smart money

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INVESTMENT BONDS

HOW BONDS' STRUCTURE AND TAX ADVANTAGES CAN HELP YOU PASS ON WEALTH

PRESERVING WEALTH FOR FUTURE GENERATIONS
Starting estate planning early and implementing it in stages is desirable

MONEY AND DIVORCE
Untangling your finances and navigating the financial aspects of divorce

PENSION DRAWDOWN
Greater flexibility in accessing your pension funds

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INDEPENDENT FINANCIAL ADVISER

INSIDE THIS ISSUE

Welcome to our latest edition. In this issue, we look at investment bonds and explain how they offer several benefits that some investors may be missing out on, which have become even more beneficial due to recent changes in tax regulations. This follows last November's Budget and the Chancellor's decision to reduce the Capital Gains Tax (CGT) Allowance from £12,000 to £6,000 this year and to £3,000 in April 2024. This is likely to increase the appeal of investment bonds for some investors who want to minimise Inheritance Tax (IHT) liabilities when passing on wealth. Read the full article on page 06.

The UK Treasury has been receiving record-breaking Inheritance Tax (IHT) receipts. IHT receipts amounted to approximately £7.09 billion British pounds in 2022/23, compared with £6.05 billion in the previous financial year, according to Statista. On page 03, we consider why IHT can be emotionally challenging for individuals and families who have to pay it, often requiring the sale of cherished family assets to settle the tax bill. That's why starting estate planning early and implementing it in stages is essential.

Divorce is a complex process that often comes with various financial considerations and preparing for a divorce is undoubtedly challenging, especially when it involves untangling your finances. The emotional strain can make it difficult to make clear-headed decisions and the long-term consequences may not be immediately apparent. On page 11, we explain why it's crucial to carefully consider the financial aspects of divorce to ensure that you can sustain the lifestyle you desire post-separation.

Pension drawdown is a flexible way of taking income from your pension, introduced after the pension freedom rules in April 2015. Before that, the government limited how much income you could take from your pension unless you had other sources of income, and annuities were commonly used to provide a guaranteed income for life. Nowadays, you have more flexibility in accessing your pension funds, allowing you to take as much or as little as you want. Turn to page 12 to read the full article.

A complete list of the articles featured in this issue appears opposite.

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WANT TO LEARN MORE ABOUT HOW WE CAN HELP YOU MEET YOUR FINANCIAL GOALS?
Wealth planning isn't a one-time event. It involves comprehensively evaluating your current and future financial state regularly to formulate and evolve a plan to help meet your financial goals. Please get in touch with us for more information about how we can help you visualise your financial future.

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INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

THE VALUE OF INVESTMENTS MAY GO DOWN AS WELL AS UP, AND YOU MAY GET BACK LESS THAN YOU INVESTED.

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PRESERVING WEALTH FOR **FUTURE GENERATIONS**

STARTING ESTATE PLANNING EARLY AND IMPLEMENTING IT IN STAGES IS DESIRABLE

The UK Treasury has been receiving record-breaking Inheritance Tax (IHT) receipts. IHT receipts amounted to approximately £7.09 billion British pounds in 2022/23, compared with £6.05 billion in the previous financial year[1].

For individuals and families who have to pay it, IHT can be emotionally challenging, often requiring the sale of cherished family assets to settle the tax bill. That's why starting estate planning early and implementing it in stages is essential. Also, having an open conversation about estate planning with family members is very beneficial but depends on family dynamics and wealth levels.

MINIMISE TAX LIABILITIES

However, families should take proactive measures to minimise the possibility of facing a substantial IHT bill. By planning ahead and seeking professional advice, individuals can ensure their assets are managed to minimise tax liabilities.

Creating a comprehensive wealth strategy involves considering various factors.

HERE ARE SOME KEY POINTS TO KEEP IN MIND

LIFETIME CASH FLOW

We can help you assess your assets and income to ensure we support your desired lifestyle throughout your lifetime. By understanding your cash flow needs, we can assist in structuring investments and creating a sustainable financial plan.

LIFETIME GIFTING

Gifting can be a valuable tool in wealth planning, allowing you to reduce a potential IHT tax burden. We can guide you on the various gifting allowances and exemptions available, such as the annual gifting allowance, wedding gifts and gifts from normal expenditure out of income.

TRUSTS

Most trusts offer flexibility and control over how your assets are distributed. They can also help reduce taxes on inheritance. This excludes Absolute Trusts, where control over assets is discretionary. Working closely with us, you can explore different trust options and understand how they can be incorporated into your wealth planning strategy.

