ISSUE 40 ■ SPRING 2023

INFORMED

Working with professional partners

by Clayden
FINANCIAL
INDEPENDENT FINANCIAL ADVISERS

DON'T MISS THE ISA DEADLINE

Use your tax-efficient allowance or lose it forever!

INS AND OUTS OF CGT

Ways to potentially reduce your Capital Gains Tax liability

EINSTEIN, BENJAMIN GRAHAM AND NAPOLEON

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WELCOME TO OUR SPRING ISSUE

After the dreary grey days of autumn and winter, the bright spring weather is most welcome. Seeing snowdrops on regular walks with my wife, Jane, is truly uplifting for us. In this issue we have a short, light-hearted piece on what brings joy to staff members' hearts at this time of year.

I would like to thank those clients who agreed to participate in market research about Clayden Financial just before Christmas. It is helpful for us to see how we – and our working practices – are viewed by our clients. You will see an article opposite about the work that VouchedFor recently undertook for us.

I would also like to voice our appreciation to those of you who have referred us to family and friends, clients and colleagues. Our business is thriving partly thanks to the large number of such referrals that we receive.

In this issue, too, we have an interesting update from HSBC Asset Management, one of the fund groups we regularly recommend.

At Clayden's we are doing what we can to reduce waste. We would like to encourage those of you who haven't yet signed up for our newsletter to be sent to you by email rather than by post, to do so.

Remember, we would welcome your thoughts and ideas on subject matter for this newsletter. Do send them through by email to krystyna@claydens.com or call us.

Let's make the most of those longer days!

Leigh Clayden

WE WELCOME THE RETURN OF GRACE!

Grace Whiley will be re-joining Clayden Financial as a part-time Administrator from 8 March. Many of you will remember Grace from a few years ago. From 2015 to 2017, she worked with us as a Receptionist/Administrator, and since then she has worked in London with Quilters and Vermeer as a PA, supporting three Investment Discretionary Managers preparing annual review documentation and organising meetings.

Grace recently became a mum to Rosie and is loving watching her grow and learn new things. She is really looking forward to returning to work on a part-time basis, closer to her home in Suffolk. The family loves to explore the countryside with their Cockapoo, Ovie.

MARKET RESEARCH BY VOUCHEDFOR

Consumer Duty

The FCA has introduced a major piece of legislation for the financial services industry that affects both distributors and advisers. Four major areas need to be investigated, and all relate to consumer outcomes resulting from advice provided.

PRODUCTS AND SERVICES OUTCOME

Understanding a consumer's characteristics is an important cornerstone to ensuring financial products and services meet the duty requirements.

PRICE AND VALUE OUTCOME

Explaining and evidencing the associated worth of a product or service.

OUTCOMES REGARDING CONSUMER UNDERSTANDING

Specific emphasis should be on communications with clients being straightforward and easy to understand.

The final area revolves around consumer support, representing key elements of consumer duty.

The FCA are looking to improve client outcomes through this major piece of work for the industry.

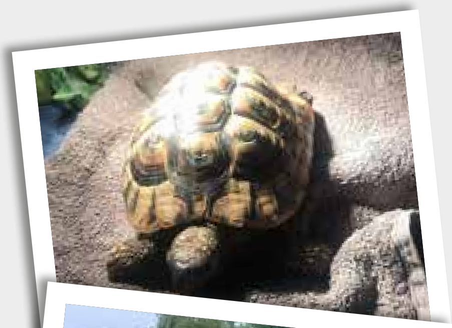
In response to this, in December we carried out market research with VouchedFor. 130 clients were contacted to find out their views on the key elements of consumer duty so that we could measure where we are at this time.

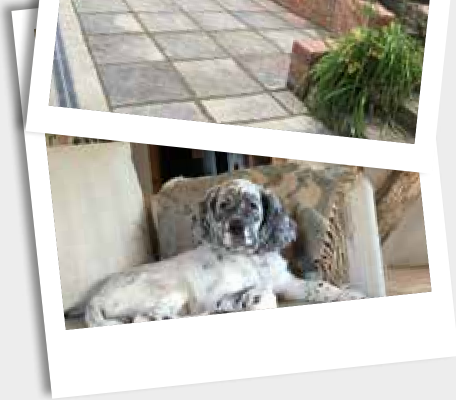
We would like to thank all those customers who very kindly agreed to contribute to this market research. The average response on such pieces of work by VouchedFor is 30%. However over 50% of our clients responded to the survey – a tremendous outcome.

In terms of responses – the average score was 4.7 out of 5 and this did mean that Clayden Financial achieved a mark well above the average for the industry. However, the response did also show us some areas where we can improve, and we will work on these.

