CHAPTERS FINANCIAL®

NEWSLETTER

Photo by Andrew Spybey @TheGuildfordian

SUMMER 2022

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Welcome

With Easter now well behind us, and the summer ahead, we have moved into the new tax year 2022/2023. I hope the recent letter with our latest Tax Card was helpful and there is much to consider, both in terms of individual financial planning and the wider economy.

With the tragic events in Ukraine continuing from the first few months of 2022, we hope that the conflict will be resolved, and a ceasefire will be forthcoming. The ramifications of the conflict will, I have no doubt, be felt for many years to come. We have already begun to see additional pressure on commodity and energy prices, and of course the implications of the war in geopolitical terms are significant.

The key financial word of this current period (and for the rest of this year) is 'inflation'. Forecasts from the Office for Budget Responsibility (OBR) now indicate that the Consumer Prices Index (CPI) may reach 8.7% in the last quarter of 2022, before stabilising.

The OBR then expects the CPI to reduce, although we do not foresee a return to the very low inflationary environment we have experienced over recent years. This is not guaranteed, and we may see the Bank of England continue to raise bank base rates to counter the effect of this inflation increase.

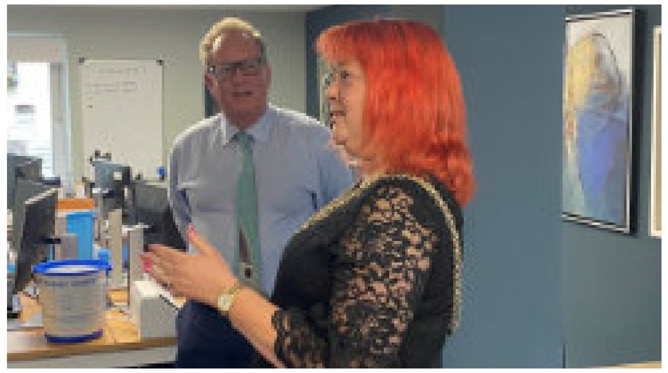
The CPI hit 7.0% in April 2022 as it continues its anticipated climb and many clients have seen the real effects of the energy price cap uplift from the beginning of April 2022, and of course at the fuel pumps.

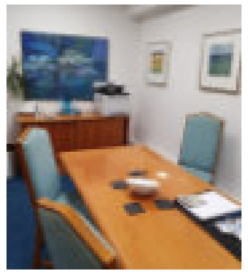
Many of the articles in this newsletter are featured on our website, chaptersfinancial.com, which is regularly updated with topical notes and observations from a financial planning perspective. With this tax year's annual allowances now available, please do visit the site to look at the opportunities for your own planning arrangements.

Despite the pressures on household finances, there are some exciting events to look forward to in 2022, including The Queen's Platinum Jubilee celebrations throughout the year, and the Commonwealth Games in Birmingham, starting at the end of July. In addition, on an individual level, many people are planning holidays for this summer, now that travel restrictions have been lessened or removed.

With the relaxing of Covid restrictions, we were delighted to welcome the Mayor of Guildford, Cllr Marsha Moseley, to officially open our new offices on Thursday 28 April at Shaw House in Tunsgate. We look forward to welcoming many of you here over the coming months and to helping you further in this new tax year.

Keith Churchouse





Are you ready? Household budgets

2022 is well underway and the much-publicised cost crunch for many UK households seems to be appearing fast. With, it seems, all costs rising in the shops, at the pumps and in energy prices, purse strings are going to tighten increasingly quickly.

Many people make resolutions at the start of a new year, although I gather not everyone will see all of them through. Sometimes good intentions get dropped because they are just too difficult or time-consuming. With this in mind, if your resolutions have fallen by the wayside in what has been a somewhat troubled year so far, I wanted to suggest something simple and memorable for your money planning.

Remember one word – 'PILGRIMS' – and what each letter stands for. A pilgrim is defined as someone who journeys, say, to a sacred place or is regarded as journeying through life (or maybe through their money planning in this example).

