold when the phasing out of the personal allowance begins.

### PENSIONS

Check if you have any unused pension annual allowance from 2017/18, when the maximum annual allowance (before tapering) was £40,000. You have until the end of the current tax year to mop up this past allowance or lose it completely. However, it can only be used once you have exhausted your 2020/21 annual allowance, which may be higher than in previous years because of changes introduced



## PENSIONS

# The pandemic retirement conundrum

*Has Covid-19 disrupted your retirement plans?*

**W**hile the immediate focus of the pandemic has understandably been on the health impact, it has become increasingly clear that the economic effects of Covid-19 stretch far beyond those people unfortunate enough to contract the virus. The most obvious example is the billions of pounds of government spending on employment and business support, but there are many others.

Recent research from the Institute for Fiscal Studies (IFS) considers the consequences for people approaching retirement. The IFS findings included:

- **Earlier retirement** About half of those aged over 65 who were working before the pandemic retired earlier than planned because of the crisis. This finding is supported by data from the Office of National Statistics which showed that the proportion of the population aged 65 and over in employment fell from 11.5% in

December 2019 – February 2020 to 10.5% six months later.

- **Later retirement** The sudden fall in stock market values in the early part of the year had the opposite effect for others who were close to retirement. Declines in the value of fund-based pension plans caused some people to delay retirement while they wait for markets to recover.

- **Changed retirement plans** One in eight of those aged 54 and over had revised their retirement plans. Just over half this group increased the age at which they planned to retire, while the remainder brought it forward. Unsurprisingly the IFS found that the wealthier were more likely to be in the second category.

Wherever you are on the road to retirement, there are lessons to be drawn from the IFS work:

- You may not always be able to decide precisely when your working life comes to an end – circumstances may dictate the timing for you. At the moment, those circumstances are global, but they could just as well be personal.

- You should build flexibility into your retirement plans as much as possible. As the state pension age continues to rise – it is now 66 – so too does the period widen between an early retirement and receipt of the state pension.

- Relying on work to supplement lowly pension benefits is a risky strategy. Health and economic issues



*Build flexibility into your retirement plans. As the state pension age rises so does the gap widen between an early retirement and receipt of the state pension.*

can bring work later in life to an abrupt end – as we can see right now.

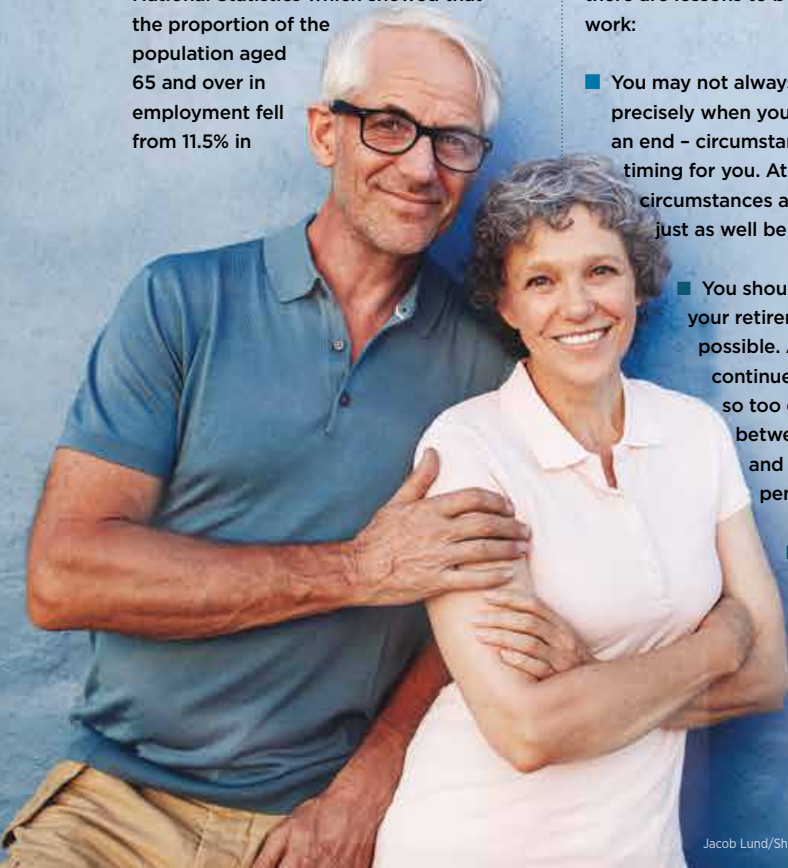
- If your pension contributions have fallen during the pandemic – perhaps as a result of being placed on furlough – you should aim to rebuild them as soon as possible. A small shortfall today could make a much bigger hole in your pension when you retire.

## PENSION TAX COULD INCREASE

After the tumultuous events of 2020, it makes sense to review your current retirement plans. With the possibility of pension tax reform in the spring Budget, the sooner you start the process, the better.

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## FRAUD

# Scams on the rise

*Fraudsters preying on people's financial and health fears have been responsible for a sharp increase in scams during the Covid-19 crisis.*

Over £11m is estimated to have been lost to coronavirus-related scams, and this number continues to rise. These scams come in various guises, with the financial regulators warning people to be on their guard, as these criminals are becoming more technically sophisticated.

## A RANGE OF TECHNIQUES

One familiar trick is to send out fake emails or SMS messages over mobile phones, purporting to be from a trusted body, such as HMRC, a local council, TV licensing authorities or even the NHS. These messages may claim you are due a rebate or refund. In some cases people have been told they qualify for "Covid relief funds".

