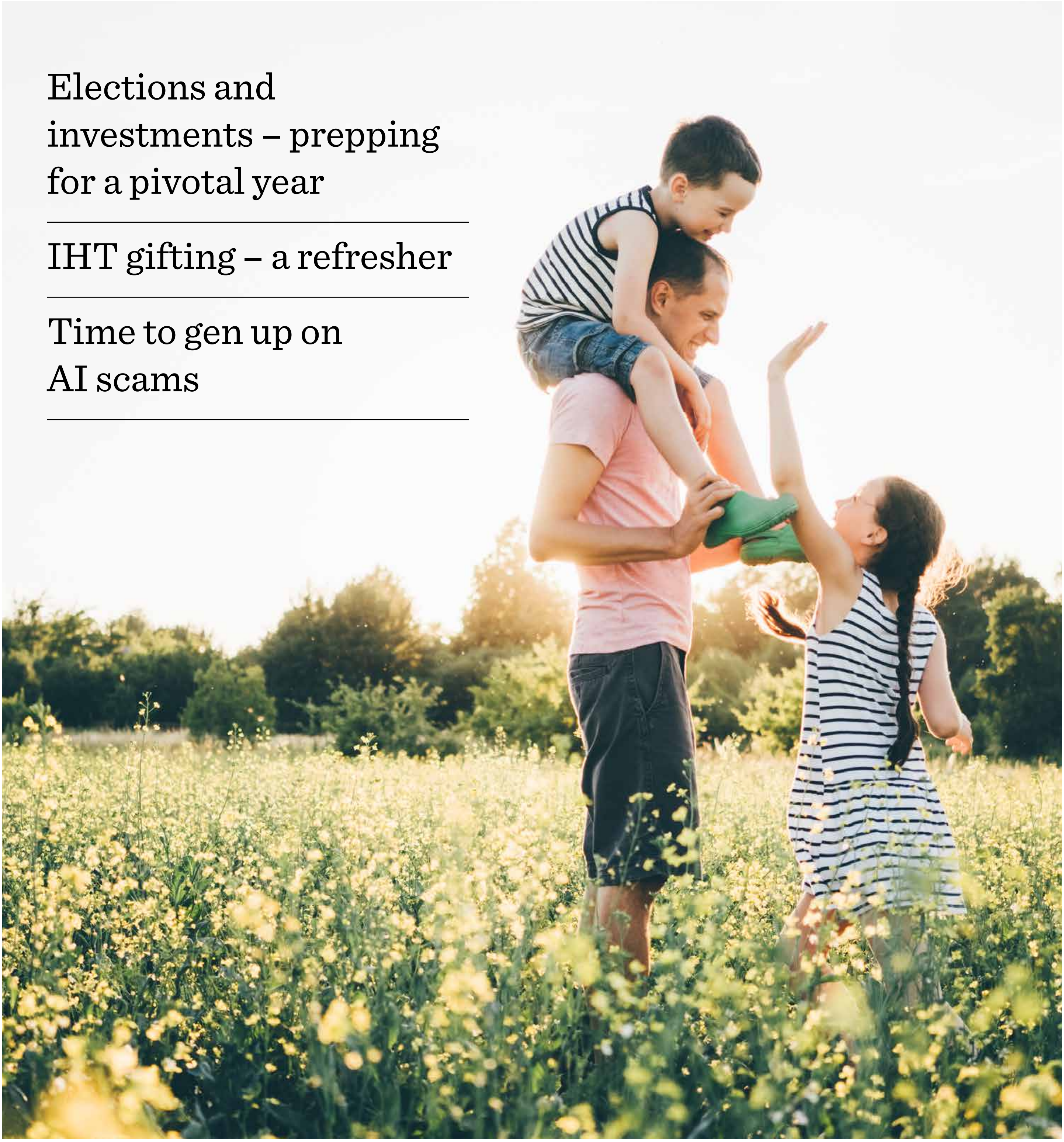
Essentially Wealth

Elections and investments – prepping for a pivotal year

IHT gifting – a refresher

Time to gen up on AI scams



Q2 2024

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Quilter Financial Planning

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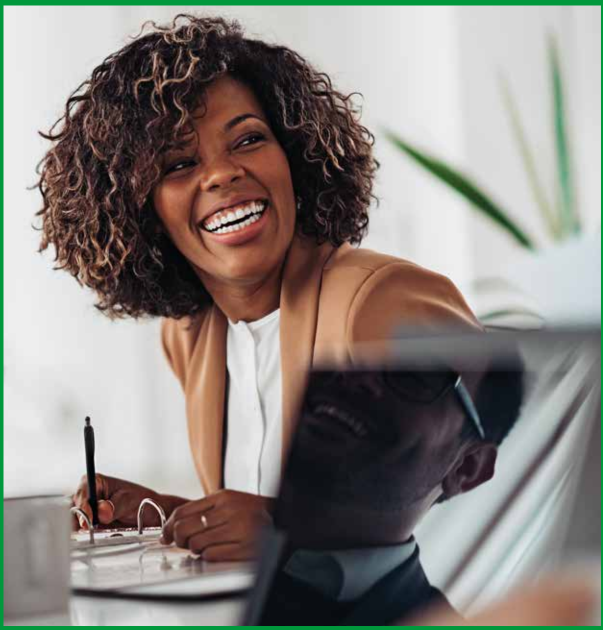
UK investors – confidence returns

According to a leading index[1], equity fund inflows reached £2.01bn in January, making it one of the top ten months ever recorded.



The highest inflows since April 2021, this increased investor confidence in equity funds indicates that UK investors are at their most bullish in almost three years, a significant milestone.

The January Index also highlighted that US equity funds had record inflows of £1.40bn, while European equity funds had their third highest month on record with inflows of £471m. After months of negativity, ESG funds experienced record inflows of £1.63bn, although positive, it's too soon to identify this as a trend. Weak news from China meant outflows from Asia Pacific funds for a ninth consecutive month, while inflows to safe-haven money market funds slowed after months of strong buying.

[1]Calastone, 2024

Spring Budget recap

During the Spring Budget in March, the Chancellor presented the latest economic update from the Office for Budget Responsibility (OBR), saying the economy had "turned the corner on inflation" and "will soon turn the corner on growth."

The latest forecast indicates the government is on track to meet its fiscal rules to grow the economy, reduce debt and halve inflation. The OBR expect that the UK economy will expand by 0.8% in 2024, and by 1.9% next year, higher than the 1.4% figure previously predicted. Government borrowing is expected to fall below 3% of GDP by 2025/26 and by the end of the forecast period it is due to represent the lowest level of annual borrowing since 2001.

In addition, the projections show the rate of inflation is expected to fall below the Bank of England's 2% target level in *"a few months' time,"* a year earlier than the OBR had forecast in the autumn.

