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INDEPENDENT NEWS

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CHARTERED FINANCIAL PLANNERS

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Kellands (Hale) Limited
24 Victoria Road, Hale, Cheshire WA15 9AD.
Tel: 0161 929 8838 **Fax:** 0161 929 9921 **E-Mail:** hale@kelland.co.uk **www.kelland-hale.co.uk**

Welcome to **Kellands** Independent News

Welcome to the summer edition of the Kellands Newsletter.

It's my pleasure to again welcome you to the Kellands Summer newsletter (also available in digital format and online through our website www.kelland-hale.co.uk).

2023 has thus far proven a challenging period with households having to deal with the ongoing uncertainty thrown up by today's cost of living crises and the tricky investment and economic climate. It appears that the latest consensus amongst most economists is that the current rising interest rate cycle will now not alter trajectory until 2024 and will only be possible when the current inflation rate starts to substantially decrease.

Although not the ideal backdrop for any investor, my experience over the last 30 years, both as investor and Financial Adviser, has taught me that during these recurring periods of uncertainty the most successful course of action has been to maintain the financial strategy initially adopted. Of course, it is important to review and perhaps tweak the strategy according to personal developments and legislative changes, but the investment markets have always operated in cycles.

As a company, our investment committee has been working hard to adapt and fine tune our core strategies and at your next review I am sure your Kellands adviser will explain how we have again improved the investment terms, charges and diversification of our latest investment solutions.

Thank you to all those clients that have helped us to win the Moneyfacts national awards with your glowing testimonials. Also, a big thank you to those of you who have recommended the Kellands service to your friends, family and business colleagues. We have seen one of the largest influxes of new client enquiries over the last six months, which I am hopeful is testament to my team's dedication, enthusiasm and drive to deliver the very best outcomes for our clients.

I hope that you will find this latest publication of value and I wish you all a fantastic summer.

Guy and all the team at Kellands

GUY KELLAND
MANAGING DIRECTOR

LOOKING TO MAKE THE MOST OF TOMORROW BY PLANNING TODAY?

Your wealth needs to serve you differently at different stages of your life. Find out how we can help you make the most of tomorrow by planning today. To discuss how we can help, please contact us.

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INHERITANCE TAX – PLAN WITH YOURSELF IN MIND, NOT YOUR BENEFICIARIES.

It is fair to say that more people expect to breach the inheritance tax (IHT) threshold nowadays, especially given the rise in the value of housing in recent years. Over the last 50 years house prices have, on average, increased by 9.3% per year in the UK. That's a 464% increase overall*.

The nil rate band (£325k in 2023/24) and the introduction of the Main Residency nil rate bands (£175k in 2023/24) for those with direct descendents are both useful allowances for people concerned about IHT. However, there are very few IHT planning opportunities for those with larger property-weighted estates who wish to reduce their asset base.

Gifting and Trust planning are the standard and more popular methods for IHT mitigation. However, this becomes a little trickier when dealing with properties. For example, when gifting your main residence either outright to an individual or into Trust, you must not continue to benefit from the property, for example, continuing to live there rent free. You can continue to live in the property, but you must pay rent at the standard market rate for the asset to fall out of the estate after seven years.

There is greater flexibility with rental properties or second homes, where liquidating or creating a structure of part/joint ownership can form a more effective and flexible IHT planning solution.

The quandary to solve when it comes to liquidating additional properties is twofold: the Capital Gains Tax liability on sale and the loss of income that you are likely to be receiving from that asset, in the form of rentals. The average rental yield in the UK is between 3-5% per annum and so replacing this income is likely to be important in order to maintain your standard of living. Care must be taken if you are to give away a large income-producing asset without being able to benefit from it anymore.

There are some types of Trusts which can allow you to make a gift and retain access to income over your lifetime, such as Discounted Gift Trusts, Reversionary Interest Trusts and Loan Trusts, to name a few. They each have slightly different terms and conditions, however, and it is worth discussing these types of investment vehicles with your Financial Adviser to find out whether they suit your circumstances.

These points show that the most essential part of IHT planning must be to ensure that your day-to-day living standards are prioritised. Let's face it, you can undertake all manners of aggressive IHT planning and give away the majority of your wealth to avoid this tax for your beneficiaries, but it is essential that you undertake a full analysis of what you can afford to give away first. Your income and potential care needs must be kept in place, and even if this is not something you end up relying on in the future, it is much better than the alternative of not having it when required.

Care must also be taken should your estate be valued at around £2m. This is because the £175,000 main residence nil rate band starts to reduce by £1 for every £2 over an estate value of £2m. With house prices rising at 9.3% per year, this brings a lot more families into this category, unless the government start adding inflationary increases to these bands in the future.

Regardless of the numerous IHT mitigation options out there, you should consider some standard practices for natural IHT planning over time:

- Spend cash and investments, before private pensions. Pensions do not form part of your estate for IHT purposes and can pass tax efficiently to any beneficiary you nominate.
- Make use of your annual £3,000 gifting allowance. This can be made to anyone throughout the year and the previous unused years' allowance can be carried forward.
- Small gift allowance of £250pa which can be made to any number of individuals throughout the year.
- Wedding gifts for family members, starting at £5,000 for children.
- Gifts out of normal expenditure. You can gift as much as you wish providing your regular income covers your standard living costs.
- Spend and enjoy your money. Living life to the full (where possible) is a good way to enjoy the money you have worked hard for over the years.

