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VIEWPOINT

RELEASE FREEDOM LTD

Thanks for reading our newsletter. If you want to discuss any of the articles in more detail, please get in touch.

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What is income protection?

Income protection insurance pays out a percentage of your monthly income if you are unable to work.

Your income is important and keeps your family secure. So, if you are in a situation where you'd like to protect it if anything happened, you might want some income protection.

How does income protection work?

Income protection is an insurance policy, so you pay a monthly or annual premium for it like any other type of insurance. If you can't work because of sickness, disability, or other reasons (depending on your policy criteria), you will receive a regular income until you either return to paid work, retire, pass away or the policy term comes to an end.

The amount that is paid could be anything from 60% to 65% of your pre-tax income, and payments (which are tax free) will start after a pre-agreed waiting period, which could be weeks or months. You'll pay more in premiums if the waiting period is shorter, and the percentage of your income is larger.

Income protection is different to life insurance or critical illness cover, both of which do not pay regular amounts but instead give you one-off lump sums in the event of your death or the diagnosis of a critical illness. That's why it's important to seek financial advice if you are thinking about getting coverage.

Who could benefit from income protection?

If you work in a high-risk profession or have high-risk hobbies, you might want income protection in case you're unable to work because of an accident. If you've suffered an illness and feel you're at risk of being unable to work because of it, income protection could provide peace of mind, too.

Some things to consider if you are thinking about getting income protection include:

- if you have a good level of statutory sick pay from your employer, you may not need more cover.
- is it the best option for you and your situation? For example, do you (or your partner or spouse) have sufficient savings to help provide an income if you were unable to work?
- can you keep up with the premiums?
- will you find any exclusions in your policy difficult to manage?
- are you close enough to retirement to not need income protection?

How are premiums calculated?

As with any insurance policy to do with your life and health, factors like your age, health condition, if you smoke, your occupation and others (like how much of your income you would like to receive, and how soon you would like payments to start) will be considered when your premium is calculated.

Our Protection Advisers will be able to give you advice and guide you through what type of policy works best for you, helping you find value for money as well as some peace of mind knowing your income is protected.

Our advisers can help you find an income protection policy to suit your needs and keep your family secure.

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Capital gains tax and shares

If you sell shares, funds, or other financial products, you might need to pay capital gains tax on your profits. It's good to be aware of how your investments are taxed when it comes to selling them, and make sure you arrange your investments in the best way to avoid paying more tax than you need to.

Several assets are exempt from capital gains tax (CGT), such as your home and any personal belongings worth less than £6,000 (like a car for personal use). However, when selling investments

such as shares, funds, investment trusts or other financial products you will be charged CGT if you go over your annual CGT allowance depending on your tax band.

What is CGT?

CGT is a tax on the profits earned from selling an asset. You only have to pay CGT on your overall gains above your tax-free allowance – known as the annual exempt amount – and the amount depends on your tax band.

In the 2021/22 tax year you can make £12,300 in capital gains before you pay any tax. Couples can double this by pooling their allowances. The tax-free allowance for trusts is £6,150.

If you're a UK resident, you may be liable to CGT on disposals of assets located anywhere in the world, not just those based here.

Do I need to pay CGT on shares?

If you make a profit when selling shares, you may have to pay CGT. Any profit made on selling shares taxed at 10% if you're a basic rate taxpayer and 20% if you're a higher rate taxpayer. You don't usually have to pay CGT on shares if you give them as a gift to your husband, wife civil partner or a charity. You also won't have to pay CGT when you dispose of:

- shares you've put into an ISA or PEP
- shares in employer share incentive plans (SIPs)
- UK government gilts
- NS&I Premium Bonds
- qualifying corporate bonds
- employee shareholder shares (depending on when you got them)

How much CGT will you have to pay?

So, you've bought some shares and managed to sell them for a profit, but how much CGT will you have to pay? Imagine you've spent £5,000 on shares and sold them for £30,000, giving you a £25,000 profit.

You don't pay CGT on the first £12,300 of the gains made, which leaves a taxable amount of £12,700. The shares are charged a CGT at 10% or 20%, depending on your tax band. A basic rate taxpayer who has to pay CGT of 10% would pay £1,270. A higher rate taxpayer who pays 20% CGT would have to pay £2,540. If you make a loss on your shares, the amount can be off set/deducted from any gains you made in that tax year. If you have shares from your employer, it's worth checking on the rules around CGT and those shares, as they can be different.

