PROTECT & GROW

AUTUMN 2021 | ISSUE 08

PENSION **FREEDOMS**

Looking for a wider choice of investment options?

ALSO INSIDE THIS ISSUE

PROTECTING FAMILY WEALTH
Start planning your legacy to mitigate or reduce Inheritance Tax

EVOLUTION OF ESG INVESTING
Changing face of consumer ethics and behaviours

CREATING WEALTH FOR CHILDREN
Investing isn't just a luxury reserved for adults

KINGSWOOD
PROTECT AND GROW YOUR WEALTH

THE KINGSWOOD CLIENT EXPERIENCE

I'm absolutely delighted to have joined Kingswood as our Chief Client Officer earlier this summer. With only one in ten adults taking financial advice, it's clear that we can really help more people if we listen, learn and test our ambitions and plans. For me the client experience is absolutely paramount to any company and here at Kingswood we want to be the magnet company for clients. What does this mean? Well for us, this means we design our whole experience around our clients, and to help us shape our future services.

So with that in mind, we have launched our new Client survey, where we will be asking our clients about their views around their adviser, our communications, the solutions we provide and how they would like us to improve. In our recent survey it was great to see so many positive comments and it's clear that our adviser relationships are really strong. In response to feedback around wanting to hear more about our ethical and sustainable investment solutions, we are pleased to announce the launch of our ESG (Environmental, Social, Governance) Portfolio brochure. We also had comments around wanting to have more regular valuations. In response to this, later this year we will be launching our Kingswood client portal and app. This will enable clients to view portfolios and valuations online, at the touch of a button, accessible via desktop, phone and tablet.

We are also looking for a small number of clients who are keen to share their views and test our new ideas to really get involved in shaping our future client experiences at Kingswood, where we are excited to launch our Client Advisory Boards later this year. We hope you enjoy this edition of *Protect and Grow*.

Lucy Whitehead – Chief Client Officer

WELCOME

WELCOME TO the Autumn issue of *Protect & Grow* from Kingswood. Inside we look at a number of different topics to help you plan, protect and grow your wealth.

Saving for your retirement is one of the longest and biggest financial commitments you will ever make. Imagine you're retiring today. Have you thought about how you're going to financially support yourself (and potentially your family too) with your current pension savings? On page 14 we look at the pension freedoms introduced in 2015 that provide even more of an incentive to look again at your retirement savings.

If you've worked hard throughout your lifetime to grow your wealth, you may hope it will help to safeguard the financial security of your loved ones after you've gone. But without careful planning in your lifetime, you could leave them with less than expected after the Inheritance Tax bill is paid. On page 09 we consider some of your planning options.

The coronavirus (COVID-19) pandemic has prompted a desire to move into ethical and sustainable investing for more than half of advised UK adults, according to a new report. The report identified that more people are now paying greater attention to the environment and the planet than they did before the pandemic. You can read the article on page 13.

Saving for a child today is a wonderful gift for their future. Whether you want to help them buy their first car, contribute to their first home or even set them up for a comfortable retirement, there is little more fulfilling than providing financial security for your children or grandchildren. It can be worrying to think about the expenses they will face as adults. So, the earlier you can start investing money for your children, the more chance it has to grow before they need it as an adult. On page 11, you can find out more.

Plan, protect, grow

Your goals and ambitions are unique to you and we want to help you achieve them. Together, we'll identify your priorities and work out a plan – one that fits for today or for where you want to be in the future. We hope you enjoy reading this issue.

David Lawrence – CEO
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INSIDE THIS ISSUE

PROTECTING FAMILY WEALTH

START PLANNING YOUR LEGACY TO MITIGATE OR REDUCE INHERITANCE TAX

If you've worked hard throughout your lifetime to grow your wealth, you may hope it will help to safeguard the financial security of your loved ones after you've gone. But without careful planning in your lifetime, you could leave them with less than expected after the Inheritance Tax bill is paid.

Proper planning can help you pass on as much as possible to the people you choose by avoiding additional unnecessary tax charges. But there is a perception by some people that Inheritance Tax only affects the rich, which is untrue.

CURRENT AND FUTURE NEEDS OF YOUR LOVED ONES

When you're getting on with life, it's not easy to stop and think about what will happen to your estate (such as your property, possessions, investments and cash) when you're no longer around. That's why it's important to make sure that any assets you've built up over your lifetime aren't subject to Inheritance Tax unnecessarily after your death, and that your loved ones, and any organisations close to your heart, benefit from your estate as you intended.

By reviewing your wealth and getting professional financial advice, you will be able to consider the current and future needs of your loved ones and how you can benefit them whilst preserving your assets.

INHERITANCE TAX FACTS

Every individual has an Inheritance Tax 'nil-rate band' of £325,000 in the current 2021/22 tax year (the UK tax year starts on 6 April each year and ends on 5 April the following year). This means that you can pass on up to £325,000 worth of property, money and other assets with no Inheritance Tax to pay.

Above this threshold, Inheritance Tax is normally levied at 40%. So, as a simple example, if you were to pass on wealth of £425,000, the first £325,000 would be tax-free, and the remaining £100,000 would be taxed at 40%, creating a tax liability of £40,000 for your personal representatives to pay out of your estate, therefore leaving less for the recipients of your estate.

However, there are many tax reliefs and rules that can minimise the amount of Inheritance Tax due. You can leave your entire estate to a surviving spouse or registered civil partner with no Inheritance Tax due. But there are many other, lesser-known rules and reliefs that can also apply.

The current Inheritance Tax nil-rate bands will remain at existing levels until April 2026.

HOW INHERITANCE TAX PLANNING WORKS

Inheritance Tax planning is a way of arranging your wealth with the various tax reliefs in mind so that your loved ones don't pay more tax than they legally need to.

It works best when the process is started many years in advance. Certain transfers of capital may only become free from Inheritance Tax if you survive for seven years after they are made, so Inheritance Tax planning cannot be rushed.

