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Your **Wealth** Winter Q1 2023

Your investment focus for 2023

By any comparison, the past 12 months have been tough for investors with a series of shocks impacting markets and, as 2023 dawns, uncertainties remain. One constant on the investment horizon, though, is the requirement to be strategic with your portfolio. A sound strategy based on careful planning; making purposeful decisions, based on thorough research and reliable processes, will stand you in good stead.

Last year saw markets struggle with bouts of volatility as a combination of high inflation, rising interest rates and the war in Ukraine brought about challenging headwinds and markets sought a stable footing. As a result, fund inflows slowed while cash as a percentage of investors' portfolios rose, prompting warnings that investors need to be aware of limitations to the Financial Services Compensation Scheme (FSCS) for cash balances.

Identifying opportunities

With large amounts of money on the sidelines, using our knowledge, we aim to identify opportunities and position portfolios to benefit from recession-resistant companies in which we have conviction. Those who still have the capacity to invest should consider adding back to their portfolios in order to take advantage of any potential low valuations.

Battling inflation

Investors also need to be aware of the erosive impact of inflation on cash-based savings. In the current economic climate, anyone holding a significant proportion of their assets in cash, even with savings rates improving, will inevitably see the value of their wealth decline in real terms. In essence, equities offer a better potential defence in the battle with inflation.

Trust in our process

Experienced investor or not, staying calm during periods of market turmoil is never easy but adapting your mindset and focusing on investment strategy rather than market sentiment is vital. Investing in the stock market does clearly involve a level of risk but the adoption of a carefully considered strategy based on sound financial planning principles undoubtedly offers investors the best chance of success.

Reminder – tax year end

As the end of the tax year approaches, a prime consideration should be how external factors such as reduced or frozen allowances, together with high inflation, could impact your finances and what action you need to take before 5 April 2023.

If you are affected by the impending changes to Dividend Tax or Capital Gains Tax (CGT) announced in the Autumn Statement, have you considered investing up to £20,000 this tax year in a stocks and shares Individual Savings Account (ISA)? From April 2023, the Dividend Allowance will be cut from £2,000 to £1,000 and then fall further to £500 from April 2024. In addition, the annual CGT exemption will fall from £12,300 to £6,000 next tax year and then to £3,000 the following tax year. Dividends received on shares within an ISA are tax free and won't impact your Dividend Allowance. Also, any profit you make when selling investments in your stocks and shares ISA is free of CGT.

And don't forget your pension

Both the Annual Allowance and Lifetime Allowance are frozen, at £40,000 and £1,073,100 respectively. As these allowances haven't increased with inflation, it effectively means those saving to the maximum extent possible with tax concessions can save less in real terms each year.

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Inside this issue

IN THE **News**

Hold your nerve

Recent research[1] reveals women are more likely to hold their nerve and avoid crystallising a loss when the market dips. Almost half of men (48%) have sold investments at a loss when they've dropped in value, in an attempt to stem their losses, while just 38% of women have done the same. Such impatience could prove to be costly. The research estimates (based on £10,000 invested in 1992, adding 10% of average salary and reinvesting dividends until 2022) that the real cost of 'impatient' investing over 30 years could amount to nearly £200,000!

And the best place to retire is...

Retiring abroad is a much-desired goal for many, particularly for an improved lifestyle. Croatia currently tops the list of the best countries to retire in, due to a better cost of living when compared with the UK – rent costs and the price of day-to-day living is nearly half that versus the UK[2]. Croatia also scores highly due to the ease of getting there from the UK, with relatively cheap average flight costs meaning that friends and family can visit and flying back to the UK is also convenient. (Relocation to some countries may mean forgoing future annual increases to State Pension.)

[1]Alliance Trust, 2022, [2]Penfold, 2022

Global growth

The International Monetary Fund (IMF)[3] has predicted a challenging 2023, reducing growth expectations and forecasting economic contraction in a third of the world, in its latest World Economic Outlook entitled *'Countering the Cost-of-Living Crisis.'*

With the cost-of-living crisis *'tightening financial conditions in most regions'*, the outlook suggests that in order to restore price stability, monetary policy should stay the course and fiscal policy should aim to alleviate pressures *'while maintaining a sufficiently tight stance.'*

The global growth rate for 2023 has been revised down from previous expectations to 2.7%. This reflects *'significant slowdowns'* for the largest economies as America's gross domestic product (GDP) contracted in the first half of 2022, followed by the Euro area's contraction in the second half of last year, and prolonged COVID-19 outbreaks and lockdowns in China. Closer to home, the IMF predict growth of 3.6% in 2022 and 0.3% in 2023 for the UK.

[3]IMF, 2022

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Dividend news

According to the latest Dividend Monitor[4], driven by sterling weakness, 2022 headline payouts are expected to rise to £97.4bn, up 11.0% on an adjusted basis, with underlying dividends expected to rise 13.4% to £87.2bn. The provisional forecast for UK dividends in 2023 anticipates a slight drop in headline dividends but modest underlying growth.

Looking ahead, Ian Stokes, Managing Director of Corporate Markets UK and Europe at Link Group commented, *"For 2023, we expect a further reduction in mining dividends and likely lower one-off special dividends but outside the mining sector there is still room for payouts to rise, even with a weakening economy. Our provisional 2023 forecast suggests a slight drop in headline dividends to £96bn and a slight increase in the underlying total to £89bn. This implies no change in our expectation that UK payouts will only regain their pre-pandemic highs some time in 2025."*

[4]Link Group, 2022

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Saving for their future

With the current generation of graduates typically leaving university with a mountain of debt, it is perhaps unsurprising that so many parents are now looking to ease the burden by investing on their children's behalf.

