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MARCH/APRIL 2021

REDUCE YOUR INHERITANCE TAX BILL

10 WAYS TO PROTECT YOUR ESTATE FOR YOUR LOVED ONES

RESPONSIBLE INVESTING
Invest today. Change tomorrow

PASSING ON PENSION BENEFITS
Providing for your loved ones after your death

TAX PLANNING REIMAGINED
Identifying the best options to preserve your wealth

CREDENCIS, 18 PRINCE STREET, LONG EATON, NOTTINGHAM, NG10 4LH
T: 0115 896 7538 **M:** 07761 031543 **E:** info@credencis.co.uk

INSIDE THIS ISSUE

Welcome to our latest edition. At the time of publishing, Chancellor of the Exchequer Rishi Sunak had not delivered his Budget 2021 speech. We'll look at the key announcements and how these could affect your personal, family and business finances in the next edition.

You've worked to create a legacy for the people you care about. But have you put in place plans so that your loved ones can receive the most from the estate you intend to leave behind? Even if you believe you have moderate wealth you may still need to take action to minimise Inheritance Tax. On page 10 we consider why it can be a great concern for individuals with wealth exceeding the current £325,000 nil-rate band (2020/21 tax year).

Responsible, sustainable and environmentally friendly investing is here to stay. But, while demand is growing among all age groups, genders and income bands, some savers and investors are missing their biggest opportunity for responsible investing, which is through their pension. Read the full article on page 08.

If you've spent a lifetime saving for retirement, you'd probably like any remaining money to go to a loved one after your death. But whether pension benefits are payable to a beneficiary, and how they'll receive them, is dependent on the type of pension you've chosen and how you've accessed it in your retirement. Find out what to consider on page 03.

No one likes to pay tax on their hard-earned money. But due to the complexities of the tax system, without expert professional financial advice, some individuals could be paying more tax than necessary. Turn to page 06 to see what you may need to consider before the end of every tax year on 5 April. A full list of the articles featured in this issue appears opposite.

PLANNING FOR LIFE'S JOURNEY

Your wealth needs to serve you differently at different stages of your life. Individual life planning should not be a one-off exercise. Your personal circumstances, requirements, expectations and aspirations will develop over time. That's why we're here to support you through life's adventures and provide the right solution at every step of the way. To discuss how we can help you plan for life's journey, please contact us. We look forward to hearing from you.

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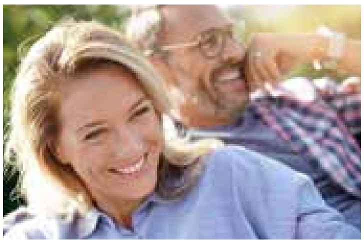

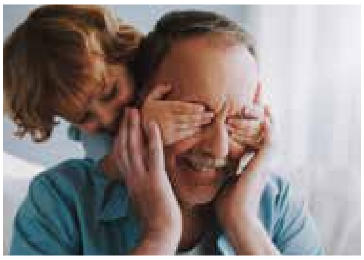

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THE VALUE OF INVESTMENTS MAY GO DOWN AS WELL AS UP, AND YOU MAY GET BACK LESS THAN YOU INVESTED.

PASSING ON **PENSION BENEFITS**

PROVIDING FOR YOUR LOVED ONES AFTER YOUR DEATH

If you've spent a lifetime saving for retirement, you'd probably like any remaining money to go to a loved one after your death. But whether pension benefits are payable to a beneficiary, and how they'll receive them, is dependent on the type of pension you've chosen and how you've accessed it in your retirement.

Thanks to changes in the way that pensions are taxed, more of your fund can survive your death and provide an income or nest egg for your loved ones to enjoy, long after you are gone. Since April 2015 it has been easier to safeguard your pension for your heirs, but it's important to make sure you're keeping up with the changes.

The way that you decide to take your pension will affect what you can do with it when you pass away. And while it's not always easy to talk about, the way you eventually pass on your pension has the biggest impact on other people, so it could help if you talk to your spouse, partner, children or other people close to you when you're deciding how you take your pension savings.

PENSION DEATH BENEFITS

If you have not yet accessed your pension, or you have made withdrawals from your pension but left some money invested, it can usually be passed to a beneficiary after your death. The specifics, for example, in what form they will receive these death benefits and whether they will pay tax, will depend on your individual circumstances (such as your age) and the scheme rules.

You should always obtain professional financial advice to assess your specific situation. But if your pension scheme allows you to choose a beneficiary, ensure you have named the person you intend to leave your money to.

ANNUITY DEATH BENEFITS

If you have used your pension savings already to purchase an annuity, this can only be passed on to a beneficiary in certain cases, which must be established when the annuity is purchased. A typical lifetime annuity only provides a guaranteed income for the lifetime of the annuity holder, regardless of how long this is.

For your annuity income to go to a loved one after your death you must choose either an annuity with a guarantee period (which provides an income for a set period, whether you are still living or not) or a joint life annuity (which provides an income for life for whichever partner lives longest).

