INSIGHT

ISSUE 24

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WELCOME

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

As we entered into 2022 and the hope of returning to some semblance of pre-Covid normality, who would've predicted we would be witness to a devastating war in Europe and an energy crisis on an epic scale? The world continues to watch the distressing situation as it develops in Ukraine and we look closely at the impact it will have across the continents, and in turn, on our economy.

March saw The Chancellor delivering his Spring Statement, which on the face of it, looked like a welcome boost for many people, with the increase in the National Insurance threshold and a 5p cut in fuel duty, however, Fiscal Drag will mean for many that finances will still suffer, and within this edition we explain why.

Some really interesting considerations in our latest edition are:

Don't leave your financial planning to the end of the tax year – To try and "cram it into" the final few weeks of the tax year is typically not the best approach to help you achieve your financial plans and there are other benefits to starting early in the financial year.

Why inheritance tax (IHT) continues to be an issue for more than just the "wealthy"? - If you thought inheritance tax was now simply for extremely wealthy people to worry about, think again. Rising property prices have meant more estates than ever are likely to face an inheritance tax bill.

Having a Plan B could now be even more important! - Our Protection Advice Consultant - Hayley Towlson looks at the impact on your personal and business finances, why you should look at protecting the future and the dangers of going it alone.

Has Contributing to a Pension become even more important? – With the impact of the increase in national insurance contributions for employees and employers, pension contributions could be a really useful tool to counteract this increase. This article discusses the merits and the different ways open to you and your business.

We hope you enjoy this latest issue of our magazine. If there are any topics you would like us to cover in a future edition of Insight please get in touch If you would prefer to download a digital copy or subscribe to new issues electronically, please visit www.armstrongwatson.info/Insight

PAUL DICKSON

CHIEF EXECUTIVE AND MANAGING PARTNER
ARMSTRONG WATSON LLP

HOW GOOD FINANCIAL PLANNING CAN HELP OFFSET THE IMPACT OF THE CHANCELLOR'S FISCAL DRAG?

The Oxford dictionary defines this as "the deflationary effect of a progressive taxation system on a countries economy. As wages rise, a higher proportion of income tax is paid."

Fiscal drag happens when tax thresholds do not increase in line with pay. For example you receive a 3 per cent pay rise, if the tax threshold has not then moved in line with this you could therefore be dragged into a higher tax bracket. Therefore, fiscal drag has the effect of raising government tax revenue without explicitly raising tax rates.

Some of the headlines, or those the Government wanted us to see anyway, from the Spring statement last week were the cut in fuel duty by 5p per litre and the rise in the threshold for paying National Insurance to be increased by £3,000 in July, meaning individuals will now be able to earn £12,570 per annum without paying any income tax or national insurance contributions (NIC's). This brings into alignment the starting thresholds for both income tax and NIC's for the first time.

At Armstrong Watson, our quest is to help our clients achieve prosperity, a secure future and peace of mind. We believe that for those people who are considering taking financial advice now may be a good time to do so to help utilise existing allowances and tax reliefs, which are still available and could help to, depending on your personal circumstances, reduce the impacts of the fiscal drag on your finances.

The NIC threshold increase, on the face of it, looks a welcome boost for many people, with official Government estimates stating around 70% of payers will pay less NICs, even accounting for the introduction of the additional Health and Social Care Levy, the original changes were put in place to support. All of which tries to give the impression as that millions of us are going to have more money over the next few years together with the "carrot" dangled of the Chancellor's plan to reduce the basic rate of income tax from 20p to 19p in 2024.

However, we only need to look slightly below the surface of the headlines to understand why "fiscal drag", is going to have a significant impact on millions of taxpayers, in a number of other ways, unless they take the time to look carefully at various aspect of their financial and tax planning.

Frozen Personal Allowances

In the Spring 2021 Budget the Chancellor Rishi Sunak announced that the personal allowance and the higher rate threshold would be frozen until 2025/26. This measure was forecast to raise £1.56 billion in 2022/23, rising to £8.18 billion in 2025/26. The Chancellor then presented the Autumn Budget and Spending Review in October 2021, and although the Budget report did not discuss this tax increase in any detail, the freeze in both the personal allowance and higher rate thresholds for was confirmed at this time. The Treasury has since published updated estimates for the Exchequer impact of this income tax increase: it is now already forecast to raise £2.77 billion in 2022/23, rising to £13.04 billion in 2025/26. As a result some commentators are now referring to the Chancellor as "Mr Freeze".

