Money Wise

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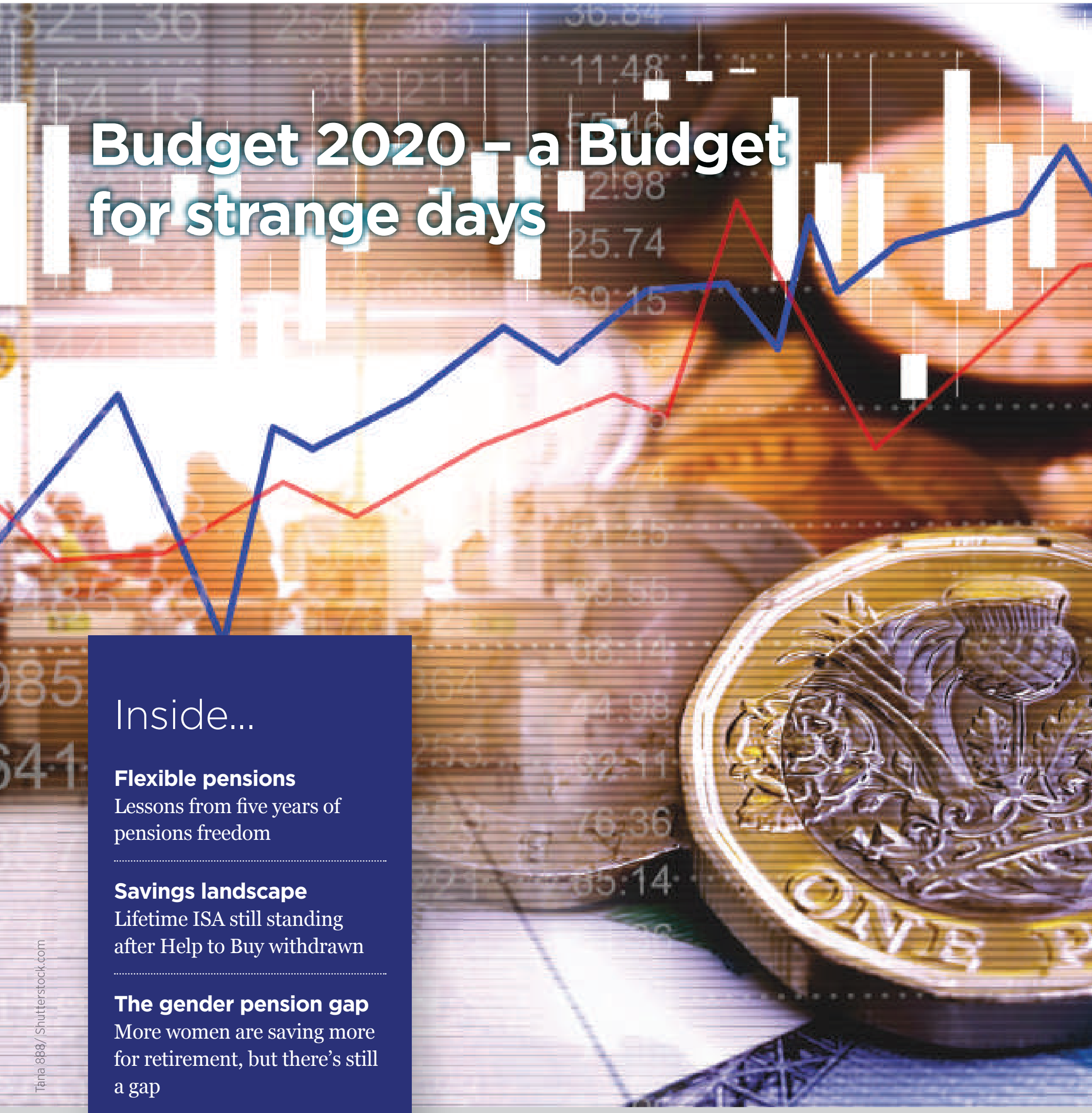

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Budget 2020 – a Budget for strange days

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Lessons from five years of pension flexibility

It's been five years since people in retirement were given the freedom to draw directly from pension savings.

