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independent financial services ltd

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FINANCIAL PROTECTION

ENSURING A SECURE FUTURE FOR YOU AND YOUR LOVED ONES

BRITAIN'S BIGGEST PENSION TAXPAYERS
How to make sure you avoid becoming one

WAYS TO REDUCE A CAPITAL GAINS TAX LIABILITY
How will you ensure more of your money will go towards your future?

PLACING ASSETS INTO A TRUST
Ensuring your legacy is managed according to your wishes long into the future

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INSIDE THIS ISSUE

Welcome to our latest issue. Nobody wants to consider what would happen if they became too ill to support their family financially. Financial protection is essential to creating a secure future for your loved ones, but understanding what cover you may need can be confusing. On page 08, we discuss whether you have considered the implications financially if you or someone in your family were unable to earn money, became ill or were to die prematurely. It's not something we like to think about, but if you have left regular employment and are now either retired or have become self-employed, then any previous protection you received from an employer becomes your responsibility.

On page 05, we delve into a new analysis of FCA figures. Since 2015, individuals over the age of 55 with defined contribution (DC) pension pots have enjoyed full freedom to decide how to manage their pensions; purchasing an annuity (a guaranteed income for life) is no longer mandatory. We examine how people have utilised these newfound freedoms and the tax implications that have followed.

On page 11, we look at ways to potentially reduce a Capital Gains Tax (CGT) liability, from using your annual exemption to saving in an Individual Savings Account (ISA). Cuts to the CGT exemption mean that arranging your investments as tax-efficiently as possible is more important than ever.

Trusts are a powerful tool for estate planning, providing flexibility and control over asset distribution. Properly structured, they can address various scenarios and requirements, ensuring that your legacy is managed according to your wishes long into the future. Read the full article on page 06.

The results of the 2024 Election had not been announced when this issue was published. Our next issue will explore how the outcome could affect personal finances.

A complete list of the articles featured in this issue appears opposite.

WANT TO SECURE YOUR FINANCIAL FUTURE WITH OUR EXPERTISE?

Whether planning for retirement, investing your money or protecting your wealth, we can assist with every aspect of your financial planning. Contact us today to discuss your specific needs.

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RETIREMENT MATTERS

MAKING THE RIGHT DECISIONS TODAY COULD BOOST YOUR RETIREMENT POT AND MAKE THE FUTURE A WHOLE LOT BRIGHTER

When considering retirement planning, pension savings are a crucial component of your financial strategy and essential for a comfortable retirement. Securing the right professional advice is critical, as decisions made at this stage will significantly impact you and your family.

Saving in a pension is one of the most tax-efficient ways to invest for your future. However, to many people, it's understandable that pension rules seem like a minefield – and the most recent changes in pension legislation have made this already complex topic even more challenging. So what do the latest changes mean?

KEY PENSION QUESTIONS TO CONSIDER

How many different pension plans do you have? Do you have the details for each plan? Do you know how much is saved in each one? How well are they performing? What are the charges and levels of risk for each plan? How much income will you need in retirement to live life the way you want? Are your pension funds and other assets enough to provide that income?

REVIEWING YOUR PENSION PLANS

If you are unsure of the answers to some of these questions, this could be an ideal time to review your pension and retirement plans and make any changes to provide the future you want. Recent changes in pension legislation may offer a beneficial opportunity.

You may already know that there have been two key changes to pension rules recently. This has created opportunities to increase pension savings for some people and take stock of what they already have.

REMOVAL OF THE LIFETIME ALLOWANCE TAX CHARGE

Firstly, the Lifetime Allowance (LTA) tax charge has been removed as of 6 April 2023. Previously, anyone withdrawing benefits from their pension fund above the LTA of £1,073,100 (or the applicable fixed, enhanced, individual or primary protection amount) was subject to a tax charge. This charge could be either 55% or 25%, depending on whether they were taking a lump sum or income.

The Spring Budget in March 2023 reduced this charge to 0%. More recently, the Autumn Statement 2023 confirmed that the LTA would be removed entirely from 6 April 2024, which has now taken effect.

OPPORTUNITIES FOR PENSION CONTRIBUTIONS

As a result, you can now theoretically add to your pension (with set limits applying to tax relief) without worrying about a penal tax charge if you breach the old LTA. So, if you have had to stop paying money into your pension fund to avoid this tax, now would be a good time to discuss with us whether it would be prudent to add more.

INCREASED ANNUAL CONTRIBUTION LIMITS

Secondly, the maximum annual contribution has been increased from £40,000 to £60,000 subject to relevant earnings or those who have triggered the MPAA. It's worth noting that this legislation could change again.

These changes could benefit you if you want to pay more into your pension and have a pension fund above or near the previous LTA figure or a higher fixed protection amount. Additionally, if you stopped contributing to your pension and applied for fixed protection in 2012, 2014 or 2016, now would be a good time to discuss this with us.

A TAX-EFFICIENT WAY TO INVEST

At a glance, these changes seem to make pensions an even more tax-efficient way to invest – but pensions are complex, and these rules are not straightforward. There's no guarantee that the LTA will not be reinstated, which could create issues. It is also possible that another protection scheme may be introduced if the LTA is reinstated.

Changing your pension contributions might also affect how you draw your salary. This means it's desirable to get the right professional advice and consider your financial arrangements as a whole before making any decisions.

WHAT ARE YOUR OPTIONS?

If any of these questions apply to you, you may want to consider obtaining professional advice about your options. Do you have one or more old pension funds that might be treated differently under the new rules? Are you aiming to retire within the next couple of years, or would you like to retire earlier than you planned? Have you already made withdrawals from your pension but then returned to work?

Do you want to reduce the Inheritance Tax burden on your heirs? Might you inherit a pension soon? If any of these apply to you and you think you might be able to benefit from the recent changes, get in touch with us. ◀

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TIME TO SECURE YOUR FINANCIAL FUTURE?

Investing in a well-structured pension is a smart way to secure your financial future. With the potential for tax-free growth, it's a powerful investment tool. Let us assist you in tailoring your pension plan to match your needs perfectly. Please contact us for more details or to discuss your specific pension requirements.