STATE PENSION INHERITANCE

In certain circumstances, your partner can continue to receive your State Pension after your death. For example, if you're a man born before 1951 or a woman born before 1953, and you're receiving the Additional State Pension, this can be inherited by your partner (husband, wife or registered civil partner) after your death if they have reached the State Pension age. ■

PROVIDING AN INCOME OR NEST EGG FOR YOUR LOVED ONES TO ENJOY

You've worked and saved throughout your life so that your pension will provide you with enough to live on in retirement. Now, thanks to changes in the way that pensions are taxed, more of your fund can survive your death and provide an income or nest egg for your loved ones to enjoy, long after you are gone. Contact us to find out more.

ISA DEADLINE 5 APRIL 2021: USE IT OR LOSE IT

MAKE THE MOST OF THE TAX BREAKS BEFORE IT'S TOO LATE

If you hold a Cash Individual Savings Account (ISA) you may be dissatisfied with the low rates of interest you receive, which could make it difficult to grow your money even at a rate that keeps pace with inflation.

Stocks & Shares ISAs offer the possibility of higher returns than Cash ISAs, but only if you're prepared to take some risks with your savings. These investment accounts offer tax-efficient benefits, and while a Cash ISA is simply a tax-efficient savings account which offers capital security, a Stocks & Shares ISA lets you put money into a range of different investments.

MAKE THE MOST OF YOUR ISA ALLOWANCE

All UK residents over the age of 18 receive an annual ISA allowance of £20,000 (2020/21 tax year). This is the amount you can pay into your ISA (or split between several ISAs of different types) to allow it to grow through interest, capital gains or dividend income, and you won't pay tax on these proceeds.

Because you can't carry over your ISA allowance into a new tax year, it's important to use it by 5 April each year. You need to bear in mind, though, that tax rules can change in future and that their effects on you will depend on your individual circumstances.

DON'T OBSESS OVER TIMING

When getting started, a common concern is that the market will fall just after you've made a large investment. Some people make the mistake of trying to 'time the market' – buying in just before prices spike – which, while tempting, is very difficult given the unpredictable nature of investments.

If appropriate, a safer strategy can be to drip-feed money into your Stocks & Shares ISA throughout the year. Sometimes you might buy when the market is high, and sometimes when it is low, but over time the aim is for this to average out.

TIME TO MAKE YOUR DECISION

When you set up your Stocks & Shares ISA, you'll make some decisions about how your money is invested. How involved you are in your investment decisions varies between different ISA providers; some allow you to choose individual investments, while others provide ready-made portfolios.

Either way, your professional financial adviser can explain how funds work. These funds may invest in shares in specific markets, regions or industries, or in bonds, in property, in a combination of these, or in entirely different assets.

MATCH YOUR INVESTMENT GOALS

Funds tend to advertise themselves based on their past performance, so it's naturally tempting to choose those that have achieved the most growth in recent years. But past performance doesn't guarantee future performance and outstanding performance last year could be the result of a trend that will self-correct this year. Don't base your decisions on this factor alone.

Instead, select funds with a stated objective that matches your investment goals in terms of risk and return. Any investment involves an element of risk. But multiple factors can raise or lower the risk level of a fund, including the assets it invests in, the region, industries and companies it invests in, and the way it is managed. Consider all these factors.

REVIEW YOUR INVESTMENTS REGULARLY

Once you have made your investment selections, you should review your Stocks & Shares ISA regularly to make sure it still meets your needs, which may change over time. For example, if you hope to buy a house in ten years' time, you might initially choose higher-risk investments, but after five years you might want to reduce your risk level to protect your existing capital.

While annual reviews of your investment strategy are wise, more frequent adjustments are not usually recommended. There are many reasons you might be tempted to adjust your investments. You might have heard of a well-performing stock that's offering unbelievable returns. Or you might have suffered a sudden loss and decide your existing investments are underperforming.

INVESTMENTS, BY NATURE, FLUCTUATE IN VALUE

It's more helpful to recognise that investments, by nature, fluctuate in value. A sudden rise in one doesn't mean you should buy and a sudden fall in another isn't a sign you should sell – in fact, you may recoup that loss more quickly by holding it.

Constantly moving funds can be stressful and ultimately unproductive. In most cases, you're better off sticking with your investments through ups and downs. Diversification (which can be achieved by investing in several unrelated funds) can also help to manage your risk level. ■

INVEST IN YOUR FUTURE TODAY WITH A STOCKS & SHARES ISA

Amid the mayhem caused by the coronavirus (COVID-19) pandemic, it is easy to forget that the end of the current tax year is approaching on 5 April and that means you don't have much time left to make use of the tax advantage of your £20,000 ISA allowance. For help selecting funds to suit you, contact us for more information.

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PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

INFLATION BEATERS

HOW TO ENSURE YOUR MONEY IS PROTECTED FROM RISING INFLATION

With current interest rates on cash savings very low, it is difficult to achieve growth above the rate of inflation. And if the cost of living is rising faster than your savings are growing, you're effectively losing money.

With cash savings, a penny saved is a penny earned. But thanks to inflation, over time, the value of the penny saved could be much less than when it was earned. When looking at investments, always focus on what is the real return or the return net of inflation.