Delivering what is likely to be his last Budget ahead of the much anticipated General Election, Jeremy Hunt highlighted a raft of reforms aimed at ensuring the tax system is simple, fair, keeps pace with economic developments, and supports public finances. The Chancellor said his policies would help build a *"high wage, high skill economy"* and deliver *"more investment, more jobs, better public services and lower taxes."*

Together with some cost-of-living measures to help families struggling with extra financial pressures, key measures included a widely-anticipated reduction in National Insurance, abolition of the non-dom tax status and new savings products designed to encourage more people to invest in UK assets.

In order to promote more investment in UK assets, the government announced it would consult on the introduction of a UK Individual Savings Account (ISA) with a £5,000 annual allowance in addition to the existing ISA allowance of £20,000. If it goes ahead as planned, it will be a new tax-efficient savings product for people to invest in UK-focused assets. And a British Savings Bond will be delivered through National Savings & Investments (NS&I), offering a guaranteed interest rate, fixed for three years.

Elections and investments – prepping for a pivotal year

Did you know that 64 countries are due to hold elections this year (including India, Brazil, the US and very probably the UK)?

Some of these elections carry significant global implications and, depending on their outcomes, will influence the geopolitical landscape, and global and regional investment markets.

Investment implications

Markets don't like uncertainty. Election years are typically marked by increased speculation and uncertainty, after all, a change in a country's leadership or policy direction can affect everything from commodity prices to its stock market, influencing investor sentiment.

From a UK perspective, because 70% of revenues earned by FTSE 100 listed companies are derived overseas, domestic shareholders will be keeping a close eye on election results worldwide as they could have wide-reaching implications. The election outcomes will be important in terms of trade policies, supply chains and access to commodities, for example.