For more information regarding all gifting allowances and rules, please speak to your financial adviser, who will take each individual/couple's circumstances in a bespoke fashion. ■

***Source data:** gov.uk website

IAN BOASMAN
CHARTERED FINANCIAL PLANNER

SUMMER **PENSION CHANGES**

Extensive pension changes have dominated the headlines following the government's 2023 Spring Budget.

However, while the changes are positive, they are yet to become law so it is advised to speak with a qualified Financial Planner before making any changes to your retirement plan based on these latest proposals.

The Budget proposed scrapping the lifetime allowance and raising the annual allowance – the amount you may be able to put into your pension each year without paying an excess tax charge.

The changes will now need to pass into law and, like any legislation, go through the parliamentary process. The government has published its Spring Finance Bill 2023 outlining the detail and said its pension changes came into effect from the start of the new tax year, 6 April 2023.

THE MAIN CHANGES

Lifetime pension allowance scrapped – the limit on how much someone can generally put aside in pension savings before they must pay a lifetime allowance charge of up to 55% is being removed. The current limit, £1,073,100, was set to be in place until 2026, but the allowance will be fully abolished from April 2024. The maximum, non-protected amount you can take out of your pension tax free when you reach minimum pension age as a lump sum remains 25%, but it will now be capped at £268,275.

Annual Allowance increased – the second key move was an increase in the annual allowance – this is the amount people can save into their pension pots tax free every year – raised by 50% from £40,000 to £60,000. This includes all contributions by both you, your employer and any other third parties. Most basic rate taxpayers get tax relief at source, meaning for every £80 they contribute to their pension, HM Revenue and Customs effectively adds another £20 meaning £100 goes into their pension. If you save more than the allowance, you don't get the tax relief. However, high earners will have their allowance tapered down, depending on how much they earn, to a minimum of £10,000.

The 'money purchase annual allowance' (MPAA) is a limit on how much people over age 55 who have started drawing an income from their retirement pot can pay into a defined contribution pension with tax relief. This allowance was £4,000 but has now been moved up to £10,000.

WHAT ELSE IS HAPPENING?

This month will see a sharp rise in the State Pension. About 12.6 million people will benefit from a rise of 10.1% in the amount they get every month: it is £156.20 a week for those getting the basic pension, and £203.85 a week for those on the new State Pension from 6 April 2023.

The freeze in personal tax thresholds was announced by the Chancellor in 2021, and there was no change to the level of income tax in the last budget. Pension contributions are becoming even more attractive as tax burdens increase. Contributions to a pension remain one of the most tax-efficient methods to save for your retirement and reduce your Income Tax liabilities as detailed above. To recap, pension tax relief means that it only costs basic rate taxpayers £80 to pay £100 into their pension, and it's an even better deal for higher rate taxpayers, where it will cost £60 to pay £100 into their pension.

Understanding how much you'll want to live on once retired is an important step in understanding how much to save. Seek professional advice to aid these discussions and formulate a plan. ■

JENNIFER SKEHAN
CHARTERED FINANCIAL PLANNER

BENEFITS OF CASHFLOW MODELLING

At Kellands, we believe that the use of forecasting tools helps to elevate the financial planning process. Cashflow modelling includes various charts and graphs which act as visual aids bringing financial planning to life.

There are many benefits for using cashflow tools, either during reviews or to support recommendations. The charts help to demonstrate the effect of withdrawals in retirement, compare the difference in monthly saving amounts or how paying into a pension vs paying off a mortgage could affect future finances.

Although based on economic assumptions, it can help to answer questions such as 'When can I afford to retire?' or 'How long will my money last in retirement?' By simply entering various details such as income/expenditure and what funding is expected, a chart can be produced which calculates how the investments may perform over several years and whether they will be on track to meet the stated goals.

A further benefit is having the ability to factor in life events, for example:

- Gifting money to children
- Taking tax-free cash from a pension
- Commencing retirement income and receiving the State Pension
- Moving into a care home/requiring at home care

WHEN IT IS RELEVANT TO USE IT?

Cashflow forecasting can be used at any stage of life. There are generally three phases of life within the financial cycle: accumulation, preservation and decumulation.

Accumulation: In the accumulation stage it is useful to compare how saving differing amounts monthly could have an impact in, say, 30 years due to compound returns. It can be used to demonstrate to someone in their early 20s how saving £200 per month for a house deposit compares to saving £100 per month. The compounding of returns over many years could mean a higher deposit is saved in comparison to cash. This is, of course, based on how long an investment term is available, as we would generally not recommend investing funds if the capital is required within the short term (less than five years).

Preservation: Generally, preserving capital is the main priority for those in their 40s and 50s when they are at the peak of their earnings and want to capture as much of the excess income as possible. Cashflow modelling can help to demonstrate how their overall estate may begin to grow as the mortgage decreases, pensions begin to increase and excess savings are allocated to other investments. Cashflow modelling can be used for many different scenarios at the preservation stage:

- As mentioned above, comparing overpaying on a mortgage to saving the excess income.
- How altering the investment portfolio to a more conservative risk strategy may affect the growth as retirement approaches.
- How gifting capital to children as they grow up could affect their eventual retirement pot.
- How early retirement may be achieved by allocating more funds to other savings/ investments when affordable.
- An overall view of their total net worth, including how their main residence increasing in value may affect future planning.

