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Reducing IHT receipts – first decline in 11 years

According to HMRC data, Inheritance Tax (IHT) receipts have fallen for the first time in 11 years. The amount of IHT collected in the 2019/20 tax year decreased by £223m (4%) to £5.2bn. The primary driver behind the fall is likely to have been the introduction of the main residence nil-rate band (RNRB) in 2017/18.

The RNRB is an additional allowance available if a person's estate includes their home and is left to their direct descendants, such as children, stepchildren or grandchildren, and currently stands at **£175,000**. When added to the nil-rate threshold (**£325,000**), this could give rise to an overall IHT allowance of **£500,000**, unless an estate exceeds £2m, at which point the RNRB starts to reduce.

If you're married or in a civil partnership, any unused threshold can be added to your partner's threshold when you die, giving a total IHT allowance of up to £1m. Beyond these thresholds, IHT is usually payable at **40%**.

Rishi Sunak may decide to alter IHT rules to help fill the hole in his budget left by the furlough scheme. We will keep you posted with any updates and work with you so that you can pass on assets in the most effective way.

Window of hope for 2021

Our vulnerabilities have been laid bare over the last year, as the pandemic took hold of all our lives, and continues to present challenges on a variety of levels. Economic frailties have been exposed but, as we enter 2021, hope hangs in the air with the prospect of recovery in the New Year and beyond.

Slowly but surely

A fitting portrayal of the situation was coined in the International Monetary Fund's (IMF) final 2020 assessment of global economic prospects, entitled *'A Long and Difficult Ascent'*. The Fund predicts a moderate rebound this year with a continuing gradual recovery over the following few years, with the economic path ahead remaining challenging.

Reasons for optimism

Although the IMF forecast highlights ongoing uncertainties and risks, primarily centring on the future path of the pandemic, there are reasons for cautious optimism. Continuing progress in the rollout of vaccination programmes and the economic stimuli promised by Joe Biden, should both have a positive impact on market sentiment throughout the course of the year.

Forward focus

The linchpin to successful investing, whatever the future holds, inexorably remains embracing a long-term philosophy, based on sound financial planning principles. Maintaining a diversified investment portfolio which suits your attitude to risk and resisting any urge to panic trade, are essential elements. Looking forwards and focusing on future key trends and longer-term investment themes will stand us all in good stead too.

Advice reigns supreme

Given the heightened uncertainty and market turbulence, it has arguably never been more important to obtain professional financial advice. We can construct a tailored plan, setting out realistic and achievable financial goals, and help you navigate the challenges and opportunities that lie ahead as the New Year unfurls.

In the news

Majority of fund managers positive for the year ahead

A US survey[1] has revealed that almost three quarters (74.5%) of fund managers are expecting economic improvements this year. Of these, just under half (46.5%) expect it to be *'slightly better,'* while 28% expect it to be *'much better.'* Just 15.5% expect performance to be worse, with the remainder predicting the economy would perform about the same.

Responsible funds – increasingly popular with investors

By the end of Q3 2020, a record quarterly total of over £7bn had been invested into responsible investment funds, compared with the £1.9bn invested in the same period a year earlier. Funds under management reached £40bn at the end of September, 3% of total funds under management[2].

50 years on – decimalisation

On 15 February 1971, shillings and pence were replaced with 'new pence', in what proved to be a complex process. Fifty years ago on 'D-Day', businesses had to switch their pricing and accounting to decimal, banks had to adapt their part-manual, part-computerised systems and everyone had to learn the new structure, including school children. Even though it meant saying goodbye to old friends including florins and half crowns, decimalisation made life much simpler.

CGT review on the cards

The Office of Tax Simplification (OTS) has published its first of two reform reports on Capital Gains Tax (CGT), which calls for the tax to be set at the same rates as Income Tax, potentially raising a significant amount of tax for the Exchequer. Also amongst the recommendations is a lowering of the annual exemption. The OTS estimate the number of CGT taxpayers could double if the allowance reduced to £5,000.

