ISSUE 28 ■ SPRING 2020

INFORMED

Working with professional partners

by Clayden FINANCIAL
INDEPENDENT FINANCIAL ADVISERS

THE OVERLOOKED TAX PERK

What are the benefits of contributing to your child's pension?

MANAGING YOUR FINANCES

Why obtaining financial advice is an important step to take

CLAYDEN FINANCIAL

25 years of giving impartial financial advice

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In this issue...

WELCOME TO OUR SPRING ISSUE

It's been an eventful few months for the country and for Claydens! The office continues to be extremely busy, and feedback from clients regarding their portfolios and investments has been positive. We are delighted to announce that Karen Young, who has a great deal of experience working within financial services in East Anglia, will be joining us as an administrator in March to help with the increased workload.

Do take note that the current tax year will end soon, and make sure that you beat the deadline of 5 April for ISA and pension contributions!

We are delighted to announce that Gemma Hall gave birth to a baby girl on 3 February 2020. Olivia Poppy Jane weighed in at a healthy 8lb 10 oz, and both she and Gemma are doing very well.

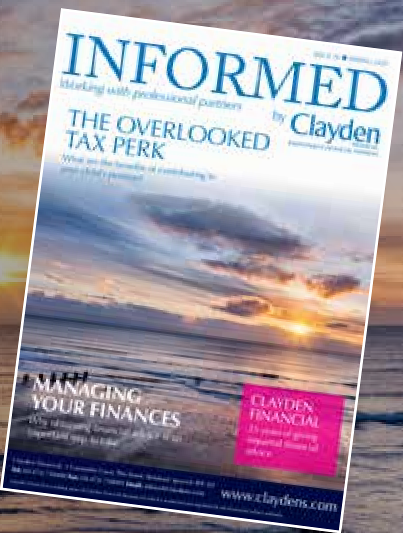
I hope you enjoy our Spring edition.

Leigh Clayden

Gemma with baby Olivia.

WE VALUE YOUR FEEDBACK

Let us know your views on Informed, and pass on any ideas you have as to subject matter for inclusion in future editions. Contact Krystyna Smithers by email at krystyna@claydens.com or call 01473 730090.



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SUFFOLK SUNRISE 100, **SUNDAY 17 MAY 2020**

The fabulous backdrop of Framlingham College and Framlingham Castle at the start of the Suffolk Sunrise 100 bike ride is a sight to behold.

One of the biggest charity sporting events in the East, boasting over 900 riders, the Suffolk Sunrise has been a firm favourite fixture in the May sportive cycling calendar for over a decade.

Hosted by children's charity Action Medical Research, who have over 20 years' experience of organising bike rides, the Suffolk Sunrise has both flat and fast routes and is an ideal event for experienced riders to lay down an early season benchmark, and for newer riders to take on a challenge. Taking riders through the quiet coastal lanes of Suffolk, the ride passes through many villages and towns, with routes dating back to the Anglo Saxons.

Our adviser Karen Last is a trustee of Action Medical Research, and she and her family run the food stop based in Fressingfield church hall. Having carried out long cycling challenges in the past, Karen says she would rather do the food for others than get on a bicycle now!

For more information, visit www.action.org.uk/suffolk.