We are taking this work very seriously, carrying out a major review of our services and products. This market research was just one part of the many actions we are taking.

Once again, we really appreciate the responses from clients who contributed. We plan to continue with market research in the future as we think it is vital that the firm continues to provide a service and communications that are fully understood and valued by our clients.





WHAT GIVES US A SPRING IN OUR STEP!

CHRIS

Seeing my tortoise Sherman (previously Karen's tortoise!) coming out of hibernation. He's alive and well and eating like a little piggy!

GEMMA

Lighter evenings, and seeing the spring flowers.

GINA

Spring for me is all about the anticipation of what the garden will look like and the best time to start new projects. Last year in spring we dug out an entire bank to make a sunken patio and then planted the whole area. It gave us great pleasure watching the plants emerge and grow stronger. This spring will see a new project take place and, in the light of current climate conditions, it will be a dry garden. I do hope this will not bring on an excessively wet summer for us all.

JANE

It's the prelude to summer, warmer weather, shorts and no coats!

KAREN

Lambs gambolling in the fields.

KRYSTYNA

Hearing beautiful birdsong, morning and evening.

LEWIS

Having sufficient light when I get home to be able to mow the lawn. 'Tis glorious!

MARTIN

Pleased to be seeing the end of travelling to work in the dark and returning home in the dark!

NICK

My new dog, Bodie, a three-month-old English Setter who is not allowed on the sofa.

> " An ISA is a tax-efficient way to invest because your money is shielded from Income Tax, tax on dividends and Capital Gains Tax."

Don't miss the ISA deadline

Use your tax-efficient allowance or lose it forever!

Time is running out to take advantage of this year's Individual Savings Account (ISA) allowances. You get one ISA allowance per tax year. So use it or lose it, when the tax year ends on 5 April.

Any unused ISA allowance will not be rolled over into the new tax year. When the new tax year starts on 6 April, if you haven't used all of your or your children's ISA allowances from the previous tax year, they will be lost forever.

YOUR QUESTIONS ANSWERED

Q: WHAT IS AN INDIVIDUAL SAVINGS ACCOUNT (ISA)?

A: An ISA is a 'tax-efficient wrapper'. Types of ISA include a Cash ISA and Stocks & Shares ISA. A Cash ISA is similar to a normal deposit account, except that you pay no tax on the interest you earn. Stocks & Shares ISAs allow you to invest in equities, bonds or commercial property without paying personal tax on your proceeds.

Q: CAN I HAVE MORE THAN ONE ISA?

A: You have a total tax-efficient allowance of £20,000 for this tax year. This means that the sum of money you invest across all your ISAs this tax year (Cash ISA, Stocks & Shares ISA, Lifetime ISAs, Innovative Finance ISA, or any combination) cannot exceed £20,000. However, bear in mind that you have the flexibility to split your tax-efficient allowance across as many ISAs and ISA types as you wish. For example, you may invest £10,000 in a Stocks & Shares ISA and the remaining £10,000 in a Cash ISA. This is a useful option for those who want to use their investment for different purposes and over varying periods of time.

Q: WHEN WILL I BE ABLE TO ACCESS THE MONEY I SAVE IN AN ISA?

A: Some ISAs may tie your money up for a period of time. However, others are flexible. If you're after flexibility, variable rate Cash ISAs don't tend to have a minimum commitment. This means you can keep your money in one of these ISAs for as long – or as short – a time as you like. This type of ISA also allows you to take some of the money out of the ISA and put it back in without affecting its tax-efficient status.

On the other hand, fixed-rate Cash ISAs will typically require you to tie your money up for a set amount of time. If you decide to cut the term short, you usually have to pay a penalty. However, ISAs that tie your money up for longer do tend to have higher interest rates.

Stocks & Shares ISAs don't usually have a minimum commitment, which means you can take your money out at any point. As with all investing, it's recommended that you invest your money for at least five years or more. Staying invested for longer allows your investment to grow and to better weather any market volatility. With the cost of living in the UK rising at its fastest rate in 41 years, can you really afford to see the purchasing power of your hard-earned savings stagnate in a bank account?

Q: COULD I TAKE ADVANTAGE OF A LIFETIME ISA?

A: You're able to open a Lifetime ISA if you're aged between 18 and 39. You can use a Lifetime ISA to buy your first home or save for later life. You can put in up to £4,000 each year until you're 50, which counts towards your annual ISA limit. The government will add a 25% bonus to your savings, up to a maximum of £1,000 a year. However, this does come with rules of when you can withdraw money without penalty from your Lifetime ISA.

Q: WHAT IS AN INNOVATIVE FINANCE ISA?

