RETIREMENT DECISIONS
Market behaviour may affect your plans

NATIONAL INSURANCE CHANGES
Review your bonus and salary sacrifice arrangements

EARLY GIFTING
Implications for IHT planning and living standards

rosan helmsley
WEALTH MANAGEMENT

WINTER 2022

Quarterly Newsletter

In focus – year end planning after the Autumn Statement

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The Chancellor's Autumn Statement delivered both expectations and some surprises: two-year extensions on the tax threshold freezes, scaled back financial support for energy bills and cuts on both dividend allowances and capital gains exemptions. Our feature in this edition focuses on how these and other changes may affect your tax planning ahead of the new financial year. We also consider the effects of recent market behaviour on pensions, particularly the 'mini-Budget' in September. Whether you're coming up for retirement or still making plans, fund turmoil and the rise of over 65s remaining in employment may spur you towards reviewing your retirement planning. Investors looking for income may be encouraged by recent improvements to government bond yields to investigate their fund holdings. Those with some surplus funds are increasingly helping their adult children with meeting cost of living needs, from new homes to daily expenses, essentially spending potential inheritance early. Such gifting should be done within the inheritance tax framework to ensure a tax-efficient outcome and minimal effect on your own standard of living in retirement.

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Can we look forward to better market conditions in 2023?

None of us would argue that 2022 has been a tortuous year on so many levels. On the back of an exit from the covid period 12 months ago, many of us were anticipating a much more positive and prosperous year in 2022 as we emerged from the pandemic. There was pent up demand ready to be allocated to holidays, consumption, and spending on many of the items that we had been kept isolated from through the covid period. Businesses everywhere were anticipating much better trading conditions as the world freed itself from the shackles of the covid virus.

The reality of course has been rather different. February 24th marked the beginning of a defining period, not just for this year, but for a new phase of modern human history. Putin's invasion of Ukraine has not just been a tragedy for the 8 million Ukrainians (about 19% of the population) who have fled the Russian invasion, it has demonstrated how interconnected the world remains and, in many ways, how powerless we collectively are against rogue dictators.

It seems incredulous in 2022 that one man's warped dreams and territorial aspirations can cause economic chaos around the planet. The interconnectivity of global supply chains, concentrated manufacturing bases post the globalisation period, and the ongoing impact of covid in China, who chose a different approach to dealing with it, have led the world to experience protracted waiting times for goods and massively elevated prices on almost everything as a result. A depressing narrative right before Christmas but can we look through this challenging period to better times ahead?

China's zero covid policy, the Russian Ukrainian war and elevated inflation are clearly interconnected and as such the three factors that need to be resolved to unlock a return to more positive times ahead.

In China over the last two weeks, we have seen a very rare event – open dissent. In Shanghai to see people calling for the removal of Xi, as well as covid restrictions, says something of the frustration being felt by so many Chinese citizens during the extended lock downs. We will see how things develop, but Xi's almost instantaneous reaction has been to soften restrictions and change the covid narrative. This is necessary to unlock the enormous economic pain in China where growth has slowed to its lowest rate in decades.

Markets have welcomed this news with a sharp rise in Chinese equity prices in the last few weeks. Indeed – most markets have rallied strongly off their bottoms over the last few weeks, reiterating why staying invested through volatile periods makes sense. Many believe markets will continue to trend higher through 2023, albeit with continued volatility.

The war is clearly more difficult to predict but perhaps the biggest risk to Ukraine is Western apathy. Despite the European Parliament recently declaring Russia a state sponsor of terrorism, this will mean little if Europeans become desensitised to Putin's carnage. The US leads the response and remains committed to supplying the Ukrainian military with the weapons they need to continue making progress against the Russians that will hopefully lead to a complete Russian withdrawal. There is clearly risk though that this conflict could drag on for a very extensive period.

The trend in inflation next year is rather easier to predict and indeed we are witnessing falling prices in many areas of the economy already. Inflation will fall next year and indeed may have peaked in the States already with better numbers out of the States today, leading to a rise in equity prices. Central Banks are committed globally to getting inflation back down as a core priority and whilst there will be pain through higher rates as part of that process, it will ultimately lead to price stability.

