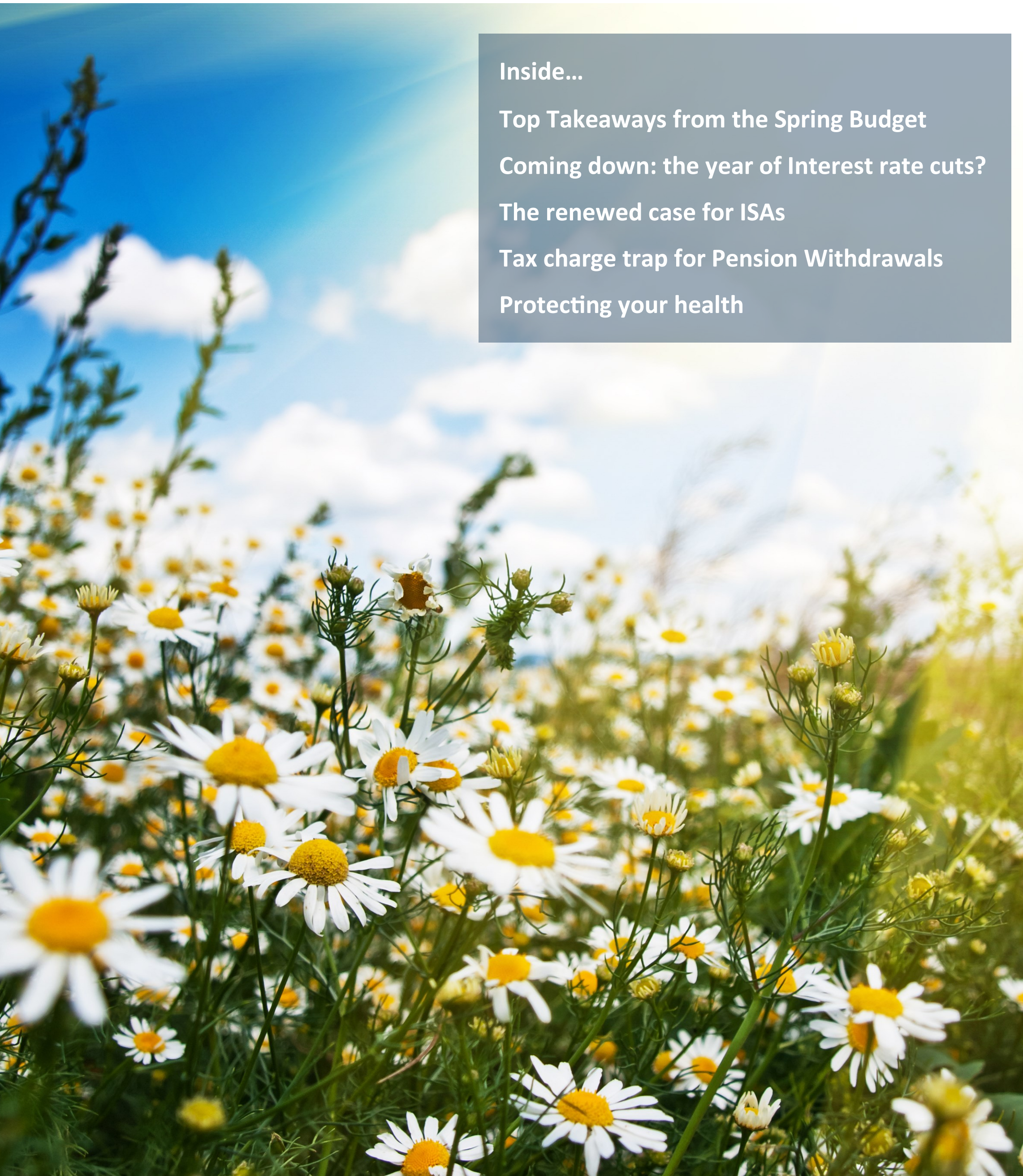
MoneyWise

Tel: 01827 53310 – www.medicswealth.com – enquiries@medicswealth.com SPRING 2024



Inside…

Tax charge trap for pension withdrawals

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

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

The problem occurs when savers first make a withdrawal from a drawdown plan (known as an uncrystallised funds pension lump sum (UFPLS) payment). HMRC software assumes that this payment will be a regular monthly withdrawal, and taxes it accordingly, via an emergency tax code.

Tax rebate

In many cases, however, people aren't taking a regular payment but making an ad-hoc withdrawal – perhaps to pay for a holiday, home improvements or reduce debts.

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

Staged payments

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

The renewed case for ISAs

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

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

- Halving the dividend allowance to £1,000 for 2023/24 and again to £500 for 2024/25.
- The capital gains tax (CGT) annual exempt amount was cut from £12,300 to £6,000 for 2023/24, then to £3,000 for 2024/25.

- Almost £25,000 was cut from the additional rate threshold leaving many more taxpayers with a zero personal savings allowance (PSA) from 2023/24.