HOW MUCH DO I NEED TO **SAVE FOR RETIREMENT?**

ENSURE YOUR MONEY WORKS EFFECTIVELY TO ENJOY RETIREMENT ON YOUR OWN TERMS

How you invest in your 50s could significantly impact your quality of life in retirement. While there is still time to increase your retirement savings, a seemingly simple mistake could derail your plans. This is where obtaining professional financial advice becomes crucial.

With retirement now in sight, as you approach this milestone, ensuring your money works effectively will allow you to enjoy retirement on your own terms.

CLARIFY YOUR GOALS

'Saving enough for retirement' has likely been on your list of financial goals for some time, but now is the moment to become more specific. Knowing exactly how much you need to save will give you a concrete target. This amount will depend on factors such as your intended retirement age, your retirement plans, projected investment growth and inflation.

A financial adviser can demonstrate how long your savings may last in retirement, helping you understand if you need to adjust your goals or savings habits.

REVIEW YOUR INVESTMENT PORTFOLIO

When you are in your 50s and nearing retirement, ensuring that your investment portfolio maintains a suitable balance between risk and reward is important. The right level of investment risk depends on how you intend to fund your retirement and how far away your target retirement date is.

For those planning to buy an annuity in a few years, moving your pension fund from stocks to lower-risk assets such as cash may be wise. This strategy helps protect your pension pot from potential stock market crashes just before you need it.

MAINTAIN GROWTH POTENTIAL WITH DIVERSIFIED ASSETS

If you plan to fund your retirement through income drawdown or other savings and investments, moving into cash too early could mean your money does not last as long as required. Retaining some exposure to stocks allows your portfolio the opportunity for long-term growth. Considering that your retirement could span several decades, inflation will inevitably erode the real value of your savings and reduce your purchasing power.

One way to mitigate the impact of rising prices is to remain invested in the stock market. Historical data shows that the stock market generally outperforms cash over long periods and exceeds the inflation rate. Diversifying your investments across various asset classes can help your portfolio withstand stock market fluctuations.

FOCUS ON YOUR PENSION

Pensions are an exceptionally efficient method of saving for retirement, particularly when you're in your 50s. This is largely due to the tax relief you receive on personal pension contributions. For instance, a £1,000 pension contribution costs just £800 if you're a basic rate taxpayer, £600 if you're a higher rate taxpayer or £550 if you're an additional rate taxpayer. Tax relief is essentially free money from the government, significantly enhancing your retirement savings.

Most individuals can contribute up to 100% of their UK relevant earnings or £60,000, or £3,600 if there are no relevant earnings (whichever is lower) into pensions yearly while still benefiting from tax relief until age 75. However, it is important to remember that your pension annual allowance could be lower if you have a very high income or have triggered the MPAA.

MAXIMISING UNUSED ALLOWANCES

If you wish to save more than your annual allowance, it might be possible to maximise unused allowances from the previous three tax years under carry-forward rules. This strategy can considerably enhance your retirement savings by utilising every available tax benefit.

MAKE THE MOST OF YOUR TAX ALLOWANCES

There are numerous other tax allowances investors can utilise. For instance, you can invest up to £20,000 (tax year 2024/25) into Individual Savings Accounts (ISAs) to benefit from tax-efficient income and growth.

You can withdraw money from ISAs whenever you desire without incurring any tax; this makes ISAs a useful source of income for those retiring before age 55 (the current earliest age at which you can access your pension subject to health and certain occupations). Additionally, ISAs form an integral part of a tax-efficient retirement income portfolio.

OTHER ALLOWANCES TO CONSIDER

Other allowances include the personal savings allowance, dividend allowance and Capital Gains Tax exemption. You can earn up to £1,000 a year in interest without paying tax if you're a basic rate taxpayer. If you are a higher rate taxpayer, you can earn £500 a year without paying taxes. Additional rate taxpayers don't receive any allowance at all.

The annual Capital Gains Tax-exempt amount from 6 April 2024 is £3,000. If the total of all gains and losses in the tax year fall within this exempt amount, no tax will be payable. Gains above the annual exemption will be taxable. The exempt amount cannot be carried back or forward. The unused amount is lost if it's not used, in part or full. ◀

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TIME TO OPTIMISE YOUR PENSION AND MAKE THE MOST OF AVAILABLE TAX ALLOWANCES?

Please contact us for more detailed advice on optimising your pension and making the most of available tax allowances. We are ready to help you navigate the complexities of retirement planning and ensure you achieve a financially secure and comfortable retirement.

BRITAIN'S BIGGEST **PENSION TAXPAYERS**

HOW TO MAKE SURE YOU AVOID BECOMING ONE

Since 2015, individuals over the age of 55 with defined contribution (DC) pension pots have enjoyed full freedom to decide how to manage their pensions; purchasing an annuity (a guaranteed income for life) is no longer mandatory. More than 221 people fully withdrew a pension pot of £250,000 or more between October 2022 and March 2023[1], resulting in a tax bill of at least £97,500 each[2], according to new analysis of FCA figures.

Following the reduction of the 45p rate of tax from £150,000 to £125,140 from April 2023, a pot of £250,000 withdrawn in the current tax year (2024/25) would lead to a tax bill of at least £98,700 each – over £1,000 more. In the same period, October 2022 to March 2023, 1,537 people fully encashed a pot of between £100,000 and £249,000, leading to a minimum £27,400 tax bill for each person.

Someone fully withdrawing a pot of £174,500, the middle point of that range, would have paid at least £63,500 in 2022/23 and a minimum of £64,700 now. These figures only consider the pension – people with other sources of income at the time of withdrawal would pay even more tax.

PAYING SIGNIFICANT AMOUNTS OF TAX TO ACCESS PENSIONS

This is because when people fully encash their pension, HMRC taxes anything above their 25% tax-free pension cash as income, subject to the LSA position of the individual, so it's taxed like an ongoing salary. The analysis shows there are hundreds of people out there paying significant amounts of tax to access their pensions. It's impossible to know whether their circumstances warranted them being subject to a big tax hit, but for most people, it's something you'll want to avoid.