P – Payslip
Check it every month to see what's being included and deducted. Make sure you understand it and that it is correct. Errors can be made.

I – Inflation rising
Inflation is rising, as no doubt you will have heard in the media, so build this into your budgeting over 2022. Energy and gas prices are rising particularly fast and showing no signs of stabilising at the moment. The record increase in the energy price cap at the end of March this year meant those customers on default tariffs saw an increase in their bills of over 50%. The price cap will be reviewed again at the end of September, so be ready. Energy costs could take a significant chunk out of a household's budget when combined with limited pay increases and tax allowance freezes, and this will need to be incorporated into your money planning.

L – Lending
Two points here. Are you a borrower or a lender? If you're a borrower, you need to be aware that interest rates are starting to creep up, with the Bank of England having raised the base rate from 0.25% to 0.5% in February 2022, to 0.75% in March 2022 and again to 1% in early May 2022. It doesn't sound like much – however, further increases are expected, and these will have a knock-on effect on the cost of borrowing.

G – Governance
How is your money invested? Do you know and do you care? More and more people are keen to ensure that their money is invested for good, whatever that looks like to them, or at least to try and make sure that the companies they invest in aren't doing active harm to people or the environment.

ESG (Environmental, Social and Governance) investing is nothing new, although it has become a much-discussed topic in recent months and years. ESG investing places a layer of screening on funds to meet an investor's requirements, whatever their personal preference may be. The vast majority of pension and investment providers will offer a range of ethical and/or ESG focused funds (in fact, some providers are incorporating these views into their standard investment fund range).

R – Resilience
How financially resilient are you and your household? If you lost your job, or became ill, or the car needed replacing, do you have savings in place to cover this? Putting in place what we call an 'emergency deposit fund' is one of the cornerstones of financial planning, and we'd normally suggest around 3-6 months' income as a sensible goal. However, if you don't have any savings at the moment, anything you can put aside will help in the event of need.

I – Interest rates
As noted before, interest rates are starting to rise, and the cost of loans and mortgages is likely to increase over the coming year. If you're on a fixed rate mortgage, which most people are these days, this will be something to bear in mind when the fixed rate comes to an end. If you are on a variable rate mortgage, you may find costs starting to increase now, with the Bank of England having raised base rates in February, March and May this year. Equally, if you're looking at taking out a loan over 2022, you'll probably find that borrowing is more expensive than it has been in past years. Do make sure you budget for this and that you understand fully what you are really being charged. Shop around and take good advice where you can.

M – Managing your money
It's going to be a tough year for many people, with the Resolution Foundation think tank forecasting that a typical household's income will fall by about £1,000 over 2022 once the effect of inflation is taken into account (source: Resolution Foundation Living Standards Outlook 2022 / March 2022). There's never been a better time to get to grips with your money management – small changes could make all the difference when times are that bit harder.

S – Scams
Scammers are getting ever more sophisticated – don't let them steal your hard-earned cash. Text messages are a particularly effective trick at the moment, with malicious links included in an innocent-looking message about a parcel delivery or online purchase. Be cautious and don't click on anything you don't trust or recognise, including emails.

Stop and think: does this communication make sense?

Please do keep a careful eye on your money and finances throughout the year.

Trust registration with HMRC: deadline 1 September 2022

We now know that certain trusts that have not previously had to register on HMRC's Trust Registration Service (TRS) will have to do so by 1 September 2022 to avoid any penalties.

This includes all UK express trusts, unless specifically excluded, which will now incorporate bare trusts and those trusts which up to now have not had to register because they have not had to account for any tax. For example, a discretionary trust that holds an investment bond in which there has yet to be a chargeable gain.

It is the trustees' responsibility to register the trust although an agent can be appointed to ensure the details are input and kept up to date.

Full details including how to register can be found on the government's website www.gov.uk – search for 'register a trust as a trustee'.

If you need to act on this issue then please get in contact, noting that we can guide you to a suitable accountant / solicitor.