How are dividends taxed?

A dividend is a share of a company's profits distributed to its shareholders, usually paid out quarterly. If you receive a dividend payment you may have to pay tax on that income. The good news is that it's possible to receive some dividend payments each year without having to pay any tax.

All taxpayers get an annual tax-free dividend allowance of £2,000, which is the amount you can earn each year without having to pay any tax. Anything above this level is taxed according to your income.

Basic rate taxpayers are taxed at 7.5%, while higher rate taxpayers are taxed at 32.5%, and additional rate taxpayers at 38.1%. These rates will increase by 1.25 from April 2022 to help support the NHS and social care reforms.

Benefits of pensions and ISAs

If you want to avoid paying CGT or tax on dividend earnings unnecessarily you could consider investing your shares in a tax-free wrapper like an ISA or a pension. Shares held in an ISA account can grow free from tax, meaning you don't pay tax on capital gains, dividends or income made on any gains from your investments. A self-invested personal pension (SIPP) is a wrapper that allows you to control the specific investments you make, and just like ISAs, with a SIPP your investments can grow free from capital gains, dividend, and income tax.

While working out how much tax you're going to pay when you make a profit on an asset might seem complicated, it doesn't have to be. Our financial advisers can help you arrange your investments in the best way to make the most of their potential, including when you sell them.

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

Investment Update

Energy shortages and supply disruptions continue

Stock markets bounced back in October despite an unsettled month due to global supply disruptions and energy shortages.

Financial markets were unsettled in October for a number of reasons. They include soaring energy prices due to the global shortage of natural gas supplies and high demand in Asia. Markets became calmer after Russian President Vladimir Putin indicated that his country could supply additional gas to Europe. The increase in energy prices and shipping costs prompted the The Organisation for Economic Co-operation and Development (OECD) to raise its inflation forecast for the G20.

The natural gas shortage pushed up oil prices, with Brent crude rising to its highest level in seven years. The Organisation of Oil Exporting Countries (OPEC) agreed to increase oil production gradually to meet high demand as countries come out of pandemic-induced lockdowns.

US stocks rally

In mid October the S&P 500 index enjoyed its best days since July, making up for fall earlier in the month. Strong company earnings results contributed to the performance, as did the stability brought by the news of the Senate's decision to temporarily raise the federal debt ceiling.

October followed September as a month of rising inflation in the US. However, higher prices didn't deter consumers, with retail sales also up from previous months. There was another lower-than-expected jobs report, with the working economy still affected by the Delta variant and a sluggish labour market.

UK Budget news and interest rate speculation

In early October the FTSE 100 had its best first week of the month since May, helping it to a 20-month high and a recovery of most of the losses it experienced since February 2020 and the start of the pandemic.

However, the Bank of England warned that the UK economy is more vulnerable to the global rise in inflation than other G7 nations, and that it could slow the recovery. Attention remained on the Bank of England's move to raise interest rates, with economists predicting a rise as soon as early 2022. City traders are betting that it will happen before the end of this year.

In this year's much anticipated Autumn Budget, Rishi Sunak set out the government's plans to help get the economy back on track following multiple lockdowns. Policies announced included an increase in the National Living Wage and a 50% business rates discount for firms in the retail, hospitality, and leisure sectors up to a maximum of £110,000. Dividend tax rates will also rise by 1.25% from April next year which means investors will pay more on their earnings.

China's third-quarter slowdown

Asia suffered an ongoing shortage of coal, with power cuts reported across countries reliant on the fuel, like China (where coal generates two thirds of the country's electricity), and with India on alert for similar outages. Coal prices in China hit a record high during the month along with a dip in manufacturing (the latter due to power shortages and ongoing outbreaks in coronavirus cases).

The crisis surrounding the Chinese property developer Evergrande saw the company sell part of its stake in a bank to a publicly owned investment group on condition that the developer uses the proceeds to repay a loan. Figures released in October also showed that the pace of economic growth in China slowed in the third quarter compared with the previous year.