The elephant in the room

With the US election scheduled for 5 November, the world's largest economy will be under the microscope, as North America sets the tone for global economic policies on trade, regulation, and fiscal stimulus.

The race to the White House is likely to see a Biden / Trump rematch, and while Democratic presidents are usually better for the US economy, and for investment returns in general, given his low approval rating, the re-election of President Joe Biden is far from certain. An election victory for Trump, despite numerous legal issues, could create waves as investors focus on the likely implications for the US and the rest of the world.

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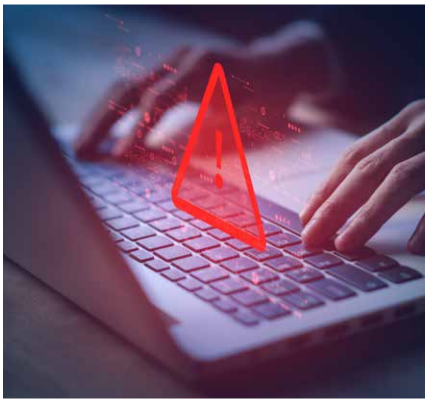
Keeping an eye on developments

As ever with investing, it's important not to be distracted by short-term *'noise.'* Uncertainty surrounding election outcomes and the potential for policy changes can sometimes cause short-term fluctuations in asset prices. Keeping an eye on political developments is worthwhile but there's certainly no need to be overly concerned about how an election year could affect your investments over the longer term. Preparing for potential market volatility by establishing a well-diversified investment portfolio, aligned with your long-term financial objectives and managed to meet your personal financial goals, is ideal.

Time to gen up on AI scams

The advent and development of artificial intelligence (AI) is exciting and intriguing, and seems to be permeating everyday life, from virtual assistants like Siri and Alexa, to opening your phone with face ID, all powered by AI functionality.



While a whole host of positive AI-related developments will no doubt improve elements of our lives, there are some serious risks to be aware of too – namely, the prevalence of AI scams, and their increasing sophistication – we all need to tune in.

A few main scams to be aware of include:

- Videos and images can be created of people to pass through security and verification checks, with the intention of gaining access to bank accounts
- ChatGPT enables phishing scams to seem more convincing by filtering out any spelling or grammatical errors and making the tone more human
- Deepfakes are fake media content that has been generated and highly believable. One example being, a video clip of Martin Lewis which was recently fabricated, aiming to convince viewers to part with their money. This AI software can also clone voices and use them to make fraudulent phone calls. In a recent survey[2], 77% of respondents said they had lost money due to this type of scam.

It could happen to you

There's no doubt that everyone risks falling victim to these scams, age is irrelevant. Research[3] has discovered that almost half (48%) of adults aged between 25 and 34 have or know someone who has experienced financial fraud, this compared to 24% of over 55s.

Knowledge is power

Recently Governor of the Bank of England, Andrew Bailey commented on the threat of AI, *"The time to act to safeguard our society from AI-enabled fraud is now… all organisations need to think carefully about how AI may create fraud risks for their business and their customers. This will require ongoing vigilance, including monitoring and the sharing of insight and best practice between firms and across sectors."*

As the capability of AI is constantly evolving, we understand that the threat of scams can feel overwhelming, which is why it's important to question everything, equip yourself with knowledge so you're not vulnerable and, if in doubt, get in touch for guidance.

[2]McAfee, 2024, [3]GFT UK, 2024

IHT receipts and investigations on the rise

In the first ten months of the 2023/24 financial year, HMRC collected £6.3bn in IHT receipts, £0.4bn more than the same period the previous fiscal year. This represents a 6.8% rise year-on-year and suggests this year's annual figure will comfortably surpass last year's record-breaking total of £7.1bn.

With the nil-rate threshold frozen at £325,000 for over a decade, combined with rising property prices, more households continue to be drawn into the IHT net.

Targeted investigations

In addition, record amounts of underpaid tax has been recovered by HMRC through a specialist team targeting the estates of wealthy deceased individuals. Data obtained via a Freedom of Information request shows that 2,029 IHT investigations were opened between April and November last year, with £172m recovered during that period alone as a result of targeted investigations.