Of course, Inheritance Tax is not the only consideration when it comes to arranging your finances – you also need to ensure that your wealth works for you in your lifetime. So, this planning must work in harmony with other areas of financial planning. It's a precise and personal process.

THREE STEPS TO MITIGATE OR REDUCE INHERITANCE TAX

The rules and reliefs that are most beneficial to you depend on your personal and financial situation. The advice you receive will be different based on whether you're single or married, if you have children or grandchildren, if you own your own business, or on many other factors.

That said, here are three tips that many people could benefit from.

1. The residence nil-rate band (RNRB)

As well as the Inheritance Tax nil-rate band mentioned earlier, there is an additional nil-rate band that applies when passing on a property that was your main residence in your lifetime. This is an additional Inheritance Tax-free allowance for 'qualifying' home owners with estates worth less than £2.35 million (where one residence nil-rate band is available) or £2.7 million (where two residence nil-rate bands are available), that can result in you being able to pass on up to £500,000 when you die before Inheritance Tax has to be paid using the nil-rate band and residence nil-rate band.

If you leave a property that has been your main residence at some point, to a direct descendant (which includes a child, adopted child, stepchild, foster child, grandchild or great-grandchild), you'll qualify for the residence nil-rate band, which is currently £175,000. So, by using both nil-rate bands, the total tax-free portion of your estate will be £500,000.

If you are a surviving spouse who inherited the total estate of your deceased partner, you also inherit their nil-rate bands. So, in this scenario, you would be able to pass on up to £1,000,000 free of Inheritance Tax (including £350,000 of property using the RNRB capped at the property value if less) and a further £650,000 of your combined estate). This assumes the estate on both first and second deaths wasn't over £2 million.

2. Lifetime gifts

One way to minimise your Inheritance Tax bill is by gifting money or assets during your lifetime rather than waiting to pass on your wealth until after your death. However, in some situations, a gift can create an Inheritance Tax liability.

To be sure that yours doesn't, follow these rules:

- Small gifts (up to £250) to different individuals are typically free from Inheritance Tax. This rule is intended to cover any birthday gifts, Christmas gifts, etc.
- Larger gifts are free from Inheritance Tax up to a total of £3,000 in each tax year. If you don't use your total allowance in one tax year, you can carry it forward to the next year as long as you also use up the current year allowance.
- Wedding (or registered civil partnership) gifts are free from Inheritance Tax up to a certain value, which depends on your relationship to the recipient. If you are their parent, the limit is £5,000. If you are a grandparent or great-grandparent, the limit is £2,500. In any other case, the limit is £1,000.
- Regular gifts out of income – unlimited amounts as long as made regularly out of surplus income such that standard of living isn't affected.

3. A Deed of Variation

In some cases, you might have carefully arranged your wealth for Inheritance Tax purposes, but you then inherit money or other assets in someone's Will that would result in your estate exceeding your available nil-rate bands.

Rather than accepting this inheritance (which you may not need and would likely leave to a loved one later), you could execute a Deed of Variation so that it is passed directly to that loved one immediately. It will not be counted as part of your estate.

WHAT WILL YOUR LEGACY LOOK LIKE?
Pension holders now have far more freedom over how their pension is invested than many realise. If you would like to ensure your pension is invested according to your preferences, including a preference for ESG investments, contact us for more information.

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS.

ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

THE RULES AROUND INHERITANCE TAX ARE COMPLICATED, SO YOU SHOULD ALWAYS OBTAIN PROFESSIONAL ADVICE.

THE VALUE OF INVESTMENTS AND THE INCOME THEY PRODUCE CAN FALL AS WELL AS RISE. YOU MAY GET BACK LESS THAN YOU INVESTED.

THE FINANCIAL CONDUCT AUTHORITY DOES NOT REGULATE TAXATION & TRUST ADVICE, DEEDS OF VARIATION & WILL WRITING.

PENSION **BOOST**

ARE YOU CLAIMING ALL OF THE GENEROUS TAX RELIEF YOU'RE ENTITLED TO?

The unique combination of tax breaks and flexible access available to pensions make them a compelling choice when saving for retirement. One of the key benefits of saving into a pension rather than another type of savings or investment vehicle is the generous tax relief you're entitled to receive.

Making the most of pension saving involves maximising tax relief and allowances which could substantially boost your retirement savings.

WHAT IS THE PENSION ANNUAL ALLOWANCE?

All UK taxpayers are entitled to claim tax relief on contributions they make to their pension. Tax relief is on pension contributions of up to 100% of relevant UK earnings (£3,600 p.a. if more). But there is a cap on how much you can contribute while claiming tax relief, which is called your annual allowance.

The current pension annual allowance in the tax year 2021/22 is £40,000, but in some cases, yours could be lower. If your taxable income is less than £40,000, your personal tax relievable contributions are limited to 100% of earnings (£3,600 p.a. if more). If your total taxable income (adjusted income) exceeds £240,000, your annual allowance may be tapered.

WHAT IS THE TAPERED ANNUAL ALLOWANCE?

The tapering rules are complex but, put simply, for every £2 of adjusted income you receive above £240,000, your annual allowance reduces by £1. The minimum annual allowance is £4,000, for those with an income above £312,000.

WHAT HAPPENS IF YOU DON'T USE ALL OF YOUR PENSION ANNUAL ALLOWANCE?

If you don't use all of your pension annual allowance, you could be missing out on tax relief that you are able to claim.

Of course, you may not be able to afford to contribute the maximum in every tax year. So, it's helpful to know that you can carry forward unused annual allowance to use in the future.

WHAT IS PENSION CARRY FORWARD?

Pension carry forward allows you to use unused annual allowance from up to three previous years as long as you had a pension plan in those years.

So, for example, if you're a UK taxpayer with a salary of £100,000, and you have only used £20,000 of your pension annual allowance in each of the last three tax years, you have £20,000 of unused annual allowance from each year, totalling £60,000.

