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Your **Wealth**

Spring Q2 2023

Rebounding investor confidence

A recent survey[1] suggests investors are becoming more confident despite ongoing challenges on the economic front. While this is certainly encouraging, maintaining a long-term outlook and retaining a strong sense of discipline in investment positioning remains a prerequisite for any successful investor.

An air of optimism

It's fair to say 2022 was a turbulent year for global markets with the war in Ukraine, soaring inflation and rising interest rates weighing heavily on a difficult 12-month period. Towards the end of the year, however, markets did stage a cautious recovery despite ongoing fears of a looming recession.

Inflation expected to fall

The final quarter of last year also witnessed a rebound in investor sentiment, with the same survey reporting a seven-percentage point rise in confidence in the global economy, although this was before the recent woes in the banking sector.

This optimism was driven by hopes that inflation has now peaked and is set to continue falling in the months ahead, a view reflected in the International Monetary Fund's latest economic musings[2] which predict global inflation will drop from 8.8% in 2022 to 6.6% this year and 4.3% in 2024.

Young guns

Data from the survey also revealed a majority of investors were either positive or ambivalent about last year's market volatility and its impact on their investing mindset. This was particularly true for younger investors with three-quarters of 18 to 34-year-olds either positive or indifferent compared to six in ten over-55s. This variation will partly reflect differing retirement time horizons, with younger investors more able to adopt a longer-term view.

Investor discipline is key

This is clearly encouraging as maintaining a long-term philosophy based on prudent risk management principles and avoiding panicked decisions has always been a key element for successful investing, maintaining discipline in investment positioning. In practice, this means achieving an appropriate level of diversification and understanding how to blend investments – that's what we do.

[1]eToro, 2023, [2]IMF, 2023

Offsetting fiscal drag

The gradual reduction of disposable income due to inflation and changes in tax brackets, or frozen tax allowances, will weigh on your finances, causing 'fiscal drag'.

By implementing various strategies, you can potentially reduce the impact of fiscal drag on your investments and increase your chances of achieving your long-term financial goals.

The worst thing to do is - nothing. By succumbing to inertia, you are more likely to pay increased levels of tax, whether in relation to Income Tax due to the frozen personal allowances and reduced Dividend Allowance, or other taxes including Capital Gains Tax (CGT) and Inheritance Tax (IHT).

The good news - there are legitimate mitigation strategies and, depending on your personal circumstances, allowances and tax reliefs available. By using your Individual Savings Account (ISA) allowance or making your pension contributions early in a new tax year, you could benefit from extra potential growth, as well as receiving an element of your tax relief earlier on your pension and any pension contributions. Consider tax-efficient investments, diversify your portfolio and rebalance regularly to ensure your asset allocation remains aligned with your objectives and attitude to risk; rebalancing will help minimise the impact of fiscal drag over time.

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IN THE News

Land driving surge in UK's net worth

Recent data from the Office for National Statistics (ONS)[3] shows that the UK's net worth rose by £1trn in 2021, to total £11.8trn, the largest annual increase on record (9.2%). This rise can be attributed to the increasing value of land, accounting for over 60% of net worth. Aligned with this, the data shows that households' net worth grew to £12.3trn in 2021, 7.6% up on the previous year, representing the strongest growth since 2016. *'Land continues to be the largest asset driving more than half of the sector's growth,'* according to ONS.

Crypto clampdown

The UK government has unveiled plans to *'robustly regulate'* cryptocurrency market activities like trading and lending by bringing the regulation of crypto assets closer to that of traditional finance. The Treasury confirmed, *'We remain steadfast in our commitment to grow the economy and enable technological change and innovation – and this includes crypto asset technology. But we must also protect consumers who are embracing this new technology - ensuring robust, transparent, and fair standards.'* A consultation has been launched which runs until 30 April 2023; once legislation is made, the Financial Conduct Authority (FCA) will consult on its detailed rules for the sector.

