Wise Words
the latest financial news from Aaron Tawny

# Six important changes

*This new tax year brings with it many changes to state pensions - some small, others significant.*

Salaries, benefits and pensions have been affected as new rates and new levels of taxation came into effect. State Pensions have changed. That's important, as for millions of retired people across the UK, State Pensions are their primary source of income. These changes will affect both the New State Pension and Basic State Pension. Below is a look at what is expected to happen.

## *State Pension triple lock*

The first key change for you to make note of is the return of the State Pension triple lock. The mechanism was temporarily suspended last year, due to warped earnings data as a result of Covid-19, meaning the Government deemed a predicted eight per cent rise as unaffordable.

However, this was only intended to be temporary, and the triple lock will return from April 2023 onwards. Pensioners can expect a 10.1 per cent rise in line with September 2022's Consumer Price Inflation (CPI) figure. The triple lock ensures the State Pension rises each year by whichever is the highest of 2.5 per cent, inflation or average earnings.

## *New State Pension*

The second change, as a result of the triple lock's return, is the rise of the new State Pension. The full new State Pension is currently worth £185.15 per week, but this will rise to £203.85.

People are eligible if they are a woman born on or after April 6, 1953, or a man born on or after April 6, 1951. To get any new State Pension, Brits typically need 10 qualifying years of contributions, rising to 35 for those who want to secure the full sum. Some may get less than the full new State Pension if they were contracted out before April 6, 2016.

## *Basic State Pension*

Another change to make note of is an increase to the basic State Pension – the older scheme. The full old State Pension will rise from £141.85 to £156.20 per week for eligible people.

It is available to those who reached state pension age before April 6, 2016. For the full basic State Pension, individuals usually require some 30 qualifying years of contributions.

## *Married Woman's Pension*

The fourth change relates to the Married Woman's Pension – a type of the basic State Pension. Under the old scheme, women could derive payments from their spouse or civil partner's National Insurance contributions – the sum is worth 60 percent of the basic State Pension rate, and the Department for Work and Pensions (DWP) has confirmed this will rise from £85.00 to £93.60 per week.

## *Over-80s pension*

In addition, another change relates to the over-80s State Pension. Individuals cannot get the over-80s pension if they reached State Pension age on or after April 6, 2016, but for older people, this could be particularly useful.

Eligibility is not based on the National Insurance contributions one has made. The Over-80s State Pension is intended for those who receive a basic State Pension of, currently, less than £85 a week, or nothing at all. The rate is set to rise from £85 per week to £93.60 a week.

## *Additional State Pension*

The final important change relates to the Additional State Pension. There is currently no fixed amount for this sum, and what a person gets is usually dependent on how long they paid National Insurance for, their earnings, and whether or not they were contracted out.

However, the maximum sum people can receive is set to change from April 2023. It will increase from £185.90 to £204.68 per week for eligible individuals.

# Exact State Pension amount you get with minimum contributions

*Some people won't qualify for a State Pension if they don't meet requirements*

### *The State Pension is paid on a sliding scale depending on certain factors*

Not every person in the UK qualifies for the full State Pension and to get any amount at all, you must meet certain conditions. Currently, the earliest you can get your Department for Work and Pensions (DWP) provided payments is at the State Pension Age (SPA), which is 66 for both male and females.

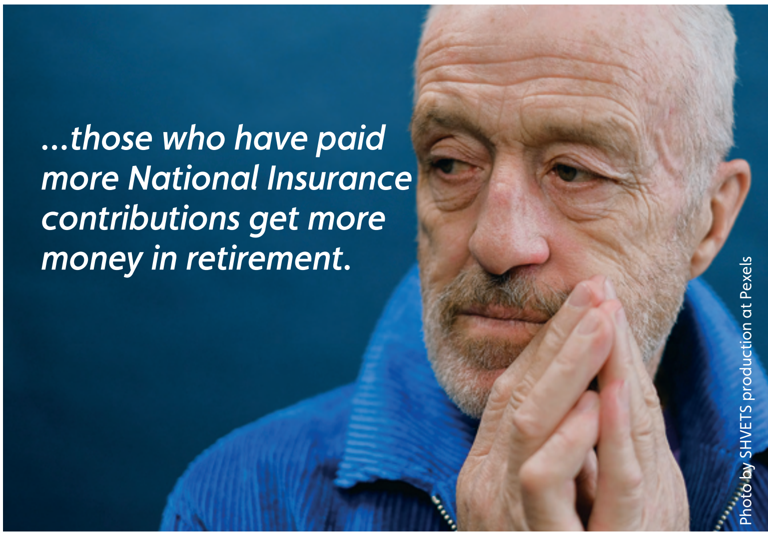
For those born after April 5, 1960, there will be a phased increase in State Pension age to 67 and eventually 68. The rate at which this gradual increase is to happen is currently under review and may be rapidly brought forward depending on the report's findings.

