INSIGHT

ISSUE 25

A WEALTH OF ADVICE

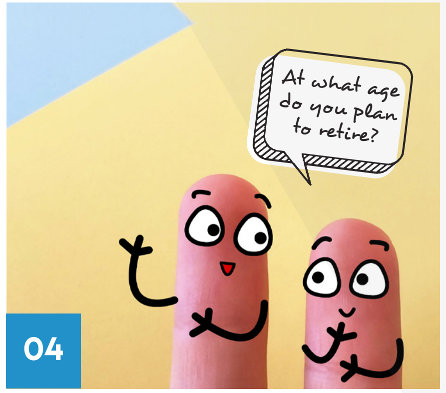
INFLATION, RECESSION AND RECOVERY

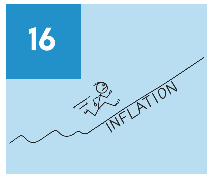
THE VALUE OF GOOD INDEPENDENT FINANCIAL ADVICE

ONLY 25% OF RETIREES ARE 'VERY CONFIDENT' THEY HAVE ENOUGH FUNDS TO FINANCE RETIREMENT

GIFTING FROM INCOME & OTHER ESTATE PLANNING OPPORTUNITIES

ArmstrongWatson®
Financial Planning & Wealth Management





INSIDE THIS ISSUE

ArmstrongWatson®
Accountants, Business & Financial Advisers

WELCOME

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

Throughout 2022 we continue to see rising inflation, with it now at its highest level for 40 years. This means that if you were born after the early 1980s, you won't have experienced the sort of economic environment we are currently facing. For our clients inflation plays a big part in the overall investment returns achieved, and we discuss how investment & pension portfolios are affected in this edition.

For many, through the frozen personal allowance and higher rate threshold will mean that the exclusive "Higher Rate Club" is no longer that, however, there are things that can be done to lower your tax liability which you can read about in this latest issue.

Also included in this edition of Insight:

Gifting from income and other estate planning opportunities – Inheritance tax receipts were £700m higher to March 2022 than in the previous year. The tax-free allowance has been frozen for more than 17 years and is not going to change any time soon. We look at ways you can help reduce the bill your family could pay.

Who gets to choose when you retire? – Research has revealed that 60 is the most popular age to retire but this is still many years short of receiving your State Pension. The question is when do you want to retire and can you?

Only 25% of retirees are 'very confident' they have enough funds to finance retirement – are you? – A quarter of people retiring now, in a recent survey, said they were forced to take on ad-hoc jobs to support their retirement plans. Taking advice and reviewing your plans is now, more than ever, important.

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 do 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

INFLATION, RECESSION AND RECOVERY

All Eyes on the US

As the world's largest market, the direction of the US economy is crucial to the rest of us, and especially so in the UK, given our strong societal, political and economic links. The actions of the central bank of the United States, the Federal Reserve, is therefore closely followed by investors the world over and it has been this 'Fed-watching' which has driven large market movements over recent months, as rising inflation threatens global growth and the prospects of a recession increase.

RICHARD COLE
FUND MANAGER – FUTURE MONEY LTD

Important Information

Please note that the contents are based on the author's opinion and are not intended as investment advice.
Any research is for information only, does not constitute financial advice or necessarily reflect the views of the author and is subject to change.
Past performance is not a reliable indicator of future performance. The value of investments and the income derived from them can fall as well as rise and investors may get back less.

Aiming for a Soft-Landing

Inflation has surged to levels not seen since the 1980s and as such, the Federal Reserve, along with other central banks, must seek to bring it back down. The primary tool for doing so is to raise interest rates and this is the path we are now on. The challenge for policymakers is to raise interest rates sufficiently that economic activity slows to the point which allows inflation to fall, but not to go so far that growth vanishes altogether and recession takes hold. The path towards a 'soft-landing' is narrow, however, and there is a real chance that it is not achievable.

Passing the Peak

Concern over a coming recession has therefore grown and investment markets have been volatile. On the one hand, equities should be well placed to grow returns in the face of high inflation, but on the other, if demand falls heavily then profits will be hurt. Big swings in asset returns have therefore been experienced, but with a downward trend broadly in place for 2022 so far. It seems likely that this unsettled period will persist until inflation passes its peak. This could be in the coming months for the US and Europe, but likely closer to year-end for the UK. If a recession is to emerge it is likely to occur at or soon after this stage.

Looking Forward

While such a prognosis is not overly promising, it should be considered that inflation is likely to fall back quickly through 2023 and therefore recessionary forces should also fade. What's more, once it is felt that inflation can be tamed, confidence will develop in an economic recovery. At this point, even if a recession is still to run its course, don't be surprised if investment markets are back into a period of growth. This does mean that while the coming months may well be uncomfortable, we believe that patience will be rewarded and investing for the long term will prove its worth.

Future Money as Part of Armstrong Watson

Our Purpose

Future Money is an investment management business which was established by the Equity Partners of Armstrong Watson to ensure clients' investment and pension wealth was managed in line with their right values, ethics, and purpose. These objectives remain to this day, and the relationship between Future Money and Armstrong Watson Financial Planning & Wealth Management is purposely kept close so that the Financial Planning Consultants and their clients can benefit from the access, expertise and assistance provided by Future Money.

Fund Management Team

The Future Money investment portfolios are run by two fund managers and supported by a wider team of analysts and operational staff. The lead fund manager is Richard Cole, CFA.

Decision Making

In deciding upon the construction of the Future Money portfolios, Richard makes use of a wide range of information sources including dedicated financial data providers, relationships with economists and strategists from across the investment management industry and from his own interpretations of the coverage of news outlets. Decisions are taken in light of short-term market developments and valuation levels, but always in the context of the opportunities these present, relative to longer term growth trends.

Service

The Future Money investment portfolios each aim to deliver returns which either match or beat inflation. These objectives were set to meet the needs of Armstrong Watson clients, for which the ability to grow their wealth in real terms is a common aim.

