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.

RISK WARNINGS – Potential changes to taxation

Potential tax changes to pension tax free cash and death benefits.

The change of government may have increased the risk of a further curtailment of the tax-free cash available from a pension, currently set at 25% of the value capped at £268,275.

It feels unlikely it would be removed entirely given the very adverse consequences for many, including those who have based their mortgage repayment strategy around their pension tax free cash.

However, a reduction in the cap or a limit to make the withdrawal only partially free from tax would be an easier change for the government to get away with.

Likewise, it is possible that high taxes on pension funds on death will be reintroduced, and the exemption from Inheritance Tax removed.

As this is speculation and taking action based on what might happen can have negative implications if no change comes along, our normal advice is focused on the rules we know, rather than guessing what might change.

We are, though, aware of the increased risks of changes to tax and other rules following the election and fully understand if a client would like to take action in case such changes come along.

If this is something you would like to discuss with us, please do let us know.

Increased taxation on Capital Gains and more to come?

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 are:

- 10% for basic rate taxpayers
- 20% for higher and additional rate taxpayers

If the gain relates to the sale of a residential property which is not exempt as your main residence, there is an additional 4% to pay.
These are low rates compared with income tax.

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, and the Labour government's wish to increase taxation without impacting "working people". apparent tax and spend approach, there is a clear risk that CGT rates will increase, perhaps bringing them in line with income tax rates.

For those with gains which are likely to exceed allowances in the future, it could well turn out that realising them now to pay current tax rates creates a better outcome than avoiding a sale only to pay higher rates later.

The reverse could prove the case, with delaying disposal resulting in lower tax liabilities, but that feels unlikely given the long-term trend of rising taxes in the UK.

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 this significant fall in tax allowances and would like to discuss options, please let us know.

Please also let us know if you would like to consider exceeding your allowances to take advantage of what may be looked back on as very attractive tax rates, especially in terms of the basic rate of just 10%.

Planning for potential tax changes

Changes to taxation rates and rules can come along at any time and are almost always unpredictable until announced.

While the media will happily speculate on possibilities, there are often potential pitfalls to acting on that speculation, so our general approach is to give advice based on rules as they stand.

We recognise that this can mean missing an opportunity rather than avoiding a mistake, and if you would like us to provide advice based on possible future changes to legislation or taxation rather than prevailing rules, we will happily accommodate this.

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, and now pension funds can be withdrawn as cash, and the taxation rules are far more attractive than they were previously, taking advantage of this seems well worthwhile.

This is especially the case for those with estates potentially liable to Inheritance Tax since a pension fund is normally exempt from this.

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.
- A pension fund is usually exempt from Inheritance Tax.
- On death before age 75, the value of a pension fund can pass to beneficiaries, either as a lump sum or through regular or ad hoc withdrawals, entirely tax free.
- On death after age 75, the value of a pension fund will still go to chosen beneficiaries but is taxed as income in the hands of the beneficiary whenever some or all is withdrawn.

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 to do this can be backdated up to April 2015, when this facility became available. 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.

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.

Inheritance Tax

The Inheritance Tax rules currently provide a 'Nil Rate Band' (NRB) of £325,000, meaning no IHT is levied on this amount of someone's estate if they pass away. There are other exemptions too, such as for gifts to charity or political parties and some assets which can be exempt, such as pension funds and shares in smaller businesses which qualify for "Business Property Relief".

There is also an additional tax-free allowance for people who own a home, called the 'Residence Nil Rate Band' (RNRB). This is £175,000, bringing the total allowance to a possible £500,000 per person or £1 million for a couple.

Estates that are worth more than £2m lose some or all of the RNRB, which is taken away at a rate of £1 for every £2 over the £2m threshold.

The RNRB is only applied where the residence is inherited by a "direct descendent". This is a child, stepchild, adopted child or foster child, or their lineal descendants, such as a grandchild. The definition also includes the spouse or civil partner of a lineal descendent.

Transfers between married couples and civil partners are exempt from IHT, and any unused NRB or RNRB can be transferred from a deceased spouse of civil partner to the survivor, thus eliminating the need for complex will structures commonly used before this transferability was introduced in 2007. Any assets in an estate which are not exempt and are above the nil rate bands incur an IHT charge of up to 40%. This can include the value of gifts made in the 7 years prior to death.

IHT planning can be complex, and the rules can change. If you would like advice in this area from Atkins Bland, please do 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 and are not normally included in an estate for Inheritance Tax purposes.

It is, therefore, important to ensure the nomination remains in line with your preferences and, if the terms are different from your will, to send an updated nomination to the pension company every two or three 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.

Parent 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.
Prepared by Atkins Bland Ltd. August 24