Over longer periods, well-managed investments usually grow by more than cash. Even if inflation isn't a worry right now, you should still factor it into your investing strategy. Here we explain in simple terms how to beat inflation.

CONSISTENTLY OUTPACED INFLATION

Investments that change in value a lot day-to-day tend to increase in value the most over several years. Investments that change in value a little day-to-day tend to increase by less over several years.

So, if it doesn't worry you to see falls in value occasionally, and you have enough money in other places that it wouldn't affect your lifestyle, you might target high growth with higher risk investments, for example, a portfolio of equities. Investing in equities over a long period has consistently outpaced inflation.

LOWER RISK INVESTMENTS

Otherwise, you might target just enough growth to beat inflation with lower risk investments. One example is bonds: loans given to governments and companies that are repaid at a fixed rate of interest.

Either way, there is always the risk that you could lose money, so you should keep enough savings separately in a cash account to cover any emergency expenses and short-term savings goals.

AHEAD OF INFLATION

One good way of staying ahead of inflation is buying stocks that pay good dividends. Dividends are a tangible return paid by companies and can keep up with inflation. And just like inflation, dividends, too, can be calculated annually.

This figure, called the dividend yield, can be measured by adding dividends received during the year and dividing it by the stock price. The yield must be higher than the annual inflation rate. Asset allocation is also critical. In this, one can look at an opportunity to diversify globally. This will make your portfolio more stable and less vulnerable to domestic volatility and inflation.

INVESTING TAX-EFFICIENTLY

Because investments have potentially higher returns than cash savings, it's important to protect your returns from tax. Two common ways to do this are through Individual Savings Accounts (ISAs) and pensions.

ISAs currently allow you to invest up to £20,000 a year (tax year 2020/21), which can provide a tax-efficient return through interest, capital gains and dividend income. Pensions offer the same benefits, plus tax relief on your contributions up to a maximum of £40,000 a year (or 100% of your salary if it is less than £40,000). However, you can't currently access your pension money until you reach age 55. ■

PROTECT YOUR PORTFOLIO FROM INFLATION

Inflation is low, but that doesn't mean investors should ignore it. To create a portfolio aligned with your goals and choosing the right inflation-beating investment vehicles, it's important you have a good mix of investments in your portfolio. To discuss your options, please contact us today to find out more.

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TAX PLANNING REIMAGINED

IDENTIFYING THE BEST OPTIONS TO PRESERVE YOUR WEALTH

No one likes to pay tax on their hard-earned money. But due to the complexities of the tax system, without expert professional financial advice, some individuals could be paying more tax than necessary. Before the end of every tax year on 5 April, you have the opportunity to save money on taxes and plan for the year ahead.

As we approach the end of the tax year, now is the time to review your tax affairs to ensure that you have taken advantage of all reliefs and options available to you. If you think you may be overpaying tax, here are some ways in which you might be able to reduce your bill. This information should not be construed as advice and is applicable to the 2020/21 tax year end.

INCOME TAX

KEEP YOUR PERSONAL ALLOWANCE

Income Tax rules appear simple at first: income under £12,500 is within your tax-free personal allowance, and increasing rates apply to income in higher bands.

But there is an additional rule: for every £2 you earn over £100,000, your personal allowance reduces by £1. Once you reach £125,000 your personal allowance is zero.

If you're close to the £100,000 threshold, it may therefore be sensible to request tax-efficient alternatives to bonuses or salary increases, such as higher pension contributions.

TRANSFER ASSETS TO YOUR PARTNER

If you're close to the £100,000 threshold and you have other income yielding assets, you could consider transferring these to a partner with a lower taxable income.

CLAIM TAX RELIEF FOR WORKING FROM HOME

If you're currently working from home due to the coronavirus (COVID-19) pandemic you may be entitled to tax relief for your increased costs, such as heating or broadband. You could claim the exact amount, based on bills and receipts, or a set amount of £6 per week.

REVIEW YOUR CHILD BENEFIT

Individuals with a taxable income of over £50,000 who claim Child Benefit will pay a higher income Child Benefit charge, which could be equal to the benefit you receive.

Your options for reducing this charge include keeping your taxable income below the threshold (by exchanging salary for tax-efficient alternatives), temporarily stopping your Child Benefit, or deciding not to claim.

DIVIDEND TAX

USE YOUR DIVIDEND ALLOWANCE

Dividend income is taxed differently to other income. Every taxpayer has a tax-free dividend

/// WHETHER YOU ARE ABOUT TO RETIRE OR ARE STILL WORKING TOWARDS PUTTING YOUR FUND TOGETHER FOR RETIREMENT, THERE ARE MANY THINGS THAT YOU SHOULD CONSIDER WHEN IT COMES TO PLANNING YOUR PENSION.

allowance of £2,000, above which dividend income is taxed at 7.5% in the basic rate band, 32.5% in the higher rate band, and 38.1% in the additional rate band.

Company owners can therefore benefit by taking income from dividends rather than salary.

CAPITAL GAINS TAX

USE YOUR CAPITAL GAINS ALLOWANCE

Every taxpayer has a tax-free allowance of £12,300 when realising capital gains. Careful consideration of the split of assets between spouses can have a significant beneficial impact on a couple's Income Tax burden.