All of this relates back to the "fiscal drag" approach he has tried to create to help create the increased tax revenues to help start to pay back the estimated £500 billion from the global pandemic, without actually having to announce what could be seen as unpopular tax increases.

Frozen Inheritance Tax Allowances

With the basic IHT threshold now also frozen at £325,000 until 2026 it's expected that many more people will be caught out by IHT over the coming years. As estate values, supported by increased property prices and/or investment returns, continue to rise we will clearly see more people caught by the IHT net over the coming years.

Frozen Pension Lifetime Allowance (LTA)

The LTA, which governs how much can be saved in a pension before tax charges apply, now also remain at its current level of £1.073m until 2025/26. The LTA is a very important pensions consideration. It effectively sets the maximum tax efficient value of all your retirement benefits, assuming you have not already applied for any of the protections that are available. If your accumulated pension benefits exceed the LTA there is a tax charge which is 25% if the excess is drawn as taxable income and 55% if it is received as a lump sum.

So is there anything I can do about this ?

One thing is sure, doing nothing means that you are much more likely to pay increased levels of tax than would previously have been the case, whether that is in relation to income tax rates due to the frozen personal allowances, or other taxes, such as IHT or the impacts of the Pension LTA.

However, by engaging with a financial planner, there are still lots of legitimate and, depending on your personal circumstances, appropriate allowances and tax reliefs available to you. For example, by making a pension contribution you can bring your income back down to the lower threshold to avoid paying higher rate income tax.

However, deciding to make a pension contribution also then brings the consideration of which company you should make the contribution and where is the most appropriate place for the funds to be invested in line with your attitude to risk and reward.

Aside from making full use of available allowances and reliefs there are many other advantages to planning ahead, for example, by using your ISA allowance or making your pension contributions early in a new tax year you could benefit from extra potential growth, as well as receiving an element of your tax relief earlier on your pension and any pension contributions. Of course, there's also the benefit of spreading your contributions over a tax year instead of in one lump sum at the end, when it might not be affordable to you at that time.

Planning ahead, whether in respect of savings and investment allowances, including more specialist areas for higher earners, pension contributions or lifetime allowance planning, or to ensure your estate is distributed to those you want it to go to, rather than leaving more than would otherwise be the case to the tax man, is essentially what good financial planning is all about. This will also help you to reduce, or even remove, the impacts of the "fiscal drag" the Chancellor has deliberately tried to create.

IAIN LIGHTFOOT

MANAGING DIRECTOR - AWFP LTD

DON'T LEAVE YOUR FINANCIAL PLANNING TO THE END OF THE TAX YEAR

Although the tax year doesn't end until 5 April, effective financial planning shouldn't be a mad March rush. Starting your financial planning early in the year will give you a head start.

> "PLANNING AHEAD IS ESSENTIALLY WHAT FINANCIAL PLANNING IS ALL ABOUT"

Often, as the end of the tax year is approaching, there are many financial commentators and institutions writing/advertising about how you should make sure you don't lose your valuable tax allowances. The reasons being that they allow you to reduce your tax bill or use up an allowance that may otherwise be lost after the end of the tax year.

However, those who have chosen to engage the support of a financial planner, are much more likely to be in a position where they have looked and planned ahead, rather than waiting until the final weeks of the tax year to make last minute decisions

There are a number of areas of financial planning to consider that can benefit you both now and in the longer term, all of which are worthy of consideration. Key areas to look at include:

- Pension contributions – maximising your allowance in the current tax year and in previous years to avoid losing any unused allowances
- ISA Allowances – maximising your annual tax-free allowance - currently £20,000 per person per year. It is lost if you don't use it
- Capital Gains Tax – effectively using up any allowances and reliefs from your portfolios
- Inheritance Tax – using up small exemption allowances but also making gifts and disposals in the current tax year
- Income tax planning – reducing your income tax bill for high earners and those who receive child tax credit
- Marriage Allowance - allows you to transfer a portion of your Personal Allowance to your husband, wife, or civil partner.

Each area needs careful thought as both financial and tax planning is subject to individual circumstances and all the options and allowances mentioned are not suitable for everyone. They should also be considered as part of someone's overall financial plan and strategy i.e., part of a joined up and well thought through approach.

To try and "cram it in" to the final few weeks of the tax year could mean that something is not considered and could potentially work against your overall goals and objectives.

