

## Are you squirrelling away too much cash?



## When inflation rises, cash needs careful management.

A recent strategy paper published by the Financial Conduct Authority (FCA) stated, "Many consumers who might gain from investing currently hold their savings in cash".

Those words may sound as if they originated from a trade lobby for investment managers, but unusually, it's the FCA that is concerned. Research carried out on its behalf revealed that more than a third of adults with £10,000+ of investible assets held all those assets in cash, while just over another sixth held above 75% in cash.

Make no mistake: we all need some readily available money – a rainy day reserve – to help us cope with the unexpected, be it a car repair or broken boiler. Ideally, such money should be in an

instant access account, so that it is immediately available. At present these accounts pay minimal interest – the best (internet) deals are currently offering around 0.6%, while High Street names may pay as little as 0.01% (i.e. 10p a year interest on a £1,000 deposit).

When interest rates are below the rate of inflation (3.1% in September 2021, as measured by the CPI), the longer you hold cash, the more buying power it loses. The effect may not be immediately obvious, especially when inflation is low. For example, over the last five years to September 2021, annual CPI inflation averaged 2.1%. Viewed another way, £100 in September 2016 was worth £89.95 half a decade later. During that period

the Bank of England base rate, which sets the benchmark for short-term interest rates, varied between 0.75% and 0.10%. At no point across those 60 months was the interest rate higher than the inflation rate.

Market expectations predict a gentle increase in interest rates given the many headwinds the UK economy is facing, although inflation is expected to be above 4% by January 2022. If you want to preserve the long-term value of your money, whether it is personal capital or invested in a pension plan, now is the time to consider alternatives to deposits. To discuss the non-cash options that best suit your circumstances, please contact us.

*Investments do not offer the same level of capital security as a deposit account. The value of your investment and any income from it can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. Investing in shares should be regarded as a long-term investment and should fit with your overall attitude to risk and financial circumstances.*

# Christmas gifts that keep on giving...



An investment could be a wise present to children this Christmas.

## What are you going to buy your children or grandchildren this festive season?

Supply chain issues, from lack of computer chips to clogged-up container ports, widely reported in the media, are likely to limit the choice of presents available in 2021. It may already be too late to acquire that new L.O.L. playset or Lego model. As an alternative yuletide approach instead of toys, why not make a longer-term gift of an investment?

There are several obvious advantages:

- There is no risk of stock shortages.
- No batteries are required.
- Avoid tricky gift wrapping.
- It cannot be broken or discarded by Boxing Day.

Most importantly, an investment is something set aside for a child's future, potentially offering an early piece of financial education. Such an initial grounding matters because even in the 15–18 age range, over a third of children have no in-school access to financial education according to recent research. The same research also found that over half of those questioned would like to have started learning about money between the ages of 11 and 14.

The choice of investments and how ownership should be structured depends upon a variety of factors, not least of which is tax. Children are nearly always non-taxpayers – they have the same £12,570 personal allowance and £12,300 capital gains exempt amount as adults.

However, if an investment is given to a minor unmarried child by their parent, in some circumstances any income generated can end up being taxed as if it were the parent's own. No such rule applies to gifts from others, such as grandparents. All gifts are potentially within the ambit of inheritance tax, although many may be covered, at least in part, by available exemptions.

It may be sensible to use a trust to hold the investment, as this can give the person making the gift more control over when and how it is ultimately used. For more information on this and other aspects of investment gifts, please talk to us, not Santa.

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# The cost of retirement: setting your own standard

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



In 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.

	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

Source: Pensions and Lifetime Savings Association

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.

The figures above 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 updated 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.

Bridging the gap between the retirement living standard you want and what the state will provide requires private retirement provision. 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.

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# Social care plans for England: are not all that they seem...

The long-awaited details of funding new social care plans for England have been released – with associated UK-wide tax rises.



The funding of social care has been a subject with which governments of every hue have struggled. A Royal Commission on Long Term Care reported back in 1999 and since then there have been many other reports, papers and reviews. In the interim social care has become a devolved responsibility, with each constituent part of the UK running its own slightly different scheme.

In 2014, legislation was passed establishing a framework for care in England but, after an election, the government decided it would not be implemented. Seven years later, in September 2021, that abandoned structure now forms the basis for the new English social care regime recently announced by the Prime Minister. Further details emerged in mid-November, clarifying the original statement. The scheme's key features are:

- **Start date** The new regime will only apply in England from October 2023. Any care costs incurred before then are ignored.
- **Fee cap** A cap of £86,000 (index-linked) on the total care costs you must pay from your own resources will be introduced.