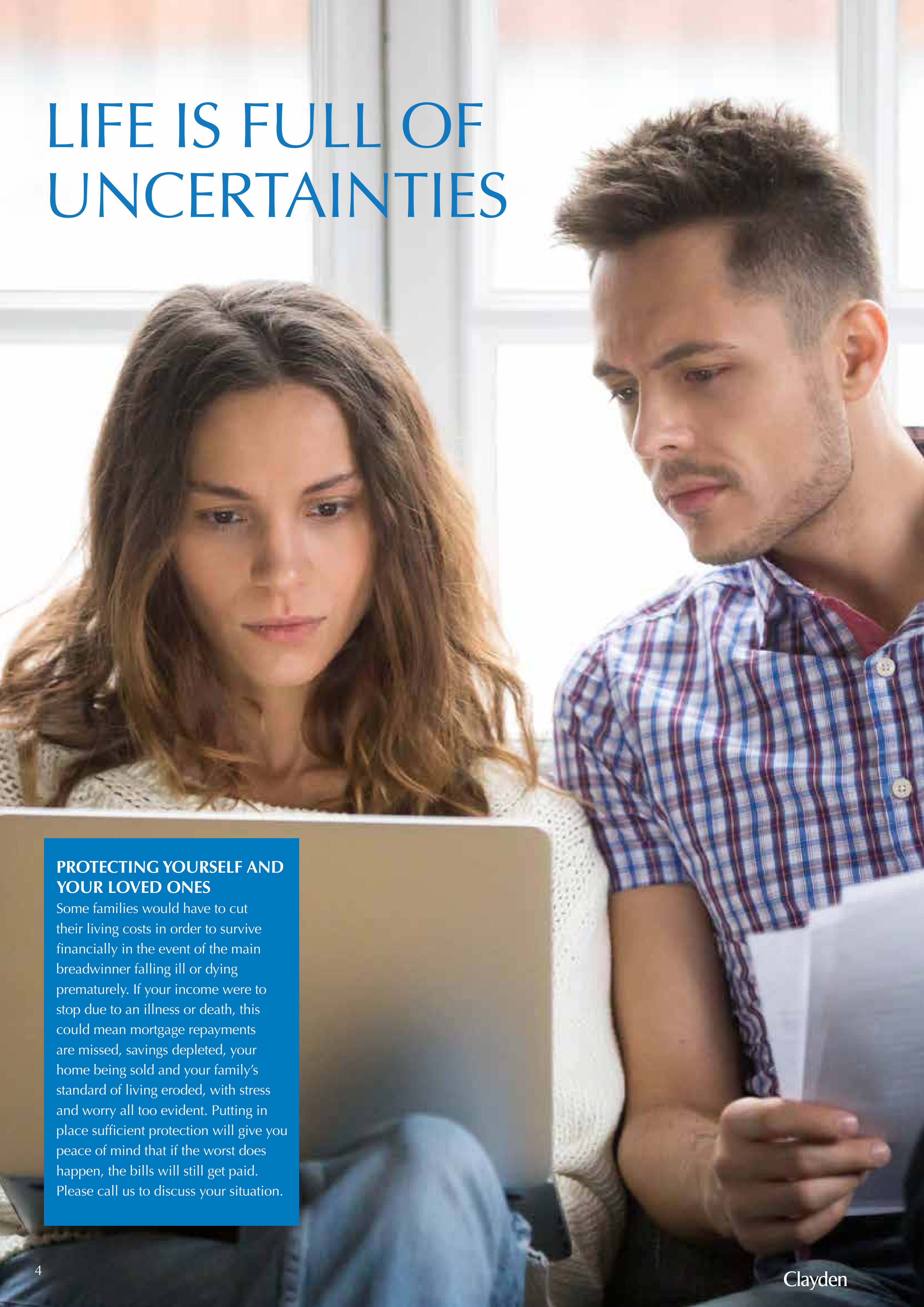
IPSWICH U18 WOMEN'S TEAM WINS THE NATIONAL BASKETBALL CUP

Clayden Financial is a proud co-sponsor of the Ipswich U18 Women's Basketball team. The local team plays in the Women's Elite Basketball League, which is for quality players of university age. Ipswich is currently second in the League tied with Reading Rockets, but with Ipswich having played an extra game.

The Cup has five rounds over the course of the season. After a bye in the first round, on their way to the final, Ipswich beat Solent Kestrels and Southwark Pride. In the semi-final against Manchester Mystics (probably one of the biggest clubs in UK basketball), Ipswich won in a very close game 57–54.

The finals day at the University of Essex was amazing, with four games being played at under 16 and 18 levels. There was a great party atmosphere, with the Ipswich supporters taking 75% of the seats. Very much appreciating the vociferous support, the Ipswich team triumphed after a tense and exciting battle 60–57 against the previously undefeated Reading Rockets team. A fantastic result!

LIFE IS FULL OF UNCERTAINTIES



PROTECTING YOURSELF AND YOUR LOVED ONES

Some families would have to cut their living costs in order to survive financially in the event of the main breadwinner falling ill or dying prematurely. If your income were to stop due to an illness or death, this could mean mortgage repayments are missed, savings depleted, your home being sold and your family's standard of living eroded, with stress and worry all too evident. Putting in place sufficient protection will give you peace of mind that if the worst does happen, the bills will still get paid. Please call us to discuss your situation.

If the worst were to happen, would your bills still get paid?

Everyone should consider protection, even those who don't have a family or a mortgage! Unless they have substantial savings or inherited wealth, most people rely on their salary to pay for everything.

Over the years, you may have taken out a number of different insurance policies to give you and your family financial security. Perhaps this may have been when you started a family, took out a mortgage or became self-employed.

