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ECFS
Independent Financial Advisers

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A CRUCIAL DECADE: FINANCIAL PLANNING IN YOUR 50s

MAXIMISING YOUR EARNINGS OR LAYING DOWN A ROBUST FINANCIAL PLAN

'TIME IN THE MARKET', NOT 'TIMING THE MARKET'
The allure of quick profits and instant gratification

WEATHERING THE INFLATION STORM
Is it time to diversify your portfolio?

TAXING TIMES FOR 2023
A year marked by several tax changes that impacted higher rate taxpayers

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INSIDE **THIS ISSUE**

Welcome to our latest edition. In this issue, as you sail into your 50s, it becomes pivotal to consider your financial strategy. Life has likely found a steady rhythm by now. Children have probably taken flight, becoming financially self-sufficient, and the idea of reducing work hours or even retiring completely starts to surface. Each person's life journey is unique and has different resources and challenges. However, there are shared goals and steps that one can take during this stage. On page 07, we consider how knowing where to begin can be daunting, whether you aim to maximise your earnings or lay down a robust financial plan.

In the investing world, the allure of quick profits and instant gratification often tempts some investors to employ a 'market timing' strategy. This method involves making decisions about buying or selling financial instruments based on predictions of future market price movements. Market timing is an active investment strategy aiming to beat the traditional buy-and-hold strategy. It involves moving in and out of the market or switching between asset classes based on predictive methods such as technical indicators or economic data. Read the full article on page 08.

The mantra 'Cash is king' has echoed through the investment world for years. Cash forms the backbone of our society. As long as money spins the globe, many will uphold cash as the reigning monarch. However, this crown has been slipping as of late. The culprit? Rampant inflation, rapidly eroding the purchasing power of cash. Even the most competitive rates on the high street typically lag behind inflation. On page 12, we raise a question – is it wise to lock into a rate that incurs losses in real terms merely to avoid the short-term volatility of financial markets?

As we approach the end of the year, taxpayers should begin assessing their tax obligations. This is not a task to be left to the eleventh hour, especially considering tax changes coming into effect in 2024. This is also particularly true for 2023, a year already marked by several tax changes that impact higher rate taxpayers. By understanding your tax obligations early on, you could avoid unwelcome surprises. On page 03, we consider how understanding these tax changes allows you to plan and strategise effectively to meet your tax obligations without unnecessary stress or last-minute surprises.

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

TAKING MORE CONTROL OF YOUR FINANCIAL FUTURE

With our help, you can develop and adapt a strategy designed to help you achieve your financial objectives. Your wealth should represent your values – how it might impact your family and benefit the causes you care about. Our role is to remove the effort from managing wealth, allowing you and your family to enjoy it instead. Please contact us for more information about how we can help you visualise your financial future.

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TAXING TIMES FOR 2023

A YEAR MARKED BY SEVERAL TAX CHANGES THAT IMPACTED HIGHER RATE TAXPAYERS

As we approach the end of the year, taxpayers should begin assessing their tax obligations. This is not a task to be left to the eleventh hour, especially considering tax changes coming into effect in 2024.

This is also particularly true for 2023, a year already marked by several tax changes that impact higher rate taxpayers. By understanding your tax obligations early on, you could avoid unwelcome surprises. Understanding these tax changes lets you plan and strategise effectively to meet your tax obligations without unnecessary stress or last-minute surprises.

Remember, proactive tax planning can help you optimise your finances and potentially reduce your tax liability.

TAX CHANGES AND THEIR IMPACT

In the 2023/24 tax year, the threshold for taxpayers in England, Wales and Northern Ireland paying the top tax rate of 45% has been reduced from £150,000 to £125,140. This figure aligns with taxpayers earning over £100,000, who lose all of their personal allowance. Scottish taxpayers face a similar situation, but the tax rate has increased to 47%.

Capital Gains Tax (CGT) allowances and dividend allowances have also been slashed. The annual exempt amount for CGT has dropped from £12,300 to £6,000 for this tax year and will further decrease to £3,000 from April 2024. Similarly, the dividend allowance has been cut from £2,000 to £1,000, with another £500 reduction planned for April 2024.

STRATEGIES FOR MITIGATING TAX RISES

The challenge for all is devising ways to counteract these tax increases. Here are some strategies for those likely to become additional rate taxpayers due to the threshold reduction, if applicable.

CHARITABLE DONATIONS

The tax system encourages generosity by providing tax relief on charitable donations. You won't have to pay CGT on land, property or shares donated to charity. By deducting the value of your donation from your total taxable income, you can also pay less Income Tax.

SELLING SHARES

With the CGT allowance set to decrease further in the next tax year, it might be worth considering selling stocks that have gained value. However, investment decisions should align with your goals and objectives rather than purely tax breaks.

