

Aspire

Review

Tel: 020 8371 4411 • enquiries@aspireonline.co.uk

SPRING 2024

IN THIS ISSUE:

- » Coming down: the year of interest rate cuts?
- » The renewed case for ISAs
- » Top takeaways from the Spring Budget
- » Costs of living in retirement increase
- » Succession: have you got a plan?
- » Tax trap for pension withdrawals
- » News in Brief

Aspire Independent Financial Planners LLP

Aspire House
17 Station Road
Finchley
London N3 2SB

t: 020 8371 4411
e: enquiries@aspireonline.co.uk

Partners

Jeff Maze Dip PFS
Gary Plein Dip PFS

Senior Financial Advisers

Stephen Barr Dip PFS
Ralph Barnett Dip PFS

Financial Advisers

Veronica Jhanji Dip PFS
Amy Salter APFS Cert CII

Aspire Independent Financial Planners
LLP is a Limited Liability Partnership
and is authorised and regulated by
the Financial Conduct Authority.

Registered address: Aspire House, 17 Station Road,
Finchley, London, N3 2SB. Registered in England
(No.OC317451).



Private healthcare options are on the rise as more people are looking at alternatives to the NHS through personal or workplace provision.

Protection and insurance products can provide access to some primary healthcare options, such as GP and dental services, and often contribute towards the cost.

There are significant differences between providers and products in price, coverage and exclusions, although none replicates the range of services available via the NHS. Understanding the detail of each policy is key to finding the right option.

- **Cash plan policies:** Pay out a fixed contribution towards routine healthcare costs, such as dental and optician fees.
- **Income protection:** An insurance policy that pays a fixed monthly income if you are signed off work through ill health. It can ensure essential bills are paid during a period of illness.
- **Critical illness:** Pays a lump sum on the diagnosis of one of the serious illnesses listed on the insurance policy. The conditions will include most cancers, heart disease and stroke.
- **Private medical insurance:** Typically covers the cost of private diagnostic tests, consultations and hospital treatment. Emergency cover is not included, nor is treatment for existing or ongoing problems such as asthma and diabetes, nor pregnancy-related complications.

“ Additional services can include virtual GP services, mindfulness apps and online counseling, plus information on lifestyle issues - for example diet, smoking or exercise. ”

Many of these products now also offer a range of additional services, often at no extra cost. This can include virtual GP services, mindfulness apps and online counselling, plus information on lifestyle issues – for example diet, smoking or exercise.

While these products can of course be bought individually, employers are increasingly offering some form of health benefit to their staff to improve staff retention and reduce long-term sickness absence.

If you need to access health insurance at any point, or are looking to improve your health, it is worth checking what benefits may be available through your workplace, including access to healthy lifestyle services.

Coming down: the year of interest rate cuts?

Interest rates have risen for two years straight, but the outlook indicates a change of direction in 2024.

The Bank of England raised its bank rate at fourteen consecutive meetings between December 2021 and August 2023, taking it from 0.10% to 5.25%. There is now an expectation, not disputed by the Bank's Governor, that the next move will be downwards. The pattern of rise-and-stall has been mirrored by two other major central banks: the US Federal Reserve and the European Central Bank (ECB).

Markets anticipate cuts

The yields on 10-year government bonds have fallen since last autumn in the UK, US and Europe and the knock-on effects are visible in the UK mortgage market, where new, fixed-term rates have started to drop. NS&I has also



reacted, making a range of rate cuts, including 0.25% off the Premium Bond prize rate.

If you have been holding cash deposits, either directly or via money market funds, you should have benefited from the rise in rates.

However, unless your deposits were earning on average within 0.7% of bank rate net, they will have lagged behind inflation. In fact, in the last 15 years it has been rare for the bank rate to be higher than the CPI inflation rate. That devaluation, combined with the likely fall in rates, means that the amount of cash you hold on deposit needs a review. Talk to us about your options now: deposits may be less attractive once the rates begin their descent.

