MOORE Kingston Smith

SUMMER 2022 BULLETIN

IN THIS ISSUE

CASHING IN ON SAVINGS?

The era of near zero interest rates is ending, but are your savings benefiting?

The Bank of England raised its base rate again in June, pushing the figure up to its highest level in 13 years at 1.25%.

The Bank's ratcheting up of interest rates has started to permeate through to the interest paid on savings, although it has often been loan rates which have increased earlier and faster. Unfortunately, you cannot assume that your existing savings accounts have benefitted from the 1.15% rise in the base rate since last December. The banks now have a rare opportunity to expand their margins by widening the gap between deposit and loan rates.

This strategy can be seen most clearly when it comes to accounts closed to new savers. For instance, the rate on Halifax's 60 Days Gold account remains at the 0.01% level to which it fell in July 2020. Switch the money across to a Halifax Everyday Saver account and the interest rate is 0.25% (as of 14 June 2022), with instant access.

At a time of economic uncertainty, when you may wish to build up your cash reserves, you need to look beyond the familiar brand names to find a return that beats the Bank of England base rate. Currently the best instant access rates are around 1.55%.

Contrary to what you might expect, cash ISA rates may be lower than non-ISA rates. National Savings & Investments provides a good example: its Direct ISA pays 0.15% less than its Direct Saver account. While an ISA is UK tax-exempt, in practice the personal savings allowance means you can earn £500 interest tax-free if you are a higher rate taxpayer (£1,000 if your top rate of tax is less).

The Financial Conduct Authority does not regulate tax advice or National Savings & Investments. Tax treatment varies according to individual circumstances and is subject to change.

For those needing to hold more significant balances, whether personally or within a business, trust, or charity, a cash management service may be appropriate. This can allow access to an increased range of accounts, and help maximise FSCS protection by spreading cash between multiple banks more easily.

HOW TO PLAN FOR INHERITANCE TAX

While inheritance tax accounts for only a small amount of the overall tax paid to HM Revenue & Customs – around just 1 per cent – it is a very emotive tax in that it impacts the people we care about.

Latest figures show that HMRC's receipts of IHT have risen from £5.3bn in 2020-21 to £6.1bn in 2021-22. This increase is only partly explained by Covid-related deaths.

Perhaps the most concerning increase in IHT is due to the nil rate band having been frozen until 2026. This, combined with rocketing house prices, is pushing more families into the scope of IHT.

The good news is that relatively simple planning can save a significant amount of IHT. The bad news is that simple planning undertaken without sufficient tax and legal advice can result in unintended tax consequences.

Many people find themselves within the scope of IHT because they did not start planning early enough. The plain truth is the sooner you start IHT planning, the less IHT you will pay.

It is a common misconception that IHT planning has to be complex and expensive and is only relevant to the super rich.

If you do not need it, give it away

The most straight forward form of IHT planning is giving one's assets away. Forty per cent of the value of surplus cash and assets will go to the taxman (after nil rate bands) if nothing is done. But if the intention is to pass on assets to the next generation, it would be wise to consider taking this step during one's lifetime.

Gifting during a lifetime does have complexities, some of the most common are:

1. The 7-year rule
2. The gift needs to be absolute
3. Proving gifts have been made
4. Be wary of other taxes

You can read more about these complexities and more including gift with reservation, surplus income exemption, gifts under a power of attorney and other common misconceptions dispelled in our article for FT Adviser here:

Several ways to plan for IHT - MKS Article in FTAdviser.com

ARE YOU FACING A RETIREMENT CHALLENGE?

With double digit inflation on the horizon, you may need to reassess your plans.

In November, the Bank of England's Monetary Policy Committee quarterly report stated, "In September, prices had risen by 10.1% compared to a year ago, that is well above our 2% target." The Bank pins the blame on energy prices, the Ukraine war and supply chain issues. None of these has a clear end date, but the Bank expects CPI inflation to, "fall sharply below inflation in two years' time and further below the target in three years' time". Whether or not their forecast proves correct, if you are close to, or about to retire the immediate outlook is unsettling. So, what should you do?