DEFER TAX WITH INVESTMENT BONDS

Offshore investment bonds can provide cash in the form of capital payments, deferring tax on growth. The trade-off is that the growth will be subject to Income Tax rather than CGT when the bond matures.

BOOST PENSION CONTRIBUTIONS

Pension contributions can reduce taxable income levels. If your earnings surpass £125,140, every £55 contributed to a pension will yield £100 of investment. How you receive the tax relief depends on whether you're employed or self-employed. However, it's essential to have enough 'earned' income to cover the gross contribution and be aware of the annual allowance limit. This is the limit on how much money you can contribute to your pension in any one tax year while still benefiting from tax relief. It currently stands at £60,000.

INVESTMENT SPLITTING

Splitting investment portfolios between spouses or partners allows you to use both CGT allowances and lower rate bands. Gifting investments to a non-earning spouse or partner can ensure their allowances aren't wasted.

RESTRUCTURE COMPANY DIVIDENDS

Company owners might consider restructuring dividends to retain their personal allowance every other year. This approach requires careful planning and discipline to retain enough cash each high-income year.

FAMILY INVESTMENT COMPANIES

Family investment companies can serve as a longer-term wealth accumulation structure. Although the corporation tax rate has increased to 25%, dividends received by a company are not subject to tax, allowing for potential gross roll-ups of income. ◀

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TIME TO TAKE CONTROL AND FIND WAYS TO MINIMISE YOUR TAX BURDEN LEGALLY?

Understanding your tax obligations early can help you plan better and avoid unnecessary financial stress. You can make the most of your tax planning options with careful planning and professional advice. Don't wait until the start of the new tax year is upon you. Start today and explore the various strategies that could help you pay less tax. If you require further information, please get in touch with us.

STRATEGIES TO MINIMISE **RETIREMENT TAX**

MANY PENSIONERS MAY FACE A LURKING TAX RISK AS THE STATE PENSION GROWS

Many pensioners may face a potential tax pitfall as the State Pension escalates and Income Tax bands remain fixed. Pensioners are set to see a substantial increase in their income next year. The State Pension is projected to rise by 8.5% in April 2024, following a 10.1% increase in April 2023[1].

This is due to the government's 'triple lock' mechanism, which guarantees that the benefit increases in line with wage growth, inflation or 2.5% – whichever is higher. Consequently, a full new State Pension could increase from £10,600 this tax year to slightly over £11,500 in 2024/25. However, the Prime Minister has yet to confirm if the triple lock will remain fully in place.

Many pensioners may face a lurking tax risk as the State Pension grows. The Income Tax personal allowance, which is your overall income's tax-free portion, is currently stagnant at £12,570 a year. In some situations, an individual could have a higher amount than this tax-free, for example if all income is savings income. This could mean some people might receive less tax-free income from other sources. This situation may result in a tax code change on a pension or annuity or necessitate reporting other income to HMRC for the first time.

UTILISING YOUR ALLOWANCES

When retiring it's good to be aware of certain 'allowances' that could help you earn a bit from your cash and shares without paying tax. Understanding these allowances is the first step towards paying less tax in retirement.

Take note of the personal savings allowance, for instance. This allows basic rate taxpayers to earn £1,000 of interest in 2023/24 before paying tax. The allowance is lower (£500) for higher rate taxpayers, while additional rate taxpayers don't receive any personal savings allowance.

EXTRA SAVINGS AND DIVIDEND ALLOWANCES

An additional 'starting rate' for savings offers a special 0% rate of Income Tax for savings income of up to £5,000 for those whose general taxable income falls below £17,570 in 2023/24.

The dividend allowance is another tool at your disposal. It allows you to receive £1,000 tax-free from shares for the 2023/24 tax year, which is reduced from £2,000 the previous tax year. Come 2024/25, the allowance will drop further to just £500.

PROTECTING YOUR SAVINGS FROM TAX

There are different ways to shelter your savings from tax. One such method is using a Cash Individual Savings Account (ISA), where any interest earned is tax-efficient. However, remember that the more you use your £20,000 a year ISA allowance for cash, the less you'll have available for investments in a Stocks & Shares ISA. This could be more useful in avoiding tax on income or gains from shares or other assets.

National Savings and Investments (NS&I) also offer certain tax-free cash savings products, like Premium Bonds. With these, your money is secure, and you are entered into a monthly prize draw where you can win between £25 and £1 million tax-free.

PLANNING PENSION WITHDRAWALS

Under the current rules, once you reach normal retirement age, you can usually take an invested pension pot, such as a Self-Invested Personal pension (SIPP), as cash in one go. But remember, taxes on retirement income will generally apply to 75% of this sum. It's also added to other income in the tax year it is received so it could push you into a higher Income Tax band.

Depending on the scheme options available, you can 'phase' your retirement pension income by taking the 25% tax-free lump sum and taxable income in stages. Spreading withdrawals over multiple tax years in this way may help you make the most of tax allowances and avoid paying more tax than necessary.