Aside from making full use of available allowances and reliefs there are other advantages to planning ahead, for example, by using your ISA allowance or making your pension contributions earlier you could benefit from extra potential growth, as well as receiving an element of your tax relief earlier on your pension and any pension contributions. Of course, there's also the benefit of spreading your contributions over a tax year instead of in one lump sum at the end, when it might not be affordable to you at that time.

Planning ahead is essentially what financial planning is all about, but by working with a trusted adviser, you also benefit from being kept up to date on the latest position on all aspects of relevant tax legislation which can then be signposted for both current and also future consideration.

Armstrong Watson have both Financial Planning and Tax Consultancy expertise in place "all under one roof". This allows us to provide both a bespoke and joined up service for our clients when and where specific needs arise. Please note, some of the areas such as making pension contributions are provided by our Financial Planning Consultants, whereas other areas such as capital gains tax advice are services offered by our Tax Consultants within this article. Advice on IHT issues could be provided by a mixture of the two services.

JUSTIN ROURKE

CHARTERED SENIOR FINANCIAL PLANNING MANAGER – PENRITH

THE COST OF RETIREMENT – WHAT WILL YOU NEED TO LIVE ON?

New research confirms many people are experiencing the growing gap between what the State pension provides and a comfortable retirement.

“FROM APRIL 2022, ALL STATE PENSIONS HAVE INCREASED BY 3.1% WHILE THE NATIONAL LIVING WAGE – ANOTHER GOVERNMENT-SET BASE INCOME LEVEL – WILL GROW BY 6.6%.”

From April 2022, all state pensions will increase by 3.1% while the National Living Wage – another government-set base income level – will grow by 6.6%. The manifesto-breaking one-year suspension of the triple lock means that the new state pension will reach about £185 a week, approximately 5% less than would otherwise have been the case.

Costs of living

The announcement of the new state pension rates came in the same month that an updated report was published that looked at retirement living standards in 2021. The report calculated the cost of three different baskets of goods and services that equated to three retirement living standards:

- ***minimum,*** where income covers all needs, with ‘some left over for fun’;
- ***moderate,*** providing more financial security and flexibility; and
- ***comfortable,*** offering greater financial freedom and ‘some luxuries’.

For example, at the minimum level, a couple would have no car, while at the comfortable end of the spectrum each would have their own car, replaced every five years. In between, the couple with moderate retirement living standards would replace a three-year old car every ten years. There was less difference in food and drink budgets, which ranged from £67 a week to £94 a week.

The research put annual costs to each living standard for couples and singles, with an adjustment of up to £5,600 for the additional expense of living in London:

	MINIMUM		MODERATE		COMFORTABLE	
	Standard	London	Standard	London	Standard	London
Single	£10,900	£13,200	£20,800	£24,500	£33,600	£36,700
Couple	£16,700	£21,100	£30,600	£36,200	£49,700	£51,500

These figures show the net income required and make no allowance for any tax. So, for instance, a couple living in the Midlands who want a comfortable standard of living would each need pension income of about £28,000 before tax. If they were to rely on just one partner’s pension income, that would need to be almost £62,000 because higher rate tax would be payable on the excess over £50,270. Different pre-tax figures would apply in Scotland because of the country’s different tax bands.

Covering the shortfall

The uprated new state pension from April 2022 will be equivalent to £9,628 a year, leaving a significant gap if your goal is anything other than the minimum retirement living standard (no car, no European holiday). The shortfall is not a surprise – the UK has traditionally occupied the bottom slot in international comparisons of state pensions undertaken by the OECD. Given the condition of government finances and an ageing population, the UK is unlikely to advance up the OECD’s pension league table.

There are less and less people who will benefit from generous final salary (defined benefit) schemes. Bridging the gap between the retirement living standard you want and what the state will provide requires more people to contribute to private pensions. Determining how much the gap-filling will cost and what form it takes begins with a detailed review of your current retirement plans. The sooner you contact us to start that process, the longer the period over which you can spread the investment required.

As Chartered Financial Planners, Armstrong Watson Financial Planning & Wealth Management, work with you to build your retirement plans and regularly review these so you know if you will remain on track. We use cashflow forecasting to allow you to understand your plan more easily so you can make informed decisions.

RYAN ANDERSON
FINANCIAL PLANNING CONSULTANT
- HEXHAM

HAVING A PLAN B COULD NOW BE EVEN MORE IMPORTANT!