Concerned? Seek advice

Research[4] has highlighted that IHT is the number one financial concern among wealthy individuals. The study determined that over a third of wealthy Britons are worried about IHT, with prominent increases in levels of concern recorded amongst the 25 to 34 and 55 to 65-year-old categories over the last year.

The rules surrounding IHT are notoriously complex. People often require professional advice to find the most efficient solution for their circumstances. If you have any concerns or need advice, get in touch.

[4]RBC, 2024

IHT gifting – a refresher

There are several ways to minimise the amount of IHT your family pay when you're gone. In addition to maximising IHT allowances, other planning opportunities include utilising gift exemptions.

Making IHT-free gifts

Each financial year you can make gifts of up to **£3,000** (in total, not per recipient) and if you don't use this in one tax year, you can carry over any leftover allowance to the next year. If you do this, you have to use up all your allowance in that tax year; you can't accumulate several years' worth of allowance and use it up in a single gift.

In addition:

- Gifts of up to **£250** per person per financial year to any number of people are exempt
- Each parent of a bride or groom can give up to **£5,000**; grandparents or other relatives can give up to **£2,500** and any well-wisher can give **£1,000**
- Gifts to registered charities and political parties are also exempt from IHT.

There is another simple way of passing money to the next generation which allows for gifts to be made from surplus income.

Gifting from surplus income

If you have enough income to maintain your usual standard of living, you can make gifts from your surplus income, such as regularly paying into your child's savings account. To make use of this exemption, it's essential that you keep very good records of these gifts. The gift will only qualify for exemption if it is part of a regular pattern of giving, and if you can demonstrate that you maintained your normal standard of living after making the gifts and all other usual expenditure, if you don't, IHT might be due on these gifts when you die.

Conditions apply and advice would be needed to ensure that the gifts are made in the right way.

During your lifetime – gift exemptions and the 7-year rule

Many families consider giving their assets away during their lifetime, these are called *'potentially exempt transfers.'* For these gifts not to be counted as part of your estate on your death, you must outlive the gift by 7 years. If you die within 7 years and the gifts are worth more than the nil-rate band, taper relief applies, so that if you die say within 6 years, the tax will be less than if you were to die a year after making the gift.

Gifts must be outright and you can no longer benefit from them. So, if you were to gift your home, but continue to reside there without paying a commercial rent, HMRC would consider this to be a *'gift with reservation'* and include the value as part of your estate.

A reminder

During the Spring Budget it was announced that there will be a consultation on moving to a residence-based regime for IHT. No changes to IHT will take effect before 6 April 2025, nil-rate band remains at £325,000 and the main residence nil-rate band at £175,000, with taper starting at £2m (estate value).

Taking sensible tax steps

As we get settled into the 2024/25 tax year, it's the perfect time to reassess your finances. It's important to ensure you are in the best place possible when it comes to tax planning, your investments and pensions.

Sensible tax planning can help to reduce the amount of tax you pay and safeguard your wealth for the future. So, what needs to be on your *'to do list'* this new tax year?

It's important to ensure you are in the best place possible when it comes to tax planning, your investments and pensions

A great start is getting to know your 2024/25 tax rates:

- The ISA allowance is **£20,000** and the JISA (Junior ISA) allowance and Child Trust Fund (CTF) annual subscription limits are **£9,000**. CTFs closed to new applicants in 2011
- The Dividend Allowance is **£500** (from April 2024)
- The annual Capital Gains Tax (CGT) exemption is **£3,000** (from April 2024)
- The Income Tax Personal Allowance and higher rate threshold are **£12,570** and **£50,270** respectively until April 2028 (rates and thresholds may differ for taxpayers in parts of the UK where Income Tax is devolved)
- The IHT nil-rate band is **£325,000** and the main residence nil-rate band **£175,000**.

Effective tax planning strategies can help shield you from the chill this spring. We can help – please get in touch.

Changes to National Insurance in closer detail

Following reductions to National Insurance Contributions (NICs) announced during the Autumn Statement which took effect from January, the Chancellor again decided to focus on NICs, rather than Income Tax, during the Spring Budget. The announced changes took effect from April and include:

- A reduction in the main rate of employee NICs by 2p in the pound from 10% to 8%, when combined with the 2p cut that took effect in January, it is estimated to save the average salaried worker over £900 each year
- A further 2p cut from the main rate of self-employed NICs, on top of the 1p cut announced at the Autumn Statement, meaning the main rate of Class 4 NICs for the self-employed will reduce from 9% to 6% from 6 April 2024. Combined with the abolition of the requirement to pay Class 2 NICs, this will save an average self-employed person around £650 a year.

