money matters

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Five decades of tax rises ahead

The government's budget watchdog says more tax rises are not only on the way but are expected for the next 50 years.

The Office for Budget Responsibility (OBR) normally comes into the spotlight when the Chancellor is presenting the Autumn Budget or a Spring Statement.

However, between those two set pieces, the OBR regularly produces assessments on the state of the government's finances.

Once a year it takes a long-term view – as far out as 50 years – on where public debt is headed and what risks the public sector faces.

The Fiscal Risks and Sustainability Report published in July – coincidentally on the day Boris Johnson resigned.

It did not make cheery reading for anyone hoping to be his tax-cutting replacement at the head of government.

The report focused on three danger areas for government finances:

- **Rising geopolitical tensions:** The OBR views the Russian invasion of Ukraine as prompting an increase from the "current historically low levels of defence spending across Western countries" – a reversal of the so-called peace dividend from the end of the cold war. At the same time, the OBR fears slower growth because of a retreat from global economic integration.

- **Higher energy prices:** For the OBR, the recent surge in gas and oil prices, accompanied by inflation reaching rates not seen since the 1970s, has underlined the economic and fiscal risks to the UK from its continued dependence on fossil fuel imports. The OBR also sees a sharper focus on the tax choices and trade-offs involved in the UK's pledge to achieve net zero emissions by 2050.

- **Long-term pressures:** One surprising comment from the OBR is that the Covid-19 pandemic has had "remarkably little impact" on the UK's medium-term financial position. The OBR attributes this in part to "the substantial tax rises" announced in the pandemic's wake. However, that good news is tempered by the spending pressures of an aging population and the loss of existing motoring taxes as electric vehicles come to the fore. The net result is to leave public debt "on an unsustainable path in the long term".

The OBR's stance is that taxes are not going to fall, whatever the aspiring successors to Mr Johnson's job have said.

If you want to pay less tax, then what matters is your own financial planning, not the Treasury's.

Catching up on your state pension

The deadline to backfill your pre-2016/17 state pension contributions is nearing.

When the new state pension was introduced in April 2016, the government offered a temporary opportunity for some of those who did not have a full record of national insurance contributions (NICs) record to make up for their shortfall, even if they had already reached State pension age.

It has always been possible to 'backfill' NICs for the six immediately previous tax years, but the government's concession permits missed contributions (full or partial years) to be made for the ten tax years from 2006/07 to 2015/16. A decade can make a big difference. For example, the current state pension is £185.15 a week, which requires a NICs contribution record of 35 years. If your contribution record is just 25 years, then the pension drops to £132.25.

For each whole tax year, the cost of backfilling is generally:

- £824.20 in Class 3 NICs if you were employed; or
- £163.80 in Class 2 NICs if you were self-employed.

The figures reduce proportionally if you have paid NICs for part of a tax year.

Viewed another way, if you were an employee, £824.20 could buy about £275 a year of inflation-proofed pension (with a likely 9–10% increase next April). That means the outlay would be covered in less than three years, before tax is considered. However, not everyone will see the same benefit from paying missed NICs.

For example, for periods before 2016/17, it is possible that long-serving members of defined benefit (final

salary) schemes will see no gain. The reason for that is the arcane transitional rules that converted pre-2016/17 state pension entitlements to benefits under the new regime. People likely to be on benefits in retirement can also see little or no advantage because some or all their extra pension may be clawed back in reduced pension credit or housing benefit.

The opportunity to backfill pre-2016/17 contributions ends on 5 April 2023. If you think you could benefit, it pays to start investigating now, as there can be discrepancies in NIC records that need sorting out before any action is taken.

Wealth vs Health

More than half ignore medical advice and work despite poor health due to financial worries.

When you are off work due to an illness or injury, worries about how you are going to pay your bills can make an already stressful situation worse. So much so that many people are finding themselves in the very difficult position of having to put the need to earn money over their health by continuing to go to work, even when advised not to by a doctor.

Worse still, financial concerns mean some are avoiding seeing their GP altogether, even when concerned they may have a serious illness. Money worries see six in ten people go to work when they are ill, with one in three ignoring their doctor's advice due to financial concerns, even when they are worried about serious illness, according to new research [1].

