David Smith | FINANCIAL SERVICES

NEWSLETTER
JANUARY 2021

WELCOME!

Welcome to our first ever newsletter! This is a space where we can share office news but also inform and remind you about the other services we offer.

The newsletter will be sent out quarterly and will also be available to view on our website. We would love to know your thoughts on the newsletter, so please give us a call or drop us an email.

2020 in Review

It is safe to say that 2020 was a year that no one saw coming. We started the year believing it would be dominated by Brexit negotiations, however this was largely forgotten as the UK and the rest of the world tackled the Coronavirus. The outbreak plunged markets into depths which we have not seen since the 2008 Financial Crisis, with the FTSE falling by around 30% in February and March.

For the rest of the year we saw markets recovering from the early fall as Governments responded to the crisis. The main American markets are now above where they were this time last year, largely down to a high proportion of their markets being made up of technology companies such as Google, Facebook, Amazon and Microsoft who have benefitted from the pandemic. In the UK, the FTSE is still around 10% below where it was back in January last year.

Outlook for the start of 2021

We are expecting continued volatility over the next few months with the implications of the new Brexit agreement taking effect, and of course the continued detrimental effect that the Coronavirus is having on the world economy. Especially, with the added pressure of the new strain, plunging us into a third lockdown. However, as the vaccine is further rolled out, the return to normality is more firmly in our sight and markets will likely respond positively to this over the course of the year.

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Things to consider for the New Year

The Tax Year End

With the end of the current tax year fast approaching, it is important that we look at the ways we can save tax and make our money work harder. There are a number of things we can do before April 5th 2021, to ensure we can save as much tax as possible.

At David Smith Financial Services, we are fully qualified to give advice on all of the subjects below. If you would like to discuss any of these in more detail or indeed any other parts of your financial situation, please do not hesitate to contact us.

Pensions

You can receive tax relief on your pension contributions of up to £40,000 per year in most cases. However, you are limited to contributing a maximum of 100% of your annual income. If you have no income you can still pay in up to £3,600 per annum.

The benefits of paying into a pension is not only to provide an income for you when you retire but, you can gain valuable tax breaks in the form of tax relief. Everyone is entitled to 20% tax relief on their personal pension contributions, with higher and additional rate taxpayers being able to receive a further 20% and 25% respectively.

Having never met anyone who said they have too much in their pension when they retire and with the investment funds growing practically free of tax within the pension too, it is well worth considering investing as much as you can into your pension.

If you run your own company, utilising a pension scheme could be a very tax efficient way on taking money out of the company free of tax.

Inheritance tax

If your total estate is likely to be hit by Inheritance tax (IHT) when you die, you could pass money down to your family to reduce your IHT bill.

The current IHT threshold is £325,000 per person or £500,000, if we take the Residential Nil Rate Band into account. Tax is charged at a rate of 40% on anything above this.

You could give away £3,000 a year as a gift without it being liable to IHT and you can carry forward unused allowances from the previous tax year. You can also gift up to £250 each to selected individuals.

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ISA's

Everyone has an annual Individual Savings Account (ISA) limit of £20,000 to use for the 2020/21 tax year. The advantages are:

- No personal tax (income or capital gains) on any investments in an ISA.
- Income and gains from ISAs do not need to be included on tax returns.
- You can invest in a range of funds to suit your requirements and your attitude to risk.
- Money can be withdrawn from an ISA at any time without losing the tax breaks.
- On death, if you are married ISAs can be passed between spouses without losing any of the tax breaks.

Other types of ISA's available

Lifetime ISA - between the ages of 18 and 40 you could save up to £4,000 per annum in a lifetime ISA. The government will top up your contribution by 20%, however Lifetime ISAs can only be accessed for a house purchase or when you reach age 60.

Junior ISA - If you have children under the age of 18 you could invest in a junior ISA on their behalf, which allows you to invest up to £9,000 for this tax year but you have to be careful if you are already investing in a children's trust fund.

Capital Gains Tax

Capital gains tax (CGT) is generally payable on profits made when you sell an asset. This includes shares not held in an ISA, property other than your main home and personal possessions worth over £6,000. However, each individual can use their capital gains tax allowance of £12,300 (for the 2020/21 tax year) which means no tax is due on gains under £12,300.

With planning, this means on a gain of £24,600 you could piggyback the tax years by selling some shares in this tax year and the remaining shares in the next tax year. This will allow you to use this year and the next years CGT allowances and either pay no tax or greatly reduce the tax liability.

Another way of saving tax on any capital gain if for married couples, or couples in a civil partnership, to pass assets between each other, thus being able to utilise each other's £12,300 allowance.

Child Benefit

If either you or your spouse, are close to an annual income of £50,000, you risk losing some, or all, of your child benefit. If you're close to this threshold you could pay more into a pension. This has the effect of bringing your net income to £50,000, so you do not lose any of the child benefit.

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Office News

Congratulations to James and his fiancée, Mhairi, who were engaged last July and will be getting married in March this year.

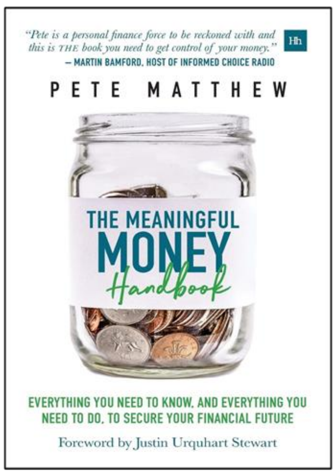
Not only has James been busy in his personal life, but he has also managed to find the time to pass three exams last year. He is hoping to finish his exams to become a Chartered Financial Planner by the end of the year.

Ollie also passed three exams last year and will be looking to get his Diploma in Financial Planning when he sits his last two exams in April.

After 30 years with us, Kerry will be taking an extended holiday in 2021 from April until June. During this time Chris and James and will be contactable during our opening hours.

Many of you know that Ian has been treated for Cancer this year. The scans are clear, and Ian is back at his desk. He will be undergoing Immunotherapy treatment; however, things are looking positive. Thank you all for your best wishes.

Book Recommendation



Personal Finance - The Meaningful Money Handbook by Pete Matthew

Pete, a fellow Chartered Financial Planner, wrote this book following the success of his podcast, 'The Meaningful Money Podcast' where he discusses various topics surrounding personal finance. This book walks you through some of the basics of personal finance and the steps you need to have in place in order to create a strong base for your finances.

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