Now we have to "live with COVID" I have found greater numbers of clients starting to question their own financial and business stability and thinking more about living with the longer term impacts Covid will have, whether this be health or financial related. Many people have accessed the financial support from The Government through furlough, temporary changes to Statutory Sick Pay or bounce back loans and financing. However, this safety net has now been removed and many are now faced with rebuilding savings and making repayments to borrowings, this all coming at a time of huge rising living costs.

In my conversations clients do understand the importance of being self-sufficient and hoping to be fit and healthy, however, the impact of being unable to work due to an accident or illness, the diagnosis of a critical illness or worse still, the event of death can have a significant impact both personally and for any business.

The impact on families & finances

Many households are reliant upon two working incomes. According to Legal & General two in five households have less than £1,000 in savings or even still one in five having no savings. It is fair to assume that savings will not be a realistic 'Plan B' for the majority.

Being unable to work due to an accident or illness can cause a lot of financial strain on any household. How will the bills be met? Do you borrow money to get through such a time? How do you cope with the additional stress and strain when recovery should be the key priority?

The diagnosis of a serious illness could mean that not only are you unfit to work, but your living expenses increase further. How far might you have to travel for treatment? How will you get there? Who will take you and how will that impact them, will they miss work themselves to do so? Or if at home, how much more will the likes of utility bills such as gas, electric, oil, which are dramatically increasing at present, cost, or is the home still even suitable for your needs?

The very worst case scenario, if you or a loved one passes away, what does that mean for those left behind? As mentioned, many households are reliant upon two incomes, usually mortgages or rent still need to be paid and additional finance or borrowing to consider. So how do you cope both emotionally and financially?

The impact on business & finances

In Legal & General's State of the Nation report 75% of businesses have some form of debt and 94% of businesses recognise that they have at least one key individual, it is clear to see how more than half of businesses believe that they would be in unfortunate position of having to cease trading within 12 months of a key person passing away.

The risk to any business is not just limited to losing a key individual through death, but should they be on long-term sick and unable to work.

Businesses have many of the same financial exposures as any household such as, if something happens to affect income, how do you maintain costs and expenses going back out? Banks and finance companies might be less likely to offer even short term borrowings and may wish to call in existing arrangements early if they feel concerns over the stability of the business from the loss or illness of any key people.

A businesses owner insures their premises, machinery and protect the business against liability, so why would not you protect the key people who help to create the revenue and profits of the business?

This is merely a snippet as to risks and concerns for many, and for the majority, a subject that has been avoided could be perceived to be too expensive, or just seems too complicated and not knowing where to start

HAYLEY TOWLSON
PROTECTION ADVICE CONSULTANT

Be aware of going it alone

However, seeking the right advice is vitally important to ensure that your key risks are identified and the right solutions put into place. Comparison sites may tempt you to 'do it yourself' but how would you know what is the right solution? Do you understand all of the jargon? How will you ensure that a claim is processed correctly if needed? How do you ensure that the claim payments will go to the right people and not cause financial implications further down the line?

If I had a medical issue, I would not only see my GP to get diagnosis and treatment, I would want to be referred to see specialist in that field, someone who really knows everything there is to know, to identify the exact problem and offer the right solution. Good quality protection advice is exactly the same.

Whether it be the need to protect yourself, your family or your business, affordable solutions are available to ensure that when things do not go to plan, a financial safety net can be in place to help you recover and take away the stress and financial burden. Protection policies can become that affordable 'Plan B'.

Armstrong Watson Financial Planning can provide bespoke, specialist protection advice. As our Protection Advice Consultant Hayley can discuss and advise on all aspects of your personal and business protection requirements based on your individual circumstances.

Contact Hayley Towlson on email: Hayley.towlson@armstrongwatson.co.uk or 07392086934

PENSION LIFETIME ALLOWANCE TAX TAKE JUMPS BY OVER 1,000%

At Armstrong Watson our quest is to help our clients achieve prosperity, a secure future and peace of mind. If you think you may need to consider how you could more effectively plan in relation to the Pension Lifetime Allowance you could benefit from personalised financial advice.

We can provide a full review of your pension arrangements, with our compliments in the first instance, to help you to understand your position, and any financial planning opportunities in relation to this, based on your individual circumstances and arrangements.