A: An Innovative Finance ISA allows individuals to use some or all of their annual ISA allowance to lend funds through the Peer to Peer lending market. Peer to Peer lending allows individuals and companies to borrow money directly from lenders. Your capital and interest may be at risk in an Innovative Finance ISA and your investment is not covered under the Financial Services Compensation Scheme.

Q: WHAT IS A JUNIOR ISA?

A: This is a savings and investment vehicle for children up to the age of 18. It is a tax-efficient way to save or invest as it is free from any Income Tax, tax on dividends and Capital Gains Tax on the proceeds. The Junior ISA subscription limit is currently £9,000 for the tax year 2022/23.

Q: IS TAX PAYABLE ON ISA DIVIDEND INCOME?

A: No tax is payable on dividend income. You don't pay tax on any dividends paid inside your ISA.

Q: IS CAPITAL GAINS TAX (CGT) PAYABLE ON MY ISA INVESTMENT GAINS?

A: You don't have to pay any CGT on profits.

Q: I ALREADY HAVE ISAs WITH SEVERAL DIFFERENT PROVIDERS. CAN I CONSOLIDATE THEM?

A: Yes you can, and you won't lose the tax-efficient 'wrapper' status. Many previously attractive savings accounts may cease to have a good rate of interest, and naturally some Stocks & Shares ISAs don't perform as well as investors would have hoped. Consolidating your ISAs may also substantially reduce your paperwork and we will be happy to talk you through your options as care is needed so as not to lose the ISA status on consolidation.

Q: CAN I TRANSFER MY EXISTING ISA?

A: Yes, you can transfer an existing ISA from one provider to another at any time as long as the product terms and conditions allow it. If you want to transfer money you've invested in an ISA during the current tax year, you must transfer all of it. For money you invested in previous years, you can choose to transfer all or part of your savings.

Q: WHAT HAPPENS TO MY ISA IF I DIE PREMATURELY?

A: The rules on ISA death benefits allow for a spouse or registered civil partner to inherit an additional ISA allowance called the Additional Permitted Subscription.

TIME TO TAKE YOUR ISA TO THE MAX?

ISAs are one of the most straightforward ways to achieve tax-efficient gains. Remember you can currently invest up to £20,000 this tax year in an ISA, so a couple can put £40,000 out of the reach of the taxman. And don't forget your children or grandchildren. Parents and guardians can invest up to £9,000 in a Junior ISA. **To find out more or discuss your requirements, please contact us.**

THE VALUE OF YOUR INVESTMENTS CAN GO DOWN AS WELL AS UP AND YOU MAY GET BACK LESS THAN YOU INVESTED.

Einstein, Benjamin Graham and Napoleon

HSBC Asset Management

At HSBC Asset Management we believe there is an opportunity cost from not investing, particularly given the current inflationary pressures, and that short-term worries about market volatility shouldn't override long-term objectives. However, as professional investors we also believe it's important to understand a client's concerns.

Einstein is rumoured to have said that 'compound interest is the eighth wonder of the world – he who understands it, earns it…. and he who doesn't, pays it.' This simple message is that when it comes to investing, regardless of how volatile markets may seem, the earlier investors can start, the better.

We ran a study[1] that compared two investors, each saving $1,000 dollars a month. One started in 2004 and the other in 2007. We ran it to the end of 2021. The investor who started in 2004 saved an extra $36,000 dollars into their pot (by starting three years earlier), but by the end of 2021, the earlier investor had a pot worth $133,000 dollars more – having only put in an extra $36,000 dollars. This is a great example of the power of compounding and how any delay in when you start investing could cost you in the long run.

On the other hand, many clients have legitimate concerns when it comes to staying invested during falling markets. The amount of cash in a savings account doesn't really change from one day to the next so we feel in control of it, even if we don't see the long-term impact inflation can have on our purchasing power.

Although we may feel in control when sitting on cash, in reality we may be locking in losses by selling after a market fall, whilst also ensuring our investments lose value in real terms. Benjamin Graham, author of *The Intelligent Investor* advises us that 'you will be much more in control when you realise how much you are not in control'.

At HSBC Asset Management we accept that we can't control markets. However, by focusing on factors we can control – such as a risk profile, asset allocation, fulfilment and cost – and filtering out short-term market noise, we believe we can still deliver strong risk-adjusted returns, as it's these factors that are key in driving long-term returns.

Napoleon said, 'A genius is the man who can do the average thing when everyone else around him is losing his mind.' Despite having hundreds of investment professionals working at HSBC Asset Management, we know it's impossible to time the market correctly every time. In many instances, doing the 'average thing' and remaining invested, is actually the smarter option.