[1]BDO, 2020, [2]Investment Association, 2020

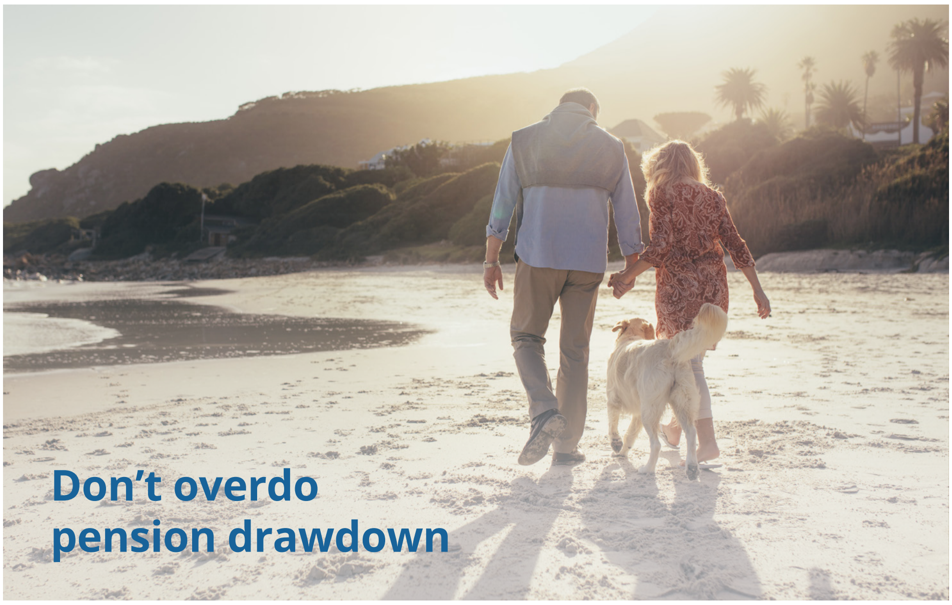
Your resolution for 2021 – become acquainted with your pension age(s)

Last October, phased increases to the State Pension age (SPA) reached 66 for both men and women, with further rises in the pipeline. And did you know that the minimum age for taking funds from a personal pension is also scheduled to rise in 2028? Taking the time to become familiar with your pension ages, and what you can expect to receive, is an essential step in creating your plan for retirement. The easiest way to find out your State Pension age is by visiting the government website www.gov.uk/state-pension-age.

The State Pension – is paid to anyone who has made at least ten years' worth of National Insurance contributions during their working lifetime. At present, the maximum payment is £175.20 a week (£9,110.40 a year), but how much you get depends on how many years you contributed for. Some people who have accrued Additional State Pension may get more than this 'maximum'. To check your State Pension forecast, go to www.gov.uk/check-state-pension.

Personal pensions – including workplace or individual personal pensions, can currently be accessed by savers at age 55. However, last September, the government confirmed this would rise to 57 in 2028. Prompted by increased life expectancy, this change will mean that those who are currently aged 47 or under and wish to pursue this option will have to wait an extra couple of years to do so.

The value of investments and income from them may go down. You may not get back the original amount invested. A pension is a long-term investment. The fund value may fluctuate and can go down. Your eventual income may depend on the size of the fund at retirement, future interest rates and tax legislation.



Don't overdo pension drawdown

With more than half of people in drawdown unaware they can vary their income or stop it altogether[3], concerns have been raised that many are draining their retirement savings far too fast. Financial Conduct Authority data shows that the number of pension plans fully withdrawn at the first time of access rose by 5% in 2019/2020 to 375,000, while an estimated 90,000 retirees took an annual income of 8% or more from their funds, only sustainable through periods of very strong growth. Meanwhile, only 36% of people accessing their plans for the first time sought advice.

Low take-up of advice

Low take-up of financial advice and guidance provision means that many older people are making risky decisions they may later regret. Many investors are at risk of taking an unsustainable level of income and being left financially vulnerable later in retirement. The government's tax takings from pensions are currently around £2bn higher than expected due to pensioners drawing large sums all at once and/or drawing so much they pay a higher tax rate. In addition, around 30,000 drawdown users are holding inappropriate investments that could later result in losses.

Unsustainable withdrawals

Accessing drawdown while the market is falling can have a negative impact on individual pension funds – a phenomenon known as 'the sequence of returns risk'. In other words, drawing from a fund in a falling market can make it harder for the fund to recover later, as it has less capital to work with. Tens of thousands of retirees are facing a large drop in income or risk running out of money altogether by not modifying their withdrawals at the right time.

We can help

It's important to be informed and understand all your options about pension drawdown to ensure you don't risk financial hardship later in life. We can help to bring clarity to your retirement decision-making, so do get in touch.

[3]Zurich, 2019

We're here for you now and in the future

Whatever this year holds, rest assured, we're here for you and your financial planning needs – whatever they may be.

While the coming months are expected to see the global economy rebound, the pace of recovery is difficult to predict. Along with uncertainties created by the pandemic; Brexit, trade and political issues will doubtlessly persist. You can rely on us; we take the time to understand your objectives and advise you on the investment and financial strategies most appropriate for you. We are proud to support you through 2021 and look ahead with hope and confidence.