USING ISAS FOR TAX-EFFICIENT INCOME

Stocks & Shares ISAs are a tax-efficient way to invest your money for the long term. Unlike a pension, an ISA also offers the freedom to withdraw money easily whenever you want to without paying any tax. Proceeds are free of Income Tax and Capital Gains Tax.

These features make ISAs very useful for almost any investing need. They can be beneficial in retirement as a way to supplement

income without any tax consequences. For example, they can complement pension income, which is usually taxable beyond the first 25% of the pot, or in some circumstances, help bridge a gap until you access a pension.

> **THERE ARE DIFFERENT WAYS TO SHELTER YOUR SAVINGS FROM TAX. ONE SUCH METHOD IS USING A CASH INDIVIDUAL SAVINGS ACCOUNT (ISA), WHERE ANY INTEREST EARNED IS TAX-EFFICIENT.**

DEFERRING THE STATE PENSION

It's worth noting that you don't have to claim your State Pension as soon as you're entitled. By not claiming your State Pension immediately, you're giving up income in the short term, but if you're still working and know you'll experience a drop in income later on, it can make sense. You could pay less tax, plus you'll receive a larger amount when you take it.

However, you must also be confident you will live a relatively long life. The longer you live, the more valuable deferring gets, but if you live significantly shorter than the average, it is unlikely to be worth it.

EFFICIENT ASSET DISTRIBUTION

If appropriate to your situation, consider splitting income-producing assets if you're married or in a registered civil partnership. This can be done by holding them in joint names or allocating them to the partner with the lower income and tax liability. The beneficial ownership, as well as the legal ownership, would need to be transferred.

You can also think about how you arrange your asset types across different accounts. For example, it can make sense to prioritise your ISA allowances for dividend-producing investments rather than cash. However, your needs, objectives and circumstances will dictate what's best for you. ◀

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DO YOU REQUIRE FURTHER INFORMATION?

Many factors come into play when looking at your income and the tax you pay in retirement. But with careful planning, you can secure your financial future. Please don't feel that you have to go it alone. We're here to help you take control of your finances, giving you freedom and peace of mind. Understanding the intricacies of retirement tax can be complex. Please get in touch with us for further information.

Source data:

[1] House of Commons Library 2023 – The triple lock: How will State Pensions be uprated in future? Published Friday 13 October 2023.

DECODING AUTO-ENROLMENT

GOOD NEWS ON THE HORIZON FOR FUTURE RETIREES

For employees, auto-enrolment is a crucial component to consider in their retirement strategy. Understanding auto-enrolment becomes critical as we increasingly understand the need for adequate retirement preparation. Historically, while some companies offered their employees the chance to contribute to a pension fund for retirement preparation, others did not.

To facilitate and promote more significant savings, the government implemented legislation for automatic enrolment, or 'auto-enrolment', in October 2012. This mandated all employers to offer a pension scheme to their employees who are eligible to join.

RULE CHANGES EXPECTED TO BE ANNOUNCED SOON

Auto-enrolment applied to employees who were not already a part of a qualifying workplace pension, were aged at least 22 but below the State Pension age, earned more than £10,000 in the current tax year and worked in the UK. Exceptions were made for businesses with fewer than ten employees and those whose only employees were company directors.

Under the existing auto-enrolment thresholds, anyone earning between £6,240 and £10,000 per tax year could request to join the scheme (and the company would be obligated to allow them to do so), but they would not be automatically enrolled. However, these rules are likely to change soon.

THE NEW FACE OF AUTO-ENROLMENT

Although the bill is yet to be passed into law, it is anticipated there will be two significant changes to the auto-enrolment rules. The minimum enrolment age will be lowered to 18, and the lower salary limit of £6,240 will be abolished.

The previous regulations excluded many individuals from automatic entry into the scheme, particularly part-time and low-wage workers. The logic was simple enough – saving for the future could impact your lifestyle if you're a low earner.

IMPLICATIONS OF THE NEW AUTO-ENROLMENT RULES

These changes won't affect you if you're already enrolled in a pension scheme. However, those not currently covered by the regulations will see a 3% decrease in their monthly pay, which will be directed towards auto-enrolment contributions. While this might initially strain your household budget, it's an adjustment that can ultimately benefit your future.

Opting out of the company's scheme is possible, but doing so means losing out on the company contributing an additional 5% to your pension savings account. This may not be in your best long-term interests. You can opt out and rejoin later when you feel more comfortable with the payments, and your employer will be required to re-enrol you every three years, giving you a chance to reassess your decision.