The reforms, introduced back in April 2015, gave certain defined contribution pension holders "complete freedom to draw down as much or as little of their pension pot as they want, anytime they want," according to the Chancellor of the time.

We can now draw some conclusions about the changes from experiences in the UK and countries like the US and Australia who have had similar rules for longer, and derive some lessons for the future.

After an initial rush to fully encash pension pots, the average amount withdrawn per person quickly declined as more people engaged with flexible arrangements. If you are at the stage when you are beginning to consider your retirement, there are some lessons to learn from half a decade's experience of pension drawdown:

- A full withdrawal can make sense for small pension pots, even though 75% of the amount received is subject to income tax through PAYE. As the pot size increases, income tax and the operation of PAYE become much more of an issue.
- Flexi-access drawdown is by far the most popular means of drawing from pension plans valued at £100,000 or more. However, it is probably still too early to say whether those who choose this option without taking professional advice are making a sustainable level of withdrawals.
- Flexibility in law may not mean flexibility for your pension plan. Many providers of pre-2015 pensions chose not to offer all the options that legislation permits. Some only have a full withdrawal option. If you find yourself with such a plan, you may wish to seek advice about transferring to a more flexible arrangement.

Whatever decisions you make about managing your retirement income, the first port of call is expert advice.

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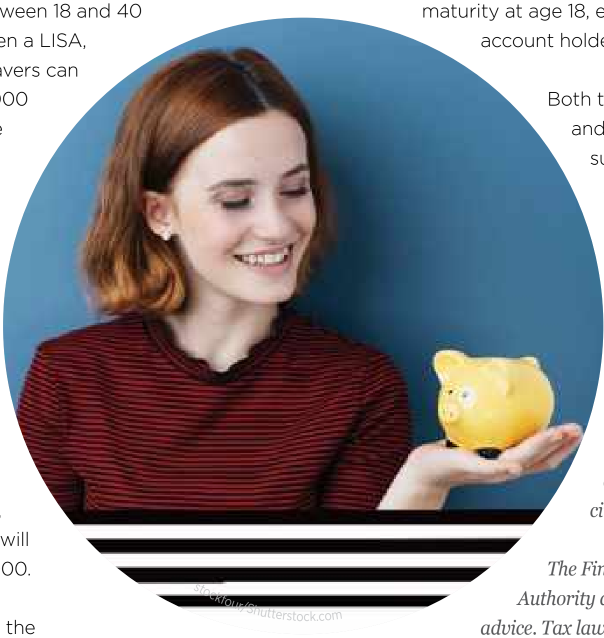
Occupational pension schemes are regulated by The Pensions Regulator.

Shifts in the **savings landscape**

Government incentives to save – like ISAs – are valuable, but recent changes present new opportunities while removing some old ones.

If you are aiming to buy your first home, investing in a Lifetime ISA (or LISA) could help. The recent withdrawal of the Help to Buy ISA means that the LISA is now the only tax-incentivised savings plan for first-time buyers. Existing Help to buy ISA holders can still contribute until November 2029.

You must be between 18 and 40 (inclusive) to open a LISA, and qualifying savers can invest up to £4,000 per tax year. Like other cash ISAs it grows free of tax, but also benefits from a 25% government bonus, added to the contributions made before reaching age 50. So, for every £4,000 invested, the government will add another £1,000.



The trade-off for the generous LISA benefits is the risk of a "government withdrawal charge" if you cash in your LISA before age 60, and you aren't using the funds to buy your first home. The charge is 25% of the amount withdrawn, which can be a trap for young savers who need to access their LISA savings early.

