FIVEWAYS
FINANCIAL PLANNING

Winter 2020

FINANCEMINISTER

YOUR JOURNEY OUR GUIDANCE

A warm welcome to Dawn Richards clients

We are pleased to extend a warm welcome to clients of Dawn Richards, whose business has been acquired by FiveWays. Dawn has been forced to retire much earlier than expected for medical reasons. We have spent months with her agreeing all the details of the changeover.

Like Dawn, our emphasis at FiveWays is on personal service and continuity of your relationship with your adviser, so we hope that in most respects it will feel like not much has changed for Dawn's 200 clients.

Our move to new offices in December, and recent increases in our administration and support staff, mean we can manage the additional clients without compromising service standards. Clients who have come to the offices for review meetings like our new meeting rooms with large wall-mounted TVs, which make it easier to see the big picture financially.

Gains tax blow for property owners

A change in the rules on gains tax payable on the sale of buy-to-let properties and second homes is expected to lead to confusion for those affected, leaving them open to fines and penalties.

Up to the end of the current tax year on April 5th, people who sell homes that do not qualify as tax-free (normally only your main residence is tax-exempt) pay any capital gains tax between 10 and 22 months after the sale. This is because the gain is dealt with under the self-assessment system.

But from 6th April 2020 this changes, under a measure that has already been deferred from 2017. Gains on the sale of relevant properties have to be declared and the tax paid within 30 days of the sale. Tax experts are predicting a lot of confusion and many people missing the deadline. Six months' delay will cost you 5% of the tax due or £300, whichever is greater -- and the penalty repeats at the end of 12 months.

The reason problems will arise is that to work out the gains tax that is due you will need exact records of all the costs you are entitled to set against the profit in order to establish the taxable gain. If you are entitled to a tax reduction because you lived in the property for part of the time you owned it, you have to work this out as well. And then there is the issue of whether you have made - or will make - other gains in the same tax year, or perhaps losses which will reduce the tax you would have to pay.

All of which means that working out a correct figure within 30 days is not going to be easy.

If you are considering sale of such a property, it's worth noting that if the contract is signed by 5th April 2020, then the tax bill will be settled under the old rules.

Also worth noting for Buy-To-Let owners is that from 6th April 2020, mortgage interest is no longer deductible from rental profits, and the 'final exemption period' you can use to lower gains tax liabilities on a sale reduces from 18 to 9 months.

Save on foreign spending

How much do you spend abroad each year? For many of our clients who travel overseas twice or more each year, it could be over £5,000 by the time you add in all the costs you actually pay while abroad: travel, car hire, accommodation, restaurants, shopping, excursions, etcetera. If you're not already doing so, it's worth using specialist debit and credit cards to cut down on the transaction and exchange costs. Assuming typical UK bank exchange rates (poor) and transaction costs (usually 1.75%), the saving on £5,000 of spending could top £250.

Not many people want to carry wads of cash around abroad. And exchange rates for buying physical currency range from poor to diabolically bad (airport exchange booths). Most people prefer to use plastic. Banks typically make a transaction charge on the use of debit cards for purchases abroad, usually 1.75%. On top of this they collect a profit margin by using worse exchange rates – in some cases 10% worse - than you can get in the open market. And they charge fixed fees for cash withdrawals.

As for credit cards, the norm is a 1.75% charge on all transactions. If you opt to pay in sterling with a UK credit card in Europe, you will get the normal Visa or Mastercard sterling-euro rate, which will probably be better than the one your bank uses on a debit card. But when using a UK credit card, do not opt to pay in local currency such as euros, an option now offered by many retailers. In this case, a worse exchange rate will build in a bigger profit for the credit card's merchant partners.

So, how can you avoid these charges and keep that £250 for yourself? Essentially there are two options: prepaid cards and credit cards. Both use the Visa or Mastercard networks and embody chip-and-PIN and contactless payment.

With a prepaid card, you load the card by making a sterling transfer to it, which is translated into your chosen currency (like euros) immediately using much more favourable exchange rates. You can then use the card both to pay for goods and to withdraw cash from ATMs. There is usually no transaction fee on spending, but there is a fixed fee for ATM withdrawals.

Prepaid pioneer

Caxton's FairFX card was an early pioneer and is simpler than more recent cards that use mobile phone app technology. Its euro- or $-denominated cards are easy to set up and use; you can make transfers to the card with a UK bank debit card. The ATM fee is 1.50 euros or $2, so it pays to make larger less frequent withdrawals.

More recent entrants to the market have converted prepaid into something more like a bank account.

Prepaid with apps and banking

Revolut is the millennials' choice. It has a very smart app but more importantly it has the best foreign exchange rates uses interbank rates without any profit margin. Revolut incurs no risk because it settles currency transactions instantly, which is why it charges a commission of 0.5% to 1% on currency transactions made at weekends when it cannot trade, a charge you should be able to avoid.

