

Retirement decisions

Market behaviour may affect your plans

Year end planning

Autumn Statement clarifies direction of travel

National insurance changes

Review your bonus and salary sacrifice arrangements

Review

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WINTER 2022

IN THIS ISSUE:

- » Retirement now and later
- » Bonds come in from the cold
- » Year end planning focus
- » Cash is making a comeback
- » Untangling NICs developments
- » Inheritance gifting - why wait?
- » News round up



The 'triple lock' increase to state pensions offers two important lessons.

In November's Autumn Statement, the Chancellor, Jeremy Hunt, announced that the 'triple lock' would again operate on State pensions, meaning that from next April pensions rise by 10.1%, in line with the September 2022 rate of inflation. Mr Hunt applied the same increase to nearly all other benefits, a move with two important lessons for your own financial planning.

Firstly, it is a reminder of the paucity of social security benefits. The Covid-19 pandemic gave many people an unwelcome insight into the low level of benefits. In response, the government was forced into a temporary £1,000 a year increase to the main benefit, Universal Credit (UC). It also relaxed waiting period rules on statutory sick pay (SSP) although, like the £1,000 UC uplift, the easing has since been withdrawn.

From next April, SSP will be just £109 a week. For a couple aged 25 or more with two children, the maximum UC payment will similarly rise to just under £1,118 a month. In comparison, a 35-hour week at next April's National Living Wage rate equates to earnings of just under £365 a week or £1,580 a month before taxes.



If you had life assurance of £100,000 in October 2017, you would need cover of £121,113 in October 2022 to maintain your policy's buying power.

Impact of devaluation

The second lesson from the benefit increases is that the impact of inflation must be built into any financial planning. Ignore rising prices and the targets you have set steadily devalue, whether in terms of your savings goals, planned retirement income or your health and life insurance protection. For example, if you had life assurance of £100,000 in October 2017, you would need cover of £121,113 in October 2022 to maintain your policy's buying power.

With the new year in sight, now is a good time to review how your current financial plans have been affected by inflation. One consequence could be increased outlays, but as the Chancellor demonstrated, reviewing plans and implementing changes is the only way to maintain the same level of safety net.

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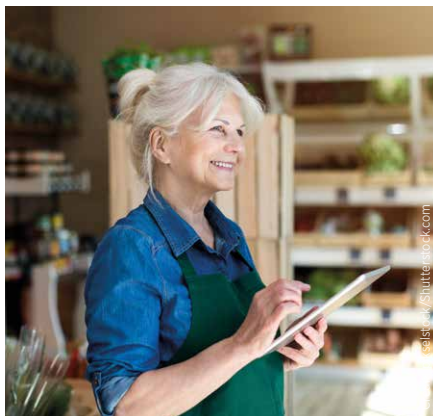
Retirement now and later

The retirement market changed considerably in 2022, largely driven by market volatility and soaring inflation. Your retirement plan may have been knocked off its original course and need reviewing in the light of changed circumstances.

The lessons learned about pensions in 2022 have been both surprising and sometimes alarming. For example, if you are close to the time when you draw your retirement benefits, then the performance of investment markets in 2022 has been a double-edged sword:

- Both share and bond markets have been volatile. This has made the year an uncomfortable ride for some retirees relying on pension fund withdrawals. If you choose this option, you need to accept it comes with investment risk, so ongoing investment advice is vital.
- Annuity rates rose sharply in 2022. By mid-November the 65-year-old rate had risen by more than half since January, to just over 7.5%.

The improvement in annuity rates is worth noting even if you are already making pension fund withdrawals. Now could be a good time to lock in a guaranteed lifetime income from part of your drawdown fund by buying an annuity.



Working for longer?

If retirement is some years away, recent research from the Office for National Statistics (ONS) could make you think about when you can afford to stop work. The working population aged 65 and over has rapidly recovered from the pandemic-induced fall. About 11% of that age group are still working according to the latest ONS data. Predictably

most are part time, but the hours are still considerable –averaging 21.7 hours a week.

One reason more people are working beyond age 65 is that the state pension age (SPA) has been 66 since October 2020. The SPA is due to start increasing again in just over three years, with the two-year phasing in of age 67 beginning in April 2026.

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Bonds come in from the cold

As interest rates tick up, those seeking an income from their investments may want to look at their options again.

Interest rates have remained at historically low levels for more than a decade, with UK base rates below 1% from March 2009 to May 2022. Since then, however, rates have increased

four times and stood at 3% at the start of November. This has had a knock-on impact on fixed-income investments, with yields now rising.

Corporate bonds and gilts are debt issued by companies or the UK government respectively. They generally pay a level income, known as a 'coupon' over a fixed term, with capital returned at the end of this period. These investments can look less attractive as interest rates rise, as the fixed income paid may be a smaller margin over what investors can get from 'risk-free' deposit accounts.