Wellbeing might be everything in 2022: your business planning - Employer

Many equity directors of SME type businesses (usually defined as up to 249 staff) plan every aspect of their business to get the most from the assets that they have available. Sometimes referred to as 'sweating the assets', it's a process of deploying each asset in the right place to make it as effective as possible. On many, if not most, occasions the real assets of a business are its people. The team can be everything in the pursuit of the company's aims, and its profitability.

As a business owner, you might think that you offer a competitive package to team members. However, as you might have seen in the press, as the COVID-19 pandemic has evolved, many staff are now looking for flexibility along with their overall package, both to keep them engaged in their current role and when looking for a new position. Wellbeing in the workplace is going to become ever more important in the coming years as we extract ourselves from the effects of COVID-19 and we try to retain a cohesive and productive team. City A.M. reported on 29 December 2021 a worrying headline: 'Staggering 60 per cent of UK employees plan to find new job in 2022 with salary not the most important driver', noting 'over 80 per cent of UK employees feeling less connected to their company culture'. More can be found on the City A.M. website at www.cityam.com.

When is the last time you reviewed what you offer your team members? If you just 'rinse and repeat' for each available position, the benefits might be looking a bit outdated and stale.

Sure, many are looking for more salary, especially against the backdrop of significant rises in inflation. Some are looking for more flexibility to work from home, or to be able to do so effectively, but what else can be offered as part of the menu of benefits that might attract and retain the right people?

And for the right people, who hold it all together for you, how are you really going to retain them for the long term? Pay raises and bonuses might work in the short-term as 'hygiene factors', but what about equity ownership for those who really count? Do you as an owner allow employees to buy into the company, and if you do, do the key people know this is an option? And if they do know, do they understand the real value they may gain and add over time? A conversation with key business advisers might well be valuable in tying in the right people at the right time.

Some employers have created a menu of options and flexibility to the way employees can work and enjoy their time within a business. These might include a range of the following options:

- Flexible hours along with working from home options (in part or in full) to suit both parties
- Pension contributions above the minimum required by auto-enrolment legislation
- Private Medical Insurance (PMI) which is a taxable benefit to the employee
- Death in service benefits (non-taxable benefit) which can be a cost-effective way of adding real value into an employment package (generally two- to four- times base salary)
- Income protection for the employee

These options, perhaps in combination, can have a real impact in creating a feeling of belonging within a business culture.

Chapters Financial Limited is well placed to help employers and businesses with this planning and to see how a future benefits package might take shape, in conjunction with your HR function and accountants. We would be pleased to speak with the directors/owners of your company to ensure that the requirements needed are met.

Have you checked your employment contract recently? - Employee

Most employees have an employment contract. Many business owners even have an employment contract, even if they wrote it themselves for their own limited company.

It's one of those documents that you read when you take on a new role. It looked OK at the time, and you're sure you could find it in the filing if you needed to...if it hasn't been moved. But do you remember what it said, and what terms it offered if your circumstances changed?

Life changes for us all. I refer to the key milestones as life junctions, such as buying a home and taking on debt, getting married or entering into a civil partnership, redundancy, illness, additions to the family or the death of a family member as examples. All significant, memorable and, of course, life changing. I hope you are ready for your journey, but importantly is your financial and protection planning?

So what might you look out for?

Death in service cover
Do you have death in service cover from your employer? Does your partner? It's usually three- or four-times base salary as an example (which can amount to a fair amount of protection), but each employer can offer different terms, or simply not provide this benefit at all. If you do have this type of cover through your employer, does it have an end date that you can check?

What about sickness or medical issues?
If you fall ill and struggle to work, how long will your employer pay your salary? Is it just Statutory Sick Pay (SSP – now £99.35 per week)? If they offer more generous cover, what are the terms? An employer can't pay less than SSP, but they may offer contractual or occupational sick pay, which might give you full pay for a set number of weeks, then followed by a period of half pay, as an example.

Private Medical Insurance (sometimes known as PMI) is a taxable benefit offered by some employers. It can be a valuable addition to your overall package, but does it cover partners and children? Is there a policy excess if you have to make a claim and what is it? Is there a moratorium period where you can't claim on pre-existing conditions and, if so, how long is it? It is well worth checking to ensure that you have the cover that you need. And if your partner also has cover, is there a costly duplication occurring?

