Essential FINANCE

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As we hurtle headlong into 2020, I hope all of our readers have enjoyed the festive period and on behalf of myself, the directors and the team here at Eastwood Financial Services, we wish you a very happy, healthy and prosperous New Year.

If you are feeling the after effects of Christmas and New Year then our article on pages 18 and 19 provides some useful tips as to how to develop better spending habits... I think I'll try and bear some of these tips in mind for the next time I pop into a shop to pick up a pint of milk and come out with way more than what I went in for!

And if health and wellbeing is your goal for 2020 then have a look at our news pages to see what our charitable and active team have been up to both in and out of the office. And of course, we have the usual interesting and informative financial articles for your perusal... if you'd like to discuss any of the issues raised then please do not hesitate to contact us.

On the opposite page, you'll notice we've been having our photos taken. We had a very talented, engaging and entertaining photographer but as you will see, boredom had overcome us by the end of the session and we couldn't resist requesting a 'silly' photograph to follow the more sensible and professional ones!

Finally and on a sadder note, we are sorry to inform you of the death of a former Managing Director, John C E Smith. John left a lasting impact on our business (and myself for that matter) and we pay tribute to him on page 5 of this edition.

Warm regards,

Karen

Karen Wynard DipPFS
Managing Director

Ready for my close-up!

We have always valued teamwork so we thought, what better way to celebrate those who make-up the EFS team than a photo shoot!

Thank you to all the individuals in this photo, the EFS team would not be what it is today without you.

Contents

In memory of John Charles Egbert Smith

With great sadness, we are sorry to tell you that John passed away on the 10th November last year.

John joined Eastwood & Partners (Financial Services) Ltd, as we were back then, in 1999 and was our Managing Director for many years. Sadly, he was diagnosed with Parkinson's Disease and later retired from our business in 2012.

I am sure that many of our readers will remember John well... he was a very lovely, kind hearted gentleman who had a great sense of humour and was always full of fun and laughter. He was a good friend, a good boss and was popular with clients and staff alike. I always remember when he used to take me with him to visit our corporate clients... it would take forever to get from A to B as there were always so many people wanting to stop and say hello to him! I used to go back to the office and tell my colleagues 'it was like being out with a celebrity'.

John played a big part in the set up and development of our firm and is remembered very fondly and with great affection by those who knew and worked with him. He leaves behind a wife Jennifer, a daughter Kathryn and a son Christopher. The family hosted a drinks event in his memory at a hotel in Harrogate on 23 November - it was a lovely celebration of his life and I'm sure John would have been very pleased.

The family have very kindly provided us with this photo of John... taken in 2017, it is one of their favourite photos. Kathryn has said 'Despite suffering such an awful disease for so many years he never used to complain and never lost his sense of humour'.

Rest in peace John.

Karen Wynard DipPFS
Managing Director

Gifts that keep on giving

In the run up to Christmas, adverts for the latest toys and must-have gadgets seemed to be everywhere. But have you thought of making a gift to your children or grandchildren that has longer-term value?

Instead of something that is soon forgotten or outgrown, why not consider an investment for a child's later life? The choices include:

***• Junior ISAs (JISAs),** the maximum overall investment you can make in the current tax year is £4,368 for each child. JISAs make great gifts because the funds are free of UK tax on investment income and capital gains; what's more they are outside the anti-avoidance rules on parental gifts to minor children.*

***• A personal pension** grows free of capital gains tax, there's no income tax until benefits are drawn, and contributions qualify for income tax relief – even for a non-taxpaying child. The maximum net investment/gift in a tax year is £2,880, which tax relief boosts by 20% to £3,600.*

***• Investment funds** can be gifted to children, typically by creating a bare trust, although other routes are possible. There are no limits on the amount you can gift, but there are potential income tax and inheritance tax consequences that need to be kept under review, particularly for larger investments.*