PENSIONS

Pensions are important in wealth planning, offering tax advantages and the potential for long-term financial security. We can help you navigate the complexities of pensions, including risk assessment, accessing pension funds and maximising tax benefits.

PROTECTION COVER

Protecting your loved ones in the event of death or illness is crucial. We can advise on selecting the right protection products to provide liquidity for IHT and other associated costs.

BUSINESS RELIEF

Incorporating business relief into your wealth planning strategy can be advantageous if you own a business or have qualifying assets. We'll help you understand the eligibility criteria and how to leverage this relief effectively.

FINANCIAL CONTROL AND ESTATE PLANNING

Creating a Will ensures that your assets are distributed according to your wishes. Additionally, appointing a Lasting Power of Attorney provides someone with financial control over your assets and peace of mind if you cannot manage your affairs.

Estate planning is not a one-size-fits-all approach. Although there is no requirement to address IHT, proactive planning can minimise the tax burden on families. Seeking professional advice and taking steps early can help reduce the risk of leaving loved ones with a larger tax bill than necessary. ◀

WANT THE PEACE OF MIND TO TAX-EFFICIENTLY PASS ON YOUR WEALTH TO LOVED ONES?

When you've worked hard to build up your wealth, you want the peace of mind to pass this on to your loved ones. There's much to consider, especially if you have a complex estate. Who should it go to? And when? Is it sensible to pass on wealth during your lifetime? To discuss how we can help, don't hesitate to contact us.

Source data:

[1] https://www.statista.com/statistics/284325/united-kingdom-hmrc-tax-receipts-inheritance-tax/

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THE TAX TREATMENT IS DEPENDENT ON INDIVIDUAL CIRCUMSTANCES AND MAY BE SUBJECT TO CHANGE IN FUTURE.

ESTATE PLANNING IS NOT REGULATED BY THE FINANCIAL CONDUCT AUTHORITY.

A PENSION IS A LONG-TERM INVESTMENT. THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN. YOUR EVENTUAL INCOME MAY DEPEND ON THE SIZE OF THE FUND AT RETIREMENT, FUTURE INTEREST RATES AND TAX LEGISLATION.

WILL YOU MAKE THE RIGHT DECISIONS AROUND **YOUR PENSION POT?**

WHY DEFINED CONTRIBUTION PENSIONS ARE EVEN MORE APPEALING FOR WEALTH TRANSFER

The announcement of the removal of the Lifetime Allowance (LTA) from the 2024/25 tax year in March's Spring Budget 2023 has made defined contribution pensions even more appealing for wealth transfer. This benefits individuals over 55 who intend to leave their tax-free lump sum intact with their pension to maximise their benefits.

There may be further changes to pension allowance rules. However, removing the LTA charge allows for an unlimited sum tax-free for individuals who pass away before age 75. After the age of 75, the sum will be subject to taxation at the beneficiary's marginal rate. It is important to note that although the charge has been removed, an LTA check still takes place to work out available tax free cash and the taxation of certain lump sum payments.

WITHOUT INCURRING INHERITANCE TAX (IHT)

New research reveals that almost a fifth of those aged over 55 (18%) do not plan to access their tax-free pension cash, to enable them to pass on more wealth to loved ones without incurring Inheritance Tax charges[1]. Men are more likely to do this than women, and 38% of workers also plan to leave their tax-free pension cash where it is.

Pensions usually don't count towards a person's estate for IHT purposes, and can be passed on completely tax-free if someone dies before the age of 75. With no LTA charge and an increased annual pension allowance, pensions have become attractive for those looking to mitigate IHT. However, nearly three in ten over-55s say they were unaware of this.

PENSION AS A TAX-FREE LUMP SUM

The research also found that almost half of all consumers (46%) believe that the amount that can be taken out of a pension as a tax-free lump sum should increase in line with inflation.

It is worth noting that since the LTA has been abolished, the amount that can be taken out of a pension as a tax-free lump sum has also been capped at 25% of the old LTA. This means that individuals are currently limited to withdrawing a maximum of 25% of the previous LTA as a tax-free lump sum from their pension, unless any protection is in place.

HERE ARE SOME TIPS TO HELP ENSURE YOUR LOVED ONES BENEFIT FROM YOUR PENSION:

Check if your pension offers death benefits: Not all pensions provide the same level of flexibility when it comes to death benefits. Check with your provider to see if your pension plan allows you to nominate beneficiaries who will inherit your pension savings, as beneficiary drawdown may not be an option.

Specify your beneficiaries: While making a Will can be beneficial in many ways, it usually doesn't control who inherits your pension savings. Your pension provider or trustees have the final say in where your pension savings go. Name your beneficiaries directly with your pension provider or employer to ensure your wishes are considered.