But we have been living through unusual economic times. Sustained ultra-low interest rates have led to negligible returns on deposit accounts. Demand for bonds and gilts increased significantly, and institutional investors were

forced to step up the risk to generate returns on their money, leading to inflated market prices.

With higher interest rates the reverse is now happening. Demand has fallen, dampening prices. Lower prices and higher yields mean bonds may now look a more attractive option for income-seeking investors, particularly those that don't want the risks of equity markets.

Most retail investors don't buy individual bonds or gilts but invest via a fund which buys a broad spread of bonds. This means if one defaults its impact should be minimal on overall returns.

As ever, expert advice is the first port of call.

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Regulator warns on financial scams

The Financial Conduct Authority (FCA) has stepped up efforts to curb misleading financial adverts and scam promotions, designed to persuade people to part with their money.

In total, the FCA shut down or ordered significant changes be made to more than 4,000 financial campaigns between July and September this year; a record number of interventions. The regulator said it had seen a number of cases where unscrupulous firms were using the cost-of-living crisis to try to defraud people, and it said it was worried consumers could be tempted by high-risk unregulated products or become a target for scammers "preying on moments of vulnerability".

The FCA also highlighted the growing issue of 'Buy Now Pay Later' promotions which were misleading about fees. It said it was increasingly targeting adverts appearing on social media and was working with tech companies to try to protect users from harm.



Year end planning focus after the Autumn Statement

With the tax framework for the next few years now clear, your year end tax planning comes into even sharper focus.

Jeremy Hunt's Autumn Statement was more than just a reversal of the tax-cutting plans of his briefly empowered predecessor. In the view of two well-respected think tanks, it marked the country entering a "new era of high taxation". That viewpoint is hard to dispute, given the increases to dividend tax, capital gains tax and corporation tax alongside a multitude of tax allowances frozen until April 2028. The grim contents of the Autumn Statement make tax year end planning especially important in 2023, with new deadlines having been created. Among the areas to consider are:

Capital gains tax The current individual exempt amount of £12,300 of gains will drop to £6,000 on 6 April 2023 and then halve to £3,000 a year later. You should consider realising your investment gains up to the annual exempt amount before the axe falls. If you wish to retain the investment, then you may need to reinvest via an individual savings account (ISA) or a pension. Anti-avoidance rules make direct reinvestment within 30 days ineffective for tax purposes.

ISAs The main limit on ISA annual contributions has been frozen since April 2017 at £20,000. With tax allowances for capital gains and dividends being slashed over the next two tax years, your aim should be to maximise your ISA input. If you hold cash ISAs, review both the interest rate being paid (it probably has not kept pace with base rate) and whether switching to a stocks and shares ISA would now provide greater overall tax benefits, if that suits your approach to risk.

Pension contributions Pension contributions should usually be made before the tax year closes. This advice still stands if you want to carry forward up to £40,000 of unused annual allowance from 2019/20 as 5 April is the last day to do so. Otherwise, the reduction in the additional rate tax threshold in 2023/24 means you may receive more tax relief by delaying your contribution to the new tax year.

Income timing The higher rate tax threshold (£50,270 outside Scotland) remains frozen in 2023/24 and the additional rate threshold (outside Scotland) will be cut from £150,000 to £125,140. Accelerating receipt of income to the current tax year could save you tax, although it might also mean you pay (less) tax sooner. For example, if you are a shareholding director, you may want to bring forward a dividend payment to before 6 April 2023. Similarly, you could hasten interest payments by closing a deposit account – but beware of any early closure penalties.

Inheritance tax The Autumn Statement froze the inheritance tax (IHT) nil rate band (NRB) and residence nil rate band for another two years, to April 2028. Had the NRB been inflation-proofed since it was fixed in April 2009, it would be over £140,000 higher next April. IHT year end planning revolves around taking advantage of the various annual exemptions which, with one limited exception, cannot be carried forward. In 2022/23 lifetime gifts of existing investments are also worth considering, taking advantage of the current CGT annual exempt amount and lower market values.

As ever, the sooner you start talking to us about your year end planning options, the better. This is especially the case if you wish to carry forward unused pension annual allowance, which may require slow-to-arrive third party information.

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Cash is making a comeback

Although some retailers are sticking with card payments only for now, increasing numbers of people are returning to cash.

More people are now making cash withdrawals and using this money to pay for goods and services. Paying with physical money can help keep track of spending and staying within budgets amid a background of rising prices.

Controlling spending

The Post Office handled £801m personal cash withdrawals in July – a record figure and an 8% increase on the month before. The Post Office said this change in behaviour suggested that the cost of living was impacting the way people manage their money. It coincides with the rapid rise in food prices and energy costs, and seems to suggest that we are still some years away from switching to a cashless society.