These portfolios are all reviewed and rated by Defaqto, whose external and independent research forms a key part of Armstrong Watson's investment process. Delivering an investment solution which is tailored to the needs of Armstrong Watson is therefore central to what the Future Money team does, and so too is delivering an accompanying service which informs and empowers Financial Planning Consultants and their clients to the maximum possible extent.

How We Help

Updates on portfolio activity, investment positioning and outlook are published. Written market reports are produced regularly, with the implications on investments of headline and lesser-known stories explained. Quarterly 'Making Sense of Markets' client webinars are run, while 'Ask the Fund Manager' adviser sessions are also held as a venue for Armstrong Watson Financial Planning Consultants to gain insight into financial markets and the economy. What's more, Richard is available to produce portfolio review reports on a bespoke basis and to meet directly with clients along with their Financial Planning Consultants, providing clear commentary on current developments, investment exposures and the prospects for investment markets and the global economy, delivering an informative and personal service. Finally, there is also the simple benefit of Richard being readily available for investment questions from the Financial Planning Consultants and their clients, whenever they may arise.

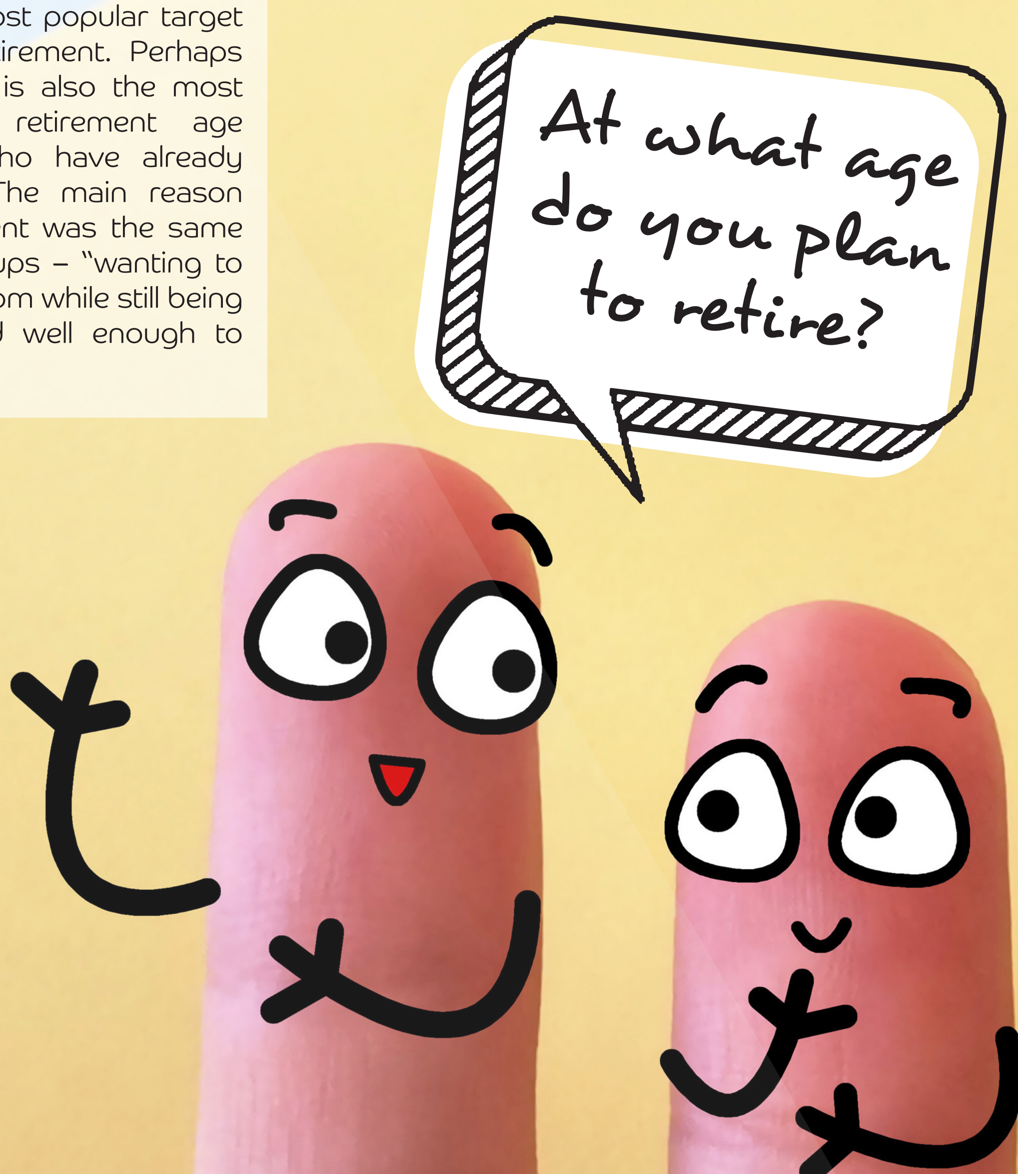
Our Connection

Future Money was designed with the needs of Armstrong Watson clients in mind. This remains core to the business. Transparency and communication are central to Future Money's offering, delivering a level of service which is only possible due to the relationship between Future Money and Armstrong Watson. Together, we're investing for your future. At Armstrong Watson, after all, we're with you.

WHO GETS TO CHOOSE WHEN YOU RETIRE?

The government's recognised retirement age is moving further away from public perceptions of the ideal point to stop work.

Recent research by Aviva revealed that 60 is the most popular target age for early retirement. Perhaps unsurprisingly, it is also the most common early retirement age among those who have already stopped work. The main reason for early retirement was the same among both groups – "wanting to enjoy more freedom while still being physically fit and well enough to enjoy it."



State Pension Age to rise to 67

Coincidentally, the research favouring age 60 was published a couple of weeks after the government launched a second review of State Pension Age (SPA). The current SPA for men and women is 66, rising to 67 between 2026 and 2028. The increase to 68 is currently legislated to happen between 2044 and 2046.

