

# VIEWPOINT

CLEAR VISION FINANCIAL SERVICES

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If you want to discuss how the details in this newsletter may affect your financial plan please contact us.



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# “Stealth taxes”

## will push more than 3 million workers into a higher Income Tax bracket by 2029

“Stealth taxes” refer to government policies that increase tax revenue even though they’re not labelled as tax hikes. Through freezing Income Tax thresholds, the government may benefit more than you expect.

### Income Tax thresholds are frozen until April 2028

Income above your Personal Allowance, which is £12,570 in 2025/26, could be subject to Income Tax.

The rate of Income Tax you pay depends on which band your earnings fall into. The current Income Tax thresholds and rates are:

| Band               | Taxable income      | Tax rate |
|--------------------|---------------------|----------|
| Personal allowance | Up to £12,570       | 0%       |
| Basic rate         | £12,571 to £50,270  | 20%      |
| Higher rate        | £50,271 to £125,140 | 40%      |
| Additional rate    | over £125,140       | 45%      |

NB Income Tax bands, thresholds, and rates are different in Scotland.

Crucially, the Personal Allowance and Income Tax thresholds are frozen until the 2027/28 tax year rather than increasing in line with inflation. This can lead to “fiscal drag”, where taxpayers are dragged into a higher tax bracket, even if their income hasn’t increased in real terms.

While you might have benefited from a rise in income, for much of the last two years, inflation has been higher than wage growth. So, many workers haven’t experienced a boost in their salary in real terms.

### Millions of taxpayers are expected to be affected by fiscal drag

According to figures from the Office for Budget Responsibility (OBR), the government’s policy of freezing Income Tax thresholds means that by 2028/29:

- Nearly 4 million additional people are expected to pay Income Tax
- 3 million more will start paying the higher rate
- 400,000 workers will be dragged into the additional-rate bracket.

The figures represent a significant increase in the number of taxpayers in each band of Income Tax. The number of higher-rate and additional-rate taxpayers is expected to soar by 68% and 49% respectively.

Of course, this will boost government coffers. The freezes are estimated to raise £42.9 billion by 2027/28.

The cuts to National Insurance (NI) offset some of the fiscal drag, but many taxpayers are likely to find their tax burden is higher overall.

From 6 April 2024, the main employee rate of NI was reduced from 10% to 8%.

## There may be ways you could reduce your Income Tax bill

The good news is that there may be steps you could take to reduce your Income Tax bill in a way that supports your finances now as well as your long-term goals.

Depending on your circumstances, you may want to:

- Check if you could use the Marriage Allowance if your spouse or civil partner’s income doesn’t exceed the Personal Allowance
- Increase your pension contributions to reduce your taxable income
- Save through an ISA to reduce the tax you pay on the interest your savings earn
- Make use of salary sacrifice schemes your employer offers
- Use dividends to supplement your salary.

The above list isn’t exhaustive and it’s important to weigh up the pros and cons before you proceed.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.

Source: Office for Budget Responsibility. Economic and fiscal outlook – November 2023





# Don't fit the mortgage mould? We can help you

If you've ever felt like you don't quite fit the conventional mould when it comes to securing a mortgage, you're not alone. In fact, more and more people are in the same boat, challenging the standard lending rules.

If you're self-employed, had a credit blip or over 50 you may have encountered challenges when applying for a mortgage because traditional mortgages don't always cater to everyone's needs. Luckily, there are specialist mortgage products designed just for people like you and we can help.

## Self-employed?

Do you feel like you have to jump through more hoops when applying for a mortgage just because you're self-employed?

We understand the complexities of self-employed finances and can help you find the right mortgage product tailored to your needs.

Whether you're a sole trader, in a partnership, a company director, or a contractor, we'll guide you through the process and help you gather the necessary documents to prove your income.

## Dealing with a credit blip

Don't let past credit issues hold you back from getting a mortgage.

We have access to specialist lenders who work with people with varying credit histories.

Whether you've had late payments, past debts, or no credit history at all, we'll help you explore your options and find a mortgage solution that works for you. We understand that life circumstances can impact credit, and we're here to help you.

## Over 50 and need a mortgage?

Getting a mortgage in your 50s and beyond used to be a challenge, but things have changed!

With access to a wide range of mortgage products, including those with age-friendly terms, we'll guide you through the process and ensure you find a mortgage that fits your needs.

Whether you're looking to downsize, renovate your home, or explore new living arrangements, we'll help you find the right mortgage solution for this exciting chapter of your life.

## How we can help you

We offer personalised guidance tailored to your unique circumstances and can help you if your financial situation, age, or employment status don't fit the traditional mortgage mould. Together, we can explore the options available to you.



**YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE**

# Reasons to consolidate your pensions

**If you've worked for more than one employer, you will doubtless have more than one pension plan. How long is it since you last looked at them? Are they languishing in poor performing funds?**

Combining some or all of your pensions into a single plan could save you money, achieve better growth and make your life easier. Here are some things to consider:

## 5 benefits of pension consolidation

1. Consolidating could save you money. Each pension plan has its own annual charges so combining multiple pensions into one means you'll only pay one annual fee. Shopping around could also help you find a plan with lower charges than your current ones.
2. It gives you greater flexibility. Modern pensions may offer benefits that older ones don't, like flexible drawdown of your pot or income for your loved ones after you pass away.
3. It keeps things simple. You only have to remember one set of login credentials and, if your address changes or you want to change the recipient of any death benefits, you only have to tell one provider.
4. You could get better opportunities. Bringing your pensions together could increase the overall value of your savings and a different plan or provider might give you access to a wider range of investment funds.
5. It makes it easier to plan for the future. An important part of retirement planning is understanding what you've got and what you'll need. Having everything in one place makes it easier to track your plan's value against your goals.

## Things to be aware of

You could be charged exit fees. Some plans still have exit penalties so make sure you're aware of these and the impact they might have on your pot.

It may be better to stay in a final salary (also known as defined benefit) scheme. These offer a guaranteed income in retirement alongside other benefits (like a pension for your spouse when you die) which you'll lose if you transfer out.

There's no guarantee you'll be better off consolidating. Your current pensions may have benefits like early access or guaranteed annuity rates that might be worth keeping, and annual fees on other pensions may not be competitive.

## Get advice before you consolidate

We're here to help. We can assess your situation, explore your options, and help you understand if pension consolidation is right for you.

***The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.***



# Is it better to gift a property or leave it in your will?

Before passing away, Maggie gifted her house worth more than £700,000 to her son Bruce but still remained living there, paying a token amount of rent. Nine years later, following Maggie's death, Bruce was surprised to be landed with an inheritance tax bill for the property.

## What did Maggie do wrong?

Maggie knew if she died within seven years of gifting Bruce her house that he may well end up paying inheritance tax on it. She also knew enough to pay Bruce rent after gifting him the property. However, the amount she paid was well below the market rate and this is where she fell foul of inheritance tax laws. By only paying a token amount of rent, the house remained part of Maggie's estate and Bruce was hit with a hefty inheritance tax bill.

## How to decide whether to gift a property or leave it in your will?

There are no easy answers to this. There are a lot of complicated tax rules to consider and the best approach will depend on your individual circumstances. Whatever the situation, it's an important decision and one best made as a family. We've looked at the pros and cons of both to give you an idea of the kind of things you'll need to consider.

## Leaving a property in your will

The first thing to do is find out the residence nil rate band (RNRB) allowance for the property in question. If, like Maggie, you're leaving your main home to a child or grandchild, they'll benefit from an extra £175,000 tax-free allowance on top of the standard £325,000. This means you could leave an estate worth up to £500,000 and there'll be no inheritance tax to pay. And if you and your spouse are leaving a joint estate, that doubles to £1m.

Maggie's husband Bill died in 2019 and the executors of the estate can also claim Bill's residence Nil Rate Band. This means that the £675,000 can be claimed as an amount where no inheritance tax is applied, meaning this £675,000 remains inheritance tax free.

The benefits of leaving a property in your will are that you'll retain control of it, it isn't generally at risk from anyone else's divorce, death, or bankruptcy and, currently, there's no capital gains tax to pay for the beneficiary.

Working with a professional financial planner, it would have been possible for Bill to leave 'assets to the value of the Nil Rate Band' and have what is called a 'Will Trust' written into the will. As this is a specialist area, it is important to discuss with a professional and consider the options.

## Gifting a property

If, as in Maggie's case, the property is worth more than the RNRB, you may want to consider passing full ownership to a child. You then need to move out or, as Bruce found out to his cost, pay rent at the going market rate.

There are many reasons people choose to gift a property: to minimise inheritance tax; to provide financial help to loved ones sooner rather than later; or to avoid care home fees. If you're considering it for the latter reason, you should be aware that anti-avoidance rules are designed to stop people doing this.

If you gift a property, you'll lose control of it. But once the transfer of ownership takes place, so begins the seven year countdown for removing the property from inheritance tax liability.

## Right sizing

Another option for improving your quality of life into old age and helping the kids out at the same time is right sizing. In other words, selling the family home and buying somewhere that is easier to manage and better suits your needs as you get older. This option generally releases equity, which can be used to give loved ones a financial boost while you're still alive. Alternatively, you could investigate a lifetime mortgage as an option for releasing money to gift away now.

## Insuring against inheritance tax

Another possibility Maggie could have considered is taking out whole of life insurance. This would have provided a tax-free lump sum on death to cover Bruce's inheritance tax bill. Writing the policy into trust would have ensured any payout wasn't included as part of Maggie's estate.

