Planning Pointers

The following notes cover both current and general financial planning issues we feel it is important to flag.

If you have any questions on any of these, or would like our advice, please do let us know.

Budget tax changes

Pension death benefits

As we had thought might occur, the Labour government has brought pension funds into the net of Inheritance Tax (IHT); a move that will negatively impact a huge number of people.

What we hadn't expected was that the exposure to IHT would be in addition to the income tax liabilities beneficiaries already face when withdrawing money form an inherited pension fund.

The decision to apply double taxation to pension funds is a significant blow to those wanting to pass their assets to their loved ones rather than the government and for their beneficiaries.

On the positive side, the exemption from IHT for a spouse or civil partner will remain, as will the exemption from income tax on an inherited pension fund if the plan holder dies before age 75.

The change to apply IHT to pension funds is due to come into force in April 2027 and there is a consultation period ahead of that to look at the details of how this will work.

This delay, combined with the potential for the proposals to be adjusted, means action is unlikely to be appropriate for most people, at least for the time being. However, those over 75 who have not yet withdrawn their tax-free cash entitlement due to a preference to shelter the money from IHT will need to review that strategy, since the reason to leave it in place will almost certainly be lost from April 2027.

Other changes many expected, such as loss of high-rate tax relief on contributions to pensions or further restrictions in the amount that can be withdrawn tax free, have not materialised.

However, the fact that they were not included in the October 24 budget does not mean they won't be introduced later.

Increased taxation on Capital Gains

Gains realised on the sale of assets outside a tax-sheltered wrapper, such as an ISA or Pension, are assessed for Capital Gains Tax (CGT).

Prior to 6th April 2023, most investors had an annual allowance of £12,300, or £6,150 for trusts, but since then the allowance has fallen to just £3,000 per person and just £1,500 for trusts.

The standard CGT tax rate once allowances are exceeded were relatively low, and, as explained in our September 2024 Topical Commentary, we thought an increase was highly likely.

The bad news is we were right, but the good news is that rates rose less than we had expected.

The change is as follows:

Realised gains on the disposal of assets other than residential property.

- Gains falling inside the basic rate tax band: up 80%, from 10% to 18%
- Gains above the basic rate tax band: up 20%, from 20% to 24%

Realised gains on the disposal of a residential property that isn't exempt as the owners main residence.

No change, so these remain:

- Gains falling inside the basic rate tax band: 18%
- Gains above the basic rate tax band: 24%

This means the surcharge on residential property gains has been removed, perhaps to avoid discouraging buy to let investors from selling, as that outcome could negatively impact the housing stock available to first time buyers.

As we have mentioned before, a report commissioned by the government in 2020 recommended harmonising CGT rates with income tax rates. The report also recommended removing the exemption from CGT on death, which would mean all gains eventually get assessed for CGT, even if the asset isn't sold.

Given this, there is a clear risk that CGT rates will increase further and that the exemption on death will one day be removed.

Unused CGT allowances cannot be carried forward into future tax years, so it's important to use allowances each year if you hold investments where gains have accumulated.

Realised losses can be used to offset gains but there are reporting time limits to secure these.

Atkins Bland takes our clients' CGT allowances into account with the investments we advise on, but if you have other assets which may be impacted by CGT and would like to discuss options, please let us know.

Inheritance Tax (IHT) reliefs reduced

The 100% relief for qualifying shares in companies listed on the Alternative Investment Market (AIM) has been reduced to 50%. This is still a significant saving, but it is also a significant reduction in the potential benefit of accepting the higher risks associated with investments in this category.

The 100% relief available for qualifying agricultural property has been restricted to assets up to £1 million. After that. the relief falls to 50%.

Pension funds and pension death benefit payments will now be subjected to assessment for IHT (see earlier).

There we no changes to the nil rate bands, so the strategy of eroding the real value of an estate that can be inherited without tax, by failing to reflect inflation, continues.

Employer National Insurance (NI)

The budget introduced a massive increase in the tax burden for employers through the combination of an 8.7% increase in the rate of NI, to 15%, and applying that to an additional £4,100 of the income they pay to each employee.