✦ *Investments do not offer the same level of capital security as deposit accounts. Investing in shares should be regarded as a long-term investment and should fit with your overall attitude to risk and financial circumstances.*

The value of your investment and the income from it can go down as well as up and you may not get back the full amount you invested.

Past performance is not a reliable indicator of future performance.

The renewed case for ISAs

Improved terms, together with the erosion of tax allowances elsewhere, are making ISAs a favourable option for the new tax year.

Since their launch, successive Chancellors have made revisions to Individual Savings Accounts (ISAs). Before his Budget proposal of an extra £5,000 for a new 'UK ISA', the current Chancellor made arguably his biggest hitting pro-ISA changes in the Autumn Statement 2022:

- Halving the dividend allowance to £1,000 for 2023/24 and again to £500 for 2024/25.
- The capital gains tax (CGT) annual exempt amount was cut from £12,300 to £6,000 for 2023/24, then to £3,000 for 2024/25.
- Almost £25,000 was cut from the additional rate threshold leaving many more taxpayers with a zero personal savings allowance (PSA) from 2023/24.

The dramatic reductions in the dividend allowance and the CGT annual exempt amount alone mean that you could be paying up to £2,450 more tax on the returns from your investments in 2024/25 than 2022/23. Even a basic rate taxpayer could be over £1,050 worse off. ISAs offer a way to sidestep these tax increases. A reminder:

- Dividend income within an ISA is free of UK income tax, although withholding tax may apply to foreign dividends.

- Interest from deposits or fixed interest securities is also free of UK income tax.
- Gains on investments held within ISAs are free of CGT.
- There is nothing to report regarding ISAs on your tax return.

As we move into a new tax year, now is the time to consider your ISA contributions for 2024/25 and review the investment holdings in existing ISAs to maximise those potential tax savings.



✦ *Investments do not offer the same level of capital security as deposit accounts. Investing in shares should be regarded as a long-term investment and should fit with your overall attitude to risk and financial circumstances.*

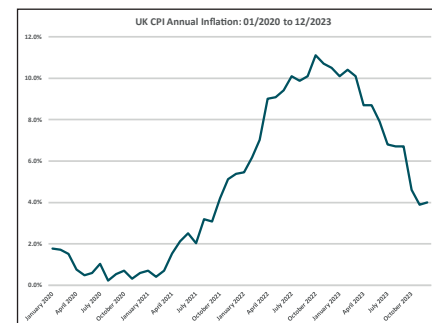
The value of your investment and the income from it can go down as well as up and you may not get back the full amount you invested.

Past performance is not a reliable indicator of future performance.

The Financial Conduct Authority does not regulate tax advice. Tax treatment varies according to individual circumstances and is subject to change.

Don't discount inflation

Despite slowing down considerably, inflation has not gone away yet



The fact that annual price rises have dropped to under half their October 2022 11.1% peak does not mean you can now ignore inflation's impact. As some of those who grew up in the 2010-2020 era of low inflation are now realising, a falling inflation rate (disinflation) is not the same as a general falling in prices (deflation). Prices are still rising, albeit at a slower rate.

In three years since the start of 2021, inflation added over a fifth to average prices, only 2.2% less than the increase across the entire decade from 2010. You could now need to review your financial plans if they are more than a couple of years old. The level of life and health cover that looked more than adequate in 2020 may no longer be enough. Similarly, the pension pot that looked sufficient for a comfortable retirement may now be at the just-getting-by level.

Top takeaways from the Spring Budget

Teasers for the 2024 Budget had been dropped across the preceding fortnight but nevertheless, Budget Day still contained a few surprises.

Chancellor Jeremy Hunt was under great political pressure to add to the tax cuts announced in his Autumn Statement 2023 and, if possible, steal a march on Labour's tax plans. However the Office for Budget Responsibility (OBR) had made clear his scope for generosity was minimal.

Mr Hunt managed to square the circle, but only by bringing his margin of error down to just £9 billion in 2028/29, a figure which the OBR described as "a tiny fraction of the risks around any forecast".

What's new?

