All change please, all change

Why many current financial planning strategies regarding tax have reached the end of the line

PFS Regional Events
Autumn 2023

For financial advisers only

Quilter

Today’s learning outcomes

- ☐ Understand the fiscal changes over the last 12 months and it's impact on the tax rules

- ☐ Be able to describe the implications on financial planning and consider solutions

- ☐ Be able to critically assess why this and consumer duty will require different approaches than before

What you can expect in the next 30 minutes

- Consider the impact of current Treasury policy on financial planning
- The pension funding decisions clients now face
- Crystallization conundrums for those with big pensions
- Impact of reductions in tax allowances on tax wrapper management
- Reasons to widening the tax wrapper net

The big freeze that your clients will face

Every year more of your clients are being dragged into a fiscal trap

‘Hidden tax rises' to ‘decimate’ savings and leave Britons paying thousands more a year

Frozen tax thresholds could leave some Britons paying thousands more a year by 2028.

By KATIE ELLIOTT
12:13, Mon, May 22, 2023 | UPDATED: 12:25, Mon, May 22, 2023

Jeremy Hunt’s ‘stealth’ income tax rise: here’s how it will affect you

Millions of people in England, Wales and Northern Ireland face paying basic or higher-rate tax for first time. We look at how much it will cost and what you can do

❝ COMMENT

Sunak committed the sleight of hand – but Hunt is the real villain

This double act could inflict more damage than Truss and Kwarteng

LIAM HALLIGAN

2 July 2023 • 6:00am

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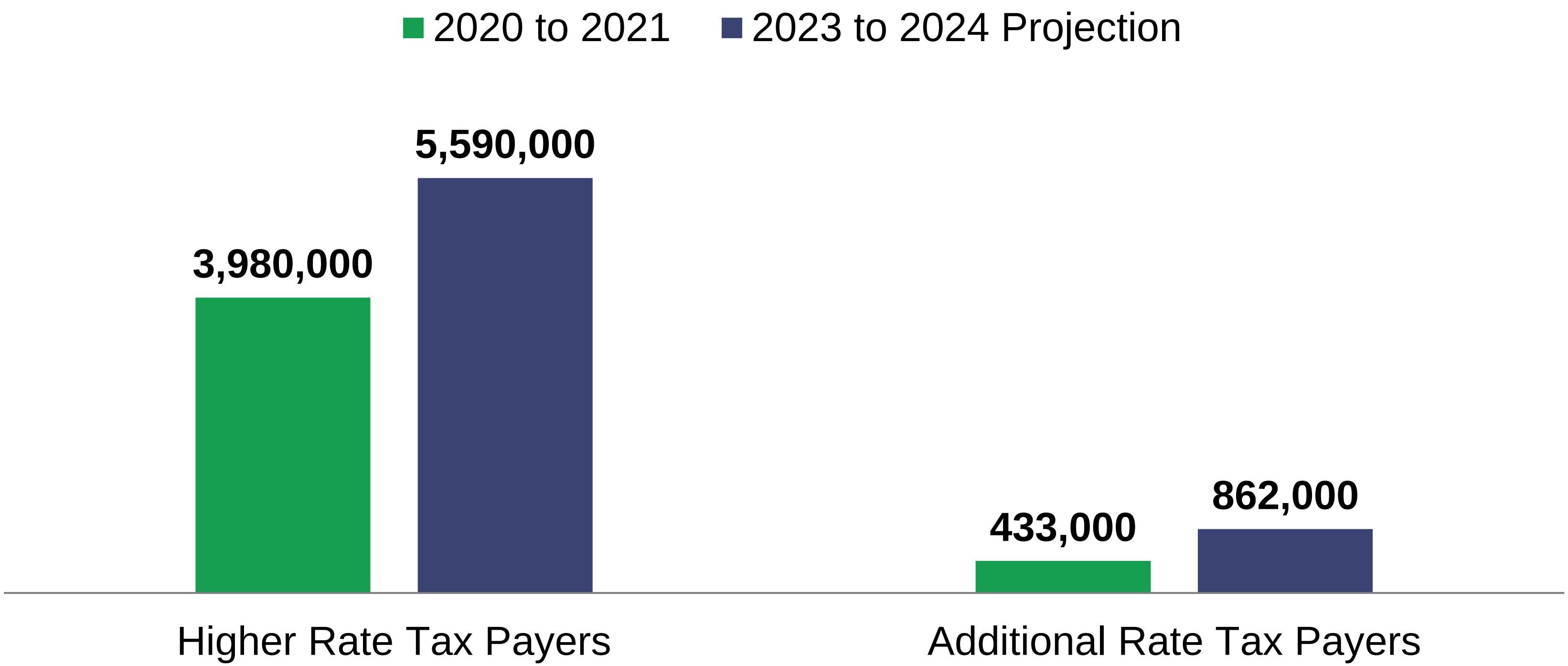
Many more individuals to pay higher and additional rates of tax