The clever app enables you to do things like settle a restaurant bill for a group and have each person's revolut account debited by their share of the bill. The app will even send a text message to those in the party who don't have a revolut account that includes a link they can use to make a payment with another card. And millennials love its budgeting analysis which can tell them how much they have spent on avocados this month.

Transferwise is a 2011 start-up that now claims 6 million customers. Like revolut and Caxton, it is authorised by the FCA (many transfer services are not). Transferwise's Borderless Account gives you a Mastercard linked to an account in which you can transfer money into 36 currencies.

So before boarding your flight from Paris to New York you could convert your balance from euros to US dollars, and then transfer to Ozzie dollars before you leave Los Angeles for Sydney. Transferwise uses peer-to-peer technology so that money never actually crosses borders, which enables it to avoid many of the cost and delay traps in conventional banking systems. Its exchange rates are competitive (not quite as good as revolut's) but all its fees are transparent.

A UK banking newcomer, starling, offers its own card with good exchange rates. It's a debit card but if you choose to set up an overdraft when you open the account, you'll be able to spend up to that limit, not just what you have put into the account.

Credit card for consumer protection

The main reason for using a credit card abroad is that on purchases over £100 you get the same (Section 75) consumer protections as you do on card purchases in the UK.

Most UK credit cards use normal Mastercard or Visa exchange rates and levy a 1.75%, or even up to 2.25%, charge on top. The best card for dodging this is Halifax Clarity, with no transaction charges. It doesn't even charge for cash withdrawals, though you will pay interest on these, so you should regard this feature as simply an emergency fall-back.

All these operators have fast-response teams on dedicated phone numbers to cancel lost or stolen cards ...

Best exchange rates: revolut
Best worldwide prepaid card: Transferwise
Best credit card for use abroad: Halifax Clarity

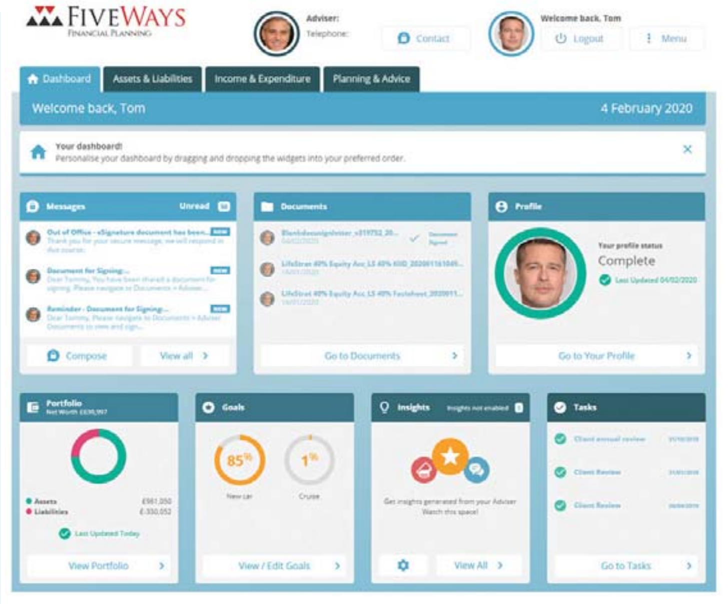
Hello, me

Keeping track of financial stuff is, for most people, a right pain. We do our best to keep it simple, but the heavy hand of regulation doesn't help. So we're pleased that our latest service improvement, which we call the portal, is going down extremely well with clients who have started to use it. It's a cloud-based encrypted service that holds your personal information and current valuations of your investments.

From your point of view, the big advantage is that everything in one place. By everything we don't mean just the investments we look after for you, and the personal information we hold like ages of children, employment details and so forth. You can also choose to add on to the system all kinds of other assets and copies of documents - your Will, Power of Attorney, details of properties and other assets - and can keep this information visible only to yourself.

But having a clear picture of what you've got is just part of it. The portal enables you to update personal information directly yourself, which can save our advisers a lot of time at review meetings - time they can more usefully spend discussing your priorities and plans.

From our point of view, we much prefer dealing with you through the portal. All messages are encrypted and secure – you just get an email saying there's a message for you, which you get when you log in. And your messages to us through the portal are automatically flagged up for action by your adviser or our administrators.



Our regulator frequently warns people about email scams. Once you've registered for the portal, you can forget about that risk. Likewise, all documents we share with you via the portal are encrypted and are never exposed to hackers by being sent through email.

Finally, we can report that clients like going through financial reviews in our smart new offices, where we can display the portal screens on big wall-mounted TVs.