Unless an employee earns less than £9,100 a year, the reduction in the threshold for employers having to pay NI adds £615 a year to the cost of every employee, on top of the increase caused by the increased rate.

This is bound to have a poor outcome for the employment market, which may not sit well with some of the government stated aims, such as reducing the burden of the welfare state and encouraging economic growth.

Other changes

There were other changes in the budget, but we are focussing here just on those that are of most relevance to our clients financial planning arrangements.

Tax planning banana skins

HMRC "Estimates" on Tax coding notices

For those not completing a yearly "self-assessment" tax return, HMRC works on an estimate of income not reported to them by employers of financial institutions.

The most common example of this is dividends from investment holdings.

As these "estimates" can often be in excess of the correct figure, they can result in a tax code that generates more tax than should be paid. While the coding notice invites the taxpayer to notify HMRC if anything is wrong, it is obvious that many people will not spot what HMRC is doing, especially as it is not clearly flagged.

The cynical amongst us could conclude this is a deliberate strategy by the Government to collect extra money from the unwary.

We therefore urge you to check the accuracy of the information HMRC is using, by checking your Coding Notice against the correct figures. If you require our help with this, please do let us know.

Possible loss of Inheritance Tax (IHT) allowances when using a trust

The extra tax-free allowance for IHT applied to a main residence is only available where the residence is inherited by a "direct descendent". More detail on this is in the section below, on Inheritance Tax.

This restriction means the additional allowance may not be available if the residence is held in a trust fund.

Anyone who has already placed, or has written a Will that places, part of all of their residence into a trust, should consult their solicitor to review the efficacy of this in terms of its impact on their Inheritance Tax allowances.

Reclaiming high-rate tax relief on pension contributions

If you make personal contributions to a pension and are a higher-rate taxpayer, you will only get the extra tax relief if you ask for it. This is normally done through self-assessment but can also be done through phoning HMRC.

If you are a higher-rate taxpayer and are not sure if you have been reclaiming tax relief on pension contributions, please do get in touch as we are more than happy to help.

Tax Planning Opportunities

ISA Allowance – Tax Free Savings & Investments

The current allowance is £20,000 and this can be allocated to a cash ISA or a stocks & shares ISA in any proportion. However, only one ISA of each type can be funded in a single tax year. If you have capital invested outside ISA status, using the ISA allowance may well be wise, even if there is no current tax benefit, since this helps protect the money from future tax increases.

Recent cuts in the allowances for both dividends and capital gains demonstrate how valuable it can be to have assets in a tax-exempt environment.

Lifetime ISA – 25% Government Bonuses for First House or Retirement

The Lifetime ISA (or LISA) offers anyone between the ages of 18 and 40, very attractive incentives for saving towards the purchase of their first home or for life after retirement. The government gives a 25% bonus on contributions up to the annual allowance of £4,000, so up to £1,000 a year.

Savings placed into a LISA can be held as cash deposits or invested into stocks and shares, and contributions can be made on someone else's behalf (providing the beneficiary of the contribution is eligible).

Investors should be mindful of the penalty if money is withdrawn other than to buy a first home or after age 60, as this goes further than just taking back the bonus.

If you know of anyone between the ages of 18-40 who you think could benefit from our advice regarding this opportunity, please do get in contact with your adviser.

Personal Savings Allowance – Tax-free interest on savings

The personal savings allowance provides savers with tax free interest of up to £1,000 for basic rate taxpayers and up to £500 for higher rate taxpayers (there is no allowance for additional rate taxpayers).

More or less any investment arrangement generating interest is eligible, including interest generating Unit Trusts and collective investments, and "peer to peer lending", rather than just deposit accounts.

Pension tax relief up to age 75

Even retired people can enjoy tax relief on adding to a pension fund, up to age 75, taking advantage of this seems well worthwhile.

