INSIGHT

ISSUE 21

A WEALTH OF ADVICE

Pension TRANSFER Gold Standard

Chartered Financial Planners

BULL -V- BEAR

INFLATION - SHOULD WE BE CONCERNED?

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SELLING YOUR BUSINESS – THE IMPORTANCE OF GOOD ADVICE AND SUPPORT

FARMING SURVEY HIGHLIGHTS FOCUS NEEDED ON PLANNING FOR THE FUTURE

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WELCOME

Welcome to our latest issue of Insight – A Wealth of Advice

We hope you, your families and your loved ones continue to remain safe and well. What had been billed as "Freedom Day" on 19th July from social restrictions, the Government now wants us to "Be Responsible" as we are not out of the woods whilst cases are on the rise. We continue to support all of our clients in whatever industry they are in or personal circumstance they have. All our offices remain open with measures in place to keep people safe but we can also support all our clients remotely by phone or video if you prefer.

Highlights in this edition include:

- **Inflation** – As the economy rebounds as we open up and return to "normal", Richard Cole at Future Money discusses what is influencing a potential rise in inflation and asks 'is it here to stay?'
- **Scams** during this pandemic have risen and become more sophisticated and spotting them is getting much harder, but having the value of a "Trusted Adviser" can help make sure your hard earned assets remain safe.
- If you thought **Inheritance Tax** was just a worry for the extremely wealthy, then think again. House prices have risen as a result of the stamp duty holiday and inheritance tax receipts paid to the Exchequer continue to rise, but putting the right plans in place could mean you minimise or even eradicate the tax that needs to be paid by your heirs.
- Should you consider **insuring your state pension?** The value of the state pension should not be overlooked as this forms a critical part of a retirement income for nearly all retired households and here we discuss the impact of losing a valuable benefit and what you can do to prevent a sudden loss of income in retirement.

We hope you enjoy this issue of our magazine and we are always keen to hear from you if there are any themes or issues you'd like us to include in future editions.

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PAUL DICKSON

CHIEF EXECUTIVE AND MANAGING PARTNER
ARMSTRONG WATSON

ARE ISAS PAST THEIR BEST-BEFORE DATES?

The role of Individual Savings Accounts (ISAs) has changed since they were launched more than 20 years ago, so are they still worth having?

> IF YOU WANTED TO REDUCE THE SIZE OF YOUR ESTATE FURTHER YOU COULD USE YOUR ANNUAL IHT EXEMPTION OF £3,000 AND FUND A JUNIOR ISA TO BENEFIT YOUR CHILDREN OR GRANDCHILDREN.

ISAS

Since ISAs were introduced in April 1999 the portfolio has been extended to include:

- Junior ISAs (for under-18s)
- Help to Buy ISAs (no longer on sale)
- Innovative Finance ISAs (for crowdfunding investors)
- Lifetime ISAs (for 18-39-year-olds and a partial replacement for the Help to Buy plans)

Despite the proliferation of different types of ISAs, activity remains dominated by the two basic variants - cash ISAs and stocks and shares ISAs. However, other tax changes in recent years can also be worth bearing in mind:

- The Personal Savings Allowance (PSA) allows basic rate taxpayers to earn up to £1,000 interest tax-free (£500 for higher rate taxpayers and nil for additional rate taxpayers). If we assume a 0.5% interest rate then exceeding those thresholds requires a substantial deposit (e.g. £100,000 @ 0.5% = £500). As a result, for many savers, an ordinary bank/building society deposit is as tax-free as a cash ISA
- It is a similar story with stocks and shares ISAs and the dividend allowance, which allow all taxpayers to receive £2,000 of dividends free of tax. At the current average yield on UK shares, that threshold is breached at around £67,800
- For stocks and shares ISAs, there is also the capital gains tax (CGT) annual exemption to consider. At the current level of £12,300, it makes the CGT freedom of ISAs academic for many investors.

So, are ISAs past their best-before dates? Well, for some investors, they could be, particularly if their savings are modest. For many others, ISAs can still offer tangible benefits.

- They leave your Personal Savings Allowance, dividend allowance and CGT exemptions unused
- There is nothing to report on your tax return
- If you invest regularly over a long term, the ISA tax freedoms can become highly valuable, as the growing band of stocks and shares ISA millionaires can testify.

