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Spring 2023

Hello and Welcome {FIRST_NAME},

In our Spring edition of our newsletter, we are pleased to include the following commentaries on:

Topics to raise with your Accountant: Personal Allowances; Transferrable Tax Allowance; WFH as an Employee; Capital Gains on Property
by Dominic Charles, Fellow Chartered Accountant at Vor Accounting Limited

Will Challenges
by Martyn Gooch, Litigation Partner of Rohan Solicitors

Budget Changes; Pension Changes including Lifetime Allowance, Pension Commencement Lump Sums, Annual Contribution Allowance; Trust Taxation & Corporation Taxation
by Gianni Campopiano, Managing Director & Chartered Financial Planner of Independent, Advanced & Clear Ltd t/a Foundation Financial Planning

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With the personal financial year coming to an end on 5th April, this update is going to focus on a number of aspects to consider or raise with your accountant.

Please talk to your accountant and do your return early!

Link to my website

Allowances

There are number of personal allowances that are available each year. It is worth being aware of these to maximize the income that you can earn without suffering tax. Note a number of these are going to change (i.e., reduce) for the next tax year 23/24.

Personal allowances	2022-23	2023-24
Personal allowance (PA)	£12,570	£12,570
PA restricted by £1 for every £2 of adjusted net income over:	£100,000	£100,000
Transferable tax allowance for certain married couples – see commentary below	£1,260	£1,260
Other allowances	**2022-23**	**2023-24**
Personal savings allowance: Basic rate taxpayers Higher rate taxpayers Additional rate taxpayers	 £1,000 £500 £0	 £1,000 £500 £0
Dividend allowance	£2,000	£1,000
Income Tax	**2022-23**	**2023-24**
Basic	20%	20%
Higher	40%	40%
Additional	45%	45%
	2022-23	**2023-24**
Basic Rate	£37,700	£37,700
Higher Rate	£37,701-£150,000	£37,701-£125,140
Additional Rate	Over £150,00	Over £125,140
Capital Gains Tax	**2022-23**	**2023-24**
Annual exemption for individuals	£12,300	£6,000
Basic Rate (Other than residential property)	10%	10%
Basic Rate (Residential Property)	18%	18%
Higher Rate (Other than residential property)	20%	20%
Higher Rate (Residential Property)	28%	28%
Inheritance Tax	**2022-23**	**2022-23**
Rate	40%	40%
Nil Rate Band	£325,000	£325,000
Resident Nil Rate Band	£175,000	£175,000

Transferrable tax allowance

A spouse or civil partner who is not liable to Income Tax above the basic rate may transfer 10% (£1,260 for 2022-23) of their personal allowance to their spouse or civil partner, provided that the recipient of the transfer is also not liable to Income Tax above the basic rate.

This acts as a tax reducer, rather than an increase of personal allowance for the recipient spouse.

The Marriage Allowance may be claimed if all the following apply:

- You are married or in a civil partnership.
- You are not for the tax year, liable to tax at a rate other than the basic rate, the dividend ordinary rate or the starting rate for savings. If you have income above the personal allowance a transfer may not benefit you and your spouse/civil partner as a couple.
- Your spouse or civil partner has an annual income of between £12,570 and £50,270 (2021-22 and 2022-23 rates).
- No claim has been made for a Married Couple's Allowance, which is available where one or both of the couple were born before 6 April 1935.

You cannot choose to transfer a lower amount to your spouse or civil partner, it has to be the maximum amount of 10% of your personal allowance. If your income is less than the personal allowance but not less than 90% of the personal allowance you may have tax to pay as a result of the transfer.

Taxpayers have four years in which to make the election.

Working From Home as an employee

As an employee you can claim working from home costs on your tax return if these have not been reimbursed by your employer.

- These can either be as a fixed rate (£6 per week) or as a claim for actual costs.
- Working from home must meet the HMRC rules of wholly, exclusively, and **necessarily** to perform the duties of the employment; this is not just because the employee wants to work from home but is required to.
- An **exception** to this requirement was granted due to COVID and this is due to expire at end of this tax year. The necessary requirement was removed and so £6 per week (or calculated actual cost) can still be claimed for the whole year.

Capital Gains on sale of a property

Here is a quirk of the capital gains tax rules where you sell a property which has a CGT requirement.