[3]ONS, 2023

Spring Budget 2023 – key points

Chancellor Jeremy Hunt delivered the Spring Budget on 15 March declaring it to be "A Budget for Growth." The fiscal update included a range of new measures, starting with the latest economic projections from the Office for Budget Responsibility (OBR):

- The UK economy is expected to contract by 0.2% this year, with growth predicted to hit 1.8% in 2024 and 2.5% in 2025. A technical recession is expected to be avoided in 2023
- Inflation is predicted to fall from an average rate of 10.7% in Q4 2022 to 2.9% by the end of this year. This decline is partly due to the three-month extension to the Energy Price Guarantee (EPG), which the government confirmed on 15 March.

The Chancellor's strategy for growth focuses on four pillars 'Everywhere, Enterprise, Employment and Education.' Key areas within these pillars include:

- Investment for 'Levelling-Up' initiatives
- Providing the right conditions for businesses to succeed
- New measures to get people back to work, including childcare support.

Pensions

The spotlight also fell on pensions. To encourage over-50s to extend their working lives, the government is increasing tax relief limits on pension contributions and pots:

- The Annual Allowance will be raised from £40,000 to £60,000 from April 2023; the Lifetime Allowance (LTA) charge will be removed from April 2023, and the LTA will be abolished from April 2024
- The maximum amount that can be accessed tax free (Pension Commencement Lump Sum) will be frozen at its current level of £268,275 (25% of current LTA)
- From April, the minimum Tapered Annual Allowance (TAA) and the Money Purchase Annual Allowance (MPAA) will increase from £4,000 to £10,000. The adjusted income threshold for the TAA will also rise, from £240,000 to £260,000.

In addition, previously announced State Pension increases from April 2023 are as follows:

- Basic State Pension - increase to £156.20 per week
- Full new State Pension - increase to £203.85 per week.

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Transferring wealth in the way you want

With the coming years set to see record flows of assets pass down the generations, the thorny issue of wealth transfer has inevitably become an increasingly important financial topic. Seeking professional advice is a crucial step that can ease any inheritance planning anxieties and facilitate the transfer of assets in the way that you want.

'Great wealth transfer'

The next three decades are set to witness the largest ever intergenerational transfer of wealth as baby boomers pass on assets to their heirs. Analysts have dubbed it the 'great wealth transfer,' with trillions set to cascade down the generations.

Intergenerational mismatch

A new survey[4], however, highlights baby boomer concerns about how their money may ultimately be spent. According to the research, a third of baby boomers are reluctant to pass wealth to someone whose attitude to money differs from their own; additionally, Gen Z were found to be much more likely to adopt a short-term financial outlook than their forebears. Researchers fear this disparity in attitudes could therefore impact older generations' wealth transfer decisions.

Bridging the divide

While such differences could create intergenerational conflict, we can help alleviate any issues by building cross-generational connections and ensuring any asset transfer is conducted in a way that meets your specific needs. Developing relationships with your beneficiaries to ensure younger generations will receive financial decision-making support can create invaluable peace of mind for both you and your heirs.

Inheritance options

A range of options are available for people looking to transfer wealth, with lifetime gifting amongst the popular methods of passing on money. Complexities with Inheritance Tax and rules in establishing trusts, though, mean sound advice is critical in order to adopt the most efficient approach.

Here to support you

All the evidence suggests developing strong relationships is key to the success of intergenerational financial planning. So get in touch and, with our support, you and your family can work towards determining and achieving your inheritance planning objectives.

[4]abrdn, 2023

Financial wellbeing – engage your mind

Having your finances in order brings tremendous peace of mind. Financial wellbeing varies from person to person but fundamentally encompasses having security around money, now and in the future, plus knowing what makes us happy, and having money goals in place to achieve this happiness[5].

The combination of money and mindset is crucial, findings show that even if an individual feels confident about their money 'building blocks' (income, long-term savings, safety net, debt awareness, assets), they won't achieve optimal levels of financial wellbeing without a well-considered and focused mindset too; think 'happiness, future self, written plans, long-term perspective'.

