The Premier Partnership Limited

Your Family Office

NEWSLETTER

Hello again, and welcome to the Spring Newsletter. There has certainly been a lot of activity from 'across the pond' that has been having an effect on global stock markets and portfolio returns. For more instant comment on market activity, please make sure you receive the monthly Investment Report via email and tune into 'Nigel's Blog' via our client portal for (sometimes) daily updates as and when we think comment is needed on markets. If you are not in receipt of either of these, please let the team know and they can arrange.

Spring Statement (Budget)

Indeed, a Budget by any other name will be with us on 26 March, and rest assured we will let you know of any significant events and effects that arise from Rachel's comments.

This does of course remind us that the tax year end is nigh, so let's rundown our usual checklist of things that may need attention.

Maximise Free Government Money

Whether it's your pension, your Lifetime ISA or ensuring you claim tax breaks that you're eligible for, it's important to get as much free Government cash as you're entitled to. Pensions benefit from tax relief at 20% for basic rate taxpayers, but higher and additional rate payers can reclaim an additional 20% or 25% tax relief respectively through their tax return. That means for a basic rate taxpayer, every £1 in your pension only costs you 80p and for a higher rate taxpayer every £1 in your pension only costs you 60p.

Anyone using a Lifetime ISA can also get up to £1,000 of free money from the Government each year, if you put in the maximum £4,000 contribution. So, if you have some spare cash you were planning to put into your Lifetime ISA and still have some of this year's allowance left, make sure you do it before the tax year end on 5 April and claim that free cash.

Just be aware that you can withdraw Lifetime ISA money once you've reached age 60 or earlier to buy your first property, but if you take the money out for any other reason (apart from severe ill health) you'll pay an exit penalty of 25%.

You should also check that you're claiming any Government tax breaks that you're eligible for, such as the marriage allowance or claiming tax-free childcare, which gives a 20% top-up to money you use for childcare.

Use Your ISA And Pension Annual Allowances

ISAs and pensions are a great way to save for the future because any income and capital gains made on investments held in both are free from income tax and capital gains tax.

Everyone over the age of 16 can save £20,000 each year in a cash ISA and anyone over the age of 18 can save the same amount in a Stocks and Shares ISA. Those aged 18 to 39 can open a Lifetime ISA and save up to £4,000 each year.

The crucial thing with ISAs is if you don't use all the allowance, it can't be carried forward to future tax years, so you lose it for good. Investors with spare money they plan to save, and have any unused ISA allowance for this year, should consider using it before the 5 April deadline.

The pension annual allowance for this tax year is £60,000 - this includes both contributions made by you and your employer. The annual allowance can be carried forward for up to three years, so investors should consider whether they have made as much use of their pension annual allowance as possible ahead of the end of the tax year. Just be aware, anyone with a very high income or who has already started to take taxable income from their pension will have a restricted annual pension limit.

If you want to carry forward any previously unused pension allowance, you will need to note that you will only get tax relief on personal contributions up to 100% of your earnings for that year. People with no earnings (including children) can still save up to £3,600 a year in a pension (including basic rate tax relief).

Shelter More Of Your Investments From Tax

If you've got investments outside of your ISA you can use something called "Bed and ISA" to funnel them into an ISA and protect them from tax. You need to check you've got some of your £20,000 ISA allowance left, and then use a Bed and ISA service, which means the investment outside of the ISA is sold, the proceeds moved into an ISA and used immediately to purchase the same investment within the ISA. We can arrange this for you.

You just need to be aware that if you've made any gains on the investment outside an ISA, you may have to pay tax on them when you sell them as part of this process. For this reason lots of people sell enough of the investment to take them up to their capital gains tax free allowance of £3,000.

Beat The Dividend Tax Rise With Your ISA

People with lots of income-producing investments outside an ISA or pension will face a higher tax rate this year, if they earn more than £500 in dividends in a tax year. That means any dividend income you get above this amount is taxed at 8.75% for a basic rate taxpayer, 33.75% for a higher rate taxpayer or 39.35% for additional rate taxpayers. This means that it's more beneficial than ever to put your income producing investments inside an ISA, to protect them from tax. You can use the bed and ISA process to move assets into an ISA, but if you have too many investments to move them all in one tax year you should prioritise the ones paying the highest amount of dividends.

Set Up Regular Investing – To Take The Hassle Out Of Saving

Lots of people have a 'to do' list as long as their arm, meaning there is inevitably things you don't get around to doing. But if you set up regular investing, that ticks something off, and takes the hassle out of saving money each month.

