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YOUR WINDOW ON ***WEALTH*** SUMMER 2023

Signs of optimism in global economy

Although the global economy continues to face significant headwinds, statistics released during the first few months of this year have revealed unexpected signs of resilience. This has led economists to begin upgrading growth forecasts, while the World Economic Forum's latest Chief Economists Outlook reported signs of *'nascent optimism.'*

Growth stronger than expected
Uncertainty undoubtedly continues to be a key feature of the world economy with pressure being exerted from a number of issues. First quarter data, though, has shown that the global economy performed better than most economists had previously feared, with growth recorded across all regions amid signs of the green shoots of recovery.

Inflationary pressures set to fall
Persistent inflationary pressures and tighter financial conditions, however, do remain key challenges for policymakers around the globe. Inflation has so far stayed stubbornly high and, while economists do expect it to continue falling over the rest of the year, this decline is predicted to be at a slower pace than previously thought.

Resilient economic growth
A key theme at the World Economic Forum's recent Growth Summit was *'enabling resilient economic growth'* with discussions focusing on inclusive and sustainable growth, and equitable globalisation. The organisation's updated forecast showed a notable strengthening in growth expectations, although it also highlighted sharp variations by region. The most buoyant activity is predicted to be in Asia, with China's reopening expected to drive a significant rebound, while growth prospects are thought to be noticeably weaker in Europe.

Diversification is key
An improving outlook should clearly create opportunities for shrewd investors. However, the relatively uncertain backdrop, along with divergent regional dynamics, inevitably means diversification will remain a vital component in any investor's armoury. Spreading money in a globally diversified portfolio across a range of sectors and different size businesses should, as ever, prove an effective way to mitigate risk in the quest to build wealth.

Capital Gains Tax Residential Property Disposals 60 day reporting

What you need to know
Since 6 April 2020, the disposal of any UK residential property will trigger an event in which you need to consider if a Capital Gains Tax Property Return is required.

The exemption to this rule is the sale of your main home, which has always been your Principle Private Residence (PPR), as any gain made will be covered by PPR relief.

It is important to review the position on the sale of any UK residential property to establish if a Capital Gain has arisen as any taxable gain will need to be reported and Capital Gains tax paid within 60 days of the completion of the property sale.

Reports must be made online, via the UK Property Reporting Service (also known as the CGT on UK Property Service).

The reporting requirements extend to trustees, personal representatives of estates and non-UK resident individuals.

If a Capital Gain is not reported to HMRC in time, they will impose late filing penalties as outlined below:

- up to 6 months, will incur a penalty of £100
- more than 6 months, will incur a further penalty of £300 or 5% of any tax due, whichever is greater
- more than 12 months, will incur a further penalty of £300 or 5% of any tax due, whichever is greater

From 6 April 2023, the capital gains tax exemption has reduced which will result in more UK residential property sales falling within the 60 day reporting regime.

If you feel that any of the above affects you, and would like to be introduced to someone who can help satisfy any HMRC reporting requirements, please speak to your usual Kirk Newsholme Financial Planning adviser who will be able to help.

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IN THE NEWS

HNWIs cutting pension contributions

Research has highlighted that in an effort to alleviate daily financial pressures, including rising mortgage rates, one third of high-net-worth individuals (HNWIs) have reduced their pension contributions or intend to do so in the next six months[2]. Those with assets of £250,000 plus are more likely to have reduced their pension contributions in the last six months (14%), versus 9% across the UK population as a whole.

Those HNWIs who have already taken steps to reduce their pension payments have done so by an average of £1,246 a month, nearly £15,000 over the course of a year. Over eighty percent (84%) of HNWIs are already experiencing or expecting an increase in their mortgage rates to put a strain on their cashflow, prompting many to reduce their pension contributions.

Those with assets of £250,000 plus are more likely to have reduced their pension contributions

Interestingly, the research has also shown that the majority of HNWIs are underestimating the requirements for a comfortable retirement, believing on average that a pension pot around £580,000 will do the job, but in reality a pot of nearly £700,000 plus the full State Pension will suffice, according to the research.

