



# The Premier Partnership Limited

## Your Family Office



# News LETTER

## Taxation Need Not Be Taxing .... But Relaxing

Hello and welcome to our Summer Newsletter, which as you can see from our descriptive headline is all about tax planning.

Taxation is the subject of the moment with The Chancellor facing the age old problem of more money going out of the Treasury than there is coming in (nothing new there!). With more planned spending on the NHS/Defence/ Education/Local Government etc, something has to give, and that means only one thing - we will all end up paying more tax. So expect further tax rises in the Autumn Budget - despite those famous manifesto pledges. The major tax income providers are direct taxes, such as Income Tax, Capital Gains Tax and National Insurance. Indirect taxes include VAT, Stamp Duty and Excise Duty. Taxes for business people include Corporation Tax, Tax on Dividends, Tax on business disposals and finally, other taxes such as Council Tax. So quite a range to have a go at if you need to raise money. We are not going to comment on all of these, but there are still ways to mitigate taxation, and the easiest follow is the mantra:

### USE YOUR ALLOWANCES

As with the above list, there are too many allowances to comment fully on, but the main ones are:

Personal Allowance - Income Tax £12,570

Capital Gains Annual Exemption - CGT £3,000

Dividend Allowance - First £500 exempt on dividend income.

Inheritance Tax - Nil Rate Band £325,000

Residence Nil Rate Band - £175,000 exemption per person on main private residence.

Pension Contribution Allowance - £60,000

All of the above help you save tax, so during your adviser discussions, make sure you are using them.

### The Importance of Advice

Helps the client to understand choices

To make choices and decisions

To deliver optimum outcomes

The above is true following any fundamental personal, market and/or taxation changes.

# The Anxiety of Retirement

**Taxation issues have suddenly loomed large into the previously quiet and subdued (from a taxation viewpoint) world of pensions, which is causing anxiety over:**

Saving into pensions for retirement

The use of pensions in retirement

The taxation of pensions on death

The anxiety brought on by the above is 'Will I have enough money?'

In a recent study by investment company ABRDN, the results showed that 58% of people feel anxious about the amount they have saved, and around 60% of people seriously underestimated what their pension will give them in retirement

There are too many variables for advisers to be able to produce a 'magic number' for clients to say 'that is what you need', and that is why pension planning is only part of the overall picture that could include other assets for use such as property, cash, other investments or even inheritances. Therefore the foundations upon which decisions can be made always seem to be shifting beneath our feet.

It is important to understand what fuels retirement anxiety and ways to take back control. Our experience of client retirement has three phases:

## Euphoria

Stopping work with all the freedom to plan and do what you want to do.

## Reality

The realisation that after years of saving and watching your savings grow, you are now decumulating and finances tighten.

## The New Normal

An acceptance of retirement living with renewed vigour and purpose with life settling into a more sustainable and consistent pattern.

So, create a plan based on your own personal circumstances, not someone else's idea of retirement.

Understand your spending and outgoings and highlight potential future expenditure, such as weddings etc.

**Review progress - essential.**

Finally, one tip, if you want a very broad estimate of what your personal pension savings may bring you in income, multiply the value by 6% i.e. £200,000 value x 6% = £12,000 per annum income.

The above is approximate and depends upon individual circumstances and health. Defined benefit scheme (Final Salary) forecasts will differ, so as always when in doubt about planning - Ask Us!

**"You are never too old to set a new goal, or dream a new dream"**

*C.S Lewis*

Tax Alpha is the result of maximising appropriate use of available reliefs, exemptions, allowances and tax efficient investments to enhance financial wellbeing, and is delivered through:

**Contextual knowledge + Specific Know-How**



# Tax Advantaged Investments

What are tax advantaged investments? Well, for example, pensions and ISA's are 'tax advantaged' investments, but in this article we will look beyond our usual comments on the above and instead at the Business Relief rules, and what tax advantages the use of such wrappers can bring.

## **Please Note:**

Business Relief, Venture Capital Trusts, Enterprise Investment Schemes and AIM Listed Inheritance Tax Services are all classed by the Financial Conduct Authority (FCA) as high risk investments.

However, it is important to consider those risks in context. This starts with a clear understanding of what such tax advantaged investments offer to a client or portfolio, and how they may be applicable to a client's overall objective and attitude to risk.

## **Overview**

A tax advantaged investment is a Government Approved scheme that offers tax reliefs to encourage individuals to invest in either qualifying companies or particular investment vehicles.