Regularly review your beneficiaries: Life circumstances change, and reviewing and updating your beneficiaries as needed is essential. Major life events like the birth of children, marriages or divorces can impact who you want to receive your pension savings. Ultimately the trustees of a scheme have discretion. So although there are no guarantees, by keeping your beneficiaries up to date, you can ensure that your desired beneficiaries are considered first when it comes to your pension savings should you pass away.

Consider the tax implications: Pensions can be a tax-efficient way to pass on your wealth since they are not typically subject to Inheritance Tax. With the removal of the lifetime allowance charge, pensions offer an even more attractive option for passing on your wealth to your loved ones. However, it's essential to consider any potential tax liabilities your beneficiaries may face when receiving your pension funds.

Remember, seeking professional advice tailored to your specific circumstances regarding financial planning and pension matters is essential. ◀

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DO YOU WANT TO DISCUSS CREATING A RETIREMENT PLAN TO GIVE YOU THE CONFIDENCE TO ENJOY LATER LIFE?

Retirement should be the golden age of your life. It's when you finally relax, enjoy new hobbies, travel or spend time with loved ones. But retirement can only be fully enjoyed if you have financial freedom. To discuss your options or to find out more, please get in touch with us.

Source data:

[1] Opinium conducted research for Standard Life among 2,000 UK adults aged 18+ between 12–16 May 2023. Results have been weighted to be nationally representative.

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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.

BUILDING A RELIABLE INCOME STREAM FOR **YOUR GOLDEN YEARS**

MAKE SURE YOU MAXIMISE YOUR RETIREMENT INCOME THROUGH ANNUITY SHOPPING

When it comes to using your pension pot, buying an annuity is one option that provides a regular and guaranteed retirement income for either your lifetime or a fixed term. However, it's important to note that purchasing an annuity is typically an irreversible decision.

Do you know that shopping around for an annuity could earn you £15,000 more over your retirement?[1] Recent analysis has shed light on the benefits of exploring your options regarding annuities. Therefore, it becomes crucial to carefully consider your options, select the appropriate type of annuity and strive to secure the best possible deal.

VALUABLE TOOL FOR RETIREMENT PLANNING

Annuities are a valuable tool for retirement planning as they offer a reliable and predictable income stream, often lacking in other investment options. Furthermore, certain annuities can be linked to inflation rates, providing stability during periods of economic volatility. This makes annuities attractive for individuals prioritising risk aversion in their pension savings strategy.

The primary difference between annuities and pension drawdown products is that annuities require using the entire pension pot to purchase an insurance product that provides a fixed retirement income. In contrast, pension drawdown products allow flexible income withdrawals with the remaining funds invested.

BALANCE SECURITY AND FLEXIBILITY

Unlike pension drawdown arrangements, annuities do not typically pass down any remaining funds to beneficiaries after the holder's death. However, it is possible to balance security and flexibility by partially combining annuities with pension drawdown.

According to the analysis, a 66-year-old with a £100,000 pension pot can now purchase an annuity with an annual income of £6,790. This represents an increase of £842 compared to the previous year. The surge in interest rates has resulted in the highest demand for annuities in years.

IMPORTANCE OF SHOPPING AROUND

Data further emphasises the importance of shopping around. It has revealed that the difference between the best and worst annuity rates available can be substantial. For a 66-year-old with a £100,000 pension pot, rates can differ by as much as 9.1%, translating to a potential annual income difference of £622 or a staggering £14,928 over the average retirement period.

The recent focus on annuities can be attributed to rising interest rates, which have a tangible impact on the income of those who have already purchased an annuity. However, it is essential to understand that while record rates are advantageous, they should be considered part of a broader discussion. ◀

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LOOKING FOR A GUARANTEED INCOME THROUGHOUT YOUR LIFETIME?

Annuities continue to be attractive for individuals seeking peace of mind and the assurance of a guaranteed income throughout their lifetime. If you are contemplating an annuity, speak to us and we'll explain how to assess all your options. As the research suggests, shopping around is crucial in securing the best possible deal for your retirement income.

Source data:

[1] Research by Legal & General Retail as of 30/6/23 based on a standard lifetime annuity with a rate of 6.79% for a single life with a £100k premium, 66 years old, with a 5-year guarantee and a level benefit paid monthly in advance. Legal & General Retail estimates that an average 66-year-old with a standard level of health will have a life expectancy of 90 years.