This year, the maximum you could potentially contribute towards your pension is £100,000 – £40,000 from this year's annual allowance, plus the £60,000 from your previously unused annual allowance.

WHEN IS CARRY FORWARD USEFUL?

Usually, when you're self-employed and your income changes drastically from year to year; you've received a windfall in this tax year that you'd like to pay into your pension; you have your own limited company and have additional profits to utilise; or you've become a high earner with a tapered annual allowance.

HOW DO YOU CLAIM PENSION CARRY FORWARD?

When planning to make large pension contributions, spreading them across tax years can mean higher rate relief is available on the full contribution. You can utilise pension carry forward by making additional contributions to your pension and you don't need to notify HM Revenue & Customs to do this.

However, if you accidentally exceed the annual allowance (including any carry forward), you could be penalised. So, it's important to check your past pension statements to see how much unused pension annual allowance you have and keep records to prove that you're eligible to carry forward.

This is a complex calculation, so to be sure you're following the rules exactly, it's sensible to seek professional financial advice.

PLAN FOR A SUCCESSFUL RETIREMENT

Saving into a pension is one of the most tax-efficient ways to save for your retirement. Not only do pensions enable you to grow your retirement savings largely free of tax, but they also provide tax relief on the contributions you make. To discuss your retirement plans or any concerns you may have, please contact us.

A PENSION IS A LONG-TERM INVESTMENT NOT NORMALLY ACCESSIBLE UNTIL AGE 55 (57 FROM APRIL 2028). THE VALUE OF YOUR INVESTMENTS (AND ANY INCOME FROM THEM) CAN GO DOWN AS WELL AS UP WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE. YOUR PENSION INCOME COULD ALSO BE AFFECTED BY THE INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS.

THE TAX IMPLICATIONS OF PENSION WITHDRAWALS WILL BE BASED ON YOUR INDIVIDUAL CIRCUMSTANCES, TAX LEGISLATION AND REGULATION WHICH ARE SUBJECT TO CHANGE IN THE FUTURE. YOU SHOULD SEEK ADVICE TO UNDERSTAND YOUR OPTIONS AT RETIREMENT.

MIND THE **DIVORCE GAP**

WOMEN SEE INCOMES FALL BY 33% FOLLOWING DIVORCE, COMPARED TO JUST 18% FOR MEN

Divorce is an emotionally charged event – and can be an expensive one. The financial impact of divorce can also last for decades and carry on into older age. Women are also often impacted harder financially by divorce, new research highlights.

Many women are likely to see their household incomes fall by a third (33%) in the year following their divorce, almost twice as much as men (18%) and are significantly more likely to waive rights to a partner's pension as part of a divorce (28% women versus 19% men)[1].

FINANCIAL STRUGGLE POST-DIVORCE

Women are more likely to face a financial struggle post-divorce (31% women versus 21% men) and worry about the impact on their retirement (16% women versus 10% men).

Office for National Statistics (ONS) data shows, on average, women already have a significantly smaller pension pot than men. There are many reasons driving this disparity, one being that women are typically paid less, while men who divorce are far more likely to have been the primary breadwinner in the relationship (74% men versus 18% women).

GREATER DEGREE OF FINANCIAL BURDEN

This is why women will likely feel a greater degree of financial burden if transitioning to a single-income household and are likely to face financial struggles following a divorce from their partner (31% women versus 21% men).

This is particularly true for older women who divorce. One in four divorces occur after the age of 50 and women are significantly more likely to worry about the impact of their divorce on their retirement (16% women versus 10% men).

RIGHTS TO A KEY FINANCIAL ASSET

While there is only a slight difference in the number of men and women who feel that the division of their finances at the point of divorce was fair and equitable (54% men and 49% women), the research found that many women may be signing over their rights to a key financial asset.

Women are significantly more likely to waive their rights to a partner's pension as part of their divorce (28% women versus 19% men). This could have a significant long-term impact, particularly as women tend to have less personal pension wealth, according to the most recent findings from the ONS [2].

PLAN TO PROTECT YOUR FINANCIAL FUTURE

In most families, the two largest assets are the family home and a pension fund. If you've made the decision to file for divorce, it's time to gather as much information as you can and figure out the plan to protect your financial future. Please get in touch to find out how we can help you – we look forward to hearing from you.

Source data:

[1] Opinium Research for Legal & General ran a series of online interviews among a nationally representative panel of 2,008 UK adults aged 50+ who are divorced from 19-23 September 2020.
[2] https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/pensionwealthingreatbritain/april2016tomarch2018

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PLAN FOR TOMORROW, **LIVE FOR TODAY**

HELPING YOU ACHIEVE YOUR FINANCIAL GOALS

Whatever your current financial situation is, you could see a vast improvement in the future by setting financial goals. Most people are goal-orientated and will work hard to achieve them.

The key steps toward financial security are to translate them into your own terms. What, exactly, are your personal financial goals? If you have trouble sorting them out, try classifying them as either wants or needs.

Go a step further and add short-term, medium-term and long-term to the descriptions. Now you have some useful labels you can apply to your priorities. If you're not sure where to start or what your goals should be, we'll help you provide a framework to consider them.

IMPORTANCE OF SETTING FINANCIAL GOALS

Goals are a core element of any financial planning, since you can't create a strategy without knowing what you are working towards. Your goals are the things that will motivate you to manage your finances better and you should ideally use them to frame every financial decision that you make in everyday life.

To build an effective strategy based on your goals, they need to be specific, achievable and personal to you. They're also there to measure your progress and celebrate success.

PROCESS OF SETTING PERSONAL FINANCIAL GOALS

Before determining how you want your finances to look in the future, you need to understand how your finances look today. Take note of any assets you currently have: your savings, your pension, your investments, your home and any other assets of value, such as your car or your business.

Review your debts, for example, your mortgage, your student loan, and any overdrafts, bank loans and credit card debts. Compare your income and your outgoings.

A FEW QUESTIONS TO ASK YOURSELF:

Q: Do I feel as if I'm currently working towards achieving my goals?