BENEFITS OF CASHFLOW MODELLING

Decumulation: This stage is generally retirement and can take effect from as early as 55 (current age at which pensions can be accessed, due to increase to 57 in 2028). This is the point where clients begin to draw on the assets that they have amassed: pensions, cash and investments. It is crucial during this stage that cashflow modelling is incorporated into reviews (not only because this is a regulatory requirement!) because forecasts help to show clients how a certain level of withdrawal may affect their holdings. Retirement can take many forms – some like to gradually enter retirement by going part-time first, some take full retirement at once. Cashflow caters to all situations and can take into account varying withdrawals such as:

- Client A who has a part-time income of £1,000 per month for the next five years before retirement. Initially they only withdraw £500pm from their assets. In five years this will increase to £1,500pm. This withdrawal lasts for a further three years until their State Pension starts (of £900pm), at which point their income from Kellands managed assets reduces to £600pm.
- Client B who is going to fully retire age 60 and withdraw £2,000pm. This begins immediately at age 60 and then is to reduce at age 65 when their workplace final salary pension starts and reduces again when their State Pension commences at age 68.
- Client C who wants to draw an element of their tax-free lump sum for house renovations and a well-deserved holiday! However, they will continue to work for a further five years before withdrawing a regular income. They also worry about the effects of care costs in later life and want to see how that may affect their holdings.

Cashflow modelling can incorporate all the above and include such things as market crashes to demonstrate how volatility within the markets may affect income and how long it may last.

Overall, even though lots of assumptions must be made when using cashflow modelling, it is a great tool to bring to life the financial planning that has been underway for many years leading up to retirement and how monies can be used to support retirement. It is easily changed to cater to different circumstances and multiple cashflows can be created at once to compare the graphs. ■

CHARLOTTE KNIGHT
CHARTERED FINANCIAL PLANNER

STATE PENSION

How much has the 2023/24 State Pension increased by?

If you are a UK resident planning for your retirement, it's important to be aware of the State Pension changes that have taken effect in the new tax year. From April, the amount you can now receive as part of the UK State Pension has risen, which will be welcome news to those who have retired or are nearing retirement age.

Knowing what to expect from your future State Pension, and when you can expect to start receiving it, is an essential part of planning for retirement. This may involve making contributions to the National Insurance scheme, which can provide additional entitlements on top of the basic State Pension.

Unlike a private pension, the State Pension is a four-weekly payment made by the government to people who have reached the qualifying age and have paid enough National Insurance contributions.

In November last year, the government confirmed that the State Pension would increase by 10.1% – in line with September's Consumer Prices Index (CPI) measure of inflation.

From April 2023, payments are:

- £203.85 a week (up from £185.15) for the full, new flat-rate State Pension (for those who reached State Pension age after April 2016)
- £156.20 a week (up from £141.85) for the full, old basic State Pension (for those who reached State Pension age before April 2016)

HOW IS THE STATE PENSION AGE CHANGING?

In addition to the increase in the pension amount, there are also changes being considered to the State Pension age. This means that the age at which you can start receiving your pension may be adjusted in line with life expectancy changes.

The government says 12.4 million people currently receive the State Pension. Men and women born between 6 October 1954 and 5 April 1960 start receiving theirs at the age of 66.

But for people born after this date, the State Pension age is gradually increasing to 67 by 2028 and 68 by 2046. At a cost of £105 billion, the StatePension accounts for just under half the total amount the government spends on benefits. ■

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WANT TO EXPLORE YOUR OPTIONS FOR RETIREMENT SAVINGS?

The key to successful retirement planning is to start early and stay informed. By keeping up to date with State Pension changes and exploring your options for retirement savings, you can help ensure a financially stable and comfortable retirement. To get your retirement plans in motion, talk to us about your finances. We look forward to hearing from you.

A PENSION IS A LONG-TERM INVESTMENT NOT NORMALLY ACCESSIBLE UNTIL AGE 55 (57 FROM APRIL 2028 UNLESS PLAN HAS A PROTECTED PENSION AGE).

THE VALUE OF YOUR INVESTMENTS (AND ANY INCOME FROM THEM) CAN GO DOWN AS WELL AS UP, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

YOUR PENSION INCOME COULD ALSO BE AFFECTED BY THE INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS.

PENSIONS OF **SIGNIFICANT VALUE**

Welcome but unexpected changes to pension tax

Chancellor Jeremy Hunt's first proper Budget 2023, on Wednesday 15 March, brought some welcome but unexpected changes to pension tax. The changes are designed to alleviate the impact of strict pension rules, which are believed by Mr Hunt to have had a negative impact on the country's labour market.

Britons can now expect significant changes that will affect their retirement savings. But to fully understand how these changes could impact on your pension and secure your retirement plans, it is essential to obtain professional financial advice.