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INVESTMENT **BONDS**

HOW BONDS' STRUCTURE AND TAX ADVANTAGES CAN HELP YOU PASS ON WEALTH

Investment bonds offer several benefits that some investors may be missing out on, and have become even more beneficial due to recent changes in tax regulations following the Chancellor's decision to reduce the Capital Gains Tax (CGT) Allowance from £12,000 to £6,000 this year and to £3,000 in April 2024.

MINIMISE INHERITANCE TAX

These changes will likely appeal to investors who want to minimise Inheritance Tax (IHT) liabilities when passing on wealth. The IHT nil-rate threshold has remained at £325,000 since 6 April 2009, with no indications of future increases. As a result, more individuals are considering trusts to keep their money outside their estates.

Investors who have already utilised their ISA allowances and other tax-efficient wrappers, or those who have received substantial windfall payments, such as inheritances, could benefit from using investment bonds. Investment bonds primarily fall into two categories: onshore and offshore. The key difference is their tax treatment, which can significantly impact returns.

ONSHORE BONDS

Onshore bonds are subject to UK Corporation Tax. However, this tax is offset by your provider, which means you, as an investor, do not have to worry about it directly. While this may seem like an advantage, it's important to note that the tax could lower your return compared to an offshore bond.

OFFSHORE BONDS

On the other hand, offshore bonds are issued from outside the UK. The returns from these bonds roll up gross of tax in the funds, with the exception of Withholding Tax. This can potentially offer higher returns compared to onshore bonds, depending on your personal tax situation.