A CRITICAL PART OF SECURING YOUR FINANCIAL FUTURE

The anticipated changes to the rules governing auto-enrolment will likely mean that everyone now has an equal opportunity to achieve a more comfortable retirement. But remember, planning your retirement isn't optional; securing your financial future is critical. Leveraging your employer's pension plan through auto-enrolment could be one of the best decisions you can make for your golden years.

If you'd like to put away more for your retirement, if appropriate, you could consider opening a Self-Invested Pension Plan (SIPP). It's a personal savings account where your investments can grow tax-free, and you'll have a wide range of investments to choose from. You can currently invest up to 100% of your earned income or £60,000 (whichever is the lower) each year and claim Income Tax relief on your contributions. ◀

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DO YOU WANT TO UNDERSTAND HOW TO NAVIGATE THESE CHANGES AND WHAT THEY MEAN FOR YOUR FINANCIAL FUTURE?

Don't hesitate to contact us if you require further information or have questions about these changes. We're here to help you navigate these changes and understand what they mean for your financial future. Don't leave your retirement to chance – get in touch today.

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

YOUR OWN PERSONAL CIRCUMSTANCES, INCLUDING WHERE YOU LIVE IN THE UK, WILL HAVE AN IMPACT ON THE TAX YOU PAY. LAWS AND TAX RULES MAY CHANGE IN THE FUTURE.

A CRUCIAL DECADE: **FINANCIAL PLANNING IN YOUR 50s**

MAXIMISING YOUR EARNINGS OR LAYING DOWN A ROBUST FINANCIAL PLAN

As you sail into your 50s, it becomes pivotal to consider your financial strategy. Life has likely found a steady rhythm by now. Children have probably taken flight, becoming financially self-sufficient, and the idea of reducing work hours or even retiring completely starts to surface.

Each person's life journey is unique and has different resources and challenges. However, there are shared goals and steps that one can take during this stage. Knowing where to begin can be daunting, whether you aim to maximise your earnings or lay down a robust financial plan.

FINDING THE BALANCE BETWEEN CASH AND INVESTMENTS

The key to financial stability lies in balancing cash and investments. It's generally advisable to have an emergency fund that can cover three to six months of living expenses and any planned spending. This provides a safety net for unexpected events like job loss or significant sudden expenditures. However, the exact amount depends on factors such as employment security and expense levels.

While it may be tempting to hoard cash, having too much idle money is only sometimes the best strategy. For long-term goals, investing can offer the opportunity for your money to grow and outpace inflation.

BOOSTING RETIREMENT SAVINGS WITH HIGHER EARNINGS

As you enter your 50s, retirement planning should take centre stage. This period often comes with increased earnings, which, when channelled towards pension contributions, can yield extra benefits from tax relief. Determining how much capital you'll need for the rest of your life can be challenging, but tools like pension calculators can provide guidance.

If your income has increased compared to in your 30s or 40s, consider using the extra money to accelerate your retirement savings. This could be in the form of additional pension contributions, with options like a Self-Invested Personal Pension (SIPP) offering flexibility.

UNDERSTANDING STATE PENSION FORECASTS

The State Pension forms a significant part of most people's retirement income. Yet, there's often confusion about its specifics. In your 50s, it's crucial to understand the rules for qualifying, how much you'll receive and from what age.

You can obtain a State Pension forecast from the government website https://www.gov.uk/check-state-pension, which helps you understand how much you could get and how to increase it. Monitoring your National Insurance (NI) contribution record is also essential, and you can fill any gaps in contributions from the last six years through voluntary payments.

WEIGHING MORTGAGE PAYMENTS AGAINST INVESTMENTS

Deciding between paying off your mortgage or investing the money is a personal decision that involves considering factors such as your risk tolerance, financial goals and tax situation.

If you're risk-averse, you may prefer to pay off your mortgage quickly for peace of mind. On the other hand, investing could provide higher returns, especially for higher rate taxpayers making pension contributions if you're open to taking some risks.

Downsizing could also be an option if you own a large home. This could free up equity to fund your retirement and reduce maintenance costs.

PLANNING FOR SUCCESSION AND INHERITANCE TAX

As you age, it becomes increasingly important to plan for the future, particularly regarding passing on assets and managing Inheritance Tax. Even those who aren't exceptionally wealthy may be subject to this tax.

Inheritance tax is levied on the value of an estate upon the owner's death, but there are ways to reduce this liability, such as making gifts or setting up trusts. Ensuring your Will is updated to reflect your current circumstances is also crucial. ◀

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ARE YOU IN YOUR 50S AND LOOKING TO MAXIMISE YOUR EARNINGS OR DEVELOP A ROBUST FINANCIAL PLAN?

For further information or personalised advice related to financial planning in your 50s, don't hesitate to get in touch. We're here to help guide you through this critical stage of your financial journey.