We looked at what would have happened if an investor had put $100,000 dollars into a basket of global equities from 2005–2022. Over those 17 years, just leaving things be, gave an average annual return of 8.1%.[2] We then stripped out the top 20 days in that 17-year period. These accounted for only 0.3% of the total number of days but, crucially, by missing those 20 days in that 17-year period, returns dropped from an average 8.1% per year to 1.8% a year. This means that by missing the 20 best trading days, the final balance would have reduced from $380,000 to just over $136,000.

It's simplistic, but this example helps highlight why it's often important to remain invested, even during periods of volatility.

Given the speed at which information now flows around the globe, we often lose sight of the longer-term picture and spend time focusing on the here and now. We can check markets on our smartphone 24 hours a day, fretting that markets have fallen, and ultimately forgetting why we've invested in the first place. When market volatility picks up, we should remember the words of Einstein, Graham and Napoleon, and that time in the market can be the most powerful force in investing.

The HSBC Global Strategy Portfolios are our flagship Multi-asset solution for advisory clients. The range includes five funds, tailored to different investor risk attitudes and diversified across key asset classes and global regions, including developed and emerging regions.

Please speak to us at Clayden's to learn more about the funds.

Source data:

[1] Source: Bloomberg, HSBC Asset Management. Investing = MSCI AWCI Net Return Index, 1 January 2004 to 31 December 2021.

[2] Source: HSBC Asset Management, Bloomberg, Returns are for developed markets stocks - MSCI World Daily Total Return Gross World Index, as at January 2022.

www.assetmanagement.hsbc.com/uk

Hot Topic

Ins and outs of CGT

Ways to potentially reduce your Capital Gains Tax liability

Capital Gains Tax (CGT) is a form of taxation imposed on profits earned from the sale of certain types of assets. Gains are calculated by subtracting the purchase price and related expenses (such as sales charges) from the selling price. They are generally taxed at a rate higher than Income Taxes in order to discourage speculation.

If you plan to sell assets that have appreciated in value, such as real estate, stocks or bonds, it is important to be aware of CGT and how it can affect your bottom line. Proper planning can help you minimise or even avoid CGT liabilities.

For years, the annual CGT exemption has been a useful way of reducing your liability for CGT on any profits you may make from investments or disposals of assets. But with news in last year's Autumn Statement that this exemption will be cut to £6,000 in 2023/24 and £3,000 in 2024/25, now is the time to take action if you want to protect your tax-free allowance.

Here are some ways to potentially reduce your CGT liability.

USE YOUR CGT EXEMPTION

Have you made full use of the current 2022/23 CGT exemption, taking into account the upcoming reduction of this exemption commencing from the next tax year?

It is important to consider making any capital gains before the end of this current 2022/23 tax year, in order to maximise your £12,300 CGT exemption. This approach will ensure that you are able to take advantage of all available resources and protect yourself from incurring a large liability down the line.

MAKE USE OF LOSSES

When reporting capital gains to HM Revenue & Customs (HMRC), you may be able to reduce your tax liability by making use of losses. Losses and gains realised within the same tax year must be offset against each other, which in turn can help lower the overall gain that is taxable. Furthermore, any unused losses from earlier years can be carried forward for use, provided they are reported to HMRC within four years from the end of the corresponding tax year in which the asset was sold.

It's important to keep accurate records of all losses and gains so that professional advice can be sought when necessary. This can help ensure that you make the most out of available reliefs and minimise your CGT liability accordingly.

TRANSFER ASSETS TO YOUR SPOUSE OR REGISTERED CIVIL PARTNER

Couples and registered civil partners can take advantage of their combined annual CGT exemption by transferring assets between them. This is a tax-exempt transfer as long as it is a genuine, outright gift. By taking advantage of this exemption, couples and registered civil partners can benefit from increased capital gains opportunities that wouldn't otherwise be available on an individual basis. The assets can be any type of property or investments that are liable to CGT, such as stocks and shares, land, buildings, business assets or personal possessions.

It's important to note that the transferred asset will become part of the receiving partner's estate for Inheritance Tax purposes in the event of their death. This could potentially result in a larger Inheritance Tax bill, so professional advice should be sought before making any transfers. In addition, if the transfer takes place when the asset has appreciated in value, it's important to consider whether it would benefit you more to pay CGT on the gain before transferring the asset and using your single annual exemption instead.

INVEST IN AN ISA (BED AND ISA)

Investing in an ISA can be beneficial for higher and additional rate taxpayers due to its exemption from CGT, so it is important to consider this option when making financial decisions. Gains and losses made on investments held within an ISA are exempt from CGT. Utilising the 'bed and ISA' tactic can be a professional way to maximise tax savings. 'Bed and ISA' is a way to invest without being exposed to the tax implications associated with CGT.

