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PERSONAL FINANCIAL MANAGEMENT

MoneyMatters

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Pension protection
What you need to know

Your financial midlife MOT

Should you use your ISA allowance early?

Passing on wealth tax efficiently

CAN I RETIRE IN 2023?

• Lifestyle Protection • Creating Wealth • Tax Rules

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How to reduce your corporation tax

On 1 April 2023, corporation tax increased from 19% to 25% for some businesses. But there are ways you can reduce your corporation tax bill and reduce your company tax bill.

WHAT IS CORPORATION TAX AND HOW MUCH DO YOU HAVE TO PAY?

If you own a limited company, you'll need to pay corporation tax on the profits your company makes and you must register your company with HMRC to pay corporation tax within three months of starting your business.

If you trade as a sole trader, in a partnership or as a limited liability partnership (LLP), you pay income tax on your profits rather than corporation tax.

As of 1 April 2023, a new higher rate came into effect for companies with profits over £50,000. They must now pay corporation tax at a rate of up to 25%.

However, all companies with profits below £50,000 will continue paying the 19% rate of corporation tax.

But, depending on the circumstances, if a company's profits fall between £50,000 and £250,000, it may be possible to claim some marginal tax relief to reduce the 25% rate.

THREE WAYS YOU COULD LOWER YOUR CORPORATION TAX BILL:

1 CONSIDER MAKING AN EMPLOYER PENSION CONTRIBUTION

By contributing to a pension, it can help to make sure you keep your financial independence whenever you decide to retire. But if you have your own limited company, it could help you save on tax charges too.

If you're employed by the company, you can make employer contributions to your pension from your company account. Employer contributions are generally treated as a business expense, which means you won't pay corporation tax on the contribution.

If you choose to make a pension contribution instead of paying yourself that amount of salary, then both you and your company will save on National Insurance and you personally wouldn't pay any UK income tax until you draw from your pension. You usually need to be at least 55 (rising to 57 from 2028) before you can access money in a pension.

Make sure you understand your pension contribution limits first. Most people have an annual allowance of £60,000. But you might be able to 'carry forward' any allowance you haven't used from the three previous tax years.

Be aware of your pension contribution limits before making any payment. Most people have an annual allowance of £60,000, but you may be able to 'carry forward' any allowance you haven't used from the three previous tax years.

2 CLAIM FOR ALL BUSINESS EXPENSES

When you run your own business, it's important to claim for everything you can, no matter how big or small it might be. By claiming for every expense, you reduce your profits, which in turn reduces how much corporation tax you pay.

You can claim for anything from marketing, travel expenses, office equipment and training courses etc. Make sure that all the expenses you're claiming are only for business purposes.

It's not only good practice to keep a record of your expenses, it's essential. Without a record, HMRC can refuse to accept your claim.

3 MAKE A CHARITY DONATION

You can pay less corporation tax if you are a limited company by gifting money to a charity or community amateur sports club.

The amount of any charity donations is deducted from any total business profits before tax is paid.

We hope you find this article helpful, but it isn't personal advice. Pension and tax rules can change, and any benefits will depend on your circumstances. HMRC could also question any corporation tax relief if your total salary and benefit package is higher than the work they think you've done for the company. For help with complex taxation, speak to an accountant.

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Should you use your ISA allowance early?

As the 2023/24 tax year started on 6 April, we uncover when it is best to invest in a Stocks and Shares ISA.

A Stocks and Shares ISA has benefits to us all because it's a simple way to invest for your long-term future and is exempt from UK income and capital gains tax.

You can shelter up to £20,000 in your ISA before 5 April 2024. This poses the same question every year, should you use your allowance as soon as possible regardless of the stock market levels or wait until the end of the tax year, or spread it throughout the year?

DO EARLY ISAS OUTPERFORM LAST MINUTE ISAS?

If you look at the return from investing £5,000 each tax year in the UK stock market since Stocks and Shares ISAs launched in April 1999, investing on the first working day of the tax year, the other on the last working day.

The same £120,000 will have been invested over that time for both and whichever option you chose, you did very well. But you would have been £9,587 better off overall by investing at the start of each tax year excluding charges. Paying in at the start of the year returned growth of 128% which is higher than when paying in at the end which was 120% growth.

Of course, there are no guarantees this will continue and past performance isn't a guide to the future.

It's not all plain sailing though because, on eight occasions, an investment at the start of the tax year would have fallen in value by the end of that same tax year. This shows it's impossible to predict how the stock market will perform.