The most well known of these, as mentioned above, are Pensions and ISA's. Both offer tax reliefs to encourage people to save for the long term.

## **Business Relief (Formerly Business Property Relief)**

Business Relief (BR) has been an established part of Inheritance Tax (IHT) planning since 1976, and was originally designed to allow family businesses to pass down generations without undue or unfair taxation. Over time, these rules evolved, and in 1995 The Government extended the rules to include shares held by individuals on death in the Alternative Investment Market (AIM).

Through BR, the deceased's estate can claim IHT relief on shares and investments held in a BR qualifying investment, after a holding period of just 2 years, providing the investment is still held at the time of death.

## **What else is available?**

## **Venture Capital Trusts (VCT)**

Introduced in 1995 a VCT invests in early stage companies that meet the qualifying criteria for VCT funding.

## **Tax Incentives**

- ⇒ Up to 30% income tax relief on the amount invested in the applicable tax year.
- ⇒ No income tax to pay on VCT dividends.
- ⇒ Gains made by VCT's are exempt from Capital Gains Tax.
- ⇒ Maximum Investment £200,000 per annum.

## **Enterprise Investment Scheme (EIS)**

Introduced by The Government in 1994 to encourage start up business in their very early stages of development. Due to the concentration of small individual companies, EIS are considered to be higher risk investments than the more broad based VCT investments.

To compensate for a higher risk on the investment, there are greater tax advantages offered.

## **Tax Incentives**

- ⇒ Up to 30% income tax relief on the amount invested which can be offset against tax paid in the current or previous tax year - EIS shares must be held for a minimum of 3 years to qualify.
- ⇒ Up to 100% IHT exemption if held for a minimum of 2 years prior to death.
- ⇒ Investment gains are free from CGT - if Income Tax relief has been claimed.
- ⇒ CGT deferral relief for up to 3 years prior to investment being made.
- ⇒ Losses on investments sold can be claimed up to highest marginal income tax rate.

## **Wealth Warning**

**Capital is at risk in the above investments and the values may go down as well as up.**

## **Summary**

Not for every investor, but as this is a tax planning brochure, we thought we should mention them.



# Intergenerational Planning

$$\begin{array}{ccccccc} \textbf{Wealth} & & \textbf{Wealth} & & \textbf{Wealth} & & \\ \textbf{Creation} & + & \textbf{Preservation} & + & \textbf{Transfer} & = & \textbf{Success} \\ \text{Income Tax} & & \text{Income Tax} & & \text{Inheritance Tax} & & \\ \text{CGT} & & \text{CGT} & & & & \end{array}$$

The above is the 'Lie of the Land'. Understand it and implement it, and you will end up in the box of 'Success'. You will have passed your wealth and estate successfully to a younger generation in the most efficient way possible.

The IHT allowance is £325,000 per individual. It has been frozen at that level for nearly 10 years, and is still at the same level it commenced at in 2009. If indexed to CPI, the allowance would now be £510,000.

We have mentioned earlier the personal allowance via which wealth can be transferred, so what else can be used to get wealth out of an individual's estate and down to the next generation?

## The basic rules are:

- **Have a valid Will**
- **Use exemptions**
- **Make lifetime gifts**

## Use appropriate vehicles such as Trusts

Before money is passed down, a huge proportion will be transferred under spousal exemption status between husband and wife. The inheriting spouse typically holds onto the value for approximately 7 years before passing it on, where appropriate and applicable.

As always with planning, one size does not fit all, and the use of the correct tax wrapper in the accumulation phase of planning can strongly affect the final amounts inherited which are then finally passed on. So do you use a collective fund in an ISA, an offshore/onshore investment bond, just an ISA - or is it pension and ISA? All have their place and your accumulation planning should reflect that.

## Estate Planning Fundamentals

- 1) Review Wills and ensure they are accurate, reflect your views and are up to date.
- 2) If you have recently (up to 2 years) inherited and find you do not need the income/capital, consider the use of a Deed of Variation.
- 3) Maximise all exemptions.
- 4) Utilise correct tax wrappers, such as ISA/Bond/Pensions.
- 5) Consider making transfers of capital to reduce estate value.
- 6) Review current pension provision and usage given pension taxation changes.
- 7) Use appropriate Trust based IHT solutions where cash or investments are available and/or access to income or capital may not be required.
- 8) Consider the use of investment into relievable assets such as VCT, EIS etc. Consider the use of life assurance to cover potential residual liability for Inheritance Tax.
- 9) Review your ongoing plan.