Source: [Bulletin - Commentary - GOV.UK (www.gov.uk)]

Impact of last year's Autumn Statement and Spring Budget is **profound**

1

Maximum Funding Into Pensions – the new idiosyncrasies

2

To crystallise or not to crystallise?

3

The NEW importance of wider "tax wrapper" management

Have some current financial planning strategies reached the end of the line?

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Ongoing suitability – investments and tax wrappers

COBS 9A.3.9 UK 01/01/2021

54 (13) Investment firms providing a periodic suitability assessment shall review, in order to enhance the service, the suitability of the recommendations given at least annually…

COBS 9A.3.10 UK 01/01/2021

14 (4) Insurance intermediaries and insurance undertakings providing a periodic assessment of suitability shall review, in accordance with the best interest of their customers…

It is our duty – financial plans must remain suitable at all stages

1

Maximum Funding Into Pensions – the new idiosyncrasies

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A new golden era for pension funding?

- 50% greater contributions allowed each year for most people who can target the PCLS maxima (40k to 60k)*
- Marginal rate tax relief up to 45% (higher en Ecosse!)
- Make use of carry forward allowing contributions of up £180,000
- Consider all threshold allowances and maximum reliefs available – could be far higher than 45% for those subject to tax traps
- Clients with legacy protection certificates can now restart contributions
- **With no lifetime limit on pension saving what level do you fund up to – is it the new PCLS maxima of £268,275?**

A new “de facto” Lifetime Allowance has emerged

*Tapering rules still apply for high earners

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What fund size today is destined towards the new PCLS maxima?

Assuming no further contributions………

Investment growth*/ term	**4%** pa	**5%** pa	**6%** pa	**7%** pa
5 years	£882,010	£840,802	£801,883	£765,105
15 years	£595,854	£516,179	£447,767	£388,941
30 years	£330,857	£248,291	£186,838	£140,970

Every client circumstance will now be different. There is no binary answer

*Investment growth is net after all charges.

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The big questions for those who ***were*** targeting the Lifetime Allowance

Should clients pay in more money?

- If funded to LTA, no further PCLS can be accrued
- If less than 100% LTA funded, potential to increase PCLS?
  - But watch investment growth
- Should you fund only where you increase PCLS?
- What about clients with protection certificates looking to restart?
  - It is unlikely any additional PCLS will be generated

Every client circumstance will now be different. There is no binary answer

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Pension saving **below** PCLS cap of £268,275

	Rate of income tax paid in retirement			
Rate of income tax paid today	**0%**	**20%**	**40%**	**45%**
20%	+25.00%	+6.25%	-12.50%	-17.19%
40%	+50.00%	+31.25%	+12.50%	+7.81%
45%	+56.28%	+37.50%	+18.75%	+14.06%

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Pension saving **above** PCLS limit of £268,275

Rate of income tax paid today	Rate of income tax paid in retirement			
	0%	**20%**	**40%**	**45%**
20%	+25.00%	0.00%	-25.00%	-31.25%
40%	+50.00%	+25.00%	0.00%	-6.25%
45%	+56.28%	+31.25%	6.25%	0.00%

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Pension saving **above** PCLS limit of £268,275

	Rate of income tax paid in retirement			
Rate of income tax paid today	**0%**	**20%**	**40%**	**45%**
20%	+25.00%	0.00%	-25.00%	-31.25%
40%	+50.00%	+25.00%	0.00%	-6.25%
45%	+56.28%	+31.25%	6.25%	0.00%

2

To crystallise or not to crystallise?

