

Money Wise



financial planning and wealth management

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SUMMER 2024

How well will you be able to retire?

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for the first time

Serious about scams

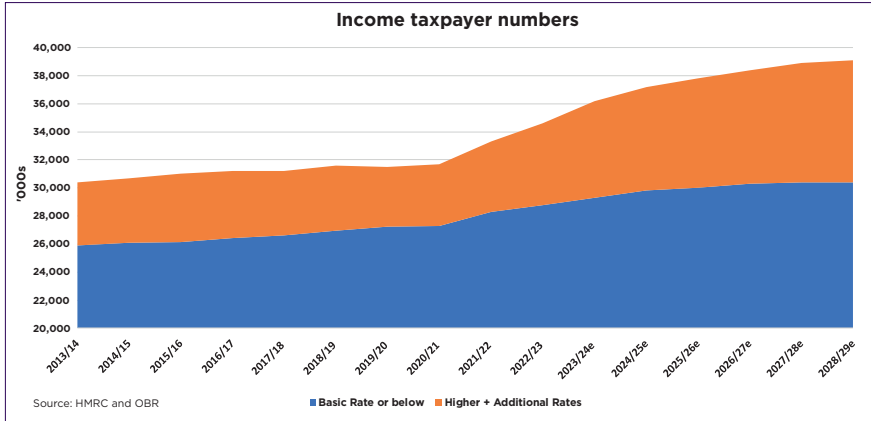
Don't fall prey to summertime
and other frauds

Long term sickness

Could you manage a long
absence from work?

Time to check in with HMRC?

Freezes and cuts to tax allowances mean that you may have something to report to HMRC.



A recent report from the National Audit Office (NAO) was highly critical of HMRC, noting that in 2022/23 its 'customers' (that's you) spent the equivalent of 798 years on hold, waiting for an HMRC adviser to answer their call. As bad, only 53% calls were eventually answered by an adviser.

Unfortunately for HMRC and its 'customers', matters are likely to worsen due to a combination of:

- the continued freeze in the personal allowance and higher-rate tax threshold (both unchanged since April 2021);
- the two consecutive reductions in the dividend allowance and capital gains tax annual exempt amount; and
- higher interest rates: a personal savings allowance frozen since April 2016 leaves more savers having to pay tax on their interest.

If you are already within the self-assessment regime, then the extra tax liability will normally be dealt with via your tax return. However, if

you (or your accountant) do not file a self-assessment return, things become more complicated.

What you cannot do is ignore the situation and assume that, if HMRC does not contact you, then there is nothing to worry about. If you have a tax liability, the law says you must pay it. Remember that HMRC automatically receives records of interest paid to you (from onshore accounts and, in nearly all cases, offshore accounts) as well as your earnings if you are an employee. Stay silent and you may eventually receive a probing letter from HMRC. The end result could be that interest and penalties are added to overdue tax...and HMRC makes you a five-star customer, worthy of close attention.

As for reducing the tax you pay in the future, why not give us a call? We promise not to keep you hanging.

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

Don't fall for scams this summer

Make sure your finances don't get burnt this summer, as fraudsters set their sights on unwary holidaymakers. Action Fraud, which aims to prevent scams and cyber crime, says sun-seekers lost £12.3m last year from targeted frauds, with the average loss being £1,851.

It isn't just holidaymakers who need to be on their guard. Financial scams are rife, with fraudsters targeting bank accounts as well as pensions and savings. Phishing scams are among the most prevalent — where emails or texts are sent out, purportedly from a trusted company, encouraging people to disclose personal or financial details, or to visit a website which can download a virus onto their device to harvest further data.

Financial scams remain rife

Investment scams are also common. Here, fraudsters convince people to transfer pensions or other savings into schemes promising enticing returns. Of course, these too-good-to-be-true investments turn out to be just that. At best, they are high-risk, unregulated investments where there's a strong chance that savers will lose money. At worst, they are pyramid schemes, where the money simply lines the bank accounts of the criminals targeting unwary investors.

Hundreds of people fall victim to financial scams every year. Last year over 800 people contacted a dedicated helpline set up by the Money and Pensions Service (MaPS), with losses totalling £13.6m, an average of £16,297 per caller.

Be cautious and don't rush

There are steps you can take to help protect yourself. Before putting money into any investment or pension product run the details through the ScamSmart investment checker.