Inheritance Tax (IHT)

One often overlooked benefit is that ISAs can be tax-efficient when you die if you are survived by your spouse. When you die, no more money can be added to your ISA, but your pot can be transferred to your spouse free of inheritance tax.

In addition, if your ISA is transferred to your spouse it doesn't affect their annual ISA allowance. They will get an extra allowance for one year equivalent to the size of the ISA the spouse left. This is known as 'additional permitted subscription'. That said, ISAs themselves are not generally inheritance tax-free, so capital and growth could ultimately be taxed at 40% if your estate exceeds the IHT threshold.

However, there is also a way for you to gain exemption from IHT without losing your lifetime ISA tax benefits. That is in an ISA investing in Business Property Relief (BPR) qualifying investments. Since 2013, it has been possible to invest in companies listed on AIM within an ISA. Provided that the companies qualify for BPR, then the ISA can be passed on to beneficiaries after two years, just as with other BPR qualifying investments.

Clearly, though there are greater risks in holding an AIM ISA. The shares of companies listed on AIM tend to be more volatile, which means their value can rise or fall by greater amounts on a day-to-day basis. It's therefore being mindful that an ISA investing in AIM-listed shares is likely to have a higher risk profile than ISAs with investments in more mainstream equities, bonds or cash.

Finally, if you wanted to reduce the size of your estate further you could use your annual IHT exemption of £3,000 and fund a Junior ISA to benefit your children or grandchildren.

There are pros and cons when deciding to use your savings and place them in a bank savings account, a cash ISA or a stocks and shares ISA. It comes down to your personal circumstances, your objectives and where you are in your life. We would suggest getting advice to decide on the best outcome for you.

At Armstrong Watson, our quest is to help our clients achieve prosperity, a secure future and peace of mind. We can provide bespoke tax planning, financial planning and wealth management all under one roof to help ensure our clients have the best opportunity to pass on their wealth to those they wish to receive it.

MATTHEW SLESSOR
CHARTERED FINANCIAL PLANNING CONSULTANT - CARLISLE

INFLATION – A STORY OF BASE EFFECTS AND GOLDILOCKS

FUTURE MONEY

Vaccination is seen as the way beyond the pandemic while support from government and the central bank is enabling a bounce back from the economic harm it wrought. Consequently, markets of late have not been dominated by fear over the downside of a slow economy, but instead have been focused on concerns over one which may overheat. Restrictions are lifting, travel and leisure are returning, consumers are spending and demand is surging. All good news so far. But what happens if supply can't keep up with this demand? Prices rise, inflation picks up and markets get jittery over the potential fallout.

Rising prices

Measures of inflation have been increasing recently, with the UK and especially the US seeing rising price levels. Elevated numbers are widely expected to continue over the coming months, but what happens beyond that point is subject to greater debate.

Set to fade?

On one hand is the view that the huge levels of stimulus pumped into the economy will combine with a recovering labour market to drive prices higher over a sustained period. On the other hand is the argument that a major factor in the current elevated levels is the 'base effects' in the calculation process, which could well fade over time.

> INFLATION IS TYPICALLY QUOTED AS AN ANNUAL FIGURE AND HERE IT IS CALCULATED BY COMPARING TODAY'S PRICE LEVELS WITH THOSE OF 12 MONTHS AGO.

This time last year

Inflation is typically quoted as an annual figure and here it is calculated by comparing today's price levels with those of 12 months ago (the base). With the pandemic causing unusually low prices last year, it is therefore only natural that as we approach a more normalised economy, prices recover. This creates a short-term surge in inflation, yet as time moves on the starting point of the 12-month measurement period will be at a less stressed level, meaning the current inflationary base effects are likely to recede.

(In)action needed

Whether the current inflationary surge is transitory or whether a more sustained period emerges is, therefore, an important question for central banks. Should inflation fade with the current base effects, then policymakers need not move from their recent stimulatory positions, yet should persistent price rises develop they will be forced to tighten conditions, through higher interest rates.

Interest rates and the Three Bears

Any such shift will draw the attention of markets, with the acceptable path to follow likely narrow. Raise interest rates too much and excessively cool the economy, raise too little and prepare to overheat. Get it just right, however, then sustained moderate economic growth can be achieved. This Goldilocks scenario is, of course, the aim but with inflation expectations so uncertain, central banks will be treading carefully and markets will be watching with keen interest.