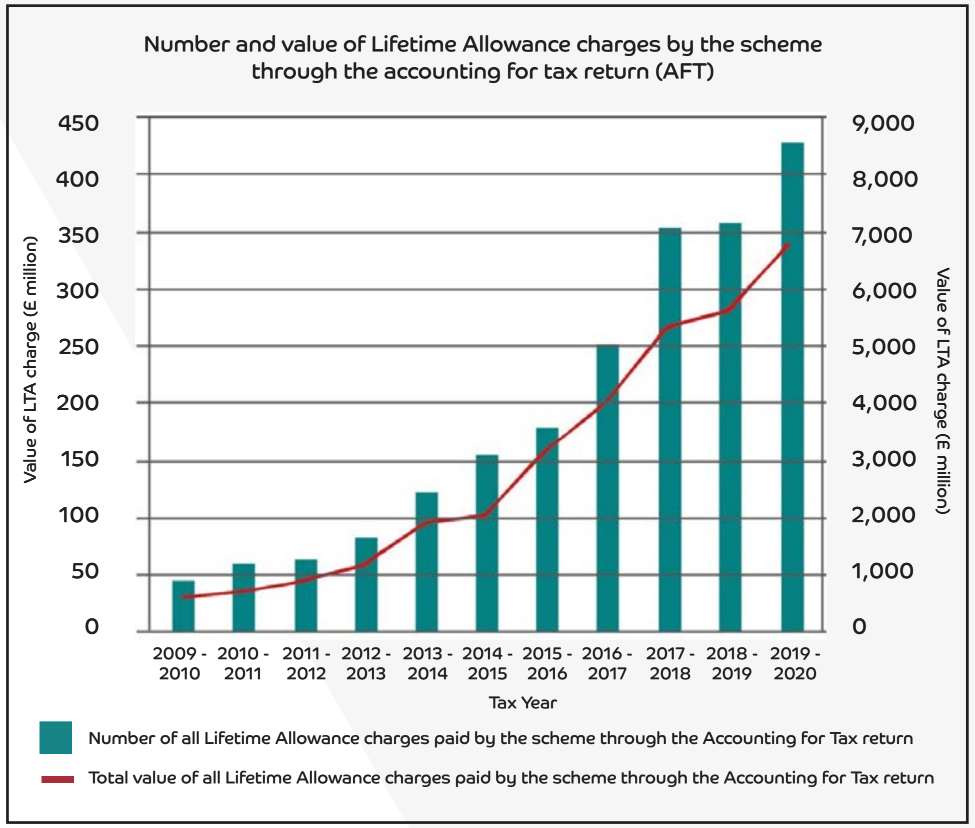
SIMON MAYOH

CHARTERED FINANCIAL PLANNING CONSULTANT - LEEDS

HMRC data shows that tax collected from individuals breaching the Lifetime Allowance for pension savings has increased by 1068%. In the tax year ending 2009/10, HMRC collected just £32m from people breaching the limit, with this jumping to £342m in the tax year ending 2019/20 (provisional figures at the time of writing). On average, individuals that exceeded the threshold in 2019/20 paid £40,188 in tax charges. The study also found that the number of people with pension savings over the Lifetime Allowance threshold has increased by over 950% - from 890 to 8,510 – over the same ten year period.

The issue is also likely to further exacerbate. In the March 2020 Budget Rishi Sunak announced that the lifetime allowance (LTA), which governs how much can be saved in a pension before tax charges apply, would remain at its current level of £1.073m until 2025/26. This was a reversal of policy introduced a few years earlier where the LTA was due to increase in line with inflation.

The LTA is a very important pensions consideration. It effectively sets the maximum tax efficient value of all your retirement benefits, assuming you have not already applied for any of the protections that are available. If your accumulated pension benefits exceed the LTA there is a tax charge which is 25% if the excess is drawn as taxable income and 55% if it is received as a lump sum.



When the LTA was first introduced in 2006, it was set at £1.5 million, a level which equated to an annual pension income of £75,000. The initial legislation set out increases for the LTA to £1.8 million in 2010/11. That proved to be the LTA's highwater mark. It was frozen in the following year and then the first of three cuts were introduced. By 2016/17 the LTA was down to £1 million.

The freezing of the Lifetime Allowance has three consequences:

- The total pension protected from the Lifetime Allowance tax charge has fallen. Currently for someone in a defined benefit (final salary) scheme, due to the way the calculation works, it is £53,655. For defined contribution pension arrangements, such as personal pensions, the erosion is greater.

Low annuity rates mean that £1,073,100 will buy an inflation proofed income of just over £30,005 a year (before tax) for a 65-year-old on a single life basis with a guaranteed period of 5 years increasing in line with inflation.

- The legislative protections, some of which date back to 2006, are now all the more valuable as they provide protection in some cases much greater than the current LTA.