Pension benefits
Through workplace pension auto-enrolment, the minimum required contributions from both you and your employer have increased over time, with the current total minimum contribution at 8.0% gross per annum of your qualifying earnings.

The pension values that are being accumulated do not die with you and can be passed on to whoever you nominate. Did you make a nomination when your current workplace pension started, and is it up to date? Likewise, are any deferred pension nominations reflective of your current circumstances? Most people accumulate a number of pensions over their working life, and the nominations you made back at the start of your career may well need updating, if not already achieved.

Benefits menu
Rather than prescribing a benefits package to team members, some employers offer a range of options, and a menu to pick what you want to suit your needs within a prescribed budget. I believe this is originally an idea from America, and some organisations like this open programme of choice.

Summary
These are only examples of what to look out for, and one cornerstone of financial planning, which certainly won't be covered by your employment contract, is to make a Will. Once made, keep it safe and up to date as you reach your own life junctions.

Perhaps, when next you look into your personal filing, dust off those old documents and have a read of what protection you have already, either through your employment contract or individual policies that you have, but also what protection you provide to your loved ones, and if you have a partner, what protection they offer you if your personal situation changes.

Photo by Andrew Spybey @TheGuildfordian

Before the sunshine beckons! / Inflation erosion

Summers are getting warmer and seem to be arriving earlier. With Easter now over and students back at school or university, the opportunity beckons for parents and grandparents to kick back and enjoy the garden, balcony or park as the weather gets warmer.

Before you head out into the sunshine, though, in this year more than ever your finances will need to be considered carefully. Sure, we have moved into a new tax year, renewing most annual tax allowances. However, in this article, I am not referring to these, although they are important. I am, of course, referring to inflation and you are likely to have already felt the effect of all the recent cost increases. With the Office for Budget Responsibility indicating that inflation (as measured through the Consumer Prices Index / CPI) will increase to 8.7% by the last quarter of 2022, before holding station and then falling back in 2023, real purchasing power might become ever more relevant as inflation eats away at your income and capital on deposit.

Although the Bank of England has increased base interest rates to 1%, and with the next base rate decision due in June 2022, deposit interest returns have not shown much improvement over the last year or more. If you think about it, if you were able to receive 1% interest per annum annual equivalent rate (AER) on £100,000, by the end of a year with anticipated inflation running at 8.7%, the real value could go down by over £7,000 in effective purchasing power if this differential were maintained. That's a lot of notional loss for taking no action!

The opportunity to gain improved returns usually occurs by introducing risk through the investment used, although not guaranteed. Capital is then usually at risk, however, with inflation doing its thing, the same effectively occurs with deposit funds because their value is lessened by the effects of inflation.

Our Investment Risk Scale can be found on our website to help you consider investment risk a stage further

We have seen the number of new enquiries to our business increase in part because of the rapid rise in inflation, which has muddied the waters for some traditionally risk-averse individuals. In our experience, some have found their ability to accept increased investment risk, or investment charges (or a combination of both) too much to accept. That's a good thing, because it is sensible to at least consider investment options, even if they are to be dismissed. Some clients and enquirers have been keen to invest at the level of investment risk they can accept and tolerate, taking into account any ethical, social, environmental or governance views they hold.

Before you head for the warmth and sunshine of the outdoors (obviously not guaranteed with the English weather!), do take time to think about and check your financial position and its exposure to the effects of inflation now and into the near future. Then seek advice to be able to implement any changes that might work well with the aim of maintaining the real value of your money and income.

The Bank of Granny and Grandpa – lending a hand to the younger generations

Planning your money and household finances will be more vital than ever during this tax year, with costs increasing rapidly as we have noted.