- Normally you must declare and pay any capital gains due within 60 days of the completion date.
- However, **IF** the Self-Assessment Tax return can be submitted within 60 days of the completion date, no separate CGT Return is required.
- This also defers the tax liability until 31 January following the end of the tax year. This situation can occur when the property exchange and completion fall in different tax years.

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Vör is a member practice of the ICAEW and is supervised by them for anti-money laundering regulation.

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Will Challenges

For a Will to be legally binding it must comply with several formalities:

- You must be 18 years old and be of sufficient mental capacity.
- It must be made voluntarily and without pressure from anyone.
- It must be in writing and executed in the presence of two witnesses.

Absent of compliance with these statutory obligations there is a real risk that the Will can and will be challenged by disappointed beneficiaries or family members. Regrettably (and partially owing to the growing number of ‘self-prepared’ Wills) disputes regarding the validity of a Will are becoming more frequent.

If the Will has been properly executed, there is a presumption that it is valid, unless one of the concerns set out below arises:

1- Lack of mental capacity.
2- Lack of approval or understanding of the content of the Will.
3- Undue influence.
4- Fraud or forgery.
5- Rectification (clerical error).

Each case is assessed on its own merits, and it can be a cumbersome task proving it as there is rarely clear evidence that can be relied on. A careful analysis of the facts and character of the testator as well as the available material evidence, is required before embarking on litigation to contest a Will.

In addition to these challenges, legal action can be brought if reasonable financial provision has not been made to an eligible applicant. These claims are complex and their success or otherwise will turn on the applicants’ respective financial position and the provision that the deceased was making to them prior to their death.

It is crucial to seek independent legal advice as swiftly as possible when a challenge to a Will is being considered or has been made, as failing to meet those deadlines may veto any potential claim.

Whether you are an executor, a beneficiary or feel you have been unintentionally overlooked by deceased’s Will, the law surrounding the grounds for contesting a Will is intricate, time consuming and daunting. Swift and accurate legal advice should be sought from an experienced practitioner to ensure that your interests are protected. As a general rule, litigation should be regarded as a last resort and wherever possible parties should seek amicable resolution via alternative means such as simple negotiation or mediation.

Rohan Solicitors has an experienced and efficient litigation and dispute resolution department that can offer prompt, accurate and effective legal advice.

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Budget Changes

For those who can remember, April 6th 2006, was the day heralded as Pensions Simplification. Since then we have had numerous significant changes to UK pensions regulation and this weeks Budget brings with it yet more changes. On the whole, these changes are positive and will present opportunity for pensions savers, simple they are not, but they are the most significant changes since the announcement of pension freedoms in 2014. As always, the devil is in the detail, however, the below will summarise the salient points:

Lifetime Allowance

The Chancellor announced that from 6 April 2023 no-one will pay a lifetime allowance charge. From 6 April 2024, the lifetime allowance will be abolished and a future Finance Bill will remove the lifetime allowance completely from pensions tax legislation.

- Nonetheless, there is a caveat which means that the abolition is not quite as positive as it initially appears.
    - The current 55% charge on lifetime allowance excess lump sums, serious ill-health lump sums, defined benefits lump sum death benefits and uncrystallised funds lump sum death benefits will no longer apply.
    - Instead, the amount that would have been taxed at 55% under current rules (i.e., the amount above the current available lifetime allowance) will be subject to taxation at an individual's marginal rate.

Pension Commencement Lump Sums (PCLS formerly known as tax-free cash)

The maximum pension commencement lump sum (PCLS) available is currently limited to the lower of:

- 25% of the value of the pension benefits being taken and
- 25% of the member's remaining lifetime allowance.

So, the lifetime allowance directly impacts on the amount of (PCLS) an individual can take.

As a result of the proposed abolition of the lifetime allowance, the Chancellor announced that the current lifetime allowance of

£1,073,100 will be used from 6 April 2023 onwards to set a frozen upper monetary cap of £268,275 on pension commencement lump sums, other than for individuals who already have a protected right to take a higher amount due to a valid lifetime allowance or pension commencement lump sum protection.

It’s not yet clear how a protected PCLS will be calculated from 2024 onwards once the Lifetime allowance is abolished. Detail is expected in the future Finance Bill.

Annual Allowance

- To commence, the limit on tax relievable pension savings an individual can make in a tax year, will increase from £40,000 to £60,000 from 6 April 2023.
- To continue, the money purchase annual allowance – the limit on money purchase pension savings an individual can make after accessing benefits flexibly, will increase from £4,000 to £10,000 from 6 April 2023.
- To conclude, the minimum amount of the tapered annual allowance (which applies to high earners) will also increase from £4,000 to £10,000 from 6 April 2023. The adjusted income figure will also be uprated from £240,000 to £260,000. This means that individuals with both threshold income of more than £200,000 and adjusted income of £360,000 or more will have a tapered annual allowance of £10,000 in 2023/24.