INVESTING YOUR ISA THROUGHOUT THE YEAR

Some people spread their ISA investment over the year by investing on a monthly basis by direct debit.

This is good for those who want to invest, but don't have lump sums of cash available. Many ISA providers now allow as little as £25 a month.

Investing on a monthly basis gets rid of some of the emotional barriers to investing and you don't have to worry about the level of the stock market over the year.

Your regular investment could buy more of the same investment if the market falls, but the reverse is true if markets rise.

This article isn't personal advice. If you're not sure what's right for your circumstances, ask for financial advice. All investments can fall as well as rise in value so you could get back less than you invest. Tax rules can change, and the benefits depend on your personal circumstances. Past performance isn't a guide to the future.

THE BENEFITS OF INVESTING EARLY

1 Achieving an extra year of shelter from tax. When you hold investments outside of an ISA, you could end up paying tax on dividends far earlier in the year because the dividend tax allowance has been halved this tax year to £1,000. Bear in mind though, selling investments to move them into an ISA could trigger a capital gain, which you could have to pay tax on if it is above the CGT(Capital Gains Tax Allowance).

2 The tax raid of the Capital Gains Tax allowance being cut from £12,300 to £6,000 means investors planning to realise larger gains this tax year risk paying more tax.
Selling and rebuying within an ISA as early as you can gives you the freedom to sell what you want when it makes the most sense for your finances, without having to think about tax.

3 As stated before being early is the key to success because setting up regular monthly payments into a Stocks and Shares ISA every month automatically spreads your investments over the whole tax year.

By staging your money into the stock market over a year, means you'll take advantage of any highs and lows in value, which is known as pound cost averaging.

4 Starting early with regular investing provides the best chance to build as much as possible in your ISA during the tax year, with as little as £25 a month.

5 It is about the length of time you are invested for not trying to pick the time to enter, so little and often is better than holding back for what might not turn out to be the right time after all.

Will having no financial protection leave you exposed?

Recent research suggests that the cost of living crisis and lifestyle changes mean that many families are tending to overlook the importance of financial insurance.

Financial protection can provide people and families with money when they need it most. Depending on the type of financial protection you choose, insurance would pay out, such examples could include if you're unable to work due to an accident or if you're diagnosed with a critical illness.

The insurance payout can be the difference between missing and meeting your immediate or long-term financial commitments if your income stops. It can also provide you with financial security allowing you to focus on what's important, like recovering from an illness.

Around 33% of under-35s state that the rising cost of living is preventing them from getting on the property ladder.

Most of us only consider financial protection when something in our life changes for the worst. However, changing goals and lifestyles coupled with rising inflation and the cost of living means that many millennials are ignoring or delaying these important options.

Purchasing a home is often the common time for putting in place some form of financial protection. This is generally because a mortgage is probably the largest loan you'll take out and it's a big financial commitment. According to a report in Professional Adviser, 20% of people that have taken out life insurance did so when they purchased a property with a mortgage.

It is thought that the cost of living crisis is affecting the age at which the younger generations become homeowners.

Around a third of people under 35 said that the rising cost of living increase has stopped them from buying a property. A similar proportion also concluded that the increased costs have either prevented them or will prevent them from moving away from their parents.

So, many people are missing a key trigger that would lead to them thinking about financial protection.

The other main life milestones are also triggers for thinking about long-term financial security, like getting married or starting a family. Again, these life events are something that the younger generations are now putting off or missing altogether as lifestyles change.

The Office for National Statistics gave the average age to get married, it's been increasing since the 1970s and it's now around 38 for men and 36 for women.

Similarly, the Professional Adviser report also found that 30% of people under 35 are delaying starting a family because of the cost of living crisis.

When a financial shock changes your plans, protection could provide security.

Life milestones, in the past, led people to seek information about financial protection, but that doesn't mean it can't add value in other circumstances.

You may not have a mortgage, for instance, but you could still face significant financial commitments, including rent or some form of debt. You may not have children, but you want to ensure your partner would be financially secure if you passed away.

Should you find yourself in financial hardship when meeting your outgoings or maintaining your lifestyle if you faced a financial shock, then reviewing your safety net is worthwhile. It can give you peace of mind and improve your long-term security.

Financial protection could be seen as supporting other financial areas, like creating an emergency fund for any of life's unexpected events.

WHAT TYPE OF FINANCIAL PROTECTION IS BEST?

There are many types of financial protection to choose from. You can select the deferment period and level of cover. So, it can be difficult to know which option is right for you and the security it would provide over the short or long term. We're here to help.

