



Future Directions Newsletter 13

– October 2023

Welcome to our latest newsletter.

As before, we have put together a few articles that we hope you may find useful, as well as some internal news.

We hope that you have enjoyed the summer and are looking forward to the run up to Christmas and year end.

From all at Future Directions



Article: Interest Rates Hike Cycle – are we near the end ?

Last month the Bank of England held interest rates steady for the first time since December 2021. The current interest rate now stands at 5.25%.

Rates have been increased fairly regularly from December 2021 to August 2023 in attempt to bring down inflation.

This has not only had an effect on borrowing costs, meaning that mortgage rates are higher than they have been for many years, but it has also had an effect on investment markets – with both Equity and Bond markets having broadly fallen in the UK since the end of 2021.

Inflation has been falling over the course of the last 12 months, with annual CPI in September being similar to August at 6.7%, which is down from the high of 11.1% in October 2022.

While not yet back within the Bank of England's target range, it would appear we are starting to get to the point where the likelihood of significant future interest rate rises has passed. While there may still be some rate hikes in the near future, it seems that we are close to the peak.

Some stability in interest rates may well then have a positive impact on investor confidence, allowing markets to start the recovery phase of the investment cycle. Indeed, if the UK falls into recession, then there may also be cuts in interest rates to help combat any recession.

With all this recent stock market and mortgage rate uncertainty, it can be difficult to navigate your options, whether you are looking to make the best use of excess savings, or to secure the most appropriate mortgage rate.

If you, or anyone else you know, would find a chat useful, please do not hesitate to get in touch.

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Director : Marc Carter

Article: Investment Bonds Explained

Investment bonds are investment products offered by life companies and are usually made available for lump-sum investments. You can choose how that money is invested from a range of options that could include combining a variety of different asset classes within the one fund. Some life companies offer external links to fund management houses, increasing your scope to mix, match and specialise within your portfolio. When you take out an investment bond, your income and gains within the bond are subject to corporation tax deemed the equivalent of basic rate tax. Therefore, if you are a basic rate taxpayer, you will pay no further tax on any gains. If you are a higher rate taxpayer, however, you will pay an additional 20% on the total profit when the bond is cashed in. Nevertheless, there are ways to mitigate this. For example, under income tax deferral rules, you can withdraw up to 5% of the investment's initial value every year for up to 20 years – i.e., up to 100% of the initial investment – without immediately becoming liable for additional tax. This postponement of the tax liability can be particularly advantageous if you are a higher-rate taxpayer now, but expect to become a basic rate taxpayer in future. When the investment bond is finally cashed in, you become liable for the higher rate tax bill. However, if you postpone this encashment until you are paying basic rate tax, you could actually end up with no further liability at all.

Article: Easing the Burden of IHT

Inheritance tax (IHT) is charged on your taxable estate at 40%. Before you look to offset IHT, however, it is important to establish what is likely to accumulate as a potential liability. For most people, the key contributor to their estate will be the value of their home. Even if this lies below the IHT threshold, other elements can push an estate over the limit. For example, although Individual Savings Accounts (ISAs) shelter investors from capital gains tax and income tax, they are not sheltered from IHT. Nevertheless, there are steps you can take, particularly if your liability is relatively small. Many people do not realise, for example, that they have an annual exempted amount of £3,000 that they can gift to someone, which could go some way to reducing the overall estate. For the tax year 2023/24, the IHT nil-rate band stands at £325,000 for individuals and – with the option to transfer any unused threshold to a spouse or civil partner – a total of £650,000 for legally joined couples. Moreover, there is also an additional “main residence nil-rate band” (MRNRB) of £175,000 per person if certain conditions are met. It is important to seek expert advice on how you can ease the potential burden of IHT. Levels and bases of reliefs from taxation are subject to change. The Financial Conduct Authority does not regulate some forms of IHT planning.

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The value of your investments can go down as well as up, so you could get back less than you invested. Past performance is not a reliable indicator of future performance.