So, there are reasons to be more positive on equity markets next year. Markets tend to lead economic indicators by 6-9 months and though it might seem odd to expect better times for markets at the onset of a potential recession, history tells us that these can be good times to invest. In addition, there is real value in certain areas of the market after this year's sell offs and astute fund managers are recognising the opportunities. My sense going forward is that dividends will play a much more important part of the investment process. Companies' ability to raise dividends will be very important in the face of rising input costs and there will likely be a change of leadership in the stocks driving returns going forward. Strong balance sheets, low leverage and pricing power will be key to driving returns.

We would like to wish all our readers a happy and healthy festive period and our best wishes for 2023.

Rob Sandwith | Chief Executive
December 13th, 2022

PENSIONS

Retirement now and later

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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 require review.

The lessons learned about pensions in 2022 have been both surprising and sometimes alarming. Those stemming from the investment difficulties faced by multibillion-pound pension schemes in the wake of Kwasi Kwarteng's ill-fated 'mini-Budget' garnered the most headlines, but there were others, similarly significant, which received less media attention.

COMING UP TO RETIREMENT

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, particularly during the turbulence in UK markets which followed the mini-Budget. In recent years, fund withdrawals have become the main way in which income is taken from pension pots. If you choose this option, you need to accept it comes with investment risk, so ongoing investment advice is vital.

- One of the reasons for the popularity of fund withdrawals has been the historically low level of annuity rates. For example, at the beginning of 2022, the best fixed payment single life annuity rate for a 65-year-old was a shade under 5.0%. However, annuity rates have risen markedly in 2022, thanks to the sharp increases in government bond (gilt) yields. By mid-November, the same rate had risen by more than half, to just over 7.5%. Rates for younger ages have jumped proportionately by more.

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 give you pause for thought about when you can afford to stop work. As the graph below shows, the working population aged 65 and over has rapidly recovered from the fall that occurred in the wake of the pandemic. 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 – at an average of 21.7 a week. A little over two thirds are payrolled employees, highlighting that a significant proportion of workers in this age group are self-employed.

The ONS research does not explain why more people were working beyond age 65, but there is at least one obvious cause. The state pension age has been 66 since October 2020, leaving anyone retiring at the traditional pension age of 65 with a 12-month income shortfall of £185 a week, based on the current state pension. State pension age is due to start increasing again in just over three years, with the two-year phasing in of age 67 beginning in April 2026.

✢ *The Financial Conduct Authority does not regulate tax advice. Tax treatment varies according to individual circumstances and is subject to change.*

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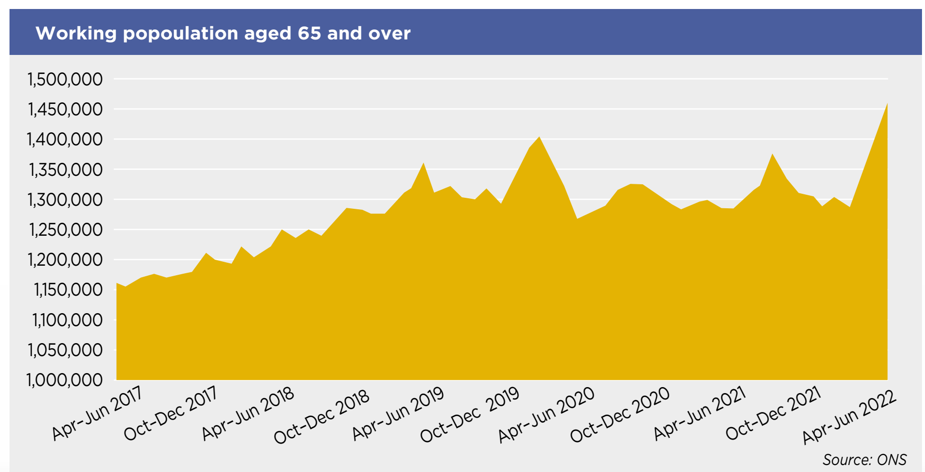
Occupational pension schemes are regulated by The Pensions Regulator.



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TAX

In focus: year end planning 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.

The current individual exempt amount of £12,300 of capital gains will drop to £6,000 on 6 April 2023 and then halve to £3,000 a year later.

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 end of the tax year. 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. 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 takes 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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PLANNING

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 of spending and sticking to 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.

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INVESTMENTS

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 over 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, with expectations for further rises next year. Interest rates have also been rising in the US and across the Eurozone.