However, in 2017 the first independent SPA review proposed that an SPA of 68 should be phased in seven years earlier – between 2037 and 2039. Everyone born after 5 April 1970 would be caught by such a change. While the government accepted the first review's 2037–39 recommendation, it decided not to revise the existing legislation until after the second SPA review, due no later than May 2023.

Plans to increase SPA to 68

It is unclear whether that second review will prompt any change to the implementation date for an SPA of 68:

• On the one hand, the assumptions about the pace of future life expectancy improvements have been revised considerably since the first review. In 2017, the Office for National Statistics (ONS) projections were that a man aged 68 in 2039 would live for another 21.3 years and a woman, 23.2 years. The latest ONS projections, issued in January 2021, are 18.8 years and 20.8 years respectively, suggesting the 2037 start date should be abandoned.

• On the other hand, not raising the retirement age ramps up government expenditure because pensions for the relevant age group will begin a year earlier than anticipated. Based on UK population projections, that is about an extra 850,000 pensioners each year. Eventually, the lower life expectancy would even out the overall cost, but in the short-term maintaining an SPA of 67 would hurt Treasury finances.

Whether or not the government continues with the 2037 starting date, the SPA will remain a minimum of six years beyond age 60. If you do not want to wait for your state pension before retiring, then it is essential to plan for your early retirement. The research that highlighted the popularity of 60 also discovered:

• Nearly half of early retirees said their finances took a hit as a result.

• Close to a quarter of those who returned to work after retiring early said that financial issues were the reason they did so.

When do you want to retire and can you?

If you are 50 or over it is a crucial time when saving for retirement, and there are a number of questions you might want to ask yourself to help you plan better. When do I want to retire? Can I retire early if I want/need? How much income do I need in retirement? What type of retirement do I want to have? Do I have enough in my pension pot to retire comfortably? How much will my state pension be? These are just some of the questions you should ask yourself.

It's important to make retirement planning a priority if you haven't done so already. At age 50, retirement is no longer a distant concept and time is short if your plans aren't on track. Now is the time to think about your retirement income goals and the steps that you need to take to achieve your goals. The sooner you begin, the better. The state pension may not be generous, but if you retire early, it represents about £9,600 of annual income that will need funding until your SPA arrives.

Retirement planning is a continual process

It's also important to review your retirement planning regularly alongside your other personal finances. A regular review will ensure healthy progression towards retirement by checking that you are firmly on track with your retirement goals. This is the time to adjust your plan to fit any evolving needs and desires for your post-retirement years. We all change as people over time, and our pension pot needs to reflect our most current reality.

Retirement planning is a continual process, and the more often you review your progress, the more prepared you'll be for retirement when you get there and the more in control you'll feel. At a minimum, aim to review your retirement planning at least annually to ensure that you're on track to achieving your retirement goals.

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.

BRIAN MCNICOL
FINANCIAL PLANNING CONSULTANT - GLASGOW

THE VALUE OF GOOD INDEPENDENT FINANCIAL ADVICE

When times are good, and confidence is high, most financial advisers should be able to help generate at least reasonable returns. However, in times such as those we have experienced over the last few years, having the support of a 'trusted adviser' you can rely upon to help, guide, support and advise you is more important than ever.

DAVID SQUIRE
CHARTERED FINANCIAL PLANNER - KENDAL

At Armstrong Watson, we have Chartered Independent Financial Advisers and can discuss and advise on all aspects of financial planning, including retirement, inheritance tax planning and other specialist investment areas. Our advice is personalised based on individual circumstances. As all our expertise is "under one roof" this allows our Financial Planning Consultants to also work alongside our tax advisers to ensure the right overall advice and support is provided.

Please note, some of the areas such as investmwent and retirement planning are provided by our Financial Planning Consultants, which is regulated by The Financial Conduct Authority, whereas other areas such as 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.

Why take financial advice?

There are a range of reasons why someone takes the decision to seek financial advice. It can often be key life events such as inheriting wealth, having children, changing job, or preparing for, or moving into, retirement – but for many, it's to build or protect wealth and plan for the future.

The Money Helper website, which helps to bring together the support and services of three government backed financial guidance providers: Money Advice Service, The Pensions Advisory Service and Pension Wise, states:

"There are many reasons why financial advice can be helpful. For example:

• If you buy an investment product based on financial advice and a recommendation, you're much more likely to get a product that meets your needs and which is suitable for your particular circumstances.

• Depending on the type of adviser you use, you might also have access to a wider range of choices than you'd be able to find realistically on your own.

• Advisers can provide expert guidance when you have important and potentially difficult financial decisions to make, such as approaching retirement.

• An adviser can put a plan together to help meet your short, medium, and long-term goals. They can then keep you on track to reach those goals and make changes where necessary.

• If you have money to invest, an adviser can make sure that it works hard for you and that you make the most of the tax reliefs and allowances available"

Should you choose independent or restricted financial advice?

Whatever the reasons for seeking financial advice, we never lose sight of what a big step it can be for people to reach out and look for a long-term trusted partner to help them achieve their goals and aspirations.

Personalised financial advice is most effective when a strong and long-term relationship is built. However, do you choose an independent adviser or a restricted one?

According to the Citizens Advice website: "There are two types of financial advisers:

• independent financial advisers (IFAs) give unbiased advice about the whole range of financial products from all the different companies available

• restricted advisers give advice on a limited range of products. They may specialise in one area, for example pensions, or they may only offer advice on products offered by a limited number of companies.

It's usually best to get independent financial advice so that you can look at the widest range of advice and products available."

Don't go it alone

Now is not the time to try and go it alone – even if you think you have the right knowledge and experience. Regrettably, we have seen many people where self-select investing, which whilst on the face of it may initially save costs, has been an expensive experiment.