Please get in touch if you want to understand how financial protection could provide a vital safety net for you, with your priorities and concerns in mind.

This article is for general information only and does not constitute advice.

Note that life insurance plans typically have no cash in value at any time and cover will cease at the end of the term. If premiums stop, then cover will lapse.

Can I retire in 2023?

What are the most commonly asked retirement questions?

We all know retirement is a big deal and getting the right answers to retirement questions is vital when it comes to good planning for the big day.

Should you be approaching retirement or if it's only a few years off, 2023 could be the year your retirement plans reach a turning point. With an ever-increasing turbulent economic climate, it is still possible to put together the best plan to retire and meet your goals.

Asking yourself or your adviser the most common retirement questions will help your retirement plan happen.

HOW MUCH WILL I HAVE TO RETIRE ON?

With this question, the key is the age you plan to retire, as it determines how much time you have left to save and how long you might need your money to last. When you have figured this out, you can then move on to the next steps:

• Visualise your retirement lifestyle

Will you introduce new expensive hobbies? Do you have grand plans or big purchases in mind, such as luxury cars and holidays, or will your lifestyle remain the same?

• Pricing up your new lifestyle

Don't forget new spending is parallel with existing everyday spending. You still have to pay the bills and put money aside for future expenses like long-term care and don't forget to factor in inflation.

To get to grips with your planned spending habits in retirement, you will need to forecast your habit by breaking it down into 3 main areas:

- Essential everyday spending on bills and general cost of living
- Normal spending on other regular but non-essential outgoings
- Occasional spending on luxuries or big-ticket items
- Exploring your income streams

To understand how you might afford your retirement spending you will have to look at your assets like property, cash, investments and, of course, pensions, then ask yourself the next big question.

WHAT ARE MY OPTIONS FOR DRAWING MY PENSION AND GENERATING INCOME?

Here you have to do some homework because you have to find out more information about your finances and pensions by asking yourself the following questions:

- *What type(s) of pension(s) do I have?*
- *Do I have more than one pension?*
- *Are there benefits and guarantees associated with each of my pensions?*
- *Will I get any lump sums and when?*
- *How much State Pension am I entitled to?*
- *Will I get a steady, fixed income, do I need one that could fluctuate or do I need a combination of both?*

The main vehicles for generating income are by drawdown, which is taking income from your pension(s), or buying an annuity from your pension or by taking lump sums from your pension pot.

Each option has positives and negatives, but the good news is, you can mix and match them.

As an example, with changes to the cost of living, the mix of income options you choose might lean more towards a guaranteed, steady income like an annuity.

With interest rates at the highest level since 2008, annuities could seem like an attractive option, however, they don't suit everyone. By understanding your own needs and personal retirement goals you can decide if they suit your plans and expenses. Annuity rates can also change regularly.

You'll only be able to access your pension when you're 55 or over (rising to 57 in 2028). Different pensions have different benefits and guarantees, so it's important to understand these before you decide how to access it.

WHAT IS TAX-FREE CASH AND HOW DOES IT WORK?

If you have invested into a defined contribution pension, such as a Self-Invested Personal Pension (SIPP), you can usually take up to 25% of its total value in cash, tax-free. You can normally do this as one big lump sum or as several smaller ones.

When drawing your tax-free cash, the key thing to remember is, any money you take out of your SIPP means it's no longer invested and no longer growing or achieving future drawdown income.

If you're 55 or over in 2023 and you're planning to take some or all of your tax-free cash, you should consider what inflation and the increase in the cost of living will do and whether that's still the right course of action. It's also important to regularly review your investments to ensure they are on track.

YOU ARE NOT ALONE

Whether you are planning to retire this year or in the near future, a financial adviser can help you by explaining your options. By helping you understand and weighing up the pros and cons they can come up with a plan which you can feel confident in.

Even though we find ourselves in the middle of a cost-of-living crisis, you might still be able to retire on your terms. Our aim as advisers is always to make you feel comfortable and to get your money working hard for you and to give you confidence, even in the face of a tough climate.

This article isn't personal advice. If you're unsure what's best for your situation seek personal advice. You can also get free, impartial retirement guidance from the government's Pension Wise service. Tax rules can change and benefits depend on personal circumstances.

Passing on efficiently

What different ways can you pass wealth onto your family?

Because we all never think we are going to die, we don't plan for it. This then leads to a very beneficial outcome, in many cases, for the government's coffers, but a lost opportunity for you and your loved ones. However, with planning you can construct the highest financial outcome possible and you can even consider whether you can give anything away during your lifetime too.