Some of the Chancellor's Budget measures likely to affect you include:

- **National insurance contributions (NICs)** The main rates of employee (class 1) and self-employed (class 4) NICs will be reduced by two percentage points to 8% and 6% respectively from 6 April 2024. The 2% rate on earnings/profits above £50,270 is unchanged. These reductions once again alter the mathematics around the wisdom of incorporation and whether to draw bonuses or dividends.
- **High Income Child Benefit Charge (HICBC)** The income threshold at which this charge starts to bite will rise from £50,000 to £60,000 for 2024/25. Simultaneously the rate of charge will halve to 1% for each £200 over the threshold. Consequently, the size of the income band in which the HICBC can apply will double to £20,000 (£60,000 to £80,000). By 2026, the income threshold is expected to move from an individual to a household basis.
- **Residential property** The maximum capital gains tax (CGT) rate on residential property gains will be cut from 28% to 24% in 2024/25, while all other CGT rates remain unchanged. Some second homeowners will be stung, however, as the favourable tax rules for furnished holiday lets will be scrapped from April 2025.
- **UK ISA** The Chancellor issued a consultation paper on a 'UK ISA', with UK-focused investment options. This new variant will have a contribution limit of £5,000, which will be in addition to the existing overall £20,000 ISA limit (unchanged since 2017/18).
- **Non-domicile rules** The arcane tax rules which offer favourable tax treatment to some UK residents with a foreign domicile will be scrapped from 2025/26. The new regime will be based solely on tax residence, although transitional rules will apply for those already claiming the status.

If any of these changes could affect you or your business, or you would like further information on the Budget's contents, please do not hesitate to contact us.

✚ *The value of your investment and the income from it can go down as well as up and you may not get back the full amount you invested.*

Investments do not offer the same level of capital security as deposit accounts. Investing in shares should be regarded as a long-term investment and should fit with your overall attitude to risk and financial circumstances.

Past performance is not a reliable indicator of future performance.

The Financial Conduct Authority does not regulate tax advice. Tax treatment varies according to individual circumstances and is subject to change.



The income threshold for the HICBC will rise from £50,000 to £60,000 for 2024/25. By 2026 the income threshold is expected to move to a household basis.



Costs of living in retirement increase

Savers need to build up more funds to secure a decent standard of living in retirement.

An independent pensions body has updated its calculations on how much money people need to fund a basic, moderate or comfortable lifestyle in retirement. Rising food and energy costs, plus the fact more people want to socialise with family and friends post pandemic, has pushed up the cost of a 'moderate' retirement by £8,000, to £31,300 a year – with couples looking at a combined cost of £43,100 a year.

As the name suggests, this is not funding a life of luxury. The Pensions and Lifetime Savings Association (PLSA) says this covers one week-long holiday in Europe each year, running a small car and modest amounts for socialising, alongside essential bills.

Moderate retirement costs increase most

The costs of 'minimum' and 'comfortable' lifestyles have also increased – although not by as much in percentage terms. The PLSA estimates an individual needs £14,400 a year to fund a basic lifestyle and £43,100 for a more 'comfortable' retirement.

These are estimates, and individuals' spending requirements will vary. But the numbers can be useful as part of a wider pension planning process. Remember, not all this cost needs to be met by private pensions, as from April this year those qualifying for the full state pension will get £11,502 a year, although that alone is not enough to meet basic living requirements according to these calculations.



News round up

Succession – have you got a plan?

It is not only fictional multinational media empires that need to consider future ownership and control.

In 2023, the question of how to transfer control of a large, high profile family organisation gripped attention. First the Sky Atlantic series, *Succession*, drew us in, followed by its inspiration, the transfer of the Fox and News Corporation reins by Rupert Murdoch to his son, Lachlan.

What happens when ownership changes is not only a concern for the likes of multinational empires, real or otherwise. If you are a private company shareholder/director or a partner in a partnership, business succession is something that should matter to you. For example, what would happen if one of the fellow shareholders in your company or partners in your partnership suddenly died or suffered a disabling accident?

