Aspire Financial Planning

Summer Newsletter 2023

T: 01242 248181 E: jtibble@aspirefp.co.uk
Harley House, 29 Cambray Place, Cheltenham, GL50 1JN

Inside this issue

Watch out for changes to the Lifetime Allowance charges!

The Spring Budget saw some big changes with pension tax relief. The changes were deemed necessary to fix pension rules and encourage senior doctors to remain in work for longer.

Tips to get Tax Wise

Effective tax and pension planning needn't be left until the end of a tax year. In fact the sooner you take action, the better. Here are some tips to help you get ahead.

Taking care of those who matter

It's important to make sure your wealth is going to those that matter. We take a look at the 7 year rule, passing on your pension, amongst other measures.

Highlights from the Spring Budget

The Chancellor Jeremy Hunt announced a whole raft of measures in the Spring Budget. From 'full expensing' for capital allowances to radical changes to pension tax reliefs.

Welcome to the summer edition of our quarterly client newsletter, which provides topical financial articles.

If you have any questions in relation to the articles contained within this newsletter, please do not hesitate to contact us and we will be happy to provide any guidance required.

Whatever your financial need, we are always pleased to speak with you.

E: jtibble@aspirefp.co.uk
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Any information in this newsletter does not constitute advice and should not be acted upon without taking professional guidance.

The value of investments can fall as well as rise. You may get back less than you invested.

Changes to the Pensions Lifetime Allowance look imminent!

Plans for the Lifetime Allowance (LTA) for Pensions to be abolished

The LTA is the maximum amount of tax relievable pension savings an individual can benefit from over the course of their lifetime. Individuals may contribute to their pension over these limits, but they will be subject to a tax charge on the amount above the allowance. LTA charges have been removed (from April 2023) and the LTA will be fully abolished from the tax year 2024/2025.

Pension Annual Allowance (AA) increased from £40,000 to £60,000

The government has increased (from April this year) the Annual Allowance from £40,000 to £60,000. Individuals will continue to potentially be able to carry forward unused Annual Allowances from the three previous tax years.

Money Purchase Annual Allowance (MPAA) raised from £4,000 to £10,000

The MPAA is a reduction to the AA for those who have flexibly accessed their money purchase pensions savings. The tapered AA is a reduction to the AA for individuals with income above set levels. The MPAA and tapered AA has been increased from £4,000 to £10,000. It also increases the adjusted income level required for the tapered AA to apply to an individual from £240,000 to £260,000.

Your tax-free lump sum (is unchanged)

The maximum Pension Commencement Lump Sum for those without protections will be retained at its current level of £268,275 and will be frozen thereafter. The pension commencement lump sum (PCLS) which is often known as 'tax free cash' or a 'tax free lump sum', is a tax-free payment which most people can receive when they start accessing their pension benefits. The maximum tax-free lump sum is 25% (or £268,275 whichever is lower) of the value of the pension benefits being accessed.

Other Lump Sums

Where the following payments would currently be subject to a lifetime allowance charge at 55%, from 6 April 2023 they will be taxed at the recipient's marginal rate:

- Serious Ill-Health Lump Sum
- Uncrystallised Funds Lump Sum Death Benefit
- Defined Benefits Lump Sum Death Benefit
- Lifetime Allowance Excess Lump Sum

Why the sudden change to the pension tax limits?

The aim is to encourage older and typically higher-earning professionals to remain in the workforce for longer. The proposals were put in place to support senior doctors; fixing pension rules, supporting them to remain in work for longer and boosting the workforce. Pension tax limits were discouraging highly paid professionals (aged between 50-64) from remaining in the workplace, work, or working fuller hours.

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.
A pension is a long-term investment and the value is not guaranteed. Any advice or considerations are personal to each individual's circumstances.
The levels and bases of taxation, and reliefs from taxation, can change at any time. The value of any tax relief depends on individual circumstances.
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, tax legislation and regulation which are subject to change in the future.

Tips to get Tax Wise

We know the tax year runs from 6 April 2023 to 5 April 2024, yet effective tax planning needn't be left until the end of the tax year. Here are some tips to help you get ahead.

1. Consider topping up your pension.

Topping up your pension, suddenly got easier. The Pensions Lifetime allowance (LTA) set a ceiling for your pension pot, above which you must pay extra tax generally when you withdraw it, in the 2022/23 tax year it was set at £1,073,100. But from the 2023/24 tax year there will no longer be a LTA charge, regardless of the size of your pension!

Your annual allowance is the maximum personal contribution that can be made into pensions in order to obtain tax relief, and is currently the greater of your relevant UK earnings and £3,600 subject to a maximum of £60,000. This limit has increased in the current tax year from £40,000 as it was in the previous 2022/23 tax year.