You can easily set up a direct debit that will automatically transfer the money into your investment account each month (maybe on payday) and then set up regular investing on your platform, which will automatically buy the funds or shares you've chosen. Many investment platforms will allow you to start from as little as £25 or £50 a month. You can always pause it one month if you need to skip a month, but it means you don't have to actively log-in and invest money every month. What's more it can help to smooth out any short-term volatility. If stock prices fall, you are investing at that lower price and could benefit even more over the long term if prices rise.

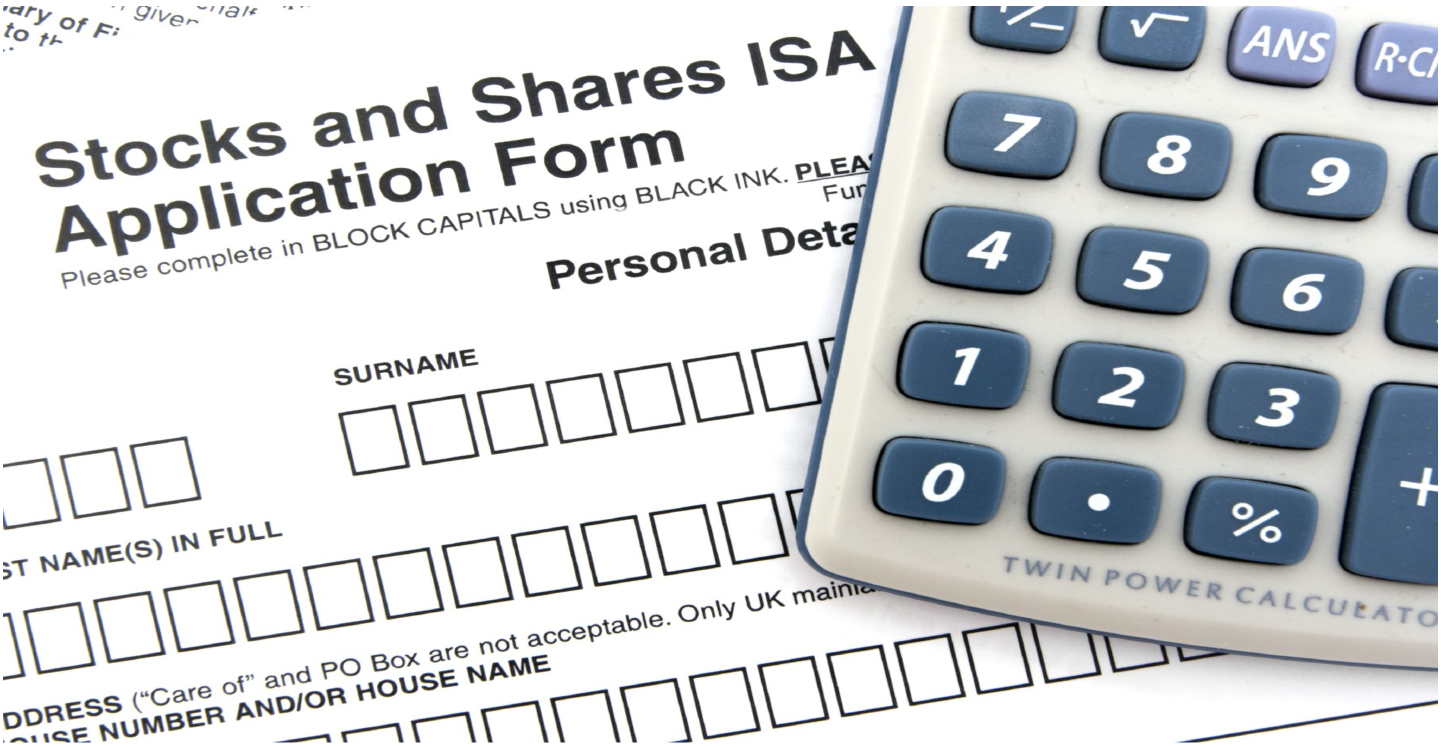
Set Up Automatic Dividend Reinvestment

Any dividends from investments in your ISA can be withdrawn tax-free, but if you don't need the income now you could use them to turbo charge your returns. If you reinvest them you can buy more units in the same investment, which can have a dramatic impact on the size of your ISA fund over the long term.

This is because when you buy more units each time you receive a dividend, you then receive more dividends next time there is a payout, which can then be reinvested again and so on. Some investment platforms allow you to set this up to happen automatically.