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‘TIME IN THE MARKET’, NOT **‘TIMING THE MARKET’**

THE ALLURE OF QUICK PROFITS AND INSTANT GRATIFICATION

In the investing world, the allure of quick profits and instant gratification often tempts some investors to employ a ‘market timing’ strategy. This method involves buying or selling financial instruments based on predictions of future market price movements.

Market timing is an active investment strategy aiming to beat the traditional buy-and-hold strategy. It involves moving in and out of the market or switching between asset classes based on predictive methods such as technical indicators or economic data.

ASSET FUNDAMENTALS AND FINANCIAL PLANNING

For instance, if an investor believes that a stock’s price will rise, they may decide to buy it immediately or plan a purchase. Conversely, if they anticipate a decline in the stock’s value, they may sell it immediately or schedule a sale.

While factors like asset fundamentals and financial planning can influence these decisions, the core of market timing revolves around anticipated price changes. The critical objective of market timing is to capitalise on these market predictions and generate profit. However, this strategy’s success hinges on the accuracy of these forecasts.

THE PITFALLS OF MARKET TIMING

The track record of market timing is far from impressive. One of the primary reasons for this is the difficulty in accurately predicting market movements. Many factors influence financial markets, ranging from economic indicators to geopolitical events, making it almost impossible to make accurate predictions consistently.

Moreover, market timing requires investors to make two correct decisions: when to exit the market and when to re-enter. Making a mistake in either of these decisions can lead to significant financial loss.

THE POWER OF POUND COST AVERAGING

In contrast to the high-risk, unpredictable nature of market timing, a less volatile and more straightforward strategy is known as ‘pound cost averaging’. This technique involves investing a fixed amount regularly, regardless of the market conditions.

For instance, if you have a lump sum of £10,000 and choose to invest £1,000 a month over ten months, you would be less affected by short-term volatility. As you gradually put your money in, any share price movement has less effect on the value of your investment.

POTENTIALLY LEADING TO SUBSTANTIAL LONG-TERM GAINS

Moreover, this approach allows you to buy more shares when prices are low and fewer when prices are high, potentially leading to substantial long-term gains.

However, it’s important to note that while pound cost averaging can help mitigate some risks, it does not guarantee profits or protect against losses. Like all investment strategies, it comes with its own set of risks, and the value of your investments can fall and rise. ◀

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TIME TO GROW YOUR WEALTH STEADILY OVER TIME?

Investing is not about getting rich quickly; it’s about growing your wealth steadily over time. Therefore, it’s crucial to resist the temptation of market timing and instead focus on building a diversified portfolio that aligns with your financial goals and risk tolerance. Please speak to us to discuss how we can assist you with your wealth creation.

HIGH COSTS OF **PRIVATE EDUCATION**

THE SIGNIFICANT DECISION OF CHOOSING A PRIVATE SCHOOL FOR CHILDREN

Choosing the right educational path for your children is one of the most significant decisions you will make as a parent. Among the many considerations, private schooling often emerges as an option due to its perceived benefits, such as smaller class sizes, specialised programmes and personalised attention.

However, the high costs associated with private education can make this decision even more complex. Data from the Independent Schools Council reveals that the majority of pupils attend day schools, meaning the typical fee level is £5,552 per term or £16,656 per annum, a rise of 5.8% from 2021 to 2022[1].

This equates to a hefty total of £116,592 per child for those who opt for private secondary schooling through the end of sixth form. And these figures don't include potential increases in fees over time. The financial burden can be even greater if considering private primary or preparatory schools.

EASING THE FINANCIAL BURDEN: ROLE OF WEALTHY GRANDPARENTS

However, grandparents have the capacity to alleviate this financial strain on their adult children while simultaneously addressing a looming Inheritance Tax (IHT) issue.

INHERITANCE TAX: A GROWING CONCERN

UK families are increasingly feeling the pinch of IHT when family members pass away. In the fiscal year 2022/23, IHT receipts touched a record high of £7.1 billion, according to HM Revenue & Customs (HMRC) figures[2], an astounding 108% increase over the last decade. Presently, IHT is levied at a rate of 40% on estates exceeding the nil-rate band, which stands at £325,000, or £500,000 if the property is being left to children or grandchildren.

NAVIGATING IHT: ROLE OF GIFTING

One method of reducing your loved ones' IHT burden is to start giving away surplus money. The less money you possess over the nil-rate band, the smaller the tax bill. For grandparents, contributing to school fees can serve a dual purpose: reducing your IHT bill and witnessing your grandchildren benefit from your wealth.

With IHT gifting rules, implications arise when gifting outside of the exemption rules. However, there are no limits on the amount you can give away. Here are several allowances you can leverage, whether you're paying the entirety of the school fees or making a contribution.

Yearly exemption: Every year, you can contribute £3,000 tax-free to any individual of your choice. Couples can unite to offer a combined tax-free gift of £6,000. Moreover, you can carry forward the unused portion from the previous year, although this can only be done once. This yearly exemption can also be paired with a donation from surplus income and given to the same recipient.