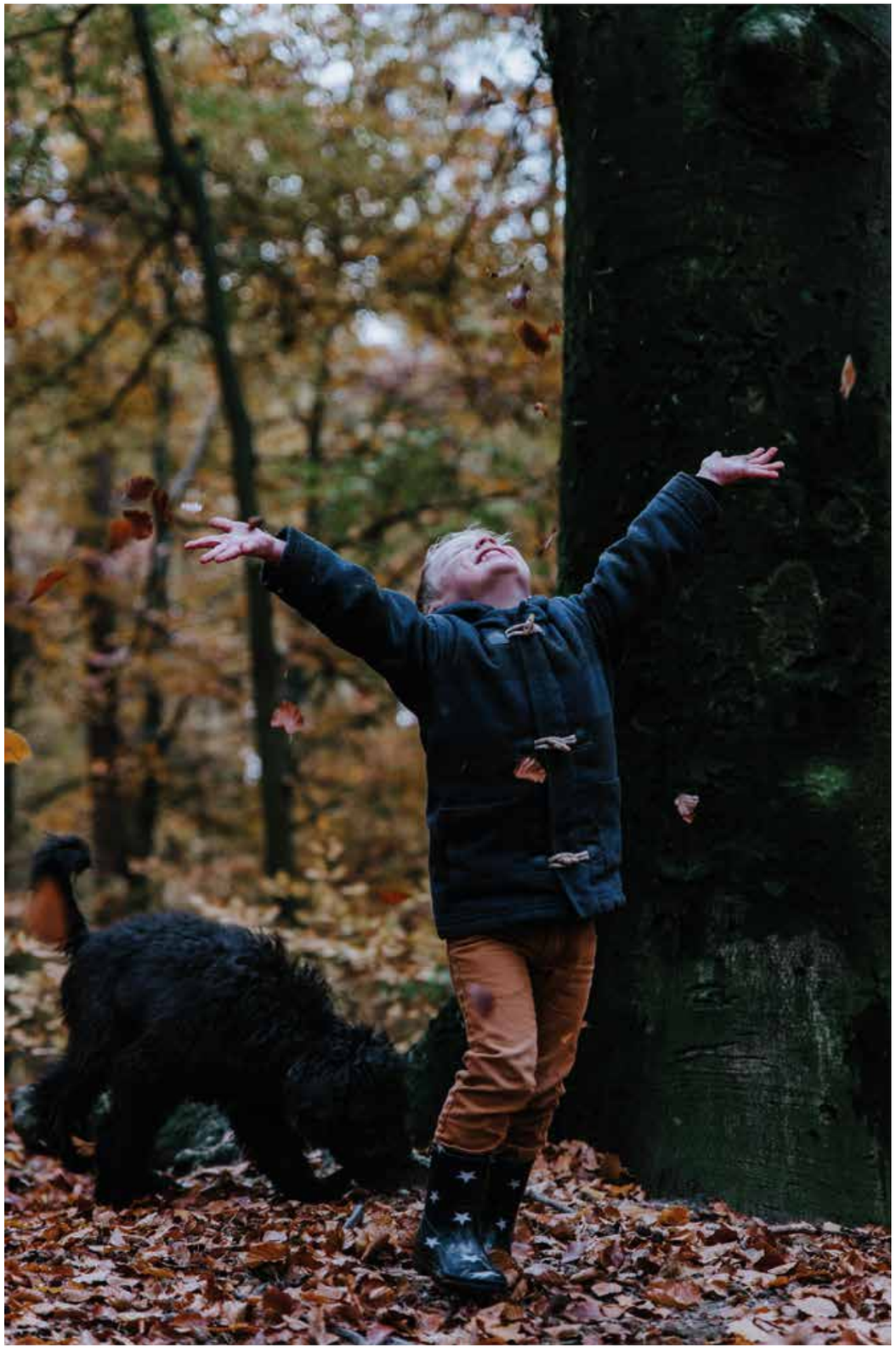
***• NS&I Premium Bonds,** which have become easier to buy for children following changes introduced in August. The minimum purchase is £25, while the maximum holding per person is £50,000.*

Deciding which investments are most appropriate for you and your children or grandchildren, and how to structure them, depends upon a range of factors. Tax – both for you and the recipient – is the obvious one, but so too is the level of control you want to exercise and for how long (age 18 is the usual default – but pensions cannot be drawn until the recipients are in their 50s, currently 55).

For a discussion of your options for making gifts, please talk to us.