Q: What changes do I need to make today for my goals to become a reality in future?

Q: How do I visualise my life in five, ten or twenty years from now?

Q: What would I do if my job and income suddenly disappeared?

Q: What are my most pressing financial concerns I need to address?

Q: What financial matters keep me awake at night?

ATTACH A MEANING TO YOUR GOALS

To improve your chances of success, be realistic, use actual figures and set time limits. Then ask yourself why that goal is important to you. Attaching a meaning to your goals makes them more powerful.

SETTING EFFECTIVE FINANCIAL GOALS

It's sensible to create at least one goal in each of the following categories:

Debts

If you have outstanding debts and are paying high rates of interest, your top priority should be paying them off, as this will usually make a bigger difference to your financial situation than saving the equivalent amount of cash and receiving a lower rate of interest. Prioritise high-interest debts, such as credit cards.

Savings

'Pay yourself first' by automating your savings. Assign an amount you'd like to add to your savings within the next year and write down a record of what you're saving for, whether that's a deposit to buy a house or any other goal personal to you.

Investments

From the old adage of saving for a rainy day to planning a comfortable retirement, most of us have investment goals in our life. Whatever your personal investment goals may be, it is important to consider the time horizon at the outset, as this will impact the type of investments you should consider. The more time you have, or the more flexible the timing, the more investment risk you can afford to take with your money.

Pension

Your retirement may still seem a long way off, but even so, now is the time to get serious about your financial plan and the best way to start is to focus your retirement goals. Taking the time to think about your most important priorities means you'll be better able to target spending and saving in accordance with what you want to achieve, both now and in the future. The end goal is to make you financially secure and independent in retirement, which should provide a major incentive to be proactive.

TIME TO CREATE THE LIFE YOU WANT?
Whether you need help in setting your financial goals, or you've established them but don't know what you need to do to achieve them, professional advice will help. If you're unsure about the best approach for you, talk to us to discuss your options. Please contact Kingswood for more information.

HOW TO FUTURE-PROOF **YOUR FINANCES AS A PARENT**

A MOMENTOUS EVENT THAT CAN CHANGE EVERY ASPECT OF YOUR FINANCIAL STABILITY

The coronavirus (COVID-19) pandemic has had a shattering effect on the country. Future-proofing your finances can help you feel more secure about what lies ahead – whether that's preparing for big life milestones, such as starting a family, or navigating difficult periods, such as unemployment or poor health.

One of the areas that tends to cause some anxiety is managing household finances with the additional cost of each child. Starting a family is one of the most momentous events in the life of a couple and it can change every aspect of your financial stability. Although you don't need to be financially well off to start a family, it is essential that you plan and budget for it.

The estimated minimum cost of bringing up a child from birth to their 18th birthday, excluding rent and childcare costs, is £153,000 over 18 years for the child of a couple and £185,000 for the child of a lone parent[1]. The lone parent figure is higher because certain fixed costs of having children are offset by greater adult savings for the couple. Most notably in the case of transport, since the cost of having a car is offset by greater savings on public transport fares when there are two adults rather than one.

CREATE A BUDGET

A good first step in reducing anxiety about general expenses is to know what you're spending. You're less likely to be overwhelmed by a bigger-than-expected bill if you know it's coming. If you don't have one already, starting a budget is essential.

If you haven't done so already, grab your calculator, bank statements and bills and draw up a household budget. Go back over the last few months and review your income (salary, overtime, benefits and any other income sources) and spending.

Create categories for spending, such as 'debts', 'bills', 'groceries', 'entertainment', et cetera and mark them as 'essential' or 'non-essential' so you can identify any areas where you can cut back. If you're spending more on certain categories than you expected, set a realistic goal for how much you'd like to bring that spending down.

SET FINANCIAL GOALS

Now that you know where you stand financially, you can plan where you'd like to be in the future. Consider what you want to achieve, and then commit to it. Set SMART (specific, measurable, attainable, relevant and time-bound) goals that motivate you and write them down to make them feel tangible. Then plan the steps you must take to realise your goals, and cross off each one as you work through them.

Be specific about what's most important to you. One of the big 'hidden' costs of having children may be the need for more space. For example, your highest priority might be saving for a larger home for your children to grow up in.

Or you might be saving to send your children to a particular school. Be accurate about how much you'll need for these goals and break that down into a monthly saving schedule.

UNDERSTAND YOUR ENTITLEMENTS

Most people are entitled to financial support when starting a family, such as maternity and paternity pay and child benefit.

- Statutory Maternity Pay is paid at 90% of your average weekly earnings for 6 weeks and then £151.97 (or 90% of your average weekly earnings if this is lower) for 33 weeks.
- If you are not entitled to Statutory Maternity Pay you may be able to claim Maternity Allowance at up to £151.97 a week for 39 weeks.
- If you already receive certain benefits and this is your first child, you may be entitled to a one-off payment of £500, called the Sure Start Maternity Grant.
- Depending on your circumstances, you may be entitled to child benefit, tax credits or child disability benefit.

PROTECT YOUR FAMILY AND LIFESTYLE

Even if you have sufficient cash savings to cover emergencies or periods of lost income, you also need to consider different types of insurance that would pay out in these instances. You need to ensure you are properly protected should you find yourself out of work due to an accident or sickness, or if you were to die prematurely. Parents with young families need protection the most.

Parents considering cancelling insurance such as life cover or income protection as a way of saving money need to think long-term. It could have catastrophic implications on the family's finances if either you, your spouse or partner became unable to work or were no longer around.

- Income protection insurance – provides a regular income in case you are not able to work due to illness or injury.
- Critical illness cover – provides a tax-free lump sum payment if you're diagnosed with certain specified serious illnesses.
- Life insurance – provides either a lump sum or regular income for your family if you're no longer here.

PLAN FOR RETIREMENT

Your retirement may seem a long way off and a low priority compared to the financial needs of your young family now. But it's important to stay on track with your pension contributions through your 20s and 30s, as it's the investments you make now that have the best opportunity to grow.