For younger savers, the first Child Trust Fund (CTF) accounts reach maturity this September. CTFs were available to children born between 1 September 2002 and 3 January 2011, when they were withdrawn. CTFs enjoy similar tax rules to ISAs (including the new £9,000 contribution limit for 2020/21). New regulations will ensure that these continue after CTF maturity at age 18, even if the now adult account holder takes no action.

Both the maturity of CTFs and the complex rules surrounding LISAs serve as reminders that financial advice is needed at all ages.

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Budget 2020 – a Budget for strange days

The first Budget of 2020 may be the most unusual for years.

The UK survived 2019 without a Budget. Finally, on 11 March the new Chancellor, Rishi Sunak, presented a postponed Budget, the first of two due this year. This proved to be primarily an emergency Budget, focused on a "temporary, timely and targeted" response to the global economic shock from the Covid-19 pandemic.

Following a range of measures aimed at alleviating the disruption to individuals and businesses over the coming weeks and months, the Chancellor turned his attention to the legislative backlog that had built up because of the earlier delay. Alongside the £12bn of Covid-19 measures, including business rate cuts and extensions to statutory sick pay, there were some limited longer-term announcements:

- The rules were eased for tapering the pensions annual allowance charge for 2020/21 onwards. Both the key trigger limits, the threshold income and adjusted income, were increased by £90,000. So, broadly speaking, if your total net income before tax (excluding pension contributions) is not more than £200,000 in 2020/21, your annual allowance will not be subject to the taper. However, if you are still caught by the rules, your minimum annual allowance could fall from £10,000 to as little as £4,000.

- The other main pensions allowance, the lifetime allowance, rises in line with inflation to £1,073,100 for 2020/21.

- The entrepreneurs' relief lifetime limit for gains falls to £1,000,000 from £10,000,000.

- The starting point for employees' and self-employed national insurance contributions (NICs) will rise from £8,632 to £9,500, providing an NIC saving of up to around £104 a year. However, the corresponding employer threshold will rise to only £8,788 in 2020/21.
- The personal allowance (£12,500) and higher rate threshold (£50,000) were both left unchanged, along with the basic and additional rate thresholds, although some of the minor income tax allowances were increased in line with inflation. Earlier in the year the Holyrood Budget kept the Scottish higher rate tax threshold unchanged for 2020/21 at £43,430, £6,570 below the level for the other parts of the UK.
- The rate of corporation tax stays at 19%, instead of falling to 17% as was previously planned. This non-move generated the largest source of additional tax revenue in the Budget.
- The Junior ISA and Child Trust Fund contribution limit was more than doubled to £9,000 per tax year. Other ISA limits were again left unchanged.
- Amendments have been made to the rules regarding top slicing relief of life insurance policy gains.
- The capital gains tax annual exempt amount was increased to £12,300.

Several announcements had been expected but did not appear in the Budget. These included the reform of inheritance tax and a general restructuring of the pension tax rules. These gaps might be filled later this year in the autumn Budget

If you need any information on how the changes announced in the Budget could affect you or actions you should consider before the next Budget, please contact us.

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Too generous by half?

Generous grandparents are increasingly supporting younger family members, so intergenerational gifting should take potential benefits, and pitfalls, into account.

A third of millennial homeowners received financial help from their grandparents, with an average gifted sum of £7,400, according to a survey from mortgage brokers Trussle. Meanwhile, research by equity release provider Key found that 15% of grandparents had contributed towards their grandchildren's higher education, with another 20% planning to over the next decade.

For the younger generation, such gifts can help them reduce debt and qualify for a mortgage. But there may also be tax advantages for grandparents.

If you have more substantial assets you may wish to mitigate your future inheritance tax (IHT) bills. This 40% tax is levied on estates worth more than £325,000, although married couples (and civil partners) can pass on £325,000 each to the surviving partner, tax free, with additional allowances for the family home.

After the rapid increase in property values in recent decades, many families may be looking to reduce any potential IHT liability. Giving away assets to family members while you are still living can be an effective way to do this.