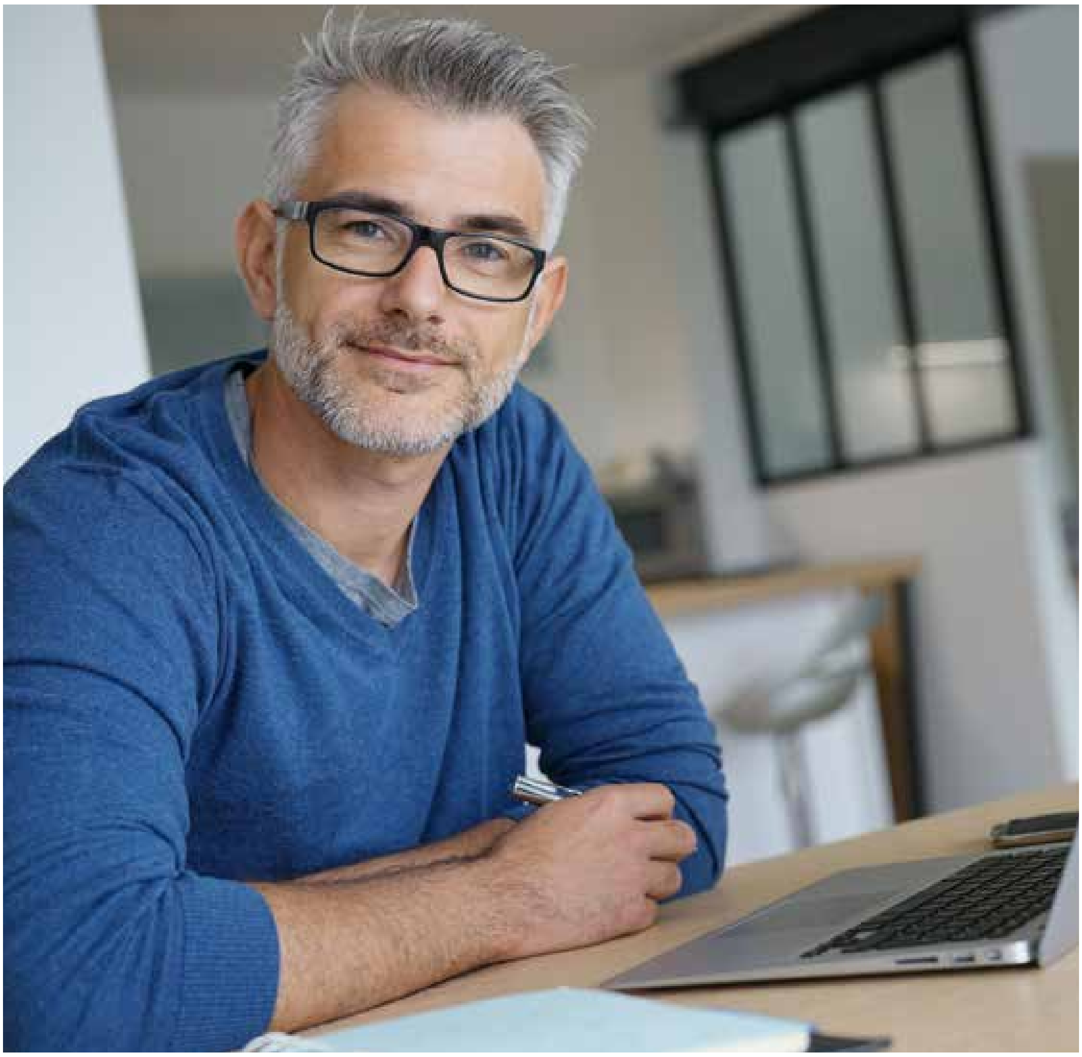
UNDERSTANDING OF THE TAX RULES

Despite these advantages, the research reveals that only a minority of investors fully understand investment bonds. However, there is potential interest among certain demographics. For example, 18% (9 million) of non-bond investors would consider investing in bonds. This interest is particularly prevalent among mass affluent consumers, those with children aged between 0 to 10, and individuals with a household income of £100,000 and above.

It is worth noting that only 10% of UK adults claim to have a clear understanding of the tax rules regarding bonds. This lack of knowledge could hinder investors from fully capitalising on the benefits offered.

NOT SUBJECT TO CAPITAL GAINS TAX

One of the key advantages of investment bonds is that they are not subject to CGT. Onshore bonds are treated as having already paid 20% tax on any gains when calculating a chargeable gain. In reality, the actual tax



> **OFFSHORE BONDS ARE ISSUED FROM OUTSIDE THE UK. THE RETURNS FROM THESE BONDS ROLL UP GROSS OF TAX IN THE FUNDS, WITH THE EXCEPTION OF WITHHOLDING TAX.**

deducted is likely to be less than this amount.

In addition, investment bonds can be beneficial for IHT planning. If held in a trust, they can be exempt from IHT after seven years. However, despite this potential advantage, only a quarter of bondholders have written their bonds in trust, which means the bonds would still be considered part of their estate for IHT purposes.

CHARGEABLE EVENT OCCURRING

Investors can withdraw up to 5% of their initial investment each year without triggering a chargeable event or incurring immediate tax liability.

Furthermore, top-slicing relief is available to reduce tax liability when a chargeable event occurs. This relief can eliminate or significantly reduce any tax liability, which can be advantageous for individuals in the accumulation phase and those preparing for retirement. For example, someone may be a higher rate taxpayer while owning the bond but can become a basic rate taxpayer when encashing it.

MAKE INFORMED INVESTMENT DECISIONS

Investment bonds also offer options for assigning them between spouses. From a tax perspective, the assignment is generally treated as if the new owner had always owned the bond. This can be particularly beneficial if one spouse is a basic rate taxpayer, as they may have no tax to pay upon encashment.

Overall, investment bonds present numerous advantages, including tax benefits, that investors should consider. However, it is crucial for individuals to fully understand these benefits and the tax rules associated with bonds in order to make informed investment decisions. ◀

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WANT TO LEARN MORE ABOUT UTILISING BONDS AS PART OF YOUR INVESTMENT PLAN?

An investment bond gives you the potential for medium to long-term growth on your money, over five to ten years or more, along with fund management expertise. You also get access to a mixture of funds, which are looked after by professional investment managers. If you'd like to learn more about utilising bonds as part of your investment plan, please get in touch.

Source data:

[1] LV= research – Don't forget the benefit of bonds – published 23 May 2023

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MISSING OUT ON UNCLAIMED MONEY **THAT COULD BE IN YOUR POCKET?**

£1.3 BILLION PENSION TAX RELIEF UNCLAIMED BY PENSION SAVERS OVER A FIVE-YEAR PERIOD

According to recent research, higher rate and additional rate taxpayers in the UK leave millions of pounds of pension tax relief unclaimed yearly[1]. This amounts to a staggering total of £1.3 billion over a five-year period. This unclaimed money could be in your pocket instead.

Pension tax relief is a government incentive to encourage individuals to save for retirement. It boosts your pension contributions based on your income level, the amount which is being contributed and the type of pension scheme you have. The two main methods of receiving tax relief are relief at source and net pay.

BOOST YOUR RETIREMENT SAVINGS

Understanding how pension tax relief works is important, and seeking professional financial advice ensures you claim everything you're entitled to. Depending on your tax bracket, you may be eligible for 20%, 40% or even 45% tax relief on your pension contributions. Taking advantage of this relief can significantly boost your retirement savings.

If you are a higher rate or additional rate taxpayer, reviewing your pension contributions and ensuring you maximise your tax relief benefits is essential. Doing so can secure a more comfortable retirement and make the most of the money that should rightfully be yours. It's important to note that income rates vary in different parts of the UK, so the specific rules may differ depending on where you live.

