

# Bulletin

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## Pros and cons of joint finances

*There are benefits and risks for couples who decide to manage their money together.*

Many couples maintain independent finances, but operate one or more joint accounts to cover bills or for savings, according to the Money Advice Service. But differing attitudes to spending and saving can be a source of tension.

Once you buy a home together, or just open a joint account, your finances become inter-linked. You will then be 'co-scored' when applying for credit, and a partner's poorer credit score can impact on your rating. If you have a shared mortgage or loan, you will also be liable for the whole debt if your partner can't, or won't, contribute to the repayments.

### Switching investments

Where one partner is a basic rate taxpayer or non-taxpayer and the other pays income tax at a higher rate, it could be worth switching savings or investments to the lower earner to reduce the overall tax payable. Husbands, wives and civil partners can normally transfer assets freely between each other without incurring tax on any gains realised by the gift.



*Once you buy a home together, or just open a joint account, your finances become inter-linked.*

Higher earners can choose to contribute to the pension of a lower-earning spouse, with the amount of tax relief available the greater of £3,600 or their relevant UK earnings. This could help couples make best use of both of their personal allowances for income tax in retirement.

One word of warning: if an account is also in a partner's name, they are then legally entitled to the money. Trust is key. Couples must be comfortable discussing their finances.

Your home may be repossessed if you do not keep up repayments on your mortgage.

✦ The value of an investment with St. James's Place will be directly linked to the performance of the funds you select and the value can therefore go down as well as up. You may get back less than you invested.

The levels and bases of taxation, and reliefs from taxation, can change at any time. The value of any tax relief depends on individual circumstances.

### SarahQuirk Wealth Associates

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### WELCOME TO ISSUE FOUR OF OUR QUARTERLY NEWSLETTER

We have now moved offices:  
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What a change we are seeing on the world stage and who knows what the future holds. The only certainty is that we cannot change this, but what we can do is to adapt if it affects us. Interesting times!!



**Sarah Quirk**  
Managing Director,  
SarahQuirk Wealth  
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The Partner Practice represents only St. James's Place Wealth Management plc (which is authorised and regulated by the Financial Conduct Authority) for the purpose of advising solely on the Group's wealth management products and services, more details of which are set out on the Group's website at [www.sjp.co.uk/products](http://www.sjp.co.uk/products). The 'St. James's Place Partnership' and the titles 'Partner' and 'Partner Practice' are marketing terms used to describe St. James's Place representatives.

PENSIONS

# Pension contributions offset tax gains

*Contribution rates for workplace pensions went up in April 2018. For many employees, the increases will wipe out the gains from tax changes for 2018/19.*

Auto-enrolment began in 2012 with existing employers joining the scheme until February 2018. As a result, the number of people with a workplace pension has risen by nearly a quarter according to data on 8 May from the Office for National Statistics. The next step is an increase in contribution rates from 6 April, with another rise in 2019/20.

For example Jessica, an English resident employee earning £35,000, will save £70 of income tax in 2018/19 from the increase in the personal allowance. She will also save £31 of national insurance contributions (NICs) because of the increased NICs thresholds. However, her net of tax pension contributions will rise by £462, so Jessica's net income will have dropped by £30 a month in 2018/19.



Of course, this money is not lost. It is invested in a pension, meaning there will potentially be more funds available in retirement.

### Further changes

Looking to the future, the government wants to lower the starting age to 18 and it also aims

Contributions	17/18	18/19	19/20
Employer minimum	1%	2%	3%
Employee*	1%	3%	5%
Total minimum	2%	5%	8%
Earnings band	£5,876 to £45,000	£6,032 to £46,350	TBC

*\* If the employer pays the total minimum contribution or more, the employee will not need to pay any contributions, unless their scheme rules require it.*

to ensure contributions are paid from the first pound earned, although probably not until the mid-2020s.

✚ The levels and bases of taxation, and reliefs from taxation, can change at any time. The value of any tax relief depends on individual circumstances.

The value of a pension may fall as well as rise. You may get back less than the amount invested.

PROTECTION

# Reduced protection for mortgage payments

*What would happen if you were unable to pay your mortgage?*

Changes to the government's scheme supporting people unable to make their mortgage repayments – Support for Mortgage Interest or SMI – could have significant consequences for struggling home-owners. From 6 April 2018 SMI ceased to be a benefit payment and became a loan secured against the mortgaged property.

That SMI loan carries interest which is rolled up at a rate linked to government borrowing costs, detailed on GOV.uk (currently 1.5% as at 18 June). It becomes repayable if the recipient moves home, dies or transfers the property in any way. SMI only helps to pay a claimant's mortgage interest – no support is given for the capital repayments of the amount borrowed.