EXCEEDING THE ALLOWANCE

The most significant change was the abolition of the pension Lifetime Allowance (LTA) charge. As of 6 April 2023, the LTA for registered pension schemes has been completely removed, with total abolition set for April 2024. The LTA was previously the maximum amount of savings an individual could make in a registered pension scheme without incurring a tax penalty.

The standard LTA for the 2022/23 tax year was set at £1,073,100, which meant those with pensions exceeding this amount would face a tax charge. However, with the abolition of the LTA, individuals can now contribute as much as they like to their pension schemes without fear of being penalised for exceeding the allowance.

TAX-FREE LUMP SUM

This is particularly good news for those with pensions of significant value, as the value their pension funds can grow to will no longer be capped. It is also worth noting that the government tax relief on pension contributions will still be available, which means individuals can continue to benefit from this incentive.

Additionally, under the previous LTA rules, an individual could withdraw up to 25% of their pension savings as a tax-free lump sum, but that has now changed. The tax-free lump sum that can be drawn at age 55, moving to 57 from 2028, is now capped at £268,275 (unless protection is in place).

UK'S PENSION SYSTEM

To ensure that your retirement plans are not impacted by these changes, it is essential to obtain professional financial advice and discuss what is the best course of action for your situation.

The removal of the LTA charge marks a significant change to the UK's pension system, and it remains to be seen how this will impact pension savings and retirement planning in the years to come.

ATTRACTIVE INVESTMENT OPTION

The tax-relievable annual pension contribution limit has also increased from £40,000 to £60,000, unless tapering applies, which is good news for most people.

Pensions have always been an attractive investment option with tax-relievable contributions, tax-free returns, and in most cases no Inheritance Tax. The removal of the LTA tax regime and the opportunity to rebuild pension benefits with an increased allowance are excellent news for long-term financial wellbeing.

BURDEN OF INCOME TAX

While Individual Savings Accounts (ISAs) have remained unchanged, they still are an essential part of a tax-efficient savings and investment strategy. This strategy removes the burden of Income Tax and Capital Gains Tax (CGT). With the current reduction in the CGT allowance to only £6,000, ISAs and pensions become even more critical.

In summary, the Chancellor's budget was constrained, but the message is clear – it's time to take advantage of the saving incentives. ■

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ARE YOUR EXISTING PENSION PLANS SUFFICIENT TO PROVIDE YOU WITH A COMFORTABLE RETIREMENT?

If you're feeling unsure about how the recent changes in pension tax rules might have impacted your retirement plans, we're here to help. We can offer expert advice and guidance on your retirement planning, whether you're in the middle of building your pension pot or preparing for retirement. To learn more about how we can help you, please don't hesitate to get in touch.

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EARLY BIRD INVESTORS

Does the early bird get the ISA worm?

If you're an investor looking to maximise your Individual Savings Accounts (ISA) returns, it's worth considering investing your ISA allowance as soon as possible each year. Not only will this help ensure that your money is protected from taxes right off the bat, but it also means that your investment has more time to grow in the market. This can result in a bigger ISA pot in the long run.

Of course, this strategy may not be right for everyone, and there are risks to investing in the market. It's important to carefully consider your investment goals, risk tolerance and overall financial situation before making any investment decisions. However, for many investors, investing their ISA allowance early on can be a smart move that pays off over time.

HIGHLY EFFICIENT WAY TO PROTECT INVESTMENTS FROM TAX

An Individual Savings Account (ISA) is a highly tax-efficient way for people to protect their investments from tax. In the 2022/23 tax year, everyone in the UK had an annual Capital Gains allowance of £12,300, which was reduced to £6,000 in the Autumn Statement on 17 November 2022. This will reduce further to £3,000 from April 2024.

However, when you invest into an ISA, you can enjoy tax-efficient returns and don't need to declare any interest from an ISA or any income or capital gains made from it when completing your annual tax return.

MAKE SURE YOU USE YOUR FULL ISA ALLOWANCE

The maximum amount that can be invested into an ISA in the 2023/24 tax year is £20,000. This allowance hasn't changed since April 2017 when it was increased from £15,240 and is higher than the £7,000 maximum allowance offered in 2008. However, any unused allowance will not carry over to the next tax year, meaning that it's essential to make sure you use your full ISA allowance during the current tax year if possible.

Investing early can certainly offer many benefits, including an extra year of tax-sheltered growth. However, it's important to be aware that investing outside of an ISA can come with tax risks. The halving of the dividend tax allowance this tax year means that you may end up paying tax on dividends earlier in the year if you hold investments outside of an ISA.

TAKE ADVANTAGE OF POUND COST AVERAGING

Starting an ISA early in the tax year provides many benefits when investing, particularly when it comes to setting up regular monthly payments into a Stocks & Shares ISA. By doing so, you can take advantage of pound cost averaging, which is a process of drip-feeding money into an investment over time in order to reduce the impact of market ups and downs.

The idea behind pound cost averaging is that when you invest a fixed sum every month, you'll buy more units when an investment's price falls, which can provide the potential for greater profits if they then rise.

longer your money is invested, the more time it has to grow and potentially compound over time.