ESG – firmly placed on the business agenda

As the global landscape evolves, ESG (environmental, social, and governance) seems firmly on many businesses' agendas in 2021, as they move towards a vision of matching profit, twinned with the pursuit of societal and sustainability impact. An increasing number of companies are seeing the value that consideration of ESG matters can generate, both in terms of relative performance and investing in initiatives they care about.

A new report has highlighted that Chief Financial Officers (CFOs) are placing a high priority on ESG issues and assessing how organisational ESG activities and investments compare with evolving stakeholder expectations and business values. The report[4] from the US details, *'Many companies recognise that investing in ESG is the right thing to do, but the real incentive comes from evolving stakeholder expectations... In 2021, customers, employees, suppliers, investors and the communities in which companies operate are likely to place even greater pressure on companies through their consumption choices, preferences regarding the organizations they want to work for and with, and calls for greater transparency on ESG... Finance leaders should expect to invest more time scrutinizing and strengthening ESG metrics and reporting to sustain relevance with institutional investors, asset managers and other investors. They also need to enhance the rigor of the disclosure controls and procedures that generate ESG reports.'*

The pandemic has highlighted ESG issues and it seems more organisations are embedding them as an integral part of business planning for the year ahead.

[4]Forbes, 2020

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Waiting for spring to spring? Be proactive

With the hope of spring in the air, why not take the opportunity to focus on your finances before the end of the tax year? Double-check you've taken advantage of the tax-efficient allowances available; we're on hand to get you organised in good time.

Here's a reminder of some of your main tax planning opportunities:

- Pensions – current Annual Allowance of **£40,000** (for every £2 of adjusted income over £240,000, an individual's Annual Allowance is reduced by £1, the minimum Annual Allowance will be £4,000) and Lifetime Allowance **£1,073,100**
- Individual Savings Accounts (ISAs) – maximum annual contribution of **£20,000** per adult
- Junior Individual Savings Allowances (JISAs) – maximum annual contribution of **£9,000** per child
- Gifting for Inheritance Tax (IHT) purposes – up to **£3,000** a year (some other exempted/small gifts allowable)
- Using Capital Gains Tax (CGT) allowances – **£12,300** annual exemption per person, **£6,150** for trusts – (currently under review, correct at time of publication)
- Enterprise Investment Schemes (EISs) – maximum investment of **£2,000,000**, relief on investments in certain unquoted trading companies, up to £1m per annum (or £2m as long as at least £1m of this is invested in knowledge intensive companies)
- Venture Capital Trusts (VCTs) – maximum annual investment of **£200,000**, relief on investment in certain qualifying companies.

Intergenerational issues intensified – time to reconnect

The pandemic has divided the population by age, profession and where in the country they reside. Divisions unfortunately often create tensions not least between the generations.

With students stranded in halls of residence whilst learning online, many feeling resentful over tuition fees and worsening job prospects, there is rising concern about the economic impact of the pandemic upon Gen Z. In fact, a recent summary of youth unemployment statistics revealed, *'581,000 young people aged 16-24 were unemployed in June-August 2020, an increase of 35,000 from the previous quarter and an increase of 87,000 from the year before.'*

According to the Intergenerational Foundation (IF), *'Younger generations are under pressure like never before. IF was established to draw policy-makers' attention to this, and to get a fairer deal for young people. It concentrates on policies in housing, health and higher education, employment, taxation, pensions, voting, transport and environmental degradation.'*

Empathise to connect

The pandemic has brought extra concerns for older generations, too. One worry for the elderly has been poor access to cash and banking services, with ATM and branch numbers declining. According to Age UK, *'We are hurtling towards a cashless society with no real consideration for the many people who will be left behind.'*

Plenty of older people acknowledge the challenges that upcoming generations

face and often help financially at important life stages, if concern about funding their own future care allows.

It's about family

In addition to heightening intergenerational issues, the pandemic has highlighted health, social, emotional and financial vulnerabilities – every generation has felt the impact. Many people have reflected on the balance in their lives, importance of feeling connected and to talk. And although generational divides exist, despite enduring time apart, it's brought many of us closer.

You may be in a position where you want to engage your family in a conversation about finances. If so, we understand your apprehension because money can be a contentious subject. Although 'wealth transfer' is such an abstract term for such an emotional topic, we can help break down any barriers and get your family talking in a positive and productive way.

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

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