*This will cover only your personal care costs, not the so-called 'hotel costs' of care, which are set at a flat £200 a week. One government example demonstrating the cap's operation suggested it would be triggered after 40 months in care – longer than the average stay in a care home.*

- **Capital limits** The upper capital limit above which you must meet all your care costs (until the fee cap is reached) will rise from the current £23,250 to £100,000. However, the corresponding lower capital limit, below which you are not required to use savings or the value of your home to meet care costs, sees a much smaller uplift, from £14,250 to £20,000.
- **Income tariff** If you have capital between £20,000 and £100,000 you will be required to make an 'income tariff' contribution from that capital, which will be £1 a week for each £250 of capital over £20,000. For example, if you have capital of £80,000, you could have to contribute £12,000 in the first year (20% of [£80,000 - £20,000]).

Although the changes are a couple of years away and apply in England only, the tax rises will begin from next tax year and operate throughout the UK.

- All the main and higher rates of National Insurance Contributions (NICs) for employers, employees and the self-employed will rise by 1.25 percentage points.
- In 2023/24 the NIC increases will be replaced by a new Health and Social Care Levy at a 1.25% rate. This will also be payable by the employed and the self-employed above state pension age; currently they do not pay NICs.
- From 2022/23 the tax rates on dividends will also increase by 1.25 percentage points, making the highest rate of dividend tax 39.35%.

Despite the large tax rises, the changes to the social care regime could still leave you having to meet all your social care costs, something that you should consider building into your retirement planning.

If you'd like to discuss any concerns in a discreet and sensitive manner, please contact our accredited SOLLA member, Kirsty Sutherland.

# Keeping up with powers of attorney



The number of people registering a lasting power of attorney (LPA) dropped by 30% during the first year of the Covid-19 pandemic.

An LPA is a legal document citing who will be responsible for your financial welfare or personal care if you are no longer able to make these decisions. As Covid hit it became more difficult to complete these forms which require the signatures of the person setting up the LPA, the certificate provider and the individual (or individuals) appointed as attorney. Donor and attorney signatures also needed to be independently witnessed.

## Covid protocols

However, guidance introduced to combat these difficulties now enables people, particularly those who might be shielding for health reasons, to complete these processes in a more Covid-secure way.

## Tailor the LPA to you

You don't need to be old or in ill-health, however, to set up an LPA. It can be set up so that your attorneys can start making decisions on your behalf straight away, or not until such time as you are deemed to have lost mental capacity.

In England and Wales LPA forms need to be registered with the Office of the Public Guardian (OPG). This process can take up to 20 weeks and costs £82.

## Scotland and Northern Ireland

In Scotland residents need to apply for a Power of Attorney (PoA), which is registered with the OPG Scotland. In Northern Ireland an Enduring Power of Attorney can be registered through the Office of Care and Protection.

# Set the clock for year-end planning



There will be no Budget in spring 2022, leaving the path clear for your year-end tax planning.

The two Budgets of 2021 delivered a substantial amount of deferred tax increases, from higher corporation tax through to extra National Insurance contributions (NICs) and dividend tax. Fortunately, the October Budget did not add any more significant tax rises. Tax levels are set to rise to their “highest sustained level in peacetime” according to the Institute of Fiscal Studies. That might explain why the Chancellor included in his speech the statement that “By the end of this Parliament, I want taxes to be going down not up”.

## Pensions

Your starting point should be to check if you have any unused pension annual allowance (£40,000 before tapering during the years considered here) from 2018/19. You have until the end of the current tax year to mop up this past allowance or lose it completely. However, it can only be used once your 2021/22 annual allowance is exhausted.

Unused relief can also be picked up from the years after 2018/19, again once the current year's allowance is covered. The calculations involved can be complex, so please contact us as soon as possible if you want to take advantage of this carry forward option.

## Capital gains tax

In May 2021 the Office of Tax Simplification (OTS) published the second part of a review of capital gains tax (CGT), originally requested by Mr Sunak. The OTS work produced some radical proposals which, if implemented, would have significantly increased the tax payable by many investors. No mention of the review was made in the Budget. The resultant uncertainty threatened to complicate year-end tax planning, leaving investors facing the difficult question of whether to incur tax now rather than do nothing and risk a higher liability down the line.

Fortunately, at the end of November the Treasury formally rejected any major CGT redesign while accepting a handful of the OTS's minor technical revisions. Consequently, year-end CGT planning is no longer a case of second guessing the Chancellor.

If you have capital gains in your portfolio, you should consider realising them up to your available annual exempt amount before the end of the tax year. One option if you wish to retain the investments is to reinvest the proceeds in an ISA or a pension.

