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Tel. 0333 433 0246

Web. www.ancojada.com

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Wishing all our readers Seasons Greetings and a Happy and Healthy 2023!

It has been another challenging year for us all

As we approach the end of another difficult year we would like to wish you all the very best of fortune and good health for the coming festive season and the new year ahead.

We look forward to bringing you more news and comment about the full range of financial planning topics throughout 2023.

Stay Safe & Healthy and enjoy the festivities with your loved ones!

Looking for alternative Christmas presents?

Why not consider a different kind of gift for your children or grandchildren this Christmas - perhaps one with a financial twist?



According to a prediction made by Hamleys in October, among some of the top bestselling toys this Christmas will be:

- XShot Skins Last Stand Dart Blaster
- Play-Doh Ice Cream Cart
- Peppa Pig Roller Disco.

For those who perhaps would prefer not to wholly invest in plastic for Christmas in 2022, there are other options. As an alternative with greater durability and hopefully a better long-term return on investment, you could consider a financial gift for a child or grandchild.

Your options include:

Junior ISAs (JISAs) These are very similar to their adult ISA counterparts, so are free of UK income tax and capital gains tax (CGT). The maximum total investment (from all sources) is £9,000 per tax year. JISAs are available to any child under the age of 18 who does not already have a Child Trust Fund.

Self-invested personal pension Whereas the funds in a JISA will be available from age 18, pension fund monies will be locked up for much longer – currently to age 55 but for today's children that could rise to at least age 60. The maximum investment is also smaller at £3,600 a year, but this comes with basic rate tax relief, meaning your maximum outlay is £2,880.

Absolute trusts Absolute (or outright) trusts can be used to make investments in unit trusts and open-ended investment funds. The control of the investments lies with the trustees until the child reaches 18 (16 in Scotland) at which point the child, as beneficiary, is entitled to take over. If the gift originates from a parent and the income generated exceeds £100, it is taxable on the parent (to be clear the limit is £100 per parent, per child, per tax year). This rule does not apply to gifts from grandparents (or others) and any CGT is always treated as the child's.

Premium bonds Apart from a somewhat uncompetitive JISA (paying 2.70% variable at the time of writing), premium bonds are the only offering that National Savings and Investments promotes for those under the age of 16. Prizes are tax free (even if capital came from a parent), but the prize rate of 2.2% means that, based on average luck, the children's accounts offered by some banks and building societies offer a better return.

These options may feel less exciting to unwrap under the Christmas tree, but they also aim to grow with their recipients.

Your New Year financial checklist

2022 was an eventful year, giving you good reason to think about your financial planning for 2023.

This year we saw three prime ministers, four chancellors, no formal Budget (even if the Autumn Statement looked remarkably like one), high inflation, rising interest rates and volatile investment markets.

At the year end, it therefore makes sense to review the effects of these events on your personal finances and what, if any, actions you should consider to set you in good stead for the next year.

As we head into 2023, ask yourself these questions:

- **Does your life and health cover need to be increased?** Double-digit inflation rapidly erodes the value of fixed sums. £10,000 of protection set up two years ago now has less than £9,000 of buying power.
- **What top rate of tax will you pay in 2023/24?** The continued freezing of personal allowances and many income tax thresholds, plus the cut in the additional rate threshold, could mean you drift into a higher tax band next tax year. It is worth knowing that early, so you can plan accordingly.



- **What interest are you earning on your cash deposits?** Interest rates started 2022 on the floor. The Bank of England has been busy increasing them ever since, but many banks and building societies have been much less zealous in raising the rates they pay to their depositors, particularly on accounts no longer open to new savers. At the time of writing, the top instant access accounts were offering around 2.5%, but some big names were not even paying 0.5%.
- **How did the mix of your investments change over 2022?** Although many investment indices fell in 2022, some of the relative changes were surprising. For example, many UK government bond funds suffered larger falls than their UK share fund counterparts. US funds were also often performing better than the Dow Jones Index suggested because the dollar was so strong against the pound. The net result is that your portfolio may need rebalancing.

As ever, if you need help with answering these questions - or what actions are required - contact us.

Bad news for unmarried couples

The government has rejected proposals to modernise cohabitation laws in England and Wales, leaving it up to individuals to arrange their financial affairs for partners and dependents.

In August, the House of Commons Women and Equalities Committee published The rights of cohabiting partners for England and Wales (Scotland and Northern Ireland have their own laws). Amidst all the other political excitement of that month, the report received little coverage.

The lack of media attention was a pity, as the Committee made some important recommendations about a significant proportion of the population - the one in five couples who have chosen cohabitation rather than marriage or civil partnership. The report noted that "Whereas married couples and civil partners have certain legal rights and responsibilities upon divorce or death, cohabitants receive, in general, inferior protections". This fact is compounded by what the report called the "common law marriage myth" - the erroneous belief that after a certain amount of time of living together, the law treats cohabitants as if they were married.