Generally, as we age, we increase our wealth

In the two years leading up to March 2020, the head of households aged 55-65, had wealth 25 times higher than those aged 16 to 24.

Similarly, it is also the case regarding ISA balances. The average ISA value in April 2020 was £3,910 for those under the age of 25, £6,366 for those aged 25-34, and £46,090 for those aged 65 and over.

With planning, passing some of this on down to your children can make an enormous difference to them and there are a number of ways in which ISAs can help you do this tax efficiently.

SUPPORTING YOUR CHILDREN'S EDUCATION

The average university student debt for starters pre-2023 was approximately £45,000 and then there is the average cost of accommodation which was almost £8,000 a year in the more expensive regions. This left many students with the thought of dropping out because of the cost.

One option is not to wait until they actually go to university but to help them build up a nest egg beforehand. Each child under 18 has a Junior ISA (JISA) allowance which is currently £9,000 a year, and once set up by parents, then grandparents, or any other friends or relatives can add money to them too.

Even if they don't decide to go into further education, they will have this money to support them in whatever direction their life takes.

HELP WITH PROPERTY OWNERSHIP

Last year, someone on an average full-time income in England would need to spend 8.3 times their annual earnings to buy the average home and those renting have seen their rent increase, in some cases, by an average of 10%.

With such high rent increase, there is little opportunity to save so it's no wonder that the number of people trapped in the rental cycle is growing. Within every age group, the proportion of British households in the private rental sector is up over the past decade, with the percentage of those aged 35-44 who are renting rising from 19% to 26%.

A very cost-effective way to pass money onto a young adult is through a Lifetime ISA (LISA). If they are aged 18-39 and are saving for their first property, and have at least a year until they want to buy their property.

Once set up by the young adult, you can pay into their LISA. The limit is £4,000 a year, and the government will top it up by 25% per year, bringing it to the maximum of £5,000 for each tax year.

After 12 months from the first payment, they can use the money to make an eligible house purchase for a property worth up to £450,000. Or they can wait until they're 60 and take their money out then.

If they want to take money out before they're 60 and they aren't buying their first home, the government will reclaim their 25% as a charge. That means they could get back less than originally put in.

wealth tax

EDUCATING GRANDCHILDREN ABOUT INVESTING

Both Junior and Lifetime ISAs are investment tools designed to get younger people investing, they are an opportunity to encourage them to engage with the idea of investing which comes easier when they already have a stake.

By giving your children a stake and something to physically see and talking to them about it, means they gain interest both metaphorically speaking and in reality.

PAYING LESS INHERITANCE TAX

In the past months, the government has recorded its highest ever on-record inheritance tax income, it's the double taxation – tax on money already taxed. For older people, giving money away can help you to reduce your inheritance tax liability, with thresholds frozen to 2026 we are all likely to have one. This includes making gifts within your annual allowances, which leave your estate on day one. It also includes making larger gifts, which as long as you live for a further seven years, will be out of your estate for inheritance tax purposes.

You can also make regular gifts from income, and as long as it doesn't force you to draw on your capital, it can count as leaving your estate immediately.

Directing these gifts into a JISA is a sensible option if they're under 18. It has the added benefit that it leaves your account immediately, but the child won't have access to the money until the age of 18.

You could also plan for the future of the youngest members of the family, by investing in a Junior Self-Invested Personal Pension (JSIPP).

You can contribute up to £2,880 a year into a child's pension, and they'll get tax relief from the government topping them up to £3,600. As with all pensions, they won't be able to access the money until at least the age of 57 (which could increase further). But it can be a rewarding option, considering the 25% tax-free lump sum when accessing the pension.

HELPING YOUR ELDERLY PARENTS

It is thought those aged between 40-65, known as the 'sandwich generation' could end up looking after their parents at the same time as supporting their own children, which means they could find themselves financially squeezed during these difficult caring years. In order to take the pressure off they will need capital to fall back on during this time.

Building up the money in your ISAs will mean you can do your best if the state offers no help with care, or when they need urgent medical assistance which could see them living in pain for years, you can help.

ISAs are very useful options, but they are not the only tool available.

There are options that can suit everyone. If you were planning to leave money to your family after you've gone, it may be worth considering now whether any of this money can be passed on during your lifetime. It could be incredibly valuable for your loved ones and you will be around to see what you have provided for others.

This article isn't personal advice. Tax rules can change, and any benefits depend on your circumstances. If you're not sure what's right for you, seek advice. Investments can fall as well as rise in value so you could get back less than you invest.