## Inheritance tax

Inheritance tax was also subject to an OTS review undertaken before the CGT review. The absence of any mention of the OTS's two IHT reports in the last three Budgets has, like the CGT review, complicated year-end planning. However, again the Treasury removed the uncertainty as an early Christmas present, confirming that it accepted only one (administrative) proposal and rejected all others. Year-end IHT planning therefore has a familiar starting point: make sure you consider using the three main yearly IHT exemptions (£3,000 annual, £250 small gifts and ‘normal expenditure out of income’).

## ISAs

The value in tax-free ISAs is growing due to the frozen personal allowance and higher rate threshold, dividend tax increases and rising inflation. There is no carry forward of your ISA allowance, so make sure you review your 2021/22 ISA contributions before 6 April.

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# Taking your pension lump sum?

Just because you can take out a tax-free lump sum from your pension, doesn't mean you necessarily should. Removing this money at an early age could put your financial security in retirement at risk.



Some savers can currently access pension savings from the age of 55, and in most cases can take out a quarter of their fund as a tax-free lump sum. Withdrawals over and above this will be subject to income tax.

New research by Legal & General found a third of women (33%), and more than a fifth of men (22%) are withdrawing the full 25% tax free lump sum at the age of 55. The money is often used to fund home improvements and holidays, according to the research. Funds that are not spent are often squirrelled away in bank accounts and cash ISAs. Almost a third (29%) of women taking this tax-free cash put it into some kind of deposit account, as do 19% of men.

But at the age of 55 most people are still at least ten years away from retirement.

Spending this money will seriously reduce the size of retirement savings, while switching to cash means losing out on any future investment growth.

Although these are not guaranteed, over the long-term growth assets, such as equities, typically deliver far better returns than cash. Keeping money invested could potentially make a significant difference to the overall size of a pension fund.

## Potential pitfalls

Accessing your pension early can create other problems:

- Withdrawals of more than 25% may be subject to income tax at the marginal rate. If these are significant sums, individuals can be pushed into a higher tax bracket.
- Those taking more than 25% also face restrictions on future pension savings. The annual allowance enables savers to get tax relief on contributions of up to £40,000 a year. This reduces to £4,000 a year for those withdrawing more than their tax-free lump sum.

The L&G research found a significant number of those taking their tax-free lump sum had other

savings. Given the potential loss of future investment returns, it may make financial sense to use those other savings first to pay for those home improvement or other short-term spending needs. This should maximise the long-term growth in the pension and may be more tax-efficient.

Remember this 'tax-free' option does not disappear if it is not used at the age of 55. You can withdraw the lump sum at a later date, where it may be 25% of a larger fund.

It's also worth bearing in mind that many pensions offer a degree of flexibility around how savers take this tax-free cash. For example, some allow you to withdraw the lump sum in stages — so if only part of the money is required, the rest can stay invested within the fund. However not all pensions offer this flexibility.

Seek advice on your available options and how taking pension benefits might affect your current tax position and long-term financial plans.

# News Round Up...

## Making Tax Digital delay on income tax

Plans to shift the self-assessment and income tax system onto an entirely digital basis have been delayed again. This gives welcome additional time for businesses to adapt but creates further uncertainty

about implementation dates. This latest postponement means the launch date is now six years later than the original proposal of 2018, pushing the programme back to April 2024.



## Company cars perk on the wane



The number of people driving company cars continues to decline, according to the latest figures from HMRC. Provisional figures from the 2019/20 tax year suggest only 800,000 people claimed this benefit on their tax returns, down from 870,000 and 900,000 in the preceding two tax years. Changes to the way this benefit-in-kind is taxed now benefit those driving lower emission cars. The figures show this has reduced the number of company cars using diesel fuel.

## TAX DEADLINE LOOMS

The clock is ticking for 12 million people who need to file their self-assessment tax return by 31 January 2022. This will relate to earnings from April 2020 to April 2021, and outstanding tax owed is also due on this date.

Those filing late face a £100 penalty. HMRC advises those new to self-assessment to register for the service at least 20 days in advance of the deadline.



## Our People

The team continues to build on its strengths, and we are delighted to announce the arrival of Kirsty Melville as Senior Client Service Executive. Kirsty joins us with 20 years' experience within the Independent Financial planning sector and will be working closely with our wealth advisers to deliver robust financial solutions to meet your needs.

**To discuss any issues raised in this newsletter, or any other aspect of your financial planning, speak to your dedicated Wealth Professional Adviser or Client Support Team at: -**

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