It's important to remember that most pension income is subject to tax, like other income. Fully encashing a large pot will almost always mean a very large tax bill, sometimes taking away many years' worth of savings. Often, when people fully withdraw their pension, it is simply to move the money to their bank account. Not only does this mean their savings become eligible for tax, but they're also potentially giving up investment returns.

WITHDRAWING RETIREMENT SAVINGS MORE TAX-EFFICIENTLY

The good news is that there are ways to make withdrawing your retirement savings more tax-efficient, and it's possible to spread your withdrawals over many years, which can be more efficient. Taking just one option at retirement, such as cash or an annuity, could mean you miss out on an opportunity to maximise tax efficiency and consider your financial needs in the round.

It's worth considering a 'mix and match' approach to your retirement income, which could help you achieve the best of all worlds – you could, for example, annuitise a portion of your pension fund to cover essential outgoings and leave the rest in drawdown to access as and when you need it. Annuitising is the process of converting a lump sum of money into a stream of regular payments that are made over a specified period of time. Be sure to speak to your pension provider about your options, and we'd strongly recommend seeking advice or guidance when taking your pension.

HOW MUCH TAX WILL I PAY ON MY PENSION POTS?

First, most individuals will receive 25% of their pension pot tax-free, while the remaining 75% is taxable. The amount of tax payable on that 75% depends on factors such as your tax code, the amount you withdraw at a time and whether you have any other income sources.

It is important to remember that the total amount you can typically take tax-free across all your pension pots is now £268,275 unless you have specific protections in place. Most people cannot access their pension pots until they reach age 55 (rising to 57 on 6 April 2028).

UNDERSTANDING YOUR PERSONAL ALLOWANCE

Everyone is entitled to a tax-free Personal Allowance each tax year, just like when working. For the 2024/25 tax year, the Personal Allowance is £12,570, which has been frozen at this level for several years. Any amount above this will be taxed as earned income according to your tax band. The simplest way to avoid paying excessive tax is to ensure you do not withdraw more from a pension pot than necessary. Taking it in small, regular amounts could help keep your tax bill down.

Remember, you only pay Income Tax on anything over your Personal Allowance. Therefore, if a pension pot is your sole income source, you could withdraw £12,570 from it each tax year without paying any tax. Conversely, taking large lump sums in the same tax year (outside of your 25% tax-free entitlement) could push you into a higher tax bracket.

COMBINING TAX-FREE WITH TAXABLE WITHDRAWALS

You do not necessarily need to take all of your tax-free lump sum at once. Often, you can take it in chunks over several months or years, provided your pension plan allows this. For instance, you could withdraw from the taxable portion of your pot and top it up with some of your tax-free amount.

EXPLORING ISAS AS AN INCOME SOURCE

Unlike your pension pots, savings in your Individual Savings Accounts (ISAs) are generally not taxed upon withdrawal. You can contribute up to £20,000 in the 2024/25 tax year (across all your ISAs) and will not pay tax on withdrawals or gains. If you have savings in an ISA, consider using them to supplement your pension income to help reduce your tax burden. Alternatively, you could use your ISA to cover your entire retirement income before touching your pension.

For some, the early years of retirement can be more costly, necessitating a higher income. Hence, using tax-efficient withdrawals from your ISA to cover this period might be sensible. As you age and settle further into retirement, your expenses may decrease. Perhaps you have paid off your mortgage, enjoy less expensive hobbies or your children no longer rely on you financially. This could mean you can eventually afford to live off a more modest pension income, thus reducing your tax liability. ◀

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READY TO DISCUSS HOW TO MANAGE YOUR PENSION EFFICIENTLY?
For further information and personalised advice on managing your pension withdrawals efficiently, please contact us so we can guide you in the most appropriate way for your unique situation.

Source data:

[1] Retirement income market data 2021/22 | FCA

[2] Calculated using Which's tax calculator, Income Tax calculator and salary calculator for 2024/25, 2023/24 and 2022/23 – Which? Figures rounded to the nearest £100.

PLACING ASSETS **INTO A TRUST**

ENSURING YOUR LEGACY IS MANAGED ACCORDING TO YOUR WISHES LONG INTO THE FUTURE

Trusts are a powerful tool for estate planning, providing flexibility and control over asset distribution. Properly structured, they can address various scenarios and requirements, ensuring that your legacy is managed according to your wishes long into the future.

Trusts separate assets' legal ownership from their beneficial ownership. The legal owner holds the title and is empowered to deal with and administer Trust assets, while the beneficial owner – as the name suggests – derives the benefit from them. This could be in terms of usage, income from those assets or sale proceeds.

GAINING CONTROL THROUGH TRUSTS

A person known as the 'settlor' places assets into a Trust, which may include money, property or other types of assets like life insurance policies and investment portfolios. This may be done during their lifetime (a Lifetime Trust) or can be triggered by death through a valid Will (a Will Trust). By placing the assets into this structure, the original owner may relinquish some of their rights and delegate responsibility to a trustee during their lifetime.

However, they can gain a lot more control in other ways. A settlor can project their wishes years into the future. Provided a Trust is set up correctly, you can determine who gets what and when with a good deal of precision. Trustees can be professionals (who work for a Trust company) or any other competent person prepared to take on these responsibilities.