[2]Saltus, 2023

Achieving real financial empowerment

Traditionally, people might have assessed their financial health by simply checking the balance on their bank account or totalling their amassed level of wealth. In recent years, however, a different measure has emerged which seeks to balance financial stability with emotional wellbeing.

Financial empowerment

This new concept places greater emphasis on goals and developing a financial plan to achieve life's aspirations; in other words, it's about people gaining control over their finances rather than their finances controlling them. Achieving genuine financial empowerment does not therefore focus simply on someone's level of wealth, but on handling that money so it has a truly positive impact on their wellbeing.

A state of mind

In many ways, financial empowerment is about understanding the emotional relationship with money by focusing on an individual's mindset as well as their finances. Taking time to strategise, by aligning spending and savings commitments with long-term goals while being prepared for life's unexpected financial challenges, can provide a logical, ordered approach that brings satisfaction and pride to our financial lives. In effect, it creates control that affords a sense of financial freedom and thereby puts us on track to a fulfilling, well-lived life and retirement.

Empowerment versus income

Analysis[3], which compares people's emotional experiences with their level of empowerment and earnings, offers further valuable insight. It found that financially empowered people had mostly positive experiences, even those in lower income brackets, while those who felt disempowered were generally less happy with their finances than their peers. This suggests that a sense of personal power rather than someone's income level is the key to achieving emotional wellbeing in their financial lives.

It's all in the planning

Financial empowerment effectively derives from equipping ourselves with the right tools. With the clear, transparent advice and professional support our firm provides, we can construct a well thought-out, long-term but flexible plan that will allow you to live the life you want and thereby achieve true financial empowerment.

[3]Morningstar, 2023

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IHT goes mainstream

Inheritance Tax (IHT) receipts have been consistently rising, with new data from HM Revenue & Customs (HMRC) showing takings for the 2022-23 tax year totalled £7.1bn, up a massive £1bn from the previous tax year (£6.1bn 2021-22). According to HMRC, this huge uplift can be attributed in part to *'a combination of the recent rises in asset values and the government's decision to maintain the IHT nil rate band thresholds at their 2020 to 2021 levels up to and including 2025 to 2026.'*

Reported estimates from the Spring Budget detail that over the next five years, IHT is expected to bring in £38bn for the Treasury, meaning annual receipts will exceed £8bn by 2027-28, with 6.7% of deaths expected to trigger an IHT charge. This compares with 3.76% of UK deaths in 2019-20.

Record receipts have prompted suggestions that the tax has now become mainstream.

Previously dubbed a tax on the wealthy, this is certainly no longer the case, as frozen thresholds and elevated house prices impact.

The good news is that through expert planning you can legitimately mitigate this tax, so you can pass on assets to your family as you'd intended. There are various different strategies depending on your unique circumstances, including making gifts during your lifetime, considering placing assets into trust, making use of exemptions, and thinking about leaving something to charity, to name but a few.

Don't go it alone

IHT is a complex tax, with reliefs and exemptions on gifts to consider and the interaction with other taxes. These days, with many more estates likely to be subject to IHT, taking expert advice could save your beneficiaries substantial amounts of tax. Get in touch.

Summer retirement round-up – developing a coherent strategy

The last few years have created an increasingly complex backdrop for retirement planning. Not only has the post-pandemic era seen attitudes to work alter significantly, but macro-economic headwinds from Russia's invasion of Ukraine and the cost-of-living crisis have created significant unhelpful market volatility. In combination, this has inevitably heightened the need for everyone to engage in retirement conversations at the earliest opportunity. Some recent research sets the backdrop for your summer retirement round-up, spotlighting key trends.

Changing face of retirement

A recent study[4] of UK employees has shown how people are re-evaluating plans for work and later life, with evidence that partial retirement may become the new norm. In total, over half of all workers said they like the idea of continuing to work through retirement. The research also highlighted a strong sense of semi-retirement positivity, with nine out of ten saying they were 'much happier' after reducing their working hours.