If you're approaching this limit, you may want to consider transferring assets to your partner to use their allowance.

INVEST FOR CAPITAL GAINS

Capital gains are currently treated more favourably than income and dividends for taxation purposes, at a maximum rate of 20% (28% for residential property), although this is currently under review.

So, for investments outside of a tax-efficient wrapper, for example, an Individual Savings Account (ISA), it can be more tax-efficient to target a return through capital gains than through interest or dividend income.

SAVINGS ACCOUNT (ISA)

USE YOUR ISA ALLOWANCES

All UK residents over the age of 18 have an annual ISA allowance of £20,000, which can be saved or invested in a tax-efficient environment. Under-18s have an allowance of £9,000 each.

LIFETIME ISAS

Contributions into a Lifetime ISA qualify for a 25% government bonus. This can be a tax-efficient way to help adult children buy a home.

PENSION TAX RELIEF

REVIEW YOUR PENSION CONTRIBUTIONS

Whether you are about to retire or are still working towards putting your fund together for retirement, there are many things that you should consider when it comes to planning your pension.

Pension contributions made through your employer are often the most tax-efficient. So, discuss options with your employer to exchange some of your salary for larger pension contributions. If you own the company, this could also help you save on Corporation Tax.

CARRY FORWARD YOUR PENSION ALLOWANCE

Your pension annual allowance (the amount you can make in contributions while claiming tax relief) is capped at £40,000 and reduces for higher earners who exceed the limits on threshold income and adjusted income (as a guide, this typically applies only if your income is above £200,000).

So, if your taxable income increases above these thresholds, your annual allowance could drop dramatically. Carrying forward unused annual allowance from up to three previous years could allow you to claim more tax relief.

MAKE PENSION CONTRIBUTIONS FOR OTHERS

If you have used your annual allowance, you can still contribute to other people's pensions, including your children and grandchildren, and they will receive tax relief.

PROTECT YOUR PENSION

There is a Lifetime Allowance on pension savings, currently £1,073,100. Above that limit, you'll be taxed severely when taking benefits. If you're approaching that limit, you should seek advice on applying for protection before accessing your pension.

INHERITANCE TAX (IHT)

USE YOUR IHT NIL-RATE BAND

Your nil-rate band for IHT is £325,000, plus any unused nil-rate band from a deceased partner. You also have an additional nil-rate band of £175,000 when leaving a home to a direct descendant.

CLAIM IHT RELIEF ON CHARITABLE GIFTS

If you leave at least 10% of your total estate to charity, IHT is applied on the portion outside of your nil-rate band at a reduced rate of 36% (otherwise 40%).

USE IHT RELIEFS WHILE AVAILABLE

IHT reliefs currently under review include Agricultural Relief and Business Relief. Business owners in particular should look at how their estate is arranged to ensure their wealth can be passed on efficiently.

UPDATE YOUR WILL

When there is any significant change in your financial circumstances, or to tax rules, reviewing and updating your Will can help to reduce your IHT exposure. ■

READY TO TALK TAX?

How can you help yourself and reduce the impact that these tax burdens could have on your financial affairs? If you would like to have an informal, no obligation conversation or have any questions to discuss ways of reducing tax in your individual circumstances, contact us for more details.

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RESPONSIBLE INVESTING

INVEST TODAY. CHANGE TOMORROW

Responsible, sustainable and environmentally friendly investing is here to stay. But, while demand is growing among all age groups, genders and income bands, some savers and investors are missing their biggest opportunity for responsible investing, which is through their pension.

We all want to make responsible choices as more of us are becoming aware of global challenges, such as environmental issues, human rights and climate change. We're also starting to care more about how our behaviours affect the planet and society.

FUTURE SUCCESS

Taking ESG (Environmental, Social and Governance) factors into consideration when investing is becoming more mainstream. It is acknowledged that companies that act responsibly to their employees, the environment and the public have a better chance of future success than those that don't. Investing in these companies is a logical approach financially as well as ethically.

Many pension holders understand this approach and see the value of it. In a recent survey, more than one-third of respondents said that the option to invest their pension only in sustainable companies is important to them[1]. Nearly two-thirds said having clearly branded funds for investing in environmentally and socially responsible companies is important.

PENSION INVESTMENTS

The same survey suggests that pension holders feel that sustainable investing isn't just important, but interesting. More than half of respondents said that a fund focused on clean energy and lowering carbon would make them more interested in their pension. A similar number felt that way about a zero-plastic fund.

But while pension holders feel these issues are important and interesting, that isn't yet affecting the way they invest. Most people don't manage their pension investments themselves, instead leaving their pension invested in the default options set by a provider chosen by their workplace. So, more than two-thirds of pension holders do not know how sustainable their pension is.

ENVIRONMENTALLY FRIENDLY

Many pension holders don't know that they can choose their own funds, and therefore that they can choose sustainable or responsible funds. Around half are unaware of ways to ensure their pension is environmentally friendly.