TAX BENEFITS UPFRONT

The main reason why £1.3 billion is left unclaimed in tax relief is that higher rate and additional rate taxpayers often need to claim the additional tax relief manually. The process can vary depending on the type of pension plan or the setup of your employer's pension scheme.

If you're in a 'net pay' arrangement, you'll automatically receive tax relief because your pension payment is deducted from your salary before taxes are applied. This means you receive the tax benefits upfront.

UNCLAIMED TAX RELIEF

On the other hand, if you're in a 'relief at source' arrangement, such as a personal pension plan or some workplace pension plans, your pension payment is deducted from your salary after taxes. In this case, your pension provider will add basic rate tax relief (20%) to your payment and claim it back from the government.

However, any higher rate or additional rate relief must be claimed by you directly from the government. There is so much unclaimed tax relief because many higher and additional rate taxpayers are unaware they need to claim the extra 20% or 25% tax relief on top of the basic rate relief.

> UNDERSTANDING HOW PENSION TAX RELIEF WORKS IS IMPORTANT, AND SEEKING PROFESSIONAL FINANCIAL ADVICE ENSURES YOU CLAIM EVERYTHING YOU'RE ENTITLED TO.

THERE ARE SEVERAL OPTIONS TO CLAIM BACK TAX RELIEF IF YOU'RE A HIGHER OR ADDITIONAL RATE TAXPAYER. HERE'S WHAT YOU NEED TO KNOW:

Determine your pension arrangement: Firstly, finding out what kind of arrangement you're a part of is important. You don't need to take any action if you're in a net pay arrangement. However, if you're part of a relief at source arrangement, follow the steps below.

Complete a self-assessment tax return: To claim extra tax relief, you can complete a self-assessment tax return. This can be done online, and the deadline for online tax returns is typically 31 January each year. Alternatively, you can contact the government directly to claim the tax relief.

Be aware of deadlines: If you choose to submit a paper return, the deadline will be earlier, usually 31 October. It's important to keep track of these deadlines and set reminders to ensure you submit your claim on time.

Receive your tax relief: Once you have claimed the tax relief, you will either receive it as a rebate at the end of the year or through an adjustment to your tax code. The specific method of receiving the relief may depend on your individual circumstances.

Additionally, suppose you didn't use your full pension contribution allowance over the previous three tax years. You can combine this unclaimed tax relief to make a one-off, large pension contribution. To meet the criteria, you must have contributed less than £40,000 to your pension last year (including tax relief), been a member of a pension scheme for the past three years and NRE (non-relevant earnings) would need to be sufficient to cover the contribution.

You can use your unused allowance to make a larger contribution this year. The annual pension allowance until 5 April 2023 was £40,000 per year. The annual pension allowance increased to £60,000 in July this year following the Spring budget changes. ◀

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WILL YOUR PLANS REMAIN ON TRACK THROUGHOUT YOUR RETIREMENT JOURNEY?
What do your retirement plans look like? We'll guide you through the various options to ensure your plans remain on track throughout your retirement journey. To find out more, contact us – we look forward to hearing from you.

Source data:

[1] Standard Life – Millions unclaimed pension tax relief – published 10/07/23.

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YOUR OWN PERSONAL CIRCUMSTANCES, INCLUDING WHERE YOU LIVE IN THE UK, WILL HAVE AN IMPACT ON THE TAX YOU PAY. LAWS AND TAX RULES MAY CHANGE IN THE FUTURE.

SAVING FOR THE NEXT GENERATION

TAKING PROACTIVE STEPS IN SECURING YOUR CHILD'S OR GRANDCHILD'S FINANCIAL FUTURE

Many parents and grandparents set aside money for the next generation to help with their financial needs. The rising cost of education, housing, and life in general, has created concerns about financial stability for future generations.

Increasingly, parents and grandparents want to ensure their children and grandchildren have the financial resources to navigate these challenges successfully. Additionally, a greater awareness of the importance of financial planning and wealth accumulation has prompted many individuals to take proactive steps in securing their children's financial futures.

INVESTING STRATEGICALLY

Starting early and investing strategically will enable you to provide a solid foundation for your child's or grandchild's economic wellbeing. The desire to give the next generation a head start in life and empower them to overcome any financial hurdles is a driving force behind why many parents and grandparents focus on setting aside money for children and grandchildren.

When considering the tax implications and how to arrange your affairs best, tax-efficient structures like Junior ISAs (JISAs) or bare trusts can be worth exploring.

PASSING ASSETS TO YOUNG PEOPLE

A bare trust is commonly used to pass assets to young people. In a bare trust, the assets are held in the name of the trustee (typically a parent or grandparent) until the beneficiary reaches a specific age, in this case 18.