RICHARD COLE
FUND MANAGER – FUTURE MONEY LTD

SCAMS ARE GETTING MORE SOPHISTICATED (AND COMMON) SO BEWARE...

Unfortunately, we are continuing to hear of more people falling victim to scams during the pandemic. These can take many different forms with some about pensions or other high-return investment opportunities. Scammers can be sophisticated, opportunistic, appear authentic, using Covid-19 as an opportunity to persuade people to disclose personal or financial information either online or verbally, and whilst they may be likely to target the vulnerable, anyone can be affected or taken in.

> ALARM BELLS STARTED TO RING AS SOME OF THE WORDS IN THE EMAIL FROM THE COMPANY DIDN'T LOOK QUITE RIGHT.

All scams are designed to get hold of your hard-earned money. This is done by getting you to reveal your personal details, stealing your information, or even convincing you to willingly hand over the cash.

New figures, from the City of London Police in a report to Action Fraud, reveal that more than £63m was lost nationally by victims of investment fraud through contact made via social media. Some victims mentioned being approached directly by an investment fraudster online, whilst others said they were attracted to a fake investment through adverts.

In April, Action Fraud, the national reporting centre for fraud and cyber crime, reported that £1.8 million had already been lost to pension fraud this year. It went on to say there has been an increase in reporting this year, with 107 reports of pension fraud received in the first three months of 2021. This is an increase of almost 45 per cent when compared to the same period in 2020.

Knowing how to recognise a scam can be extremely difficult. Chances are, you've come across the most common type of scams – the spam emails, often from other countries, or attempting seemingly to be from HMRC or your bank.

Spotting scams is getting harder

Growing sophistication means spotting these scams isn't always easy, but spelling and grammar mistakes, plus unfamiliar links are telltale signs. If you are in any doubt, ignore or block the message, contact the named organisation directly and never disclose personal information such as bank details, PINs or passwords to any unsolicited contact. HMRC and banks will never ask you to share personal information in this way.

An example of this sophistication happened to one of our clients last year who was looking for a better return on their Cash ISA. After a search on the web he found what he thought was a much better return from a very well-known investment provider and made an enquiry. The person on the end of the line was very helpful and discussed how five products were available paying different interest rates, all reasonably, but not significantly, higher than he was currently receiving.

He was then sent an email along with a 20-page prospectus complete with the well-known company branding. At this point, the client was mentally committed to transferring his £80,000 Cash ISA.

However, as he had a good relationship with his Financial Planning Consultant he wanted to double-check the interest rate was correct. Our adviser commented that the interest rate looked quite high, taking into account that deposit rates are at historically low levels due to the Covid crisis, and wanted to look at the email and brochure in more detail.

Alarm bells started to ring as some of the words in the email from the company didn't look quite right. The prospectus, however, was incredibly convincing. Our adviser made contact with the well-known company who confirmed the prospectus had not been issued by them. They confirmed this was indeed a scam as they didn't have any products of this nature. The company also then acted and the matter was immediately then passed on to their fraud department.

In this instance what saved the client from this scam was having an active relationship with a trusted and regulated adviser. This meant he felt it best to get another opinion first before making a decision. The experience of the adviser meant he could see through what was a very convincing scam to the public, and saved the client from parting with his £80,000 and all the stresses, strains and angst that would have gone with transferring the monies over.

Having the support of a trusted adviser you can rely upon is more important than ever.

At Armstrong Watson, our quest is to help our clients achieve prosperity, a secure future and peace of mind. We are a firm of Chartered Financial Advisers and our Financial Planning team is regulated by the Financial Conduct Authority (FCA). You should always deal with a trusted and regulated financial advisory firm when dealing with your finances.

JAMES MARLOW
REGIONAL FINANCIAL PLANNING MANAGER – LEEDS

SELLING YOUR BUSINESS – THE IMPORTANCE OF GOOD ADVICE AND SUPPORT

In our last edition of Insight we discussed how to get your business ready for sale and in this article we discuss what areas to consider when you are closer to or have sold your business.