Look at how much you're contributing and obtain professional financial advice to see how much income this might provide in retirement. If you're paying into an employer's pension scheme, a small increase in contributions might make a bigger difference than you think. Often, your contributions will be matched by your employer, and you'll also receive tax relief, which provides an instant boost to your savings and helps the fund to grow faster than other kinds of investment.

SEEK PROFESSIONAL ADVICE

Of all the things that cross your mind in the run-up to having children, it's fair to say that the impact on your finances will not be the thing you wish to dwell on. But how you plan to manage your money both before and after the patter of tiny feet should be a consideration once you've decided you'd like to start a family.

Creating a budget, choosing protection insurance and planning for retirement can all be difficult to manage alone. Seeking professional financial advice will enable you to benefit from expert opinion and make you feel confident about your family's finances.

Source data:

[1] Child Poverty Action Group – The Cost Of A Child In 2020 - October 2020

PLANNING FOR YOUR CHILD'S FUTURE

The cost of raising a child won't always be the first thing parents think about when deciding to have a family, and regardless of the cost, people wouldn't change having children for the world. Staying on top of everything while also planning for your child's future can be challenging. To discuss how we can help you plan for the retirement you want, please contact us.

CREATING WEALTH FOR CHILDREN

INVESTING ISN'T JUST A LUXURY RESERVED FOR ADULTS

Saving for a child today is a wonderful gift for their future. Whether you want to help them buy their first car, contribute to their first home or even set them up for a comfortable retirement, there is little more fulfilling than providing financial security for your children or grandchildren.

It's worrying to think about the expenses they will face as adults. So, the earlier you can start investing money for your children, the more chance it has to grow before they need it as an adult.

But, to ensure that the value of their money isn't eroded by inflation, taxes and fees, you'll need to choose the right investment approach. Here are some of the options you may wish to discuss with us.

JUNIOR ISAS

A Junior Individual Savings Account (JISA) is the children's equivalent of a regular Individual Savings Account (ISA) and works in much the same way, protecting the capital within it, and any capital growth, from Income Tax and Capital Gains Tax. You can choose between a Junior Cash ISA and a Junior Stocks & Shares ISA, or a child can have one of each.

Only a parent or guardian can open a Junior ISA on a child's behalf, but anyone can pay into it, up to a limit of £9,000 in the current tax year (that limit may change in future tax years). The UK tax year starts on 6 April each year and ends on 5 April the following year. Once a child turns 16, they gain control of their ISA, but they cannot make withdrawals until they turn 18.

JUNIOR SIPPS

A Junior Self-Invested Personal Pension (Junior SIPP) is a type of pension you can open on behalf of someone who is under 18. While we often think of a pension as a product for adult workers, opening one for a child has many benefits.

Investments in a Junior SIPP have more years to grow before the pension holder retires, and so can benefit greatly from compounding returns. If appropriate, due to the very long-term nature of the investment, it's possible to take a higher-risk approach than with shorter-term investments, which has the potential to yield greater rewards.

As with an adult pension, all growth is protected from Income Tax and Capital Gains Tax. So, it could take away some of the burden of retirement planning as an adult. For a child with no earnings or earnings below £3,600pa, contributions are currently capped at £2,880 a year, totalling £3,600 after tax relief is applied, in the current 2021/22 tax year.

TRUSTS

Trusts are a legal agreement where you – the 'settlor' – place assets into a trust and nominate a trustee to manage those assets (whether it's money, buildings, land or investments) on behalf of your child or children, known as the 'beneficiaries'.

BARE TRUSTS

A bare trust is an investment vehicle that allows you to invest capital on behalf of a child while retaining full control of the investments until the child turns 18, or 16 in Scotland.

Along with the initial capital, any return generated by a bare trust will belong to the child. It will therefore be taxed as such, usually meaning that there is less tax to pay than if the investments were held by the adult, since a child has their own personal allowances for income and capital gains. Under parental settlement rules for income tax, if the income exceeds £100 each year then the whole amount will be taxed as the parent's.

There is no upper limit on how much can be invested each year in a bare trust.

DISCRETIONARY TRUSTS

The main difference between a bare trust and a discretionary trust is that a bare trust is held on behalf of a specific, named individual or individuals, while a discretionary trust is held on behalf of any number of eligible individuals.

For example, a grandparent may open a discretionary trust that any of their grandchildren or future grandchildren can benefit from. Who benefits from the trust will ultimately be decided by the trustees.

The tax treatment of a discretionary trust can vary depending on your specific financial situation, so you should seek professional financial advice before opening one.

WANT TO FIND OUT MORE ABOUT HOW TO GET STARTED?

When it comes to investing in your child's or grandchild's future, putting aside just a small amount of money on a regular basis can really add up. Each option comes with specific advantages and risks. If you'd like to find out more about how to get started, please get in touch with Kingswood today – we look forward to hearing from you.

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

THE FINANCIAL CONDUCT AUTHORITY DOES NOT REGULATE TAXATION & TRUST ADVICE.

CHANGING **TAX LANDSCAPE**

TIME TO TAKE A DIFFERENT VIEW AND ORGANISE YOUR FINANCIAL AFFAIRS?

Tax planning should enable you to arrange your affairs in ways that postpone or legally avoid taxes. No one likes to pay tax on their hard-earned money, so by employing effective tax planning strategies you could have more money to save and invest or more money to spend. Or both. Your choice.

It's important to organise your financial and tax affairs to make the most of every tax-free allowance available to ensure you're not paying more tax than you need to.

Keeping up with the latest changes to your tax and pension allowances can be difficult, so we've provided a summary to help you manage your tax affairs more effectively. The UK tax year starts on 6 April each year and ends on 5 April the following year.

HOW MUCH IS THE INCOME TAX PERSONAL ALLOWANCE IN 2021/22?

The Income Tax personal allowance is £12,570. This is a slight increase from the previous year; in 2020/21 the personal allowance was £12,500.