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Maximum PCLS entitlements

- For clients with no protection PCLS is frozen at £268,275
- Many clients will enjoyed grand fathered protections since A day
  - And may well enjoy a higher PCLS entitlement
  - Typically 25% of protected LTA
  - Careful of pre A day entitlements

Lifetime allowance history	
2006/07	£1,500,000
2007/08	£1,600,000
2008/09	£1,650,000
2009/10	£1,750,000
2010/11	£1,800,000
2011/12	**£1,800,000**
2012/13	£1,500,000
2013/14	**£1,500,000**
2014/15	£1,250,000
2015/16	**£1,250,000**
2016/17	£1,000,000
2017/18	£1,000,000
2018/19	£1,030,000
2019/20	£1,055,000
2020/21	£1,073,100
2021/22	£1,073,100
2022/23	**£1,073,100**
2023/24	£1,073,100
2024/25	n/a

Considering the tax rate payable "in retirement" is now ever more **critical**

- PCLS maxima is frozen at £268,275 in cash terms
- Its value will be reduced by continued stubborn inflation
- How much will £268,275 be worth one year from now in real terms?
  - And two years from now?
- Any excess beyond the new maxima will be taxable at highest marginal rate
- Could LTA resurface?

This requires an **immediate** conversation with clients with significant pension benefits

The fiscal drag on the Pension Commencement Lump Sum maximum

Example: Client with an uncrystallised pension today valued at £1,073,100

	Notional values			3% pa inflation
Timing	Total fund value	Maximum PCLS	PCLS percentage	Maximum PCLS
Today	£1,073,100	£268,275	25%	£268,275
5 years time	£1,436,050	£268,275	19%	£231,416
10 years time	£1,921,759	£268,275	14%	£199,622

Fiscal drag – 86% of the pension subject to tax in 10 years time

Purchasing power of max PCLS diminishes over time – impact on client's objectives? requires an **immediate** conversation with clients with significant pension benefits

The new landscape now asks us more challenging questions

For clients with substantial pension assets should they fully crystallise?

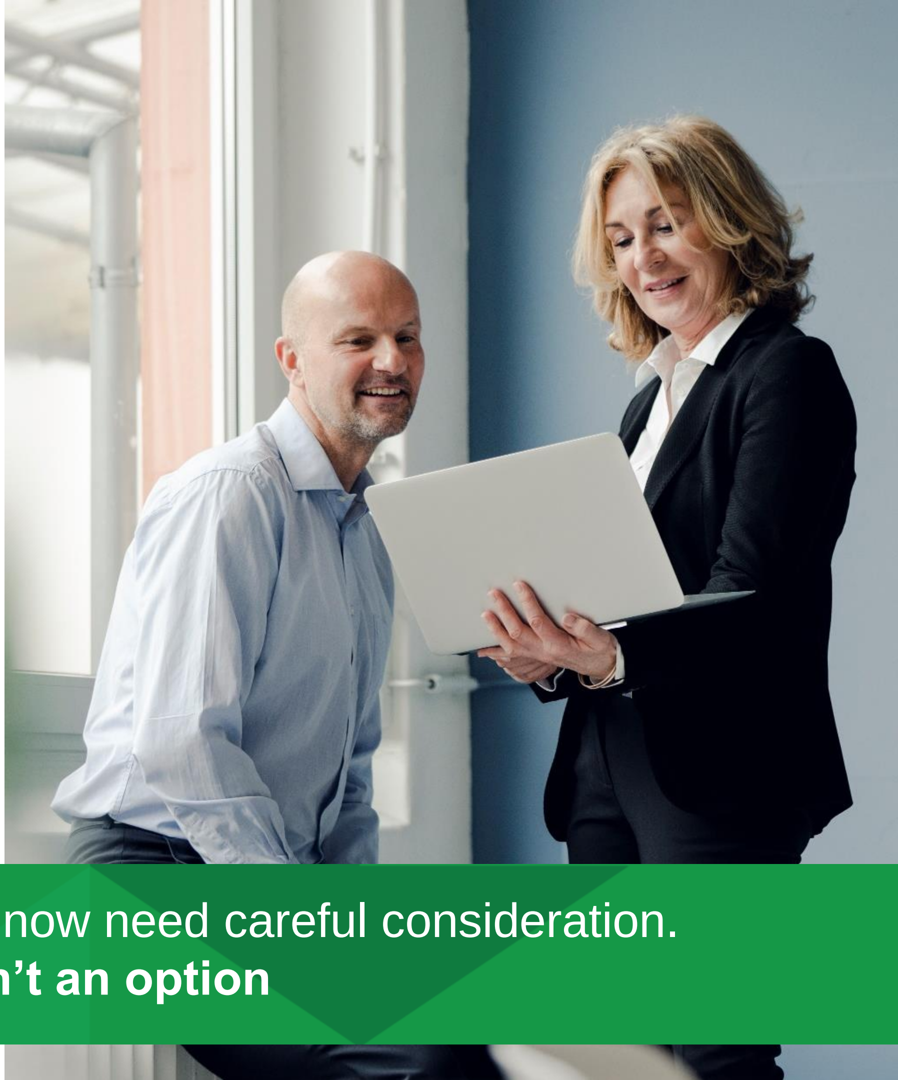
- Provides certainty for individuals who would have otherwise been subject to an LTA charge – **ensure that no excess lump sum is generated**
- If 100% LTA used, no downside
- If they are at PCLS maxima – any excess is taxable at client marginal rate when benefits are taken as income
- What is your advice strategy around PCLS / reinvestment?