These policies are designed to give your loved ones peace of mind by helping make sure there will be enough money in place to cover bills and other expenses should you be unable to work, become critically ill, or even die.

Although State benefits provide some support, few families want to rely on the State to maintain their standard of living. It is therefore crucial to keep abreast of the level of your cover.

TIME TO REVIEW

Your personal circumstances and needs will almost certainly have changed over time. Perhaps you have children who have flown the nest, or you've paid off your mortgage.

You may also be entitled to benefits with your current employer that either overlap with polices you already have or leave things now important to you not covered.

It could be time to review these policies, and the level of cover they provide, to make sure they are still suitable.

LIFE COVER PROTECTION

Life cover protection is designed to protect your family and other people who may depend on you for financial support. It pays a death benefit to the beneficiary of the life assurance policy.

If you have dependents or outstanding debts such as a mortgage, at the very least, it should ensure your family can keep their home, but ideally it would also provide an additional sum as a financial buffer at a difficult time.

There are different types of policy available, from 'whole of life assurance' which covers you for your entire lifetime, to 'term assurance' policies which provide life cover for a fixed period of time – 10 or 20 years, for example – and are often used in conjunction with a mortgage.

INCOME PROTECTION COVER

If something happened to you, would you be able to survive on your savings or on sick pay provided by your employer? If not, you'll need some other way to keep paying the bills.

Income protection cover is designed to give you protection if you can't earn an income due to ill health, sickness or disability. These policies protect a portion of your salary, typically paying out between 50–70% of your income. The benefit provides you with monthly, tax-free payments that cover some of your lost earnings if you are unable to work.

They are vital policies for those with dependents and liabilities, paying out until you can start working again, or until you retire, die, or come to the end of the policy term – whichever is sooner. They cover most illnesses that leave you unable to work, and you can claim as many times as you need to while the policy lasts.

CRITICAL ILLNESS COVER

If you are diagnosed with a critical illness, it can have a severe impact on your finances, as you may need to take time off work for your treatment and recovery. Critical illness cover pays out a tax-free lump sum if you're diagnosed with, or undergo surgery for, a specified critical illness that meets the policy definition.

It's designed to help support you and your family financially while you deal with your diagnosis, so you can focus on your recovery without worrying about how the bills will be paid.

Each policy will have its own list of specified conditions it covers. It is vital to familiarise yourself with the full list and when you can claim for these illnesses before you apply.

FAMILY INCOME BENEFIT COVER

Family income benefit is a term insurance which lasts for a set period of time. If something were to happen to you, you would want to be sure your family is taken care of when you're gone.

The policy will pay out a monthly, tax-free income to your family if you die during the term, until the policy ends. So, if you take a 20-year family income benefit policy and die after five years, it will continue to pay out for another 15 years.

There is no cash-in value, so if you stop making premium payments, your cover will end.

PRIVATE MEDICAL INSURANCE

Private medical insurance will pay for the cost of private healthcare treatment if you are sick or injured. If you don't already have it as part of your employee benefits package, and you can afford to pay the premiums, you might decide it's worth paying extra to have more choice over your care.

It gives you a choice in the level of care you get and how and when it is provided. Basic private medical insurance usually picks up the costs of most in-patient treatments (tests and surgery) and day-care surgery.

Some policies extend to out-patient treatments (such as appointments with specialists and consultants) and might pay you a small fixed amount for each night you spend in an NHS hospital. Premiums are paid monthly or annually, but most policies do not cover pre-existing conditions.

THE PLAN WILL HAVE NO CASH-IN VALUE AT ANY TIME AND WILL CEASE AT THE END OF THE TERM. IF PREMIUMS ARE NOT MAINTAINED, THEN COVER WILL LAPSE.

CRITICAL ILLNESS PLANS MAY NOT COVER ALL THE DEFINITIONS OF A CRITICAL ILLNESS. THE DEFINITIONS VARY BETWEEN PRODUCT PROVIDERS AND WILL BE DESCRIBED IN THE KEY FEATURES AND POLICY DOCUMENT IF YOU GO AHEAD WITH A PLAN.

MANAGING YOUR FINANCES

Why obtaining financial advice is an important step to take

There will be times in your life when you're not sure what to do with your money or what decisions you need to make to protect your financial future. This is where financial advice can help.

Many people can be unsure about the quality of advice on offer or whether advisers have their best interests at heart, while others are sceptical of whether it's worth paying a fee for advice.