Impact of the pandemic

This recent uptick comes after years of declining cash payments. Figures show that since 2017 the use of cash for payments has fallen by around 15% a year, with a marked drop in 2020 as the Covid-19 pandemic hit. Many businesses switched to card-only payments to avoid handling notes or coins with the potential of spreading the virus.

Of course, most shops and businesses do accept both, but some have continued not to accept cash, for either convenience or security reasons. More people may be relying on cash, but it is worth bearing in mind that businesses do not have to accept cash payments, and are not in fact breaking any rules or regulations by only requesting payments by card.



Inheritance gifting – why wait?

Many parents are now giving early ‘inheritances’ to adult children to help them onto the property ladder, to set up businesses or cope with the cost-of-living crisis.

But the implications of such generous gifts could impact on parents' own living standards in retirement and their inheritance tax planning. Estates worth £325,000 or more are currently taxed at 40% on death, although no IHT usually applies on assets left to a surviving spouse or civil partner or on the first £325,000 of assets. There are also additional allowances that allow a two-parent household to pass on a family home worth up to £1 million to children tax free. The Autumn Statement confirmed a freeze on those thresholds through to April 2028, further eroding values.

Money, or assets, given to children while parents are still living can fall outside of the IHT net, but this will depend on the size of the gift, and how long the donor subsequently lives.

Gifting structures

The simplest gift option is a ‘potentially exempt transfer’ (PET). This can be for any amount, and provided the parent lives a further seven years it is excluded from IHT.



There are also ‘chargeable lifetime transfers’ (CLT) for gifts made into trusts. If the value of the gift is below the IHT nil-rate band no IHT is due at that point. If the gift is over this level IHT is paid there and then, albeit at a reduced 20% rate, on the amount in excess of any exemptions and the nil rate band. If you live for a further seven years – without making further CLTs or PETs – no further IHT is due.

Complications arise though if you make further gifts within a seven-year period, even to different beneficiaries. If you die within seven years of making a PET or CLT, HMRC will also look at any chargeable transfers made in the previous seven years of that gift – effectively meaning some of them could impact your IHT liability for up to 14 years. This is a complex area so seek specialist tax advice.

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Premium bond boost

Good news for premium bond holders: National Savings & Investment (NS&I) will be giving away more £50 and £100 prizes in their monthly draw. Previously the smallest £25 prize accounted for 98% of all payouts – but this will now drop to around 70%. These changes to the prize-fund ‘rate’ mean that with ‘average luck’ bond holders should get a return of 2.2%, up from 1.4%. Meanwhile the odds of any premium bond winning a prize have shortened from 24,500-to-one to 24,000-to-one.

Get ahead on self-assessment

Over 12 million of us need to file self-assessment tax returns by 31 January 2023. Any outstanding tax due for the year April 2021 to April 2022 needs to be paid by this date too. Those filing late face a £100 penalty and interest charged on tax owed. Last year’s Covid-related extensions have now been removed. First time users need to register for the service at least 20 days in advance of the deadline. File earlier if you can as last year more than 50,000 people were trying to file their return between 4pm and 5pm on the deadline day.

King’s coins released

The first coins featuring the new King will be in circulation from December. The 50p piece will feature King Charles III, with the reverse a replica of the image used on coins to celebrate his mother’s coronation in 1953. As is traditional, King Charles will face the opposite way to Queen Elizabeth II’s profile. The Royal Mint will issue 9.6m of these new 50ps and begin work on other coins featuring the new monarch.



Untangling NICs developments

The change to national insurance contributions (NICs) that took effect in November may have consequences for your financial planning.

One of the few surviving measures from the Kwasi Kwarteng ‘mini-Budget’ in September was the winding back of the increases to NICs introduced in April 2022. The change, awkwardly appearing seven months into the tax year, will affect financial planning mathematics:

Bonus timing Directors’ NICs are calculated on an annual basis. You and your employer are likely to pay fewer NICs if any bonus is paid in 2023/24 rather than 2022/23. However, special rules about the deemed payment date of director’s bonuses could prove an obstacle.

Bonus or dividend? If your company’s profits exceed £50,000 from April 2023 a bonus may become preferable to a dividend because of the increases to corporation tax above that threshold and the Autumn Statement’s dividend allowance cuts.

Salary sacrifice Salary sacrifice saves both the employee’s and employer’s NIC liability on the amount sacrificed. Lower NIC rates reduce that

saving but the option is still attractive, especially for basic rate taxpayers.

Company or self-employed? Increased corporation tax rates and lower NICs (the top self-employed rate is 9% in 2023/24) will discourage incorporating at high profit levels. The unchanged off-payroll working rules also limit the appeal of incorporation.

If you need more detailed and personalised information please contact us.

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