Some key features of a pension investment are:

- Anyone under age 75 can enjoy tax relief on £3,600 a year gross or up to 100% of their earned income if higher, with an overall cap (for most people) of the annual allowance, which was increased from £40,000 to £60,000 from the start of the 2023/24 tax year. Unused annual allowances from past years can be brought forward and your adviser will be able to help calculate them.
- Contributions by an employer (including a limited company owned by the individual) are not usually subject to the earnings cap but are subject to the annual allowance. Again, your adviser can help you with this. Tax relief on company contributions is gained via the company accounts, rather than the tax rebate mentioned below.
- Any personal payment is made net of basic rate tax relief at source, so investing £3,600 gross costs just £2,880, with HMRC adding the remaining £720.
- The tax credit is available even to non-taxpayers, including a child.
- Money within a pension enjoys tax favoured investment returns, which are the same as those applying to an ISA.
- 25% of a pension fund can be withdrawn tax free (subject to a cap of £268,275), with the rest subject to income tax.

If you would like advice on taking advantage of this tax planning strategy, please let us know.

Tax allowances for a married couple or civil partnership

A couple in a marriage or civil partnership where one is a basic rate taxpayer and the other a non-taxpayer, can transfer up to £1,260 of any unused personal tax allowance from the non-taxpayer to the taxpayer.

A claim can be backdated for up to four tax years that you were eligible for Marriage Allowance. If your partner has passed away, you can still claim. Anyone who qualifies for this should register with HM Revenue & Customs online by visiting www.gov.uk/marriage-allowance or phoning them on 0300 200 3300.

Inheritance Tax planning (IHT)

If you have resources that you are confident you will never need, taking advantage of the ability to make gifts and avoid IHT can represent excellent tax planning.

Exemptions include

- £3,000 a year per donor, and the ability to carry forward for the previous year if not used.
- £250 a year per recipient, in addition to the £3,000 allowance above
- Regular gifts from surplus income
- Any gift (unless to a discretionary trust) provided you survive 7 years after making it, although if there have also been gifts to a discretionary trust this period can extend to up to 14 years.

IHT planning can be complex, and the rules can change. If you would like advice in this area from Atkins Bland, or to receive a copy of our ***Guide to Estate and Inheritance Tax Planning***, please do let us know.

Other Areas to Consider

Estate planning

Many people tend to leave wills as they are for many years, and do not think of, or get round to, updating them, even though they may have become out of date due to developments, such as extensions to a family or the death of a beneficiary or executor.

Many people have not written a will at all. Intestacy rules are very unlikely to suit most people's preferences so having a will in place is usually a very good idea.

This is an area for your legal adviser but, if you would like to discuss any of these points in terms of financial planning factors, please let us know.

Nominating beneficiaries for a pension death benefit

Pension funds normally transfer to beneficiaries in line with an "expression of wishes" or "death benefit nomination" rather than with reference the contents of a will. Until April 2027 they are not normally included in an estate for Inheritance Tax purposes, but this is set to change (see earlier).

It is important to ensure the nomination remains in line with your preferences and, if the terms are different from your will, helpful to confirm to the pension company that the nomination remains valid at least every five years. This is because, if the nomination is quite old, the pension trustees may wish to see the will to check if what they have on record seems suitable or if they should, instead, apply the terms in the will. If you have a pension fund but you are not sure if you have a death benefit nomination in place, or what it says, we recommend that you check.

If Atkins Bland are looking after the pension for you, we can do this on your behalf and report back, so please do ask.

Defined Benefit pension scheme and benefits paid on death

There are many advantages to a defined benefit (salary based) pension, especially in terms of income security in retirement. However, it is important to be aware that, in the event of death, the amount available to a spouse or other qualifying partner may be substantially less than the cash value of the benefits, while the amount available to children or other beneficiaries may be zero.

Given that the main objective of a pension is normally income for the plan holder and a qualifying partner, the potential loss to other beneficiaries is not usually the key issue and retaining a salary-based pension to enjoy the security of income is often the overriding priority.

However, if benefits available to others in the event of death is a core priority, then you should be aware that there could be an option to take a transfer value of benefits not yet in payment, which may well increase the amount available to your beneficiaries.

If you have deferred benefits in a defined benefit scheme and would like some guidance, please get in touch.

Life and Health Insurance

The need or desire for insurance protection related to health varies with circumstances and, hence, can change over time.

Atkins Bland no longer arranges life or health insurance policies, but we are very happy to discuss potential needs and can recommend you to a local specialist if you require advice in this area, so please do get in touch if this is a subject you would like our help with.

