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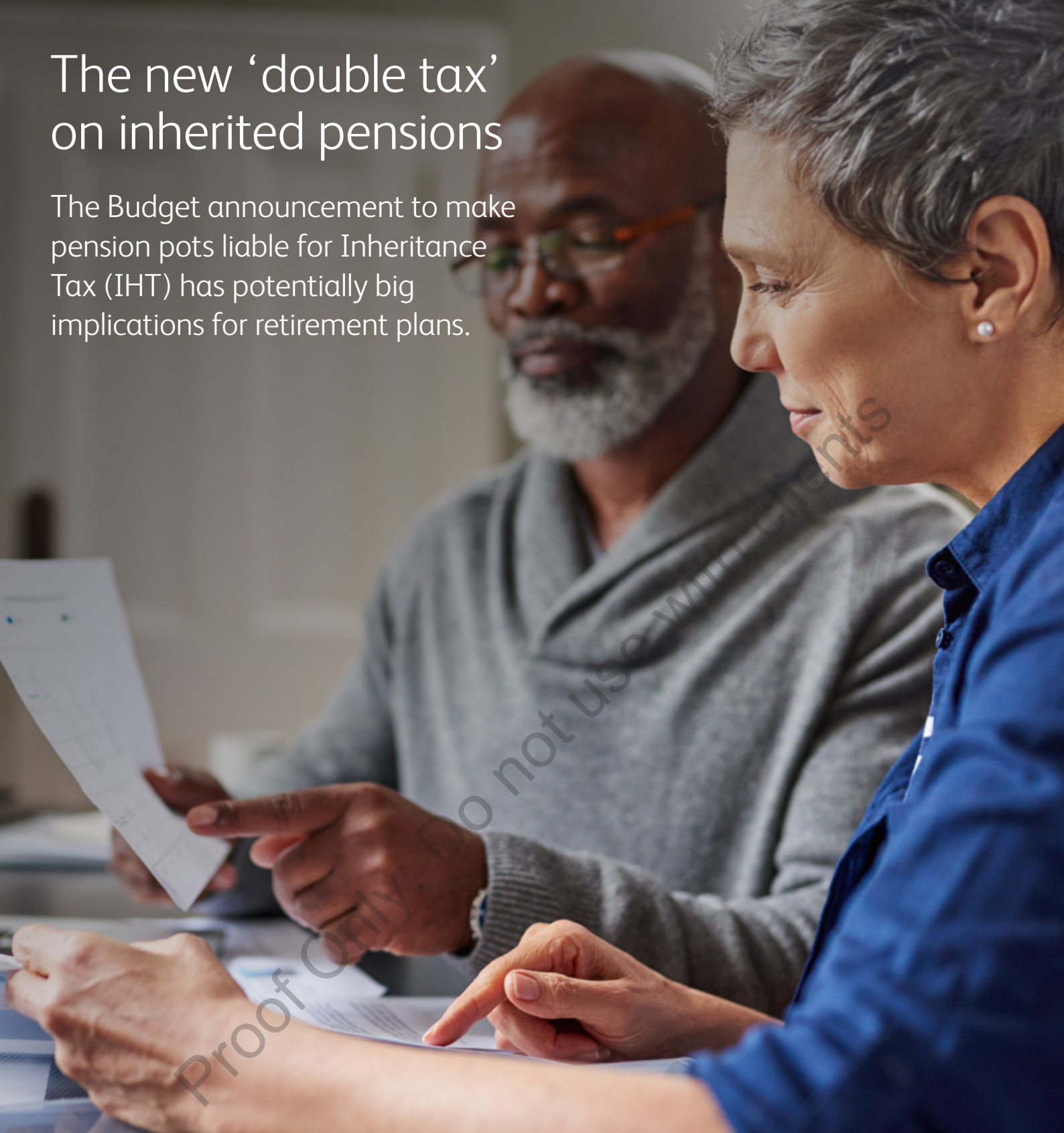
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The new ‘double tax’ on inherited pensions

The Budget announcement to make pension pots liable for Inheritance Tax (IHT) has potentially big implications for retirement plans.