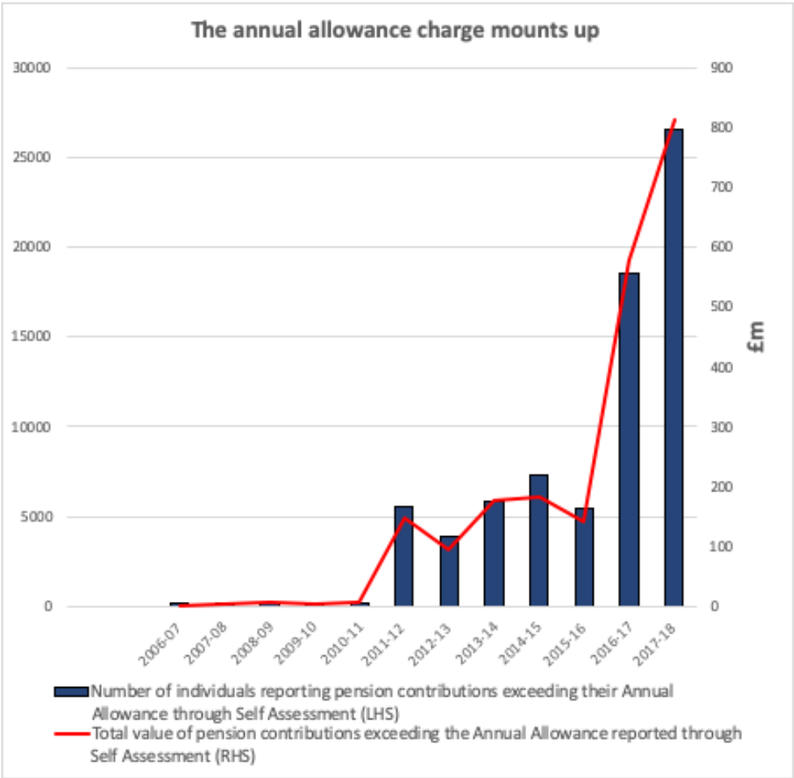
The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax or trust advice.

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



Pension allowance tax traps?

Increasing numbers of people are facing substantial tax penalties on their pensions, sometimes unexpectedly. Are you at risk of an unwelcome surprise?



The tax and national insurance contribution reliefs enjoyed by pensions cost the government £53.7bn in 2017/18, according to statistics issued by HMRC in September 2019. It is little wonder therefore that successive Chancellors have attempted to cut back on such levels of generosity.

Source: HMRC

The most recent attacks on pension reliefs have focused on two key allowances:

***• The lifetime allowance** sets the maximum tax-efficient value on all your pension benefits. The standard lifetime allowance is currently £1.055 million, after three cuts between 2012 and 2016 reduced it from £1.8m back in 2010/11. The value of pension savings above the available allowance (after any transitional reliefs) is subject to tax at a flat rate of 55% (as a lump sum) or 25% (as income).*

As of mid-November 2019, for a 65-year-old non-smoking single person, the current lifetime allowance would buy a level pre-tax pension of about £53,000 a year. Add inflation protection and the figure falls to about £29,000. That's probably not as much as you'd imagine a fund of £1.055 million would provide.

***• The annual allowance** sets the maximum tax-relievable pension contributions that can be made for you from all sources during a tax year. This is now a standard £40,000 but it started the decade at £255,000. In 2016/17 the tapered annual allowance was introduced, targeting high earners, and reducing their annual allowance to as little as £10,000.*

Personal tax relief is effectively clawed back on excess contributions over the available allowance (which can include unused allowance from the preceding three tax years). About one third of the tax payments due is collected as a deduction from the individual's pension fund, but most is reported and collected via self assessment. There is no special tax treatment for the benefits arising from these contributions, so you could receive no contribution tax relief, but still pay income tax on your eventual pension.

Complex calculations

The penal tax charges for breaching the lifetime or annual allowances were probably designed to be more of a deterrent than a revenue raiser for the Treasury. In practice, the charges have proved to be money-spinners for the government. As the graph shows, in 2017/18 over 26,500 people reported contributions exceeding their available allowance, nearly five times the number two years previously. The lifetime allowance charge raised £185m in 2017/18, virtually double what it did two years before.