SIMON MAYOH
CHARTERED FINANCIAL PLANNING CONSULTANT - LEEDS

CHRIS ARCHER
CORPORATE FINANCE PARTNER - LEEDS

Whether it's director fatigue, feeling trapped in your business or simply the time is right to go, many see the sale of their business as a key step in the process of their financial planning for retirement - the final task in preparing for the next stage of their journey and a leap towards the personal and financial freedom it may bring.

You may have spent years building up your business and now you may be starting to think about the many questions around the sale and beyond. For some, the sale of a business is an objective set many years before the disposal takes place, for others, a direct approach or a life-changing event may lead to an accelerated process. Whatever the timing of the decision, business owners have the opportunity to take steps to maximise the likelihood of a successful sale and improve the value obtained. Our Guide To Selling Your Business has some very useful tips on how to prepare for a sale.

We are often asked a number of questions by clients when they sell their business, such as:

1. How can I reduce my tax bill?
2. How much do you need for a good retirement?
3. What should I do with the sale proceeds?

As you would expect, the starting point is establishing a value on your business, then working out what the proceeds would be after tax, however, we also recognise that the sale of the business is not the whole picture.

To support our clients at Armstrong Watson, we have a number of specialist teams who can assist with all parts of this process, from our Corporate Finance Team, who can value a business, to our Tax Team, who go through what reliefs and allowances are available, such as making pension contributions and Business Asset Disposal Relief (formerly Entrepreneurs Relief).

This currently allows the first £1m to have a Capital Gains Tax charge of 10%, or even Business Asset Rollover Relief, if applicable, before confirming what the value of the sale is after tax.

Once we can estimate the net proceeds of the sale, the next step is to find out if you can afford to retire or generate your desired income levels to maintain your lifestyle.

This is where our Financial Planning & Wealth Management team can support you. One way to do this is by creating a cashflow model and stress testing your finances based upon your income needs versus your outgoings.

The purpose of this exercise is to give you an indication of whether:

1. You can afford to retire completely, or
2. What actions need to be taken to put you in the right position to meet your objectives.

In both scenarios the stress testing will allow us to show how your finances/income levels could be impacted should we experience any market fluctuations.

Once you are in an informed position, we can then look to actively engage in the various ways to help invest your sale proceeds, should you wish to do so. First from a tax vehicle perspective, such as pensions, then ISAs, through to more specialist options such as Enterprise Investment Schemes and Venture Capital Trusts. As with any type of investing, each investment vehicle has its own tax advantages, reliefs or allowances, however, they come at different risks. It is therefore essential that you take advice on the most appropriate vehicle to meet both your needs and risk comfort levels, whilst also bearing in mind your overall tax position. This needs to be personalised to each client as a one size fits all approach does not work.

Once we have established the most appropriate tax vehicle, we will then look to implement a suitable investment strategy to meet both your immediate income needs, but also longer-term plans such as potentially funding school fees for children/grandchildren, moving house or passing assets down the generations, whilst again taking into account your risk comfort levels.

We will then continue to support clients by undertaking regular reviews of your circumstances to ensure that your portfolio continues to meet your longer-term goals and aspirations.

From pre-sale restructuring to advising vendors on the Earn Out period, from extracting non-business assets to the financial planning surrounding the investment of the proceeds, Armstrong Watson has the skills and experience to advise up to and beyond the completion of your sale.

Armstrong Watson's Chartered Accountants and Chartered Independent Financial Advisers can advise on all aspects of business and financial planning needs tailored to each individual's circumstance. Our expertise is under one roof allowing our Corporate Finance, Tax Advisers and Financial Planners to work alongside each other to ensure business owners get all the advice and support they need. Any advice given under our financial planning service is regulated by the Financial Conduct Authority.

SECTOR FOCUS

AGRICULTURAL AND LANDED ESTATES SECTOR

FARMING SURVEY HIGHLIGHTS FOCUS IS NEEDED ON PLANNING FOR THE FUTURE

A number of potential risks to agricultural businesses have been highlighted in a recent survey by the Rural Agriculture Group (RAG UK).

Armstrong Watson's respondents, from across the north of England and Scotland who run livestock, dairy and arable farms, highlighted the future of subsidies among their top three challenges, which also included climate change and the environment as well as cashflow.

From a financial planning perspective, the survey also found that, of our farming contacts, only 32% had succession plans in place, 53% either don't have a will or need to update their existing will, while a further 63% do not have either a shareholder/partnership agreement in place or one that is up to date. Additionally more than half of the respondents, 58% of which are aged 60 or over, have no Power of Attorney arranged.