The State Pension is paid on a sliding scale, so, those who have paid or have been credited with more National Insurance contributions get more money in retirement. Each year, the amount retirees get through their pension is protected by the triple-lock system.

It means annually, the State Pension rises by either 2.5 percent, average earnings growth (5.2 percent measured from May to July 2022) or inflation (measured in the year from September every year). In April this year, State Pension payments will increase by 10.1 percent in line with inflation for everyone claiming it. This is the first year the triple-lock mechanism is back after a years absence due to the former Chancellor and now current Prime Minister pausing the system.

### *State Pension amount from minimum contributions*

For anyone reaching State Pension age after April 6, 2016, who doesn't have a pre 6 April 2016 NI record, you need to have at least ten years of National Insurance contributions or credits to successfully claim a State Pension. To get the full new State Pension of £203.85 a week, you need 35 years of contributions. Those with a pre 6 April NI record may achieve some state pension or a full state pension with fewer qualifying years as they get a starting amount of the better of the old and new state pension systems and the old system only required between 1 and 30 years of NI.




Money Helper has laid out how it works and what you will get. Each year gives 1/35th of the full amount, for example:


You can see how much State Pension you are due to receive when you reach SPA and how to increase the amount, by heading to the Government's official pensions portal -

https://www.gov.uk/check-state-pension

# Check your tax with the official HMRC app

*The HMRC app is an easy way for a person to find information about their tax, National Insurance, tax credits and benefits on the move.*

Christmas workers, and new employees generally, can save time with the HMRC app by using it to find out their personal tax information and pass details on to their employer - saving them time. In the 12 months up to October 2022, HMRC received almost 3 million calls from people asking for information that is now readily available on the app, with more than 340,000 using it to access employment and income information since July 2022.


Photo by Nathan Dumlao on Unsplash

Downloading the free and easy to use HMRC app allows secure access to information about personal tax affairs, avoiding the need to call HMRC.

New functions and capability mean that customers can access their income and employment history, salary information, National Insurance number or tax code via the app, whenever they need it. The information can be downloaded and printed – so there is no need to call HMRC to ask for it to be sent in the post. This means that using the app rather than calling the helpline makes the process much quicker.

App users will need a Government Gateway user ID and password to access their personal information. If you do not have a Government Gateway user ID you can create one in the app.

App users can also benefit from other functions on the app. These include:

- Check payments from their employer
- Registering for Self Assessment
- Making a Self Assessment payment
- Reporting tax credits changes and completing renewals
- Accessing their Help to Save account
- Using HMRC's tax calculator to work out their take home pay after Income Tax and National Insurance deductions
- Tracking forms and letters they have sent to HMRC
- Claiming a refund if they have paid too much tax
- Updating their address

If you would like to download the app, the link is
https://www.gov.uk/guidance/download-the-hmrc-app

## State Pension top up deadline extended

The government has extended the voluntary National Insurance deadline to 31 July 2023 to give taxpayers more time to fill gaps in their National Insurance record and help increase the amount they receive in State Pension.


Photo by Andrew Neel on Unsplash

# Additional Permitted Subscriptions (APS) for ISAs

*Largely unknown, yet widely available, the Additional Permitted Subscription (APS) is a highly beneficial allowance for surviving spouses or civil partners of ISA investors.*

This legislation grants ISA holders the ability to pass the entire value of their ISA to their partner after death. Simply put, the Additional Permitted Subscription (APS) works in the form of a one-off increased ISA allowance which is on top of their own £20,000 annual ISA subscription.

## *Who is eligible for an APS?*

A person is eligible for an APS if:

- Their spouse or civil partner died on or after 3 December 2014; and
- They were not estranged or separated from their spouse or civil partner

*It is important to note that ISAs are only inheritance tax free when they are transferred to a spouse, as with all assets transferred to a surviving spouse.*

## *How does the APS work?*

Anyone who was married or in a civil partnership with someone who died on or after 3 December 2014 can apply for an additional ISA allowance, known as the Additional Permitted Subscription (APS) based on the deceased's ISA value.