When volatile times happen, as we have recently seen, it may seem daunting. A good financial adviser will help you understand the principles of investing and the techniques available for managing risk effectively, through diversification of assets. No financial adviser, however, can claim to be able to predict the peaks and troughs of financial markets, and it's extraordinarily difficult to time exactly when the best days to invest will be.

However, 'time in' the markets, not 'timing" the markets, is generally the most effective approach over the medium to long term. You can read Our Guide to Investing here

Read Client Reviews

One of the ways to help you understand the value in getting advice is to read reviews from client themselves. At Armstrong Watson our financial planning consultants regularly invite their clients to leave reviews on the advice and service they have received. They do this through an independent review site called VouchedFor. Here all reviews are checked for their authenticity, and you can also read all the reviews about that adviser, as well as the firm. An adviser is rated in a number of areas, and clients are asked questions based on quality of advice, quality of service and value for money. The overall score is out of 5.

We are very pleased to say that our client reviews give our firm a current score of 4.9 out of 5 from 564 reviews. We are constantly seeking feedback from our clients to improve their overall experience of our advice and service.

You can view our financial planning consultants individual scores and feedback here

Tax planning and financial advice "All Under One Roof"

Creating a financial plan can also involve specialist tax planning, so on many occasions there will be a need to involve a tax professional. You could be selling a business, land or disposing of an investment for example. We work alongside our tax experts and accountants at Armstrong Watson to provide careful financial and tax planning to secure the long-term financial future for you and your family. One such area, where this often needs to be considered, is in relation to Inheritance Tax and Estate Planning.

GIFTING FROM INCOME AND OTHER ESTATE PLANNING OPPORTUNITIES

Inheritance Tax revenues rising

The question marks hanging over inheritance tax (IHT) have now all but disappeared, however, the impact of this tax on individuals and families is growing. Government receipts for April 2021 to March 2022 were £6.1 billion, which is £700 million higher than in the same period a year earlier.

Simplifications to Inheritance Tax ruled out

When the then Chancellor, Philip Hammond, asked the Office of Tax Simplification (OTS) back in January 2018 to consider how to simplify IHT, two reports followed. The second, issued in July 2019, proposed a range of significant reforms to the tax. Almost immediately after its publication, the subject of IHT simplification disappeared into a Treasury black hole. Subsequent Budgets passed with no mention of the OTS's efforts.

Finally, on the last day of November 2021, well after the Autumn 2021 Budget, clarification emerged in a letter from the Treasury to the OTS which stated "...the Government has decided not to proceed with any [IHT] changes at the moment, but will bear your very valuable work in mind if the Government considers reform of IHT in the future".

As a result, the long-awaited response has brought certainty around IHT, at least until the next election. However, by the time the Treasury had said "thanks, but no thanks" to the OTS, the current Chancellor had already frozen the IHT nil rate bands until at least April 2026. By then the main nil rate band will have been stuck at £325,000 for no less than 17 years.

As many people are now starting to learn from the freezing of the personal allowance (also to 2026), inflation turns a freeze into a tax increase. This has been referred to as "fiscal drag."

Financial Planning to help mitigate IHT liabilities

There are, however, a number of strategies to help mitigate your liability with careful financial planning. The key is to start as early as possible.

In highlighting several features of the current IHT rules that it felt needed reform, ironically the OTS report supplied a list of planning opportunities worth considering. These included:

Normal expenditure gifts:

If you make gifts that are:

- regular;
- out of your income (including ISA income); and
- do not reduce your standard of living

These are exempt from IHT, regardless of their size. In its second report, the OTS said it had heard "...from a few respondents that the exemption has on occasion been used to exempt gifts worth more than £1 million for individuals with a very high annual income".

At more modest levels the exemption could mean, for example, that if your regular spending pattern has fallen because of the pandemic, you could use the savings to make gifts free of IHT. Similarly, any investment income usually automatically reinvested is a potential source of normal expenditure gifts.

Outright lifetime gifts:

Outright gifts suffer no immediate IHT liability and are free of IHT if you survive seven years after making them. If you do not reach the seven-year point, any IHT liability on the gift is reduced by 20% per year from the start of the fourth year, e.g., at five and a half years only 40% of the full IHT is payable on death.

Annual & Small Gifts Exemptions:

The annual exemption rate is set at £3,000 and married couples are able to utilise two allowances, giving them a total of £6,000 per year to use.

The £250 'small gifts' exemption enables you to give £250 to any number of people of your choosing and will immediately be exempt from IHT. However, the drawbacks of this exemption mean you are unable to use it together with other exemptions and can't be included in a larger gift.

Despite these amounts seeming small relative to someone with a significant estate, the annual exemption's compound effect over a period of time can generate significant IHT savings.