The starting point is to do nothing until you have sought advice. Some aspects of retirement can be impossible to unscramble once set in motion. Your pension arrangements may state a specific retirement age, but you may still also have choices.

Crunch the numbers

Your next step is to work out your likely expenditure and income in retirement. This needs to be a realistic assessment – a recent survey found that two fifths of 2021 retirees were already spending more than they had expected. We can help with the complex calculations using software that can handle assumptions about differing rates of inflation (considering the impending 10%) and investment returns.

Identifying future income and spending patterns is vital in understanding what your options are. Cash flow analysis can show whether the level of investment risk that you are normally comfortable with is compatible with your retirement spending plans.

Bear in mind that at 65, average life expectancy is 20 years for men and 22 years for women. If the calculations suggest that you will outlive your retirement fund – a common concern for recent retirees – then you could consider revising your expenditure plans or accepting that at some point you will need to trade down to a smaller property or look at other options to extract value from your home.

At the opposite end of the financing scale, the data might show all your needs can be met with an index-linked annuity, carrying no investment or duration risk. However, sadly that is unlikely as at current RPI-linked annuity rates the standard lifetime allowance of £1,073,100 will provide a monthly income of about £2,850 before tax.

In the worst case, a cashflow analysis may force you to consider deferring or phasing in your retirement. That may seem an unpalatable option, but it is better to be aware of the situation before your earnings have ended. A survey of 2022 retirees found that a fifth were retiring later than they had originally planned, with the main reason for the delay being not having saved enough. An extra period of work – whether full or part time – reduces the pressure on your retirement savings and may allow you to continue contributions rather than making withdrawals.

For advice tailored to your circumstances, please contact our independent financial planning team at Moore Kingston Smith.

The value of pensions and investments and the income they produce can fall as well as rise. You may get back less than 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 Occupational pension schemes are regulated by The Pensions Regulator. Equity Release will reduce the value of your estate and can affect your eligibility for means tested benefits.

PENSIONS SAVINGS TAX CHANGE

According to the latest HMRC figures, the total value of contributions to personal pensions has risen by an average of 11% per year over the last three years.

With this rise has come increased complexity in the pension tax system - in 2019 to 2020, 42,350 taxpayers suffered a tax charge on contributions exceeding their annual allowance.

Taxpayers are encouraged to save for their retirement, but for financial planning to be effective, they must be aware of the tax rules surrounding pensions.

This article deals with the tapering of the annual allowance and the options available for taxpayers who are liable for a tax charge.

What is the annual allowance?

The annual allowance is a limit on the amount of pension savings that an individual can make with the benefit of tax relief. It is not a cap on pension savings. An individual can save more than their annual allowance, but the tax relief for those savings will be restricted.

The standard annual allowance is currently £40,000.

What is the tapered annual allowance?

The tapered annual allowance was introduced from 6 April 2016 to restrict the amount of tax relief given to individuals with high incomes.

It originally affected individuals with threshold income over £110,000 and adjusted income over £150,000. However, concerns over its effect on the delivery of public services such as the NHS led to an increase in the limits to £200,000 and £240,000 from 6 April 2020.

The taper reduces the annual allowance by £1 for every £2 of adjusted income above £240,000, subject to a minimum allowance of £4,000. This means that an individual with adjusted income of £312,000 or more will only receive tax relief on pension savings of £4,000.

For tax years 2016/17 to 2019/20, the minimum allowance was £10,000.

What is threshold income?

An individual's threshold income is calculated by taking the following steps:

- Start with your income for the tax year.
- Deduct the gross amount of your pension contributions where tax relief was given at source (for example, contributions to personal pension schemes).
- Deduct the amount of any lump-sum death benefits you have received from registered pension schemes.
- Add any reduction of employment income for pension provision through salary sacrifice or flexible remuneration arrangements made after 8 July 2015.