By selling assets to realise a capital gain and then immediately buying back the same assets inside an ISA, all future gains can be exempted from CGT.

This helps investors make the most of their ISA allowance each year as they are able to use up to £20,000 in the 2022/23 tax year for single savers or £40,000 for married couples and registered civil partners. Investors need to understand that they may pay stamp duty and other costs when repurchasing investments in an ISA and there is a risk that time out of the market, however small, will detrimentally impact your investments.

CONTRIBUTE TO A PENSION

Making regular pension contributions from relevant earnings is a highly effective way to save on CGT. A pension provides an ideal opportunity for those looking to reduce their CGT burden while ensuring their funds remain secure in the long term. Investing in pensions could not only make you more tax-efficient but provide peace of mind that your money will still be available when needed most.

By contributing to your pension, you can effectively increase your upper limit of the Income Tax band. For example, if you make a gross contribution of £10,000 into your pension pot in the 2022/23 tax year, it would move the point at which higher rate tax becomes payable up from £50,270 to £60,270. This means that any capital gain plus other taxable income now falls within this extended basic rate Income Tax band and, as such, CGT is payable at just 10% instead of 20% (18% on residential property gains).

GIVE SHARES TO CHARITY

One of the most rewarding ways to support a charity is to donate shares. By donating qualifying shares, you may be eligible for Income Tax relief and CGT relief from HMRC. This means that the value of your donation could be worth more than if you had donated money or other assets. It's important to remember that only certain types of UK shares qualify for CGT relief, so it's best to obtain professional financial advice before making any donations.

Additionally, as with all donations, it's important to keep records of your gifts in case HMRC needs further information at a later date. Donating shares to charity can be an incredibly meaningful way to show your support whilst also benefiting from generous tax relief.

INVEST IN AN ENTERPRISE INVESTMENT SCHEME

Enterprise Investment Schemes (EIS) allow investors to benefit from CGT relief on investments. This tax relief applies to qualifying investments in smaller, unquoted trading companies and can significantly reduce the amount of CGT due, as well as providing other potential benefits. Any gains made on investments in an EIS are tax-free if held for at least three years from the later of the date of issue or the date the qualifying trade begins. Moreover, it is also possible to defer a capital gain by investing that gain in an EIS qualifying company but only within one year before or up to three years after the gain arose.

Once money is taken out of the EIS qualifying company, the deferred capital gain will come back into charge. When investing in an EIS, professional advice should always be sought to ensure that you are making the most suitable decision for your individual circumstances. This scheme is higher risk than more traditional investments, so investors need to make sure that they fully understand the risks associated.

CLAIM GIFT HOLD-OVER RELIEF

Gift hold-over relief is a tax consideration for anyone transferring business assets. If you meet the requirements, then you are eligible for a tax reduction when giving away certain business assets. To be eligible, there must be a genuine gift of the asset and the recipient must not make any payment in return. In addition, both parties must agree to the transfer and it must have been made at least one year before the date of sale by the recipient.

If you do qualify for gift hold-over relief, then you won't have to pay CGT on the gifted assets; however, if they are subsequently sold by the recipient they may incur CGT liabilities. It's important to note that it must be proven that the asset was given away and not sold in order for the relief to apply. If you're considering utilising gift hold-over relief, professional advice is advised as there are a number of conditions that must be met before being eligible.

CHATTELS THAT ESCAPE CGT

Chattels are personal possessions, such as antiques and collectibles, for which CGT does not always apply. Wasting assets – items with a predictable life of 50 years or fewer – may be exempt from CGT altogether provided they were not eligible for business capital allowances.

For non-wasting chattels, the CGT position depends on the sale proceeds, those under £6,000 usually being free of tax. It is important to seek professional advice if you are unsure about any aspect of CGT relating to your chattels so that you can ensure that you comply with the relevant legislation.

SEEK PROFESSIONAL ADVICE

When it comes to CGT, professional advice is essential. Seeking professional financial advice can help you understand your CGT options, make sure you are taking advantage of all tax reliefs, allowances and exemptions available to you, and advise on the best course of action for your individual circumstances.

We provide comprehensive professional advice and can help guide you through the complexities of CGT. We understand that each person's financial situation is unique, so our tailored advice will ensure that you get the most from your investments.

WANT TO FIND OUT MORE ABOUT YOUR OPTIONS?

Our professional advice can help you manage, review and plan for CGT effectively and provide peace of mind that all your CGT obligations are being met. To discuss your options, please get in touch.

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