Let's assume someone invests the full ISA allowance of £20,000 and we assume a compound annual growth rate of 5% and annual dividend yield of 4% a year. The initial £20,000 will be worth £53,066 after 20 years, and on top of that £26,453 would also have been banked in cash dividends, to give a total return of £79,519. However, an investor who reinvests the dividends rather than banking them would have £112,088 – more than £32,500 extra. The figures become even more attractive over longer periods.

Einstein called compounding investment returns the '8th wonder of the world'.



Tackle The Inflation Bogeyman

Inflation is most savers' biggest worry at the moment, with the bigwigs at the Bank of England expecting it to peak in April at 4.0%. And it's not just a flash in the pan, the Bank is predicting it will still be above 4% in a year's time.

Alongside that, interest rates are still historically very low. That means any money held in cash is not keeping pace with inflation, so its spending power is being eaten away. Around two-thirds of new subscriptions to ISAs are in cash, showing lots of people choose to stick to cash rather than invest it.

While cash is a great place for short-term savings or money you need quick access to, it's not ideal for long-term savings. So, work out what you need in the next five years or as an emergency pot, and see how that stacks up against the amount you've got in cash. If you've got more than that set aside, think about investing it to generate a potentially higher return.

Avoid Getting Caught In A Tax Trap

The tax-free personal allowance for most people is currently £12,570. When your taxable income reaches £100,000, your personal allowance is cut by £1 for every £2 of your income, which means you lose it completely once your income reaches £125,140.

For example, someone who gets a pay rise from £100,000 to £110,000 will lose £5,000 of their personal allowance. They will be taxed at the normal 40% rate of income tax on their pay rise, amounting to £4,000, and then taxed at 40% on their lost personal allowance, amounting to £2,000. This means they pay £6,000 on the £10,000 pay rise – an effective tax rate of 60%.

If you are in this position you could consider reducing your taxable income so that it falls below the £100,000 level where the personal allowance starts to be eroded. There are two ways you can do this: by making charity donations or contributing to a pension. By contributing to a pension you are making tax savings in the form of getting your personal allowance back whilst also saving for your future and benefiting from pension tax relief at 40%. So you wipe out the 60% effective tax rate completely.

Don't Miss Out On Child Benefit

In a similar way as above, people will start to lose their child benefit when one half of the couple earns more than £50,000 – and the benefit will be wiped out entirely when they hit £60,000. The frustrating factor for many parents is that the rule applies if one parent is earning more than £50,000, regardless of their partner's income. So, you could have both parents earning £48,000 each and have no problem, but if one earns nothing and the other earns £60,000 you'll lose the benefit.

A parent with two children will get £2,212 a year in child benefit, but for every £1,000 they earn over £50,000 they will lose 10% of their child benefit – so someone earning £51,000 will lose £221.
However, parents who have just tipped over the threshold can get around this by increasing their pension contributions. What's counted for the purposes of the child benefit 'High Income Charge' is your salary after any pension deductions. This means if you contribute enough to your pension to get your salary back to £49,999, then you'll get the full child benefit again. Another option is to make charitable donations from any income over the £50,000 limit, which you'll need to declare to HMRC on your tax return.

Tackle Your Missing Pensions

The Government estimates that people switch jobs 11 times during their life, which means most people will have lots of pension pots they've lost track of.

If you know you've got a pension but can't remember where it is, your first port of call is finding any old paperwork for it. It should tell you where your pension is, how to log on to see its value, and whether you can transfer it. If you can't find any documents, you can call us and we can help.

Tracking down these old pots makes sense for a number of reasons. Firstly, knowing how much you have saved in total will help you work out how much you might need to put away in the future to enjoy the retirement you want.

Secondly, once you've located any old defined contribution pensions, you could consider consolidating them with an alternative provider. This will make your pensions easier to monitor and manage. And you could also benefit from lower charges, greater investment choice and more flexibility when you come to access your pot. Before you transfer any old pensions, just make sure you double check whether they have any guarantees attached, as you could lose them if you switch to a new provider. We can assist you with this.

Start Saving For Your Children

Like adults, children also have tax allowances that can be used each year. The Junior ISA allowance is now a very generous £9,000 a year, which means that if you have spare cash you can start building a very healthy fund for your children's future. They won't be able to access the money until they are 18, at which point it automatically turns into a normal ISA and transfers into their name, giving them full access.

If you contribute the maximum £9,000 each year and achieved a 5% investment return after charges each year, the pot would be worth almost £266,000 by the time your child turns 18. If they don't touch the fund and don't pay any more into it, the pot would hit £1m by the time they turn 46. For many families putting the full £9,000 into the pot isn't realistic, particularly if you have more than one child. But even a more modest £50 a month, earning 5% returns a year, would give your child a £16,000 present on their 18th birthday.