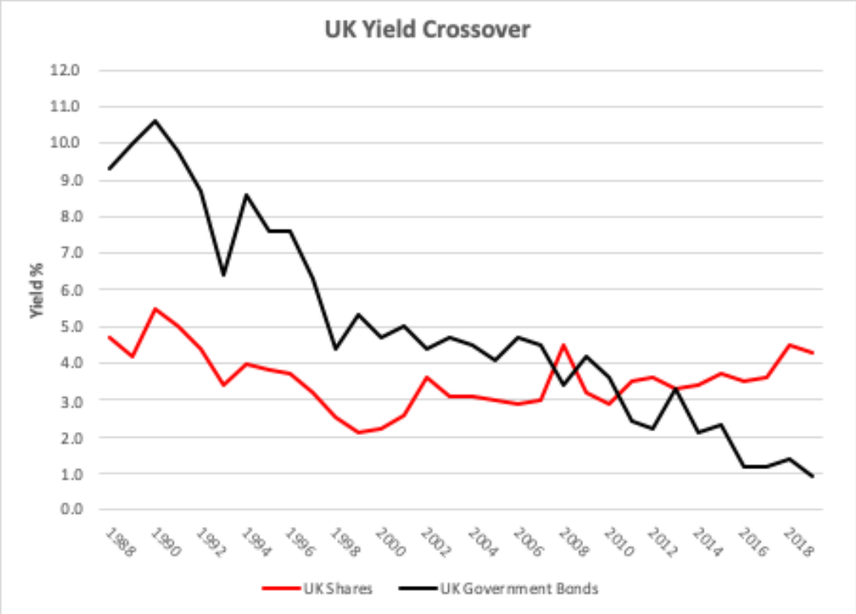
One reason why these hefty charges are being paid is the complexity of the calculations involved. For example, the amount of the tapered annual allowance cannot be accurately calculated until after the end of the tax year to which it relates.

If you may be affected by either, or both, of these pension tax charges, then it is vital to take advice as soon as possible. Ultimately, you may need to consider some additional alternatives to pensions for your retirement planning.

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice. The value of your investment 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.

Reversals of fortune – the value vs income challenge

Where can you find value in today's investment markets?



These are strange times in the investment markets. The looking glass world of negative interest rates – where borrowers are rewarded for taking out loans and savers pay interest – has become a reality in parts of continental Europe and Japan. In the UK, the Bank of England base rate has been below 1% for more than a decade. In the US, the central bank started cutting rates from a peak of just 2.25%–2.50%, set last December. The idea that interest rates would be 'lower for longer' is edging towards 'lower forever'.

Fixed interest securities (bonds) have also come under the spell of negative interest rates. At the time of writing, there were about $11.4tn of bonds, mostly government paper, offering a negative return to those investors who held them through to maturity. There was a time when an investor in bonds would look forward to a return on their capital (i.e. interest); now some cannot even expect a return of their capital.

The decline in interest rates and bond yields since the 2007/08 financial crisis has overturned some traditional relationships in investment markets. For instance, it was once the case that the longer the term of a bond, the higher the interest rate. In many countries, such as the UK, US and much of the Eurozone, the return on a 10-year government bond is now lower than the central bank's short-term interest rate.

Source: Barclays Equity Gilt Study

Another example of a norm that has been overturned is the difference in immediate income available from bonds and shares. It used to be that government bonds provided a higher income than shares because the latter offered the possibility of growth, not only of income but also capital value. The graph above shows the historic yield advantage of bonds in the UK up until the time of the financial crash.

The yield gap

Since then, the picture has changed with a marked widening in the last few years of an income yield gap favouring shares over bonds. Ten-year UK government bonds currently have a yield of under 0.8%, while the average dividend yield on UK shares is over 4.3%.

There have been similar reversals in many other world markets. Even in the US, where interest rates are relatively high, the average share yield was 1.85% in mid-November compared with 1.88% for a 10-year government bond. But the average figure can itself hide a significant difference between individual shares, as is often the case.

- ***Value shares** generally have a higher than average yield, but relatively limited growth prospects. A typical example would be a utility company; and*

- ***Growth shares** are expected to see earnings grow faster than the norm and thus carry a relatively higher than average rating (and lower yield). The classic example would be a technology company.*

In the last three years, value shares and the funds that favour them underperformed growth shares on a global basis, despite the higher dividends on offer. However, as the global economy shows increasing signs of slowing down, there could be an argument for taking a second look at the value sector. Many funds target value investing, although it is important to select the right ones.

