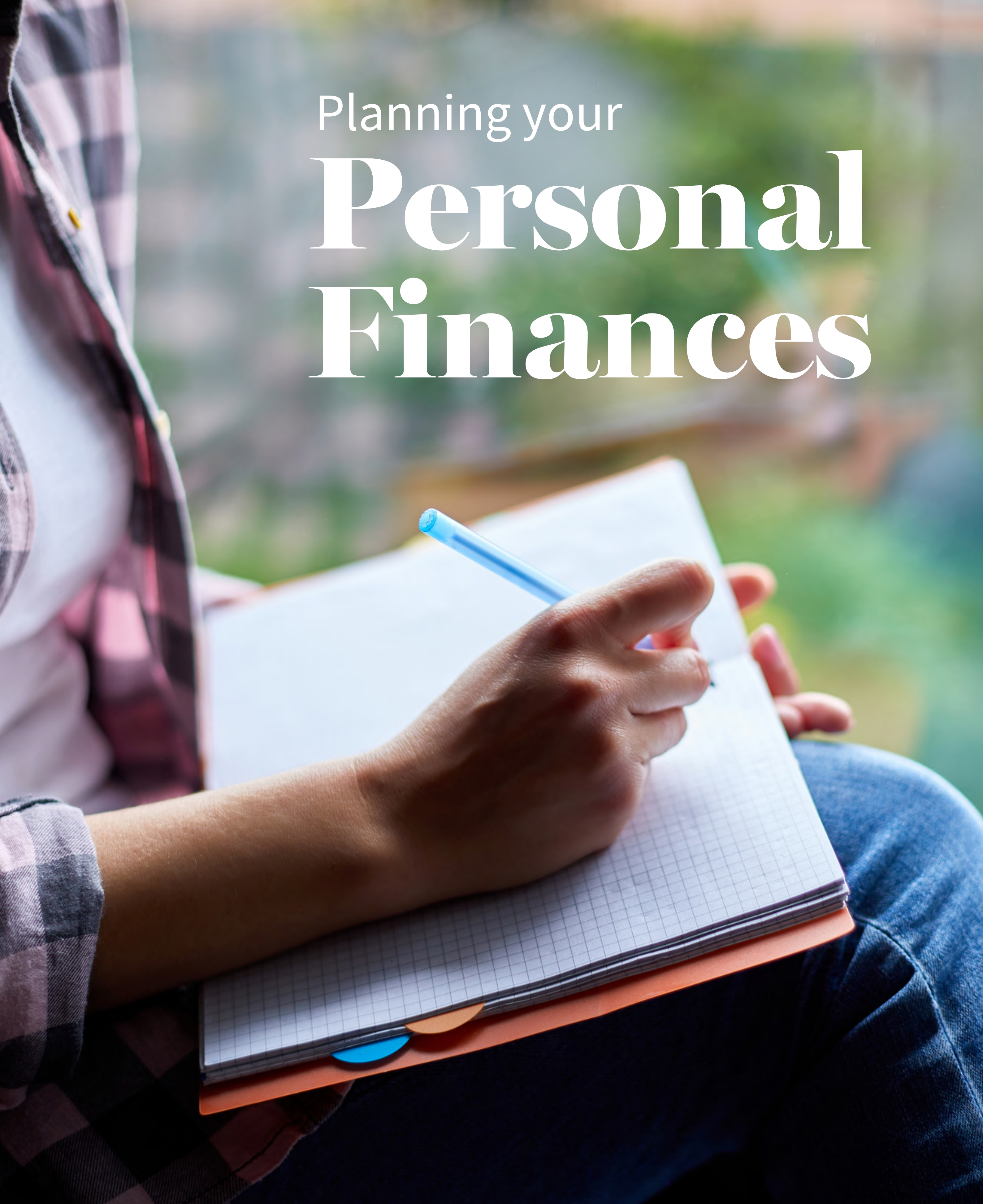
Planning your

Personal Finances



Forrester Boyd
CHARTERED ACCOUNTANTS

Make the most of planning opportunities.

From planning for your children's future to planning your retirement

Tax and financial planning may not be the first activity of choice for many people, but if you want to ensure that you are making the most of your hard-earned cash and that your family will enjoy financial security into the future, it is essential to plan ahead.

As well as helping to minimise your tax liability and providing for the needs of you and your family in the longer term, effective personal financial planning can help to ensure that you are covered in the event of an accident or change of circumstances.

Financial planning for your family

The basic principles

Each member of your family is taxed as an individual, with personal allowances and exemptions.

With the right circumstances and careful planning, a couple with two children could have income and gains of at least £99,480 tax-free for the tax year ending on 5 April 2023.

Most capital gains are taxed at 10% or 20%, with exceptions including gains attracting Business Asset Disposal Relief (formerly known as Entrepreneurs' Relief) and Investors' Relief (IR) (10% tax rate), gains on residential property that do not qualify for private residence relief and gains covered by the annual exemption or other reliefs.