Of course, no refunds or rebates are available. In most cases these messages contain links to cleverly faked websites, designed to harvest personal and financial information. They are a variant on many existing phishing email scams, where you may receive a fraudulent email purporting to be from a high street bank, utility provider or even a tech company, like Amazon, Apple or Netflix.

Some scams are even more brazen and will suggest your security has already been compromised. They will claim you need to follow a link to reset passwords and security data. Obviously, all that happens here is that you give this information directly to the scammers.

## COVID-19 SCAMS

Fraudsters are also preying on people's current health concerns, with an increased number of phishing emails claiming the recipient has been in contact with someone diagnosed with Covid-19.

Again, these often contain links to websites where personal data can be stolen. In other cases, people have been asked to pay for

Covid tests or other health products, such as face masks and hand sanitisers. These products never materialise, and the fraudster pockets the payment.

## SPOTTING SCAMS

Growing sophistication means spotting these scams isn't always easy, but spelling and grammar mistakes, plus unfamiliar links are telltale signs. If you are in any doubt, ignore or block the message, contact the named organisation directly and never disclose personal information such as bank details, PINs or passwords to any unsolicited contact. HMRC and banks will never ask you to share personal information in this way.

## CHECK YOUR CREDIT RECORDS

Much fraud is aimed at making false applications for loans and credit cards, with evidence that some of these cloned identities have been used to apply for government Covid support loans.

However vigilant you are, personal data can be compromised in a number of ways, so it's worth monitoring your credit record. This should give you early warning of attempts to apply for credit in your name. You can obtain a copy of your file for free by contacting one of the three major credit references in the UK: Equifax, Experian and TransUnion (previously Callcredit).

This will give a snapshot of your current financial situation, including details of all the companies you have credit arrangements with. These agencies all offer paid-for services giving unlimited online access to your account, plus an alert system giving instant notification of any changes.

If in any doubt, caution is the best option.



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## RETIREMENT

## State pension age now 66

*From 6 October the state pension age has gone up to 66, for both men and women.*

The age at which people qualify for this benefit has been gradually increasing over the past few years — and further increases are planned reflecting increased longevity. Now it is 66 for both sexes, although it will rise to 67 in stages between 2026 and 2028.

The government has also proposed a further rise to 68 between 2037 and 2039, but this is not yet law. However if this does go ahead, it means that if you were born in the 1970s, you will have to wait up to an extra 12 months before getting your state pension.

The state pension is currently worth just over £9,100 a year, and forms a key part of many people's retirement plans. With this in mind it makes sense to check what you will receive and when, using the government website: [yourpension.gov.uk](http://yourpension.gov.uk).



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## News in Brief...

### Triple lock protected – for now

The government introduced legislation in September 2020 to ensure it could apply the triple lock increase to state pensions next April. The likely increase is 2.5% – comfortably above current price inflation and earnings growth. Strangely, the legislation will only operate for 2021...

### Working from home?

If you have been working from home, don't forget that your employer can pay you up to £6 a week tax-free to cover your extra costs, such as heating. If your employer cannot or will not pay, you can claim tax relief on the same amount.

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### Spending Review

The Chancellor presented a one year Spending Review on 25 November, alongside the Office for Budget Responsibility's report on the state of the UK economy. With borrowing set to hit nearly £394bn for 2020/21, the focus was on spending to boost the economy, support jobs and businesses, and invest in infrastructure. Tax increases look almost certain for the spring Budget.



#### SAVINGS

## Savers feel the pinch

*Those looking for income from their savings face an uphill challenge, with banks and building societies making swingeing cuts to the interest paid on leading accounts.*

This latest round of rate reductions was started by National Savings & Investments (NS&I), which has imposed brutal cuts to some of its most popular accounts. From December 2020, Premium Bond holders, for example, will see their odds of winning a prize in its monthly draw lengthen from one in 24,500 to one in 34,500. Meanwhile, the interest paid on NS&I's popular income bonds has reduced from 1.15% a month to just 0.01%. Even those with tax-efficient ISAs have been hit, with NS&I cutting interest rates from 0.9% to 0.1% on these accounts.

#### RATES CUTS SPREAD

Not surprisingly this shift has triggered a wave of similar reductions across the high street. The newer internet-only providers, such as the Goldman Sachs-backed online Marcus Bank, as well as more established names, such as the Coventry and West Bromwich building societies, have slashed their interest rates or removed savings accounts altogether.

Income seekers who are prepared to take more risk with their money are also facing difficulties, as dividends paid on many equities have also been squeezed. At least 35 FTSE 100 companies have cut, cancelled or suspended

their dividend pay outs this year. In many cases this is because revenues have been hit by coronavirus lockdowns – meaning fewer surplus profits to distribute to investors.

Savers looking to boost returns need to be nimble when it comes to snapping up best-buys; good rates do not tend to last long. For example, the Skipton Building Society launched a best-buy easy-access account earlier this autumn. Demand meant it closed to new customers after just 48 hours.

Savers need to consider all their options. If you can afford to lock your money away you may get a slightly higher rate from a fixed-term bond, although this risks tying up your money at a time when interest rates are at an all-time low. Ensure you check the exit penalties before committing to a fixed-term fund.

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## SiNET FINANCIAL SERVICES

INDEPENDENT FINANCIAL ADVISORS



Simon Gordon  
BSc, ACII, DipPFS,  
Certs CII(MP & ER)

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#### Signet Financial Services

Independent Financial Advisors  
16-16a Accommodation Road  
Golders Green  
London NW11 8EP

t: 020 8455 8555  
f: 020 8455 3388  
e: admin@signetfinancialservices.co.uk  
w: www.signetfinancialservices.co.uk

#### Directors

Simon Gordon BSc, ACII, DipPFS, Certs CII(MP & ER)  
Cheryl Gordon MA