There are various rules to consider. The simplest option is to make gifts from regular income, or to limit them to a maximum of £3,000 a year per donor. These will basically be disregarded by HMRC when it comes to calculating future IHT. If you are thinking of giving away larger amounts, you'll have to live for a further seven years for your gifts to escape the IHT net.

Before you make any substantial gifts, make sure that your own financial future is secure; you may need more in later life. Estate and IHT planning can be complicated, so it is best to seek specialist advice.

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Overcoming the gender pensions gap

Women are saving more than ever into pensions, but still lag behind men.

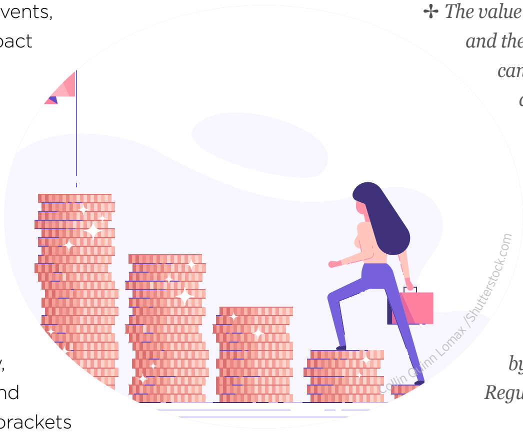
The good news is that more women are saving for retirement, and the size of the pension contributions they are making has increased, according to Scottish Widows. However, men are still saving more, benefiting generally from an additional £78,000 in their pension pot at retirement.

The main cause of the so-called "gender pension gap" is the gender pay gap. The fact that women are more likely to work part-time, or take time out of the workplace to look after young children or elderly parents, exacerbates the problem. Other life events, like divorce, can also impact negatively on women's savings.

How to boost your own pension savings

The report found that over half of women (57%) were now saving enough for their retirement. But perhaps, not surprisingly, self-employed women and those in lower earnings brackets remain under-prepared for their retirement.

Those looking to bolster their pensions should aim to maximise savings. Join a workplace pension and your contributions are boosted by tax relief and contributions from your employer. If you increase your contributions you may also get more from your employer.



While self-employed workers don't benefit from an employer's contribution, they will still benefit from the tax relief.

In addition, don't overlook your partner's pension. It may pay a generous benefit to a surviving spouse. If you are not married (nor in a civil partnership) you may need to sign a declaration form to qualify for this benefit. But at the same time, remember, a partner is not a pension plan: aim to build pension savings in your own name.

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A new world – the Covid-19 pandemic

The spread of the Covid-19 coronavirus has changed the outlook for everyone.

The Budget on 11 March was overshadowed by the mounting impact of the virus. The Chancellor has already announced two rounds of measures which together dwarf the £12 billion expenditure promised in the Budget. The running figure (as at 20 March) now totals over £60 billion with a further £330 billion of loan guarantees for businesses, large and small. Mr Sunak's actions include:

- A subsidy to employers of 80% of furloughed workers' wage costs, up to a cap of £2,500 per month, to encourage the retention of employees who might otherwise be laid off.
- Waiving 2020/21 business rates for all businesses in the retail, leisure and hospitality sectors.
- Providing grants of up to £25,000 for businesses that qualify for the Business Rates Retail Discount.
- Delaying the introduction of private sector off-payroll working rules (IR35) for a year to April 2021.
- Deferring the next quarterly VAT instalment to the end of the financial year plus, for the self-employed, the July self-assessment payment until January 2021.

Market volatility has rocked many formerly solid sectors, but this is not a repeat of 2008. The government has made sure that the banks are in a much stronger financial position than they were at that time. What Covid-19 represents is a left field shock to the entire global economy that looks certain to lead to a recession.

If there is a lesson to learn from 2008, it is that markets can overreact and, although it seems impossible at the time, economies do recover. For now, the focus is on people, their lives and livelihoods.

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