Before the changes SMI was a means-tested social security benefit. Under the new rules, SMI:

- Covers a maximum mortgage amount of £200,000, a figure set in 2009.
- Pays a 'standard rate' of interest, currently 2.61% as at 18 June, (detailed on GOV.uk) based on Bank of England average mortgage rate data. This means the interest on many mortgages will not be fully covered.
- Payments generally only begin after a waiting period of 39 weeks (13 weeks prior to April 2016).

### Reduced protection

The new form of SMI will leave recipients with a debt to pay, so it could be wise to arrange your own cover. You may not have such protection in place, particularly if your mortgage is more than two years old and started when the waiting period was thirteen weeks. If so, it may be time to review your mortgage protection arrangements.

✚ Your home may be repossessed if you do not keep up repayments on your mortgage or other loans secured on it. Think carefully before securing other debts against your home.

INVESTMENT

# Don't forget the FSCS safety net

*The Financial Services Compensation Scheme (FSCS) offers a vital safety net for savers.*

This government-backed scheme protects the first £85,000 of savings if a bank or building society collapses.

This doesn't just apply to UK-based institutions like Lloyds or Nationwide. Banks outside the European Economic Area that offer savings products in the UK have to sign up to this scheme.

European banks can offer 'passport' arrangements to their own safety net schemes. These offer broadly the same level of cover, but savers would have to apply via that country. However, in practice many are full members of the FSCS.

The £85,000 limit covers all brands under the same banking license. So, if you have money in accounts with both Halifax and Bank of Scotland – part of the same group – make sure the total doesn't exceed £85,000 to ensure maximum protection.

The limit applies per person, so joint accounts are protected up to £170,000.

## SAVINGS

## Which ISA is right for you?

*You can maximise your tax-efficient savings through a range of Individual Savings Accounts (ISAs) – and the earlier you start, the better.*

You can invest up to £20,000 in the 2018/19 tax year under your ISA allowance using a mix of different types. Each has its own rules including limits, investment vehicles and access.

### Regular ISAs

An ISA is a tax-wrapper, through which you can invest in cash, stocks and shares, or a mixture. You don't pay UK tax on interest earned on cash, or on income or capital gains derived from funds or other investments in a stocks and shares ISA. Nor do you have to include these accounts on a self-assessment form. There are no general restrictions on when you can withdraw funds, but special terms may apply for individual providers – for example with fixed-rate cash ISAs.

### Innovative Finance ISAs

This ISA allows investment in peer-to-peer lenders or crowdfunding activities. These may offer attractive interest rates, but be aware that these higher-risk investments are not covered by the Financial Services Compensation Scheme.

### Lifetime ISAs

You can put up to £4,000 a year into a Lifetime ISA and receive a 25% government-funded bonus, but you must be under 40 when you start. You can contribute until your 50th birthday. The funds can be used to help buy your first home or save for retirement and there are investment and cash options.

If you withdraw funds before the age of 60, and are not buying your first home, there will be a withdrawal charge equivalent to 25% of the amount you withdraw, unless you are terminally ill.

### Help to Buy ISAs

These cash accounts are for first-time buyers, but you can only open a new one until November 2019. You can save up to £200 a month, and an extra £1,000 in the first month. The government adds a 25% bonus, up to a maximum of £3,000, in addition to any interest earned. There are no age restrictions on starting, but you will lose the bonus if you use the savings for other purposes.

### Junior ISAs

Parents and others can save up to £4,260 tax free for a child, each year. Junior ISAs (JISAs) work in a similar way to regular ISAs, with cash and investment options available. The key difference is that the child cannot withdraw funds until their 18th birthday. At this point they can convert it into a regular ISA.

Contributions to JISAs are in addition to your main ISA allowance. It's a great way to help a child build up assets for the future.

✦ The value of an ISA with St. James's Place will be directly linked to the performance of the funds selected and may fall as well as rise. You may get back less than you invested. An investment in a Stocks and Shares ISA will not provide the same security of capital associated with a Cash ISA.

The favourable tax treatment of ISAs may not be maintained in the future and is subject to changes in legislation.

Please note that Innovative Finance ISAs, Lifetime ISAs and Help to Buy ISAs are not available through St. James's Place.



*An ISA is a tax-wrapper, through which you can invest in cash, stocks and shares, or a mixture.*

## INVESTMENT

## UK dividends continue to perform

*UK dividend yields are better than you might imagine.*

Dividends have been rising. UK companies paid out £94.4 billion in dividends in 2017, a 10.5% increase over the previous year, according to Link Asset Service's UK Dividend Monitor Q4 2017. The increase for 2018 is expected to be markedly smaller, as last year's payouts benefited from exchange rate gains that are unlikely to be repeated.