Remember the golden rules: never be rushed into making a financial decision and be extremely wary of any third party contacting you. And finally, don't forget that if a deal looks too good to be true, it is probably a

scam.



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How well will you be able to retire?

You may need to review your retirement planning after updated figures show some increases of over a quarter for retirement income needs.

How much income do you need in retirement?

If you find yourself struggling to answer, you are not alone. It is never easy to calculate as each of us have our own ideas about what we want from retirement. A study by the Pensions and Lifetime Savings Association (PLSA) has shown that 77% of savers did not know how much they would need, while only 16% could provide a figure.

Since 2019, research by Loughborough University for the PLSA has regularly addressed the how-much question by considering three different retirement living standards, defined as:

■ **Minimum:** Covers all your needs, with some left over for fun.

■ **Moderate:** More financial security and flexibility.

■ **Comfortable:** More financial freedom and some luxuries.

These categories are used to review spending across six broad areas, ranging from housing to helping others. They are costed separately for single people and couples and for London residents and those living elsewhere in the UK. For example, under the heading of holidays and leisure, the three standards currently assume:

■ **Minimum:** One week-long UK holiday.

■ **Moderate:** A fortnight 3* all-inclusive holiday in the Med and one long-weekend break in the UK.

■ **Comfortable:** A fortnight 4* holiday in the Med with spending money and three long-weekend breaks in the UK.

The yearly income requirements for each standard are net, which means at the higher levels tax is a significant factor. For instance, the £45,000 of net income required to provide a comfortable retirement for a single person living in London equates to a pre-tax pension income of over £54,000.

“The PLSA has shown that 77% of savers did not know how much they would need, while only 16% could provide a figure.”

This year's update revealed a 26.8% increase in the income needed for a couple based outside London to enjoy a moderate living standard. For a single person, the rise was even greater – 34.3%. The PLSA attributes the jump to two main factors:

- Disproportionately higher food, household energy and motoring costs; and
- What the PLSA described as “changes in the expectations of what should be included”. For example, the latest research revealed that being able to give financial support to family members has become more important.

The current State pension of £11,502 is not even enough to cover the minimum retirement standard for a single person, although if a couple both have a full entitlement, it will just be sufficient – outside London. And, as has been the source of many complaints from the Women Against State Pension Inequality or WASPI group affected, the State pension does not now start until age 66 (67 from April 2028).

If you aspire to the Mediterranean fortnight rather than seven days of UK weather, or even hope to finish work before your State pension arrives, you need to accumulate sufficient personal retirement funds. Typically, that begins by assessing what you have already have built up and then working out how much extra is required by the time you retire. Like the difficult question about retirement income, it is a set of calculations best left to experts.

✚ *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.

Occupational pension schemes are regulated by The Pensions Regulator.

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News in brief...

Elections 2024 – what's next?

Beware immediate reactions – the dust needs to settle.

2024 is a year of elections around the world from Algeria to Venezuela (via Tuvalu). At the time of writing, the polls define the UK's vote as a foregone conclusion, even if their past record (e.g. on Trump and Brexit) points to some caution being necessary.

Whoever wins, there will be no Budget before at least mid-September. Labour's Shadow Chancellor Rachel Reeves ruled out a summer Budget because she wants a full report from the Office of Budget Responsibility (OBR) first. The OBR requires ten weeks' notice to crunch the numbers, leaving only a small gap before party conference season begins. For the Conservatives, Jeremy Hunt (or his replacement) would also want an OBR report before acting – the Liz Truss mini-Budget has made it impossible to do otherwise.

Whoever enters No 11 must also prepare a Spending Review, theoretically running for three years from April 2025. That Review needs to be published by November. It is possible, particularly if the first female Chancellor moves in, that there could be an interim one-year Review, to give the new government more time to settle in and develop its spending plans. Consequently, the significant Budget may not be in the Autumn, but next Spring.

Those timings reinforce a lesson from many past elections: hold off taking rushed investment decisions based on initial results and reactions. The picture should be much clearer later in the year.

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The cost of long-term of sickness

If you are or become ill, state support remains minimal.

In a speech on welfare in April, the Prime Minister attacked the UK's "sick note culture", observing that that a record 2.8 million people were off work with long-term illness. He proposed that sick notes (strictly "fitness to work notes") be replaced with fit notes, issued by health and work specialists rather than doctors.