Gifts beyond allowances and Inheritance Tax (IHT): Even if your donations exceed these allowances, you might still not have to pay IHT and some gifts may be chargeable lifetime transfers. Any gifts you make that go beyond the allowed exemptions are seen as 'potentially exempt transfers' and fall under the seven-year rule. This implies that if you survive for at least seven years after making the gift, it will be removed from your estate and won't be subject to any IHT. If you pass away before seven years, taper relief may apply to gifts surpassing the £325,000 threshold.

TRUSTS: AN EFFECTIVE TAX STRATEGY

Instead of making direct payments to your children's school, you might discover tax benefits using a trust to fund your gifts where the gift would be to the trust. When you donate money into a discretionary trust, control over the underlying capital's management is in the hands of the trustees, who could be the grandparents and/or the parents. Yet, the income produced could be applied towards school fees. This approach can be advantageous from an IHT planning perspective.

IHT PLANNING AND TRUST ADVANTAGES

Any amount can be transferred into a trust. These assets will be exempt from IHT provided the donors live for seven years post-gift. An added perk of this method of school fee funding is that the income produced by the trust is taxed at the beneficiary's rate – that is, the child's if the trust is absolute. Given that the child is likely to have a lower tax rate than other family members, this can lead to substantial savings.

TRUST CONTINUATION AND UNIVERSITY FUNDING

Another advantage is that the trust can continue to operate even after the child has finished school, providing financial support for university life. If the trust is absolute, the child would have to agree to this. However, trusts are complex structures and grandparents cannot benefit once a trust is established. Additionally, given the complexity of trusts, it is crucial to seek professional advice before setting one up. ◀

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NEED TO FORMULATE YOUR PLANS SOONER RATHER THAN LATER?

Early planning is crucial if you face a potential IHT liability and wish to help fund private education for your grandchildren. Discussing it with your children and formulating plans sooner rather than later can be beneficial. To find out more, please contact us and we'll explain your options. We look forward to hearing from you.

Source data:

[1] ISC Census and Annual Report 2023.

[2] https://www.statista.com/statistics/284325/united-kingdom-hmrc-tax-receipts-inheritance-tax/

JOURNEY TO **MONETARY AUTONOMY**

OPTIMISING YOUR FINANCES AND FORMULATING AN ALL-ENCOMPASSING WEALTH PLAN FOR THE FUTURE

Everyone is entitled to monetary autonomy, and maintaining financial wellness throughout life is more of a marathon than a sprint. One must deeply grasp one's financial status to reach short-term and long-term objectives.

To optimise your finances and formulate an all-encompassing wealth plan for the future, we have created a guide that will enable you to understand your finances better and boost your financial fitness.

UNDERSTANDING YOUR FINANCIAL STATUS

The first step towards improving your financial fitness involves understanding your financial situation. Begin by documenting your income and expenditure or updating any existing records. Ask yourself if your income meets your expenses. Do you have surplus income that can be invested? Are there underutilised monthly subscriptions or memberships that could be cancelled to save money? Understanding your daily financial situation forms the basis of your journey towards financial stability.

EVALUATING CURRENT INVESTMENTS

If you have already invested money, ensure you are fully aware of your investments. Where are they invested and what is their current value? Could you make your holdings more tax-efficient by maximising your annual investment allowance for your Individual Savings Account (ISA)? Understanding your investments can make them work better to your advantage.

Your lifestyle, life stage or risk tolerance may have changed since you first made your investments. Being aware of the level of risk you are comfortable taking when investing is crucial in determining if your investments are still suitable or need adjustments.

PENSION SIMPLIFICATION

Many people start contributing to a pension as soon as they begin working but often neglect it until they are nearing retirement. This neglect can lead to missed planning opportunities, since pensions can offer tax-efficient savings invested in various strategies. Start locating any old plans now, especially those left behind with previous employers. If they don't provide good value or their features seem unnecessary, consider consolidating them for a lower-cost solution or consult us on how to use them tax-efficiently. Make sure your pension is working towards achieving your long-term financial goals.

TAKING YOUR FAMILY SITUATION INTO ACCOUNT

Optimising income and capital is essential for everyone. For married couples or those in a registered civil partnership, transferring assets between partners could lead to significant tax planning and ISA allowance benefits. If there's an age gap, ensure long-term financial stability for the younger partner. In case of separation, untangle your finances and understand your new financial situation. You should always obtain professional financial advice in this regard.

PROPERTY ASSESSMENT

For homeowners, it's essential to understand how your property fits into your financial situation. Do you own multiple properties? Do you have a mortgage? If so, are you aware of your current interest rate, mortgage term and when you'll be in a position to pay off the mortgage? Could you rent out a property for additional income in the future? A long-term perspective on your property's financial implications is crucial for maintaining financial health.