- If the individual's threshold income does not exceed £200,000, the tapering provisions will not apply and there is no need to calculate their adjusted income.
- If, however, your threshold income does exceed £200,000, you will need to calculate your adjusted income to determine your tapered annual allowance.

What is adjusted income?

An individual's adjusted income is calculated by taking the following steps:

- Start with your net income for the tax year.
- Add the amount of your pension contributions where tax relief was not given at source (for example, those made on the individual's behalf).
- Add the amount of contributions made by your employer.
- Add the amount of employee contributions made under a net pay arrangement (i.e. contributions deducted from earnings before PAYE).
- If you are non-UK domiciled, add any relief claimed on contributions to an overseas pension scheme.
- Deduct the amount of any lump-sum death benefits received from registered pension schemes.

What about unused allowances?

Any unused annual allowance can be carried forward for three tax years, provided the individual has been a member of a registered pension scheme in the tax year.

For example, if an individual was not subject to the tapered annual allowance and did not make any pension contributions in 2021/22, you would have an unused annual allowance of £40,000 available for offset against excess pension savings in 2022/23, 2023/24 and 2024/25.

What is the annual allowance charge?

The annual allowance charge restricts tax relief on pension savings in excess of an individual's available allowance.

To calculate the amount of the charge, the individual's level of contributions, or benefits accrued in the tax year, is compared to your available allowance.

Any excess pension savings will be taxed at the individual's marginal rate of income tax which in most cases, will be the additional-rate of 45%.

What is 'scheme pays?'

If an individual has an unexpected charge, you can elect for your tax liability to be settled by the pension scheme in return for a reduction in your future pension benefits.

Where the individual has an annual allowance charge of £2,000 or more, and your pension savings exceed the annual allowance of £40,000, the pension scheme administrator will become jointly liable for the charge under 'mandatory scheme pays'.

If these conditions are not met, the individual will remain liable for the charge, but it may be possible for the scheme to settle the charge on a voluntary basis.

The deadline for scheme pay elections is 31 July following the anniversary of the end of the tax year. This means that those affected by the charge in 2020/21 would need to notify their scheme administrators before the end of next month.

Conclusion

The tax rules for pensions are complex and can result in significant tax charges if misunderstood. It is therefore important that taxpayers review their overall tax position, and undertake formal pension planning if necessary, to avoid any costly mistakes.

We therefore recommend you consult your professional tax adviser or financial adviser to discuss your position if you feel you are impacted.

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice or will writing.

CHARITABLE GIVING - DOING IT RIGHT

The war in Ukraine and cost of living crisis have prompted many people to support charities helping those affected. Various schemes can boost the value of your charitable donations.

Gift aid

Charities can claim back basic rate tax on donations, meaning for every £1 you give the charity gets £1.25. This scheme is for UK taxpayers. Higher rate and additional rate payers can also reclaim the tax paid on donations through self-assessment. This can effectively lower the net income at which their tax is calculated, which can be beneficial for those earning just over £50,000 who pay the High Income Child Benefit Tax Charge.

It isn't just big national charities like DEC, Cancer Research or Trussell Trust that use gift aid. If you make a voluntary donation (of at least 10%) on top of the standard ticket price to many museums and art galleries, then the total value of your purchase can benefit from gift aid. You can also use gift aid when buying an annual membership to these organisations.

Give as you earn

Some companies allow employees to make regular charity donations direct from their gross salary, exempting these donations from tax, although they are subject to national insurance contributions.