VERY WIDE-RANGING POWERS AND TASKS

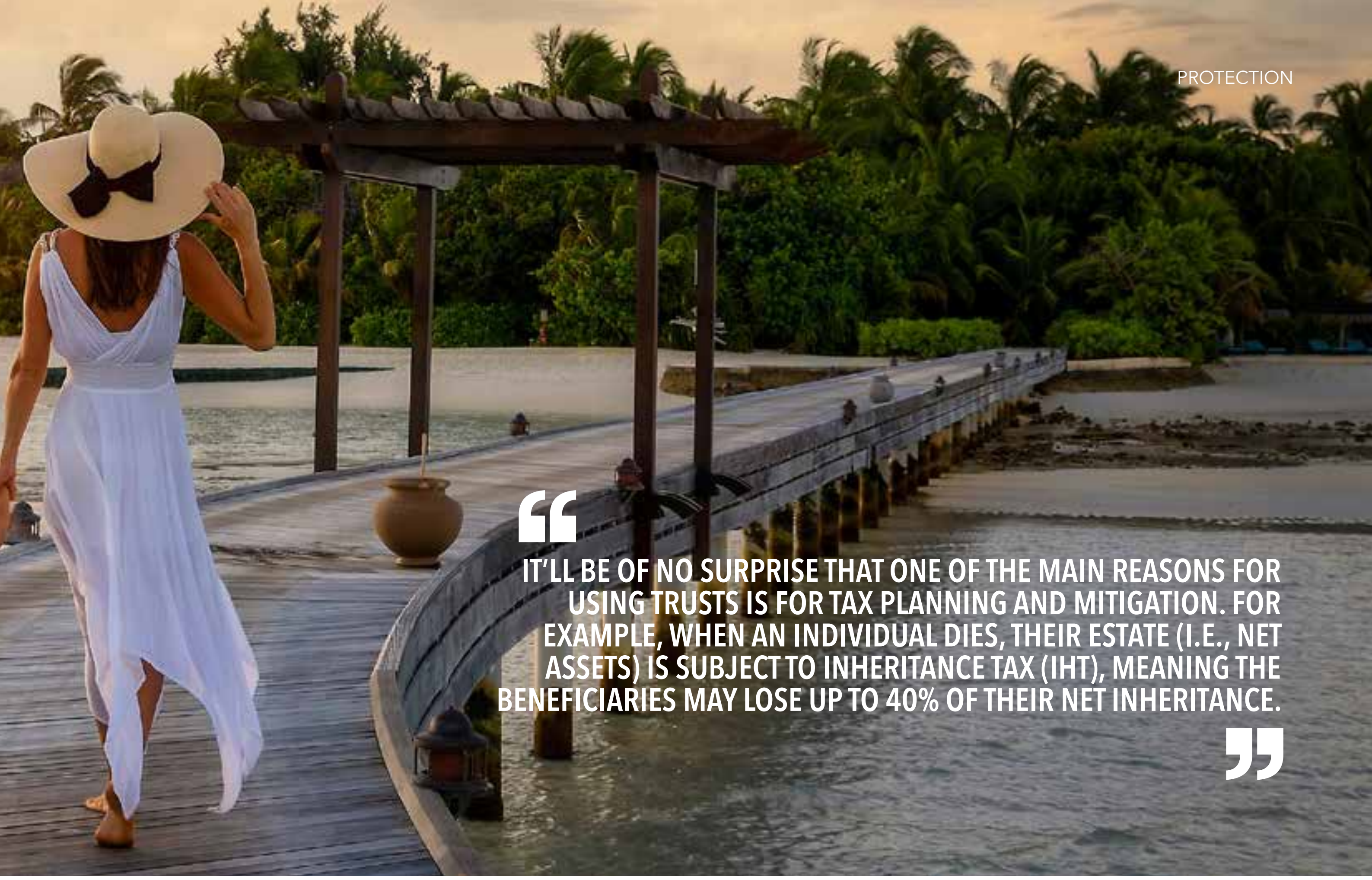
Trustees can have very wide-ranging powers and tasks, including settling tax bills and hiring investment management and legal professionals. If the Trust is discretionary, meaning they have discretion regarding the distribution of assets, they might also have to make certain decisions about how to use the Trust income and/or capital.

For these reasons, many prefer to have their Trust administered by professionals, paying them annual fees from the Trust's assets. However, others looking to structure family wealth may appoint a mixture of professional and family friend trustees to create a balance of objectivity and personal knowledge of the beneficiaries' situations and needs.

EMOTIONAL ASPECTS OF TRUST MANAGEMENT

Combining professional expertise with personal familiarity can ensure that both the technical and emotional aspects of Trust management are adequately addressed. Professional trustees bring technical know-how and impartiality, while family friends may offer deeper insight into the beneficiaries' circumstances.

By thoughtfully selecting trustees, you can achieve effective and empathetic management of your Trust, ensuring that your wishes are



fulfilled as intended. A blend of professional and personal trustees can provide a balanced approach, safeguarding the beneficiaries' financial and personal interests.

TYPES OF TRUSTS

Various types of Trust are available, and the settlor needs to decide which type is best suited for the circumstances.

A quick summary of the principal types of Trust is as follows:

Bare/Absolute Trusts – Where the settlor transfers the legal ownership of assets to the trustee for the benefit of the beneficiary absolutely.

Interest in Possession Trusts – The beneficiary (or sometimes known as 'life tenant') holds a right to the Trust fund's income or the right to use Trust assets. The remainderman's (the person who receives the property after the death of the life tenant) entitlement relates to the underlying capital.

Discretionary Trusts – This arrangement gives trustees flexibility and control over how best to use the Trust assets for the benefit of the beneficiaries. This flexibility helps in situations where children or grandchildren may not yet be born at the time the Trust is set up, as they would therefore automatically be included as a beneficiary.

Note that these are just a few examples; many other types of Trust can be used under different circumstances.

TAX PLANNING AND TRUSTS

It'll be of no surprise that one of the main reasons for using Trusts is for tax planning and mitigation. For example, when an individual dies, their estate (i.e., net assets) is subject to Inheritance Tax (IHT), meaning the beneficiaries may lose up to 40% of their net inheritance.

If assets are put into trust during a settlor's lifetime and they survive seven years, they are not part of the estate on death and may escape IHT at that time subject to the 14-year rule not being invoked. Trusts are used in certain IHT planning arrangements for the settlor's benefit, such as Gift and Loan plans, Discounted Gift Trusts and Flexible Reversionary Trusts.

