money matters

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Passing wealth down through the generations

Millions of retirees help out in cost of living crisis The rise in the cost of living is affecting millions of people.

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A third of young adults (18-34) and families with young children are struggling financially. Many are turning to family and friends for help with day-to-day expenses such as utility bills, housing costs and childcare, according to new research from LV.

One striking aspect is the extent to which grandparents are stepping in with thousands of pounds of support and helping grandchildren with housing deposits in addition to everyday expenses.

Options available

It's understandable why grandparents want to help their family and pass wealth down through the generations. When doing this, there are a number of options available, each with different advantages and disadvantages.

Gifting money early can reduce Inheritance Tax liabilities and a grandparent can gift up to £3,000 a year without being added to the value of their estate. Currently, a couple could therefore gift £6,000 a year. If some or all of it was invested in a pension it would receive tax relief.

Gifting money

Grandparents interested in helping a grandchild save for a house could also consider saving into a Lifetime ISA (LISA). Only the child/grandchild, as the account holder, can open and manage their LISA but it's possible to gift money to an account holder to pay into their LISA.

Those helping grandchildren, the research highlighted, gave £15,000 on average, while 10% gave over £50,000. The main reasons grandparents helped out grandchildren !inancially were to help with day-to-day costs (43%) and help with bills (37%). One in four (24%) grandparents gave money to help their grandchildren buy a house.

Saving for a child or grandchild

Parents and grandparents have several options when saving for a child or grandchild. Choosing the right one can make a big difference.

Contributing to a pension

Although most people won't set up a pension until they reach working age, a Junior Self-Invested Personal Pension (SIPP) can be started as soon as someone is born.

In addition, any contributions made by a parent or grandparent, which can be made directly to the plan as 'third-party contributions', will be treated for tax relief purposes as if they were made by the bene!iciary themselves.

This means that contributions paid to a 'relief at source' scheme will currently receive tax relief of 20% (£20 for every £80 net contribution) as long as the gross contributions do not exceed the bene!iciary's relevant UK earnings for the tax year or £3,600 if more.

In addition, where a beneficiary has paid Income Tax at a higher rate, they will be able to claim the difference directly from HM Revenue & Customs through self-assessment, so a further 20% for a higher rate (40%) tax payer on some or all of the contributions.

Although a child under the age of 18 is unlikely to have relevant UK earnings, total contributions up to the 'basic amount' of £2,880 net (£3,600 gross) can be made each year and will still benefit from tax relief.

Pension contributions can be one of the more tax efficient ways to gift money to a child or grandchild, but the money is likely to be inaccessible until they reach age 57 (normal minimum pension age is rising from 55 to 57 in April 2028).

Lifetime ISA's (LISA's)

If the child or grandchild is aged between 18 to 40, helping them save into a lifetime ISA (LISA) can be beneficial, especially if they are trying to raise a deposit for a first home. This is because the government will add a 25% bonus to subscriptions of up to £4,000 a year (i.e. £20 for every £80 subscribed).

However, if withdrawals are made for any purpose other than purchasing a first home, a tax penalty of 25% (i.e. £25 on a withdrawal of £100) will apply unless the individual is terminally ill or aged 60 or above.

Since the tax penalty exceeds the initial bonus, it is normally not the most tax-efficient investment if the penalty is likely to be incurred.

Only the child or grandchild, as the account holder, can open and manage their LISA but it's possible to gift money to an account holder to pay into their LISA.

Trusts

For those who want more control over how money is spent, setting up a trust can help ensure any investment is used appropriately.

There are a wide variety of trusts that can be used to meet individual requirements.

Want to discuss how to invest for your children or grandchildren?

All parents and grandparents want to give their children or grandchildren the best possible start in life. When it comes to investing for a child's future, putting aside just a small amount of money on a regular basis can really add up.

So, are you ready to start saving? To find out more, please get in touch.

The lessons from the "U-turns

The rapid unwinding of most of September's so-called mini-Budget has important implications.

Gone are the days when a Chancellor made only two set piece announcements each year and, for the remaining days of the year, tax remained generally out of the headlines.

2022 has seen four Chancellors (at the time of writing) and plenty of parliamentary statements, but no formal Budget.