YOUR FINANCIAL SHIELD

The unpredictability of life is inevitable. Imagine being unable to work. Could you still provide for yourself and your loved ones? Could you afford a comfortable lifestyle? It's crucial to revisit your protection policies, both personal and employer-provided. Are they current and valid? Is there a risk of being over-insured or under-insured? Maybe you've switched jobs and a previously available plan has ceased, requiring replacement. Having contingency plans is essential.

PLANNING FOR LEISURE YEARS

Everyone aspires to a comfortable lifestyle post-retirement, but not all know what they can afford. A thorough assessment of your existing assets can help sketch a potential post-retirement income. If you're still earning, save and invest a specific monthly amount towards your ideal retirement. If you are nearing retirement, try estimating the income from your pension, savings and investments post-retirement. This

might help adjust your current expenditure and bring you closer to your desired retirement lifestyle. Collaborating with us and using a cash flow planning tool will help you understand your potential post-retirement income.

LEAVING A LEGACY

With a secure financial plan catering to your future income and capital needs, you may find surplus funds you'd like distributed to loved ones and charities posthumously through your Will. Drafting or updating your Will isn't a melancholic task. It's a positive personal responsibility to comfort your loved ones post-departure, ensuring your estate is distributed as per your wishes. We strongly recommend seeking professional advice when drafting a Will to ensure it meets your needs.

SHARING YOUR WEALTH BY GIFTING

If your finances permit, consider gifting a portion of your wealth to family, friends or charities annually without incurring potential Inheritance Tax. If you're contemplating gifting, consider the allowances available and how best to utilise them for the benefit of your loved ones. Thoughtful planning of your support now, in the future and as a legacy can make your giving more effective, potentially providing tax relief benefits for you and your estate.

MAINTAINING FUTURE FINANCIAL FITNESS

As you focus on the future, you'll always find room for financial improvement. Annual allowances often exist, making it beneficial to review your investments and finances yearly. Whether it's streamlining your pension plans, ensuring tax-efficient savings or considering suitable new investments, obtaining professional financial advice is essential. ◀

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WILL YOU MAINTAIN YOUR FINANCIAL HEALTH THROUGHOUT YOUR LIFE?

Every individual is entitled to financial independence. Nevertheless, maintaining your financial health throughout your life is an ever-changing process. Achieving your short and long-term goals necessitates a deep understanding of your financial standing, enabling you to optimise your wealth and design an all-encompassing financial plan for the future. For further information, feel free to contact us. We're here to guide you on your journey towards financial independence.

"THE UNPREDICTABILITY OF LIFE IS INEVITABLE. IMAGINE BEING UNABLE TO WORK. COULD YOU STILL PROVIDE FOR YOURSELF AND YOUR LOVED ONES?"

THE VALUE OF YOUR INVESTMENTS CAN GO DOWN AS WELL AS UP, AND YOU MAY GET BACK LESS THAN YOU INVESTED.

THE TAX TREATMENT IS DEPENDENT ON INDIVIDUAL CIRCUMSTANCES AND MAY BE SUBJECT TO CHANGE IN FUTURE.

ESTATE PLANNING IS NOT REGULATED BY THE FINANCIAL CONDUCT AUTHORITY.

A PENSION IS A LONG-TERM INVESTMENT. THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN. YOUR EVENTUAL INCOME MAY DEPEND ON THE SIZE OF THE FUND AT RETIREMENT, FUTURE INTEREST RATES AND TAX LEGISLATION.

WEATHERING THE **INFLATION STORM**

IS IT TIME TO DIVERSIFY YOUR PORTFOLIO?

The mantra 'Cash is king' has echoed through the investment world for years. Cash forms the backbone of our society – it pays for our purchases, settles our debts and serves as a liquid asset in tough times.

As long as money spins the globe, many will uphold cash as the reigning monarch. However, this crown has been slipping off lately. This raises a question – is it wise to lock into a rate that incurs losses in real terms merely to avoid the short-term volatility of financial markets?

THE VALUE OF CASH DIMINISHES

The circumstances for each saver are unique. But the argument for holding cash over investments, especially over the longer term, simply because savings rates are on the rise, is flawed. In the face of still high inflation, the value of cash diminishes, while investments can potentially offer higher returns. Therefore, evaluating whether holding on to cash is the best strategy, especially in the long run, is essential.

With inflation showing only muted signs of letting up, the real worth of your wealth held in cash may continue to be chipped away. The dilemma then lies in figuring out what proportion of cash should remain in the bank, exposed to inflation, and what portion should be invested.

INCOME SECURITY AND LIVING COSTS

Deciding on the amount of cash to retain in the bank and the amount to invest with the aim of outpacing inflation is a complex and highly individual decision. What works for one person might be entirely unsuitable for another, hence the importance of receiving professional advice.