While most people won't be impacted, the change could disrupt the financial plans of those who are, and those plans may require reorganisation to ensure they remain tax efficient and meet financial goals. This change isn't happening straightaway though – the government plan to bring pension funds into a person's estate for IHT from 6 April 2027.

When does IHT bite – and what will change?

IHT only begins to apply when an estate – including money held in cash or investments, property, and other possessions – reaches a certain size. Up to £325,000 can be passed on with no IHT due. This is known as the “nil-rate band”. Anything over this can potentially face 40% tax, but several exemptions can provide more headroom.

Firstly, money passed to a spouse or civil partner attracts no IHT; spouses and civil partners can also pass unused nil-rate bands to each other. There is a further exemption if the estate includes a primary residence, which means an extra £175,000 of nil-rate band per person. Taken together, these exemptions mean someone could pass on as much as £1 million with no IHT to pay.

Pensions – no longer an IHT haven

In recent years, pensions have emerged as a powerful way for people to mitigate IHT. That's because pensions have been treated differently on death from other assets.

Pensions currently fall outside of a person's estate and can therefore be passed to beneficiaries without IHT applying. If death occurs before age 75, then no tax applies and if after age 75, then the beneficiary pays Income Tax at their own marginal rate.

This has led some people to organise their retirement finances in a way that preserves money held in their pension so it can be passed on free of IHT, using other sources of retirement income – such as ISAs – before turning to their pension. The Budget reforms change this equation.

Double taxation?

Some observers have complained applying IHT to pensions will result in double taxation. For example, where IHT is due, £100 of pension money would be subject to 40% tax, leaving £60. If death occurs after age 75, this money would then be subject to the beneficiary's rate of Income Tax. This could be as high as 45%, resulting in just £33 being received by the beneficiary – an effective tax rate of 67%.

It's important to note the rules have not yet been finalised and revisions could happen before they come into force.

Ways to reduce an IHT bill

Tax rules contain important allowances and exemptions that can reduce an IHT liability. Notably, there are instances where gifts can be made.

You can gift any amount with no IHT to pay if seven years pass without you dying. If you die within seven years, a reduced rate applies to any amount above your nil-rate band (although if death happens before three years has passed the full 40% rate applies).

You can also give away £3,000 per year of assets or cash without IHT applying at all. This exemption can also be carried forward so you can gift £6,000 if you haven't used the exemption from the year before. £250 can also be gifted per person, per year, to as many people as you like – although not to someone who has already benefitted from your £3,000 annual allowance. You can also give £1,000 to anyone if you'd like to help pay for their wedding, rising to £2,500 for a grandchild and £5,000 for a child. The gift has to happen before the big day though, not after.

There are several other payments which can be made such as helping pay for the living costs of a child under age 18, or in full time education, as well as regular amounts, that you don't need from your income, without IHT applying (but not capital itself).

If using either of these exemptions, it may have to be demonstrated that the money was not excessive or needed to 'maintain your standard of living'.

Inheritance tax rules can be very complicated and this change relating to pensions could necessitate changes to your financial plan and how you drawdown your income in retirement. It's therefore very important to seek financial advice from your 2plan adviser to ensure your plans remain on track and that any actions you take are right for you and your loved ones.

Author: Fidelity Adviser Solutions

Source:

¹ Inheritance Tax liabilities statistics commentary, Gov.uk, 31.7.24

Important information

Investors should note that the views expressed may no longer be current and may have already been acted upon. Tax treatment depends on individual circumstances and all tax rules may change in the future. The value of investments can go down as well as up, so you may get back less than you invest. Withdrawals from a pension product will not be possible until you reach age 55 (57 from 2028). This information is not a personal recommendation for any particular investment. If you are unsure about the suitability of an investment you should speak to your financial adviser.

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Four key signs of financial scams and what to do if you spot one

Financial scams are more sophisticated than ever before, but a few telltale signs can give them away.

Here are four ways to spot a financial scam and what to do if you think someone's trying to scam you.

We'd like to think we wouldn't fall for a financial scam, but the truth is we're all vulnerable. Even amateur fraudsters can create convincing ads or replicate the websites, emails and phone calls of genuine financial businesses.

But no matter how sophisticated the attempt there are usually a few key signs that someone is trying to scam you.