Effective Inheritance Tax and Estate Planning

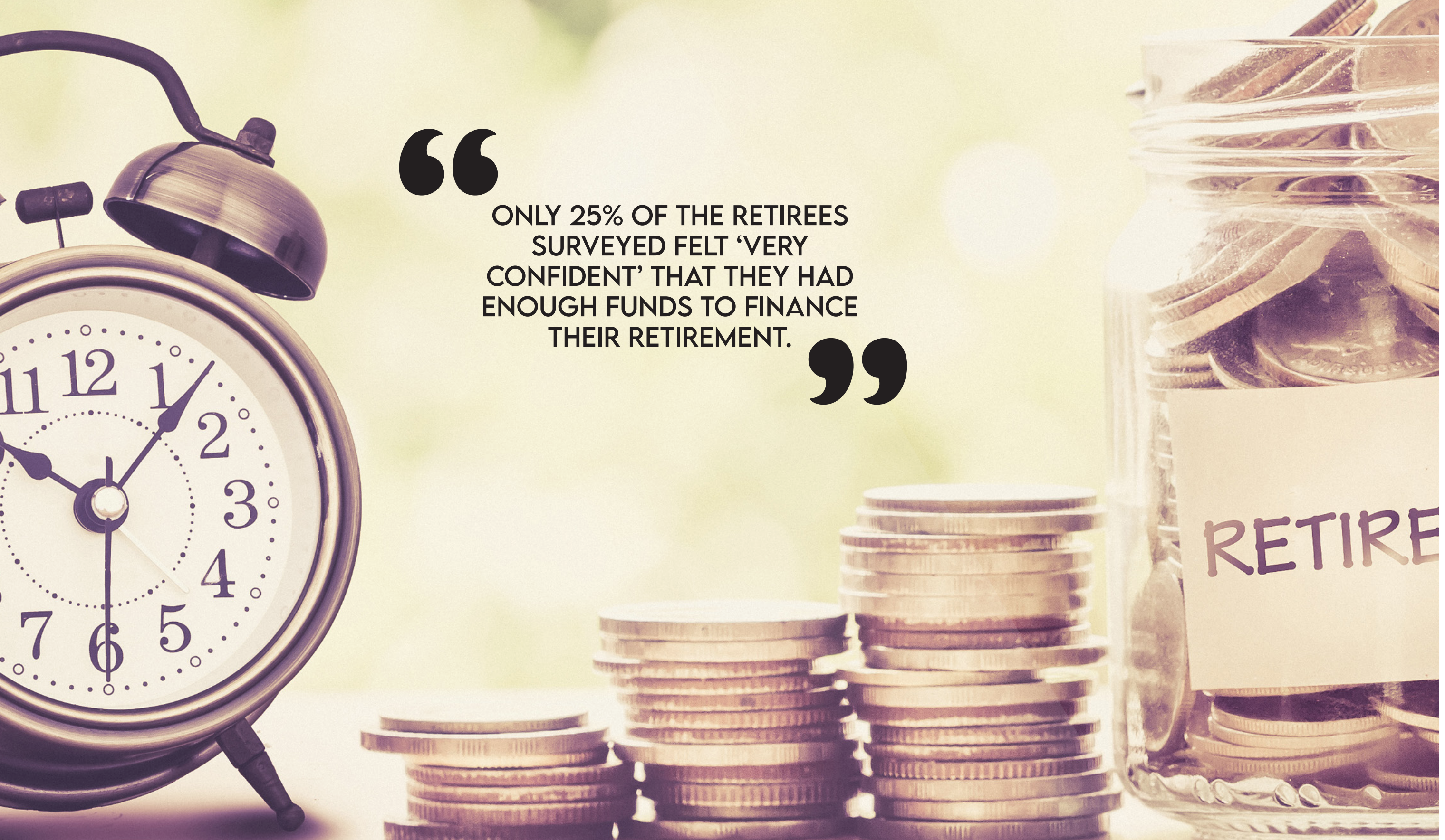
There are also other steps you that can be taken in addition to these mentioned above, however, with any financial and tax planning around this area it is advisable to seek advice as to what step(s) is most appropriate for you and your family.

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.

STEVE SHOVLIN
CHARTERED FINANCIAL PLANNER – CARLISLE

ONLY 25% OF RETIREES ARE 'VERY CONFIDENT' THEY HAVE ENOUGH FUNDS TO FINANCE RETIREMENT – ARE YOU?

A recent survey from Abrdn, a global investment company and asset manager has provided a snapshot of people who have or plan to retire in 2022. Whatever stage you are at in your retirement planning, the research offers an interesting insight.



> ONLY 25% OF THE RETIREES SURVEYED FELT 'VERY CONFIDENT' THAT THEY HAD ENOUGH FUNDS TO FINANCE THEIR RETIREMENT.

'When do you plan to stop working?' surveyed 2,000 people who were either due to retire in the next 12 months, or have retired in the past 12 months, with results suggesting that their plans may not fully reach fruition.

Not prepared for retirement

No fewer than 55% of respondents said they had or would be retiring earlier than planned, a jump from 37% in their previous survey. A further 20% said their retirement was deferred, with one in five retirees saying the reason being that they had not yet saved enough. That leaves only 25% who retired as planned, a reminder that building flexibility into your planning should be a must have rather than a nice to have.

Only 25% of the retirees surveyed felt 'very confident' that they had enough funds to finance their retirement, down from 30% in 2021. This fall is related to the rising cost of living, which was flagged as a concern by many. It may also explain why two thirds of the retirees said they would carry on with some form of work, including potentially starting their own business.

Plans to continue working

However, continuation of work may be an optimistic assumption. The latest data from the Office of National Statistics shows that only 10.6% of those aged 65 and over are in employment. Of the 2021 retirees who were still doing some work, a third said they have or will take ad-hoc jobs in the gig economy. Surprisingly, less than one in seven of the 2021 retirees had mapped out how much they could afford to spend each year, so perhaps the number of people looking for this type of employment could well go up in the future.

Supporting family members

A little over half of the 2022 retirees also hoped to pass on wealth to their children or grandchildren, but fewer than one in four felt very confident about how to do so. The 2021 retirees could give them a clue. Of the 40% of 2021 retirees who said they were spending more than anticipated, the most common reason was supporting family members in financial difficulty – it seems the Bank of Mum and Dad never retires!

Retirement planning in your 50s

Don't leave your pension planning until it is too late. If you find yourself having reached your 50s and further retirement planning is still required this is a crunch time when saving for your retirement.

There are some questions you might want to ask yourself to help you plan better: When do I want to retire? Can I retire early? How much income do I want in retirement? Do I have enough in my pension pot to retire comfortably? How much will my state pension be?

A comfortable lifestyle means different things to different people. If you're in your 50s, it's important to make retirement planning a priority if you haven't done so already. At this age, retirement is no longer a distant concept, and time is short if your plans aren't on track.

One of the most important things to do in your 50s is to work out how much money you'll need to retire comfortably. There are many other variables to consider, including the age that you plan to retire, your life expectancy, your income requirements in retirement, inflation, tax rates, and whether you qualify for the state pension. Given the number of variables, this part of the retirement planning process is not always straightforward.