Charitable legacies

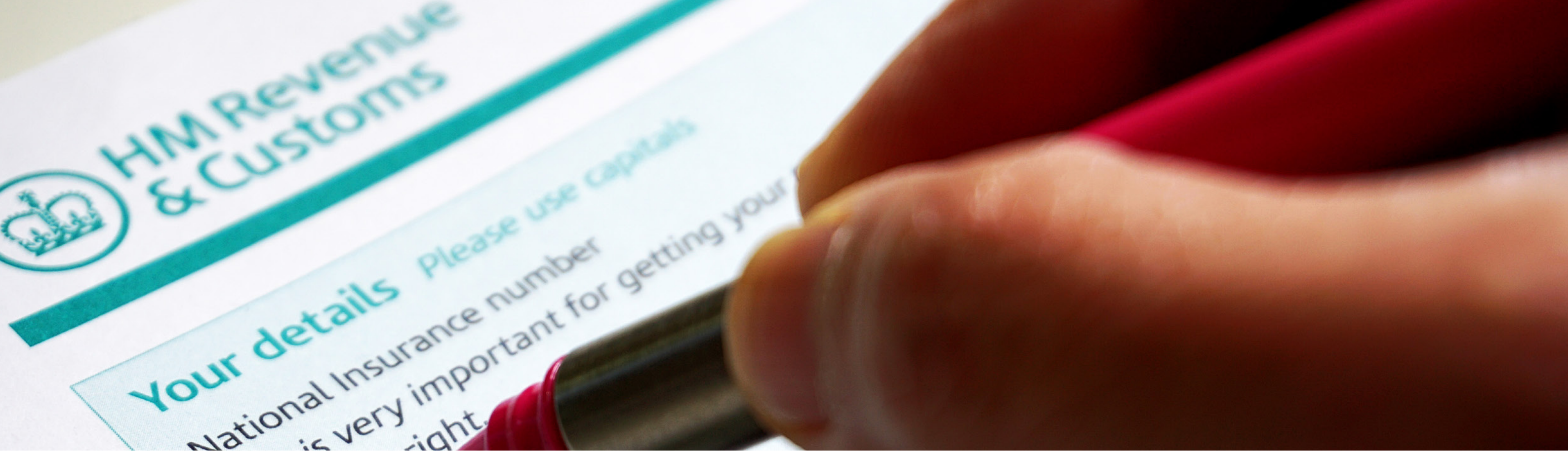
If you leave a charitable donation or legacy in your will, it won't be included within your estate when calculating inheritance tax (IHT). What's more, if you bequeath at least 10% of your net estate to charity, any IHT due is charged at 36% rather than 40%.

Share gifting

Shares donated to charity are not subject to capital gains tax (CGT). The value will also be deducted from your taxable income, potentially reducing income tax. If a charity can't accept shares directly you can sell them on their behalf, again avoiding CGT, although you will need an instruction from the charity.

The Financial Conduct Authority does not regulate tax, Wills or estate planning advice.

Tax treatment varies according to individual circumstances and is subject to change.



COULD YOU JOIN THE ONE IN FIVE?

If you are not a higher rate taxpayer now, you may be soon.

The combination of high inflation and frozen tax thresholds is a toxic mix for taxpayers. Figures from HMRC and the Office for Budget Responsibility show that the four-year freeze to the UK-wide higher rate tax threshold will create over two million new higher rate taxpayers by 2025/26. In Scotland, the freeze only applies to savings and dividend income, but the Scottish higher rate threshold for other income (primarily earnings) is lower at £43,662 and the rate 1% higher.

Mitigate the hike

If you are – or will soon be – a higher rate taxpayer, there are plenty of tax planning points you should review with us, including:

- Ensure that you take full advantage of all your tax allowances, such as the dividend allowance and the personal savings allowance.
- Explore the many opportunities presented by independent taxation if you are married or in a civil partnership.
- Maximise ISA investments – the UK tax-freedom of ISAs is more valuable once you pay higher rate tax.
- Review investments – investment returns in the form of capital gains (maximum rate 20% other than for residential property and a £12,300 annual exempt amount) will normally incur much less tax than income.
- Business owners may have scope to change the structure or adjust the way profits are extracted.
- The higher rate of 40% (or 41% in Scotland) income tax also means that you can receive 40%/41% in Scotland on pension contributions. However, beware the pension annual and lifetime allowance tax traps.

Investments do not offer the same level of capital security as deposit accounts. 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 in with your overall attitude to risk and financial circumstances. For ISAs investors do not pay any personal tax on income or gains. The Financial Conduct Authority does not regulate tax advice. Tax treatment varies according to individual circumstances and is subject to change.