1 You weren't expecting to be contacted

A good indication of a financial scam is sudden, unexpected contact. It's very unlikely that a genuine business would contact you out of the blue with an investment opportunity, and if you'd lost your credit card then you'd probably already be aware.

Most fraudsters try to contact victims by phone or email and pose as a legitimate business, but you should also be wary of other forms of contact. That might be by post, someone stopping you on the high street, or someone knocking on your door.

Once contact is made, scammers often attempt to ingratiate themselves by asking about your circumstances, family and financial plans before using that information to empathise with you.

2 They offer you guaranteed returns

Another sign of financial fraud is a promise of guaranteed returns. Investment opportunities that offer high rewards with minimal risk are almost non-existent.

Scammers might use strong past performance (which could be real or fake) as evidence for their claims, but this is never a reliable indicator of future performance. Even leading investment experts can't offer guaranteed returns.

If 'get rich quick' schemes were genuine, we'd all be millionaires. So, if an opportunity seems too good to be true it's likely to be a scam.

3 The opportunity is vague or unusual

An unmissable, exclusive or poorly described opportunity is likely to be fraudulent. Scammers often bombard potential victims with jargon and headline figures without elaborating on the fundamental features of an investment.

For example, has someone offered an opportunity to invest in an emerging market but failed to describe the precise breakdown of the investment? Have they asked you to invest in an organisation that doesn't show up in an online search?

4 They pressure you to make a quick decision

This is a key sign of a financial scam. Fraudsters want you to invest without thinking so they frequently use high-pressure sales tactics to force you into a quick decision. They're unlikely to provide their details for you to contact them after mulling over an opportunity, or they might offer to contact you after a very brief period.

Time-sensitive opportunities are likely to be fake. Scammers might claim that others have already benefitted from the offer and pressure you to invest before it ends. They may even offer you bonuses or one-time discounts if they think you might be wary of the opportunity.

What to do if you think you've spotted a scam

Get in touch with us if you've been offered an investment opportunity that you're not sure about, if you think you're being targeted by scammers, or if you think you've been the victim of a financial scam.

Contact the police if you think you've been the victim of a financial scam. You can also forward suspicious emails to report@phishing.gov.uk and forward suspicious text messages to 7726 for free.

For more information about financial scams visit www.actionfraud.police.uk. If you're in England or Wales, you can also report fraud or cybercrime to Action Fraud on their website or by calling 0300 123 2040.

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.

Scammers play on your emotions and try to get you to make quick, irrational decisions. If you think someone's trying to scam you then stop, take a moment, and do the following things:

- Check that the person or company is legitimate. Search the Financial Services Register for the name of the individual or organisation offering you an opportunity. If you can't find them then it's probably wise to avoid the opportunity.
- Always be on guard. Be wary of unsolicited contact and never agree to investments or decisions in the heat of the moment.
- Talk to an expert before investing. Always speak to a financial expert that you trust before making investments. If a scammer claims to be someone you trust (such as your financial adviser), end the contact and get in touch with them using a method you've used in the past.

Author: 2plan



Five financially smart ways to start 2025

Make getting financially fit your new year's resolution

It's that time of year again. After you've recovered from the Christmas and New Year festivities, Will you start 2025 with a resolution to get fitter? Or to take up a new hobby?

Let's be honest, we often don't stick to them. But there is one commitment you really should make and keep, and that's to kick off the year with a review of your finances.

Financial wellness is not only good for your wealth, but also your health. You'll be in a better place mentally if you know you've got your money matters in order.

Here are some simple steps to set yourself up for financial success in 2025.

1. Revisit your budget

Knowing what's coming in and what's going out is vital to working out your plans for the year ahead. Revisiting your monthly income and expenses will tell you where you might be able to cut back and how much more you might be able to set aside in savings.

But don't forget to make allowances for the things you enjoy in life as well – holidays, dining out and so on. That'll make it feel less of a burden and help you stick to your revised budget.

2. Tackle your debt

Debt can be a useful thing, but too much of it is a major cause of money stress. Review what debt you have, what interest rate you're paying, and when it's due for repayment.