So why are these findings important? Well, as for any business owner, it is important to safeguard your business for the future. The long-term financial security of any business is an essential and not a 'nice to have'. Unexpected events can have a dramatic impact on the long-term security of both your business and your employees.

With this in mind, there are maybe some key questions for many farm owners to consider, such as:

- Does my business rely heavily on one or more key individuals?
- Could my business survive without those individuals?
- What could go wrong if a business owner were to die or be diagnosed with a critical illness?
- How would I retain control of the business?
- Do I have a written agreement in place as to what would happen?
- How do a create a clear and defined succession plan?
- How comfortable will I be once any plans have been executed?

The same issues exist if your farming business was a limited company. Making sure your family is compensated for the shareholding and that the shares can be passed back to the business can mean the business continuing to trade.

It may be that a farming business has a director's loan account. This is where a director has lent money to the company to support initiatives. This could include initial start-up costs, funding expansion or where a director has left dividends within the business to be used as working capital. Essentially, it's a debt owed by the business to the director and would need to be repaid on the directors' death, if demanded by their estate. But what if the business could not afford to pay this back? Will the other directors be forced to take out a loan to cover this? What if they could not raise the money?

Key people, within all businesses, are also vitally important to help generate profits and ensure smooth and effective day-to-day operations. In nearly all cases for most farming businesses that is the owners. If you consider the problems the business would face if you, or somebody key, died or were to become critically ill. How much would profits suffer? How long would it take to find and bring someone new in?

Finally, the survey found more than half the respondents either do not have a will, or an updated one, or a Power of Attorney in place. Given that the majority of respondents were aged over 60, this is something that needs addressing. Regarding a will, everyone should have one, but it is even more important if you marry, have children, you own property or have savings, investments, insurance policies or you own a business. Dying without one can cause many issues especially if you want to ensure your assets pass to someone you want to receive them. A Power of Attorney allows family members to deal with a person's finance if they lose mental capacity.

It is important to discuss and evaluate the potential unforeseen risks. With the right knowledge and support, all businesses, including those in the Agricultural sector, are better placed to make the right decisions in protecting themselves against certain unexpected and in many cases unforeseen events.

At Armstrong Watson, our Chartered independent financial advisers and can discuss and advise on all aspects of financial planning for farming businesses, including key areas such as protection, retirement and Inheritance Tax planning. All our expertise is under one roof with our Financial Planners working alongside our Tax advisers to ensure the right advice and support is at hand for agricultural business owners.

ANDREW ROBINSON

ACCOUNTING PARTNER - HEXHAM

RYAN ANDERSON

FINANCIAL PLANNING CONSULTANT - HEXHAM

CASE STUDY

YES, YOU CAN RETIRE FROM BEING A TEACHER

One of the best things about my role as a Financial Planning Consultant is being able to make clients' dreams a reality and whilst in some cases it is advising on new products and planning, in many cases, it's about clarifying and reorganising what a client already has.

As a long-serving teacher, my client was still four years short of the normal retirement date on a particular scheme, which would usually be 60. We discussed her existing income and expenditure and what her spending plans would be in retirement, as clearly this is very important.

My client confirmed in an almost embarrassed manner, that she had no idea how pensions worked as they are not easy to understand. I comforted her and explained that that's what I was there for – to explain these things in a way she could understand fully.

The Teachers' Pension Scheme

As the Teachers' Pension Scheme calculates pension income based upon age and earnings, we agreed that if she did retire it would benefit her to do it after her next birthday to qualify for a further uplift in income.

I went on to explain that due to the length of service, she would be a member of the old scheme and the pension would be based upon an average of her three best year's salary.

We looked at the Teachers' Pension Scheme website to see what her income would be at her normal retirement age of 60, and also the impact of taking her pension three years earlier – which in this case was a reduction of roughly £2,000 per year. Her income at age 60 was going to be sufficient for her ongoing needs, however, the lower pension would leave her short.

I explained that with the Teachers' Pension there is a tax-free lump sum which would also be £5,000 lower if taken earlier than the normal retirement date.

The Agreed Plan

A final plan was agreed that would allow my client to retire three years before the normal retirement age - which she was very pleased with. Further discussion led to a conversation about how the period between now and the scheme's normal retirement date would be funded, as roughly £60,000 was going to be required over that period.