However, policies can be expensive and HMRC would have treated the premiums as a lifetime gift if Maggie paid them herself. Bearing this in mind and considering Bruce would have been the person to benefit from the insurance cover, it would have made sense for him to pay the premiums if he was keen to go down this road.

## Key takeaways:

- When deciding whether to gift a property or leave it in your will, you need to focus on what you're trying to achieve.
- The benefits of leaving a property in your will are that you'll retain control for the rest of your life, it isn't generally at risk from anyone else's divorce, death or bankruptcy and, currently, there's no capital gains tax to pay for the person who inherits it.
- Gifting a property can be used to minimise inheritance tax and allow you to provide financial support to loved ones before your death.
- Right sizing may improve your quality of life and release equity.
- It's possible to insure against inheritance tax but it can be expensive so it may be more appropriate for beneficiaries to pay the premiums.
- Professional advice can help you and your loved ones understand the various implications of the different options and allow you to make informed decisions.

## The importance of professional advice

As you can see, estate planning is far from straightforward so it makes sense to work with a financial adviser who can look into different scenarios and help you and your loved ones make informed decisions.

## Get in touch

If you'd like help to create a financial plan to structure your assets to be more tax-efficient before your death, we can help. Please get in touch to arrange a time to chat.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen. For specialist tax advice, please refer to an accountant or tax specialist.

Will Writing is not regulated by the Financial Conduct Authority.



# Here's how financial protection can offer security for parents

Serious illness can place immense stress on our families. The cost of caring for an unwell child, worry over access to essential services, and the emotional toll of serious illness are all things that no parent wants to think about.

We can't predict what the future will hold for the health of our families, but we can take proactive steps to prepare for the risk that we or our children might become critically unwell.

Appropriate financial protection can be a vital safety net for parents, providing essential cover for children and easing the pressure of caring for them.

## Critical illness payouts can help you care for your child

No parent wants to consider the possibility of their child becoming seriously ill, but planning for the worst can offer the greatest peace of mind. Robust and appropriate financial protection can help shore up your finances and allow you to focus on caring for your child.

Critical illness cover pays out a lump sum if you are diagnosed with an illness covered by the policy. Many of these policies include cover for a child of the policyholder, paying out a proportion of the full amount if they become seriously ill. This payout provides a financial safety net, covering your expenses and allowing you to take time away from work to care for your child.

Critical illness cover may also come with other benefits that can offer further support for your family, such as:

- A payout if your child is hospitalised because of an accident.
- Cover for the cost of accommodation so that you can be close to your child if they're in hospital.
- Childcare costs if you're diagnosed with a serious illness that's covered by your policy.

The cost of critical illness cover varies depending on how large you want a potential payout to be, as well as other factors like your age and general health. It's important to note that you'll only be covered as long as you keep paying your premiums.

Children are often automatically included in critical illness cover but this isn't guaranteed. Contact your provider for clarification and be aware that your premiums could rise if you add a child to a policy that doesn't already cover them.

Cover for a child typically starts from the first few weeks after birth and lasts until they're 18, or 21 if they're in full-time education, but this can vary between providers. There may be other restrictions to critical illness cover that you should be aware of – some policies will only allow

one claim per child whilst others might exclude certain conditions that are present from birth.

It's important to check the details of critical illness cover thoroughly when comparing your option to make sure that you're buying the right cover for your circumstances.

## Private medical insurance could help provide better care for your family

You may want to consider taking out private medical insurance to compliment the security that financial protection could offer you. The Guardian reports that the private health insurance market has grown by £385 million in the last year. At the same time, rising wait times and staff shortages are causing public satisfaction with the NHS to slump according to the long-running British Social Attitudes survey.

Private medical insurance can help to put your mind at ease by reducing waiting times for a range of services (like tests and consultations) whilst giving you a wider choice of treatment providers. It could also help to cover the cost of a private room, giving you and your family greater privacy if you need to stay in hospital overnight.

Private health insurance can cover much more than just physical illness. Some providers offer access to counselling and mental health services which are becoming increasingly important for the wellbeing of younger generations – the number of children and young people seeking support for their mental health increased by 25% from 2022 to 2023 according to data from Aviva.

The cost of private health insurance and the level of cover you'll receive are influenced by a range of factors, including who you want the policy to cover, your lifestyle, and family medical history. It's important to take the time to understand how comprehensive your options are and any exclusions that might affect your family.

## Talk to us to see how we can help protect your family

Financial protection is just one way that you can prepare for the unexpected. Get in touch if you'd like to know more about financial protection for your family against serious illness.

**Please note:** Financial protection plans typically have no cash in value at any time and cover will cease at the end of the term. Cover will lapse if premiums are unpaid. Cover is subject to terms and conditions and may have exclusions. Definition of illnesses vary between providers and will be explained in policy documentation.