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It won't happen to me… protecting your income

The cornerstone of good financial planning is ensuring you have sufficient income to meet essential bills. For most of us, this will be covered by our earnings. But what happens when this source is cut off?

There is no guarantee that your income will keep rolling in each month and one of the most obvious threats is redundancy. This issue has certainly made headlines recently, with household names like Tesco and HSBC laying off staff, and Mothercare and Thomas Cook going into administration.

Such high-profile cases can create concerns around your own job security. But there are other issues to bear in mind. Your earnings may be seriously reduced if you suffer ill-health, forcing you to take time out of work, or reduce hours on a more permanent basis.

It's easy to assume that this won't happen to you, particularly if you are currently fit and healthy. But government statistics show that over 100,000 people leave the workforce each year, following a period of absence due to sickness.

What protection is in place?

If the worst happens, and you are made redundant or forced to give up work through ill-health, then there is likely to be only limited financial help from your employer and the government.

For those with at least two years continuous service, statutory redundancy pay is limited to one week's pay for each year you've worked (when aged between 22 and 41), with older employees getting 1.5 weeks' pay within capped provisions. Those who are too ill to work will receive just £94.25 statutory sick pay a week for a maximum of 28 weeks. Only those in employment are eligible for these payments, although there are benefits the self-employed can claim for relatively limited protection.

However, it is worth bearing in mind these are statutory minimums: your employer cannot pay less than this, but they may provide more. Check your employment contract for details about your rights around redundancy and the company's policy on sick pay. Some employers will pay a higher amount (for example a fixed proportion of your income) and for longer.

Boosting protection levels

Regular saving is one way to create a financial cushion. But it's also possible to buy insurance to help protect your income should you be unable to work through illness or injury.

An income protection policy can cover both physical and mental health. These policies will pay out a proportion of your salary, typically 50 to 70%, until you return to work, or the end of the term or your death. Most will include a deferral period of a set time you have to be off work before you can claim. As a rule of thumb, a longer deferral period will lower premiums.

The cost will also vary depending on the type of work you do: most insurers group jobs into different 'classes' of risk, so those who do a lot of driving or heavy manual work, for example, may pay more than an office-based workers. These policies differ from critical illness policies, which pay a one-off lump sum on the diagnosis on one of a specified set of serious illnesses.

For increased peace of mind in troubled times, we can help you work out what type of protection arrangements are right for you.

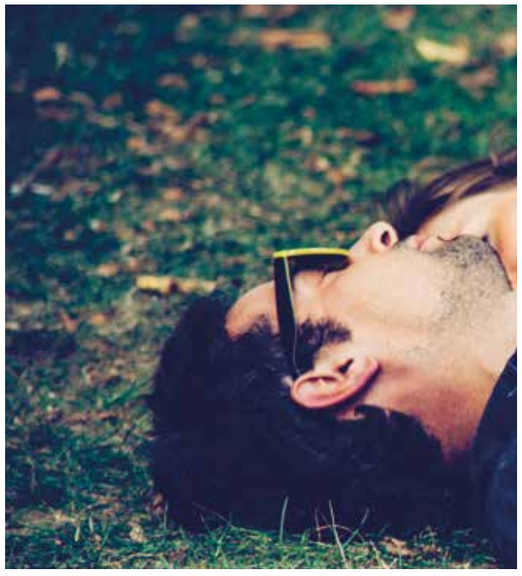
Easier being green: investing on principle

Whether it's the Extinction Rebellion protests or Greta Thunberg's speech to the UN, there has been a renewed focus on climate change in recent months and what individuals can do about it.

This has led to high profile calls for governments and institutions to divest funds away from 'harmful' industries and sectors such as oil and gas, mining and airlines, which are some of the biggest producers of carbon and other damaging greenhouse gases.

But this doesn't just apply to large organisations with millions of pounds at their disposal. Ordinary investors also have opportunities to 'green' their ISAs and pensions by reducing their exposure to carbon-heavy industries. You can choose instead to invest in companies that support and promote more sustainable strategies

Many people are changing their everyday habits as they become more environmentally aware, through reducing plastic, recycling or cutting down unnecessary car trips. If you want your investments to follow suit then there are several options — from ethical funds to ESG (environmental, social and governance)-based investments.