The Income Tax personal allowance has been frozen until 2026, meaning that there will be no more increases until the tax year 2026/27.

WHAT ARE THE INCOME TAX BANDS FOR 2021/22?

The upper limit for the basic rate tax band in England, Wales and Northern Ireland is £50,270. Again, this is a slight increase, from £50,000 the previous year. The basic rate of Income Tax remains at 20%

The higher rate tax band applies to income above the basic rate band but not over £150,000pa and the additional rate tax band applies to income over £150,000. Income above the basic rate tax band but below £150,000 is taxed at 40%, and income exceeding £150,000 is taxed at 45%.

In Scotland, the bands and tax rates applying to non-savings, non-dividend income (e.g. applying to earned and pension income) are slightly different. The personal allowance is the same, and income of between £12,571 and £14,667 is taxed at 19% (starter rate). Income between £14,668 and £25,296 is taxed at 20% (basic rate). Income between £25,297 and £43,662 is taxed at 21% (intermediate rate). Income between £43,663 and £150,000 is taxed at 41% (higher rate) and income over £150,000 is taxed at 46% (top rate).

HOW MUCH IS THE PENSION ANNUAL ALLOWANCE IN 2021/22?

The pension annual allowance is £40,000. This is the limit on how much you can contribute to your pension while claiming tax relief, providing those contributions are worth up to 100% of your annual earnings (£3,600 p.a. if more).

Not everyone is entitled to the full annual allowance:

- If you earn less than £40,000 a year, you are only entitled to claim tax relief on your pension contributions up to a maximum of 100% of your earnings (£3,600 if more).
- If your adjusted income is more than £240,000, you'll likely be affected by the 'tapered' annual allowance, which reduces by £1 for every £2 you earn above this threshold.
- If you have accessed your pension, you may have triggered the Money Purchase Annual Allowance, which is £4,000.

You are also allowed to 'carry forward' unused pension allowance from up to three previous years (not if you are subject to the Money Purchase Annual Allowance). In the three most recent tax years, the total annual allowance was also £40,000.

HOW MUCH IS THE PENSION LIFETIME ALLOWANCE (LTA) IN 2021/22?

The pension Lifetime Allowance (LTA) is £1,073,100. This is the limit on how much you can accrue within your pension savings in your lifetime before you incur an additional tax charge.

The pension LTA has been frozen until 2026, meaning that there will be no more increases until the 2026/27 tax year.

HOW MUCH IS THE STATE PENSION IN 2021/22?

For those reaching State Pension age after 5 April 2016, the State Pension is £179.60 a week. That's an increase of £4.40 a week from 2020/21, or £228.80 more across the whole year.

For those with only a post 5 April 2016 National Insurance record, to claim the full State Pension, you must have 35 qualifying years on your National Insurance contributions record. If you have fewer than ten qualifying years, you won't be entitled to any State Pension. Transitional rules apply to those who also have a pre 6 April 2016 National Insurance record.

You may be able to make voluntary National Insurance contributions to record more qualifying years of National Insurance contributions.

HOW MUCH IS THE INDIVIDUAL SAVINGS ACCOUNT (ISA) ALLOWANCE IN 2021/22?

The personal Individual Savings Account (ISA) allowance is £20,000, which is the same as the previous tax year.

This means that you can save or invest up to £20,000 in one ISA, or two or more ISAs of different types, and any growth on your savings or investments is free from Income Tax and Capital Gains Tax and any withdrawals are free from tax.

HOW MUCH IS THE CAPITAL GAINS TAX ALLOWANCE IN 2021/22?

The Capital Gains Tax allowance is £12,300. This is the same as the previous year. It has been frozen until at least 2026.

HOW MUCH IS THE INHERITANCE TAX NIL-RATE BAND IN 2021/22?

The Inheritance Tax nil-rate band is £325,000. This is the same as the previous year.

When leaving a property to a direct descendant on your death, there is an additional allowance called the 'residence nil-rate band', which is currently £175,000.

The residence nil-rate band was due to rise with inflation in April 2021, but both thresholds have been frozen until 2026. It still means, however, that married couples and registered civil partners can leave up to £1m on their deaths free of Inheritance Tax.

START PLANNING TODAY

The UK taxation system can be daunting and complex, so it's important to understand your individual situation and analyse whether you are taking advantage of the tax planning solutions available to you in order to plan effectively. To discuss how we could help you, please contact Kingswood for further information.

EVOLUTION OF **ESG INVESTING**

CHANGING FACE OF CONSUMER ETHICS AND BEHAVIOURS

The coronavirus (COVID-19) pandemic has prompted a desire to move into ethical and sustainable investing for more than half (51%) of advised UK adults, according a new report[1]. And while the trend is common across the generations, it's Millennials who are leading the charge.

The report, which looks at intergenerational planning and wealth transfer between advised families amid the financial volatility and insecurity of the pandemic, found that 61% now care more about the environment and the planet than they did before the pandemic.

FINANCIAL RETURNS WITH A POSITIVE CONTRIBUTION

Investing sustainably means putting your money to work on issues ranging from adapting to and mitigating climate change, and improving working conditions and diversity, to tackling inequality. More and more, investors want to invest sustainably and they want to combine investing for a financial return with a positive contribution to the environment, society or both.

More than a quarter (26%) of respondents admit they are more concerned than they've ever been. One in five (21%) say they are more worried now that they have children and grandchildren.

APPETITE FOR SUSTAINABLE INVESTMENTS

The pandemic has undoubtedly fuelled investor demand for sustainable investing and this is trickling down through the generations – 60% of Millennials, 44% of Gen X and 35% of Baby Boomers confirmed that COVID-19 has increased their appetite for sustainable investments. And many investors go further: 45% confirmed that since the pandemic they now only want to invest in sustainable companies and funds.

Despite the desire for ethical and sustainable investing, more than a third (36%) of UK adults admit they actually have no idea what their current investments – including workplace and private pensions – are invested in, as they have little to no control.