If the deceased died before 6 April 2018, the APS is equal to the value of the ISA on the date of death. For example, if the deceased died on or after 3 December 2014 (but before 6 April 2018) with an ISA valued at £80,000, this would be their APS.

If the deceased died on or after 6 April 2018, their ISA would become a 'continuing ISA'. It will keep this status until the earliest of:

- The completion of the administration of the estate
- The third anniversary of the date of death
- The closure of the ISA following withdrawal of all the funds

In this case, the APS is equal to the higher of the value of the ISA on the date of the investor's death or the value of the ISA on the date it stops being a 'continuing ISA'.

Where an investor held ISAs with several companies, a separate APS will be available for each.

## *Does the APS affect your ISA allowance for the current tax year?*

The APS is separate from the ISA allowance. The surviving spouse or civil partner can use their ISA allowance in the normal way, in addition to any APS.

For example, if the deceased died on 4 February 2018 with an ISA valued at £80,000, they could contribute £100,000 (£80,000 plus £20,000) to their ISA in the tax year that they use the APS (see deadlines below) and protect their savings from income and capital gains tax.

## *What are the time limits to use the APS?*

The APS can be made at any point from the date of death up to the time limits given below, depending on the form of the subscription.

- Where the survivor is the beneficiary of the ISA assets, and they want to transfer these without the need to convert the asset to cash, the transfer from the deceased's ISA must be completed within 180 days of the beneficial ownership passing to them.
- For cash subscriptions the APS allowance must be used within three years from date of death, or if later than three years, within 180 days of the completion of the administration of the estate.

## *How do I contribute to an ISA and make use of an APS?*

It is important to note that ISAs are only inheritance tax free when they are transferred to a spouse, as with all assets transferred to a surviving spouse.

ISAs are a tax efficient wrapper during an investor's lifetime – with income and capital gains tax free growth. However, on death they are far less tax efficient. ISAs are fully liable to inheritance tax when passing to any beneficiary other than a surviving spouse, unless invested in shares qualifying for Business Relief. This is something that can be commonly overlooked.

# Open-Ended Investment Company (OEICs) v Bonds

## *- has the balance of power shifted?*

*Cuts to the annual Capital Gains Tax (CGT) exemption and dividend allowance over the next two tax years will have an impact on the net returns from OEICs and unit trusts. While these changes have undoubtedly narrowed the tax gap between OEICs and offshore bonds it is unlikely to be significant enough to challenge the current status quo.*

That's largely because offshore bond gains are subject to income tax at 20% or 40% (45% for additional rate) and the rates for capital gains on OEICs remain at 10% and 20%. But that's only part of the story and there are many other factors which may influence wrapper choice.

### *The changes*

The Autumn Statement last November announced that the current annual allowance for Capital Gains Tax of £12,300 would be cut to £6,000 for the 2023/24 tax year and then £3,000 from 2024/25.

This could see investors' Capital Gains Tax bills rise up to £1,860.

The dividend allowance will reduce from £2,000 to £1,000 and £500 over the same period. This follows confirmation that the increased dividend rates of 8.75%, 33.75% and 39.35% for the basic, higher and additional rates respectively will continue to apply.

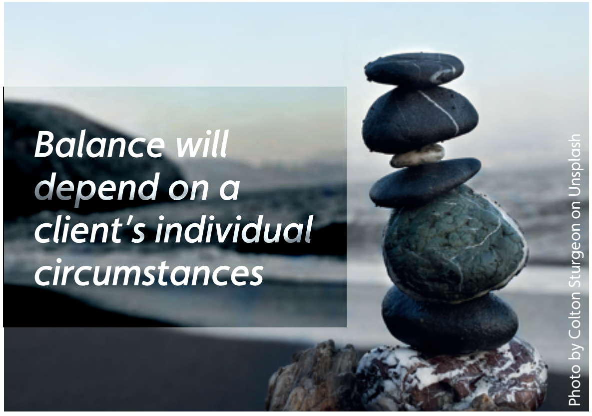
### *The tax differences*

Bonds and collectives such as OEICs and unit trusts are taxed very differently.

Income and gains from the underlying investments in an offshore bond are not taxed as they arise but are subject to income tax when a client withdraws funds and a chargeable event gain arises. The downside to this is obviously that the rates of income tax are currently much higher than the rates paid on capital gains and dividends.

For example, a higher rate taxpayer will be paying 40% on chargeable event gains they make on an offshore bond (as long as the top-sliced gain doesn't take their income into the additional rate band), but will only pay 20% (28% on disposals of residential property) on capital gains realised and 33.75% on any dividends arising.

