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YOUR WINDOW ON ***WEALTH*** AUTUMN 2023

Lifetime Allowance removal provides pension boost

Several months have passed since the Spring Budget, which, although not necessarily packed with good news stories, held one announcement that certainly did bring considerable cheer to higher rate taxpayers. A recent survey has revealed the dramatic impact that Chancellor Jeremy Hunt's decision to scrap the pension Lifetime Allowance (LTA) is having on people's retirement planning strategies.

Purpose of the move

In his first Spring Budget Statement delivered on 15 March, the Chancellor announced that the LTA charge would be removed from April 2023 and that the LTA would be abolished altogether from April 2024. This decision was essentially designed to remove a disincentive for retirement saving amongst higher earners and dissuade an increasing number of this group from retiring early.

Boosting pension contributions

New research[1] suggests the change has already had a significant impact on higher earners' pension saving and retirement planning decisions both in terms of spurring more contributions and encouraging retirement delays. According to the survey, 51% of higher rate taxpayers have restarted, increased or made plans to increase their pension payments since the announcement, with average additional payments amounting to £650 a month.

Extending working lives

In addition, 23% of respondents said they had delayed their planned retirement or are likely to delay their retirement due to the fact that they can now save a higher amount in their pension pot without facing a heavy tax charge. Furthermore, around 10% said they had actually come out of retirement as a result of the change, while another 6% were planning to come out of retirement.

Advice is paramount

While abolition of the LTA has undoubtedly simplified some decisions in relation to retirement and estate planning, it has also effectively increased the need for clients to seek professional advice on their pension arrangements due to the change in tax treatment. There is also always an element of political risk in financial planning which means clients may need to act quickly if they are to make the most of the opportunity the Chancellor has provided.

[1]Investec, July 2023

'Megatrends are defining the future'

The emergence of new trends and advancements such as the advent of AI, electric vehicles and other 'big picture' global innovations are set to shape our future, presenting opportunities to investors interested in capturing these themes in their portfolios.

The United Nations Economist Network has identified five megatrends impacting social, economic and environmental outcomes, these are – climate change, demographic shifts, urbanisation, digital and disruptive technologies and inequality. The World Economic Forum noted that *'megatrends are defining the future… short-term investors can be opportunistic, but long-term investors have to be more strategic, particularly in the face of these megatrends.'*

An ever-changing world creates opportunities and challenges

Developing a strategy and adding thematic investments to a portfolio can enable investors to align their personal objectives and interests, as well as identifying and hopefully capitalising on changes believed to be disrupting established markets and industries. By combining thematic elements with a well-diversified and well-managed core portfolio, investors could achieve balance between opportunity, risk and performance. Advice to identify these potential opportunities is essential.

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated.

INSIDE THIS ISSUE:

Overcome the complexities of succession planning

Succession, the hugely popular TV show, highlights the complexities of wealth transfer. There's a lot to think about when passing on your wealth – as well as the risk of family disputes, tax implications need to be taken into consideration.

Preserving, planning and communication
As families accumulate wealth and assets it becomes important to preserve these and to plan the transfer across generations. Without a solid succession plan, a family's hard-earned wealth could be at risk of erosion or loss, leading to potential disputes down the line.

Open communication through proactive discussions with all family members is important.

Take care with property
If you're planning to gift property during your lifetime, you need to be aware of complicated Inheritance Tax (IHT) rules around this. For example, if you gift a house to a family member but continue to benefit from it in some way, it will remain part of your estate when you die and HMRC could tax your loved ones at 40% on anything over the tax-free threshold.

Reclaiming overpaid IHT
Even when the estate has paid any IHT that's due, that's not the end of the story. Following several years of significant house price growth during the pandemic, property prices are now falling. This means that properties that were valued for IHT at the height of the pandemic are now likely to sell for less. Over the years, stock market volatility due to political and economic uncertainty has also led to investment losses for many. So, the IHT bill may have been overpaid and the estate will need to put in an overpayment claim.

There's plenty to consider. For support with your succession plans, get in touch.

More pension savers want to exclude oil

New analysis[2] has revealed an increase in the number of pension savers who would like to see the oil sector completely excluded from their pension investments, up from 15% in 2022 to 21% in 2023. Of the remaining 79%, almost half said they would only continue to invest in this sector if companies show a concrete commitment to cutting greenhouse gas emissions and improving their environmental impact. Alongside oil, investors were also concerned about companies contributing to deforestation and habitat destruction, predatory lending, and investments in alcohol and gambling.

With COP28 kicking off in the United Arab Emirates on 30 November it will be interesting to hear further views on this from the pension and investment industry and groups such as the Net-Zero Asset Owner Alliance, plus the intentions of the oil sector in committing to net zero.

Artificial Intelligence (AI) to be regulated

AI is having an impact on almost all areas of life, including financial services. With the government calling on the UK to be the global hub of AI regulation, the Financial Conduct Authority (FCA) has announced its intention to regulate critical third parties, including AI services, for the UK financial sector. Commenting on the FCA's role, Nikhil Rathi, FCA Chief Executive said, *"While the FCA does not regulate technology, we do regulate the effect on — and use of — tech in financial services."*

He added, *"As the Prime Minister has set out, adoption of AI could be key to the UK's future competitiveness – nowhere more so than in financial services."*

[2]PensionBee, 2023

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Dividend Allowance cuts: implications for investors

Dividend Allowance is just one of the tax-free allowances investors can utilise in the UK. As a result of the cuts, it could therefore be increasingly beneficial for dividend-heavy investors to explore routes that offer exemption from dividends tax on qualifying shares

With the UK in the midst of a sharp tax-raising drive, understanding the full impact of fiscal changes on investments has arguably never been so critical. One area that has been subject to particularly draconian reductions is Dividend Allowance, with changes in this area likely to have a significant impact on many investors.