The fundamental rules are:
- make the most of tax-free opportunities
- keep exposure to marginal tax rates as low as possible
- maintain a spread between income and capital.

"Make the most of tax-free opportunties"

Five personal planning pointers

ONE	**Moving capital** Planning is often hindered by the potential for tax charges to arise when assets are moved between family members. We can advise you on how to reduce your overall marginal tax rates by transferring assets between spouses* and children in a tax-efficient manner.
TWO	**Generation skipping** Income from capital gifted by grandparents or more remote relatives may be taxed as the child's. Regular savings through deposit accounts can also help.
THREE	**Marriage breakdown** There are cases for and against making transfers as quickly as possible after separation. Check with us for the most appropriate course of action.
FOUR	**Your remuneration package** There are ways to improve your net pay, other than asking for a rise. Are you making the most of current benefits regarding pensions, company cars and expenses and other benefits such as medical cover?
FIVE	**A Will** As well as ensuring that you have adequate insurance cover with life assurance perhaps written into trust, you also need to make a Will. You will need to keep it under regular review to ensure it reflects changes in your family and financial circumstances.

Saving to provide for a financially secure retirement

With the basic annual state pension and new state pension relatively low, you will almost certainly need additional sources of income. For most people, saving to provide for a comfortable and financially secure retirement includes tax-efficient investments in an appropriate form of a company pension scheme or private pension policy.

Your personal planning strategy will be determined by a number of factors, including:

- how long you have before retirement
- whether you are employed or self-employed
- the terms of an employer-provided pension scheme
- how much you are able to invest for your retirement.

employer pensions

This may take the form of a final salary scheme, which pays a retirement income related to the amount earned when you stopped working, or a money purchase scheme, which reflects the amount invested and the underlying investment performance. Employers have a duty to provide a workplace scheme due to auto-enrolment legislation.

SIPPS

Self Invested Personal Pensions (SIPPs) give you greater flexibility over how funds are invested. With Pension policy being an area under constant review by the government, this may have implications for your pension savings. We would recommend that you consider a parallel savings strategy to build readily-accessible savings outside your 'pension pot', such as ISAs.

personal pensions

If you only have a minimum contribution auto-enrolment scheme from your employer, you should consider the merits of making additional contributions to the auto-enrolment scheme or a private pension. If you are a higher rate taxpayer, your investment will, subject to limits, qualify for tax relief at 40%.

lifetime ISA

The Lifetime ISA provides another way of saving for retirement. Available to any adult under the age of 40, individuals can deposit up to £4,000 each tax year. Savers receive a 25% bonus from the government for every pound they put in, up to the age of 50. Various rules apply.
** where applicable, 'spouses' also includes civil partners.*

Investments

Make the most of your investments

Growing your savings and being able to retire when and how you want will probably be one of your most important financial objectives, but achieving this goal takes planning and commitment.

Paying tax on your savings and investment earnings should be minimised or avoided if possible.

There are a number of investment products that provide tax-free income, including ISAs and some National Savings products.

Other savings options include investment bonds, bank and building society accounts, stocks and shares, and of course, bricks and mortar. In certain circumstances some of these investments may be preferable to investment in pension schemes.

Investments under the Enterprise Investment Scheme (EIS) or Seed Enterprise Investment Scheme (SEIS), Venture Capital Trusts (VCTs) and Social Investment Tax Relief (SITR) may also be worth considering if you are happy that the tax breaks they offer outweigh the possibly higher investment risk.

"Make sure you keep your estate plan tax-efficient and up to date"

Making the most of gifts

It could be said that the art of inheritance tax planning is to give away as much as possible during your lifetime, while still ensuring that you have enough left for a comfortable lifestyle in retirement. We can help you create a tax-efficient gifting strategy to achieve your personal goals.

Who do you want to benefit from your wealth?

Inheritance tax is a concern for more and more families. Effective estate planning is vital to ensure that your assets will go to your chosen beneficiaries. When making your estate plan, consider the following factors:

- Who do you want to benefit from your wealth?
- This may include your spouse or partner, children, grandchildren and any charities you may wish to include.
- Should assets be placed into a trust, restricting access to income and/or capital?
- How will the business be passed on?

Inheritance tax (IHT) is currently payable where a person's taxable estate is in excess of £325,000. Therefore, if you own your own house and have some savings, your estate could be liable.

The good news is that there are a number of allowances and strategies that may help to reduce your IHT liability such as utilising the residence nil-rate band, which was introduced with the intention of enabling a 'family home' to be passed tax-free on death.

It is important to remember that planning to minimise your IHT liability is a team effort, so the sooner you enlist professional help and support, the better.

What does it mean for you - and your family?

When you die, tax will be payable on the combined value of your death estate and any gifts made in the preceding seven years which have not qualified for any of the lifetime gift reliefs.