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

ISAs offer a way to sidestep these tax increases. A reminder:

- Dividend income within an ISA is free of UK income tax, although withholding tax may apply to foreign dividends.
- Interest from deposits or fixed interest securities is also free of UK income tax.
- Gains on investments held within ISAs are free of CGT.
- There is nothing to report regarding ISAs on your tax return.

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

News Round Up

Additions to our team

We are delighted to announce two new members of personnel have joined us since our last Newsletter. Rebecca Barrett joined us in December 2023 to strengthen our research and paraplanning team and we welcomed Jasmine Letman to our office admin team in March 2024.

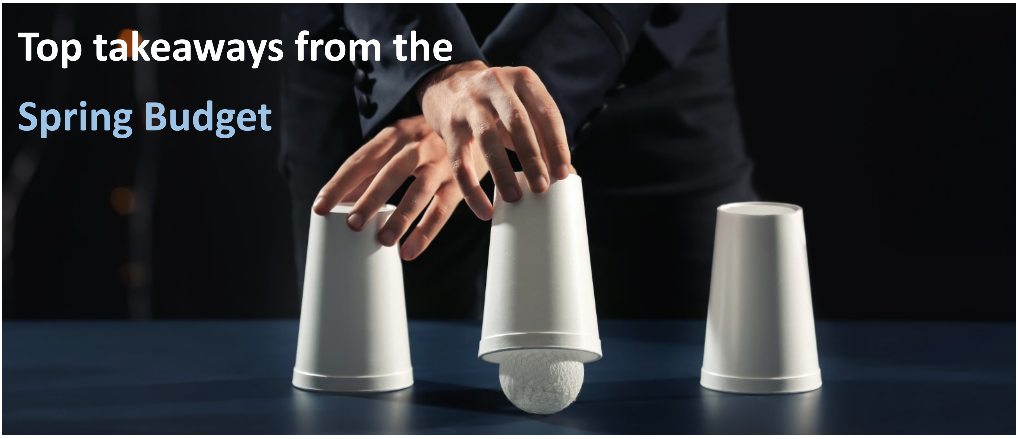
Student loans hit by marginal tax rates

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

Entitled to a bigger State pension?

HMRC is contacting thousands of people by post, mainly women, to highlight that they may be eligible for a higher State pension than they realise. An error in National Insurance records has meant those eligible may have missed out on a provision called 'home responsibilities protection' between 1978 and 2010. The letters are going out in phases and explain how to check for eligibility and claim, potentially adding thousands of pounds to State pension entitlement. It might sound a bit like a postal scam to be wary of, but it isn't.

Top takeaways from the Spring Budget



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

Tax, pensions and death have all been in the news recently, following the release in July of draft legislation and an HMRC consultation paper. The current version of the rules came into force on 6 April 2023. For personal pensions and other money purchase (defined contributions) arrangements:

- Generally, all death benefits are free of inheritance tax (IHT), regardless of the age at death.
- If the original pension scheme member dies before age 75, any lump sum payment is income tax-free provided it is less than the individual's available lifetime allowance (LTA). Any excess is taxable as income for the recipient. No such LTA restriction applies on subsequent pre-75 deaths of beneficiaries/nominees. If, alternatively, income benefits are chosen, these are normally income tax-free.
- On death at or after age 75, both lump sums and income benefits are subject to income tax in the hands of the beneficiaries. If a lump sum is paid to a trust, then 45% income tax applies.

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

What's new?

Measures likely to affect you include:

National Insurance Contributions (NICs) The main rates of employee (class 1) and self-employed (class 4) NICs are reduced by two percentage points to 8% and 6% respectively from 6 April 2024. The 2% rate on earnings/profits above £50,270 is unchanged. These reductions once again alter the mathematics around the wisdom of incorporation and whether to draw bonuses or dividends.

High Income Child Benefit Charge (HICBC) The income threshold at which this charge starts to bite will rise from £50,000 to £60,000 for 2024/25. Simultaneously the rate of charge will halve to 1% for each £200 over the threshold. Consequently, the size of the income band in which the HICBC can apply will double to £20,000 (£60,000 to £80,000). By 2026, the income threshold is expected to move from an individual basis to a household basis.

Residential property The maximum capital gains tax (CGT) rate on residential property gains will be cut from 28% to 24% in 2024/25, while all other CGT rates remain unchanged. Some second homeowners will be stung, however, as the favourable tax rules for furnished holiday lets will be scrapped from April 2025.

UK ISA The Chancellor issued a consultation paper on a 'UK ISA', with UK-focused investment options. This new variant will have a contribution limit of £5,000, which will be in addition to the existing overall £20,000 ISA limit (unchanged since 2017/18).

Non-domicile rules The arcane tax rules which offer favourable tax treatment to some UK residents with a foreign domicile will be scrapped from 2025/26. The new regime will be based solely on tax residence, although transitional rules will apply.

If any of these changes could affect you or your business, or you would like further information please contact us.

Coming down: the year of interest rate cuts?