Investing in an ISA can be a great way to grow your savings pot beyond the limits of a tax-efficient allowance. It's important to consistently max out your ISA allowance each year, if affordable, and enjoy generous investment returns. Even if you don't have a large lump sum to invest, you can still benefit from regular, small contributions from the beginning of the new tax year. So start saving and investing today and see how far you can go! ■

READY TO PUT YOUR 2023/24 ISA ALLOWANCE TO WORK NOW?

If you're considering using your ISA allowance this year, don't wait until the last minute. Invest early and give yourself the best chance of maximising your returns. Whatever your investment goals, we'll help you to grow your wealth in a way that's right for you. So why wait? Let us help you make the most of your ISA allowance today. To find out more please contact us.

THIS ARTICLE DOES NOT CONSTITUTE TAX OR LEGAL 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.

THE VALUE OF YOUR INVESTMENTS (AND ANY INCOME FROM THEM) 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.

ESTABLISHING A REGULAR INVESTMENT PLAN EARLY ON

Of course, the opposite can also be true – if prices rise, you'll buy less. However, over time, pound cost averaging can help to smooth out the ups and downs in an investment's value, reducing the risk of dramatic swings in your portfolio.

By establishing a regular investment plan early on, you'll also be able to take advantage of the full tax year for your investments, allowing you to spread your investments across the entire year. This can help to reduce the risk of investing all of your money at a time when the market may be overvalued.

GOOD NEWS IS THAT YOU CAN TRANSFER YOUR ISA

Transferring an existing ISA could also be a practical option if you're looking for a more competitive deal or want to consolidate your investments. The good news is that you can transfer your ISA at any point during the tax year, but it's essential to take note of some things before you do.

For instance, you need to transfer the whole ISA, so you cannot partially transfer your existing Stocks & Shares ISA for the current tax year. It's wise to check with your current

/// TRANSFERRING AN EXISTING ISA COULD ALSO BE A PRACTICAL OPTION IF YOU'RE LOOKING FOR A MORE COMPETITIVE DEAL OR WANT TO CONSOLIDATE YOUR INVESTMENTS. THE GOOD NEWS IS THAT YOU CAN TRANSFER YOUR ISA AT ANY POINT DURING THE TAX YEAR, BUT IT'S ESSENTIAL TO TAKE NOTE OF SOME THINGS BEFORE YOU DO.

provider if they impose fees for transferring out. Taking this step can help you avoid unnecessary costs and ensure that you get the most out of your investment.

CONSISTENTLY MAX OUT YOUR ISA ALLOWANCE EACH YEAR

The old adage holds true when it comes to investing: time in the market is more important than timing the market. This means that the

MORE PEOPLE CHOOSING SEMI-RETIREMENT **FOR A VARIETY OF REASONS**

Two in five over-55s plan to gradually phase out working life before State Pension age

Semi-retirement is an option to consider for individuals who may not be ready to fully retire, but still wish to reduce their work hours and gradually phase out working life. By choosing to semi-retire, you can maintain a good work-life balance while still earning an income.

Many people choose to semi-retire as it allows them to enjoy their hobbies, travel and spend more time with their loved ones. This option also provides a smooth transition into retirement, enabling you to adjust and focus on what truly matters in life.

CHANGING ATTITUDES TOWARDS EMPLOYMENT

A recent study has identified that more than two in five (44%) 55-64-year-olds plan to move into 'semi-retirement' before they reach 65, allowing them to draw on their pension savings while continuing to work part-time[1].

The study investigated changing attitudes towards employment and retirement as a result of the Covid-19 outbreak. The findings highlighted people's shifting emotional and financial wellbeing as they deal with post-pandemic job insecurity.

CONTINUING TO WORK THROUGH RETIREMENT

More than nine in ten (91%) people said they were 'much happier' after reducing their working hours, implying that semi- or partial retirement – 'part-tirement' – could be the solution for more than half (55%) of workers who like the idea of continuing to work through retirement, giving them freedom in later life while remaining part of the workforce.

Retirement can account for up to a third of an individual's life as life expectancy continues to rise and more individuals than ever are surviving to age 100 and beyond. Recent changes in government policy, such as the increase in the State Pension age to 67 in 2028, have caused people of all ages to reconsider their plans for work and retirement.

FLEXIBLE STRATEGY TO WORKING LATER IN LIFE

Over three-quarters of 18-34-year-olds, or 59%, say they intend to semi-retire before the age of 65, rising to 61% of those aged 35-44. The findings show that longer working lives are prompting younger people to consider a flexible strategy to working later in life in order to keep their career.

According to recent ONS data, 48,000 over-50s have lately returned to the workforce, as Chancellor Jeremy Hunt encourages people who have retired or are considering retirement to pursue part-time or full-time work to help alleviate some of the UK's labour shortage challenges.

HELP IMPROVE MENTAL AND PHYSICAL HEALTH

But the study indicates that people prefer to work past the age of retirement, implying that the UK's workplace participation problems

/// A RECENT STUDY HAS IDENTIFIED THAT MORE THAN TWO IN FIVE OR 44% OF 55-64 YEAR-OLDS PLAN TO MOVE INTO 'SEMI-RETIREMENT' BEFORE THEY REACH 65, ALLOWING THEM TO DRAW ON THEIR PENSION SAVINGS WHILE CONTINUING TO WORK PART-TIME[1].

would not just be solved by encouraging people to return to work. Four in five, or 80%, of those over the age of 65 said they enjoyed the notion of working into retirement, with at least two in five, or 41%, of other age groups, agreeing.