Steps to consider when you're looking at maximising your pension pot:

i. There may be ways to increase your basic State Pension if you aren't eligible for the full amount (£203.85 per week). So, you could be eligible to boost your basic State Pension by paying voluntary Class 3 National Insurance Contributions (NICs).

ii. If you don't manage to make full use of your £60,000 pensions annual allowance this tax year, you can carry it forward for up to three years.

iii. Everyone is entitled to a tax-free Personal Allowance. This is the amount of income you don't pay any tax on, and currently stands at £12,570. But you begin to lose this when you have a total income over £100,000 (and your personal allowance reduces to £0 if you have an income of £125,140 or more).

By increasing your pension contributions, you could get some of your allowance back.

2. Limiting your inheritance tax.

One way you can do this is by giving away up to £3,000 worth of gifts (such as money or possessions) each tax year, so they are no longer included when the value of your estate is calculated. This is known as the annual exemption.

The exemption applies to individuals, so as a couple you can make £6,000 worth of gifts. It can also be carried forward for one year so, if you didn't do this last year (2022/23), then you can, as a couple, make £12,000 worth of gifts before 6 April 2024.

3. Your ISA allowance: It's nearly always worth using it if you can!

Make sure you make good use of your tax-efficient ISA allowance. The allowance for 2023/24 is £20,000 per person, whilst the Junior ISA allowance (or Child Trust Fund - CTF) is now £9,000 for children under 18. You can only have a junior ISA OR a CTF (not both). And you can no longer open a CTF.

Did you know, 16 and 17 year-olds actually get two ISA allowances? They're able to open a Junior ISA as well as an Adult Cash ISA. A Junior ISA for 2023/2024 has a limit of £9,000 and an adult cash ISA for 2023/2024 has a limit of £20,000.

Make sure you don't have poor performing ISAs, with the recent interest rate rises you may well find a better deal by moving.

4. Benefits of making charitable donations.

Will you be donating to any worthwhile causes during the 2023/2024 tax year?

If you are, you can receive tax relief on your contributions through Gift Aid (or straight from your wages or pension via Payroll Giving). Your donations will qualify as long as they're not more than 4 times what you have paid in tax in that tax year (6 April to 5 April).

5. Be smart with your Capital Gains Tax allowance

Capital Gains Tax (CGT) is a tax on the gains (i.e. profit) you make when you sell something, such as an investment portfolio or second home. Everyone has an annual allowance before CGT applies, of £6,000 (in 2023/24). Couples will have a joint allowance for 2023/24 of £12,000.

It may be worth considering transferring an asset into your joint names (as long as it represents a genuine gift) so you both stay within your individual allowances.

If you're looking for a tax-efficient way to invest, a Stocks and Shares Individual Savings Account (ISA) could be ideal. If you do make a profit due to share price increases or growth in other assets, you won't be required to pay CGT on it.

6. Check you aren't exceeding your personal savings allowance.

In 2023-24, you can earn £1,000 of interest on savings tax-free if you're a basic-rate taxpayer. If you're a higher-rate taxpayer, your tax-free allowance is £500. You'll only pay tax on savings income that exceeds this threshold. Keep in mind that you won't have a savings allowance as an additional-rate (45%) taxpayer.

7. Benefit from marriage allowance

If you're married or in a civil partnership, you can transfer 10% of personal allowance from the lower-earning partner to the higher earner, equating to £1,260 in 2023-24. This will potentially save you up to £252 in tax as a couple. To benefit as a couple, the lower earner must normally have an income below the Personal Allowance, which is usually £12,570.

8. Claim tax-free childcare

Under the tax-free childcare scheme, you can get up to £500 every 3 months (up to £2,000 a year) for each of your children to help with the costs of childcare. This goes up to £1,000 every 3 months if a child is disabled (up to £4,000 a year).

If you get tax-free childcare, you'll need to set up an online childcare account for your child. For every £8 you pay into this account, the government will pay in £2 to use to pay your provider. You can get Tax-Free Childcare at the same time as 30 hours free childcare if you're eligible for both.

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The levels and bases of taxation, and reliefs from taxation, can change at any time. The value of any tax relief depends on individual circumstances.
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, tax legislation and regulation which are subject to change in the future.
HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.
An investment in a Stocks & Shares ISA will not provide the same security of capital associated with a Cash ISA.
The favourable tax treatment of ISAs may be subject to changes in legislation in the future.

Taking care of those who matter

Many of us want to pass our wealth onto the next generation or loved ones. It's important to make sure your wealth is going to those that matter.

Gifts

There's usually no Inheritance Tax to pay on gifts you make out of your normal income, if you still have enough income to maintain your usual standard of living. For example, regularly paying into your child's saving account or Christmas and birthday presents. These are known as 'exempted gifts'.