Are you accessing your pension for the first time?

When you have saved into a defined contribution pension, you can choose how you access the money. On top of this, it will be your responsibility for ensuring the savings provide you with an income for the rest of your life, so understanding all the different options available is crucial.

Most workers will have a defined contribution pension. This is where your pension contributions, as well as those made by your employer and tax relief, are added to your pension pot. This pot is then typically invested with the goal of delivering long-term growth ready for the day you retire. Pensions are invested through funds in the stock market.

When you retire, your pension holds the contributions made throughout your working life and the investment fund returns. So what should you do with this pot of money when you want to retire? You generally have three options:

1 BUYING AN ANNUITY

Annuities were once very popular. However, they fell out of favour when the government introduced Pension Freedoms in 2015. Yet, rising interest annuity rates and uncertainty due to high levels of inflation are seeing them return to popularity.

An annuity is an insurance product which you purchase, often with savings from within your pension. They provide a reliable set income for the rest of your life. This can be a good way of offering financial security because you don't run the risk of running out of money in your later years.

There are many types of annuities to choose from, there are ones that rise in line with inflation which protects your spending power throughout retirement. Another type allows you to purchase a joint annuity, which would continue to provide your partner with an income if you pass away.

2 FLEXIBLE ACCESS DRAWDOWN

Where you would like to control your income, flexi-access drawdown is an option.

Here the money held in your pension remains invested and you decide the amount of income you receive. As the balance of your savings remains invested, they have the opportunity to continue to grow further. However, keep in mind you will be exposed to investment risk and returns cannot be guaranteed.

Withdrawing too much early on could see your savings fall so be careful and consider just how far your savings will need to last.

3 DRAWING LUMP SUMS

Drawing lump sums from your pension as and when you need them could be useful if your pension is supplementing other sources of income.

After drawing any lump sum, the balance that remains in your pension will usually be invested. It is possible if you so wish to take your entire pension in one lump sum.

However, such large cash lump sum drawdowns could be liable for Income Tax. So, you could face a large bill if you drawdown large amounts.

It's worth noting that you don't have to pick one single option, you can mix and match to create a plan that works for you.

As an example: you could choose to take a lump sum out of your pension when you first retire. This could help you pay for one-off costs, like paying off the smaller balance of your mortgage or going travelling.

You may then decide to use some of the balance to purchase an annuity to provide a base income that covers your essential outgoings. The remainder you could access flexibly to supplement your income when you need it.

The most important point is that you consider your income needs throughout retirement and ensure you have a sustainable income to provide security in your later years.

Arranging a meeting with a financial adviser can be valuable in helping you create a long-term plan that ensures you reach your retirement goals.

HOW COULD A FINANCIAL PLANNER HELP YOU IN RETIREMENT?

It's not easy knowing which option is right for you. The decisions you make at the start of retirement could affect your financial security for the rest of your life, so sound individual financial advice can give you peace of mind.

We can work with you to plan what you want to achieve from your retirement and how your pension could help you reach this. As well as understanding how to access your pension, a financial planner could also help you understand:

- How to make and achieve your long-term goals.
- How to minimise tax when taking income from your pension or other assets.
- The best method of utilising other assets, like investments or property, to support your retirement goals.
- Giving you the confidence so that you could weather financial downturns.
- Produce a plan to pass on assets to loved ones during your lifetime or when you die.

If you're nearing retirement and have questions or would like to discuss your options, please get in touch.

This article is for general information only and does not constitute advice. A pension is a long-term investment not normally accessible until 55 (57 from April 2028). The fund value may fluctuate and can go down, which would have an impact on the level of pension benefits available. Past performance is not a reliable indicator of future results. The tax implications of pension withdrawals will be based on your individual circumstances. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts.

Pension Protections
What you need to know

If you have taken out protection against lifetime allowance cuts, this is what the 2023 spring budget pension changes could mean for you!

The 2023 spring budget saw huge changes to pensions. The annual allowance was increased from £40,000 to £60,000 and the Lifetime Allowance (LTA) limit was abolished. From 6 April 2023, the LTA charge that applied to funds over £1,073,100 is being removed, with the Lifetime Allowance set to be removed from legislation from April 2024 entirely.

It's a package of measures designed to keep higher-skilled earners working beyond the age of 55.