Continuing to work can help improve mental and physical health, which informs overall wellbeing, and it can also keep loneliness and isolation at bay. The urge to retire early is frequently motivated by persons seeking more independence while being physically strong and healthy enough to enjoy it.

SEMI-RETIREMENT CAN BE A WIN-WIN SITUATION

The study shows that semi-retirement can be a win-win situation for both employers and employees, as companies gain from preserving the skills and knowledge of skilled workers in the workforce, while workers can make decisions about maintaining a healthy lifestyle and income in retirement.

In a climate where longer working lives are becoming the norm, semi-retirement is a chance to experience the 'best of both', which can benefit both employees and employers. Retaining connection to the workplace is an appealing option for many people who are still working towards their financial goals or are simply not ready to stop working.

MAKE A BIG, POSITIVE DIFFERENCE IN THE LONG TERM

It also provides an opportunity for employers to continue to harness the knowledge and expertise of more experienced staff for longer. As people live longer, investing time in ourselves and considering every option available in later life is the best way to ensure we have the retirement we aspire to. Starting to think and plan further ahead is a small step that can make a big, positive difference in the long term.

The study clearly identifies that semi-retirement looks set to continue to be a popular option for many retirees, and for good reason. Whether you choose to work part-time for financial reasons or simply because you enjoy it, semi-retirement can be a great option for anyone looking to make the most of their retirement years. ■

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WILL YOU ENJOY FINANCIAL STABILITY DURING YOUR GOLDEN YEARS?

Planning and saving for retirement is essential if you want to enjoy financial stability during your golden years. It's important to start early to take advantage of compound interest and give yourself the largest possible nest egg. To discuss your retirement plans, please contact us for more information.

Source data:

[1] Research among 2,000 UK employees working in organisations with over 1,000 employees was conducted independently on behalf of Aviva by Quadrangle in February 2020, August 2020, March 2021 and June 2022. Not all figures add up to 100% as figures have been rounded throughout the report.

GIVING WHILE **LIVING**

What will your legacy look like?

April brought a host of changes to the UK's tax regime, with some thresholds for taxes such as additional rate Income Tax being lowered while others, such as Corporation Tax, are increased.

However, the Inheritance Tax (IHT) nil-rate band has remained stagnant at £325,000 since 2009, despite the meteoric rise in property prices over the same period. This has resulted in an all-time high of £6.1bn being collected in Inheritance Tax in 2021/22.

FREEZING OF THE NIL-RATE BAND

Chancellor Jeremy Hunt announced in the Autumn Statement on 17 November 2022 that the government had frozen the IHT thresholds for two more years. As the threshold was already frozen until April 2026, it means that the threshold is now frozen until April 2028.

If you own a home worth over £1 million, there is a risk that your loved ones may face a costly IHT bill upon inheritance, due to the freezing of the nil-rate band. While there is an additional residence nil-rate band (RNRB) of £175,000 that can apply when passing on the property you lived in, married couples or those in registered civil partnerships can transfer the allowance, enabling most couples to pass on up to £1 million tax-free, assuming they pass on their home to their direct descendants.

WEALTH TO FUTURE GENERATIONS

However, if your total estate exceeds £2 million, the RNRB will be tapered. For every £2 by which your individual estate exceeds £2 million, the RNRB will be decreased by £1. Professional financial advice can help homeowners plan to mitigate the impact of IHT.

Downsizing is a popular method to manage IHT, but this presents the challenge of passing on the sale balance to your loved ones. Planning for the transfer of wealth to future generations can be an uncomfortable topic for many families. However, proper estate planning can ensure a smooth and stress-free transition of family wealth to loved ones.

FEELING FINANCIALLY SQUEEZED

It's understandable that many people are feeling financially squeezed in the current climate, and as a result, we are likely to see a rise in 'giving while living'. This refers to the practice of lifetime gifting to loved ones, particularly adult children who may be struggling to make ends meet during the ongoing cost of living crisis.

However, it's important to note that the extended freeze on thresholds will mean that many people will now need to seek professional financial advice more than ever to protect their wealth and ensure that it is passed on according to their wishes, without being caught out by unforeseen taxes in the future. ■

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NEED ADVICE TO SECURE YOUR FAMILY'S FINANCIAL FUTURE?

We understand the importance of addressing these issues in a calm and objective manner. We can assist you in creating a comprehensive succession plan that maximises the amount of wealth passed down to future generations while minimising tax implications. Let us help you secure your family's financial future with careful estate planning. To find out more, please speak to us.

Source data:

[1] https://www.gov.uk/government/statistics/hmrc-tax-and-nics-receipts-for-the-uk/hmrc-tax-receipts-and-national-insurance-contributions-for-the-uk-new-annual-bulletin#inheritance-tax

SPRING BUDGET **2023**

How the changes affect pensions and taxes

The Spring Budget 2023 was delivered by Chancellor of the Exchequer, Jeremy Hunt, on March 15. Among key changes announced were those made to pensions, aimed at making it easier for individuals to save for their retirement and encouraging retirees to return to work.