BEGINNING AN 'INVESTMENT JOURNEY'

For many, the crisis has shifted their financial priorities, prompting more to seek professional financial advice. One in two (53%) respondents said they had either already sought advice – or were planning to because of the pandemic. And just over one in five (21%) were seeking advice to begin their 'investment journey', potentially fuelled by individuals who had built up savings, not having the traditional outlets for spending their income.

With £5.5 trillion in personal wealth due to be passed to the next generation by 2047[2], the role that intergenerational planning advice played prior to the pandemic was already a significant one. Yet the crisis has reframed financial priorities. Not just for those in later life with Inheritance Tax liabilities, but for all generations.

PLANET, ENVIRONMENT AND SOCIETY

Once perhaps viewed as a fad, sustainable investing is becoming normalised, making it a fundamental building block within intergenerational financial planning. It also enables parents to leave their children more than just a financial legacy in terms of planet, environment and society.

Two in five advised clients surveyed confirmed they expect to increase the amount they invest in Environmental, Social and Governance (ESG) investments over the next five years.

HELPING YOU PRESERVE AND GROW YOUR WEALTH

Ready to have a conversation? If you'd like to have an informal, no obligation, conversation about how we can help you preserve and grow your wealth, please get in touch. To find out more – speak to us to review your options.

Source data:

[1] Research was carried out by Opinium for Prudential UK & Europe, part of M&G plc, among a UK representative sample of 1,000 advised families. The study was completed in November 2020.

[2] Kings Court Trust's Inheritance Economy Research Papers: Passing on the Pounds and Wealth Transfer in the UK. Research conducted by The Centre of Economics and Business Research.

PENSION **FREEDOMS**

LOOKING FOR A WIDER CHOICE OF INVESTMENT OPTIONS?

Saving for your retirement is one of the longest and biggest financial commitments you will ever make. Imagine you're retiring today. Have you thought about how you're going to financially support yourself (and potentially your family too) with your current pension savings? The pension freedoms introduced in 2015 provide even more of an incentive to look again at your retirement savings.

If appropriate to your particular situation, one option to consider is a Self-Invested Personal Pension (SIPP), especially if you're looking for a wider choice of investment options. It's an option for people who are more comfortable with investment risk and who have more time to regularly review their pension investments to make sure they continue to meet their needs.

RANGE AND FLEXIBILITY OF INVESTMENT

First introduced in 1989, this structure provides a range and flexibility of investment that makes a SIPP one of the most flexible methods of saving for retirement.

UK residents can invest money into a SIPP up until the age of 75, and start withdrawing money from as early as 55 (57 from 6 April 2028). Tax relief is available on personal contributions up to £3,600 or 100% of relevant UK earnings (whichever is greater), with tax-efficiency also subject to the pension annual allowance, which is £40,000 for most people and applies to contributions from all sources, including employers. Any unused allowance from previous years may mean more than £40,000 can be contributed tax-efficiently.

SAVING FOR A CHILD OR GRANDCHILD

Parents can also open a Junior SIPP for their children. It may seem a little premature to start putting money into a SIPP for your child or grandchild at birth, but the tax relief that is available on the contributions makes this a particularly attractive way to save for your child's future. The money is tied up until they reach retirement age, so this money will not be accessed any time soon.

As with all Defined Contribution pension schemes, the amount that you will have available when you retire depends on the contributions that you (and any employers) have made and how your investments perform over time.

BRING EVERYTHING TOGETHER IN ONE PLACE

If you've got several pensions, it could make sense to bring everything together in one place. Even if the amounts are small, it all adds up. You can transfer most types of pensions to a SIPP and combine them, letting you manage your pension pot in one place.

But SIPPs are not suitable for every investor and other types of pensions may be more appropriate. Once in a SIPP wrapper, your savings will grow free from UK Income Tax and Capital Gains Tax.

JUST STARTING YOUR PENSION JOURNEY?
Investing your retirement savings in a SIPP may not be for everyone. If you are not sure which type of pension scheme is best for you, it's essential you obtain professional financial advice to review your options. To find out more and discuss your options – please contact us.

A PENSION IS A LONG-TERM INVESTMENT NOT NORMALLY ACCESSIBLE UNTIL AGE 55 (57 FROM APRIL 2028). THE VALUE OF YOUR INVESTMENTS (AND ANY INCOME FROM THEM) CAN GO DOWN AS WELL AS UP WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE. YOUR PENSION INCOME COULD ALSO BE AFFECTED BY THE INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS.

THE TAX IMPLICATIONS OF PENSION WITHDRAWALS WILL BE BASED ON YOUR INDIVIDUAL CIRCUMSTANCES, TAX LEGISLATION AND REGULATION WHICH ARE SUBJECT TO CHANGE IN THE FUTURE. YOU SHOULD SEEK ADVICE TO UNDERSTAND YOUR OPTIONS AT RETIREMENT.

ACCESSING PENSION BENEFITS EARLY MAY IMPACT ON LEVELS OF RETIREMENT INCOME AND YOUR ENTITLEMENT TO CERTAIN MEANS-TESTED BENEFITS AND IS NOT SUITABLE FOR EVERYONE. YOU SHOULD SEEK ADVICE TO UNDERSTAND YOUR OPTIONS AT RETIREMENT.

RETIREMENT PLANNING JOURNEY

WHAT YOU NEED TO CONSIDER AT EVERY LIFE STAGE

When you're starting out working in your 20s, you may not be thinking about retirement in 40 years' time. The same goes for your 30s, 40s and even 50s. There is always something on the horizon you could be saving for besides your retirement.

No matter how old you are, it's always a good time to review your pension savings and update your retirement plan. Understanding your retirement goals during each decade is key to making sure you are able to enjoy and live the lifestyle you want, and which you've worked hard for, when you eventually decide to stop working.

STARTING TO SAVE IN YOUR 20S

Though you're decades away from retirement, your 20s are an important time for pension planning. That's because the investments you make in these early years will benefit from the most growth potential.