Review on a regular basis

Finally, for those at this stage of their lives it's really important to review your retirement planning on a regular basis alongside your personal finances. A regular review will ensure healthy progression towards retirement by checking that you are firmly on track with your retirement goals. This is the time to adjust your plan to fit any evolving needs and desires for your post-retirement years. We all change as people over time, and our pension pot needs to reflect our most current reality. Retirement planning is a continual process, and the more often you review your progress, the more prepared you'll be for retirement and the more in control you'll feel. As a minimum, aim to review your retirement planning at least once annually to ensure that you're on track to achieving your retirement goals.

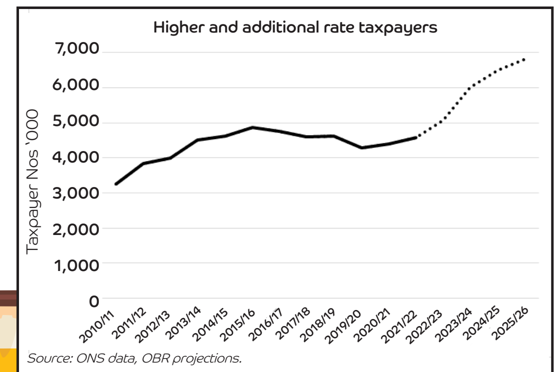
If any of the survey's results above sound uncomfortably familiar to you, take the time to do what only 18% of the 2022 retirees did and seek professional financial advice about your retirement plans.

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.

JOHN MCVICAR
FINANCIAL PLANNING CONSULTANT - NEWCASTLE

HIGHER AND ADDITIONAL RATE TAXPAYERS – IS THIS STILL A SELECT CLUB?

The number of people paying higher rate is rising sharply. If that's you, then independent financial advice could be more important and valuable now than ever.



Source: ONS data, OBR projections.

There was once a time when paying tax at more than the basic rate made you a member of a somewhat select club.

In 2010/11, the first year in which additional rate tax was introduced, the proportion of taxpayers who were taxed at more than the basic rate was 10.4%. Five years later, a dose of austerity pushed the figure close to 16%. Then it began to drop as higher rate thresholds were raised, so that by 2019/20 it was down to 13.6%. From that low, the upward path was resumed and in 2021/22 had risen to 12.8%.

Number of higher rate taxpayers will continue to rise

Alongside the Chancellor's Spring Statement back in March, the Office for Budget Responsibility (OBR) issued estimates that the freeze in the personal allowance and, outside Scotland, basic rate bands through to 2025/26 will mean by that year almost 19% of taxpayers will be liable for higher rate tax. The number of taxpayers will also be increasing too as the personal allowance will remain at £12,570. The rising taxpayer numbers explain why the Chancellor could announce a 1p cut in basic rate tax for 2024/25, at the same time as the OBR calculated that income tax revenue for the year would increase by £12 billion. Scotland already has a starter rate of 19%.

If your head is spinning from all the numbers, there is a simple message - you are likely to pass more of your income to HMRC in the coming years. In our previous article – *How good financial planning can help offset the impact of The Chancellor's fiscal drag* – we explained that any tax threshold freeze has the effect of raising government tax revenue without explicitly raising tax rates.

What can be done to lower your tax liability?

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 indeed other taxes, such as Inheritance Tax or the impacts of the Pension Lifetime Allowance as these allowances are also frozen as well.

By engaging with an independent 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 a lower threshold to avoid paying either higher rate, or additional rate, income tax.

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

Use available allowances and plan ahead

Aside from making full use of available allowances and reliefs, there are many other advantages to planning ahead, for example, by using your ISA allowances 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.

There are also other considerations:

- If you are married or in a civil partnership, make sure you are maximising the benefits of independent tax and, if you are eligible, claiming the transferable marriage allowance.
- Check your PAYE code – it could be wrong.
- Choose any employee perks with care. Some are highly tax efficient, while others carry a heavy tax burden.

Planning ahead 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 created to help try and significantly increase tax revenues following the global pandemic.

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 frozen personal, and other allowances, on your finances.

MARTYN POTTAGE
REGIONAL FINANCIAL PLANNING MANAGER - EAST YORKSHIRE

WHAT ARE MY OPTIONS AFTER REACHING THE PENSION LIFETIME ALLOWANCE

If you make regular contributions to your pension over a number of decades, you may find yourself exceeding the lifetime allowance (LTA) by the time you retire. The lifetime allowance is **the total amount you can build up in all your pension savings without incurring a tax charge.** Although there's no limit on the amount of funds that can be saved for an individual from their registered pension schemes, there is a limit on the level of tax-privileged benefits.

At Armstrong Watson, our quest is to help our clients achieve prosperity, a secure future and peace of mind. If you think you might need to consider how you may be impacted by the Lifetime Allowance, either based on current benefits or when you retire, you could benefit from personalised financial advice. We can provide a full review of your pension arrangements to help you to understand, based on your individual circumstances and arrangements, your position with regards to your current pension arrangements and whether this is an area you need to consider.

HMRC data shows that tax collected from individuals breaching the Lifetime Allowance for pension savings has increased by 1068% over a ten year period. 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).

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 frozen at its current level of £1.073m until 2025/26. There are, however, some legislative protections in place, dating back to 2006, which will provide protection, in some cases, much greater than the current LTA. And with increasing inflation, and salaries, this inevitably means that more individuals will hit the lifetime allowance limit than ever before.

For those people who have planned well or been fortunate enough to accumulate significant pensions funds, its important you continue to do so, including seeking financial advice.

Other tax efficient solutions

ISAs

In addition to pensions, you can of course fund an ISA each tax year. You can use your annual ISA allowance and expect to pay no tax on any growth or income. However, you are restricted to the current £20,000 ISA investment limit, like you are in a pension with the Annual Allowance, but, unlike with pensions, there is no tax relief on contributions. Lifetime and Junior ISA limits should also be noted.