In the run up to the pandemic, the long-term sick population was fairly stable at 2.0 million. The significant jump since then has added to government expenditure, one of the factors concerning Mr Sunak. However, as many people discovered at the time of Covid-19, sickness benefits are far from generous:

- If you are an employee, statutory sick pay (SSP) is £116.75 a week, payable from day four of sickness for the first 28 weeks off work. Your employer may also provide sick pay but is not required to do so.
- If you are self-employed, you do not qualify for SSP but must claim Employment and Support Allowance (ESA), which is also

available to employees once their SSP payments cease. For a couple, the basic rate is generally £142.25 a week, to which there may be various additions. For a single person, the corresponding figure is £90.50.

- If either of these payments is insufficient to cover your living expenses, then the next port of call is Universal Credit (UC). However, this is unavailable if you (along with your partner) have savings of more than £16,000. Pass that hurdle and the assessment still takes account of your partner's income.

Were you to become unable to work through illness, would you and your family be able cope on what the State provides? If the answer is no, or not for long, then talk to us about your income protection options now, to put safeguards in place.

“ *A record 2.8 million people were off work with long-term illness in April. This significant jump since COVID-19 has affected government expenditure.*

Basis year now means tax year

Are you aware of the changes to the way your profits are taxed if you are self-employed or in a partnership?

An old trick of Chancellors who cannot raise tax rates but need more revenue is to accelerate the payment of tax. The latest example was announced in October 2021 with the claimed objective of creating “a simpler, fairer and more transparent set of rules for the allocation of trading income to tax years”. As usual, such a promise should be treated with caution.

The change, which has now come into effect, means that for 2024/25, if you are self-employed (or a member of a partnership), you will generally be taxed on the profits made between 6 April 2024 and 5 April 2025. If your business's accounting year is different and its year end is not between 31 March and 4 April (all treated as 5 April), then generally:

- For 2024/25 you (or your accountant) will need to apportion two accounting periods to arrive at profit based on the tax year.
- For 2023/24 you will be taxed on:
 - the profit for your accounting period ending in that tax year; plus
 - the profits you make from the end of that period to 5 April 2024, calculated by apportionment.

The acceleration in 2023/24 is subject to two special treatments for the apportioned profits:

- They can be reduced by any overlap relief you have from earlier years.
- The apportioned profits less the overlap relief can be spread over a period of up to five tax years, with a 20% minimum applying for 2023/24.

The extra taxable income could drag you into a higher tax band, or mean that your personal allowance becomes subject to tapering. However, you may be able to gain more tax relief by making pension contributions that offset some or all of the additional profit. For more advice on this and other planning opportunities created by the reform, please contact us.

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“ *The apportioned profits less the overlap relief can be spread over a period of up to five tax years, with 20% minimum applying for 2023/24.* ”

Credit: Ground Picture/Shutterstock.com



Managing something in reserve?

It pays to expect the unexpected, particularly when it comes to your finances — so a rainy-day savings fund can make all the difference.

Setting aside money can be challenging, but a reserve fund offers long-term benefits in a range of circumstances, from out of the blue expenses to a drop in income due to redundancy or ill-health.

The link between financial well-being and mental health underlines the importance of building some kind of resilience into your planning. A financial cushion lets you manage budget shortfalls without borrowing or tapping into other investments or pension funds.

Private pensions can be accessed from age 55, but withdrawing funds early can have downsides: you might sell investments during a market downturn or incur tax charges, and future pension contributions could be restricted. Having a back-up savings fund means these retirement savings and pensions can stay invested for the longer term, maximising growth opportunities.

Easy access

Rainy-day savings for emergencies should be in an easy access account. Using a cash ISA means all interest is earned tax-free. On ordinary savings accounts basic-rate taxpayers can earn £1,000 in interest a year tax-free, with higher-rate taxpayers' tax-free interest set at £500; beyond this interest is taxed at the saver's marginal rate. With rising interest rates, more savers might face tax on savings interest, making cash ISAs more appealing. The annual ISA allowance is £20,000, shared across all ISA types.

As a rule of thumb you should aim to build funds through regular savings that would cover your usual expenses for three months.

✚ *Investments do not offer the same level of capital security as deposit accounts.*

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