Nevertheless, UK shares are well worth considering if you are looking for income from your investments. The overall dividend yield for the UK stock market is currently about 3.6%, with shares in the FTSE 100 offering an average yield of 3.7% based on FTSE market data on 22 May, part because of the rise in dividends and the fall in share prices since the start of the year. And don't forget personal tax on dividends is less than on interest.

For advice on fund selection don't just look for the highest yield, talk to us.

✦ An investment with St. James's Place will be directly linked to the performance of the funds selected and the value may therefore fall as well as rise. You may get back less than you invested.

The levels and bases of taxation, and reliefs from taxation, can change at any time. The value of any tax relief depends on individual circumstances.

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.

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INVESTMENT

# Interest rates are set to rise

*The Bank of England is indicating the interest rate will increase in the coming months, so it may be a good time to review your investments.*

The Bank of England held the interest rate at 0.5% in May, but at the press conference for this decision its Governor, Mark Carney, reiterated that rates will probably need to increase if the inflation goal is to be met. Interest rates are already increasing in the US, with further rises expected in 2018.



Rates taken from Federal Reserve and Bank of England figures

The economists' term for what is happening is 'normalisation'. For the rest of us, it is a steady increase in interest rates.

The Federal Reserve, the US central bank, has been raising rates since December 2015. Despite threats to do the same, the Bank of England cut rates in August 2016, after the Brexit vote, but then reversed that change last November.

**Impacts**

Increases in short-term interest rates could have a variety of consequences:

- The values of fixed interest securities, such as government bonds (gilts), could fall. Much will depend upon how long-term interest rates react - these do not necessarily follow the short-term path.
- Share values could fluctuate further. Rising interest rates usually benefit banks, while companies that borrow heavily can suffer.
- The value of commercial property could come under pressure, although rental yields are currently above those available from gilts.



It may make sense to review your investments now in preparation for rising interest rates.

✦ An investment with St. James's Place will be directly linked to the performance of the funds selected and the value may therefore fall as well as rise. You may get back less than you invested.

An investment in equities does not provide the security of capital associated with a deposit account with a bank or building society, as the value and income may fall as well as rise.

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.

TAXATION

# Stuck in frozen tax thresholds?

*The value of key tax thresholds is being eroded as elements of the income tax system lag behind inflation.*

Three key thresholds relating to income tax have been subject to this treatment:



■ **High income child benefit tax charge**  
This tax charge, introduced in January 2013, claws back child benefit at the rate of 1% for each £100 of income over £50,000 (based on the higher of the two parental incomes). That £50,000 threshold has not changed since its introduction.

■ **Personal allowance tapering** The personal allowance is reduced by £1 for every £2 you earn over £100,000, and has not been revised since it was introduced in 2010.

■ **Additional/Top rate tax starting point**  
The additional tax rate started in 2010/11 with a threshold of £150,000. Whilst it has since been reduced from 50% to 45%

(46% in Scotland), the threshold has not increased.

You can limit the effect of these income-driven thresholds by reducing the income being measured. For example, you may be able to transfer investments to your spouse or civil partner, or use personal pension contributions to reduce your income for tax purposes.

ISAs and some other investment products can also shelter your income and prevent it counting towards thresholds.

As it is early in the tax year, there is more scope for reducing the effect of these freezes in 2018/19, with professional advice.

✦ Levels and bases of taxation and tax reliefs are subject to change and their value depends on individual circumstances.

PENSIONS

# Pension scams and cold calling

*Be wary of cold-callers who offer a 'free' pension review – it could cost you more than you think.*

Cold-calling has increased since pension freedoms were introduced in 2015 according to research using 2017 data from Ofcom and the Information Commissioner's Office (ICO) published by Aviva in January 2018, including from fraudsters who want people to move pensions into unregulated investments.

The government has proposed legislation banning these calls, but this has yet to take effect. The research quoted government figures published on 20 August 2017 suggesting pension savers have lost more than £43 million through such scams. Pensions transfers potentially put your savings at risk, and if you are under 55 you may face additional tax charges. Some cold-callers aren't trying to pocket your pensions savings, but may recommend higher-charging pensions, from which they receive an 'introducers' fee.

Please get in touch if you want to review existing pension arrangements.

✦ The levels and bases of taxation, and reliefs from taxation, can change at any time. The value of any tax relief depends on individual circumstances.