Child Benefit shake-up

Mr Hunt announced changes to address the unfairness in the current Child Benefit system.

Previously, a couple could earn a combined income of £98,000 a year (£49,000 each) and receive full Child Benefit, while a two-parent family with one earner on a salary of £60,000 and over, or a single parent family earning £60,000 a year, wouldn't receive anything.

The Treasury has now pledged to base the Child Benefit system on household rather than individual incomes by April 2026. In addition, the following changes to the system are being implemented from April 2024:

- The threshold for the High Income Child Benefit Charge will be raised to £60,000 from £50,000, taking 170,000 families out of paying this charge
- The rate of the charge will be halved, so that Child Benefit is not lost in full until an individual earns £80,000 per annum
- Under these new thresholds, for every £200 of income earned above £60,000, individuals need to pay back 1% of the maximum amount of Child Benefit they're entitled to. Once you reach £80,000 a year, the charge to be paid back is 100% of your entitlement.

Your retirement strategy

How's your retirement plan coming along? In order to secure financial stability and peace of mind when you stop working, whether you're nearing retirement, or you still have many years of your working life ahead, careful planning is crucial.

Be proactive

Recent data[5] has shown that on average people actively start planning for retirement around the age of 36. With well over a decade of work experience accrued by this age, it seems the *'age of responsibility'* arrives for many people in their mid-30s, with increasing mindfulness of the importance of financial planning, including actively thinking about their retirement. Interestingly, at this age 63% of respondents felt confident in their financial decision-making abilities.

Timing is everything

While it's never too late to develop a well-thought-out retirement strategy, being an early adopter is preferable, giving yourself longer to work towards your retirement objectives and amass a sizeable pot to draw upon.

Investment approach

Younger people can afford to adopt a more aggressive investment approach with their pension investment allocation, embracing riskier assets for potentially higher returns over time. The longer investment horizon allows time for recovery from any downturns. Whereas for those in or on the cusp of retirement, a prudent approach involves creating an investment profile which reduces exposure to riskier assets, although not eliminating risk entirely.

For everyone, investments should be aligned to your risk tolerance and personal financial goals, which may alter over time as your life progresses and your circumstances change.

Regular rebalancing

Normal market fluctuations and varying asset performances can cause your portfolio to deviate from its original allocation over time. Without intervention, this drift could lead to unintended asset concentration and increased risk exposure, making regular portfolio rebalancing a vital component of any retirement strategy.

[5]Standard Life, 2023

Non-dom status – all change

Following announcements at the Spring Budget, changes and restrictions will be introduced to the Resident Non-Domiciled (RND) regime, although it will keep some of its spirit to continue to attract entrepreneurs and foreign talents to emigrate to the UK. The new RND rules take inspiration from other neighbouring countries, including France, Italy and Spain.

Notable changes are the abolition of the notion of domicile and the concept of remittance. While we await further clarification from the government, the key elements include:

- The current regime will be abolished, to be replaced with a four-year, residence-based regime, with effect from 6 April 2025
- There will be transitional provisions, which will allow for a repatriation of foreign income and gains, taxable on remittance to the UK, for two years from 6 April 2025 at a flat rate of 12%
- For current non-domiciled individuals there will be a 50% reduction in personal foreign income subject to UK tax in 2025/26 (i.e. in the year of transition) and capital assets can be rebased to values at 5 April 2019 for disposals after 6 April 2025, provided the assets were held at 5 April 2019
- It is understood that excluded property trusts established prior to 6 April 2025, should retain protections for earlier years, but from 6 April 2025 any income and gains arising within them will be taxable on the settlor. It is believed that Inheritance Tax (IHT) protections should endure but we recommend clients should seek further clarification and professional advice
- Under the new rules, individuals who come to the UK will only be taxable on their UK income and gains for the first four years of UK tax residence, assuming they've not been UK tax resident in the preceding 10 years. They will be able to remit foreign income and gains (arising in those four years) to the UK during that time, as we understand, with no further tax charges.