Common Trust types used with investment bond

**Gift Trust**

May be absolute or discretionary

Settlor gives up access to investment

Gift will be a Potentially Exempt Transfer (PET) (if absolute trust) or Chargeable Lifetime Transfer (CLT) (if discretionary)

Discretionary based arrangements offer additional benefits of control, flexibility and asset protection so are more common place

Usually there will be a pre-defined, widely-drawn class of beneficiaries that will include Settlor's widow, children and grandchildren

Typically used to make provision for children or grandchildren

**Loan Trust**

Usually discretionary based

No/nominal gift made - instead settlor makes loan which trustees invest in bond

Loan remains part of settlor's estate for IHT and succession purposes

Investment growth accumulates outside of estate for beneficiaries excluding settlor

Investment frozen at initial value for IHT purposes, but estate will reduce to the extent that loan repayments are made and spent by settlor as income

Typically used where settlor requires access to investment for income, or gifting unviable

**Discounted Gift Trust**

Typically, discretionary based initial gift will be a CLT but no IHT if below nil rate band

Settlor retains overriding right to fixed annual payments with no other access

Plan provides immediate reduction in estate for IHT purposes (equal to actuarially calculated value of retained rights) with gifted amount outside estate after 7 years

After death of settlor, trust fund held for wide range of beneficiaries

Typically used where settlor wants to mitigate IHT but requires an income from their investment

**Income Tax Allowances**

(UK taxpayers - excluding Scottish taxpayers)

Tax Year/Allowance	2024/25	2025/26
Personal allowance	£12,570	£12,570
Income limit for personal allowance	£100,000	£100,000
Personal savings allowance for basic rate taxpayers	£1,000	£1,000
Personal savings allowance for higher rate taxpayers	£500	£500
Dividend allowance	£500	£500
Property allowance	£1,000	£1,000
Trading allowance	£1,000	£1,000
Standard tax code	1257L	1257L

The personal allowance for the 2025/26 tax year remains at £12,570, the standard amount of income an individual can earn before paying income tax. This allowance begins to reduce by £1 for every £2 of adjusted net income over £100,000.

Additional allowances, such as the dividend allowance (£500) and savings allowance (£1,000 for basic rate taxpayers), remain unchanged.

**Income Tax Rates & Thresholds**

Tax Year/Allowance	2024/25	2025/26
Starting rate for savings income only	0%	0%
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	45%	45%
Dividends - basic rate taxpayers	8.75%	8.75%
Dividends - higher rate taxpayers	33.75%	33.75%
Dividends - additional rate taxpayers	39.35%	39.35%
Threshold of taxable income above which higher rate applies	£37,700	£37,700
Threshold of taxable income above which additional rate applies	£125,140	£125,140

Income tax rates and bands remain steady for 2025/26. The basic rate of 20% applies to taxable income up to £37,700, while income above this amount up to £125,140 is taxed at the higher rate of 40%. Income above £125,140 is taxed at the additional rate of 45%. Dividend income is taxed at lower rates, depending on your income band: 8.75% (basic), 33.75% (higher), and 39.35% (additional).

These tax rates and thresholds help define how much income tax you pay each year.

# Your PPE

## Proactive Positive Engagement

### Investment Bonds

Investment bonds - also known as Life Assurance Investment Bonds - are issued by Life Assurance companies. You give an amount of capital to a life assurance company and the capital is invested into stock markets via investment funds. Investment bonds for tax purposes are classed as a 'single premium life assurance policy' because a portion of the 'life assurance policy' is paid out upon death - but really they are an investment product. Investment bonds fall into two categories, onshore and offshore, and both have different taxation effects on UK residents.

**Onshore bonds** being issued by a UK Life Assurance company are subject to UK Corporation Tax which is offset to the investor by the providing company.

**Offshore bonds** are issued by non-UK life assurance companies, and because they are outside the UK, the returns roll up gross inside the bond.

UK investment bonds (onshore) are non-income producing investments and so have a different tax treatment from other UK based investment wrappers. This tax treatment can provide valuable and advantageous tax planning opportunities for individuals.



## Tax Magic

You can withdraw up to 5% per annum of the amount you have paid into your bond initially without paying any immediate tax on the payment received. As the bond pays tax via the providing company the investor would only pay tax on payments received if the individual is a higher rate tax payer in the year the payment is received. Then the tax rate would be the difference between basic and higher rate personal taxation. Any payment from the bond is treated as 'tax deferred' and can be deferred for up to 20 years. For example, if you are planning retirement and you are currently a 40% tax rate payer - but you know in retirement you will only be a 20% tax payer, then defer withdrawals until retirement, and then make withdrawals - tax paid!