For those people who have planned well, or been fortunate enough, to accumulate significant pensions funds, its important they continue to plan well, including seeking financial advice, to help the plan in respect of the LTA.

INVESTING THROUGH A CRISIS –

WHAT WAR IN UKRAINE MEANS FOR MARKETS

The Cause of a Crisis

Finance, public health and geopolitics. Three distinct fields which each have their own rules and meanings, yet all of which, when in extremes, can lead to crisis for global society. The banking collapse of 2008, the Covid pandemic and now the war in Ukraine. Very different causes in each of these scenarios, but similar outcomes for investors at the headline level.

Uncertainty Breeds Fear

When any event rises to such prominence that the workings of the global economy come into question, the initial reaction of investment markets is likely to be one of fear. Equity markets typically fall as the profitability of companies is assumed to deteriorate, and bond markets rally as the fixed returns they offer become more desirable.

Historical Comparisons

Similarities can therefore be drawn between the financial implications of Russia's invasion of Ukraine and that of any number of notable events of recent years, including the Global Financial Crisis and Covid, but also Brexit, the European Debt Crisis, and the US-China trade war, to name a few.

Initial market reactions can therefore be predicted fairly accurately after the outbreak of a world changing event, but beyond those early stages of uncertainty and potentially panic, greater divergence in market performance is likely. In the long term, however, recovery for diversified portfolios typically emerges.

Global Financial Crisis

The recession of 2008-09 caused broad disruption across the economy as banks cut lending and austerity supressed the speed of recovery. Bonds experienced a huge rally, as quantitative easing and low interest rates pushed prices higher, while equities in faster growing economies, such as those in Asia, particularly prospered.

Covid

In response to Covid lockdowns, huge fiscal and monetary stimulus was released, meaning that consumers were strong, yet lacked the opportunity to spend. In this scenario, goods producers and particularly those in the technology sector rallied, while service providers such as travel and leisure firms languished.

Ukraine – The Economic Impact

In response to the economic disruption of the Ukraine war there appears to be a different narrative once again.

The threat to Ukraine and its people are the most important consequences of this war, yet beyond this, the disruption to the supply of oil, gas and agricultural commodities such as wheat are likely to be the biggest disruptors to the global economy. Ukrainian exports have been interrupted due to lost land, labour and infrastructure capabilities, while Russian exports are heavily sanctioned. An economic war is the way the West is confronting President Putin and this is not without its costs. To the average European consumer, higher energy prices are the biggest impact from this conflict; and to the economy overall, the inflationary force this creates is paramount.

Inflation Amplified

Prior to the invasion, inflation was already the dominant story for markets, as Covid-induced supply chain problems collided with buoyant demand, leading to rising prices. Expectations had been for this to be a short term factor which subsided from this summer. These trends broadly remain, but due to the outbreak of war, they have been amplified.

Rising Interest Rates

Inflation numbers were already at multi-decade highs in the UK, US and Europe and are now expected to continue to rise as we move through 2022. Inflation is still expected to fall late this year or early 2023. Yet, given central banks' objectives to achieve inflation of around 2%, inaction is no longer feasible and hence interest rates are being raised in an effort to tame rising prices.

Balancing Suppression

The downside of this action is that economic activity is suppressed and here lies the main risk to the global economy from the situation in Ukraine.

While key economic indicators such as GDP growth and unemployment are currently very positive, they are likely to suffer as interest rates increase.

Central bankers must therefore tread a very fine line to successfully control inflation without choking growth to the point of recession. This will be a difficult challenge, but given the current strength in the economy it is achievable.

Inflationary Investing

For investment markets, therefore, a solution must be found to the quandary of higher inflation and slower growth. The fixed returns of bonds and cash would typically be favourable when growth is falling and so can provide a defensive ballast, but these do tend to suffer as inflation erodes their real value. Equities will face challenges from slowing growth, but through selective positioning, growing revenues can be used to offset inflation.

It is equities, therefore, which seem most able to cope with the challenges of this inflationary period and especially those which can benefit from higher interest rates and higher commodity prices. This is not a perfect solution, however. The threat of slower growth means that higher levels of volatility are to be expected.

The Path Ahead

Changeable markets may cause periods of unease and the horror of the war in Ukraine is certainly one such case. As in previous crises, the initial market reactions were of fear, yet they then diverged with inflation linked assets in favour. Ultimately, however, as previous crises have shown, patience is a virtue, with well diversified portfolios benefitting from remaining invested over the longer term. Looking at the likely path of the economy for the coming years, we believe this will continue to be the case.