Clearly, there is a large audience of individuals who would like to invest their pension more sustainably and responsibly but don't know where to start. There are plenty of options, but without specialist experience, it can be difficult to select those that are truly responsible and environmentally friendly and will also deliver the financial return you're seeking. ■

INVESTING WITH PURPOSE

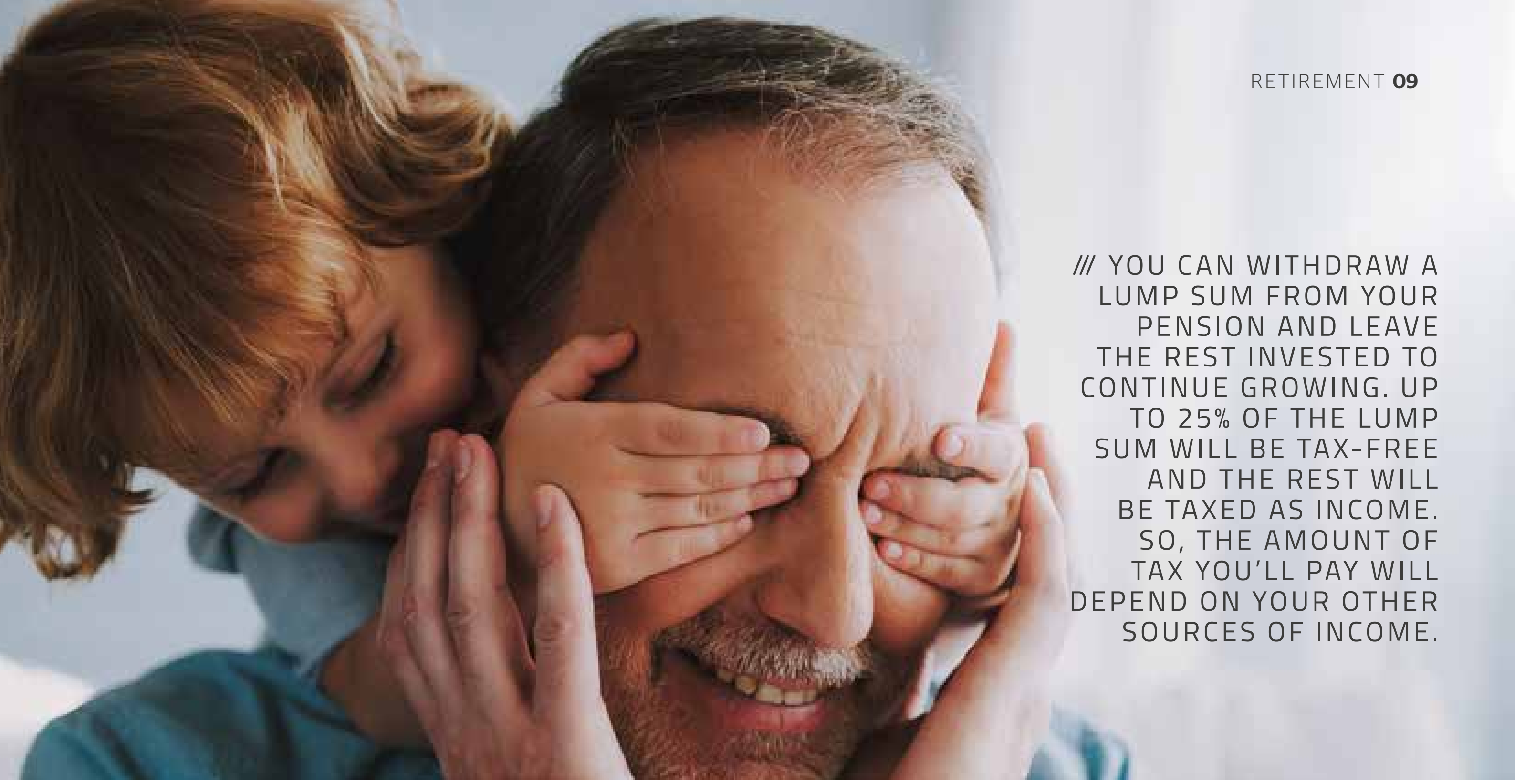
Responsible investors essentially take responsibility for the impact that the companies they invest in have on the world. Speak to us about what responsible investing options are available in your pension scheme and for advice on how to help your money have the greatest impact. We look forward to hearing from you.

/// MANY PENSION HOLDERS DON'T KNOW THAT THEY CAN CHOOSE THEIR OWN FUNDS, AND THEREFORE THAT THEY CAN CHOOSE SUSTAINABLE OR RESPONSIBLE FUNDS. AROUND HALF ARE UNAWARE OF WAYS TO ENSURE THEIR PENSION IS ENVIRONMENTALLY FRIENDLY.

Source data: [1] https://adviser.scottishwidows.co.uk/assets/literature/docs/2020-09-responsible-investment.pdf

A PENSION IS A LONG-TERM INVESTMENT NOT NORMALLY ACCESSIBLE UNTIL AGE 55 (57 FROM APRIL 2028). THE VALUE OF YOUR INVESTMENTS (AND ANY INCOME FROM THEM) CAN GO DOWN AS WELL AS UP, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE. YOUR PENSION INCOME COULD ALSO BE AFFECTED BY THE INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS.