If you depend on employment income to cover living expenses, it may be prudent to maintain a larger cash buffer in case of job loss. Conversely, those with a guaranteed income, such as a final salary pension, might benefit from investing more and banking less. Your living costs also play a role. Those with higher expenses might prefer to have more saved on deposit for emergencies, especially given the rising cost of living.

LIFE STAGE AND SHORT-TERM EXPENDITURE

Your life stage may also influence your decision. For example, individuals with dependents and a mortgage might prefer to have more banked on deposit for unexpected events than those with fewer responsibilities. Any planned capital expenditure in the next three years (like property purchases or gifting adult children) should be reserved in cash.

COMFORT LEVELS WITH RISK

Regardless of wealth level, some people may find comfort in having a sum of cash in the bank. But it's worth considering whether keeping excess money in the bank, thus subjecting it to inflation, can be a higher-risk strategy than investing in a diversified portfolio. This is because when inflation outstrips interest rates, the value of cash diminishes, while the value of an investment portfolio has the potential to increase over time. ◀

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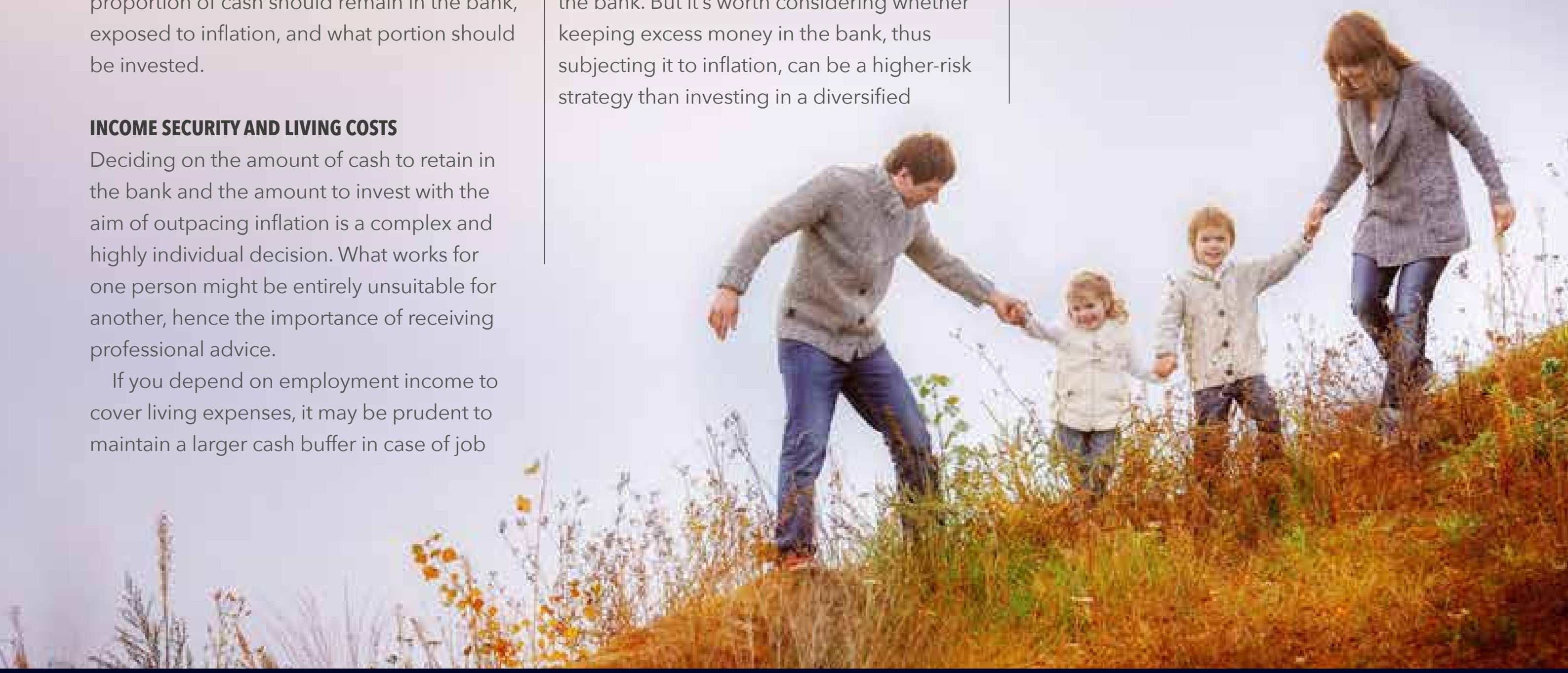
READY TO DISCUSS YOUR OPTIONS?

There's no one-size-fits-all answer to the question of how much money is too much to keep in the bank. The appropriate amount varies greatly depending on numerous factors. To discuss your options or to find out more, please get in touch with 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, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.



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