In spite of common misgivings, the truth is that financial advisers are required to hold an industry-recognised qualification supervised by the Financial Conduct Authority (FCA) to ensure that they are equipped to offer advice – and that the advice received is the most appropriate for your personal circumstances.

In the long run, a good financial adviser will justify their fee by making you a wealthier individual than if you opted to go it alone.

FOR TIMES IN YOUR LIFE WHEN IT PAYS TO GET A FINANCIAL ADVISER TO HELP YOU MANAGE YOUR FINANCES

GETTING MARRIED AND/OR HAVING CHILDREN

Getting married and/or having children are both significant milestones in life and involve a lot of planning and organisation. However, when it comes to matters of the heart, it's often financial stability that will help you achieve your happy ever after.

Your finances are not automatically linked just because you get married, live at the same address or officially share the same name after the wedding. This will only change when newlyweds become, for example, joint account holders, get a mortgage together or share a credit card. However, in some instances, it could pay to keep your accounts separate from your partner's.

An adviser could also help parents save for their child's future so they can start their adult lives with a firm foundation as well as save for school fees in the shorter term. Understanding how much or how little you need to put aside into a Junior ISA, for example, could see your children reach 18 with enough to cover their time at university, or even mean they have a deposit for a home when they graduate.

RECEIVING AN INHERITANCE

Receiving a cash windfall through inheritance can transform your financial circumstances. However, knowing what to do with a lump sum can be daunting – and sticking it all in a cash savings account isn't necessarily the best option in the long term.

At a time of low interest rates and higher inflation, many are shunning conventional savings accounts and are instead choosing to put money in company shares, funds, investment trusts, bonds and other investment products for higher returns. However, these products are harder to understand than cash savings accounts – and by not taking advice, you may not be considering all of the options available to you.

Those who choose to go it alone need to understand investment risk, the importance of having a well-diversified portfolio and having the ability to manage these factors over time. An easy mistake for a novice investor to make is buying a couple of shares in companies they recognise. But by doing so, they run the risk of putting too many eggs in one basket.

Getting the balance right between maximising the use of pension allowances and benefitting from tax breaks elsewhere is daunting but ultimately worth it – and an adviser can really help.

APPROACHING RETIREMENT

Unless you're in a final salary or defined benefit pension scheme that pays you an income based on your salary once you retire, you're most likely to be saving in a defined contribution (DC) scheme that provides you with a sum of money at retirement. If that's the case, you'll have to decide how you're going to use your pension fund to provide an income that will last you until you die.

It used to be the case that once you'd taken your tax-free cash from your pension at retirement, the rest of the money was used to buy an annuity, which would provide guaranteed income for life. However, new rules introduced in April 2015 mean you can use your DC pension pot in any way you wish once you're aged 55 or over.

There is an abundance of solutions available at retirement, some more complex than others, but deciding what best suits your needs is not an easy task. How much should you take out? What do you plan to do with it? How can you minimise the amount of income tax you'll need to pay on the money you draw down? How much should you keep invested? Should you continue to contribute to your pot after you retire? Where should you invest to produce enough income without putting your capital at unnecessary risk?

These are all questions that an adviser is well-equipped to help you answer. He or she is legally bound to help you get a plan in place that works well for you.

LEAVING A LEGACY

Rising house prices are a nightmare for those trying to save to get on the housing ladder, but they have been a boon to those lucky enough to have bought in the early 1990s or before. The flipside to having built up wealth in your home, however, is that it has greatly inflated many people's wealth. For that reason, Inheritance Tax (IHT) has become a worry for an increasing number of people.

No one wants loved ones to get lumped with a hefty IHT bill unnecessarily – and avoiding this outcome comes down to careful planning. Common measures include gifting money to loved ones or setting up a trust, but there are a plethora of options available, and a financial adviser could help you find the options that are best suited to your circumstances.

It is also worth considering some assistance from a qualified adviser or solicitor to help you write a Will so that your wishes are carried out, and any money you leave is left as tax-efficiently as possible. Estate and tax planning can be complicated, so it's worth getting advice to help you make the the right decisions for your situation.

THE **OVERLOOKED** TAX PERK

What are the benefits of contributing to your child's pension?

When it comes to tax perks, there is one thing that parents may have overlooked: paying into their child's pension.