Low levels of confidence

Another study[5], however, has highlighted a distinct lack of confidence among 55 to 75-year-olds when it comes to financing retirement. Indeed, nearly a third said they were either not at all confident or not very confident they would enjoy a comfortable lifestyle in retirement, compared to less than one in five who felt very or extremely confident.

Mind the gap

The research also highlighted a sense of unpreparedness, with a notable divergence in anticipated levels of retirement income and expenditure. For instance, while average expected spending five years into retirement was predicted to be 92% of pre-retirement levels, average income was only expected to hit 78%; other evidence suggests this latter figure is an aspiration few pensioners are likely to achieve.

Planning is essential

These findings suggest many from the next generation of retirees will need support if their finances are to see them through retirement, and this vividly highlights the need to develop a sound strategy tailored to an individual's unique circumstances long before retirement looms. Planning ahead can address potential income requirements and offer solutions that build resilience to ensure you enjoy the retirement you deserve.

[4]Aviva, 2023, [5]The Wisdom Council, 2023

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Pensions – what's changing?

During the Spring Budget the Chancellor announced several changes to pensions including increasing the Annual Allowance and the Money Purchase Annual Allowance. The changes, the most significant since pensions freedoms in 2015, have largely been met with positivity, bringing greater flexibility and opportunity.

Some higher-paid workers faced additional tax bills as a result of building sizeable pension pots or significant final salary benefits. The overhaul makes it easier for people to accumulate a larger pension pot and not be penalised by taxes, also enabling them to build larger capital sums needed to produce sufficient retirement income. Let's take a look in closer detail at some of the main changes, many of which took effect from 6 April 2023:

- The **Lifetime Allowance (LTA)** charge was removed, with the LTA (currently £1,073,100) itself expected to be formally abolished (likely to be April 2024), allowing people to save more into their pension over their lifetime without facing tax charges for exceeding it
- The standard **Annual Allowance (AA)** increased from £40,000 to £60,000 (max 100% of earnings), allowing many individuals to pay more into their pension each tax year and receive tax relief on it. Individuals are still able to carry forward any unutilised allowance from the previous three tax years. Increasing the AA will particularly benefit workers approaching retirement who may have neglected pension saving in the past, who will be able to pay more into their pension each year and receive tax relief
- The **'adjusted income'** threshold for Annual Allowance tapering increased from £240,000 to £260,000 and the minimum tapered Annual Allowance increased from £4,000 to £10,000 (meaning that individuals with annual adjusted income of £360,000 or more will have an Annual Allowance of £10,000). The tapered Annual Allowance is the reduced pension Annual Allowance that is applied to those who now have an 'adjusted income' over £260,000, for every £2 earned above the £260,000 threshold the normal Annual Allowance is reduced by £1
- The **Money Purchase Annual Allowance (MPAA)** increased from £4,000 per tax year to £10,000, to encourage those drawing a pension to continue working. This is the amount you can pay into your pension after you have accessed pension benefits, and still enjoy tax relief. The additional MPAA means anyone already using their pension but continuing to work, or looking to return to work, will be incentivised to do so as they can increase the size of their pension pot and receive tax relief.

Good for you

The changes only really impact the highest earners, those with generous company pensions and those wanting to aggressively fund their pensions later in life. The government is hoping the changes will incentivise those in certain high demand, high earning professions such as GPs and NHS consultants to postpone retirement.

Professional pension advice is essential to ensure you make the most suitable decisions with your pension and to maximise your pension provision without encountering tax issues.

A defining moment – FTSE 350 female board representation

Three years ahead of schedule, FTSE 350 companies have met the target of achieving 40% female board representation, according to the latest FTSE Women Leaders Review[6].

The report highlights *'steady progress'* in getting women leaders to the *'top table of business in the UK,'* with Nimesh Patel and Penny James, co-chairs of the Review describing the achievement as *"a defining moment and testament to the power of the voluntary approach and the collective efforts of many businesses and individuals over the last decade."*

[6]FTSE Women Leaders, 2023

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

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