Aegon's Wellbeing Index also shows that being a high earner doesn't necessarily equate to being a long-term saver. If a saver has a connection to their future self and understands what gives them joy and purpose, they find long-term perspective. Being one of the highest earners doesn't necessarily mean that they have long-term perspective. 'The wealth accumulator' persona for example has a high level of wealth now and probably in the future, but when it comes to creating a healthy financial mindset, they might not have spent the time thinking, 'what's it all for?' and truly connecting with the mindset element of financial wellbeing.

[5]Aegon, 2022

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On the trail of unpaid IHT

HMRC has set up a new specialist team to target estates of wealthy deceased individuals in order to check whether a greater Inheritance Tax (IHT) liability may have been due than originally calculated by estate executors. This clampdown has seen record amounts of unpaid tax being clawed back by HMRC with levels expected to rise further in the coming years.

Record sums recovered

Data obtained through a Freedom of Information request has revealed that a total of £326m was collected by HMRC as a result of targeted IHT investigations in the year to March 2022. This was the largest amount ever recovered and represents a 28% increase on the amount raised by investigators in the previous 12-month period.

Threshold freeze

The standard IHT rate is currently 40%, paid on the value of any estate above £325,000; in addition, homeowners benefit from an extra £175,000 allowance if they pass on their primary residence to a child or grandchild. These thresholds, however, have been frozen until 2028, which inevitably means more people are likely to be dragged into the IHT net. In 2021-22, families collectively paid £6.1bn in death duties, up from £5.4bn the previous year, and monthly data up to December suggests the figure for 2022-23 will be even higher.

Complex rules

More than 13,000 individuals have been embroiled in IHT investigations since 2019. While some of these bereaved families may have acted deliberately, others are likely to have made innocent mistakes and simply fallen foul of IHT rule complexities. Two areas where mistakes commonly occur relate to the provision of lifetime gifts and the valuation of personal possessions.

We're here to help

If you have any concerns or need advice on any aspect relating to IHT then do get in touch; we're always happy to help.

The best (retirement) gift for your child

With the cost of children's birthday presents and parties often totalling hundreds of pounds – could there be a better way to provide for your child or grandchild?

Investing in a pension for your child can provide numerous long-term benefits and go some way to helping them secure a financially stable future. Setting up a pension for your child can also help teach them about the importance of saving and investing for the future.

Who can set up a child's pension?

A parent or legal guardian can set up the pension; this can be done as soon as the child is born.

Who can contribute?

If you're a grandparent keen to help out, the good news is that anyone can contribute into the pension, as well as godparents, relatives or friends. As a parent, you manage the pension saving plan until the child turns 18.

What happens when they turn 18?

Whilst they gain control at 18, they won't be able to access the money until they reach the normal minimum pension age.

How much can you contribute?

Under current rules you can pay up to £2,880 into a children's pension each year. This will then receive basic rate tax relief, so the government will boost this to £3,600. The majority of people setting up a children's pension won't pay this much in, instead choosing to make smaller contributions, which will still build up over time and benefit from tax relief.

Why choose a children's pension?

It may seem odd thinking about a pension for your child when they are so young, but not only will it help your child later on in life when they think about retirement, but also help with the amount they might contribute into their pension during their lifetime, potentially freeing up more money to fund other life events.

What about a Junior ISA (JISA)?

Another worthwhile tax-efficient children's saving option is a JISA. One key difference between children's pensions and JISAs is that with the latter, your child can access the money when they turn 18. With any pension, the money can only be used to save for retirement.

The early bird

Investing in a pension plan for your child can provide them with the financial security they need to achieve their goals in the future. By starting early, they can benefit from compound interest and reinvested dividends, tax benefits, and the potential to grow their savings over time.

If you would like any advice or information on any of the areas highlighted in this newsletter, please **get in touch**.

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