KEEPING IT REAL ON RETURNS

How you think about investment returns may need to change as inflation soars.

If you could choose between a 3% investment return or a 7% investment return, which would you pick? The answer seems obvious, so let's add some context.

Which is better – a 3% investment return when inflation is 2% or a 7% investment return when inflation is 9%? Once you allow for inflation, the 3% investment return is more attractive as it outpaces inflation; the 7% return means lost buying power over time.

Consider the real rate of return

In an inflationary environment you need to think of investment returns in 'real' terms, removing the eroding effect of inflation. So, in the example, the 3% return becomes a real return of 1% (3% – 2%) and the 7% return is actually –2% (7% – 9%). Taking this approach means short-term, deposit-based investments are much less attractive, despite interest rate increases.

The past 13 years of near zero interest rates, combined with low inflation, have encouraged investors to focus on the capital growth element of investment returns, favouring technology-related companies. Inflation and rising interest rates have reduced the appeal of distant profits and the other component of investment return, income, has now become important.

However, inflation is not all bad news for investors. Many companies aim to keep their dividends growing at least in line with inflation over the longer term. Link Group, a leading share registrar which monitors dividend payments, recently said that it expected regular dividend growth of over 15% this year.

If you want to protect your capital from the ravages of inflation, there are plenty of potential options, but none is without risk, so professional advice is important.

Investments do not offer the same level of capital security as deposit accounts. 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 in with your overall attitude to risk and financial circumstances.

WHAT LESSONS I WISH I'D KNOWN FROM THE OTHER SIDE OF 50

Many younger people now rely on the bank of Mum and Dad to help get them on the housing ladder. But parents may also have some useful life lessons to impart when it comes to saving towards a more secure financial future.

Research among the over 50s found that half regretted not starting a pension earlier, while almost two-thirds said they wished they had saved more into their retirement funds.

Those embarking on careers today have the benefit of auto-enrolment pensions, with employer contributions, once they earn more than £10,000. Of the over 50s surveyed, 25% delayed starting a pension until they were in their 30s, often putting mortgage payments and family needs ahead of pension contributions.

However, financial experts warn that parents' advice is not always correct when it comes to how much to contribute to a pension plan. A quarter of those aged over 50 think that putting 5% of earnings into a pension will be enough to fund a decent retirement – the current minimum auto-enrolment contribution. Experts disagree, stating that these minimum levels could leave people with insufficient funds in retirement. The Pension and Lifetime Savings Association believes that people should be savings around 12% of their earnings into a pension if they want a comfortable retirement.

Where possible, younger workers should look to increase pension savings beyond minimum levels and ensure their pension contributions increase with any salary rise. This should help protect against the same financial regrets when they reach their parents' age.

The value of pensions and investments and the income they produce can fall as well as rise. You may get back less than 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 in with your overall attitude to risk and financial circumstances.

The Financial Conduct Authority does not regulate auto enrolment.

ARE YOU A TRUSTEE?

A new measure to prevent money laundering means trustees must now register with HMRC.

The government has introduced a new requirement for trustees to register details of their trust(s) with HMRC as part of its continuing anti-fraud strategy. For most existing trusts, the deadline registration date is 1 September 2022. New trusts will need to register within 90 days. Once registered, any changes to the trust must be reported by the trustees, also within 90 days.

Certain types of trust, such as property co-ownership trusts, are exempt, but many trusts that do not currently pay tax must be registered. The treatment of trusts linked to life assurance policies is particularly complex and has prompted HMRC to regularly update and expand its guidance. While a trust holding a simple term assurance policy that only pays out on death will not need to register, the treatment of investment-oriented policies is less clear cut.

How can Moore Kingston Smith help?