In the UK married couples and civil partners can pass unlimited assets to each other without any charge to inheritance tax. This is called the spouse exemption. The unlimited spousal exemption is restricted to those spouses 'domiciled' in the UK irrespective of whether they live in the UK permanently. This exemption is currently restricted to £325,000 (which is on top of the Nil Rate Band available) if the receiving spouse is not UK domiciled.

You can gift £3,000 a year, plus make unlimited small gifts of £250 (providing this doesn't form part of a larger gift), free from inheritance tax. You can gift or bequeath money to charities and political parties (providing they meet certain criteria) and it will be excluded from your estate when inheritance tax is calculated.

One less well-known type of unfettered gifting is to contribute to the living costs of someone else - younger or older relatives for example.

The 7 year rule

No tax is due on any gifts you give if you live for 7 years after giving them - unless the gift is part of a trust. This is known as the 7 year rule.

Inheritance Tax (IHT) may have to be paid after your death on some gifts you've given. Gifts given less than 7 years before you die may be taxed depending on: who you give the gift to and their relationship to you, the value of the gift and when the gift was given.

The recipient of a gift which exceeds the Nil Rate Band (NRB) when taken with any chargeable gifts made in the 7 years before it will be liable for IHT on the excess if the donor dies within 7 years of making it (taper relief applies if the donor survives beyond 3 years).

If there's Inheritance Tax to pay, it's charged at 40% on gifts given in the 3 years before you die. Gifts made 3 to 7 years before your death are taxed on a sliding scale known as 'taper relief'.

Trusts: gifts with strings attached

With trusts, you are still giving money away and the '7 year rule' still applies (unless exempt gifts as previously described), but you have more control than if you simply hand over your cash to someone else.

Pension pots: pass your retirement savings on to loved ones

The rules on inheriting retirement savings were relaxed in April 2015, but how much your heirs benefit depends on what type of pension you have and your age when you die.

The Financial Conduct Authority does not regulate estate planning, tax advice, wills or trusts.
HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

Highlights from the Spring Budget

The Spring Budget on March 15th 2023 from the Chancellor Jeremy Hunt, was a budget to take whatever steps are necessary for economic stability. The biggest change saw pension tax relief changes to fix pension rules to encourage senior doctors to remain in work for longer.

Pension tax relief - As part of a range of measures aimed at reducing economic inactivity, significant reforms to pension taxation were announced:

- The amount that an individual can contribute tax free to their pension fund is to be raised from £40,000 to £60,000 per annum from April 2023.
- The Government are to fully abolish the Lifetime Allowance (LTA) in the tax year 2024/2025. LTA charges have been removed (from April 2023).
- For those who have flexibly accessed a money purchase pension, the total amount they can save tax free under the Money Purchase Annual Allowance is to be increased from £4,000 to £10,000 from April 2023.

Capital Allowances - businesses will now benefit from:

- Full expensing – which offers 100% first-year relief to companies on qualifying new main rate plant and machinery investments from 1 April 2023 until 31 March 2026
- The 50% first-year allowance (FYA) for expenditure by companies on new special rate (including long life) assets until 31 March 2026
- The Annual Investment Allowance (AIA) providing 100% first-year relief for plant and machinery investments up to £1 million, which is available for all businesses including unincorporated businesses and most partnerships.

Corporation tax - Legislation will be introduced in Spring Finance Bill 2023 to charge corporation tax and set the main rate at 25% and the small profits rate at 19% for the financial year beginning 1 April 2024. These rates already apply from 1st April 2023 as per the Finance bill Act 2021.

Childcare support - Working parents of children aged 9 months to 3 years that live in England may be able to get 30 hours free childcare. This is in addition to the 30 hours a week already provided for eligible working parents of 3 to 4-year-olds.

Fuel duty - The government has announced that fuel duty will be frozen and a 5p reduction will be maintained for another year.

Alcohol duty rates and Alcohol duty reform - Duty rates of alcohol will be increased in line with RPI inflation. Draught Relief will increase from 5% to 9.2% for beer and cider draught products and from 20% to 23% for wine, spirits based and other fermented draught products. These changes will take effect from 1 August 2023.

Energy price support - The Energy Price Guarantee for households will continue at the current rate for three further months to June 2023, limiting the typical household energy bill to £2,500 per annum. The Energy Bills Relief Scheme, which supports businesses and other non-domestic energy users, is to be replaced by the Energy Bills Discount Scheme through to 31 March 2024.

Tax fraud - The Government has announced that it will double the maximum sentences for the most egregious cases of tax fraud from 7 to 14 years.
https://www.gov.uk/government/publications/spring-budget-2023

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The levels and bases of taxation, and reliefs from taxation, can change at any time. The value of any tax relief depends on individual circumstances.
We are not tax experts, and more so still when it comes to the tax legislation of other countries, so such people would need to take specialist tax advice relevant to their own jurisdiction before considering their options.

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