Voluntary Class 3 National Insurance Contributions

For anyone not yet at State Pension age but no longer accruing National Insurance (NI) credits from employment or another mechanism, or with recent past gaps in their NI record, paying voluntary Class 3 contributions might prove an exceptionally good use of money.

For each qualifying year, up to a maximum of 35, the State pension in the 2024/2025 tax year is £6.32 per week or £328.64 per year, making a total, if there are 35 years' NI contributions of £221.20 per week or £11,502.40.

The cost of Class 3 voluntary contributions in the 2024/2025 tax year is £17.45 per week or £907.40 per year. This means it takes less than three years after State Pension age to recover the cost, and every payment after that is a profit.

Clearly, average life expectancy is substantially more than 3 years beyond State Pension age so, statistically, paying Class 3 NI contributions has a very high probability of producing an excellent financial outcome.

There is, of course, the caveat that there is no continuing benefit from the basic State Pension if someone passes away and there is, therefore, inevitably a risk that the cost of voluntary Class 3 NI contributions will turn out to be a waste of money.

However, if you have capacity to increase your entitlement to the State Pension through Class 3 NI payments, we strongly recommend you consider doing so.

Please note:
The above only applies to basic NI contributions and the rules may be different if there were periods of contracting out of the State Earnings Related Pension Scheme (SERPS) or the State Second Pension (S2P).

You can check your eligibility for the State pension by visiting https://www.gov.uk/check-state-pension. If you are in any doubt about whether or not you have made, or are on track to make, sufficient NI contributions, we recommend that you contact the Pension Service on 0800 731 7898.

Parents losing National Insurance credits through not registering for Child Benefit

The parent of a child under 12 only qualifies for NI credits towards their state pension entitlement if they are registered for Child Benefit. Following the change in 2013, whereby high earners may no longer receive any cash flow advantage from Child Benefit due to the tax liability, many parents are missing out on the NI credits since they have chosen not to register for Child Benefit.

If you or someone you know might be impacted by this, registering for Child Benefit but waiving the payments could secure NI credits and avoid a substantial loss of State pension entitlement.

Funding care needs

If you, or someone you know, requires care, either in the home or in a residential facility, it is important to have a good understanding of any funding assistance that may be available.

Most people are aware of the means testing thresholds, and how they apply, but awareness of the health tested benefits is less well understood.

As well as the Attendance Allowance, which is awarded with reference to someone's ability to perform certain daily tasks, if there is a medical reason care is needed, someone may be eligible for either full funding by the NHS or a fixed contribution towards costs. However, to obtain this they need to apply, and we have found awareness of the possibility of qualifying for one or other of these isn't always in place.

Power of attorney

Setting up a Power of Attorney should ensure someone you trust and wish to be responsible for your financial and other affairs can take on that responsibility in the event that you are no longer able to.

Most of us do not consider the need for this until we feel our age makes the risk of a health problem particularly relevant. However, an event which prevents you from being able to look after your own affairs can happen at any age and regardless of general health. Setting up a Power of Attorney "just in case" is sensible planning.

Your solicitor can provide guidance on this, or you can find helpful information and advice on how to set one up yourself on the Government website at https://www.gov.uk/power-of-attorney/overview

Important notes

Any opinions expressed on the merits or disadvantages of any options are intended as a general comment only and not as specific advice to the reader.

This document is intended as a supplement to full independent advice and not as a replacement for it and should be read in conjunction with any personalised recommendations provided by Atkins Bland Ltd and with any product brochures supplied.

The value of investments will fall as well as rise, as can any income produced or generated. Inflation can reduce the real value of capital and the income it generates. Past investment performance is not a reliable guide to the future. An investor may, therefore, get back less than invested.

Any reference to taxation, regulation or legislation is based on our current understanding and details should be checked before any reliance is placed upon its accuracy. The impact of taxation and tax planning depends on individual circumstances and may be subject to change, which can be retrospective.

The Financial Conduct Authority does not regulate Income and capital Gains Tax planning or Estate and Inheritance Tax Planning.

Errors and omission excepted.

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Atkins Bland

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