TRUSTS IN WILLS

Trusts are frequently created in Wills, particularly where the beneficiaries are minor children who need someone to look after them financially. Any asset left to a minor under a Will is effectively held in trust for the minor by the executors until the minor reaches majority unless the Will allows payment to be made to a parent.

Trusts can be explicitly created in Wills to ensure that a beneficiary does not benefit until some other age is attained or a condition is fulfilled. There are many other reasons for setting up Trusts, notable examples being to provide a pension, provide for families, assist a charity, give property to those who legally cannot hold it, and gain protection from creditors and business protection. ◀

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ARE YOU LOOKING TO OPTIMISE YOUR RETIREMENT PLANNING?

If you require further information or personalised advice on setting up a Trust, please contact us. We're ready to assist you in navigating the complexities of Trust administration and estate planning.

FINANCIAL **PROTECTION**

ENSURING A SECURE FUTURE FOR YOU AND YOUR LOVED ONES

Nobody wants to consider what would happen if they became too ill to support their family financially. Financial protection is essential to creating peace of mind for your loved ones, but understanding what cover you may need can be confusing.

IMPORTANCE OF FINANCIAL SECURITY

Have you considered the implications financially if someone in your family were unable to earn money, became ill or were to die prematurely? It's not something we like to think about, but if you have left regular employment and are now either retired or have become self-employed, then any previous protection you received from an employer becomes your responsibility.

Think about the regular items you and your family spend money on – holidays, socialising, club memberships, family events. Paying for these could become more difficult without the right protection in place.

COVERING ESSENTIAL COSTS FIRST

Start by covering your debts and other essential costs, such as mortgage payments, council tax, utilities and food costs. You can then consider additional protection for other priorities.

The main types of protection include:

HEALTHCARE INSURANCE

Most UK residents are entitled to free healthcare from the NHS. However, some individuals also opt for private medical insurance. Also known as 'PMI,' it pays some or all of your medical bills if you're treated privately. Basic policies typically cover the costs of most inpatient treatments, and more comprehensive policies extend their coverage to outpatient treatments.

CRITICAL ILLNESS COVER

Critical illness cover pays a tax-free lump sum or regular payments upon diagnosing a specified critical illness. A lump sum could help you to take time off, modify the house, pay for medical treatment, or give you time to recuperate or adjust to your new condition. You can also build in children's cover – a lump sum payout if they are diagnosed with a critical illness could allow you to take unpaid leave to care for them.

INCOME PROTECTION

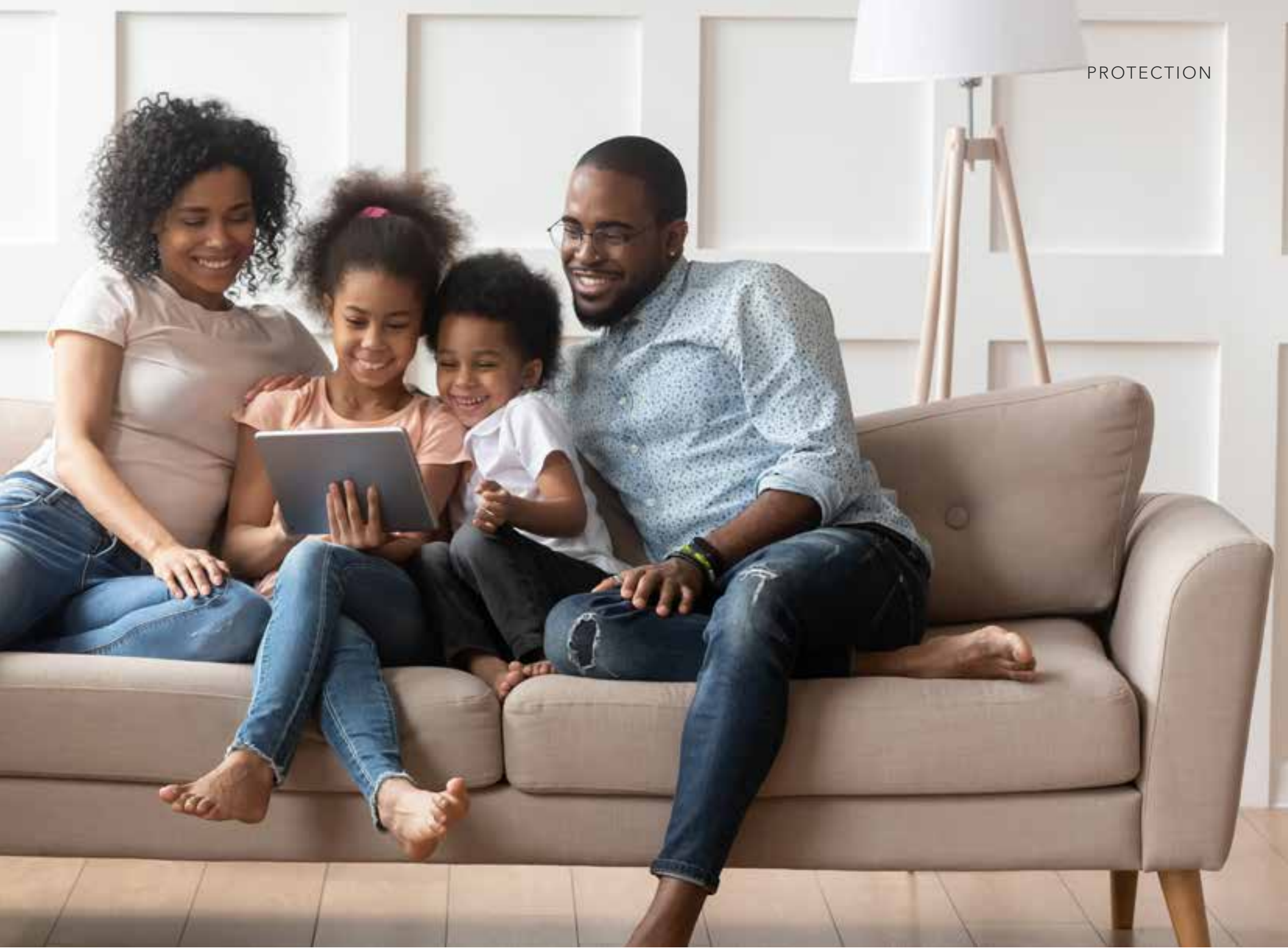
Income protection pays out a regular income to replace income you've lost through being unable to work due to sickness or disability. You can choose to take cover for a set period of time – for example, one to three years or until age 65 – and delay the start of payments for a number of months, both of which can help keep premiums down. You can also choose your level of cover – usually somewhere between half and two-thirds of your income.