No financial protection in place

Three in ten people have no financial protection if they were off work should they fall ill or become injured, while 27% could financially only last for a month.

The findings highlight that sick and injured Britons are forcing themselves back into work, despite doctors' advice, due to having no financial protection in place.

Nearly a third (32%) admitted to not following their doctor's advice because they couldn't afford to take time off, while 43% would put off going to the doctors due to financial concerns – even if concerned they may have a serious illness.

Negative impact on mental wellbeing

The research also highlights that while nearly half (49%) say they would benefit from a policy that would cover their income if off work for an extended period.

just 27% actually have any income protection cover in place, with 32% unaware of what such a policy is.

Money worries can have a negative impact on people's mental wellbeing, with nearly two-thirds (64%) of those surveyed saying they fret about how they would cope financially if they needed to take four weeks or more off work due to poor health.

Sick and on a reduced income

Three in ten (30%) surveyed have nothing in place to support them financially should they be ill or injured, while 29% would rely on Statutory Sick Pay, which at £99.35 per week for up to 28 weeks (tax year 2022/23), pays much less than many people need to cover the cost of living, which continues to rise.

If on long-term sick pay and on a reduced income, many would use their existing savings (45%), make reduced payments (33%), borrow money from family or friends (25%), or use a credit card or loan (15%). However, during the pandemic a third (34%) of people had already dipped into their savings, meaning they may now have less to fall back on.

Longer term financial impacts

As a result of this situation, more than half (55%) admit they could only survive for three months, while more than a quarter (27%) would struggle after just one month. The additional financial pressures of being off sick for four weeks or more could push people to prioritise their household expenditures. The top five things that the people surveyed prioritise include utilities (67%), mortgage/rent (65%), food (56%), insurance i.e. car/home/pet (15%) and internet/broadband (13%).

As well as the immediate impact of long-term sickness, many people are also concerned about the longer-term financial impacts, with almost half (49%) of those surveyed saying they worry about the impact on their ability to get credit in future. This is particularly an issue for the self-employed, where 43% worry about losing customers and just over a third (36%) worry that their business would have to fold.

Note 1. Survey conducted by Censuswide for Nationwide between 10-14 February of 2,003 people who are self-employed or employed but receive Statutory Sick Pay when off work through illness or injury.

How to reduce Inheritance Tax by leaving a gift

Planning for your wealth preservation and the eventual transfer of that wealth.

When you've worked hard and invested carefully to build your wealth, you want to look after it. That's why it's important to plan for your wealth preservation and the eventual transfer of that wealth.

If you're considering making a gift to someone, there are a few things you need to know about Inheritance Tax. Gifts can be a great way to reduce the amount of Inheritance Tax that your family will have to pay when you die, but there are some rules that you need to follow.

Make use of the annual exemption

Inheritance Tax is a tax that is levied on the estate of a person who has died. The estate is the value of all the property and assets that the person owned at the time of their death (with some exceptions for certain business assets and pension funds).

Inheritance Tax is charged at 40% (tax year 2022/23 – a UK tax year runs from 6 April to the following 5 April) on anything above the Inheritance Tax threshold, which is currently £325,000.

There are some gifts that are exempt from Inheritance Tax, such as gifts to your spouse or registered civil partner, or gifts to charities.

However, you can also reduce the amount of Inheritance Tax that your family may have to pay by making use of the annual exemption and also carrying forward any unused annual exemption from the previous year.

Avoid paying Inheritance Tax

If you're thinking about making a gift, there are a few things you need to bear in mind.

Firstly, you need to make sure that the gift is genuine and that you're not just trying to avoid paying Inheritance Tax. Secondly, you need to consider whether the person you're giving the gift to can afford to pay any Inheritance Tax that might be due on it (which would apply if the cumulative gift exceeds your nil-rate band).

And finally, you need to think about what will happen to the asset after you die. You can make exempt gifts of up to £250 as long as each gift goes to a di!erent person and each person has had no more than £250 from you in gifts in that tax year. This will commonly include birthday and Christmas gifts.