You can also pay up to £2,880 into a Junior SIPP (Pension) each year, with Government tax relief automatically boosting that to £3,600. Your child won't be able to access the money until they are at least age 57, maybe later if the Government increases the age limit, which means there's plenty of time for them to benefit from compound investment returns. If you paid in the maximum each year until your child turns 18 and they don't contribute anything else, assuming 5% investment returns each year after charges, the pot would be worth £713,000 by the time they turn 57 or just over £1.1m by the time they hit the current state pension age of 66.

*Source: HMRC ISA statistics

Annuity Rates Surge to 16 Year High

A Fixed Or Increasing Income

You can choose a fixed income that always stays the same or set your income to increase every year to help keep up with inflation. It can be increased by a set percentage or in line with the Retail Price Index (RPI). It's worth remembering that the higher the increase you choose, the lower your starting income will be.

Payment Options

You can choose monthly or yearly payments and you can select to be paid at the start (in advance) or at the end (in arrears) of the month or year you've selected.

Guaranteed Minimum Payment Period

You can guarantee to have your income paid for a certain amount of time - up to 30 years - once your annuity starts. If you die during this time, your income will continue to be paid to anyone you choose until the end of this period.

Choose To Protect All Or Part Of The Amount Used To Buy Your Annuity

When you die a lump sum will be paid for the amount protected, minus any income payments already made. You can protect 25%, 50% 75% or 100% of the original amount used to buy your annuity.

Options To Support Your Dependants

You can continue to have your payments paid to a loved one after you die by choosing either 50%, 67% or 100% of your income.

Once Agreed, It Can't Be Changed

You'll need to be certain of the choices you make - there's no going back once the cancellation period ends and your pension annuity has started.

Tax-Free Cash

You can take up to 25% of your pension pot as tax-free cash. If you don't take the tax-free cash at the start of your plan, you can't take it later. This is done before buying the annuity.

Your Income Is Taxable

Income above your personal allowance is taxable. It may also affect any means-tested benefits you might receive. The amount of tax you pay on income from the plan will depend on your circumstances, and may change based on your income tax rate.

No Cash-In Value

The pension annuity can't be cashed in or surrendered.

You May Get Back Less Than You Paid

Depending on how long you live and the options you choose, you may receive less in income payments than the amount of the pension pot you used to buy the pension annuity.

Inheritance Tax

Death benefits from a pension are generally exempt from Inheritance Tax where the pension trustees have discretion over who received them. However there are some scenarios where Inheritance Tax may still apply. From 2027 new inheritance rules will apply.

Annuity Rate And Income - Single Life Annuity

Age	Annual Income	Annuity Rate	Provider
60 Years	£6,624.60	6.62%	Standard Life
65 Years	£7,395.56	7.40%	Canada Life
70 Years	£8,296.44	8.30%	Canada Life
75 Years	£9,687.96	9.69%	Canada Life

Annuity Rate And Income - Joint Life Annuity Paying 50% Of Income After Death

Age	Annual Income	Annuity Rate	Provider
60 Years	£6,291.96	6.29%	Standard Life
65 Years	£6,960.24	6.96%	Canada Life
70 Years	£7,776.60	7.78%	Canada Life
75 Years	£8,941.56	8.94%	Canada Life

Capital Gains Tax - 10 Points to Consider For Tax Year End Planning

The tax year end traditionally presents an opportunity for investors to take tax-free profits from their portfolios using the capital gains tax annual exemption.

That opportunity has been squeezed further this year as the exemption is now only £3,000, 50% less than 2023/24. However, a mid-year hike in CGT rates has increased the potential tax saving by utilising the annual exemption, from £600 to £720 for higher rate taxpayers, and from £300 to £540 for basic rate taxpayers.

The Autumn Budget increased the rates of capital gains tax for individuals. Gains on disposals before 30 October 2024 will be taxed at 10% for basic rate taxpayers and 20% for everyone else. Disposals made on or after 30 October 2024 will be taxed at 18% and 24% respectively. However, there are still ways to minimise the impact of this rate rise.

To make the most of year end tax planning opportunities before April and to avoid the potential traps we have compiled ten points clients may need to consider.

1. How Much Allowance Is Available

Some or all of the annual CGT allowance may already have been used on disposals earlier in the year. These could include the sale or gift of any asset owned by you. The rebalancing of portfolios may also have generated gains.

However, where disposals exceed the annual allowance, individuals can choose which disposals they use their allowance against if it is to their advantage. This has more importance this year following the increase in rates from 30 October 2024. Matching the allowance to disposals made after 30 October will reduce the overall tax due in the year.