LIFE INSURANCE

Life insurance pays out on death and can provide a lump sum or regular monthly payments over a specified timeframe – say, until children reach a certain age. The payments can help pay off or cover a mortgage, pay for school fees and cover lost income.

PROTECTING YOUR INHERITANCE

In the event of your death, the size of your estate could determine whether your family or other beneficiaries become liable for



Inheritance Tax. This tax can place a significant financial burden on your loved ones if insufficient funds are readily available or if adequate plans are not in place.

IMPORTANCE OF STRATEGIC PLANNING

Without proper planning, your family may be forced to sell valuable assets, such as the family home, to cover the tax bill. Therefore, it is crucial to consider all available options to protect your estate and ensure that your beneficiaries receive their intended inheritance.

One effective strategy is to set up a Trust for your dependants. A Trust offers several advantages that can alleviate the financial strain on your family. It pays out quickly upon death, eliminating the need to wait for probate to access the funds.

SETTING UP A TRUST

A Trust also falls outside of your estate, meaning there is no Inheritance Tax liability as long as it has been in place for seven years before your death, assuming the 14-year rule isn't invoked. Additionally, some Trusts allow you to decide exactly how much money goes where and when, giving you greater control over the distribution of your assets.

Another critical component of Inheritance Tax (IHT) planning is considering pensions. Pensions generally fall outside your estate, offering a significant advantage in reducing potential IHT liabilities.

COMPLEXITIES OF PENSIONS

However, the rules governing pensions can be complex, necessitating professional advice. It is essential to inform the pension scheme of the right beneficiaries and keep your nomination forms up to date to ensure your family benefits as intended after your death. It is also important to note that a nomination form is not legally binding on the trustees. The pension trustees have discretion in order to ensure the benefits are outside the estate of the individual for IHT purposes.

Properly managed pensions can offer substantial tax advantages and financial security for your loved ones. Regularly reviewing your pension arrangements is vital to maintaining the effectiveness of your inheritance planning strategy.

REGULAR REVIEWS AND UPDATES

Reviewing and updating your financial plans regularly is crucial to protect your inheritance effectively. Life changes such as marriages and births, or changes in tax laws, can significantly impact your current strategy. Staying proactive ensures that your estate remains optimally managed and protected.

Inheritance planning is a complex field requiring careful consideration and expertise. Seeking professional advice can help you navigate the intricacies of Trusts, pensions and tax implications, ensuring your legacy is preserved for your loved ones. ◀

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TAKING ACTION FOR PEACE OF MIND

Understanding and choosing the right financial protection ensures that your family remains financially secure despite unforeseen circumstances. Assess your needs and make informed decisions to safeguard your loved ones' future. If you require further information to make informed decisions about financial protection, please contact us for expert guidance.

WAYS TO REDUCE A **CAPITAL GAINS TAX LIABILITY**

HOW WILL YOU ENSURE MORE OF YOUR MONEY WILL GO TOWARDS YOUR FUTURE?

From using your annual exemption to saving in an Individual Savings Account (ISA), we look at ways to reduce a Capital Gains Tax (CGT) liability potentially. Cuts to the CGT exemption mean that arranging your investments as tax-efficiently as possible is more important than ever.

The CGT annual exemption more than halved from £12,300 to £6,000 on 6 April 2023 and dropped again to £3,000 from 6 April 2024. This means many investors selling assets will face a higher tax bill. Any gains that exceed the CGT annual exemption are taxed at 20% for higher rate taxpayers and 10% for basic rate taxpayers. The rate is higher for gains on second properties, at 28% and 18% respectively.

MAXIMISING YOUR EXEMPTIONS

The good news is that with careful planning, there are different ways to reduce CGT, ensuring more of your money goes towards your future. However, CGT can be highly complex and without expert financial advice, there's a risk you could end up paying it unnecessarily. Here are some ways to potentially reduce a CGT liability.

USE YOUR CGT EXEMPTION

Everyone has an annual CGT exemption, which enables you to make tax-free gains of up to £3,000 in the 2024/25 tax year. This can't be carried forward into the next tax year. Despite the reduced allowance, making full use of it each year could reduce the risk of incurring a significant CGT liability in the future.

MAKE USE OF LOSSES

You might be able to minimise your CGT liability by using losses to reduce your gain. Gains and losses realised in the same tax year must be offset against each other, which can reduce the amount of gain that is subject to tax. Unused losses from previous years can be brought forward, provided they are reported to HM Revenue & Customs within four years from the end of the tax year in which the asset was disposed of.

TRANSFER ASSETS TO YOUR SPOUSE OR REGISTERED CIVIL PARTNER

Transfers between spouses and registered civil partners are exempt from CGT, which means assets can be transferred from one partner to the other to use each person's annual CGT exemption. This effectively doubles the CGT exemption for married couples and civil partners. The transfer must be a genuine, outright gift.

INVEST IN AN ISA / BED AND ISA

Gains (and losses) made on investments held within an ISA are exempt from CGT, so it makes sense to use your ISA allowance each year, particularly for higher and additional rate taxpayers. In the 2024/25 tax year, you can invest up to £20,000 in an ISA. For married couples and civil partners, the ISA allowance effectively doubles to £40,000.

CONSIDERATIONS AND PROFESSIONAL ADVICE

There is also an option called 'Bed and ISA', which involves selling investments to realise a capital gain and then immediately buying back the same investments inside an ISA. This enables all future gains on the investment to be CGT-free. Bear in mind that you may pay stamp duty and other costs when repurchasing investments in an ISA, and there is a risk that time out of the market, however small, will detrimentally impact your investments. It's important to obtain professional financial advice before taking such action.