TAX-FREE CASH AND YOUR LIFETIME ALLOWANCE

Some areas of concern still remain, most notably around tax-free cash. Which has been capped at 25% of the current LTA (£268,275). It is not known yet if the government plans to increase this amount in line with inflation, or whether it will stay at its current level long term. Anything over this amount in a pension will be subject to income tax at your marginal tax rate when taken as an income.

However, those who took out protection against previous cuts in the LTA will be entitled to a higher amount of tax-free cash.

Enhanced protection

• Pensions which have enhanced protection with lump sum protection will be able to take a higher level of tax-free cash, but the value will be limited based on the value of the pension pot on 5 April 2023. As an example, taking someone who holds enhanced protection which they applied for in January 2009, which entitles them to lump sum protection of 40%. On 5 April 2023, they have a pension value of £1.8m which gives them maximum tax-free cash of £720,000. By the time the member takes their benefits, their pension is valued at £2m or higher. Even though they still have lump sum protection at 40% they can only take the £720,000 in tax-free cash.

• Where someone took out enhanced protection with no lump sum protection on 30 January 2009, their maximum pension commencement lump sum will be limited to the lower of £375,000, or 25% of the value of their pension pot at the time of the benefit crystallisation event.

The fixed protection reduction

• Fixed protection in 2012 when the LTA was reduced from £1.8m to £1.5m. People with this protection have a maximum tax-free cash level of £450,000.

• Fixed protection in 2014 was when the LTA was reduced from £1.5m-£1.25m. Maximum tax-free cash is £375,000.

• Fixed protection in 2016 was when LTA was reduced from £1.25m to £1m. Maximum tax-free cash is £312,500.

Individual protection

• Individual Protection 2016 fixes your allowance at the value of your pensions as of 5 April 2016, up to a maximum of £1.25 million. You could take up to £312,500 as tax-free cash if your pension was worth £1.25 million or more on this date. You only qualify for individual protection 2016 if your pensions were more than £1 million in total as of 5 April 2016 and you do not hold primary protection or individual protection 2014.

• Individual protection 2014 allowance is set at the value of your pension on 5 April 2014, up to £1.5 million. Meaning you could take up to £375,000 as tax-free cash if your pension was worth £1.5 million at this date. With individual protection 2014, any pension contributions made after 6 April 2023 will be included for the purposes of calculating your maximum tax-free cash amount.

Primary protection

• Where you have primary protection but not the tax-free cash protection, the maximum amount of tax-free cash you can take is £312,500 (25% of £1.5 million)

• Where you have tax-free cash protection as part of their primary protection, then you will have received figures printed on your certificate telling you what your maximum tax-free cash amount is. That amount will also be increased by 20%.

Will you lose your protection now?

These protections were given on the basis that no further contributions would be made to a pension. If they were made, the protection would then be lost.

This led to concerns that people who'd previously taken out these protections could be effectively prevented from benefiting from the removal of the LTA to build up further pensions. That's because they'd lose their entitlement to increased levels of tax-free cash.

HMRC has since confirmed:

• Those people who took out protection before 15 March 2023 can restart their pension contributions from the new tax year while retaining their increased tax-free cash allowance.

• Those people who apply for protection after 15 March 2023 will lose their protection (and increased tax-free allowance) if they make a pension contribution in future.

This article is for general information only and does not constitute advice. A pension is a long-term investment not normally accessible until 55 (57 from April 2028). The value of your investments (and any income from them) can go down as well as up, which would have an impact on the level of pension benefits available. Your pension income could also be affected by the interest rates at the time you take your benefits. The tax implications of pension withdrawals will be based on your individual circumstances. Levels, bases of and reliefs from taxation may change in subsequent Finance Acts.

Tax relief on pensions

Tax relief on pensions is there to encourage people to save for retirement, it could boost your pension and mean you have more financial freedom when you retire. Yet it's something that can be overlooked when starting your pension, as analysis suggests that some workers don't claim their full tax relief entitlement.

According to a report in the Telegraph, higher and additional rate taxpayers could be missing out on as much as £811 million of tax relief in the 2021/22 tax year alone.

SO, WHAT IS PENSION TAX RELIEF AND HOW DOES IT WORK?

Pension tax relief is where the government doesn't tax you on your pension contributions, which in effect returns your nominal tax to be added to you and your employers' contributions. Tax relief is like a bonus the government gives when you save for retirement.

Therefore, a pension provides a tax-efficient way to save for your future because of the tax relief you receive. Essentially, when you add money to your pension some of the money that would have gone to the government is added back to your savings instead.

When you consider how this could add up over the long term, it means saving for retirement through a pension makes sense for two key reasons.