THE TAX IMPLICATIONS OF PENSION WITHDRAWALS WILL BE BASED ON YOUR INDIVIDUAL CIRCUMSTANCES, TAX LEGISLATION AND REGULATION WHICH ARE SUBJECT TO CHANGE IN THE FUTURE. YOU SHOULD SEEK ADVICE TO UNDERSTAND YOUR OPTIONS AT RETIREMENT.



/// YOU CAN WITHDRAW A LUMP SUM FROM YOUR PENSION AND LEAVE THE REST INVESTED TO CONTINUE GROWING. UP TO 25% OF THE LUMP SUM WILL BE TAX-FREE AND THE REST WILL BE TAXED AS INCOME. SO, THE AMOUNT OF TAX YOU'LL PAY WILL DEPEND ON YOUR OTHER SOURCES OF INCOME.

PENSION OPTIONS

PLANNING YOUR FINANCIAL FUTURE, AND HOW TO GET THERE

One thing retirement is not, is an age. Not any more, anyway. Gone are the days of being told to stop working one day and pick up your State Pension the next. Today you have new pension freedoms to decide when and how you retire.

Pension freedoms in 2015 fundamentally changed the rules for cashing in your pensions. Current rules allow you far more freedom and flexibility over how to take your pension than in previous generations.

If you've saved into a defined contribution pension scheme during your working life, you'll eventually need to decide what to do with the money you've saved towards your pension when you retire, or at age 55, whichever is sooner.

LEAVING YOUR PENSION INVESTED

You may not be ready to take your pension at the age of 55. Leaving your pension invested and continuing to contribute can provide you with more retirement income once you are ready to take your pension. Obtaining professional financial advice will ensure that you have your pension invested effectively.

WITHDRAWING YOUR ENTIRE PENSION

At the other end of the scale, you have the option to withdraw all the savings in your pension at once. But this option has serious drawbacks, as clearly you won't be able to take an income from your pension if you've withdrawn all the money. You may also receive a significant tax bill to pay. While the first 25% of your pension can be taken tax-free, you'll pay income tax on the rest at your highest marginal rate. It would be unwise to do this without obtaining expert professional financial advice.

WITHDRAWING A PORTION OF YOUR PENSION

You can withdraw a lump sum from your pension and leave the rest invested to continue growing. Up to 25% of the lump sum will be tax-free and the rest will be taxed as income. So, the amount of tax you'll pay will depend on your other sources of income.

BUYING AN ANNUITY

An annuity is a guaranteed income for life (or for another set period). The income you'll receive depends on how much you have in pension savings with which to buy an annuity, as well as some other factors, such as your health. If you choose to buy an annuity, you can also take up to 25% as a tax-free lump sum when you start your retirement.

TAKING A FLEXIBLE INCOME FROM YOUR PENSION

Finally, you can take a regular income from your pension while it remains invested and has the opportunity to grow. You can take this income at whatever rate you want, but you are responsible for ensuring it lasts throughout your retirement years. Your professional financial adviser will help you establish a sustainable withdrawal rate and make sure that the rest of your pension is invested appropriately. ■

UNDERSTANDING YOUR OPTIONS

If you have a defined contribution pension, at some point you'll have to decide how you're going to take it. But if you're still working in your 50s or 60s, now's the perfect time to make sure your retirement savings are on track to provide you with the sort of lifestyle you want when you stop work. To find out more, please contact us.

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REDUCE YOUR INHERITANCE TAX BILL

10 WAYS TO PROTECT YOUR ESTATE FOR YOUR LOVED ONES

Even those who believe they have moderate wealth levels may still need to take action to minimise Inheritance Tax, particularly if they own property and have savings and investments.

/// ONE OF THE BETTER-KNOWN WAYS TO PASS ON WEALTH FREE FROM INHERITANCE TAX IS TO GIFT IT MORE THAN SEVEN YEARS BEFORE YOUR DEATH. OF COURSE, THERE IS A DEGREE OF UNPREDICTABILITY IN THE OUTCOME.

Inheritance Tax is payable in the UK on death, and sometimes when you give away certain assets during your lifetime. It can be a great concern for individuals with wealth exceeding the current £325,000 nil-rate band (2020/21 tax year).

Naturally, you'll want to pass on as much as possible to your loved ones, rather than paying 40% to HM Revenue & Customs (HMRC). Are you worried your family could be left with an Inheritance Tax bill after you're gone?

HERE ARE 10 TIPS TO PAY LESS OR AVOID INHERITANCE TAX:

1. POTENTIALLY EXEMPT TRANSFERS

One of the better-known ways to pass on wealth free from Inheritance Tax is to gift it more than seven years before your death. Of course, there is a degree of unpredictability in the outcome. If you were to die within seven years of making the gift, Inheritance Tax may be charged, though the rate will be reduced if more than three years have passed.