CONTRIBUTE TO A PENSION

Making a pension contribution from relevant earnings could help you save on CGT because it effectively increases the upper limit of your Income Tax band. If, for example, you made a gross pension contribution of £10,000, the point at which higher rate tax becomes payable would rise from £50,270 to £60,270 (2024/25 tax year). If your capital gain plus other taxable income fell within this extended basic rate income tax band, CGT would be payable at 10% instead of 20%, provided the gain wasn't from residential property.

GIVE SHARES TO CHARITY

If you give land, property or qualifying shares to a charity, Income Tax relief and CGT relief are available. This strategy not only benefits the charity but also provides you with significant tax advantages. By giving assets directly to a charity, you can avoid CGT on any increase in value and claim Income Tax relief based on the market value of the assets donated.

CLAIM GIFT HOLD-OVER RELIEF

Gift Hold-Over Relief could be available if you give away certain business assets or sell them for less than they are worth to help the buyer. If you're eligible, you won't pay CGT when you give away the assets, but the person you give them to might be liable for CGT when they sell them. You must meet several eligibility conditions, so if you're unsure, speak to a professional adviser. This relief allows you to defer the CGT liability until the recipient disposes of the asset, effectively transferring the tax burden to them. This can be particularly useful when you want to support a family member or business partner.

CHATTELS THAT ESCAPE CGT

Gains on possessions such as antiques and collectables, called 'chattels', may be tax-free. For example, items with a predictable life of 50 years or fewer, known as 'wasting assets', are CGT-free, provided they were not eligible for business capital allowances. Wasting assets include antique clocks, vintage cars, pleasure boats and caravans. For non-wasting chattels, like paintings and jewellery, the CGT position depends on the sale proceeds, with those £6,000 or under usually being exempt. This exemption can provide a valuable opportunity to capitalise on the appreciation of these items without incurring a tax liability. ◀

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ARE YOU READY TO DISCUSS MAXIMISING ALL YOUR TAX RELIEFS, ALLOWANCES, AND EXEMPTIONS?

CGT is a complicated subject. We'll ensure you're maximising all your tax reliefs, allowances and exemptions, explain your options and advise on the best course of action for your individual circumstances. To learn more, contact us to structure your investments in the most tax-efficient manner possible.

INVESTING **A LUMP SUM**

RECEIVED AN INHERITANCE, WINDFALL, OR PROCEEDS FROM A BUSINESS OR PROPERTY SALE? BUT WHAT NEXT?

Receiving a lump sum of money, whether from an inheritance, windfall, or proceeds from a business or property sale, can be exciting and overwhelming. Deciding where to invest this money is crucial, and with numerous options available, it can be challenging to determine the best course of action.

Knowing where to put a cash windfall can be difficult, particularly in times of market and economic uncertainty. We explore ways to invest your lump sum to help you make an informed decision and ensure you maximise your financial growth and security.

ASSESSING YOUR GOALS

The right decision for you will largely depend on what you want to do with your money and your needs and goals, which we can help you assess. In the meantime, here are some of the main options to consider.

CASH SAVINGS ACCOUNT

A cash savings account is a good choice if you want to use your lump sum to fund short-term goals – a holiday or new car, perhaps – or if you're not quite sure what to do with it yet. By holding your lump sum in a cash savings account instead of investing it in the stock market, you won't risk your money falling in value just before you need to access it.

If you don't need your money for several months, you may wish to consider a notice or fixed-term savings account, as these may offer higher rates than easy-access savings accounts. It's always worth shopping around to find the best rate on your savings, as a difference of only 0.5% could significantly impact large sums of money.

UK GOVERNMENT BONDS

UK government bonds ('gilts') could be an attractive choice if you want to use your windfall to fund a medium-term goal. Gilts are secure savings vehicles guaranteed by the government and listed on the London Stock Exchange.

If gilts are held inside an Individual Savings Account (ISA) or other tax-free wrapper, there is no Capital Gains or Income Tax to pay. If held outside of an ISA or similar, gilts are free from Capital Gains Tax when you profit from a trade, but any income you get is subject to Income Tax.

STOCK MARKET INVESTMENTS

For longer-term goals, such as retirement or leaving a legacy for the next generation, you may wish to invest a portion of your lump sum in the stock market. Although the stock market is volatile, history shows that it tends to outperform cash and bonds over extended periods. You should be comfortable committing your money for at least five years, ideally longer. This will hopefully give your investments time to recover from any stock market downturns.

One way to reduce risk is to spread your money across different asset classes, such as equities, bonds and cash, as well as across sectors and regions. This is because different assets, sectors and regions tend to perform differently under various market conditions. We can assist you in building a diversified portfolio that suits your needs and attitude towards risk.

INVESTMENT ISA BENEFITS

If you haven't utilised your ISA allowance this year (2024/25), investing your lump sum in an Investment ISA will potentially allow it to grow over the long term while also shielding it from Capital Gains Tax (CGT) and Income Tax. If you sell investments outside of an ISA, you could be taxed on your profits above your annual CGT exemption.

Additionally, if your investments pay dividends or interest, this could be included when calculating your overall Income Tax bill, potentially pushing you into a higher Income Tax bracket. The ISA allowance currently stands at £20,000. It is a 'use it or lose it' allowance, meaning you cannot carry it forward from one tax year to the next.

MAXIMISING PENSION CONTRIBUTIONS

Another option is to maximise your annual pension allowance. You can invest up to £60,000 or 100% of your UK relevant earnings, or £3,600 if you have no relevant earnings (whichever is lower) into pensions yearly and benefit from Income Tax relief up until age 75. Income Tax relief provides an immediate boost to your personal pension contributions, helping to increase how much money you have at retirement.