The upside for offshore bond owners is that they can control when the taxable event happens,




and if this is in a year when they have no other income, by design or otherwise, it may be possible to extract profits completely tax free by keeping gains within their personal allowance, the savings starting rate and the personal savings allowance, currently totalling £18,570.

It is true that investors holding collectives can also control when they make a disposal, but none of the allowances available to an offshore bond can be used against capital gains. So once the annual exempt amount has been exceeded (remember, this will only be £3,000 from 2024), Capital Gains Tax will be payable. With regards dividends, these are taxed in the year they arise, even if they are 'accumulated' - taxpayers have no control over this.

### *Summary*

There is a stark difference in the way offshore bonds and collectives are taxed. While the changes made to the CGT allowance and dividend allowance will have brought the two wrappers closer together in terms of net returns, each have their merits and much will depend on a client's individual circumstances.

Future changes to legislation could also impact on returns, and maybe the solution is not one or the other, but to hold both to give flexibility to make the most of the current allowances and rates, and hedge against the future.

# Busting the Premium Bonds myths

*"Have I won or not this month" ... that is the question that a lot of you will be asking before checking the Premium Bonds prize checker app.*

Premium Bonds are one of the best known products in the UK and last year they celebrated their 65th anniversary, from when the first prize draw was held on 1 June 1957. June 2022 was the 781st Premium Bonds prize draw and ERNIE (Electronic Random Number Indicator Equipment), the machine that generates the winning numbers, has paid out more than 601 million prizes worth £24.4 billion. Today, the top prize is £1 million.

*...one very lucky winner won in 2004 the jackpot with just a £17 holding!*

Photo by Jason Dent on Unsplash

Alongside all the wins and joys that ERNIE has brought to winners, it's no surprise that some myths have developed around both ERNIE and Premium Bonds... the most common ones include:

### *Only new bonds win prizes*

Each £1 bond has an equal chance of winning, regardless of when or where it was bought.

The power behind Premium Bonds has been upgraded to the next generation – ERNIE 5. Unlike previous versions which used thermal noise to produce random numbers, ERNIE 5 is powered by quantum technology, which uses light. This new technology allows ERNIE to produce enough random numbers for a monthly prize draw in just 17 minutes.

And so by using light, ERNIE 5 generates random numbers that are matched against eligible bond numbers to determine the lucky winners.

And because it's random, every bond number, whether it has 8, 9, 10 or 11 digits, has a separate and equal chance of winning a prize.

For example, in the last three draws about 6% of all prizes have been won by bonds purchased before January 2005. Bonds bought more recently may seem to win more often because 98% of bonds have been bought since the year 2000.

### *Old bonds are left out of the draw*

Winning numbers are generated randomly and then matched against eligible bond numbers afterwards – numbers aren't entered into or stored in ERNIE so it's not possible for any bonds to be left out of the draw. Even bonds bought as far back as 1956 are still eligible for the draw.

### *Bonds from the South East are luckier than elsewhere*

If it seems that more prizes are won by holders in the South East, that's because there are more bonds held there compared to the rest of the UK. However there have been winners of the £1 million jackpot from every region of England, as well as in Scotland, Wales and Northern Ireland.

### *Your clients can only win if they have the maximum amount invested*

Jackpot winners have had different amounts invested over the years – one of this month's winners had a holding worth just over £4,000, and one very lucky winner won the jackpot in 2004 with just a £17 holding!

### *Bonds need to be bought in a block to increase chances of winning*

Since no bonds are actually entered into ERNIE, it doesn't 'know' anything about the bonds themselves, such as whether the bond number is part of a sequence of numbers or not. In the January draw ERNIE generated 12.8m numbers, which were matched up to almost 5m eligible bonds.

Hopefully the above has dispelled some of the myths around the world of Premium Bonds, and maybe Agent Million will visit you soon.

# Equity release myths busted

You might have heard about 'releasing money from your home' through equity release. But what do you actually know about it? There are a whole load of ifs, buts and uncertainties around this type of financial arrangement. So we're here to help you pull apart the facts from the fiction – and bust those equity release myths you might have heard.

First things first – the type of equity release we offer is a lifetime mortgage, but what is that?

## *A little look at lifetime mortgages*

A lifetime mortgage is a long-term loan which allows you to release some tax-free money from the value of your home after you turn 55. You'll carry on living in your home, and still own every square inch. The loan is usually repaid from the sale of your home once you (and your partner, for joint lifetime mortgages) pass away or need long-term care.