The way to deal with such potential business threats is to have a plan in place before disaster strikes and, equally important, to ensure the money is there to execute it. One without the other can be a minefield.

Take the example of a suddenly disabled partner. Your agreement may require the partner to retire in such a situation, but unless the remaining partners have the resources to buy out their colleague, a new partner may need to be found or the business might even have to be sold. What you and your business associates need to protect against such situations are:

- appropriate, tax-efficient agreements to deal with the sale of interests on death and serious illness; and
- life and health insurance cover to fund the purchase costs those remaining in the business will face.

For advice on both aspects, talk to us today – as *Succession* showed, you never know what tomorrow might bring.

✚ *The Financial Conduct Authority does not regulate tax advice. Tax treatment varies according to individual circumstances and is subject to change.*

Entitled to a bigger State pension?

HMRC is contacting thousands of people by post, mainly women, to highlight that they may be eligible for a higher State pension than they realise. An error in national insurance records has meant those eligible may have missed out on a provision called 'home responsibilities protection' between 1978 and 2010. The letters are going out in phases and explain how to check for eligibility and then claim, potentially adding thousands of pounds to State pension entitlement. It's not a scam, but you can check and confirm with HMRC if you receive a letter.

Student loans hit by marginal tax rates

Last December's Scottish Budget introduced a new 'advanced' 45% income tax rate covering taxable income between £62,430 and £125,140. One unfortunate consequence of the change was to create a potential marginal 'tax' rate of 78.5% on earnings between £100,000 and £125,140 for graduates still repaying their student loans (67.5% effective income tax rate + 9% graduate repayment + 2% national insurance). If you think you have escaped this by living outside Scotland, be warned – the equivalent elsewhere in the UK is 71%.

✚ *The Financial Conduct Authority does not regulate tax advice.*

New online trading data sharing rules

If you sell things online using sites such as Ebay or Vinted, or rent out your home via Airbnb or similar sites, those platforms will now automatically share data with HMRC. The rules are designed to ensure that those earning via digital platforms are fully declaring their correct income and tax. There is an 'occasional seller' exclusion for those making less than 30 sales under the value of around £1,700. The rules came in from 1 January 2024, but the relevant platforms will start reporting data from 1 January 2025, so there's time to understand if you could be affected.

✚ *The Financial Conduct Authority does not regulate tax advice.*

Tax treatment varies according to individual circumstances and is subject to change.



PENSIONS

Tax charge trap for pension withdrawals

Pension freedom rules have given people earlier and more flexible access to their retirement savings. However, many are paying too much tax when they first make a withdrawal, due to the way HMRC's computer systems operate.

Latest HMRC data shows it processed 12,000 reclaim forms in the last three months of 2023 relating specifically to this issue. In total it paid back nearly £39m to savers who have been overtaxed on pension withdrawals, making the average rebate £3,216.

The problem occurs when savers first make a withdrawal from a drawdown plan (rather than just taking their tax-free lump sum). HMRC software assumes that this payment will be a regular monthly withdrawal, and taxes it accordingly, via an emergency tax code.

Tax rebate

In many cases, however, people aren't taking a regular payment but are using the pension freedom rules to make one or more ad-hoc withdrawals – perhaps to pay for a holiday, home improvements or reduce debts – and so end up with a smaller sum due to this taxation issue. If you have been overtaxed, you can claim

this money back via an HMRC form. Complete either a P55, P53Z or P50Z depending on your circumstances. Those who don't complete a form should have this tax readjusted in the following year, via the self-assessment process.

Staged payments

If you are planning to make a flexible withdrawal from your pension plan in the near future, there are steps you can take to try to avoid this problem. The best way is to make a very small initial withdrawal. The temporary tax code is then imposed on this smaller sum, and will be reapplied to the second, larger withdrawal. There may still be some adjustments to make but it is unlikely to result in such a large overpayment.

✚ *The Financial Conduct Authority does not regulate tax advice. Tax treatment varies according to individual circumstances and is subject to change.*

For specialist tax advice, please refer to an accountant or tax specialist.