September and October contained a plethora of announcements and un-announcements that left even the tax nerds struggling to keep up.. If you are not one of those nerds, the following list of what is and is not happening may be helpful:

- The 1.25 percentage point reduction in National Insurance Contributions (NICs) and the abolition of the Health and Social Care Levy have survived.
- Basic rate income tax (outside Scotland) will now stay at 20% 'indefinitely'. The previous Chancellor Kwasi Kwarteng's plan to cut the rate to 19% from 2023/24, and former plans to make the same change from 2024/25, have both been abandoned.
- The additional rate tax (45% outside Scotland) will remain.
- Dividend tax rates will stay at their current levels (8.75%, 33.75% and 39.35% for the basic, higher and additional rate bands) and will not be cut by 1.25 percentage points from next tax year as previously stated.
- The corporation tax rises legislated for in 2021 will go ahead, meaning that the main rate will rise in April 2023 from 19% to 25%, and companies with profits between £50,000 and £250,000 will face a marginal rate of 26.5%.
- The 2017 and 2021 reforms to off-payroll rules (often referred to as IR35) will not be scrapped. All but the smallest employers will continue to be responsible for determining the employment tax status of their workers and meeting the potentially large costs of making the wrong judgement.

Away from the tax arena, but nevertheless relevant here because of its cost, the Energy Price Guarantee, which originally capped average domestic utility bills at £2,500 a year until October 2024, will now end in March 2023. From April 2023, a more targeted scheme will be introduced, which Chancellor Jeremy Hunt says 'will cost the taxpayer significantly less'.

As we have observed over the last few turbulent months, tax rules can be dizzyingly complex, making sound personal tax planning all the more crucial.

After the storm: self-employed tax planning

If you are self-employed or work via a company the winding back of many of the proposals in September's mini-Budget have altered tax planning.

The range of tax and other changes proposed in September affecting companies and employment, included:

1. Freezing the rate of corporation tax at 19% for all companies.
2. Reducing the basic rate of tax to 19% from 2023/24 (outside Scotland).
3. Ending the 2017 and 2021 reforms to off-payroll working rules (often called IR35).
4. Abolishing the additional rate of income tax (outside Scotland).
5. Scrapping both the 1.25 percentage point increase in National Insurance Contributions (NICs) from 6 November 2022, and the Health and Social Care Levy, which had been due to start in 2023/24.

Less than a month later, the new Chancellor, Jeremy Hunt, culled the first three on this list, the fourth having been already scrapped by Mr Kwarteng. Mr Hunt might also have buried the fifth, too, were it not for the fact that the necessary legislation was just about to become law.

Mr Hunt's reworkings of his predecessor's plans has several implications for shareholder directors:

- If you are wondering whether to pay yourself a bonus in this tax year or next year, you and your company will still both save NICs by waiting until after 5 April 2023.

- If you are considering a dividend instead of a bonus, there is now no point in delaying until 2023/24 as your dividend will still be taxed at the same rate, assuming your other financial circumstances do not change.

- If you are considering an investment in plant and machinery, there may now be less rush to take advantage of the 130% super-deduction, due to end on 31 March 2023. With the annual investment allowance staying at £1 million after March 2023, and the main corporation tax rate changing to 25% in April 2023, the mathematics have changed. You could even benefit from greater tax relief by delaying investment.

If you are self-employed and considering becoming a director by incorporating your business, you may also want to think again.

The higher rate of corporation tax from next April, for businesses with gross profits above £50,000, has reduced the tax attractions of operating as a company.

Yet again, this autumn has highlighted the need for advice in keeping abreast of tax developments and their consequences.

How to maximise the value of pension savings

Mistakes to avoid when you're aiming to build your pension pot

Many people are feeling the pressure on their finances at the moment due to the backdrop of rising inflation and the cost of living soaring. In these circumstances, it can be difficult to think about your long-term finances or even contemplate saving for the future.

However, even in the current climate there are ways to maximise the value of any pension savings you do have.

By sidestepping seven common mistakes, you could take your pension planning to another level and reduce the risk of falling short of money later.

Simple rules to follow when retirement planning and mistakes to avoid...

Dont turn down money from your employer

When offered the opportunity to join a workplace pension, it's nearly always a good idea to do so. For most people, your employer must automatically enrol you in a workplace pension scheme, and you may even be offered a pension plan if you don't meet the criteria.

Workplace pension schemes are made up of your own payments (5% or more of earnings), which are deducted from your salary, in some cases before you pay tax, making it easier to save, and your employer's contribution, which at the very least, must be equivalent to 3% of your qualifying earnings. Many employers offer more than this or match any extra payments you make, so it's worth checking if you're getting the most out of this valuable benefit.

Don't say "No" to extra money from the government

Anyone who decides against investing in a workplace or personal pension also turns down help from the government. That's because in order to encourage people to save for retirement, the government provides a top-up called 'tax relief' to pension payments. How you receive this tax relief depends on the type of plan you have and the rate of income tax you pay.

But as an example, if you're a basic rate taxpayer saving into a personal pension in the current tax year, you receive 20% tax relief on your payments. So, if you pay £200 a month into your pension plan, the £40 of tax relief you receive on that payment means it will only cost you £160. Higher rate or additional rate taxpayers could claim back even more.

Some workplace pension schemes offer tax relief in a different way, such as through salary sacrifice or exchange schemes, so check with your employer if you're not sure how this works for you. And in Scotland, the tax relief details differ slightly.