If you haven't already registered for the portal, just contact one of the administration team who will send you a link to set up your login.

Less secrecy for trusts

Money laundering has featured heavily in the media over the past year. It was revealed that a key ingredient in a major scandal involving billions of euros of transfers between Nordic banks and the Baltic states was the use of UK shell companies.

So laws are steadily being tightened to make life harder for the launderers. One such measure affects trusts in the UK, which are being required to provide information for a central Trust Registration Service. The current position is that affected trusts are only required to register when they have incurred a tax liability. Proposed rules, which are under consultation will require new trusts to be registered immediately, while existing trusts have until the end of March 2021 to do so.

Trustees have to provide information on when the trust was set up, who paid the money in, and give details including dates of birth and National Insurance numbers for all the beneficiaries.

For now, access to the register will be limited but it is clear that those pursuing money launderers will want to use it and the draft rules say anyone with a 'legitimate interest' can ask for information.

Legal experts are resigned to the changes, and say that where trusts still have significant advantages, it should not stop people using them.

If you currently act as a Trustee, speak to your adviser for clarification as to whether the Trust arrangement concerned is affected by the proposed changes.

The main types of trust

Bare Trust:
Used to hold money for minors up to the age of 18 (16 in Scotland). They used to be used for savings plans, but today most people use Junior ISAs.

Discretionary Trust:
Flexible, with the potential to name many possible beneficiaries and to permit trustees to choose which of them gets what and when. Inheritance tax is chargeable at 6% on the assets every ten years if the assets transferred into trust plus other gifts exceed the inheritance tax threshold. The most common use is in inheritance tax planning.

Interest in possession, also known as life interest:
One or more people get the income from, or use of an asset (like a house) during their lifetimes, and the capital is distributed to another set of beneficiaries on the death of the 'life tenant'. Often used in inheritance planning.

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We asked Fraser Mackersie, co-manager of the Unicorn UK Income trust, which aims for a high and growing dividend income from UK companies, for his views on investing in the UK after Brexit.

"The Unicorn UK Income fund has an excellent long-term dividend growth track record of 8% per annum since launch and we are confident this trend can continue now that the UK has left the EU.

As UK equity managers focussed at the lower end of the market capitalisation scale, where companies tend to be more domestically focused, we have spent a large amount of time discussing the possible implications of Brexit with our investee companies. Whilst we acknowledge the uncertainty the whole process has created, we also believe high quality, market leading companies will continue to prosper and grow whether the UK is in or out of EU.

This view is in stark contrast to the persistent negative sentiment towards UK Small and Mid-Caps since the EU referendum in the middle of 2016. We have already started to see an improvement in sentiment, and an associated uptick in asset allocation, following the election at the end of last year. However the valuation opportunity in this domestically focussed area of the market remains significant in our view.“

Brexit is over...oh no it isn't

The UK's departure from the EU on January 31 went smoothly according to the terms of the withdrawal agreement between them. But almost immediately we began to hear familiar stories about the negotiations between the EU and the UK over a trade deal, which Prime Minister Boris Johnson wants to complete by the end of this year. The UK government signals that it sees no reason for detailed rules on alignment between the UK and EU. The EU signals that without such alignment the UK cannot expect frictionless or tariff-free trade. At stake is whether the UK has a close or more distant relationship with what is by a country mile its largest trading partner.

The agreement will affect most businesses in the UK to a greater or lesser extent so the outcome really matters to them. Very few favour an 'Australia-style' agreement that is in reality not much different to what last year was being called a 'no-deal Brexit'.

As with the withdrawal agreement, whose terms were essentially dictated by the EU, the cards for a trade deal are with the EU, whose economy is nearly six times the size of the UK's. We can expect the talks to be fractious and the equivalent of a 'no deal' scenario is not unlikely.

So the price of shares in UK businesses, especially those most affected by the trade deal, could fluctuate, perhaps dramatically, in response to changing news about the progress of the negotiations. But we will not know until the deal is finally done what the effects will be. Moreover, for some sectors specific agreements will probably be negotiated well into 2022. So Brexit has not really removed much uncertainty for UK stock market investors. On the other hand, the outlook for global growth remains good and there is no reason to expect downturns in any of the major stock markets unless Mr Trump decides to have another falling out with China. For investing aficionados, history tells us that one of the most unlikely things is a fall in the US stock market in a Presidential election year.

Perhaps a more obvious effect of the trade talks uncertainty will be the volatility of the exchange rate. In recent weeks sterling has traded at just below E1.20, the same level as at the EU referendum in 2016. But last year it fell as low as E1.08 when a 'no-deal' Brexit looked possible. A breakdown in the trade talks could see nervous traders pushing sterling down again. Perhaps the trickiest decision of 2020 will be when to buy your currency for foreign spending.

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