Prioritise loans with higher interest rates and consider paying down what you can, perhaps from a year-end bonus. Or, if the rate you're paying on your debt is higher than the expected return on money you've already saved or invested, use some of that to reduce the balance.

Then check whether you can consolidate your debts for a potentially lower rate on a single loan. Anything you can do to simplify or reduce your debt will set you up in a better position for the year ahead.

3. Review your plan

Getting your finances right isn't easy. It needs the structure of a clear plan, and regular reviews to adjust it as your circumstances and needs change.

The start of the year is the ideal time to check if you're still on track for your longer-term financial goals. That could be your target income level in retirement or plans to buy a holiday home. Perhaps there's a need to revisit the split of investments in your portfolio depending on how markets have performed or as you get nearer to retirement.

It could be that you have new goals you want to work towards, as your needs and those of your family change over time.

An experienced financial adviser can help you create and maintain your plan but can also encourage you to confront more challenging topics.

Part of their role is to pose the difficult questions you might avoid asking yourself, but which need answering if you are to achieve real peace of mind. How would your family cope if you suffered a serious illness? What do you want to happen to your wealth after you've gone?

4. Make sure you and your family are protected

No-one likes to think about death or serious illness, but one of the most important financial planning steps you can take is to ensure that you and your family are protected should the worst happen.

Is your Will in place and up to date? And a Power of Attorney to ensure someone can take control of financial decisions if you're unable to? Have you still got the appropriate level of financial protection in place, whether that's life insurance, critical illness cover or income protection?

We don't know what's around the corner, so some forward planning now could be the best thing you do for your loved ones.

5. Keep saving

Before thinking about how to grow your savings and investments, check that you've still got adequate 'rainy day' funds set aside in cash for emergencies, and for foreseeable expenses, say in the next 3-5 years.

If you have scope to invest more, you have until the end of the tax year in April to make the most of the tax relief offered by your annual ISA and pension allowances. There are rules and limits on what you can pay into them, but they're great ways to pay less tax while saving more towards your future.

With the new Labour government's Autumn Budget introducing measures aimed at taxing more of your wealth, getting the right advice is now even more important. A financial adviser can help you understand your options, discuss how they fit into your overall plan, and make sure you're comfortable with how much risk you're taking.

Don't lose track of your resolutions in the year to come. It could help secure the financial future for you and your loved ones.

Intergenerational wealth: the urgent need for a conversation



The divide between the many generations of today has never been more pronounced. As a Gen X-er myself, the use of technologies doesn't come to me as intuitively as it does to younger generations, and I also sometimes feel there's clearly a divide in the vocabulary we use... which sounds a bit demure, I know.

When it comes to money, the narrative is quite similar. The existence of different views doesn't necessarily mean some people are right and others wrong, but rather that people see money in different ways for different reasons.

But in the vast universe of financial choices that people could possibly make, financial education is the common ground that should define the boundaries of choice.

Doing the right thing

Whatever generation you are part of, the harsh reality is that today's wealth is highly concentrated on individuals in or approaching retirement (or the boomers). One of the consequences of this concentration is the need for passing on wealth as efficiently as possible, using whatever resources are available at the time.

According to the Institute of Fiscal Studies, the government's revenue from inheritance tax is set to rise from £7bn a year to £15bn a year within a decade. This is because more recent generations of retirees are richer than previous generations.

A common concern among many individuals who are thinking about passing on wealth is how their wealth will be used by their recipients, who are typically family in the younger generations. The best way of ensuring the money passed on is in good hands is to ensure the recipient has the knowledge to make sensible decisions about wealth.

The easiest way to accomplish this is to adopt a long-term strategy, and not necessarily a difficult one: to share views about wealth to younger generations. And there are many ways of talking about the value of money and any other wealth matters.

Talk about it

There's no good time like the present to start a conversation about money if you haven't already.

There are mechanisms devised to transfer wealth, all of which are subject to specific taxation rules (inheritance tax is one example). The tax landscape can be quite complex, depending on the instruments individuals use to pass on wealth. Tax rules can also change quickly – both being reasons why seeking professional financial advice is important.

In this process of transferring wealth, it's important to involve your family – listen to them, communicate your intentions and the reasons for the choices you've made.