This requires an **immediate** conversation with clients with significant pension benefits

Let’s summarise so far

The new landscape

- New PCLS maxima (and grandfathered amounts)
- Pensions still very tax efficient but for those with large pensions not quite as tax efficient
- Excess beyond PCLS maxima is fully taxable now at client marginal rate
- Should certain clients fully crystallise?
- How do we best ‘house’ the PCLS



Those with significant pension assets now need careful consideration.
Doing nothing isn’t an option

3

The NEW importance of wider “tax wrapper” management

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Never before have other tax wrappers being so important to planning

A ‘multi tax wrapper’ approach is needed in the accumulation phase in order to preserve client wealth in decumulation

Pension

Flexible ISA

General Investment Account

Insurance Bond

Insurance Bonds are now back in town - fast becoming a key planning tool

Allowances going down, tax collection going up

The fiscal drag of the Autumn statement 2022

Capital Gains Tax Annual Exempt Amount

- £6,000 this tax year
- **£3,000** thereafter until at least 2028
- **+£1.60bn tax over 5 years**
- 570,000 people impacted in 2024/25
- 46% for the first time

Dividend Allowance

- £1,000 this tax year
- **£500** thereafter until at least 2028
- **+£3.03bn tax over 5 years**
- 4.4m people impacted in 2024/25

+£4.63bn will be pulled out of investments over the next 5 years

Figures taken from Autumn statement 2022 policy papers

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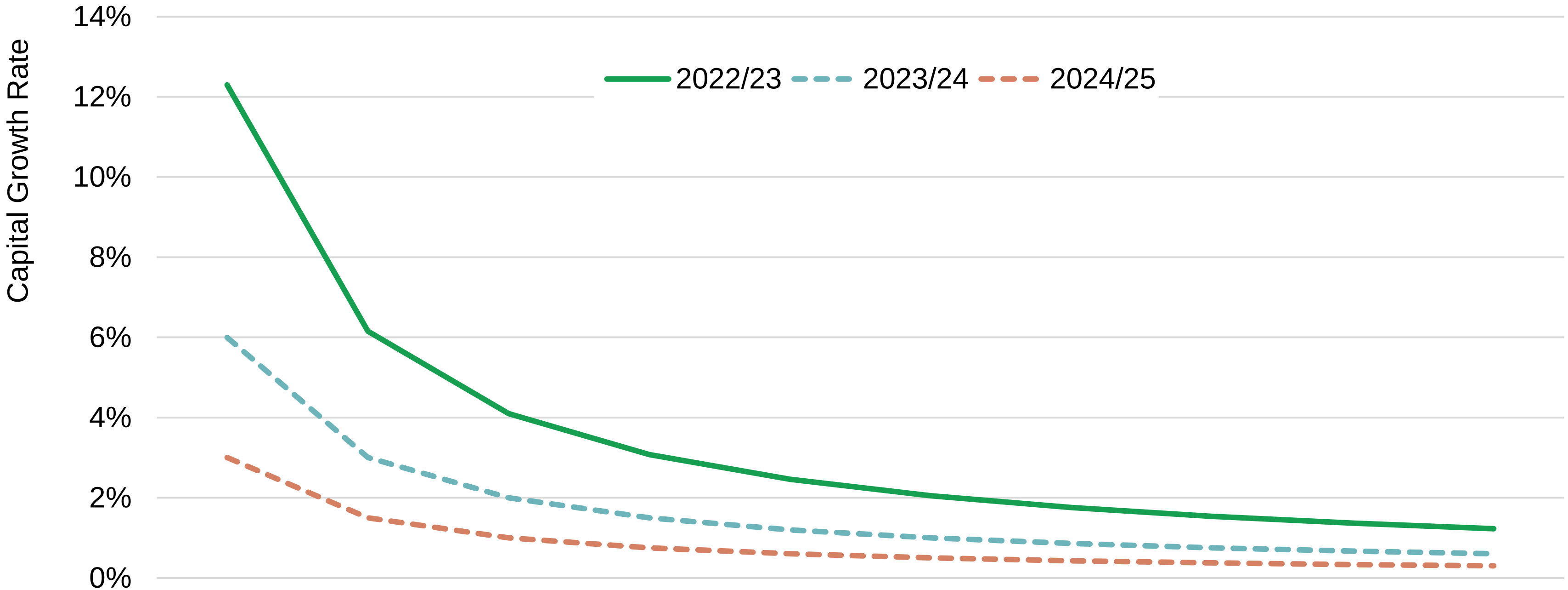
What does this mean for General Investments?