## *The myths vs the reality*

Now let's take a look some of those myths and explain the reality behind each one.

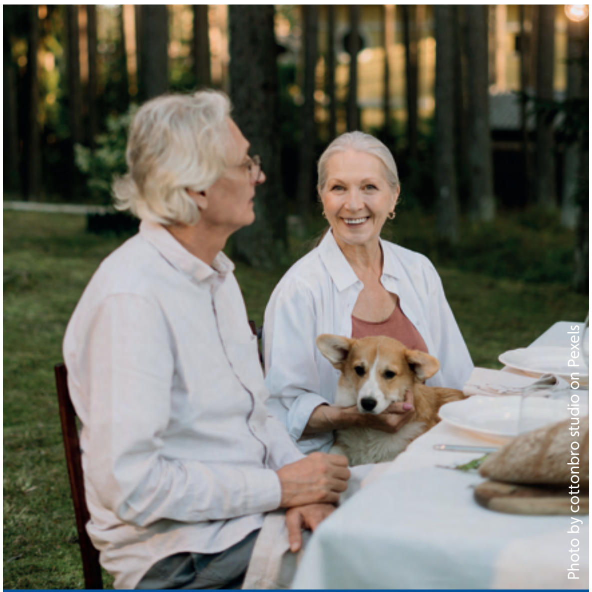
## *You'll be leaving your loved ones with nothing*

The first myth for us to bust. What actually happens is, as long as your home's sold for the best price it can reasonably get, anything that's left after the loan and interest have been paid will go to your loved ones.

It's true that they may not get as much in inheritance had you left your entire home to them in your will. But when you apply for a lifetime mortgage, you can tell us if you want to safeguard a percentage of the sale price to go to your estate. This is known as an inheritance guarantee.

It's worth noting that if you choose to do this, you won't be able to borrow as much. That's because the loan is based on your home's value without the percentage you've asked for as an inheritance guarantee.

Alternatively, you can choose to repay the loan and interest in another way. Although most people tend to pay it off from the sale of their home, it's completely up to you.




***With a lifetime mortgage, you can use your home to fund what's important to you.***

## *You'll need to repay more than your home's worth*

Years ago, this may have been the case with some equity release products. But with a no negative equity guarantee, neither your family nor your estate will need to pay back more than your home's sold for, as long as it's sold for the best price reasonably possible.

## *You will have to move out when the other dies or goes into long-term care*

This isn't the case if you take it out together. With a joint lifetime mortgage, the loan will only need to be repaid when you've both passed away or need long-term care.

## *You can't move*

Just because you've taken a lifetime mortgage, it certainly doesn't mean you can't move home. You may be able to transfer your loan to your new property – as long as it meets the lender's eligibility criteria.

*continued overleaf...*

# Equity release myths busted...contd

### *Releasing money from your home is a last resort*

The reality is that you might consider equity release for any number of different reasons. There may be a few things you want to do to spruce up your home. You may need a little help covering healthcare costs. Or you want to support loved ones who are trying to get on the property ladder themselves.

It could even be that you just want to make the most out of your retirement. You may have had to put more pennies away in your younger days to afford your home. And as property prices have risen considerably over the years, your home could be worth more than it once was. So you can now use that extra value in your home to top up your retirement fund.

With a lifetime mortgage, you can use your home to fund what's important to you.

### *A better understanding means better decision making*

Now we've quashed the rumours, you have a greater understanding of what choosing a lifetime mortgage actually means and its impact on you and your loved ones, and you can make a more educated decision about whether it's right for you.


***It could even be that you just want to make the most out of your retirement.***

### *Before you decide*

Deciding whether to take a lifetime mortgage is a big decision. It's a good idea to speak to your family about your plans. It may affect them too, especially if it'll impact their inheritance.

If you would like to discuss if equity release is right for you, please contact our office.

# Have you used your annual ISA allowance?

### *Making the most of an ISA allowance*

ISAs are a great planning tool, and careful investment management means that you can accumulate substantial tax-free capital within your portfolio.

### *Why wait a year to top up your ISA?*

You can top your ISA up at any time during the year, why wait until the end of the tax year?

# Majority of UK adults do not have a will, study finds

More than half (51%) of adults in the UK do not currently have a will in place, a new study has indicated.

The research also revealed that of those who do have a will, 43% have not updated it since it was first written.

