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THORNTONS WEALTH

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Identifying the best options to preserve your wealth

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Make the most of the tax breaks before it's too late

INVESTING FOR YOUR CHILD'S FUTURE

Even small amounts can build up a substantial nest egg

PENSION OPTIONS

Planning your financialfuture, and how to get there

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WELCOME TO THE LATEST ISSUE OF THORNTONS WEALTH MAGAZINE.

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. On page 04 we consider how a Stocks & Shares ISAs offers the possibility of higher returns than Cash ISAs, but only if you're prepared to take some risks with your savings.

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. Read the full article on page 06.

One thing retirement is not, is an age. Not anymore 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. On page 08 we look at how pension freedoms in 2015 fundamentally changed the rules for cashing in your pensions.

Have you decided it's time to start saving for your little one? Whatever hopes and dreams you have for your children or grandchildren, it's reassuring to know that you can help make this happen by setting them on the path to financial security when they are young. Turn to page 10.

While many people have some savings for retirement, most of us will also depend on the State Pension to help cover our living costs. The full new State Pension payment is currently £175.20 a week (2020/21 tax year), but not everyone will receive the full amount and the age at which you'll receive it varies. Find out more on page 12. ■

Very best regards,

Thorntons Wealth

ISA DEADLINE 5 APRIL 2021: USE IT OR LOSE IT

Make the most of the tax breaks before its 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, 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 quicker 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 Thorntons Wealth on 01382 797600 or email enquiries@thorntons-wealth.co.uk for more information.

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THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

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 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 Thorntons Wealth on 01382 797600 or email enquiries@thorntons-wealth.co.uk for more information.

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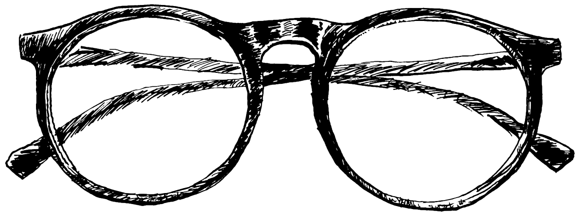
PENSION OPTIONS



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 Thorntons Wealth on 01382 797600 or email enquiries@thorntons-wealth.co.uk for more information.

A PENSION IS A LONG-TERM INVESTMENT NOT NORMALLY ACCESSIBLE UNTIL 55 (57 FROM APRIL 2028). THE VALUE OF YOUR INVESTMENT (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 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.

INVESTING FOR YOUR CHILD'S FUTURE

Even small amounts can build up a substantial nest egg

DECIDED IT'S TIME TO START SAVING FOR YOUR LITTLE ONE? PUTTING MONEY ASIDE FOR YOUR CHILD IS A GREAT WAY TO PREPARE THEM FOR THEIR FUTURE, AND CAN ALSO TEACH THEM VALUABLE LESSONS ABOUT THEIR MANAGING THEIR FINANCES.

Whatever hopes and dreams you have for your children or grandchildren, it's reassuring to know that you can help make this happen by setting them on the path to financial security when they are young. To fund the future you want for them, it's crucial to start saving early.

BUILDING WEALTH FOR YOUR CHILDREN OR GRANDCHILDREN

Junior Individual Saving Account (ISA)
Junior ISAs share the same set of rules as adult ISAs, though with a lower annual limit on contributions, currently £9,000 (2020/21 tax year).
This means they're a tax-efficient way to save in your child's name. The money cannot be withdrawn before the child's 18th birthday, so cannot be used for certain expenses, such as school fees. The child will take control of the money, and can make their own investment choices, from the age of 16.

Bare trusts
As with a Junior ISA, a child can withdraw money from a bare trust in their name once they turn 18. However, withdrawals can also be made for the benefit of the child before this age. So, it can be used for school fees, for example.

A second difference is that there is no limit on how much can be paid in. While it is not protected from tax (as a Junior ISA is), it will be taxed as if it belongs to the child, so will often fall within their personal allowances.

Discretionary trusts
Discretionary trusts offer more control and flexibility to the trustee. It is possible to establish one in the name of a group of beneficiaries (named or unnamed), for example, all your grandchildren. The trustee retains control over the money and investment choices and sets the payment terms.