The 2023/24 tax year started on 6 April, and with it come some significant changes to pensions and taxes. We've provided a summary of the key measures.

CAPITAL GAINS TAX (CGT)

The Capital Gains Tax (CGT) exemption has reduced from £12,300 to £6,000. This reduction means that any gains above the exemption amount will be taxed at either 10% for basic rate taxpayers or 20% for higher rate taxpayers. The rates are even higher for gains on second properties, with 18% and 28% for basic rate and higher rate taxpayers, respectively.

The change means that a higher rate taxpayer making a capital gain of £20,000 in the 2023/24 tax year could face a CGT bill of £2,800, with this rising to £3,400 in 2024/25. This represents a significant increase from the £1,540 bill for the 2022/23 tax year.

It's important to keep in mind that the CGT exemption cannot be carried over from one tax year to the next, so it's essential to make full use of the exemption each year. By investing in an Individual Savings Account (ISA), it offers the opportunity to reduce your CGT liability as any gains made within an ISA are exempt from CGT. By being proactive and taking advantage of any available tax allowances, you can help to prevent unexpected tax bills and ensure that you are maximising your investment returns.

ANNUAL DIVIDEND ALLOWANCE

The annual dividend allowance has been reduced from £2,000 to £1,000, with a further reduction to £500 to be implemented in 2024/25. This means that dividend income exceeding the allowance will be taxed at rates of 8.75%, 33.75% and 39.35% for basic, higher and additional rate taxpayers respectively.

For instance, a higher rate taxpayer receiving £5,000 in dividend income could pay over £1,350 in dividend tax by 2023/24, up from £1,012.50 in 2022/23, which is set to increase to £1,518.75 in 2024/25. One way to avoid dividend tax is by investing in an ISA or contributing to a pension fund, which offer tax-free dividends. If appropriate, maximising these tax-efficient options is a popular strategy when mitigating dividend tax.

PENSION LIFETIME ALLOWANCE CHARGE

The pension Lifetime Allowance (LTA) charge has been abolished, which means there will no longer be a tax charge on the amount of money that can be built up in pensions tax efficiently over an individual's lifetime. From 6 April 2023, the LTA charge has been completely removed, with total abolition set for April 2024.

Previously, any excess over £1,073,100 in pensions incurred a tax charge when the individual drew their pension benefits assuming no protection was in place. Despite the removal of the LTA charge, the pension tax-free lump sum has been capped at £268,275 (unless protection is in place).

So, while people can now build a larger pension pot without incurring a LTA tax charge, the tax-free lump sum will not increase along with it. This change may impact an individual's decision to begin drawing money from their pension, also known as 'crystallising' their pension.

PENSION ANNUAL ALLOWANCE

The pension Annual Allowance has increased from £40,000 to £60,000. This means that individuals can pay up to £60,000 or 100% of their UK relevant earnings (whichever is lower) into pensions every tax year and receive tax relief.

However, those with high adjusted incomes above £260,000 per year (previously £240,000) may have a lower Annual Allowance due to the Annual Allowance taper. This taper reduces the annual allowance by £1 for every £2 of adjusted income that exceeds the threshold, to a minimum floor of £10,000 (up from £4,000).

MONEY PURCHASE ANNUAL ALLOWANCE

The Money Purchase Annual Allowance (MPAA) increased from £4,000 to £10,000. The MPAA comes into play when savers first access Defined Contribution (DC) pensions flexibly, and replaces their standard annual allowance.

This means that individuals who access their DC pensions flexibly for the first time can now pay up to £10,000 per year into their pension without having to worry about reducing their tax relief. ■

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ARE YOU LOOKING TO SECURE YOUR FINANCIAL FUTURE?

We'll work closely with you to understand your unique financial situation and help you create a personalised plan to achieve your future goals. By navigating the complexities of the financial world, you can secure a prosperous future for you and your loved ones. Contact us today to learn more.

THIS ARTICLE DOES NOT CONSTITUTE TAX OR LEGAL 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.

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.

A PENSION IS A LONG-TERM INVESTMENT NOT NORMALLY ACCESSIBLE UNTIL AGE 55 (57 FROM APRIL 2028 UNLESS PLAN HAS A PROTECTED PENSION AGE).

THE VALUE OF YOUR INVESTMENTS (AND ANY INCOME FROM THEM) CAN GO DOWN AS WELL AS UP, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

YOUR PENSION INCOME COULD ALSO BE AFFECTED BY THE INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS.

PROFESSIONAL FINANCIAL **ADVICE MATTERS**

Making informed decisions about how to best allocate your resources

Financial planning is a crucial step towards achieving financial freedom and security. By taking the time to thoroughly evaluate your needs and personal goals, you'll be able to make informed decisions about how to best allocate your resources.

With a comprehensive professional financial plan in hand, you'll have the confidence and peace of mind to pursue your short-term goals and work towards your long-term future. With professional guidance, you'll be inspired to realise that you have far more resources at your disposal than you ever imagined.

BETTER EQUIPPED

According to a recent study, UK consumers who receive professional financial advice can expect to retire on average three years earlier than those who do not seek professional advice, with advised consumers planning for retirement at age 66 as opposed to non-advised consumers who expect to retire at 69[1].