This changing economic environment has had a knock-on impact on fixed-income investments, with yields now rising as a result.

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 are often seen as less attractive when interest rates rise, as the fixed income paid may be a smaller margin over what investors can get from 'risk-free' deposit accounts.

CHANGING FORTUNES FOR BONDS AND GILTS

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 a return on their money.

The increase in buyers for bonds and gilts pushed up market prices — although the fixed-income paid remained the same. This has meant that over the past decade the yields on these investments have fallen. For example if you pay £100 for a bond paying £10 a year, this equates to a 10% annual return on your money. If prices rise to £200 but you get the same £10 then the return is halved. But higher interest rates mean the reverse is now happening. The price of these investments has fallen, boosting yields. For those who already hold bonds, or invest via a fund, this price fall may affect valuations. But lower prices and higher yields can make fixed income a more attractive option, particularly for investors that don't want the higher risks and volatility of equity markets.

FUND HOLDINGS

Most retail investors don't buy individual bonds or gilts but invest via a fund. These funds invest in a broad spread of bonds, so if one defaults its impact should be minimal on overall returns. Some funds will invest in bonds from across the risk spectrum. These funds can be country-specific or global. Others will invest in just one part of the bond market: for example gilts, investment-grade bonds (the highest-rated corporate bonds) or high-yield bonds – issued by companies with a less secure credit rating, which pay a higher income to reflect the higher risk of default. Strategic bond funds don't have a set allocation to either investment grade or high-yield bonds, but will alter the make-up of the fund as underlying economic conditions change to try to maximise returns and reduce potential defaults.

As ever, expert advice should be your first port of call.

The value of your investment and the income from it can go down as well as up and you may not get back the full amount you invested.

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TAX

Inheritance gifting – why wait?

Many parents are now giving early 'inheritances' to adult children to help them onto the property ladder or to set up businesses.

Figures from Barclays Wealth suggest the majority of 40-year-olds have already received an 'inheritance' from parents – with one in three parents now considering this course of action to support millennial offspring with the cost-of-living crisis.

Parents need to think carefully though about the implications of such generous gifts. While the majority thought their own living standards in retirement would not be affected, this is clearly an important issue to take into account – particularly as half anticipated dipping into pension pots to help children.

INHERITANCE TAX LIABILITY

The other major consideration is inheritance tax (IHT). 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 is an additional allowance – the residential nil rate band of £175,000. If a couple can both make maximum use of both bands they will be able 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.

However, money or assets given to children while parents are still living can fall outside of the IHT net. Much depends on the size of the gift, and how long the donor subsequently lives for.

GIFTING STRUCTURES

The simplest option is a 'potentially exempt transfer' (PET). This can be for any amount, and provided the parent lives a further seven years it is not included within the value of their estate when calculating IHT.

It is also possible to make a 'chargeable lifetime transfer' (CLT). This covers, for example, gifts made into most types of trust. 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 and only 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 other CLTs made in the seven years before the gift was made — effectively meaning some CLTs can impact your IHT liability for up to 14 years.

This is a complex area needing specialist advice, but as a practical rule of thumb leave at least seven years after making a CLT before making further similar gifts.

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FRAUD

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.

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NEWS ROUND UP

King's coins released

The first coins featuring the new King will be in circulation from December. The new 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.

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. It is advisable to file earlier if possible, as last year more than 50,000 people were trying to file their return between 4pm and 5pm on the deadline day.

BUSINESS

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 If you are a director, your NICs are calculated on an annual basis, rather than the monthly basis which applies to most employees. All other things being equal, that means you and your employer 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? The NIC rates drop has reduced the tax-effectiveness of dividends relative to salary, although for now dividends remain generally the preferable option. If your company's profits exceed £50,000 the picture will change from April 2023 because of the increases to corporation tax above that threshold and the Autumn Statement's dividend allowance cuts.

Salary sacrifice Salary sacrifice is a popular way of paying pension contributions because it saves both the employee's and employer's NIC liability on the amount sacrificed. Lower NIC rates make that NICs saving less but the option is still an attractive one, especially if you are a basic rate taxpayer.

Company or self-employed? Increased corporation tax rates and lower NICs (the maximum self-employed rate is 9% in 2023/24) will tilt the scales against 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 on your options please contact us.

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