There are also other more specialist alternative options to help save for your retirement tax efficiently but these are not for everyone due to their risk profile and need careful consideration and planning.

Venture Capital Trusts, Enterprise Investment Schemes, and investments that qualify for Business Property Relief all offer beneficial tax reliefs.

Venture Capital Trust (VCT)

A VCT is a listed company in its own right that pools together money from investors and uses it to buy stakes in VCT-qualifying, often privately owned companies. You will also receive a tax certificate that allows you to claim 30% upfront income tax relief from HM Revenue & Customs (HMRC) up to the first £200,000 invested each tax year..

Because they invest in small, unlisted, or AIM-listed companies, VCTs are generally only suitable for wealthy, sophisticated investors who are willing and able to accept a high level of risk. It should also be remembered that the value of such an investment may go down as well as up and investors may not get back what they originally invested.

Enterprise Investment Schemes (EIS)

EIS tax reliefs encourage people to invest in early-stage businesses with high growth potential. When an early-stage business is EIS-qualifying, you can claim a number of tax reliefs alongside your investment, including upfront 30% income tax relief up to £1m in a tax year, tax-free capital gains, and loss relief on each investment that returns less than you invested.

Investing in early-stage, EIS-qualifying companies is unpredictable and as with VCT's are generally only suitable for wealthy, sophisticated investors who are willing and able to accept a high level of risk.

It may be more advantageous for business owners to take out surplus money that's building up in their business. Changes to dividend taxation mean small business owners and entrepreneurs who pay themselves through dividends could face higher tax bills and lower take-home earnings.

Business Property Relief Schemes (BPR)

If you own a business, or an interest in a business such as via shares in an unquoted qualifying company or shares in a qualifying company listed on the Alternative Investment Market (AIM), your estate may be entitled to relief from Inheritance Tax (IHT). With BPR, qualifying business assets, either while you are still alive or upon your death, the tax relief reduces the value of a business or business assets in the calculation of your IHT liability.

To receive BPR, you must have owned the business or business assets for at least two years before your death. As with VCT's and EIS's, BPR schemes are generally only suitable for wealthy, sophisticated investors who are willing and able to accept a high level of risk. Such investments can fall in value and investors may get back less than they invest.

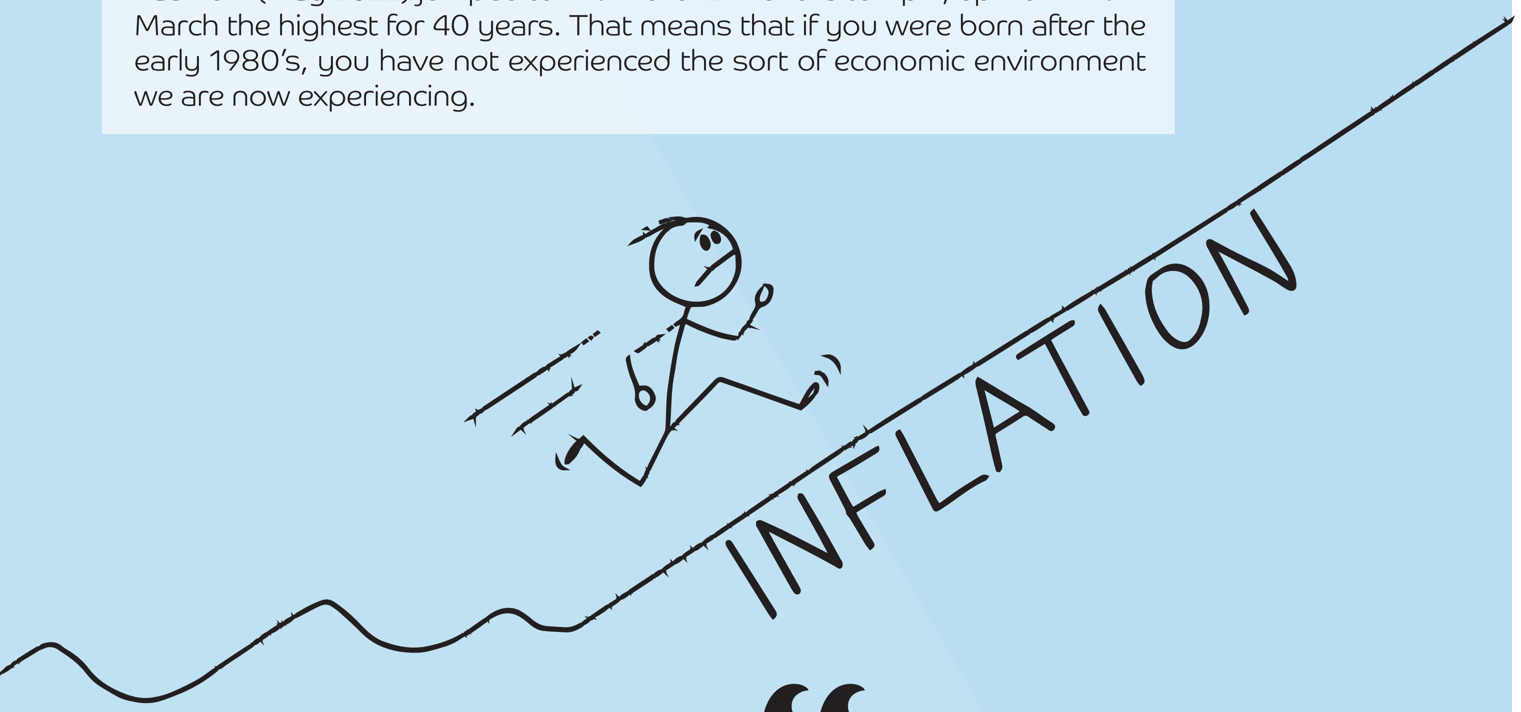
Should I continue paying into my pension even if I'm at or close to the LTA?