Do you have a pension? Tell them why you've saved into it. An ISA? Help them understand the benefits of tax-friendly tools.

An additional benefit of speaking to your loved ones about your wealth plan is that it avoids any surprises on the downside and any potential family conflict that could arise.

Investing time in talking will enable future generations to be more critical about how to spend and save money.

Having a conversation with your loved ones about your financial goals could help you and your family understand:

- The importance of saving money
- Daily spending and budgeting
- Financial products such as loans, credit cards, mortgages, insurance, and their use
- Planning for retirement – pensions and other tax-friendly tools

Author: 7IM

¹ As of October 2023. Source: <https://ifs.org.uk/articles/inheritance-tax-raises-ps7bn-year-it-needs-reform>

Please note that this article is intended for educational purposes only. Tax rules are subject to change and taxation will vary depending on individual circumstances.

Autumn Budget 2024: winners and losers

Chancellor of the Exchequer Rachel Reeves outlined the Government's financial plans for the next five years. The measures, which will raise up to £40 billion for public finances, aim to "restore economic stability" and put "more pounds in people's pockets".

On 30 October 2024, Chancellor of the Exchequer Rachel Reeves announced the UK Government's Autumn Budget alongside the Office of Budget Responsibility's economic and fiscal forecast.

The measures aim to raise more than £40 billion in taxes, plugging an alleged £22 billion black hole in public finances left by the previous government. Reeves committed to drive economic growth, but also said that the Government wouldn't borrow to fund current spending whilst maintaining the Bank of England's inflation target of 2%.

Commenting on the Budget, Reeves said: "This Government was given a mandate to restore stability to our economy and begin a decade of national renewal. To fix the foundations and deliver change through responsible leadership in the national interest. That is our task, and I know we can achieve it."

So, what are the potential impacts of these new measures? Below we outline who stands to benefit from these changes and who might be negatively affected. Let's start with the positives.

The Winners

The NHS

The Chancellor pledged to significantly increase public spending on the NHS. Reeves promised a £22.6 billion increase to the "day-to-day" budget of the NHS alongside a £3.1 billion boost to its capital budget over the next two years. The Chancellor commented that this would be the "largest real term increase in NHS spending outside of COVID since 2010."

Sustainable transport and energy

Reeves also announced that the National Wealth Fund would be used to invest in key areas like gigafactories and green hydrogen plants across the country. Meanwhile, over £2 billion will be invested in supporting the automotive sector's transition to electric vehicles.

Property developers

Funds for the Affordable Homes Programme will increase to £3.1 billion to help Labour deliver on its promise to build over 1.5 million homes. Reeves said the Government would hire hundreds of new planning officers and make reductions to Right to Buy discounts, putting more money into the pockets of local councils. This news could incentivise investment in the UK's property market and make it easier for property developers to build new homes in the UK.

Drivers

Reeves confirmed that the freeze on fuel duty will continue for another year, meaning drivers could save approximately £60 a year at the pumps. The freeze will cost £3 billion a year, but the Chancellor was clear that she wanted to ease "the burden on motorists". This move could help relieve the fiscal pressure on delivery drivers, couriers and supply chains throughout the country.

Young and low-income workers

The Chancellor announced that the Government is increasing the National Living Wage for workers aged 21 or over by 6.7% to £12.21 an hour (which could be worth up to £1,400 a year for a full-time worker) and increasing the National Minimum Wage for 18–20-year-olds by 16.3% to £10 an hour. Reeves also confirmed that National Insurance won't be increasing for workers. Increases to the National Living and Minimum Wages are intended to provide much-needed support to those on the lowest incomes.

Small businesses

The employment allowance for business will increase from £5,000 to £10,500, reducing the National Insurance liability of small businesses. The Chancellor said that this would mean around 865,000 would pay no National Insurance in 2025, providing welcome relief for SMEs who are struggling to retain an effective workforce and attract applicants without a hit to their profits.

The Losers

Employers

Reeves confirmed that employers' National Insurance contributions will increase to 15% from April 2025. The Government is also reducing the threshold at which employers start paying National Insurance from £9,100 to £5,000 per year. Furthermore, the Chancellor announced that the current freeze on income tax thresholds would end in four years. From 2028, personal tax bands will be updated in line with inflation.

