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Chartered Financial Planners

INVESTMENT

ISAs regain their investment appeal

Individual Savings Accounts (ISAs) are attracting greater attention from investors.

Next April ISAs will reach their 25th anniversary. Over the years the appeal of ISAs has waxed and waned due largely to two main factors: the tax environment and potential investment returns.

In 2023, these factors mean ISAs may once again rise in popularity:

- Prolonged freezes to the higher rate tax threshold and personal allowance reductions to both the dividend allowance and capital gains tax annual exempt amount and a lower threshold for additional rate tax have made the UK tax shelter offered by ISAs more attractive.
- Improved share market conditions and higher yields from fixed interest securities (bonds) will improve the appeal of stocks and shares ISAs.

The government's attention meanwhile has been elsewhere – the main ISA contribution limit of £20,000 has been unchanged since April 2017.

If you have existing ISAs, it is important that you review them regularly to maximise the tax benefits and ensure continued suitability. If you have cash ISAs, that review includes considering whether switching to a stocks and shares ISA would be appropriate. Even at today's higher interest rates (not always passed on to cash ISA savers), the returns are well below the current inflation rate.

> *Improved share market conditions and higher yields from fixed interest securities (bonds) will improve the appeal of stocks and shares ISAs.*

Seeking advice is important for stocks and shares ISAs, not only regarding fund selection, but also in balancing the holdings with other investments owned directly or within your pension.

✢ Investments do not offer the same level of capital security as deposit accounts. 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.

Past performance is not a reliable indicator of future performance.

Investing in shares should be regarded as a long-term investment and should fit with your overall attitude to risk and financial circumstances.

The Financial Conduct Authority does not regulate tax advice. Tax treatment varies according to individual circumstances and is subject to change.

TAX

Caught in the higher rate taxpayers rise?

Are you part of new HMRC statistics showing an increase in higher-rate taxpayers?

The latest set of HMRC statistics on income tax gives an insight into how the freezes on the personal allowance and higher rate tax threshold are affecting taxpayers. They also offer initial evidence of what April's near £25,000 cut in the additional rate (top rate in Scotland) threshold means:

- After remaining largely unchanged in the last half of the 2010s, the number of income taxpayers has jumped by over four million in the past three years, because incomes have risen but the personal allowance has not.
- As the taxpaying population has increased, so has the share of taxpayers paying tax at the higher or additional/top rates. HMRC estimates this will be 18.0% in the current tax year, up from 13.9% in 2020/21 and 10.4% in 2010/11.
- Additional/top rate taxpayer numbers are projected to rise by over 50% in 2023/24.

These impacts are not immediately visible as the numbers that set the income tax framework are unchanged. In effect the Chancellor has delegated the task of raising extra revenue to inflation. And inflation has obliged, all too well.

If you want to limit your income tax bill, talk to us about the options that are available.

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PENSIONS

Beyond a minimum retirement

A third of people will be unable to afford their retirement, according to a new report.

Research from major pension provider Scottish Widows has estimated individual future retirement incomes and compared them with the three living standard levels set by the Pensions and Lifetime Savings Association:

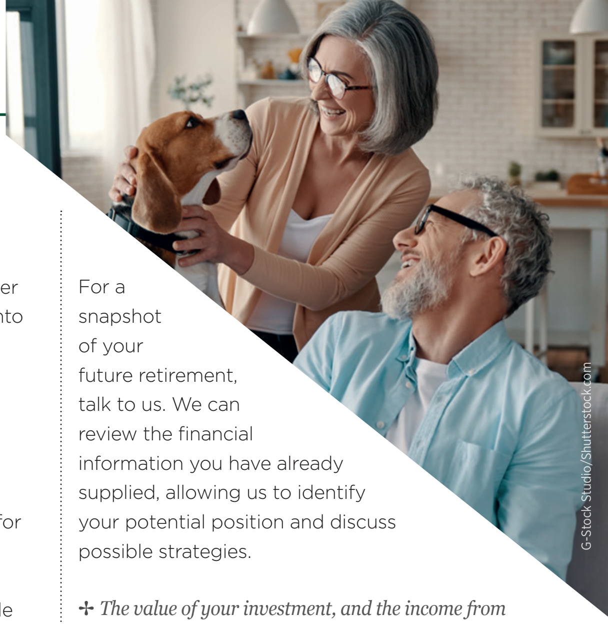
Standard	Example of standard	Required annual net income outside London	
		Single	Couple
Minimum	No car	£12,800	£19,900
Moderate	3-year old car replaced every ten years	£23,300	£34,000
Comfortable	One/two cars, each replaced every five years	£37,300	£54,500

If you find yourself thinking that the comfortable standard is where you would like to be:

- Even if you and your partner each have a full state pension of £10,600 a year, there would still be a net income shortfall of over £33,000 once the state pension comes into payment (at age 67 from April 2028).
- That net income figure excludes rental or mortgage costs, which are increasingly encroaching into retirement.
- Just over a third of people are on target to reach the comfortable standard, a proportion that falls to about one in five for the self-employed.

The research also showed that 35% of people are on track to fall below the minimum retirement standard. For the self-employed, the corresponding proportion is 48%, with another 25% reaching only the minimum threshold.

Working out which retirement standard – if any – that you are currently on course for is not straightforward: the launch of the government's long promised 'pensions dashboard' is not due until October 2026.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For a snapshot of your future retirement, talk to us. We can review the financial information you have already supplied, allowing us to identify your potential position and discuss possible strategies.

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Occupational pension schemes are regulated by The Pensions Regulator.

TAX

The dividend or bonus decision

If you are an owner director, the choice between bonus and salary has changed.


Credit: Ratana21/Shutterstock.com

As the calendar year ends – and with it many companies' financial years – the tax changes of the past twelve months are moving into the spotlight. Since December 2022 directors have seen:

- The dividend allowance cut in half (and a similar cut to the capital gains tax annual exempt amount);
- The additional rate (top rate in Scotland) tax threshold fall from £150,000 to £125,140;
- Corporation tax rates increases for companies with profits exceeding £50,000 a year;
- Employer and director national insurance contribution rates reduced;
- Increases to the pensions annual allowance and the phased abolition of the pensions lifetime allowance.

The most tax-efficient way to draw profits from a company with a 31 December year end may differ in 2023 from 2022.

Pension contributions?

This year an employer pension contribution may be a more attractive option than in 2022, thanks to the phased abolition of the lifetime allowance rules. If those rules have prevented you and/or your company from making pension contributions in recent years, now could be the ideal time to catch up.

While they have to be justified, employer pension contributions can be significant, and would benefit from full corporation tax relief at the new, higher rates. In practice, the complexities of pensions alongside all those other tax changes mean advice is vital before taking any action.

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INVESTMENT

National Savings Certificates update

It could pay you not to reinvest your maturing savings certificates.

National Savings & Investments (NS&I) Savings Certificates have been unavailable to new investors for many years. However, NS&I have continued to offer them to owners of maturing certificates. The latest NS&I accounts show that there was over £22 billion still held in certificates at the end of March 2023.

Return rates neglected

Perhaps because there are no new investors and many of the reinvestments are automatic, NS&I do not review the returns offered on certificates as regularly as their currently marketed products. For example, the last rate increase to fixed rate certificates was made on 1 February 2023, when the Bank of England Bank Rate was 3.5%.

In July, NS&I amended the terms of new fixed rate and index-linked certificates to remove the option of early encashment, even with an interest penalty. That loss of flexibility leaves the certificates looking even less competitive against other more widely available products.