When investment growth exceeds the CGT annual exempt amount



So easy to exceed CGT annual exempt amount…

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Your Bed and ISA strategy just became harder

When will it be safe to use Bed & ISA in the busy days before tax year end?

Assume a 5% pa return after all charges

Tax year	General Investment Fund Value	CGT Annual Exempt Amount
2022/2023	£246,000	£12,300
2023/2024	£120,000	£6,000
2024/2025	£60,000	£3,000

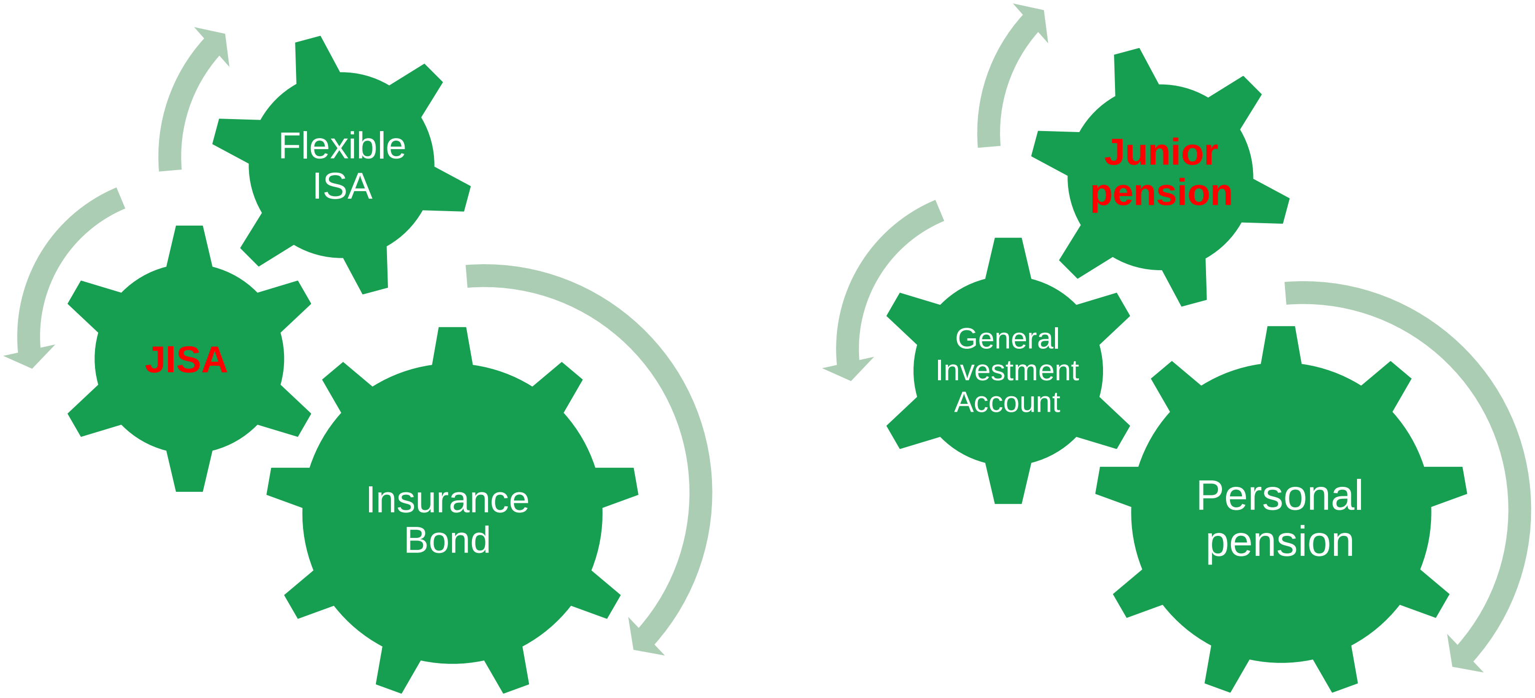
How long until tax year end?