The first being, money is going into your pension when you contribute so you could have a larger pot as it compounds and grows annually. The second being, as the money held in your pension is often invested, the tax relief, along with your employers' and other pension contributions, could grow further during your working life.

As saving into a pension is tax-efficient, contributing could reduce your overall tax liability. However, you should keep in mind that pension savings usually aren't accessible until the age of 55, rising to 57 in 2028.

People receive tax relief at the highest rate of Income Tax that they pay. The amount is calculated on your pre-tax earnings. So, as a basic-rate taxpayer of 20% tax, if you contribute £80 to your pension, you will receive £20 in tax relief, meaning a total contribution to your pension of £100.

Should you be a higher or additional rate taxpayer then to boost your pension by £100 in total, you would need to contribute £60 and £55 as a higher or additional rate taxpayer respectively.

If you don't earn more than the Personal Allowance, which is £12,570 for the 2023/24 tax year, you could still benefit from tax relief at a rate of 20%.

You will probably need to fill in a self-assessment tax return to claim your full entitlement.

If you have a defined contribution workplace pension, tax relief of 20% will usually be automatically added to your pension. This is known as "relief at source".

Where you have a different type of pension or you are a higher or additional-rate taxpayer, you will need to complete a self-assessment tax return to receive your full entitlement. You normally receive this additional tax relief as an 'offset' of your overall taxable earnings.

There is never a wrong time to check if you're receiving all the tax relief you are entitled to.

IS THERE A LIMIT TO HOW MUCH TAX RELIEF CAN YOU CLAIM?

There are government limits on how much you can add to your pension before receiving additional tax charges when you access your savings. These limits include:

Annual Allowance: This is the amount you can add to a pension during any tax year whilst still retaining the benefits of tax relief. For the 2023/24 tax year, the Annual Allowance is up to £60,000 or 100% of your annual earnings, whichever is the lower. There are some circumstances when your Annual Allowance may be lower, such as if you're a high-rate taxpayer or have already taken an income from your pension. In such circumstances, please contact us if you have any questions about the Annual Allowance.

Lifetime Allowance: The Lifetime Allowance is the total pension pot level that you can build up before suffering a tax charge. It covers the total value of your pension, rather than just your contributions. Note that, in the spring Budget, the chancellor announced the Lifetime Allowance tax charge will be removed in 2023/24, and that he will then legislate to abolish the Lifetime Allowance altogether.

CONTACT US TO TALK ABOUT YOUR PENSION

Pensions can be confusing and you may not be sure if you're saving enough for the retirement you want. Contact us to talk about your long-term goals and the steps you could take now to help you reach them.

This article is for general information only and does not constitute advice. A pension is a long-term investment not normally accessible until 55 (57 from April 2028). The fund value may fluctuate and can go down, which would have an impact on the level of pension benefits available. Past performance is not a reliable indicator of future results. The tax implications of pension withdrawals will be based on your individual circumstances. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts. The Financial Conduct Authority does not regulate tax planning or estate planning.

Your financial midlife MOT

While Sunak's plans are designed to encourage more people back into the workforce, a financial midlife MOT can be very helpful when considering your financial goals.

The middle section of your working life is often crucial for building up wealth that could ensure you are financially secure in the future.

Here we look at five areas you should review in your financial midlife MOT.

1. DEEP DIVE INTO DEBTS

As you near retirement, reducing large expenses like mortgages and credit card debt could provide far more financial security than saving more. One key way of doing this is to create a plan to reduce outstanding debt.

Your mortgage is likely to be one of the largest debts you have. Planning to own your home outright when you retire can significantly reduce your outgoings and the income you need. Paying off large credit cards or loans could also boost your disposable income in the future.

Holding small debts, including a mortgage, doesn't mean you can't retire, but you should factor any repayments and their time frame into your budget when assessing the income, you need.

2. EVALUATE YOUR SAVINGS

Will your savings provide the safety net you need if you are faced with a financial shock, like being unable to work due to a serious illness?

Having enough savings available as and when you need them can provide vital financial security now and in the long term. Having 'set aside' funds will help you get through financial shocks and you won't need to dip into other assets that you have planned for other goals.

3. REVIEW YOUR INVESTMENT PORTFOLIO

At least every 6 months you should review your investment portfolio as this can help you understand how it's performing. Remember investing is a long-term plan, so don't dwell on how the value of investments has changed over weeks or months.

It's also a good time to ensure your portfolio continues to reflect your own goals, especially if there have been changes to your circumstances or aspirations which could mean adjustments to your investments are needed.