Trust Taxation

From tax year 2024/25 onwards, trusts receiving income of up to £500 won’t pay income tax.

Where the settlor has created more than one trust, this threshold will be the higher of £100 or £500 divided by the number of trusts the settlor has set up.

Currently discretionary trusts benefit from a £1,000 standard rate band, resulting in the first £1,000 of income being taxed at the basic rate of 20% or the dividend ordinary rate of 8.75%. This standard rate band will be abolished from the tax year 2024/25.

Corporation Tax

As previously announced, the main rate of corporation tax will rise to 25% and the small profits rate will be 19% for the financial year beginning on 1 April 2023 and the rates will remain at these levels in the following financial year too.

Investment Markets

As I write, and whilst half of our country is on strike, Jeremy Hunt has presented his new budget in the House of Commons and will attempt to repair the UK's slow-to-change economy, in advance of this the pound is doing quite well having struggled lately. Interest rates are still strongly tipped to go higher in the US and globally (including the UK) but see below.

Interest rates rising helps no one in the short term but everyone in the longer term.

The question of how to invest in these high inflationary times is explained by the earnings of two very similar higher end retailers who sell into the fashion market. One of the retailers has outperformed the other and their share price has risen whilst the other has fallen. This is because one of these business's has been able to withstand their increased supply side costs and not pass them on to customers, their share price has risen - where the other has had to pass their costs on and their share price has fallen.

Other inflation busting investments as mentioned before in past newsletters are infrastructure, food, and companies classified as value investment i.e., that produce products and services that are not discretionary i.e., we need them and they are not a luxury. Lastly, wealth preservation funds i.e., Ruffer and BH Macro that perform well in down markets but terribly in growth markets.

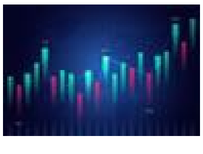
The horrible war in the Ukraine continues and there is escalation in the rhetoric between the US and China over Taiwan, we pray this does not continue to escalate and that Putin will cease in his lost cause to take Ukraine. Jamie Dimon, the leader of JP Morgan, has stated recently that the war in the Ukraine is the most serious conflict mankind has had to contend with since the Second World War.

You may have heard about Silicon Valley Bank (SVB) declaring bankruptcy you may also have heard of FTX doing the same. FTX was a crypto trading platform and SVB was the banker to fledgling and more established tech companies and Venture Capital investors, Credit Suisse, a much larger lender (too big to fail) than SVB, also has problems.

These businesses have suffered financial catastrophes for similar reasons i.e., very bad risk management, poor governance, and having to cope with higher interest rates. Higher interest rates negatively affect the values of some of the investments banks hold on their balance sheets. Whilst I hope the contagion caused by SVB ceases it may not. Plus other lenders in the US and Europe may go down too.

Because of the above, whilst the conversation within investment markets and central bankers has been focused on inflation and interest rates up until now - the focus has shifted to liquidity issues and secure financial markets, (see above) so we may see interest rate policy in the US more accommodative next week and more immediately from the ECB tomorrow. If interest rates pivot, which they probably should, this would serve to calm markets and the will to turn upwards.

Interesting investment market movements:



- Oil is down 22% over the year.
- Natural Gas is down 47% on the year.
- Coal is down 48% on the year.
- Wheat is down 33% on the year.
- Eggs are up 127% on the year.
- Electricity is down around 50% on the year.
- S&P 500 down 13% on the year.
- Nasdaq down 15% on the year.

Because of the ad-hoc investment process last year and our annual review process, our portfolios are holding up and we continue to make changes to client portfolios to mitigate investment market risk where we can.

Foundation Financial Planning survey the investment market continually, giving us the best chance to ensure our client's portfolios are positioned to take advantage where possible.

Please remember to confirm receipt of your investment recommendations and confirm that we can proceed, so we can execute the changes we recommend, at both annual review and/or when you invest new capital (which is even more important to optimise market advantage).

Just because you give us consent to proceed, does not mean you take responsibility for the investment advice, the responsibility remains with us.

Wishing you all the best

Gianni Campopiano
Managing Director & Chartered Financial Planner

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