RICHARD COLE

FUND MANAGER – FUTURE MONEY LTD

HAS CONTRIBUTING TO A PENSION BECOME EVEN MORE IMPORTANT?

Due to the COVID pandemic we have seen unprecedented support for many people and businesses in the UK over the last 2 years. Enforced lockdowns around the world has led to supply chain issues with many goods being delayed for months. The global economy initially saw a sharp downturn and thankfully has then seen a recovery as we all came out of our houses last year.

MATTHEW SLESSOR FPFS
CHARTERED FINANCIAL PLANNER - CARLISLE

However, clearly there have been many consequences to all of this. A key one is the increasing pressure on The Treasury to raise revenue due to the unprecedented levels of debt the UK has accumulated because of the global pandemic. Another is we are now seeing a sharp rise in inflation as the Consumer Prices Index (CPI) annual inflation figure has soared to 5.5% in December as prices are now much higher. It's not just supply and transport that has contributed to this rise in inflation. Clothing and footwear, food and non alcoholic drinks and furniture and household goods have all seen larger recent price rises than they have for the previous three years.

In March 2021 in the Budget, Rishi Sunak – The Chancellor, announced that the lifetime allowance (LTA), which governs how much can be saved in a pension before tax charges apply, would remain at its current level of £1.073m until 2025/26. This is a reversal of policy introduced 3 years ago where the LTA was due to increase in line with inflation.

Then it was announced in September increases to National Insurance Contributions (NICs) from next April. From April 2022, when NIC rates rise by 1.25% for employer and employee. This means an employed basic rate taxpayer earning the median basic rate taxpayer's income of £24,100/year in 2022/23 would contribute an extra £180/year, while a higher rate taxpayer earning the median higher rate taxpayer's income of £67,100/year in 2022/23 would pay an additional £715/year. The changes could have major impacts on your financial planning, particularly if you run your own business.

So how can you counteract this?

The first thing you can look at is making pension contributions. So why would you want to do this?

By making a pension contribution you can reduce the level of tax you pay through tax relief. Tax relief is based on your pension contributions at the highest rate of income tax that you pay, which means that the amount of relief you actually get is based on the tax band you are in. It's a bit like being rewarded for paying into your pension, where the government effectively tops up your pension payments by the amount of tax you would have paid on the income.

Another way to mitigate the NI increase for employers and employees is through making pension contributions, for those who are employed, through salary sacrifice as you can reduce your income tax & NI bills. However, you do need to be aware though as salary sacrifice isn't suitable for everyone. It can also affect other areas of your financial affairs, so you should explore this carefully.

Also, you can use Carry Forward. This allows you to make use of any pension annual allowances that you might not have used during the three previous tax years, provided that you were a member of a registered pension scheme during the relevant time period. Check if you have any unused pension annual allowance from 2018/19, when the maximum annual allowance (before tapering) was £40,000. You have until the end of the current tax year to mop up this past allowance or you then lose it. Remember, you must use up this year's allowance first and then use any unused annual allowance from the earliest year first and can only use it once. This maybe a key area, for those who can afford to do so, to explore.

In addition, continued higher rate tax relief, for those higher earners, is seen by many people to be an area that the Chancellor could target in the future. A flat rate of tax relief for all pension contributions has long been argued over which, if adopted, would affect those in the higher tax band and above. Now may therefore be a good time to review and make use of any unused allowances.

Finally, new research confirms many people are experiencing the growing gap between what the State pension provides and a comfortable retirement. The full uprated new state pension from April 2022 will be equivalent to £9,628 a year. The Retirement Living Standards research calculated the cost of three different baskets of goods and services that equated to three retirement living standards – Minimum, Moderate & Comfortable. For a single person these are as follows:

- Minimum retirement income is £10,900
- Moderate retirement income is £20,800
- Comfortable retirement income is £33,600

This is why making pension contributions could help you in a number of ways to mitigate tax increases and help plug the gap in retirement.

So, how well are you preparing to plug the gap in addition to the other benefits already referenced in this article?