University challenge

Government statistics show the average debt accumulated by a university student is currently around £45,000. Thankfully, graduates only start repayments when their earnings hit a certain threshold and, at the moment, loans are written off after 30 years however much debt remains. As a result, some students will never pay back their loans in full.

Increasing debt burden

Many students, though, do repay all of their debt, and recent reforms to the loans system means many more will do so in the future – government forecasts suggest that, from next year, over half of students will repay their loans in full. This inevitably places an even greater burden on future graduates' shoulders, both as they enter the world of work and, potentially, throughout their entire careers.

Giving your children a helping hand

Most parents are keen to help their children fund university and many do so by investing on their behalf through a stocks and shares Junior ISA (JISA). While there are risks with stock market investments, historically they have performed better than cash-based savings and consistently delivered above-inflation returns. The annual JISA allowance is currently £9,000 per child which, for anyone who starts saving early, can grow to a sizeable tax-free lump sum. Smaller amounts can mount up too, particularly when combined with contributions from other family members.

Peace of mind

Investing on a child's behalf can make a huge difference to their future, whether they decide to go to university or put the money towards something else. It also provides parents with the comfort of knowing they are giving their children the best possible start to adult life.

Beat the tax chill

Following his controversial 'stealth tax' Statement in November, the Chancellor made a raft of key personal taxation and pension announcements.

The government pledged its commitment to the pensions Triple Lock, which will increase the State Pension in line with September's Consumer Prices Index (CPI) rate of 10.1%. This means that the value of the basic State Pension will increase in April 2023 from £141.85 per week to £156.20 per week, while the full new State Pension will rise from £185.15 to £203.85 per week.

Then came some 'stealth' announcements set to pull people into paying higher rates of tax, more people paying IHT, a cut to tax-free earnings from dividends and a reduction in CGT allowances.

In addition to the Dividend Allowance and CGT allowance reductions (as per 'Tax year end reminder' article) and IHT freeze (see page 4), other key personal tax announcements included:

- The Income Tax additional rate threshold (ART) at which 45p becomes payable will be lowered from £150,000 to £125,140 from 6 April 2023. The ART for non-savings and non-dividend income will apply to taxpayers in England, Wales and Northern Ireland. The ART for savings and dividend income will apply UK-wide. This move is set to push 250,000 more people into this band
- The Income Tax Personal Allowance and higher rate threshold are to remain at current levels – £12,570 and £50,270 respectively – until April 2028 (rates and thresholds may differ for taxpayers in parts of the UK where Income Tax is devolved).

With an increasing number of people likely to be impacted by these changes, we can't stress enough the importance of tax year end planning. Although some of these changes don't come in with immediate effect, it is vital to ensure you are in the best place possible to take advantage of any allowances, exemptions and reliefs available this year and to prepare for the changes that come in over the next few years. With plenty to consider and factor into your financial plan, valuable financial advice remains central to achieving your goals and aspirations.

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Estate planning – take control

Inheritance Tax (IHT) is once again in the spotlight following the Chancellor's decision to freeze IHT thresholds for a further two years until April 2028. Extending the frozen thresholds, together with rising house prices and soaring inflation mean that more estates are likely to be affected.

IHT receipts on an upwards trend

The latest IHT figures released in October make interesting reading. Total HM Revenue and Customs (HMRC) receipts for April 2022 to September 2022 were £3.5bn, £0.4bn higher than in the same period last year.

Not just a tax on the very wealthy

IHT is a tax payable on all your assets when you die and potentially on some gifts you make during your lifetime. If the estate is liable for IHT, it is usually payable at 40%. These days, you don't have to be hugely wealthy to be affected by IHT – the hated tax can cost your estate thousands of pounds when you die.

A reminder of the thresholds

An individual's current threshold, or nil-rate band, is £325,000. A couple (married or civil partners) has £650,000. Any unused nil-rate band can be passed to the surviving spouse or civil partner on death.

In 2017 the government introduced an additional nil-rate band when a residence is passed on death to a direct descendant. The main residence nil-rate band is £175,000 and when added to the existing threshold of £325,000 could potentially give an overall allowance for individuals of £500,000.

To reduce the amount of IHT payable, many families consider giving assets away during their lifetime. Some gifts will be automatically free from IHT; for example, £3,000 each financial year, certain wedding gifts and gifts to charities.

Getting the right balance between gifting money during your lifetime and ensuring you have enough for your future years requires careful planning. Expert planning can legitimately mitigate IHT, meaning you can pass on assets to your family as you'd intended.

Retirement reboot?

Nowadays there are more choices open to you than ever before. This means there are more things you need to consider and have a plan for, like how to manage your finances to provide the income you'll need to live on, how you'll transition into full retirement and what lifestyle you want to enjoy in your later years.

We're all leading busy lives and with cost-of-living financial pressures intensifying, it's understandable if retirement plans have been placed on the back burner. If you are keen to revisit your plans and get them back on track so you can relax and fully enjoy your retirement years, the new year is the perfect time to act, so please do get in touch.

If you would like any advice or information on any of the areas highlighted in this newsletter, please **get in touch**.

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