Six-year slide

The annual tax-free Dividend Allowance was first introduced in 2016/17 and originally stood at £5,000. In 2018/19, it was reduced to £2,000, and was then halved to £1,000 from the start of the current tax year. This figure is set to halve again next April to stand at £500 – overall, this equates to a 90% reduction in the value of the allowance in the space of just six years.

Implications

Once an investor uses up their annual allowance they are liable for Income Tax on dividends, with the rate payable based on the Income Tax band they fall into. These changes will therefore inevitably increase the tax pressure on any individuals who own significant dividend-paying stocks or rely on dividends as a primary source of income.

Other options

The Dividend Allowance is just one of the tax-free allowances investors can utilise in the UK. As a result of the cuts, it could therefore be increasingly beneficial for dividend-heavy investors to explore routes that offer exemption from dividend tax on qualifying shares, such as ISAs (which are also free of Capital Gains Tax). Alternatively, it may be appropriate for some investors to consider equity options that prioritise long-term capital growth over dividend payments.

Understanding your behavioural biases

As an investor, you will have your own financial personality and preferences, which your adviser will consider when helping you to make financial decisions.

Parallels with F1

You may not think so, but parallels can be drawn between Formula One (F1) and investing. In F1, drivers may make suboptimal decisions during races due to cognitive biases, such as overestimating their abilities, ignoring risk factors, being overconfident or relying too heavily on past experiences.

Immediate gains

A driver may also adopt a herd mentality, such as following a similar strategy to another competitor and may focus too much on immediate gains rather than the overall race or championship. Emotions can also affect F1 drivers, potentially leading to aggressive driving or mistakes under pressure.

Systematic decision-making – in the driving seat

Just as in F1, recognising and managing behavioural biases is essential for successful investing. We can help you to counteract these biases by setting clear investment goals, diversifying your portfolio, maintaining a long-term perspective, using expertise to seek out diverse viewpoints and employing systematic decision-making processes that minimise emotional influences.

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‘Spot the dog’ fund

According to the latest data[3], the number of ‘dog’ funds have increased by 27% since February this year, that represents 56 equity investment funds versus 44 earlier in the year, but a reduction on the 86 dog funds identified in January 2022.

A ‘dog’ fund is defined as one which has failed to beat its benchmark over three consecutive 12-month periods and has underperformed by 5% or more over that entire three-year period.

Almost three-quarters of the dog funds’ total asset value (£32.14bn, up from £4.49bn) can be attributed to the global sector, where the number of dog funds rose from 11 to 24 during the period.

A sense of perspective

We all know that investment performance can be impacted by many factors and as the risk warning says – past performance is no guide to the future. If a fund has found itself in the doghouse it doesn’t necessarily mean it should be disposed of immediately. The fund managers are likely to be taking action to improve the performance, perhaps changing managers or redesigning the fund’s investment strategy. Sometimes it can be worth retaining a fund while it’s undergoing this process. Importantly, knowing why a fund is underperforming will inform the right course of action. That’s what we can determine.

Review review review

Trust us to identify any poor performers and advise you whether it’s worth sticking with those funds for the time being, or whether it’s time to look for other opportunities. There are many factors to consider in addition to fund performance before taking any action, such as your risk attitude, tax position and overall asset allocation, so rely on us to advise the appropriate course of action.

[3]Bestinvest, 2023

“British pensioners should benefit from British business success”

Chancellor Jeremy Hunt announced measures in his first Mansion House speech aimed at unlocking billions of pounds of extra pension cash to support the economy.

According to the government, the Mansion House Reforms aim to secure the best possible outcome for pension savers, whilst strengthening the UK’s position as a leading financial centre. This is to be achieved through an agreement with pension providers to put 5% of their investments into early-stage businesses in the biotech, fintech, life sciences and clean technology sectors by 2030. The reforms are estimated to provide a £1,000 a year boost in retirement to the typical earner who starts saving at 18.

Mr Hunt stated, *“British pensioners should benefit from British business success. By unlocking investment, we will boost retirement income by over £1,000 a year for a typical earner over the course of their career. This also means more investment in our most promising companies, driving growth in the UK.”*

IF YOU WOULD LIKE ADVICE OR INFORMATION ON ANY OF THE AREAS HIGHLIGHTED IN THIS NEWSLETTER, PLEASE GET IN TOUCH.

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It is important to take professional advice before making any decision relating to your personal finances. Information within this newsletter is based on our current understanding of taxation and can be subject to change in future. It does not provide individual tailored investment advice and is for guidance only. Some rules may vary in different parts of the UK; please ask for details. We cannot assume legal liability for any errors or omissions it might contain. Levels and bases of, and reliefs from taxation are those currently applying or proposed and are subject to change; their value depends on the individual circumstances of the investor.

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated. Changes in the rates of exchange may have an adverse effect on the value or price of an investment in sterling terms if it is denominated in a foreign currency. Taxation depends on individual circumstances as well as tax law and HMRC practice which can change.

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The Financial Conduct Authority does not regulate advice on deposit accounts and some forms of tax advice.

All details are correct at time of writing – September 2023.