If investing isn't something you're already doing, then it is possibly an opportunity to help you reach long-term goals.

Investing does involve risk and the value of investments can fall, historically the stock markets have provided good returns over the longer time period between 5-10 years. So, if you're saving for a goal that is more than five years away, investing could grow your wealth and help your assets keep pace with inflation.

When you invest, the level of risk that's comfortable for you and your circumstances must be considered.

4. PLAN YOUR RETIREMENT

When and how you want to retire are key factors you need to create a reliable retirement plan.

Knowing what your retirement plans are is vital – do you want to gradually move into retirement by working part-time? Or are you hoping to retire early? Or do you want to retire fully at the state retirement age?

You will need to consider what lifestyle you want when you give up work. This can be useful for understanding the income you will need, your pension plus any other assets to help to reach your retirement goal.

5. IS YOUR PENSION GOAL ON TRACK?

Understanding your retirement plans, ensures you don't miss your pension goals. Ask yourself is my pension on track and will it provide enough to live the retirement lifestyle you want?

It is difficult to calculate the value of your pension and how it will change between now and your retirement and what the value should be to provide you with financial security.

This means you will need to consider what contributions to make and also to consider the investment returns you are getting. So, working with a financial planner here can be very beneficial.

Reviewing your pension early, allows you to plug any potential gaps and provide an opportunity and time to fill them.

A financial review can help you take stock of where your finances are now and the steps you could take to reach your goals. Please contact us to arrange a meeting.

This article is for general information only and does not constitute advice.
The value of your investment 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.
A pension is a long-term investment not normally accessible until 55 (57 from April 2028). The value of your investments (and any income from them) can go down as well as up, which would have an impact on the level of pension benefits available. Your pension income could also be affected by the interest rates at the time you take your benefits. The tax implications of pension withdrawals will be based on your individual circumstances. Levels, bases of and reliefs from taxation may change in subsequent Finance Acts.

3 reasons to consider a cash ISA this tax year

THE BEST CASH ISA RATES IN A DECADE

Increasing cash ISA rates are a good reason to consider a Cash ISA this year, but not the only one. We look at why you could consider a Cash ISA, particularly when you don't want to pay more tax than you have to.

Every April after the 6th, you can invest £20k into your ISA. Cash ISA providers are now pushing hard for you to invest due to better interest rates, especially as this year, the ISA outlook is more interesting.

Increasing Bank of England base interest rates have boosted the average Cash ISA rate to the highest level in more than 10 years. This is good news for savers looking to shield more interest from tax, but far from the only reason people should consider a Cash ISA this year.

SO WHY COULD CASH ISAS BE MORE INTERESTING TO INVESTORS NOW THAN EVER?

More interest could mean more tax.

Rising savings rates have been a much-welcome benefit in a year of economic turmoil. But savers who leave their money in standard saving accounts could be falling into a trap.

Earning more interest in non-ISA accounts can push savers over their personal savings allowance (PSA) level. This is the total amount of interest you can earn across your savings accounts, on top of any which falls into your personal allowance or starting rate for savings, without paying tax.

Currently, basic-rate taxpayers have a PSA of £1,000 each year, higher-rate taxpayers have £500, and additional-rate taxpayers have no allowance. The PSA for Scottish taxpayers is based on the rest of the UK tax bands.Scottish income tax changes from April.

Every penny of interest earned this year will have moved you closer to your PSA. If you're close to exceeding that threshold but want to continue earning interest, you might want to consider a Cash ISA.

If you're not at risk of exceeding your PSA, switching to a better deal may be prudent.

MORE PEOPLE WILL PAY MUCH MORE TAX OVER THE NEXT 5 YEARS

It is expected that millions of taxpayers could find themselves in a higher tax band over the coming years. This is because the government will be freezing income tax bands until 2028 and reducing the additional-rate tax threshold from £150,000 to £125,140 in April 2023.

Those gaining from higher interest rates and who are swept up by this stealth tax raid could see their PSA halved, or even taken away completely. Meaning they will potentially pay tax on all interest earned through their savings.

If you do get drawn into a higher income tax bracket, a Cash ISA can allow you to keep earning interest without putting further pressure on your PSA. Additionally, if the government decides to reduce the PSA, it won't affect your Cash ISA position.

This article isn't personal advice. If you're not sure if something is right for you, seek advice. Inflation reduces the spending power of cash.

For more information on any subject that we have covered in this issue, or on any other subjects, please tick the appropriate box or boxes, include your personal details and return this section to us.

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