These changes will have a direct impact on British employers, but they could also have a knock-on effect for employees. Many businesses use savings on National Insurance to fund pension contributions or employee benefits. If the increased burden of National Insurance contributions proves too harsh, employees could lose these benefits as a result.

New businesses and investors

The Chancellor announced an increase in the lower rate of Capital Gains Tax (CGT) from 10% to 18% and the higher rate from 20 to 24%. She noted that, even with these increases, the UK will still have the lowest capital gains tax rate of any European G7 economy. But some analysts argue that the move could alienate investors and even decrease tax revenue overall if investment is pulled from UK startups.

Foreign investors

Reeves also announced sweeping changes to the tax status for non-domiciled high-net-worth individuals operating in the UK. The Chancellor said that Labour would “abolish the non-dom tax regime, and we will remove the outdated concept of domicile from the tax system from April 2025.”

The government is also set to extend the Temporary Repatriation Relief to three years with the aim of bringing billions of new funds into the UK. The independent Office for Budget Responsibility estimates that this could raise £12.7 billion over the next five years.

Second homeowners

The Stamp Duty land tax for owners of second homes (known as the Higher Rate for Additional Dwellings) increased to 5% from 31 October 2024. The Chancellor said that the move is designed to “support over 130,000 additional transactions from people buying their first home or moving home over the next five years.” However, this increase could have an impact on landlords, property developers, and the owners of holiday homes and other rental properties.

Private schools

All education, training and boarding services provided by private schools will now be subject to VAT at the standard rate of 20% from 1 January 2025. Private schools also won't be able to claim back VAT on the supplies and services they pay for.

What's Next?

The Autumn Budget contained several key changes that are likely to have significant impacts on individuals and businesses across the UK. There's a lot of information to process and it may not be immediately clear how the changes set out in the Budget will affect you. If you have any questions about whether you are a winner or a loser from the Autumn Budget, and how it will affect you and your finances, please get in touch.

Author: 2plan

The need for protection with a mortgage

Do I need life insurance for a mortgage?

You're not legally obliged to get life insurance for a mortgage, but some lenders may consider it a precondition for letting you borrow money to buy a home. For many homeowners, having financial protection in place makes sense. If you own a property, a mortgage is likely to be the biggest debt you leave behind should the worst happen, so having a policy in place can help give you peace of mind.

Average UK house prices were £289,723 as of July 2024* – with prices this high, a lot of homeowners will have a mortgage to pay, so it's understandable that people want to spend any spare income wisely. However, if you have children, a partner, or other dependents living with you who rely on you financially, taking out mortgage life insurance could be considered important expenditure.

Buying a home with a partner?

Life insurance is important to consider when buying a house as a couple. If you're buying your home with your partner, your mortgage repayments could be calculated on the basis of two salaries. If you or your partner died while your mortgage loan was still outstanding, would one of you alone be able to keep up the regular mortgage repayments?

Life insurance can help by paying out a cash sum if you die during the length of your policy, which can be used to help pay the remaining mortgage – this is what 'mortgage life insurance' usually refers to, meaning they can continue living in your family home without worrying about the mortgage.

Do I need life insurance if I don't have a mortgage?

It is a common misconception that life insurance is only relevant to homeowners. While it's true that renters are less likely to take out life insurance, that doesn't mean you don't need life insurance if you don't have a mortgage. If you're a tenant, think about the financial impact of the loss of your salary if you were no longer around. If you live with your family, could your loved ones afford the rent in your absence? What about other costs like household bills or childcare costs if you have a family. In essence, life insurance is always worth considering if other people rely on you financially, it's not just for those with a mortgage.

Please remember that life insurance is not a savings or investment products and have no cash value unless a valid claim is made. A home is so much more than an asset, and whatever type of life insurance you choose, paying a small monthly premium can help your family carry on living there if you are no longer around.

Please speak to your financial adviser about the options available to you for Life Insurance and more.

Author: L&G

*UK House Price Index (data.gov.uk)

If you would like to discuss any of these topics in more detail, please feel free to contact me to make an appointment. If you have friends, family members or colleagues who you think would be interested in these topics, please pass this newsletter to them.

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