However, the tax treatment is more complex than for bare trusts, usually resulting in higher taxes and more administration.

Junior Self-Invested Personal Pension (SIPP)
Junior SIPPs operate according to the same rules as other pensions, except that they have a lower £3,600 annual limit on contributions (2020/21 tax year).

This means that, like other pensions, tax relief is added to contributions, and no tax is paid on income and capital gains. It also means that, currently, withdrawals are not possible until the child reaches age 55. So, while they offer very little flexibility, there is potential for even small investments to grow significantly.■

WANT TO DISCUSS INVESTING FOR YOUR CHILDREN?
As the costs of private education, university, getting on the property ladder and weddings continue their relentless upward march, investing for your children early is crucial. If you'd like to discuss the best way to save for the next generation, contact Thorntons Wealth on 01382 797600 or email enquiries@thorntons-wealth.co.uk for more information.

TRUSTS ARE A HIGHLY COMPLEX AREA OF FINANCIAL PLANNING. THE FINANCIAL CONDUCT AUTHORITY DOES NOT REGULATE TRUST ADVICE.

TAX LAWS ARE SUBJECT TO CHANGE AND TAXATION WILL VARY DEPENDING ON INDIVIDUAL CIRCUMSTANCES.

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HOW MUCH IS THE STATE PENSION?

Understanding what you'll receive and when

WHILE MANY PEOPLE HAVE SOME SAVINGS FOR RETIREMENT, MOST OF US WILL ALSO DEPEND ON THE STATE PENSION TO HELP COVER OUR LIVING COSTS. THE FULL NEW STATE PENSION PAYMENT IS CURRENTLY £175.20 A WEEK (2020/21 TAX YEAR), BUT NOT EVERYONE WILL RECEIVE THE FULL AMOUNT AND THE AGE AT WHICH YOU'LL RECEIVE IT VARIES.

If you reached State Pension age before 6 April 2016, you'll receive the basic State Pension. The most you can currently get from the basic State Pension is £134.25 a week (2020/21).

WHO IS ELIGIBLE FOR THE STATE PENSION?

Eligibility for the State Pension is based on your National Insurance record, that is, the number of years in which you've either made National Insurance contributions (through employment or voluntarily) or received National Insurance credits (while unemployed, ill or raising children, for example).

To claim the full State Pension, you'll need at least 35 qualifying years on your National Insurance record. If you have less than 35 but more than 10, you'll be entitled to a reduced amount. With less than 10 qualifying years, you are not eligible for the State Pension.

WHEN WILL YOU RECEIVE THE STATE PENSION?

The current State Pension age is 66, but it is rising over time. By 2028, it will be 67, and by 2046 it will increase to 68. Plans that are currently being discussed could bring that increase forward to between 2037 and 2039, affecting anyone born after 1970.

HOW MUCH WILL YOU RECEIVE?

The current full State Pension is £175.20 a week but will increase to £179.60 on 6 April 2021. It will continue to increase every year, either by 2.5%, by the average growth in earnings, or by the average growth in prices (whichever is highest).

If you are eligible to a reduced State Pension based on your National Insurance record, the amount you receive is based on the number of qualifying years you have. You can estimate this amount by dividing the full State Pension by 35 and multiplying by the number of years on your National Insurance record, for example, for 10 years, your estimate would be around £50 a week.

If you'd like to increase the amount you are entitled to, you could fill gaps in your National Insurance record by making voluntary contributions.

IS THE STATE PENSION ENOUGH TO LIVE ON?

Even if you are entitled to the full State Pension, you should have other savings to improve your standard of living in retirement.

Most people have some savings in a workplace pension, and you might also consider a personal pension to help you reach your savings goal.

Retirement might seem a long way off. And if that's the case, then great, because you're in the best position to start planning for what should be the longest holiday of your life.■

BUILDING A BETTER RETIREMENT

No matter where you are on your retirement journey, to discuss how much you'll need to live on in retirement and how to save effectively, please contact Thorntons Wealth on 01382 797600 or email enquiries@thorntons-wealth.co.uk to review your options.