2. PERSONAL GIFTS

Gifts up to a certain value can be made free from Inheritance Tax, even in the last years of your life. Your allowance includes: large gifts totalling no more than £3,000; unlimited small gifts of up to £250; and wedding gifts of up to £5,000 for your children, £2,500 for your grandchildren, or £1,000 for others

Gifts made within your regular pattern of income and normal expenditure (for example, quarterly payments towards a grandchild's school fees from your annual income) can usually be made free from Inheritance Tax, although you may need to document this pattern for three or more years.

3. CHARITABLE GIFTS

Gifts to registered charities can be made entirely free from Inheritance Tax, which can help you to reduce the size of your estate to within the Inheritance Tax threshold.

Additionally, if at least 10% of your total estate is gifted to charity, it will reduce the rate of Inheritance Tax payable on your remaining estate (above the nil-rate band) from 40% to 36%.

4. INSURANCE

It is possible to take out a life insurance policy written in an appropriate trust that can provide a lump sum on your death to be used to pay the resulting Inheritance Tax bill. If this policy is within a trust, the lump sum paid out will not count towards your estate.

Insurance can also be taken out when making large financial gifts to cover the Inheritance Tax bill if you were to die within the following seven years (for example, before they are excluded from your estate). This is called a 'term assurance' policy.

5. PENSIONS

Typically, though with some exceptions, pensions are excluded from the calculation of your estate and can be passed on free from Inheritance Tax. It is important to name a beneficiary to whom you wish to pass on your pension benefits.

It is also possible to make payments in your lifetime into another person's pension, which will protect this money from Inheritance Tax. For example, you can set up a Junior Self-Invested Personal Pension for a grandchild under the age of 18 and pay in up to £2,880 a year. But they will not usually have access to this money until they reach age 55.

6. DISCRETIONARY TRUSTS

A discretionary trust can help you to reduce your Inheritance Tax liability by holding money in the name of your beneficiaries while you retain control. You can use your nil-rate band to pay in up to £325,000, which will be excluded from your estate after seven years. Funds above the nil-rate band may attract a lifetime tax charge.

7. LOAN TRUSTS

If you would like to protect your money in a trust but need to know you can withdraw it if you need it, it's possible to loan money to a trust. You will always have the option to withdraw the original capital you loaned, but any growth on that capital will be protected within the trust from Inheritance Tax.

8. DISCOUNTED GIFT TRUSTS

If you would like to earmark some wealth to be passed to a beneficiary or beneficiaries on your death, but you want any income generated to be paid to you in your lifetime, you can do this through a discounted gift trust. This will exclude the contents of the trust from your estate for Inheritance Tax purposes but still provide you with regular payments from it.

9. BUSINESS RELIEF

Business assets can usually be passed on either in your lifetime or after your death with Inheritance Tax relief of up to 100%. A business, interest in business or shares in an unlisted company will usually qualify for 100% Business Relief. Land, buildings and machinery related to the business will usually qualify for 50% Business Relief, as will shares controlling more than 50% of the voting rights of a listed company.

10. AGRICULTURAL RELIEF

If you own agricultural property (land or pasture used to grow crops or rear animals as part of a working farm), this can usually be passed on in your lifetime or after your death free from Inheritance Tax. ■

TIME TO PLAN YOUR ESTATE?

Inheritance Tax planning can be a complicated process, especially as rules and legislation seem to change every year. But with the right forward planning, it is possible to significantly reduce or even eliminate a potential Inheritance Tax liability. To identify the best ways to protect your assets for future generations, don't delay. Contact us to discuss your options.

COMBINED FINANCES

PLANNING AHEAD FOR YOUR FINANCIAL FUTURE TOGETHER

Some couples may prefer to keep their finances separate, while others share everything. Whichever method you've chosen, when it comes to retirement saving, it's worth planning together to ensure you've made the most of all the allowances and benefits offered to couples.

Your golden years may ultimately be the best of your relationship if you understand each other's future goals, needs and expectations.

SET YOUR BUDGET

The first step of planning for retirement is to look at how much money you'll need to cover your outgoings. Start by analysing your current spending, and then identify where your spending might increase and decrease over the years.

If you have different perspectives on how extravagant your lifestyle will be, it's best to discuss this openly and early on as you'll need to come to an agreement. One of you might be underestimating how much you'll need or overestimating what you can realistically afford.

Remember to plan for different circumstances. Hopefully, you'll enjoy a decades-long retirement together, but your finances might look very different if one of you were to fall ill or die. It might be unpleasant to discuss but is essential to plan for.

ASSESS YOUR FINANCES

Next, look at the income you'll both have from the State Pension and any private pensions. Set aside some time to trace pensions from previous workplaces that you might have forgotten about or not known an employer was paying into, as many people find extra cash that way.

Make sure you understand all of your options for withdrawing your pensions, as the amount you get back from your pension depends, in part, on which option you choose. Consider, for example, whether you want to take a tax-free lump sum of up to 25% of your pension savings at the start of your retirement, and how best you could use that.

If you have any debts or savings you haven't mentioned to your partner, it would be wise to open up about these now.

TOP UP YOUR SAVINGS

If your existing pension savings won't provide the income you think you'll need, look at ways to address the shortfall. Could you make some lifestyle changes now to save more for later?

If one or both of you have less than 35 years on your National Insurance record, you can make voluntary contributions to receive more State Pension.