In some circumstances, you might be able to 'carry forward' unused annual allowances from the previous three tax years. Remember that your pension annual allowance might be lower than £60,000 if you earn a high income or have already flexibly accessed your defined contribution pensions. We can help you determine how much your annual allowance is and whether making a pension contribution is the right choice for you. ◀

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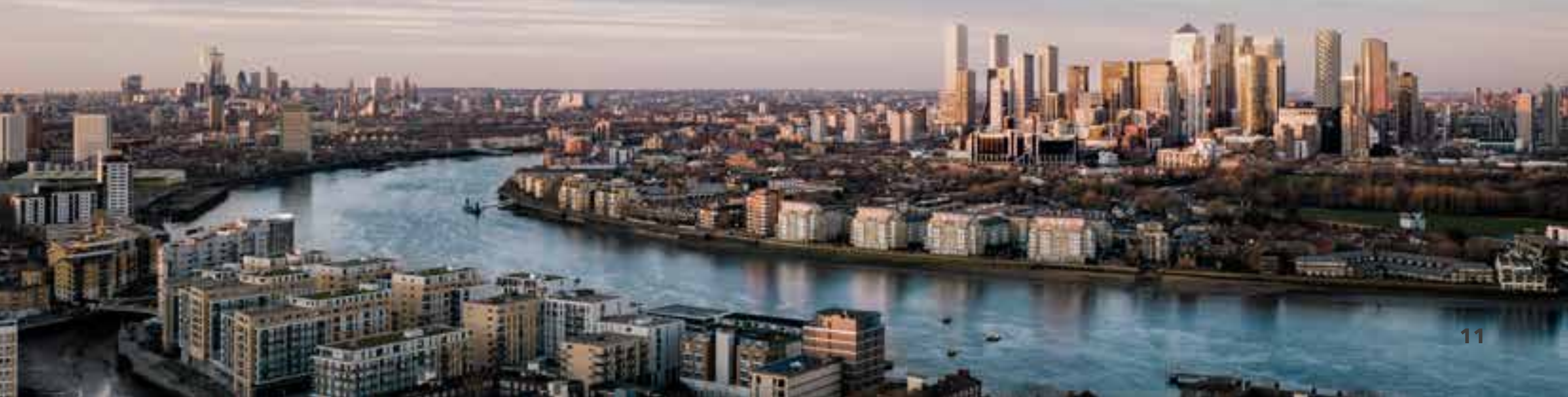
READY TO DISCUSS HOW TO INVEST A LUMP SUM OF MONEY?

If you come into a lump sum of money, you'll need to decide how best to use it. Please contact us for further information and personalised advice. We are here to help you make the most informed and beneficial decisions for your financial future.



CARING FOR GRANDCHILDREN

HOW IT CAN HELP YOU BOOST YOUR STATE PENSION

Around one in five grandparents over the age of 50 in the UK provide childcare help for their grandchildren, but thousands may be missing out on a valuable scheme that could increase their State Pension entitlement[1]. Soaring childcare costs mean many parents turn to grandparents to look after their children when they return to work.

This helps them and has important financial benefits for grandparents, even if they aren't paid for the childcare they provide. Grandparents who care for grandchildren may be able to claim National Insurance (NI) credits to potentially increase their State Pension by thousands of pounds over the course of retirement.

The charity Age UK has highlighted around five million people currently provide regular care for their grandchildren. According to the latest figures from HM Revenue & Customs revealed by a Freedom of Information request, around 21,000 people applied for Specified Adult Childcare credits last year, and 17,000 qualified.

HOW TO APPLY FOR SPECIFIED ADULT CHILDCARE CREDITS

The process of claiming these credits involves transferring them from the child's parent to the grandparent providing the care. This can ensure that grandparents do not miss out on valuable State Pension entitlements.

It's essential for grandparents to be aware of this opportunity and to take the necessary steps to apply for these credits. The application process is straightforward but requires understanding the specific eligibility criteria and documentation needed.

POTENTIAL IMPACT ON RETIREMENT INCOME

By claiming these NI credits, grandparents can see a significant boost in their State Pension over time, which can provide greater financial security in retirement. The increase in pension can make a substantial difference, especially given the rising cost of living and other financial pressures retirees face.

Understanding the long-term benefits and taking action to claim these credits can ensure that grandparents are adequately compensated for the vital support they provide to their families.

CLAIMING SPECIFIED ADULT CHILDCARE CREDITS

Grandparents or relatives who assist with childcare must complete a form to claim Specified Adult Childcare credits. The child's parent must also sign the document to confirm that you provided care during a specific period and agree to transfer their credits to you.

Please note that only one credit can be claimed per household. Therefore, you can only claim once if you care for two children in the same household. However, if you look after children from different families, you can make multiple claims.

HOW THE SCHEME WORKS

Once you have completed the relevant form, the Specified Adult Childcare scheme transfers NI credits from a parent who does not need them to a grandparent or family member providing the care. These credits can help fill gaps in your NI records. However, it's important to note that this scheme cannot be used if you are over State Pension age.

If you are a working grandparent, you will not require NI credits as you should already receive 'qualifying years' on your NI record, which is subject to earnings. Additionally, there is no minimum number of hours you need to have looked after your grandchildren to be eligible for credits. You could benefit from the scheme if you cared for them all week or just one day a week.

During the coronavirus lockdowns, if you cared for your grandchildren via video or telephone, you can still apply for credits for the tax years 2019/20 and 2020/21 despite being unable to do so in person due to government restrictions. ◀

LOOKING FOR FINANCIAL PLANNING FOR THE LIFE YOU WANT TO LIVE?

If you require further information, we'll help you put the right pieces together for your future. Please contact us for more detailed guidance.

Source data:

[1] Age UK 08/05/24.

THIS ARTICLE DOES NOT CONSTITUTE TAX, LEGAL OR FINANCIAL ADVICE AND SHOULD NOT BE RELIED UPON AS SUCH. TAX TREATMENT DEPENDS ON THE INDIVIDUAL CIRCUMSTANCES OF EACH CLIENT AND MAY BE SUBJECT TO CHANGE IN THE FUTURE. FOR GUIDANCE, SEEK PROFESSIONAL ADVICE.

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