We talked about her savings which could cover the expenditure needed between now and retirement and discussed that this was held at her high street bank earning her next to nothing. I advised that if she could maximise her pension contributions before retiring, to make use of all tax relief available, she could contribute to the Teachers' Pension, effectively purchasing additional years but in this particular case we agreed on an alternative option of contributing to an additional personal pension.

By contributing £64,000 to an additional pension, the pension company could claim immediate tax relief and claim £16,000 'tax back.' In addition, she could use the pension contributions to effectively take the client out of higher rate tax, saving them a further £5,000. A £21,000 return on £64,000 over two years is a good return in anyone's view!

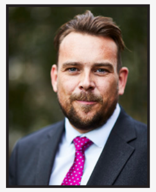
- Tax relief on contributions increasing the amount in her new pension. £64,000 becomes £80,000 when basic rate tax relief is added.
- Additional higher rate tax relief via her tax return of roughly £5,000.
- A flexibly accessible personal pension pot to supplement her Teacher's Pension scheme.

This new personal pension pot could then be used to give the client the income needed before the actual Teachers' Pension Scheme begins. Overall she left my office very happy and delighted to understand what she had and comforted that she would be able to retire as she'd hoped, so I was delighted to give her the news, "yes, you can retire!"

At Armstrong Watson, our quest is to help our clients achieve prosperity, a secure future and peace of mind. Whatever stage you're at, we'll give you a clear idea of how much you'll need to afford the lifestyle you want in retirement and provide regular reviews to keep you on track.

STEVE SHOVLIN

CHARTERED FINANCIAL PLANNING CONSULTANT - CARLISLE



"MY CLIENT CONFIRMED IN AN ALMOST EMBARRASSED MANNER, THAT SHE HAD NO IDEA HOW PENSIONS WORKED AS THEY ARE NOT EASY TO UNDERSTAND. I COMFORTED HER AND EXPLAINED THAT THAT'S WHAT I WAS THERE FOR – TO EXPLAIN THESE THINGS IN A WAY SHE COULD UNDERSTAND FULLY."

SHOULD I CONSIDER INSURING MY STATE PENSION?

The state pension has made many headlines over recent years, with most stating doom and gloom for those who are looking to retire in the future, and with the ever-increasing age at which the state pension can be claimed, you could be forgiven into thinking that the state pension is not worth relying on in retirement.

However whilst the majority of the headlines seem to have been negative, the value of the state pension should not be overlooked as this forms a critical part of a retirement income for nearly all retired households. It will certainly be missed if it is not there.

When producing retirement cashflow forecasts, most people we speak to become very aware of their reliance on the state pension, with fewer and fewer people being able to rely on final salary pension schemes. The state pension provides one of the few sources of "risk-free" income.

For those entitled to the full state pension, you will receive a sum of £179.60 a week, or just over £9,339 a year. For a retired couple, two state pensions would provide the household with over £18,678 of risk-free income each year. For many this will allow them to cover a significant proportion of their expenditure, with any additional income requirements usually being generated from personal pensions, investments or maybe from a rental property.

The Pensions and Lifetime Savings Association, in its Retirement Living Standards research, found that for a couple to retire on a "Moderate" standard of living (outside of London), a household income of £29,100 a year would be needed. For a single person, or for someone who may have been widowed, this sum is £20,200 a year.

> SADLY MOST ONLY MISS NOT HAVING COVER UNTIL IT IS TOO LATE AND HAVE TO MAKE SIGNIFICANT CHANGES TO THEIR RETIREMENT PLANS AS A RESULT.

Whilst the state pension meets a proportion of the income requirements for a married couple, there is one very real danger to retirement income. That is the death of a spouse or partner. Under current legislation, if you receive the state pension these payments have to cease on death, thereby leading to a fall in household income for the survivor. It should also be considered that other sources of retirement income may also reduce or cease. Therefore it is extremely important that plans are in place to cover the loss of income.

Similarly, it is important to ensure plans are in place to protect the future state pension receipts even if you have not yet retired. Every person who has worked through their career will have had National Insurance payments deducted from their salary/profits for the duration of their working life. Sadly, if they pass away before retirement age, then no state pension will be payable. From October 2020, the state pension age is due to rise to 66, and at this age, the average life expectancies for a man and woman are 85 and 87 respectively, according to the Office for National Statistics.