It's worth obtaining professional financial advice about using both of your pension allowances, and whose pension it is more sensible to contribute to. You both have an 'annual allowance', which is £40,000 in the 2020/21 tax year, or 100% of your income if you earn less than £40,000.

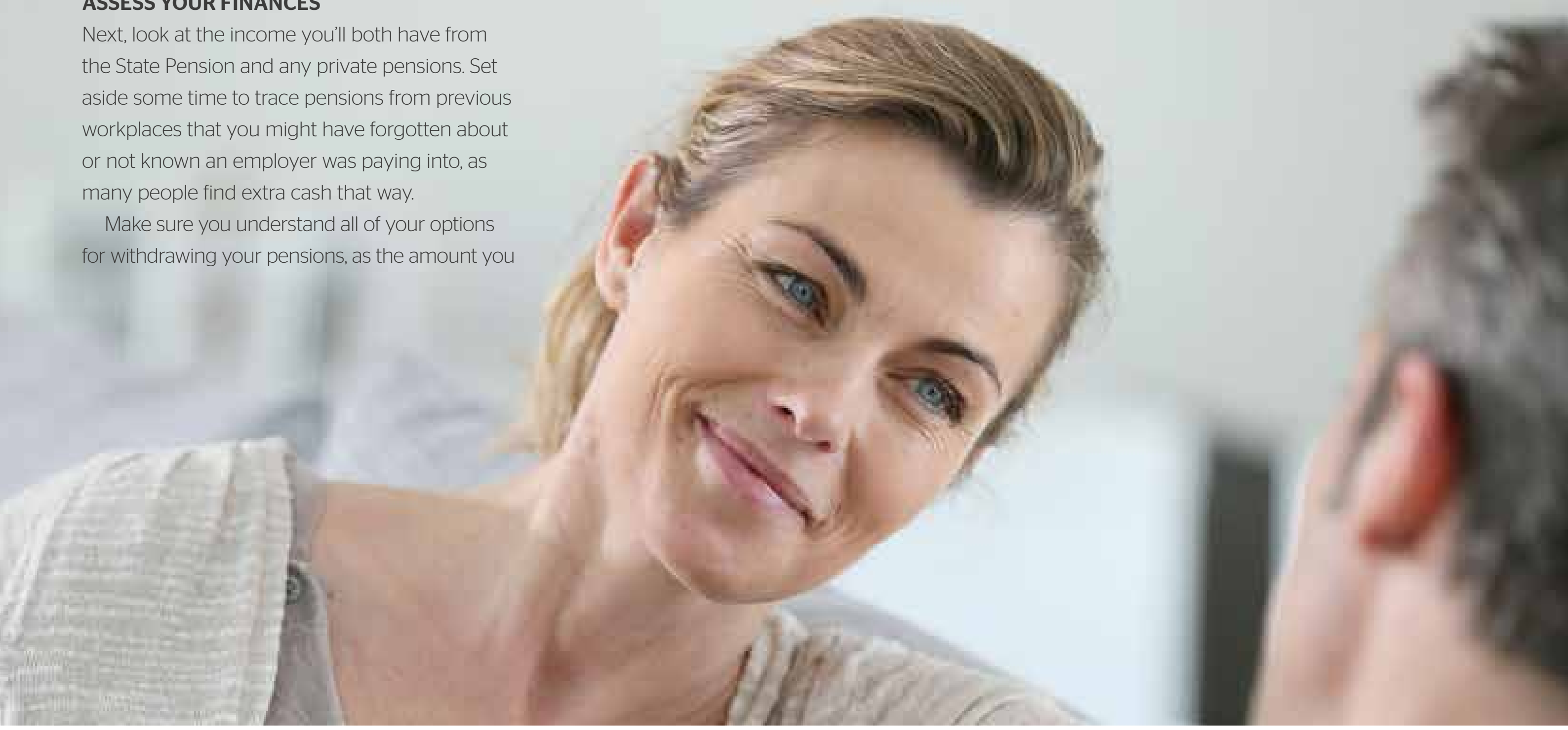
This means with the current annual allowance limit, someone paying Income Tax at the standard rate of 20% would receive a maximum sum of £8,000 of pension tax relief towards their pension pot. If you pay tax at the higher rate of 40% you would receive up to £16,000 of tax relief, while those in the additional rate band of 45% would currently receive £18,000 of tax relief. ■

NEED HELP WITH YOUR RETIREMENT PLAN?

It's important to carry out any financial planning exercise together, holistically, as a couple. If you don't fully understand your options or want to boost your pension savings, speak to us to discuss your circumstances.

A PENSION IS A LONG-TERM INVESTMENT NOT NORMALLY ACCESSIBLE UNTIL AGE 55 (57 FROM APRIL 2028). THE VALUE OF YOUR INVESTMENTS (AND ANY INCOME FROM THEM) CAN GO DOWN AS WELL AS UP, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

YOUR PENSION INCOME COULD ALSO BE AFFECTED BY THE INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS. THE FINANCIAL CONDUCT AUTHORITY DOES NOT REGULATE TAX ADVICE.



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