Having an up to date will is "the most basic tool in the wealth-transfer process", because it creates a clear record of the beneficiaries of an individual's estate, whether this is made up of investments, property, or valuable items such as jewellery or art.

If an individual dies without a will or a will is found to be invalid, the estate will be wound up using the laws of intestate succession, which will determine who is entitled to benefit from an estate. This process can cause delays, administrative problems, and heartache for loved ones at a difficult time.

Despite this, those who have recently lost a partner or spouse, 27% have yet to update their will, while 24% do not have one in place at all.

*Having an up to date will is "the most basic tool in the wealth-transfer process"...*

Photo by Dio Alif Utomo of Pexels

# Would you like a discount on your first home?

First Homes
Getting you on the ladder
Backed by HM Government

The new First Homes Scheme is the latest Government offering to help first time buyers get a foot on the property ladder.

New build properties/estates are springing up in the UK to be sold at a 30%-50% discount from market value to first time buyers. When the house is subsequently sold on, the discount will be passed to another first time buyer for them to benefit from. The original buyer will still be able to benefit from any equity and price appreciation to take to their next property.

The scheme aims to help more local people to buy a home in the communities where they live and work.

To find out more details how this scheme works please contact us.

## 15 largest employers in the world - 5 are military entities

*Military*

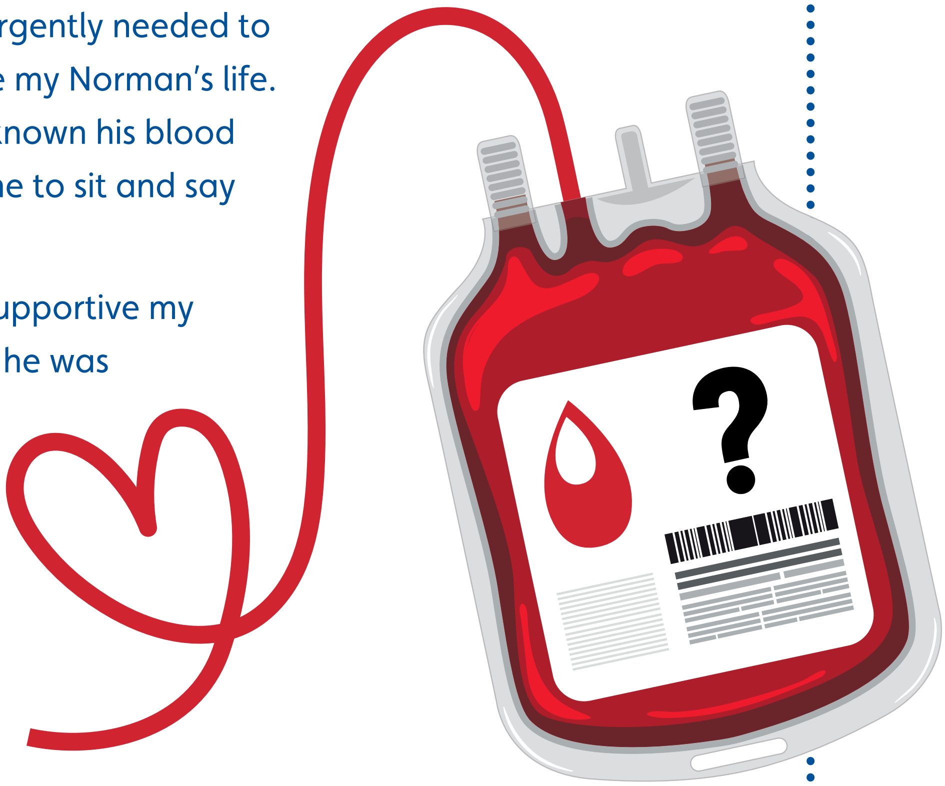
*Non-Military*


Source: Wikipedia Created by: Genuine Impact

# KEEPING IT LITE

I asked Old Maud how she lost her husband.
She told me her sad story:
"Well he needed a blood transfusion, but his blood type was not on record, so the doctors asked me if I knew what it was, as they urgently needed to know, in order to save my Norman's life. Tragically, I've never known his blood type, so I only had time to sit and say goodbye.

I'll never forget how supportive my Norman was. Even as he was fading away, he kept on whispering to me, "Be positive, be positive!" That was my Norman! Always thinking of others."




We hope you find this a useful and informative read. With our constant strive for excellence in customer service we always appreciate your feedback, whether good or bad.

If you would prefer to receive the newsletter via email, please email us at: enquiries@atawny.co.uk

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