This underlines the positive impact that professional financial advice can have on retirement preparations, with those who seek advice feeling better equipped for their later years. The study identified that twice as many people who seek financial advice create a detailed spending plan in retirement compared to those who don't take advice, with 45% of advised people falling under this category as opposed to 18% of non-advised consumers.

ENJOYING RETIREMENT

Financially advised consumers expect to fund their retirement for a longer period, with an average of 23 years, compared to 17 years for non-advised people before pertinent cutbacks must be made. In addition, the study reveals that financial planning tends to be beneficial for people already in retirement.

Almost all (96%) of wealthy retirees who did a great deal of financial planning or just planned their finances slightly say they're enjoying their retirement, dropping to 72% among those who have done no financial planning.

MORE PRONOUNCED

Regrets for non-advised retirees are more pronounced, with the majority stating that they require more money in retirement compared to their original estimates, and that they wished they had planned more thoroughly, compared to advised people.

Despite having a higher household income, 23% of wealthier pensioners, with an income of between £40,000 and £49,999, wished they had planned more thoroughly, indicating that the value of advice remains consistent regardless of income.

SIGNIFICANT VARIATION

Planning for retirement can be overwhelming, leading to several considerations, making financial advice crucial for people to feel more confident and prepared about their future. The research results underscore the significant variation between the retirement plans and experiences of those who have taken advantage of financial advice and those who haven't.

The research findings demonstrate the value of professional financial advice in terms of the retirement age and the enjoyment of one's retired life. So start planning today, and take the first step towards a brighter tomorrow. ■

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ANY CONCERNS ABOUT YOUR FINANCIAL FUTURE OR WOULD YOU LIKE TO FIND OUT MORE?

Financial planning can certainly feel complicated at first glance, but with the right guidance, it can be a smooth and stress-free process. At every step of your financial planning journey, we're dedicated to providing you with the knowledge, resources and support you need to make informed decisions about your finances. If you have any concerns about your financial future or would like to find out more, please contact us.

Source data:

[1] Boxclever conducted research for Standard Life among 6,000 UK adults. Fieldwork was conducted between 6 Sept–16 October 2022. Data was weighted post-fieldwork to ensure the data remained nationally representative on key demographics. Comparisons to data from last year are taken from Boxclever research among 4,896 UK adults conducted between 16–23 July 2021.

I HAVE A WILL, SO WHY DO I NEED A **LASTING POWER OF ATTORNEY?**

Making decisions in relation to your financial affairs, health and welfare

It is critical to consider the potential consequences of not having a Lasting Power of Attorney (LPA) in place. Many people assume that their loved ones or close relatives will automatically have the authority to make decisions on their behalf. However, this is not the case, and without a LPA, those close to you will not have the legal authority to handle your financial affairs, health decisions and welfare.

Setting up a LPA is vital to ensure that you have a trusted individual who can manage your affairs when you are no longer able to do so yourself. It is essential to think about these scenarios in advance and plan accordingly by setting up a LPA. This legal document will ensure that your wishes are respected and carried out, regardless of your capacity to make sound decisions.

COSTLY AND TIME-CONSUMING MEASURES

Despite the fact that 95% of UK adults are aware of the LPA, a recent study has revealed that only one in three (33%) actually know how to use it effectively, leaving a considerable proportion at risk of costly and time-consuming measures if they were to lose their spouse[1].

LPA is a legal document that enables you to delegate decision-making authority to one or more trusted individuals to manage your financial matters, property affairs, health and welfare. You can set up a LPA at any time, provided you meet the age requirement of 18 years and have the mental capacity to make sound decisions.

BENEFICIAL IN LONG-TERM SITUATIONS

There are several benefits to having a LPA, including assistance in temporary situations such as hospitalisation or travel abroad, where you may need help with daily tasks like paying bills. It is also beneficial in long-term situations where you want to plan for the unexpected or have been diagnosed with an illness like dementia that may affect your decision-making abilities in the future.

According to the research, although three-quarters (74%) of Britons deem LPA necessary, only 37% of them have actually put it in place. In contrast, around three-quarters (76%) of people in relationships have discussed Wills and trusts with their spouse.

SAME-SEX MARRIED COUPLES

The research also highlighted that less than half (41%) of married couples have enacted LPA, and a quarter (24%) have no plans for doing so, which suggests that many couples view this measure as unnecessary, and often mistakenly believe that LPA is automatically granted to married couples.

Notably, this issue disproportionately affects same-sex married couples, where awareness of the importance of LPA is higher than the population average (87% compared to 76%), but uptake is lower (30% compared to 41%). ■

NEED ADVICE AND EXPERTISE ON EVERY ASPECT OF YOUR ESTATE?

We understand the importance of putting the right planning in place for the future. We'll help you organise your affairs and plan for the future. To find out more, speak to us today.

Source data:

[1] https://adviser.scottishwidows.co.uk/assets/literature/docs/2023-03-power-of-attorney.pdf

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POWERS OF ATTORNEY/WILL WRITING AND TRUSTS ARE NOT REGULATED BY THE FINANCIAL CONDUCT AUTHORITY.