But in all these cases, the general point is the same: each time you defer paying into a pension plan, you miss out on an extra boost.

Don't expect the state pension to cover everything

Another common mistake is to assume that the State Pension will meet your retirement needs. However, it's important to know that the State Pension won't be available until your late 60s and may not cover all of your outgoings.

Currently, pensioners who are entitled to the full new single-tier State Pension receive £185.15 a week in 2022/23, worth £9,627.80 for the year.

But remember that what you get depends on your National Insurance record, so you could get less.

Pensioners that reached State Pension age before April 2016 and receive the basic State Pension get £141.85 a week, or £7,376.20 a year.

Don't lose track of your pension plans

It has never been more important to keep track of all your old pension plans. You are at most risk of having lost track of a pension if you have changed jobs multiple times, moved home often and not updated your pension providers or opted out of SERPS (the State Earnings-Related Pension Scheme) in 1980s or 1990s.

Don't assume that the minimum is enough

Auto-enrolment has boosted the pension savings of millions of people but the 8% minimum payment may not get you the retirement lifestyle you want. It's important to therefore have a retirement lifestyle in mind. We can discuss with you how much money you could have in your pension pot in the future, so you can ensure that you don't find yourself in a situation whereby you have an income shortfall.

Don't leave your pot unloved or neglected

You might not want to talk about your pension plan every day, but dismissing pensions as boring is a mistake, and one that becomes more serious over time. While it might be hard at the moment, topping up your payments, especially in your 20s, 30s or early 40s, can make a large di!ference, thanks to the snowball e!fect of compounding.

Knowing whether it's workplace or private, understanding how to get more 'free' payments from your employer or the government, or using it to pay less tax (such as through bonus sacrifice) could make a major difference to your long-term finances.

Don't suppose that one pension plan is the same as another

A related mistake is not knowing where your pension pot is invested, whether that matches your life-stage and priorities or how to choose the right investment options. For example, if your retirement is still some years ahead, you could potentially afford to take a little more risk.

Conversely, you may want to dial down the risk as you get nearer to retirement. It all starts with a financial plan, to help bring your goals to life.

Do you have a dream retirement in your head? Are you on track to make it a reality?

To find out more about how we can turn your dreams into reality, please contact us for more information.

Working 9 to 5

More over-65's are still working than six years ago

More people in the UK aged between 65 and 74 are still working compared to six years ago, new research from Aviva shows.

The findings show there's a marked increase in the number of people over 65 who remain in the workforce compared to 2016, and a fall in the number drawing their State Pension.

At a time of rising costs, data shows fewer people eligible to retire have done so compared to six years ago. The greatest shift has been for those aged between 65 and 74. reducing from 92% to 79% since 2016.

Disproportionately impacted

This is due to increases in the State Pension age, which was raised from 65 to 66 between December 2018 and October 2020 – and is set to rise further in future. The increase has disproportionately impacted 65 to 74-year-olds, who have been directly affected by this change in the last six years. In 2016, 96% of people in this age range said the State Pension accounted for some of their income, compared with 71% now. This represents a 25% decrease in the proportion of people in this age bracket receiving part of their income from the State Pension.

Alternative sources of income

As the State Pension Age continues to rise, this age group will need to plan to find alternative sources of income. The research results show the gap is only partially plugged by people continuing to work for longer. There has only been a small rise in those saying earned income constitutes a portion of their overall income – 23% v 18% in 2016. For a fifth of people in this age group, an income gap left by State Pension deferral has not been replaced by wages.

Running out of retirement money

In the UK, the 65 to 74 age group is larger than ever before, according to the 2021 Census statistics. People between those ages now account for almost 19% of the UK population, compared with 16% a decade ago. For those over 65, money worries about retirement figure more prominently than six years ago. In 2016, only 1% of this cohort said they were worried about running out of money in retirement, while another 1% said they wouldn't have enough money to fulfil plans such as travelling. Six years on, the proportion has risen substantially to 11% for both.

Amount of capital held in property

One asset that has grown for this age group, however, is the amount of capital they hold in property. Sixty-five to 74-year-olds have, on average, lived in their current house for 24 years, which means they have benefitted from nearly all the property price increases that have occurred since the late 1990s, when the current property boom began. In 1998, when this age group typically bought their current house, the average cost of property in the UK was £66,231. The research results show this age group's property is now worth on average £302,000, more than four times the original purchase price.

Planning for a comfortable retirement

Nearly two-thirds of them own their property outright. Typically, those who do have been in tenure six years longer than those with a mortgage. This suggests people may have accumulated more wealth in this asset than they realise. As cost of living pressures ramp up, the equity in people's homes could become increasingly important when looking at ways to plan for a comfortable retirement.