The report made six recommendations for action, only one of which was accepted in full by the government. The following three proposals were rejected outright:

Family Law should be reformed to better protect cohabiting couples and their children from financial hardship in the event of separation.

A potential structure for such reform was proposed by the Law Commission in 2007, which having ignored for so long the government now says is too old to be implemented without a review or fresh consultation.

The intestacy rules should be immediately redrawn to recognise cohabitation.

The Committee again supported ideas put forward by the Law Commission (this time from 2011). The government's rejection of any intestacy reform was largely predicated on the notion that cohabiting couples could make wills to deal with their estates.

The inheritance tax regime should be the same for cohabiting partners as it currently is for married couples and civil partners.

This was rejected by the Treasury - the responsible government department - which said it "has no plans at present to extend the longstanding treatment of spouses and civil partners to cohabiting partners."

If you are cohabiting, the government's message is clear: make your own legal and financial arrangements - and don't believe that common law marriage myth.



Caught by the additional tax rate taper trap

A growing number of taxpayers are being caught by the personal allowance taper, which will be exacerbated by the reduced additional rate tax threshold of £125,140. With many also questioning why the new threshold is not a round number, a short history of tax setting provides the answer.



Seven chancellors ago in 2009, the then occupant of 11 Downing Street, Alistair Darling, had a not uncommon problem. He needed to raise some extra tax. His basic solution was to create a new income tax rate, the additional rate. But to raise enough revenue, the new band's threshold would have been too close for political comfort to £100,000.

To avoid this problem, the threshold was set at £150,000 and the potential lost tax replaced by tapering out the personal allowance once income exceeded £100,000. The change went through in the Finance Act 2009 but did not take effect until the 2010/11 tax year. The £150,000 and £100,000 thresholds and taper have remained in place ever since. The taper operates by reducing the available personal allowance by £1 for each £2 of adjusted net income over £100,000.

In 2010/11, that meant that the personal allowance (then £6,475) was lost completely once income reached £112,950. The practical effect of the taper was to introduce a tax rate of up to 60% in the band where taper applied (£2 in the taper band of income meant tax was payable on £3). Fast forward to the Autumn Statement of November 2022 and the new Chancellor, Jeremy Hunt, also alighted on additional rate tax to supply more revenue. His approach was to cut the additional rate threshold in 2023/24 to £125,140. But why not £125,000, as press rumours had suggested?

The answer can be found in Mr Darling's taper ruse. The personal allowance is now £12,570 (frozen until April 2028), which means that the allowance is not lost until income exceeds £125,140. Had Mr Hunt picked £125,000, the additional rate would have applied to the top £140 of the taper band, producing an effective tax rate of up to 67.5%. A growing number of taxpayers are being caught by the personal allowance taper. Combined with the reduced additional rate threshold, it will effectively mean that higher rate tax stops at £100,000 from the next tax year. If you are a taper victim, then make sure you seek advice on your options to ease the pain of retaining only 40p in every £1 of income.

Investors set to pay more tax

The new Chancellor's Autumn Statement has increased the tax bill for many investors.



In his Autumn Statement, the Chancellor, Jeremy Hunt, said that in making decisions on tax the government followed a broad principle that "we ask those with more to contribute more".

Investors were clearly placed into this category as Mr Hunt:

- Halved the dividend allowance to £1,000 in 2023/24 and then halved it again to just £500 in the following tax year. The dividend allowance was £5,000 when it was introduced in 2016/17.

- Cut the capital gains tax (CGT) annual exempt amount from £12,300 to £6,000 in 2023/24 and then halved it to £3,000 in the following tax year. One result of this could be that over 200,000 more people will now have to complete a self-assessment tax returns for the first time.
- Froze the personal allowance and UK higher rate threshold for another two tax years (to April 2028).
- Reduced the threshold at which additional rate tax on investment income (and other income, outside Scotland) is charged from £150,000 to £125,140 from 2023/24.

If you are a higher rate taxpayer, then the dividend allowance cuts could cost you £506 a year – assuming you are not pulled into the additional rate – and the CGT cuts up to £1,860 a year.

There are some ways you could mitigate this new investment tax burden:

- Use your available 2022/23 CGT annual exemption to crystallise gains in this tax year so you have fewer gains going forward.
- Maximise your ISA contributions (frozen at £20,000 a tax year until April 2026). As ISA investments are free of both income tax and CGT, you might also want to review whether any cash ISAs you hold would be better switched to stocks and shares ISAs.
- Make the most of independent taxation for married couples and civil partners.

For any guidance on your position and options, please get in touch.