Ethical funds

As the name suggests, these funds take a more principled stance on investment choice. Many screen out companies, or whole sectors, that do not meet their guidelines, which will vary from fund to fund. For example, some of the oldest ethical funds stem from the Quaker movement, so may not invest in companies that sell or manufacture alcohol, weapons, tobacco or pornography.

Today many 'ethical' funds have a more environmental remit. However, while some funds will automatically exclude whole sectors such as oil and gas, others take a 'best of breed' approach, investing in those companies with better track records on issues like pollution, water waste and recycling. Those who take this approach argue it encourages companies to improve environmental standards and engage with wider issues such as climate change.

ESG investments

Funds that adopt this approach take into account environmental, social and governance factors, alongside standard financial data, when deciding whether to buy or sell a stock. This extra information can help identify future risks.

For example, companies with poor environmental track records may face fines and tighter regulation in future, affecting their appeal as a long-term investment choice. This ESG analysis also tries to identify companies that are ahead of this curve and may profit in a world which is more environmentally aware, for example, electric car manufacturers.

Like any investment decisions, these judgments may not prove to be correct with hindsight.

Many funds combine these two approaches, excluding some sectors or companies, but using ESG screening as part of their investment process.

It is easy to think the relatively small amounts we save as individuals into ISAs and pensions won't make much of a global difference. But it's worth remembering that £28.2bn was contributed to personal pensions in 2017/18 and the UK pensions industry is worth over £2tn alone. While your retirement savings are managed on your behalf, it is your money, and you can choose where it is invested. Please get in touch if you want to discuss your options.

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All change on company car tax

If you are changing your company car soon, you need to get on top of the new tax rules.

CO2 emissions have been the basis of company car taxation for over 15 years, with each new tax year usually seeing a nudge up in the scale charge for most emission levels. However, from 6 April 2020, the tax scales undergo a more radical set of changes:

• For newly registered cars, the 'real world' WLTP measure of CO2 emissions will replace the existing and largely discredited NDEC basis (which will still stand for older vehicles). WLTP emission results are on average 20%–25% higher than NDEC figures.

• For all hybrid cars with CO2 emissions of 1–50g/km, the scale charge will take account of the electric-only range.

• The scale charge for zero-emissions cars will itself be nil in 2020/21, rising by 1% a year in the next two tax years.

From January 2021, all newly registered diesel cars must meet the RDE2 emissions standard, which exempts them from the current 4% diesel surcharge.

The government has already published revised company car tax scales for the next three tax years which take account of the reforms. In 2020/21, most of the scales will begin 2% lower than originally legislated for because of the sharper than anticipated increases in emissions under WLTP.

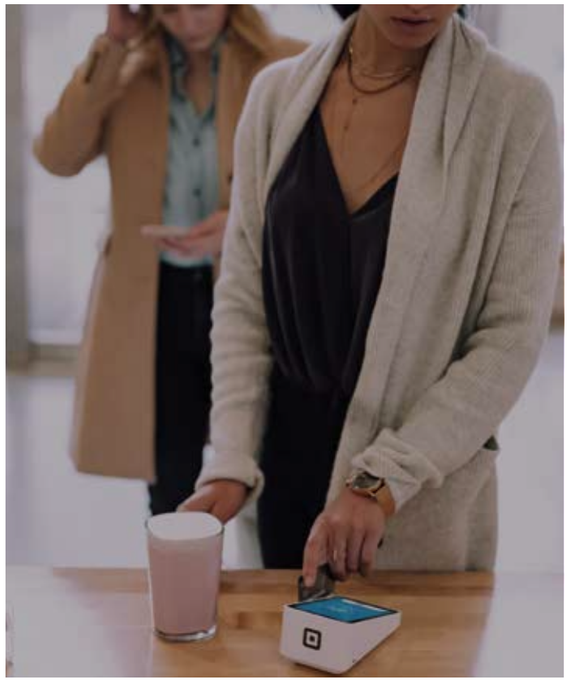
Tax laws can change. The Financial Conduct Authority does not regulate tax advice.