This is of course still an option, however, whether someone chooses to do so will come down to personal circumstances and choice. It is important to remember that the LTA isn't a ceiling on what can be saved into pensions. There are many good reasons to continue saving into your pension, especially if stopping funding means losing out on contributions from your employer. We would recommend that advice needs to be taken to assess your circumstances and objectives if you are close to or at the LTA as there is no one fit all solution.

MARCUS DODDS
CHARTERED FINANCIAL PLANNER
- CARLISLE

WITH INFLATION RISING, SHOULD YOU RETHINK INVESTMENT RETURNS?

From January 2000 to the start of 2022, inflation, as measured by the Consumer Price Index (CPI), averaged 2.3%. Over that period, it had briefly risen above 5% three times – in 2008, 2011 and, most recently in late 2021. It has now (May 2022) jumped to 9% in the 12 months to April, up from 7% in March the highest for 40 years. That means that if you were born after the early 1980's, you have not experienced the sort of economic environment we are now experiencing.



> TIMING THE STOCK MARKET IS EXTREMELY DIFFICULT, SO WE BELIEVE IT IS BEST AVOIDED.

What is the 'ideal' level of inflation?

When inflation is around 2% – the Bank of England's government-given target – it goes virtually unnoticed. Economists reckon some inflation is necessary to keep the wheels of the economy moving and that 2% is about the right level. Prices still increase, but they do so slowly and are balanced to a degree by other prices falling. At 2%, the phrase 'cost of living' is not automatically followed by the word 'crisis'.

With inflation at today's high rate, the picture is radically different. Inflation is suddenly no longer something running under the surface.

How does inflation impact investment?

When it comes to investment, financial advisers have always taken inflation into account by considering 'real' returns, in addition to your objectives and risk capacity. These are calculated by deducting the inflation rate from the investment rate of return (the nominal return). For example, if an investment return is 8% and inflation is 6%, the real return is +2% (8% – 6%), but when inflation is 2%, the real rate of return is 6% – three times as much. Real returns, like their nominal counterparts, can also be negative.

'Real' rates of return

A negative real rate of return means that your investment's buying power is shrinking. The higher inflation, the more important it is to think in terms of 'real' rather than nominal rates. A good current example is the savings market, where the top rates have risen in response to the Bank of England's base rate increases. You can now earn over 1% on an easy access account, the best nominal rate for several years, but still the worst real rate for many years because of inflation.

Rising inflation continues to represent a challenge to savers, who must at the very least aim to beat it to prevent their money from losing value in real terms. The current challenge is made even trickier by the fact that current savings rates are so low and, with inflation at its current levels, it is presently impossible to find a deposit-based account that can beat inflation.

So how can cash savers hope to bridge the gap?

The answer may be to invest in 'real assets' such as shares, fixed interest, and property.

But is this a good time to invest? It`s all too easy to get caught up with some of the news we regularly hear about financial markets. The key factor, however, is not about when to invest but rather the amount of time you invest for.

When should I invest?

Many people believe that knowing when to buy and when to sell is the secret of successful investing. The truth is that no one knows with certainty when investment markets will rise or fall. Trying to time the investment markets is not only stressful, but also very seldom successful. Leaving funds invested for the medium to long term, for those who can afford to do so, usually produces the best returns.

Our philosophy is that no one can predict the peaks and troughs of financial markets with any accuracy, and it has always been extraordinarily difficult to time when the best (peaks) and worst (troughs) are. Timing the stock market is extremely difficult, so we believe it is best avoided.

Volatility is a part of investing, which is why we always take time to understand how much risk any client is prepared to take before investing. We also generally believe in the benefit of diversification of assets to help manage some of the extremes of the markets. Taking a diversified multi-asset approach means that some assets can fair better in different market conditions as they are more defensive assets, such as bonds, whereas during periods of growth equities tend to fair better.

We have produced "Our Guide to Investing" to help you understand, whatever your knowledge and experience, the principles of investing to allow you to make informed decisions. You can download the guide here.

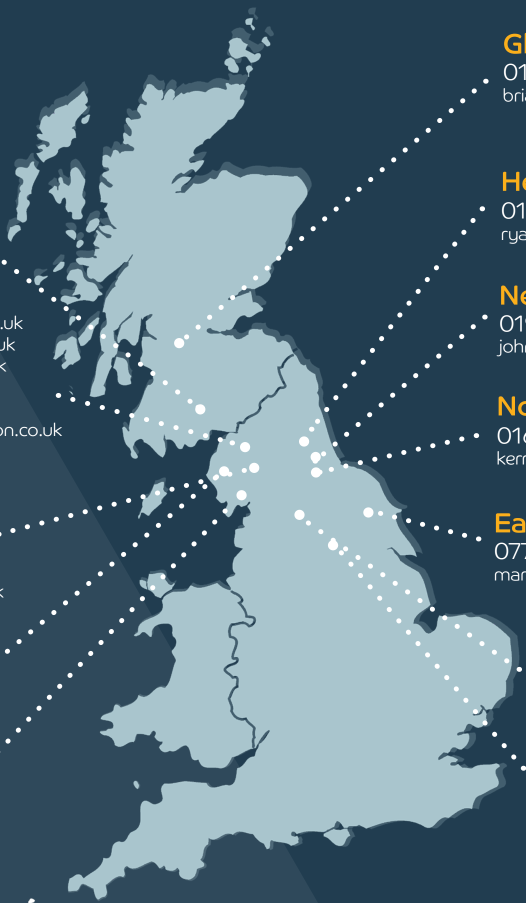
At Armstrong Watson, our quest is to help our clients achieve prosperity, a secure future and peace of mind. We believe that for those people who are considering taking financial advice in relation to their savings and investments it may be a good time to do so to utilise existing allowances and tax reliefs.

Past performance is no guarantee of future performance. The value of investments can fall as well as rise and investors may not get back their original investment.

SARAH TALLENTIRE

FINANCIAL PLANNING CONSULTANT

- PENRITH



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