This planning of money is not necessarily restricted to a single individual or couple: it can encompass a family's financial future and wellbeing. The cascading of wealth from grandparents and parents to children and grandchildren is not uncommon, especially as younger generations are feeling the financial squeeze on their budgets due to inflationary pressures and rising debt costs. We often hear about the 'Bank of Mum and Dad', but often it is the 'Bank of Granny and Grandpa' that is helping out. This is confirmed in a survey in August 2020 carried out by Legal & General, further details of which can be found at www.legalandgeneral.com.

As an additional note, the property group Savills notes that parents supported 49% of first-time buyer purchases in 2021. Total contributions from parents helping younger generations to buy a house are expected to have reached around £9.8 billion in 2021. We do expect this to continue, despite the stamp duty holiday having now ended.

The Chancellor made no changes to the current inheritance tax allowances and thresholds in his Spring Statement of 23 March, and perhaps has little scope to help in this regard in future times. Remember that he has frozen the current tax thresholds and allowances for another four or so years, and this is really going to be felt in the times ahead.

Many readers of our blogs and website will know that we are advocates of having a Will, which is up to date and reflects your plans for your wealth and assets in the event of death. Having Powers of Attorney (health and wealth) is usually a good idea; however, you might want to seek some legal advice on this.

Gifting money to the family, either as lump sums, or regularly, might be an attractive and problem-solving solution to some, but there are limits, as you might expect when it comes to tax. Examples might be the annual gift allowance (£3,000 in a tax year, which can be backdated one year), or gifts from surplus income, which is a lesser-known allowance. Seek advice on this latter allowance because the amount you can gift usually needs to be calculated and records need to be kept and updated regularly.

Keeping the tax take down when it comes to an estate's value is an important consideration for a significant number of people. Not many like the idea of their estate paying 40% tax where applicable. Interestingly, Guildford was widely reported as the inheritance tax capital of the UK in 2018, and that is no laughing matter.

Talk to the team at Chapters Financial to plan your future funds and, where appropriate, how funds can be effectively gifted to future generations.

And finally…

£19bn in old UK banknotes and coins not cashed in

Did you know that almost £19bn in old banknotes is still being used, six months before paper £20 and £50 notes stop being legal tender?

Paper £20 and £50 notes will both be withdrawn from circulation after 30 September 2022. This follows the paper £10 note which was withdrawn in March 2018 and the paper £5 in May 2017.

All of these notes have been replaced with new plastic notes with a series of security features including a hologram image, a see-through window and a silver foil patch containing a 3D image of the coronation crown. Under a good quality ultra-violet light, a number reflecting the note's denomination will appear in bright red and green on the front of the note.

Further details of the cash still in circulation or hiding in people's homes was revealed in a Freedom of Information request by BBC Wales.

The Bank of England said 775 million paper banknotes remain in circulation.

These are as follows:

- 113 million paper £5 notes remain in circulation
- 73 million paper £10 notes remain in circulation
- 360 million paper £20 notes remain in circulation
- 209 million paper £50 notes remain in circulation

In addition to the paper cash, the Royal Mint has also said that about £105 million old-style £1 coins have not been returned. The old round £1 coin was replaced by the 12-sided version in October 2017 in an attempt to crack down on counterfeiting.

If you should find any old paper notes in a seldom-used wallet or purse, many banks will still accept withdrawn notes as deposits from customer or alternatively you can always exchange them by sending them by post to the Bank of England.

Chapters Financial in the Community

Guildford Lions Club

Chapters Financial were delighted to receive a Certificate of Appreciation from the Guildford Lions earlier this year in recognition of our support of the Guildford Fireworks Fiesta which took place last November. This event helped the Guildford Lions to raise more than £40,000 for community causes.

Chapters Financial is confirmed as a main sponsor for the 2022 event in Guildford.

Summary & Review

Please do pass our details on to contacts you may have that may benefit from our service. We are always pleased to receive referrals.

Please contact the team at Chapters Financial; Keith, Vicky, Esther, Julia or Suzanne on 01483 578800 or by email at info@chaptersfinancial.com to discuss your requirements and to book a meeting or financial planning review.

If you would like to receive this information in e-mail format, please let us know.

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