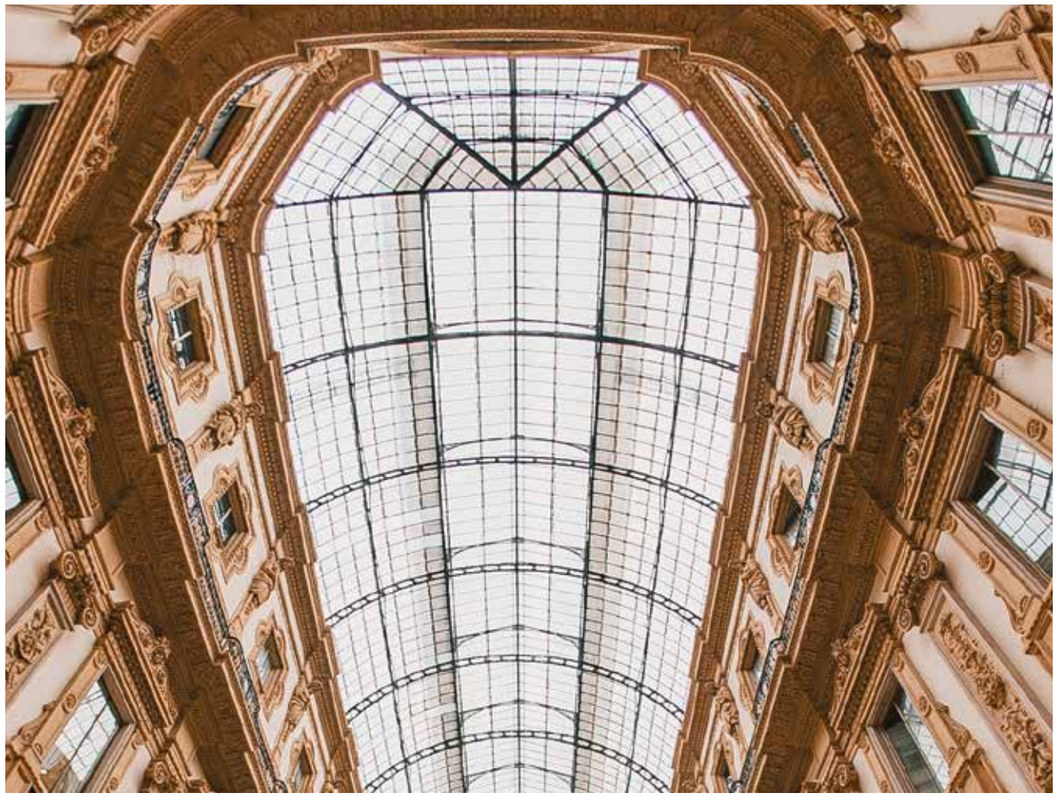
This article is for general information purposes only and for specific tax advice please refer to a tax specialist.

Five ways to develop better spending habits

Retailers understand the psychological cues that encourage us to spend and deploy them online, in their store layout, advertising and marketing campaigns. Multi-buy offers, or short-term sales such as Black Friday can create a sense of urgency and encourage impulse buying. It can be hard to resist, even in straitened times.

Shrewd shoppers can deploy some simple strategies to help them spend wisely and save more.





Prioritise saving: Move money into your savings account or ISA before you have time to spend it. A simple direct debit going out on pay day is a great first step towards adjusting your spending habits. Set a budget on spending and stick to it.

Pay in cash: Leave your debit and credit cards at home and take cash instead. Studies have shown paying in plastic reduces the 'pain' of paying, because it feels less like 'real' money. Contactless payments can make spending even more 'painless'. Brain scans have shown the 'pleasure' regions of the brain are associated with purchases made on plastic, but both 'pleasure' and 'pain' light up for those paying in cash.

Don't shop until you drop: Avoid hitting the shops when you're tired, which reduces your ability to focus and make logical decisions. Long shopping trips, or hours browsing online, just add to this fatigue, and undermine your willpower when trying to make sensible purchasing decisions.