HMRC's Trust Registration Service Manual provides further guidance on the types of trust that need to be registered. If you would like to discuss the requirements or need assistance with the registration process, please contact one of our tax specialists or send your query to trust@mks.co.uk

TRAVEL COSTS CHECKLIST

Many Brits will take their first holiday to Europe this summer since Covid and the implementation of Brexit. Be aware of extra costs and additional paperwork requirements.

Do I need a visa?

Holidaymakers currently just need a UK passport, but from the end of 2022 they will need a ETIAS visa waiver. This lasts three years and allows unlimited trips during this period.

Roaming charges

You may have to pay roaming charges to use your phone in Europe. Vodafone, Three, Sky and EE all now impose these charges, which typically amount to £2 a day. Other providers, including Virgin, O2 and BT Mobile currently have no extra fees. Exact charges depend on the contract so check before travelling.

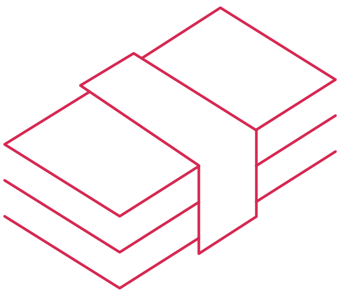
Covid costs?

Most European countries don't require UK travellers to take a lateral flow test now, provided they're fully vaccinated. The website: reopen.europa.eu gives details of latest restrictions for each country. It also explains how to download the EU Digital Covid Certificate, proving vaccination status.

Travel and health insurance

Travel insurance is always essential, particularly to cover medical bills. Some policies may offer cover should you need to cancel or delay arrangements due to Covid, but not all. European Health Insurance Cards (EHIC) are still valid, if in date. Once these expire you'll need the new UK Global Health Insurance Card (GHIC). This allows access to state healthcare in Europe at a reduced cost, or sometimes for free.

https://www.nhs.uk/using-the-nhs/healthcare-abroad/apply-for-a-free-uk-global-health-insurance-card-ghic/



NEWS ROUND UP

No-fault divorce

In England and Wales, divorce has become much simpler and potentially quicker with the introduction of no-fault divorces since 6 April 2022. However, the reform has done nothing to simplify all the related financial issues, so professional advice will still be necessary.

No-fault evictions

In the Queen's Speech the government announced that it would be introducing a Renter's Reform Bill. Among its measures the Bill would remove the option of no-fault evictions which English landlords currently have (often called section 21 evictions).

Managing energy price rises

Ofgem, the utility regulator, is consulting on a proposal to adjust the energy price cap every quarter after forecasting a jump from £1,971 to about £2,800 in October. That figure is likely to drop to around £2,400 for many households following the Chancellor's end of May measures including a £400 per household rebate. But a mid-winter bill amendment is still coming at the start of 2023.

National insurance cut comes through

If you are an employee, in July you should see the benefit of the change to national insurance contribution (NIC) thresholds announced in the Spring Statement. At best your NIC saving will be worth about £28 a month.

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Moore Kingston Smith is a dynamic, leading UK firm of accountants and business advisers. We have been helping clients thrive since 1923.

As trusted advisers to businesses, private individuals and nonprofit organisations, we are passionate about helping our clients achieve their ambitions. We are committed to supporting them through both good times and tough times. Our highly experienced people have the strategic insight, drive and dedication to deliver results.

With over 70 partners and more than 650 people based in and around London, we are a leading member of the Moore Global Network – an international family made up of over 30,000 people across more than 100 countries. Members connect and collaborate to take care of our clients' needs locally, nationally and internationally.

MOORE GLOBAL NETWORK

We've spent more than 100 years serving clients through our professional services. With more one-to-one support from senior partners than you might be used to, you'll always be working with professionals. Our services will help you navigate new markets effortlessly, and take advantage of every opportunity.

For more information on how our global services and sector expertise can help your business thrive in over 100 countries, just get in touch.

CONTACT US

Call:
+44 (0)20 7566 4000

Or email:
privateclient@mks.co.uk

Offices in:
City (London), Heathrow, Redhill, Romford, St Albans, West End (London)

MOORE Kingston Smith

www.mks.co.uk