General Investments are still valid **BUT** increased care required

But it isn’t always just about tax….

Planning area	General Investment Accounts	Insurance Bonds
Simplified reporting / administration for clients		✓
Lower tax rates (CGT / Div)	✓	
Allows for allowances to be utilised (far reduced)	✓	
Ability to control when tax is payable		✓
No tax considerations on switching / management of assets		✓
Simple / tax efficient wealth transfer		✓
Availability of packaged IHT solutions		✓
Value uplifted on death of account holder	✓	

Wrapper management needs to evolve



You need ALL the levers to maximise all the opportunities

Tools to help you allocate investments across different tax wrappers

Quilter **Lump Sum Product 'Wrapper' Allocation Tool**

	Client 1		Client 2
Lump sum amount	£268,275.00		
Individual or couple (spouse/civil partner)	Couple		
ISA allowance used client 1	£10,000.00	**ISA allowance used client 2**	£0.00
Other income (client 1)		**Other income (client 2)**	
Other savings income (interest)	50	Other savings income (interest)	0
Other dividend income	100	Other dividend income	0
Gains realised during the year	0	Gains realised during the year	0
Type of taxpayer	Higher rate tax-payer	Type of taxpayer	Basic rate tax-payer
Returns expected		**Returns expected**	
Capital	1.50%	Capital	1.50%
Interest	2.00%	Interest	2.00%
Dividend	2.00%	Dividend	2.00%
Allocation across Quilter wrappers individual:		**Allocation across Quilter wrappers:**	
Individual Savings Account (ISA)	£10,000.00	Individual Savings Account(s) (ISA(s))	£20,000.00
Collective Investment Account (CIA)	£22,500.00	Collective Investment Account (CIA)	£50,000.00
Collective Investment Bond (CIB)	£82,887.50	Collective Investment Bond (CIB)	£82,887.50
Allocation across Quilter wrappers if held jointly:		**Allocation across Quilter wrappers if held jointly:**	
Individual Savings Account (ISA)	£10,000.00	Individual Savings Account (ISA)	£20,000.00

Joint Collective Investment Account (CIA)	£45,000.00
Joint Collective Investment Bond (CIB)	£193,275.00

ISA benefits

	Client 1	Client 2
Utilise remaining ISA allowance of	£10,000.00	£20,000.00
Benefit from tax efficient income		
Benefit from tax efficient growth		
Build a decumulation 'fund' to provide tax free income in retirement		
Can be used prior to pension to improve IHT efficiency		

CIA benefits

	Client 1	Client 2
Obtain tax free returns within available allowances		
CGT annual exempt amount	£6,000.00	£6,000.00
Personal savings allowance	£450.00	£1,000.00
Dividend allowance	£900.00	£1,000.00
Can be used to provide source of annual ISA investment		
Can be used prior to pension to improve IHT efficiency		

CIB benefits

Excess can be invested into a single premium insurance policy
Returns within the policy are not assessed on policyholder
Avoids marginal rate above the available allowances listed above
Helps to reduce or avoid administration involved in self-assessment
Packaged trust solutions available to help reduce estate values achieve IHT savings

Key takeaways

- The Autumn statement and Spring budget have significantly changed the landscape
- Funding pensions above the new PCLS maxima really needs some thought
- What is your advice strategy for dealing with tax free cash maxima?
- Its important to utilise the tax allowance available more than ever

Never before have other tax wrappers been so important to planning

Consumer Duty - New Consumer Principle 12

“A firm must act to deliver good outcomes for retail customers”

Firms will need to **assess** and **evidence** how they are acting to deliver good outcomes for their retail customers throughout **the lifecycle** of the **product and services** they provide.

Never a better time to demonstrate and justify the value of our advice

Today’s learning outcomes

- ☑ Understand the fiscal changes over the last 12 months and it's impact on the tax rules
- ☑ Be able to describe the implications on financial planning and consider solutions
- ☑ Be able to critically assess why this and consumer duty will require different approaches than before

Important information

The value of your client's investments may fall as well as rise and they may not get back what they put in.

This document is based on Quilter's interpretation of the law and HM Revenue and Customs practice as at 07 2023. We believe this interpretation is correct, but cannot guarantee it. Tax relief and the tax treatment of investment funds may change.

The value of any tax relief will depend on the investor's individual circumstances.

QIP 22923 / 59 / 3933 /July 23