On the other hand, a JISA has a current annual allowance of £9,000 (tax year 2023/24) and anyone can contribute to it. There is no limit to the amount that can be settled in a bare trust, while there are restrictions on JISAs, and a change of beneficiary is not allowed.

EXEMPT FROM INCOME OR CAPITAL GAINS TAX

Assets held in a JISA are exempt from Income or Capital Gains Tax, providing a significant tax advantage. However, taxes still apply to assets held in bare trusts. If the funds in a bare trust come from the parents, and the return is £100 per annum or more, the Income Tax will be applied to the parent.

If a grandparent contributes, the assets are taxed as belonging to the grandchild, usually resulting in a lower tax burden. Contributions to bare trusts and JISAs are potentially exempt transfers for Inheritance Tax purposes if the donor survives for seven years from the date of the gift.

PAYING FOR SCHOOL FEES

Regarding access to the funds, money can be withdrawn from a bare trust while the beneficiary is still a minor, as long as it is used for their benefit, such as for school fees. Conversely, funds cannot be withdrawn from a JISA until the beneficiary reaches the age of 18, but they can assume control of the account from the age of 16.

One common concern with JISAs and bare trusts is what happens when the child turns 18 and gains asset access. At this point, they have control over the funds, and there may be little that can be done if the money is misused.

SETTING ASIDE A PORTION OF SAVINGS

Trustees of bare trusts have a duty to inform the beneficiary about the trust's existence when they turn 18, and income from the trust should be reported on the beneficiary's tax return, making it difficult to ignore the trust's existence.

It's worth considering alternatives to JISAs and bare trusts, such as setting aside a portion of your savings for your children or grandchildren. More complex trust and inheritance arrangements are also available, and you should always obtain professional advice. ◀

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READY TO BUILD YOUR CHILD OR GRANDCHILD'S FINANCIAL FUTURE WITH SMART ADVICE?

Investing early for your children or grandchildren can give them a significant financial headstart. As the costs of private education, university, getting on the property ladder and weddings continue to grow, to find out more about investing for your children or grandchildren, please speak to us.

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MONEY AND DIVORCE

UNTANGLING YOUR FINANCES AND NAVIGATING THE FINANCIAL ASPECTS OF DIVORCE

Divorce is a complex process that often comes with various financial considerations, and preparing for a divorce is undoubtedly challenging, especially when it involves untangling your finances. The emotional strain can make it difficult to make clear-headed decisions, and the long-term consequences may not be immediately apparent.

It is crucial to carefully consider the financial aspects of divorce to ensure you can sustain the lifestyle you desire post-separation. It's desirable to seek legal and financial advice from professionals specialising in divorce cases. Our team is here to assist you in navigating the financial aspects of divorce.

HERE ARE SOME FINANCIAL CONSIDERATIONS

CREATE A LIST OF ASSETS

Create a comprehensive list of all assets, including properties, pensions, investments, businesses you own and other financial accounts. Include accurate valuations, and be sure to note down both joint and individual assets. Additionally, document your income and outgoings, both joint and individual, to clearly understand your financial standing. This will clarify what needs to be divided and help with accurate valuation.

BUDGET FOR THE FUTURE

Consider your post-divorce financial goals and plan accordingly. Start saving and budgeting in advance to align with the life you envision for yourself after the divorce. Remember that what you desire financially from the divorce may not necessarily align with the outcome. Obtain a copy of your credit report, especially if you anticipate needing a new mortgage or taking on new financial responsibilities. A credit report will provide insight into any joint lending or liabilities you may still be responsible for after the divorce.

CONSIDER THE DIVISION OF YOUR HOME

There are several options for dividing your home, such as selling it, one partner buying out the other's share or maintaining joint ownership until certain circumstances arise. It's important to consider the financial implications of each option. Keeping the home may be challenging, especially if managing mortgage repayments on a single income becomes difficult. Consult a financial professional to assess the financial viability of each option.

SEEK ADVICE ON SPLITTING PENSIONS

During divorce proceedings, it is essential to consider the division of pension savings, often overlooked in favour of other assets like the family home. Dividing pensions can have long-lasting effects on your financial security. There are two commonly used methods for dividing pensions during a divorce or separation. Pension sharing involves splitting one or more pensions between the separating partners. Alternatively, with pension offsetting, the value of the pension rights is balanced against other assets, such as property or savings. This approach allows for a more flexible and customised asset division based on the separating partners' unique circumstances.