2. Losses

Capital gains and losses arising in the same tax year must be set off against each other before the CGT allowance can be used. If losses wipe out gains, this means the allowance will be wasted. Therefore, to maximise the use of the allowance, gains must exceed losses by £3,000.

Losses made in earlier tax years don't have to be used in the current tax year. Clients may elect to use some or all of these losses in the current tax year or continue to carry the loss forward to future years. For example, if a client has losses of £20,000 carried forward from earlier years and have net gains of £11,000 in this tax year, they could elect to use £8,000 of their losses, which together with their annual exemption of £3,000 would wipe out the gain.

As with the annual exemption, taxpayers can choose to use losses against disposals made on or after 30 October 2024 if this is to their advantage.

3. Creating The Gain And Share Matching Rules

When disposing of shares or units, the intended gain will not materialise if the same shares are repurchased on the same day or in the next 30 days. Repurchases within this timeframe mean that the gain must be recalculated using the repurchase price as the 'cost' instead of the original cost (tax pool cost). Where there has been little movement in price between date of sale and date of repurchase, the result may be that the gain is negligible, and so the allowance wasted. This used to be known as 'Bed and Breakfasting'.

4. Remaining In The Market

The share matching rules can mean being out of the market for a particular fund for 30 days. To avoid this, clients may consider repurchasing the fund through their ISA or SIPP. In this way, funds can be sold and repurchased on the same day and the gain would stand i.e. the matching rules would not apply. Alternatively, the funds could be repurchased by the client's spouse or civil partner, or even through a junior ISA for children or grandchildren to keep the investment in the family.

5. Transferring Assets To Spouse/Civil Partner

Clients may be able to double their CGT exemption to £6,000 this year if they are able to transfer assets to their spouse or civil partner. If a client's spouse has not used their allowance, then investments with a gain can be transferred to them and then disposed of before 5 April. While the transfer between partners is technically a disposal, there is no gain on this transaction (commonly referred to as a no gain/ no loss basis). This effectively means that the receiving partner receives the investments at the original cost.

6. The 'Pooled' Cost

When making a disposal of shares or funds in a General Investment Account, the cost of the investments disposed of must be identified. Where there have been multiple purchases on separate dates, it's the average or 'pooled cost' of all the acquisitions which is used to determine the gain. If only disposing of part of a holding, then the same proportion of the pooled cost must be calculated to work out the gain - i.e. if the disposal amounts to 25% of the total value of the holding, then 25% of the cost pool must also be identified in order to work out the gain.

The pooled cost will also include income distributions reinvested and used to purchase more units. However, if accumulation units are held, income is automatically reinvested and increases the value of each unit – it's not used to purchase units. The amounts reinvested must therefore be identified and included in the cost pool which, ultimately, will reduce the gain made on their disposal.

7. Inherited Shares

Where a client inherits shares on the death of another individual, it's normally the value of those shares at the date of death that are included in the cost pool. If shares were jointly owned, then after one owner dies the cost pool will reflect the fact there has been a CGT free 'uplift' on the first death. The acquisition cost will be 50% of the value at the date of death and 50% of the original cost. Again, this will reduce the gain where the market price has risen since the death, or if the price has gone the other way, potentially increase the loss available to offset other gains.

8. Equalisation Payments

New investments in units made between distribution dates (but before the 'ex-dividend' date) entitles the investor to the full distribution at the next distribution date. However, because they have not been invested for the whole period over which the distribution has been earned, the cost of the purchase is reduced by an 'equalisation payment'. This will be shown on the distribution certificate and is essentially a return of capital. To reflect this, the amount included in the tax pool is the amount invested less the equalisation payment. The resulting gain may therefore be slightly more than expected.

9. Pension Contributions And The Basic Rate Band

A pension contribution by an individual to a personal pension or SIPP will extend the basic rate band by the gross amount paid. This could mean that some or all of a gain becomes taxable at the lower rate.

10. Reporting Gains

With the cut to the annual exemption also came new reporting limits. Self Assessment will always be needed if gains exceed the exempt amount meaning there is tax to pay. But even if the gain is below the £500 exemption a tax return will still be required if the total proceeds of sale exceed £50,000.

5 Pebble Close · Amington · Tamworth · Staffordshire · B77 4RD
T 01283 711222 F 01283 711444 E enquiries@premierpartnership.co.uk W www.premierpartnership.co.uk
Registered Office: 5 Pebble Close · Amington · Tamworth · Staffordshire · B77 4RD