The tax is payable from your estate, so if you want to make sure that the taxman's slice is kept to a minimum, you need to start planning now.

How we can help

We can help you put together a personal plan for minimising the IHT on your estate, using one or more of the following key strategies:

- gifts in your lifetime, including trusts
- a tax-efficient Will
- life assurance.

Effective IHT planning

It could be said that the art of IHT planning is to give away as much as possible during your lifetime, while still keeping enough to ensure that you and your spouse can live a comfortable and fulfilling retirement.

The full rate of tax is 40% on the estate value in excess of £325,000. Taxable gifts made up to seven years before death are added back into your estate and tax is calculated on the inclusive value. But to the extent that such lifetime gifts made between three and seven years before death exceed the tax threshold, the associated tax is discounted by up to 80%.

To enable long-term objectives to be met, it is necessary to start making decisions about your finances and your family now. The earlier you start planning, the better.

What you need to consider

Your assets and your estate
Your 'estate' means everything you own. This will include: your home and land; your business; shares and securities; cash; savings accounts; antiques; collections; and anything else with any value. Any legally incurred liabilities you have will be deducted, such as: mortgages; overdrafts; loans; outstanding bills; and even funeral costs.

Your financial security
You need to make sure that you and your spouse are properly provided for, particularly in retirement. It wouldn't make sense to give assets to your children, to discover you later need to ask for some or all of them back.

Your family's future needs
You need to think about what degree of control you want your children to have over any assets you may transfer to them. You also need to consider how much your spouse would need if you were to die first. This would, of course, have to be reflected in your Will. You would also need to find out the intentions of parents or elderly relatives regarding their own assets.

IHT Strategies

The nil-rate band

The nil-rate band means an IHT rate of nil is applied to the first part of your taxable estate, which falls within the £325,000 band. For married couples and civil partners, the unused percentage of the nil-rate band from the first death estate is carried forward and added to the nil-rate band available to the second.

The residence nil-rate band

The 'residence nil-rate band' (RNRB) applies where a residence is passed on death to direct descendants, such as a child or a grandchild. The RNRB is set at £175,000 for 2021/22.

The additional band can only be used in respect of one residential property which has, at some point, been a residence of the deceased. Unused nil-rate band may be transferred to a spouse/civil partner.

There will be a tapered withdrawal of the additional nil-rate band for estates with a net value over £2 million (at a withdrawal rate of £1 for every £2 over this threshold). Please note, however, that this £2 million limit does not take into account any business or agricultural reliefs.

Four IHT planning pointers

1	**Transfers between spouses** Transfers of assets between spouses are exempt from IHT. This includes both lifetime transfers and transfers made on death. Other lifetime gifts may be more tax-efficient – but there are restrictions if one spouse is non-UK domiciled.
2	**Lifetime gifts** Many smaller or regular lifetime gifts are exempt from IHT, larger gifts may become exempt after seven years. A strategy of making gifts in your lifetime can substantially reduce your taxable estate on death. You can also take out life insurance to cover any IHT which might be due following your death within seven years of making larger gifts. However, potential capital gains tax must be taken into account with this option.
3	**Trusts** Trusts allow you to make gifts without giving the recipient complete control over the asset and/or the income it generates. Gifts into trust may result in an IHT liability, depending on the nature, timing, and terms of the gift, and the value of other chargeable gifts in the preceding seven years. Ten-yearly and exit charges may also arise. You could create a discretionary trust in your Will to allow trustees to decide how assets should be distributed, given a (non-binding) letter of wishes and taking into account all relevant circumstances at the time. This option has the advantage of deferring all capital gains tax charges.
4	**Private pension funds** Unused funds in private pension plans can be passed directly to beneficiaries without being included in your chargeable estate at death. In addition to no IHT being due, the unused funds may, in some situations, be accessed free of income tax by beneficiaries. Therefore it may be better to spend non-pension assets in one's lifetime rather than access pension funds.

Your business

In general, a business you control will attract business property relief of 100%. Your business can be passed on with no IHT payable. Assets owned by you but used by a partnership in which you are a partner, or a company you control, attract business property relief of only 50%. Similar reliefs apply to agricultural property.

Your Will

A well-drafted Will can ensure that your wealth benefits the right people on your death – and it can also be structured to save tax. It is important to review your Will regularly, particularly following significant changes in tax law, such as the introduction of the RNRB.

Charitable giving

Generally, all gifts to charity are exempt from IHT. This includes outright gifts and transfers into charitable trusts, although foreign charities are excluded. It is worth noting that it can be more tax-efficient to make a tax-free gift from your estate than for a gift to come from a beneficiary's share of the after-tax estate. A reduced rate of 36% can apply to death estates, where 10% or more of the net estate is left to charity.

Make the most of your investments

Please make good use of us. This guide is designed to help you identify some of the areas that could have a significant impact on your Personal planning.

Do talk to us early for help in taking advantage of tax-saving opportunities. We will be delighted to assist you.

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