When you start work, if relevant to your situation, you'll be automatically enrolled into your employer's workplace pension scheme and they will start to make contributions on your behalf.

There are many benefits of staying opted into the scheme – even if you feel you could do with the money now – for example, your employer will also make free contributions on your behalf.

STAYING ON TRACK IN YOUR 30S

By your 30s, you may have additional financial responsibilities, such as children and a mortgage. These can make it difficult to dedicate as much money and attention to your pension as you'd like.

One way to stay on track is to review your pension contributions at least once a year and make sure you're increasing them as your income grows. You should also consider checking your investment strategy. With decades left before you'll access your pension, you might choose to take a higher-risk approach now, and then gradually move into lower-risk investments as retirement gets closer.

ACCUMULATING IN YOUR 40S

If your salary follows a typical trajectory, it is likely to start peaking when you're in your 40s, making this decade a crucial time for accumulating your pension. You should, by now, also have a good understanding of the income required to support the lifestyle you want, which will help you plan your retirement income. Based on this, you'll know if you need to adjust your pension contributions to save enough.

At this life stage, you might have changed employers several times, so it might be sensible to check that you have all of the details for any old pensions and, if not, look to get hold of them.

MAXIMISING YOUR CONTRIBUTIONS IN YOUR 50S

If your pension contributions have fallen behind in any of the previous decades, it's crucial to catch up now. As well as your salary sacrifice contributions, you might consider adding lump sums to your pension to help you reach your retirement goal.

If you plan to do this, make sure that you've checked what your annual allowance for this tax year is, and how much unused annual allowance you have from the last three years. This will determine how much extra you can contribute and receive tax relief on. For the tax year 2021/22 the annual allowance is £40,000. This includes both contributions paid by you and contributions paid by your employer.

Alternatively, if you've stayed on track with all your pension contributions and your savings are at a very healthy level, you might need to take steps to manage your Lifetime Allowance. Currently, the maximum you can accrue within your pensions in your lifetime is £1,073,100, so if you're anywhere near that number you should seek professional financial advice.

PREPARING TO RETIRE IN YOUR 60S

In the decade before retirement, some people may choose to take a lower-risk investment strategy with their pension savings than in previous years. While this may limit the potential growth of your investments, it can also reduce fluctuations in value, which can help you to plan your retirement income with more confidence.

You'll also need to weigh up your options for accessing your pension. You might want to take a lump sum or several lump sums, or you might want to take a regular income. There are advantages and disadvantages to each approach, and decisions you make now will affect your income throughout your retirement.

ADVICE FOR ANY AGE

With so much going on in your life – from family and work to pursuing your passions – retirement planning may not be your priority. But it's your pension and overall financial situation that will allow you to keep up your current lifestyle and enjoy your golden years. Speak to Kingswood today and make sure your plans are on track for the retirement you want.

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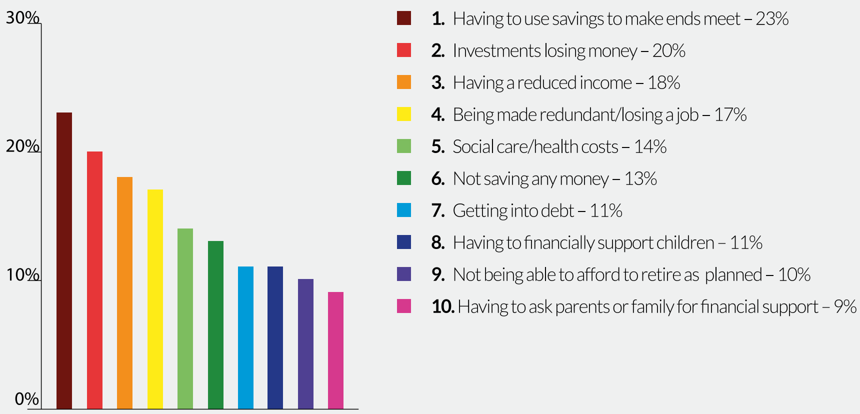
ADVICE **MATTERS**

INTERGENERATIONAL PLANNING AND WEALTH TRANSFER BETWEEN ADVISED FAMILIES

Following the coronavirus (COVID-19) pandemic outbreak, UK adults admit they need financial advice for their current situation[1]. A report, which looked at intergenerational planning and wealth transfer between advised families amid the financial volatility and insecurity of the pandemic, found that more than half (53%) of UK adults surveyed say they have been prompted to seek advice from a financial adviser.

Of these, a third (33%) have already sought financial advice and 20% are planning to. Even among those who say they aren't seeking financial advice, 15% say they might in the future. The research comes as an overwhelming 85% of respondents say they have financial concerns when thinking about the next 12 months, with one quarter of respondents having to dig into savings for living costs. Furthermore, investments losing money and having a reduced income are the next most concerning issues.

BIGGEST FINANCIAL CONCERNS FOR THOSE SURVEYED, FOR THE NEXT 12 MONTHS:



FINANCIAL ADVICE NEEDED BY THE YOUNGER GENERATIONS

The report also revealed that the need for financial advice was felt the most urgently among the younger generations, with 74% of Millennials saying they had or were going to see an adviser, and 58% for Gen Z, driven by 'getting into financial difficulty' and 'wanting to start their investment journey'.

While still pronounced, the need for advice decreases slightly with age, with 32% of Gen X, 21% of Boomers and a quarter (24%) of the 75+ age group saying the crisis specifically had driven them to seek advice.

Perhaps this need has arisen because younger generations, who have not necessarily been financially active during a financial crisis, have been made nervous by volatility – or have unspent monies to invest. The pandemic outbreak has been challenging for many adults up and down the country and this has stimulated the need for advice, be it because of pent-up cash levels, market volatility or job security.

Source data:
[1] Research was carried by Opinium for Prudential UK & Europe, a part of M&G plc, among a UK representative sample of 1,000 advised families. The survey was completed in November 2020.