Therefore the state pension, in normal circumstances, could be paid for over 19 years, providing over £177,000 of income per person (even without allowing for any inflationary increases), so for those who pass away before the state retirement age, this is a large amount of income for the survivor to try and replace, or partially replace, depending on the lifestyle they are still aiming to achieve, from other sources or investments.

Thankfully, there are ways in which you can ensure that in the event of your death, your husband, wife, or partner does not suffer this significant loss of income in retirement. You can secure a similar level of income through the use of life assurance for a relatively low cost. Life assurance is often discounted by many as not being a necessity and is rarely considered in retirement, but it is extremely valuable should your retirement planning not go to plan. Sadly most only miss not having cover until it is too late and have to make significant changes to their retirement plans as a result.

Whilst the state pension will continue to generate headlines, for most people it will still form the backbone of their retirement plans. The loss of a state pension income will have profound effects on the retirement plans for the survivor, but by arranging a full financial plan, and having the right financial protection in place, you can be assured that you will continue to have enough income to retire on, whatever happens.

At Armstrong Watson, our quest is to help our clients achieve prosperity, a secure future and peace of mind. We work with you to help build your retirement plans with regular reviews so you can remain on track and enjoy your later years.

CHRIS HILL
CHARTERED WEALTH MANAGER - KENDAL

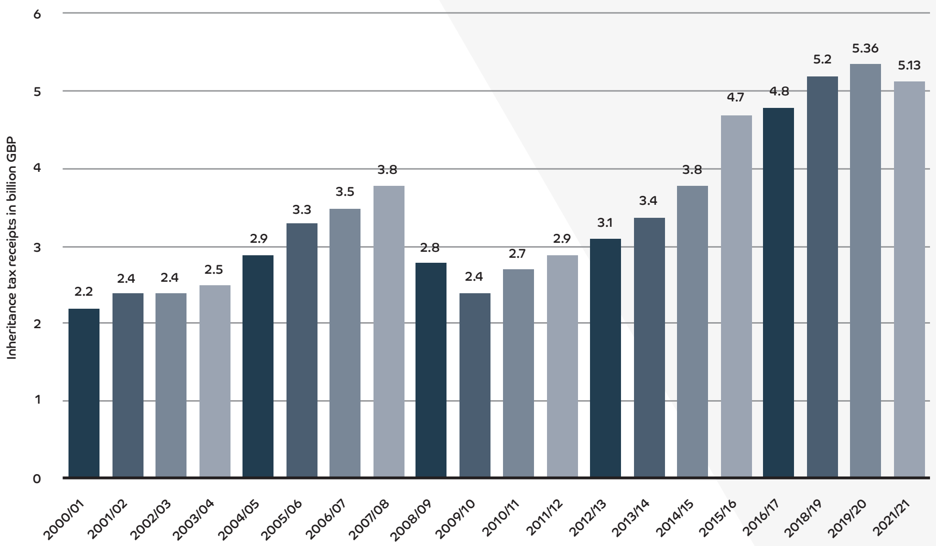
IF YOU THOUGHT INHERITANCE TAX WAS JUST FOR EXTREMELY WEALTHY PEOPLE TO WORRY ABOUT, THINK AGAIN

> “THINKING ABOUT HOW YOUR ASSETS WILL BE DISTRIBUTED AFTER YOUR DEATH IS NOT ALWAYS A COMFORTABLE THOUGHT, HOWEVER, IT IS ONE OF THE MOST IMPORTANT AND VALUABLE THINGS YOU CAN DO.”

IAIN LIGHTFOOT
MANAGING DIRECTOR - AWFP

IHT was initially introduced on the idea of redistributing wealth for the benefit of the general public. The principle being, rather than the rich getting exponentially richer through large inheritances, a portion of their wealth is redistributed to the public through taxation.

However, if you thought IHT was just for extremely wealthy people to worry about, think again. Rising property prices in particular means that inheritance tax receipts paid to the Exchequer continue to rise. HMRC collected £5.13 Billion in IHT in 2019-20 and the amount of inheritance tax collected in the future is currently expected to reach £6.3 billion by 2023-24.