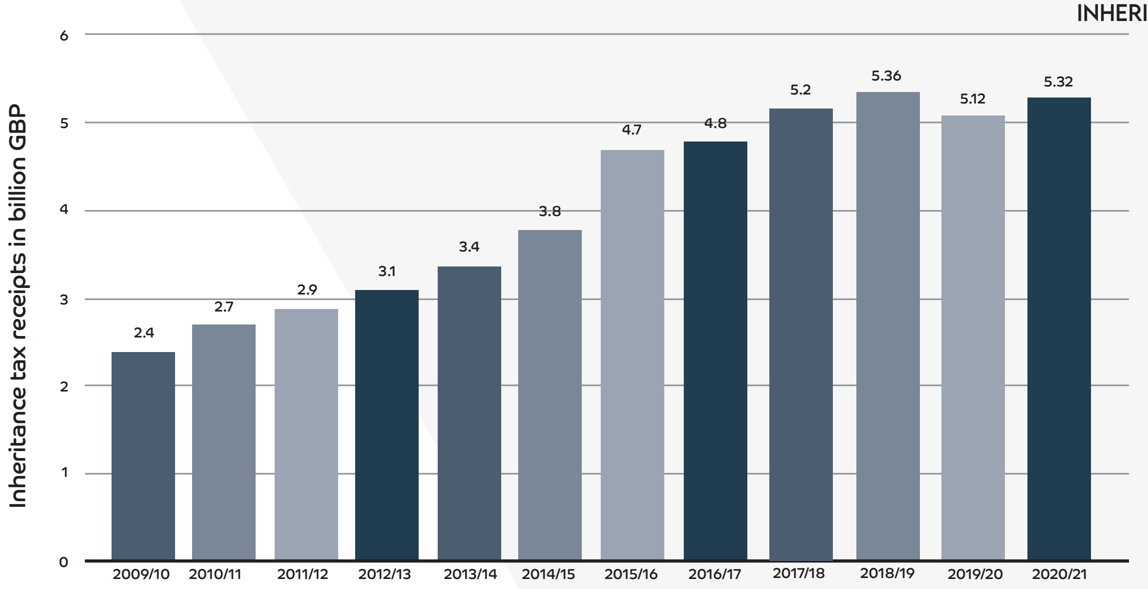
As Chartered Financial Planners, Armstrong Watson Financial Planning & Wealth Management, work with you to build your retirement plans and regularly review these so you know if you will remain on track to achieve them. To support this we can use calculators and cashflow forecasting to allow you to understand your plan more easily to help you make informed decisions.

WHY INHERITANCE TAX (IHT) IS AN ISSUE FOR MORE THAN JUST THE "WEALTHY"?

If you thought inheritance tax was now simply for extremely wealthy people to worry about, think again. Rising property prices have meant more estates than ever are likely to face an inheritance tax bill. HMRC collected £5.32 billion from thousands of bereaved families in 2020-21. In fact, the amount of inheritance tax collected currently is expected to reach £6.3 billion by 2023-24, an increase of £1.17 billion in just five years.

DAVID PORTER
CHARTERED FINANCIAL PLANNING CONSULTANT - LEEDS

INHERITANCE TAX



The Nil Rate Band will increase to help keep me out of IHT won't it ?

The nil rate band is the threshold above which IHT is payable, however, it has now been frozen at £325,000 since 2010/11 and, as announced by The Chancellor in his Spring Budget in March 2021, will now remain frozen until April 2026. The nil rate band initially increased to £325,000 way back in April 2009 and who would have thought it would remain at this level for 17 years? The Residence Nil Rate Band was introduced in April 2017 at £100,000 and increased three times to £175,000 but has also been frozen until 2026. As estate values, supported by increased property prices and/or investment returns, continue to rise we will clearly see yet more people caught by the IHT net over the coming years, unless they take legitimate steps to help mitigate this, through careful financial planning.

There are ways to mitigate IHT for your family

There are currently many ways, with careful financial planning, 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, through to 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.

At the very least make a will

Many people often procrastinate when it comes to writing a will. We would therefore encourage everyone to make a will as soon as possible. According to research by Canada Life 3 in 5 adults in the UK don't have a will.

Making 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.

What steps can I take?

For the majority of people there are a various approaches that can be taken to mitigate a future IHT liability. These range from making gifts (large or small), putting money in to trust or even insuring the IHT liability.

Of course, you could choose to ignore it. If there is tax to pay later on so be it. On the other hand you could spend enough money so that nothing is left which may be more difficult said than done!

The rules, however, 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.

At Armstrong Watson our quest is to help our clients achieve prosperity, a secure future and peace of mind. We provide bespoke tax planning, financial planning and wealth management all under one roof. Please note, advice on IHT related matters could be provided by a mixture of both our financial planning and tax specialists.

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