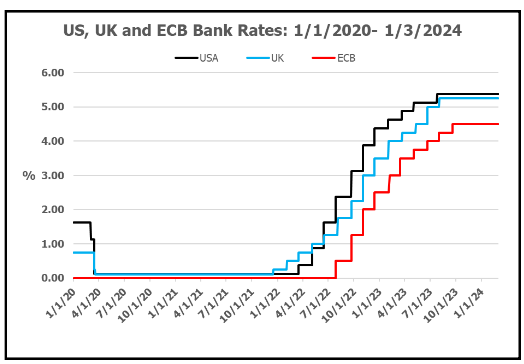
Interest rates have risen for two years straight, but the outlook indicates a change of direction in 2024.

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

Markets anticipate cuts

The yields on 10-year government bonds have fallen since last autumn in the UK, US and Europe and the knock-on effects are visible in the UK mortgage market, where new, fixed-term rates have started to drop. NS&I has also reacted, making a range of rate cuts, including 0.25% off the Premium Bond prize rate.

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



Source: Federal Reserve, Bank of England, European Central Bank

Protecting your health

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

Protection and insurance products can provide access to some primary healthcare options, such as GP and dental services, and often contribute towards the cost. There are significant differences between providers and products in price, coverage and exclusions, although none replicates the range of NHS services. Understanding the detail of each policy is key to finding the right option.

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

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

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

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

NHS Statistics

Number of people on NHS waiting lists:

6,294,402

Number waiting over 18 weeks

3,200,000

Number waiting over a year

305,000

Percentage of patients receiving their first cancer treatment within 62-days of an urgent referral

63.9% (NHS target 85%.)

Source: bma.org.uk. Figures at February 2024.

Succession: has your business got a plan?

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

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

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

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

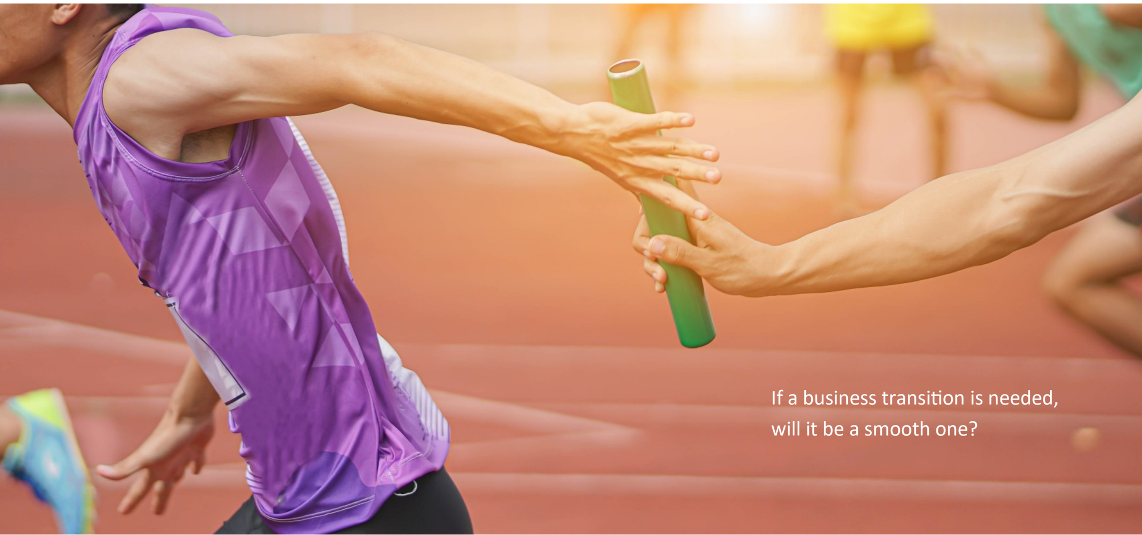
Take the example of a suddenly disabled partner. Your agreement may require the partner to retire in such a situation, but unless the remaining partners have the resources to buy out their colleague, a new partner may need to be found or the business might even have to be sold.

Realistic, professional provisions

What you and your business associates need to protect against such situations are:

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

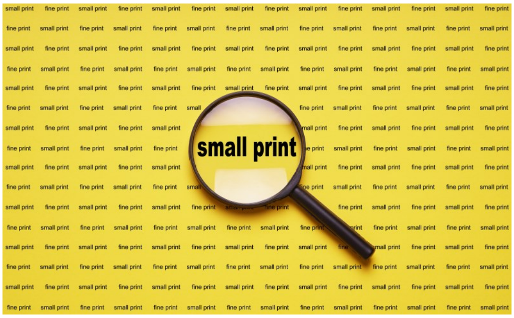
For advice on both aspects, talk to us *today* – as *Succession* showed – you never know what tomorrow might bring.



If a business transition is needed, will it be a smooth one?

Some Small Print

Some important regulatory warnings and notes to consider.



1. The Financial Conduct Authority does not regulate tax advice. Tax treatment varies according to individual circumstances and is subject to change. For specialist tax advice, please refer to an accountant or tax specialist.

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

3. 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.

4. Investment past performance is not a reliable indicator of future performance.

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Chartered Financial Planners
Tamworth Enterprise Centre
Corporation Street
Tamworth
B79 7DN

Tel: 01827 53310
Web: www.medicswealth.com
Email: enquiries@medicswealth.com