EVALUATE SAVINGS AND INVESTMENTS

The process is usually straightforward when splitting cash savings accounts during a divorce. One partner can transfer money from their account to their ex-spouse's account. However, if you have Individual Savings Accounts (ISAs), you or your ex-spouse would need to withdraw the money first and then provide it to the other partner. It's important to note that dividing investments and savings may have tax implications and involve charges. Therefore, seeking professional financial advice is crucial to ensure that the division is done appropriately and is financially beneficial.

BE AWARE OF CGT LIABILITIES

Capital Gains Tax (CGT) may apply when transferring assets during a divorce. As of 6 April 2023, new rules have been implemented that extend the time frame for separating partners to transfer assets without incurring CGT. Under the new rules, you now have up to three years from the end of the tax year in which you separate to make these transfers without facing CGT liabilities. ◀

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NEED PROFESSIONAL ADVICE TO TAKE THE FIRST STEP TOWARDS A SECURE FINANCIAL FUTURE?

Regardless of your specific needs, we are committed to providing the support and guidance you require during this challenging time. We understand the complexities of divorce and finances and are here to help you make informed decisions. Contact us today to schedule a consultation and take the first step towards a secure financial future.

THIS ARTICLE DOES NOT CONSTITUTE TAX OR LEGAL ADVICE AND SHOULD NOT BE RELIED UPON AS SUCH. YOUR OWN PERSONAL CIRCUMSTANCES, INCLUDING WHERE YOU LIVE IN THE UK, WILL HAVE AN IMPACT ON THE TAX YOU PAY. LAWS AND TAX RULES MAY CHANGE IN THE FUTURE. SEEK PROFESSIONAL ADVICE.

PENSION DRAWDOWN

GREATER FLEXIBILITY IN ACCESSING YOUR PENSION FUNDS

Pension drawdown is a flexible way of taking income from your pension, introduced after the pension freedom rules in April 2015. Before that, the government limited how much income you could take from your pension unless you had other sources of income, and annuities were commonly used to provide a guaranteed income for life.

Nowadays, you have more flexibility in accessing your pension funds, allowing you to take as much or as little as you want. However, you must be aware of potential tax consequences if you withdraw the entire amount at once. Some individuals prefer to invest their pension funds for potentially higher growth rates rather than opting for annuities or a combination of both options.

SPECIFIC TAX IMPLICATIONS TO CONSIDER

It's essential to seek professional advice well before retirement to ensure that you have a clear understanding of your income requirements and how much you need to have invested to meet these needs. Doing so allows you to access your money in a way that suits your financial goals. Waiting until the last minute can make the process more challenging.

When accessing your pension, there are specific tax implications to consider. Once you reach the age of 55, you can take up to 25% of your pension completely tax-free. You don't have to take the full 25% in one go; many people choose to drip their tax-free cash out slowly. This allows them to benefit from continued growth in the remaining pension while regularly accessing a portion of their tax-free cash for tax efficiency.

WITHDRAWALS FROM YOUR PENSION

Uncrystallised pension lump sum rules apply to achieve this, and only 25% of each withdrawal is paid tax-free. It's important to note that any withdrawals from your pension, excluding the tax-free cash, are taxed at your marginal Income Tax rate. Therefore, caution is required before taking a lump sum from your pension. You could easily be pushed into a higher tax band if you withdraw a significant amount in a single tax year.

> **"WHEN ACCESSING YOUR PENSION, THERE ARE SPECIFIC TAX IMPLICATIONS TO CONSIDER. ONCE YOU REACH THE AGE OF 55, YOU CAN TAKE UP TO 25% OF YOUR PENSION COMPLETELY TAX-FREE."**

Obtaining professional financial advice will enable you to build assets within multiple tax vehicles alongside your pension to reduce your tax burden. By diversifying your income sources, you can effectively manage your tax obligations. ◀

READY TO DISCUSS YOUR RETIREMENT GOALS?

Pension drawdown allows you to access your money as and when needed within specific tax rules. You also need to ensure that your pension scheme supports flexi-access drawdown; if it doesn't, you may need to transfer your funds. To find out more, please contact us to tell us about your retirement goals and how we can help you.

A PENSION IS A LONG-TERM INVESTMENT NOT NORMALLY ACCESSIBLE UNTIL AGE 55 (57 FROM APRIL 2028 UNLESS THE PLAN HAS A PROTECTED PENSION AGE).

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.

YOUR OWN PERSONAL CIRCUMSTANCES, INCLUDING WHERE YOU LIVE IN THE UK, WILL HAVE AN IMPACT ON THE TAX YOU PAY. LAWS AND TAX RULES MAY CHANGE IN THE FUTURE.

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