There is nothing to stop mothers and fathers who have taken care of their own retirement from putting money into their children's private pension funds, even if the child is grown-up and earning a salary of their own. As well as boosting their son or daughter's retirement prospects, a pension present will benefit from a 20% tax break bonus from HM Revenue & Customs. This is due to a little-known feature of the pensions system which means a contribution by the parent is treated as if it had been made by the child – therefore it comes with tax relief.

This means that if a parent pays £800 into their child's personal pension, the recipient will still get basic-rate tax relief on the contribution, taking the amount in the pot up to £1,000, according to mutual insurer Royal London, which is campaigning to raise awareness of the tax perk. Also if your child is a higher-rate taxpayer, they are entitled to 40% tax relief on the contribution.

SLIDING SCALE

While the 20% basic-rate tax relief is automatic, high-rate taxpayers will have to claim the extra 20% back from HMRC when doing their annual tax return. What's more, if the child is a higher earner, any pension contribution from their parents could reduce the tax charge they face when claiming child benefit.

Families where one parent has a salary over £50,000 face a tax charge that increases on a sliding scale until they effectively lose the child benefit at £60,000. However, pension payments from their parents count against their income, enabling them to keep more of the benefit.

For example, a pension contribution of £8,000 (grossed up to £10,000 by tax relief) to someone earning £60,000 would reduce their income to £50,000 for purposes of the tax charge, allowing them to claim child benefit in full. The idea of paying into their children's pension might also appeal to parents who have spare cash after reaching their own annual pension contribution limits – and it could also cut future Inheritance Tax bills.

IMPROVING FINANCIAL SECURITY

Not every parent has spare cash to pay into their children's pension, but many will be in a better financial position than their children can expect to enjoy. By paying into their children's pension, they can improve their long-term financial security.

In Scotland, taxpayers get the same rate of pension tax relief as they pay in Income Tax, with the exception of starter-rate taxpayers, who pay 19% Income Tax and get 20% pension tax relief.

You can also save a maximum of £3,600 a year into a self-invested personal pension (SIPP) for a child from the day they're born. However, tax relief for them means you have to pay in only £2,880 a year, and the rest is automatically reclaimed from HMRC.

If you invested the maximum every year until they turned 18 and the pot was left untouched until they turned 64, they would have a retirement fund of £1 million, assuming growth of 5% every year.

SETTING OUT TO BECOME A PRIVATE LANDLORD

There are many ways to become a landlord. Whether you've bought a property that you're planning to buy-to-let, renting out a single room, or letting via Airbnb, as a landlord you have a list of responsibilities – some legally binding – that you must follow. Here are a few things to think about.

Your landlord responsibilities

As a landlord, you'll have a list of responsibilities to look after both your tenants and the property itself. These responsibilities will depend on where in the UK you are.

Health and safety

To be legally compliant, you'll need to make sure that electrical and gas safety checks are completed and that you have the paperwork to prove it. It's also recommended that you have electrical appliances PAT tested every year. In Scotland, you're required to have an electrical safety inspection at intervals of no more than five years apart.

It's a good idea to carry out a fire safety check. Fitting fire alarms on every floor, as well as extinguishers and blankets if letting out to multiple tenants where there will be shared areas (such as the kitchen), are legal requirements.

You're also legally obliged to install carbon monoxide testers. Carbon monoxide alarms are recommended, especially in rooms that include appliances that burn solid fuel.

As a part of your checks, you must also carry out a Legionnaires Disease risk assessment.

HMO licence

You'll need to apply for a House in Multiple Occupancy (HMO) licence if you're renting your property to three or more unrelated people.

Energy Performance Certificate (EPC)

Wherever you are in the UK, you'll need to have an EPC, provided by an accredited Domestic Energy Assessor. The EPC will show how energy efficient your property is – from A (most efficient) to G (least efficient).

Your property must be rated E or higher to be eligible to rent out in the UK. You'll need to provide a copy of the EPC to your tenants and, if your property is in Scotland, you'll need to display the EPC somewhere in the property itself.

Accessibility

If your tenant has special needs, you may be required to adapt your property, making 'reasonable adjustments' as laid out in the 2010 Equality Act.

Tenancy agreement and other documentation

As the landlord, you'll need to put a tenancy agreement in place, setting out the terms and conditions that your tenant must follow, including when they should pay the rent and when the tenancy will end. There's other literature to pass on to your tenants, depending on where you are in the UK.

Tenancy deposit

You'll also be responsible for keeping the deposit your tenant has paid in a Tenancy Deposit Protection Scheme, and you're obliged to transfer the deposit into the scheme within 30 days, giving your tenant details of this.

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