Take your time: Do you really want or need that item? When shopping online, simple steps, like disabling 'one-click' purchasing and deleting saved cards details on your computer can create useful delay. Better still, keep your wallet in another room when browsing. Even small hurdles like this can nudge us away from an online purchase. Waiting at least 24 hours – or better still a week – before buying also gives you time to shop around on price.

Clear out 'cookies': Delete these regularly to avoid being bombarded with ads for items you've been browsing online. These constant reminders can wear down the resolve of even the most careful shoppers.

Once you get into the habit, it'll be easier to keep that New Year's resolution to save more and spend less...

Still holding a cash ISA?

Does a cash ISA still make sense?

The most recent ISA statistics from HMRC show that in April 2018 over £270m was invested in cash ISAs which represents around 44% of the total adult ISA funds.

Whether that is a sensible use of the tax advantages offered by ISAs is a moot point. The introduction of the personal savings allowance in 2016/17of £1,000 for basic rate taxpayers or £500 for higher rate, means that most savings interest no longer attracts tax. Add to that the lowly cash ISA interest rates – NS&I pays only 0.9% – and if you still have a cash ISA, you may want to consider transferring it to the stocks and shares version.

A stocks and shares ISA is a medium to long term investment, which aims to increase the value of the money you invest for growth or income or both. The value of your investments and any income from them can fall as well as rise. You may not get back the amount you invested. Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.

A time for giving

Christmas card donation

Christmas is not only a time for celebrations, spending time with loved ones and an annual resurfacing of your questionable Christmas jumper, it's also a time for giving. That is why in lieu of Christmas cards in 2019, we made a donation of £250 each to two deserving charities.

Firstly, Ruddi's Retreat is a fantastic local charity which helps families with seriously ill children have access to a free holiday home. The respite they provide to these families has touched the hearts of many of us here at Eastwood Financial Services.

Secondly, Tommy's is an incredible national charity which funds research into miscarriage, stillbirth and premature birth. This provides invaluable support to those suffering from bereavement and also offers pregnancy health information to expectant parents.

Rotary Christmas Shoebox Appeal

As always, we loved taking part in the Rotary Christmas Shoebox Appeal alongside our sister companies. The filled shoeboxes will enable the Calderdale Rotary Clubs to pass out thousands of presents to those who might otherwise receive little.

£32,000 raised at KACCL!

We were once again delighted to have a table at the 2019 Kirklees and Calderdale Christmas Lunch (KACCL) lunch, and what an amazing event it was! A phenomenal £32,000 was raised that will be shared between the Orange Box Young People's Centre and the Forget Me Not Children's Hospice. Over the past 4 years, KACCL have now raised over £100,000!

Christmas jumper day

You've got to love a Christmas jumper, and we had quite a few in the office on 13 December! We celebrated with a general fundraising day in aid of Save the Children and the Overgate Hospice, and lucky Tim Ball won the sweepstake!

Children In Need

Organised by Helen Smith, Paraplanner, the Eastwood Financial team also took part in Children in Need. Using staff photos, we held a 'guess the baby' quiz and raised £85 for the charity.

Employee of the month

October

Well done to Sean Flather, our Trainee Administrator, for making an outstanding start in his new role. Not only has he done a great job of working on several protection applications in quick succession, his eagle-eyed attention to detail meant that fund switches were processed as smoothly as possible. Keep up the good work, Sean!

November

Congratulations to Ian Devlin, Employee Benefits Consultant and Liz Allerton, Corporate Services Senior Administrator for being our Employees of the Month for November!

Ian was nominated for organising the secret Santa and the Christmas jumper day. Even though he's cost the team money on both occasions!

Liz received the runner up award based on the fantastic feedback received from one of our clients. 'Thank Liz for us. It's a pleasure to deal with her and she makes my life so much easier by dealing with everything for me'.

Healthy Eating

Our healthy office initiative is in full swing, especially after all that indulgence over Christmas. As a result, the fruit box that is delivered by Fruitful Office to the office a few times a week is definitely going down well!

Talented Tim!

We are delighted to be able to share this amazing photo of the Calder & Hebble Navigation. This was taken down by Cromwell Bottom Nature Reserve, Brighouse, by one of our Independent Financial Advisers, Tim Ball. What a talent!

Giving you financial freedom

Eastwood Financial Services is committed to offering independent, careful and comprehensive financial planning to both businesses and private clients.

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