Offshore bonds are issued from companies operating in areas such as The Channel Islands or Isle of Man. Offshore investment bonds are similar in structure to UK onshore bonds, but their tax structure and treatment is different. With an onshore bond, tax is paid on the gains made within the bond. With an offshore bond, no income or capital gains tax is charged (allowing for faster rollup of growth). However, the bond may suffer withholding tax dependant upon issuing jurisdiction. The main difference is that whilst you do not suffer tax within the bond itself, you will pay income tax at your highest marginal rate on any gain created within the bond.

**So two very different and distinct tax advantages from essentially the same structure. An investment bond therefore could be a potentially tax efficient way of holding a range of investment funds in one place.**

## Which Wrapper Should I Use?

Marginal Income Tax Rate	Nil 0%	Basic 20%	Higher 40%	Additional 45%
<b>Equity dividends:</b>				
Collective fund <sup>1</sup>	0.00	8.75	33.75	39.35
UK Bond	0.00	0.00	20.00	25.00
Offshore bond <sup>4</sup>	0.00	20.00	40.00	45.00
<b>Equity gains:</b>				
Collective fund <sup>2</sup>	0.00/18.00	18.00	24.00	24.00
UK Bond <sup>3</sup>	20.00	20.00	36.00	40.00
Offshore bond <sup>4</sup>	0.00	20.00	40.00	45.00
<b>Fixed Interest distributions:</b>				
Collective fund	0.00	20.00	40.00	45.00
UK Bond	20.00	20.00	36.00	40.00
Offshore bond <sup>4</sup>	0.00	20.00	40.00	45.00
<b>Fixed Interest gains:</b>				
Collective fund <sup>1</sup>	0.00/18.00	18.00	24.00	24.00
UK Bond <sup>3</sup>	20.00	20.00	36.00	40.00
Offshore bond	0.00	20.00	40.00	45.00

The combined tax yield at fund level and then on the net result at investor level when amounts are taken from the investment.

1 First £500 pa tax free then taxable if in excess of available Personal Allowance (PA).

2 First £3,000 pa tax free, 18% on balance.

3 Possible lower overall rate if life company reserves/accounts for tax on capital gains at a rate lower than 20%.

4 Personal Savings Allowance/0% starting rate tax free then taxable if in excess of available PA.



# Why Are Wills Important?

Your Wills should not only exist - they should be reviewed regularly and updated if necessary. Remember, you may not need to create a completely new Will for small amendments to your Will, a simple Codicil can be all that is required. So discuss with us at your next meeting. Our Will service is competitive in pricing and we can store your Will for you.

**Appropriate provisions in your Will can:**

- Provide control over who will inherit and when.
- Allow your choice of individuals who will administer your estate as your Executors.
- Maximise the use and availability of IHT Nil Rate Band and Residence Nil Rate Band for tax.
- Can provide arrangements and protection for minors.
- Establish Trusts if required on death.
- Can provide support for charities.
- Make Inheritance Tax savings.
- Can accommodate second/alternative marital arrangements for direction of family wealth.

Your Will is as important a planning tool, as is the planning to create the wealth in the first place. An old, or incorrectly drawn up Will can be costly in the tax stakes. If your Will was drawn up prior to the changes to shared IHT and residency allowances (2007/8 Tax Year) you need to review your Will, especially if, at the time, you were advised to change ownership of your main residence to 'tenants in common'. Ordinarily homes in the UK are purchased in joint names, but prior to 2007/8, many Wills were written changing this norm - ostensibly, and correct at the time - to save the main personal Inheritance Tax allowance from being lost on death. In 2015, the Residence Nil Rate Band (RNRB) was introduced, to further extend allowances to surviving spouses, and also to widows/widowers. If your current Will creates a Trust on first death, to give benefit to the surviving spouse for their lifetime, this will alleviate the inheritable nature of the above allowances, and experience tells us these 'Will Trusts' are not only misunderstood, but can cause considerable confusion at a later stage if the surviving spouse wishes to sell the former marital home, and/or utilise the property in some way for ongoing cost of living requirements.

**It is worth a look. Your Will is important - check it today!**



Please remember that past performance is not a guide to future performance. The value of investments and the income from them can go down as well as up and investors may not get back any of the amount originally invested. Exchange rate changes may cause the value of overseas investments to rise or fall.

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