In an attempt to alleviate the burden of IHT on increasing property prices, in particular, a number of years ago the Conservative Government introduced an additional allowance called the Residence Nil Rate Band (RNRB) in addition to the Nil Rate Band (the standard estate threshold). This now means a married couple or civil partners can pass up to £1 million on to their heirs, rather than the previous £650,000 (the £325,000 Nil Rate Band x 2). However, this measure appears to have only temporarily reduced the IHT tax taken, as can be seen in the graph above, and without further favourable changes, as commented on earlier, is likely to increase further over the coming years.

Thinking about how your assets will be distributed after your death is not always a comfortable thought, however, it is one of the most important and valuable things you can do. At the very least you should make a will so you decide who gets what of your assets.

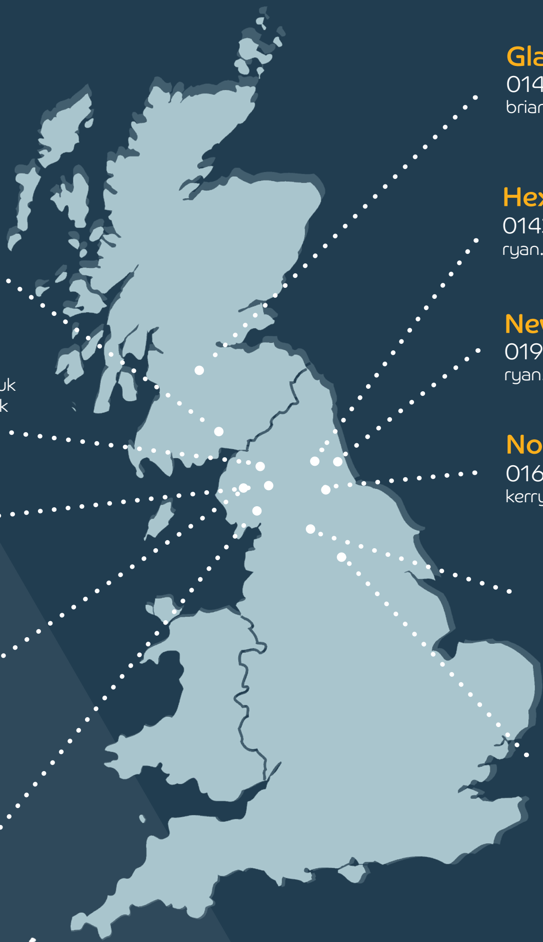
If you don’t clarify your wishes in a will, the state will take over and distribute your estate according to a formula set out in the rules of intestacy. The results are not always what you would expect and can also potentially create unnecessary tax consequences.

The global pandemic and the unprecedented recent borrowing by The Government means that all taxes, allowances, and reliefs both now and in the future are likely to be under closer scrutiny. One such area is likely to be that of IHT. In fact, more than two years ago, independent reports were commissioned by former Chancellor Philip Hammond from the Office of Tax Simplification(OTS) on simplifying the IHT regime. The OTS has issued two reports to date, but no action has yet been taken in any subsequent Budgets. A Chancellor with an eye towards a ‘levelling-up’ agenda and a need for more revenue could finally decide to act in either the coming or future Budgets.

There are currently many ways IHT can be reduced, offset or eradicated altogether. Potential considerations could involve simply giving your money away to reduce your estate such as lifetime gifts or through regular surplus income, using life assurance policies to protect any tax liabilities and/or setting up trusts to shelter your assets. Solutions do not, however, have to involve a reduction in your lifetime benefit of funds or assets. It is a case of determining what is the right solution for each individual and family.

The rules around IHT can be complex, and the amount of tax, and even the overall rate that will be paid, will depend on how your finances are structured during your lifetime, how you dispose of your assets and to whom you leave them. Seeking independent tax and financial advice can help you pass your assets to the people you want to benefit and potentially mitigate some or all of the IHT liability. With the right planning and support some of the IHT receipts currently payable by individuals are thereby able to be legitimately avoided or reduced.

At Armstrong Watson, our quest is to help our clients achieve prosperity, a secure future and peace of mind. Our view for anyone considering taking advice around estate and legacy planning is that now may be a good time to do so whilst all existing reliefs and allowances remain available. Acting sooner rather than later puts you in control and is the opportunity to ensure you leave as much of your wealth as possible, to the people you want it to go to.



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