Money or items of property

A wedding gift from a parent to their child of up to £5,000, from grandparent to grandchild of up to £2,500, or up to £1,000 to someone else, is also exempt.

In addition, each tax year you have what's known as an 'annual exemption'. Under this you can give away money or items of property to the value of £3,000. This can all go to one person or be shared between several people. And if you didn't use that exemption in the previous tax year, you can use it in the current tax year and give away £6,000.

Making regular payments

Known as 'normal expenditure out of excess income', you're able to make regular payments from income you don't need to maintain your normal standard of living. For example, if you wanted to pay a loved one's rent or mortgage, or make regular payments into a savings account for your grandchild.

There isn't a limit on how much you can give away and, like the exempt gifts above, the amount you gift will leave your estate straight away. But you must be able to afford the payments after your regular living costs and without having to cut back. Plus the payments need to come from your normal monthly income.

Working out if there's tax to pay

If you wanted, you could combine regular payments with your annual exemption in the same tax year so that one person can receive even more. It's important to consider carefully how much you can afford – although you may not need the money now, your circumstances in the future could change.

Keeping a record of the gifts you give is essential. It helps you show which are exempt and which may have to be included as part of your estate. And in the event of your death, it will also help those responsible for the administration of your estate when it comes to claiming any allowances and working out if there's tax to pay.

Non-exempt gifts

If you wish to make larger gifts that fall outside the above exemptions, those gifts won't fall out of your estate for Inheritance Tax purposes for seven years.

Ready to discuss how to protect and pass on wealth?

We are living in an unprecedented age of personal wealth. Many of today's baby boomer generation are far wealthier than any before, built on the back of generous pensions, secure high paid jobs and soaring property values.

But for many of the next generation, future financial security and goals may be increasingly reliant on receiving a sizeable inheritance.

To discuss how to protect and pass on your wealth, please contact us.

How much will you need to retire?

A quarter of savers approaching retirement at risk of not having an 'adequate pension'.

One of the biggest mistakes you can make is not saving enough for your retirement.

This can leave you struggling to make ends meet in your later years, and may even force you to rely on others for financial support.

It's never too early to start saving, and the sooner you start, the better off you'll be.

The question of whether or not you are saving enough for your retirement is a difficult one to answer. It depends on a number of di!erent factors, including your age, your current income, your anticipated

Cost of living crisis

According to a new survey, just over a quarter of savers surveyed (26%) who have a workplace pension think that their current amount of pension saving will not be enough to get by on when it comes time to retire [1]. With UK households feeling the pinch of the back of the cost-of-living crisis, the war in Ukraine and two years of COVID-19 restrictions, savers have reported that they have long-term concerns as to their financial health when they stop working.

Low income households

In the survey, those aged between 35 and 54 (29%) were most concerned that they wouldn't have enough to live on, compared to those aged over 55 (20%). Just under a third of women were concerned (31%), compared to one in five men (21%). Furthermore, 35% of those in low-income households, whose total income is up to £14k, and 31% with an income of £14k – £28k stated their concerns. This figure drops to just one in five (20%) for those in households with an income of over £48k.

Minimum standard of living

One in five people surveyed (21%) who have a pension say that they save into a pension to ensure that they have a minimum standard of living in retirement – a pension that meets all their basic needs. The findings show that a majority of people save to get either a moderate (41%) or comfortable (33%) Retirement Living Standard.

However, far fewer people think their current pension saving will achieve this, with slightly over a quarter (27%) saying moderate and just 14% comfortable.

Reaching your future goals

There are some key questions that will help give you a sense of whether you're saving enough for retirement. These include: How much have I saved so far? How much will I need to save? What is my expected rate of return? What sources of income will I have in retirement?Keep in mind that these are just general guidelines. The best way to know if you're on track for retirement is to obtain professional financial advice to develop a personalised retirement plan and make sure you're on track to reaching your goals.

Time to start thinking about your retirement?

No matter what your situation is, it is important to start thinking about retirement saving as soon as possible. The sooner you start, the more time you will have to reach your goals. To discuss your options, please contact us.