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# NUGENIS NEWS



Financial planning for a *brighter* wealth

# Tax Year End Deadlines

With only around 8 weeks until the end of the current tax year it is time to implement any investment plans to ensure you make the most of the current year's allowances.

On the following pages we have included an article looking at some of the more common tax planning we encourage clients to consider plus a separate article highlighting the timescales associated with withdrawals. However, we also need to highlight how essential it is to not leave contributions to such things as ISA, pension, and certain tax-savings schemes until the last minute.

All of the investment and pension providers we use have payment cut-off points prior to 5th April 2024, however with the Easter bank holiday weekend falling on 29th March-1st April these cut off dates are much earlier than usual. As explained in the following article, in order to comply with our regulatory responsibilities we also need time to produce and process the required correspondence and documentation. As such, while we will make every effort to ensure these are processed in time, for any instructions are received after **6th March 2024** we cannot guarantee contributions will be made in the current tax year.

As always, if you have any questions or concerns, please speak to your Financial Planner, or contact us directly.

## Why Is Taking My Own Money Out So Complicated?



**Taking a withdrawal is something that many people approach with anticipation, expecting a swift process to access their hard-earned money. In this brief article Nugenis CEO, Gareth Tregidon, explains why the process can take much longer than you might expect.**

### 1. Legislation, Regulation & Compliance

As you may be aware, financial advice is one of the most heavily regulated professions in the UK. Quite rightly so given we're employed to make sure people's hard earned money is properly looked after.

What many people don't realise, however, is that the regulations and legislation not only affect when you put money in but also when you take it out, and the regulations covering advisers' actions in the latter area have increased significantly in recent years, most recently by 'Consumer Duty' which came into force last year.

Consumer Duty was introduced by our regulator, the Financial Conduct Authority (FCA), in July 2023. It aims to 'set higher and clearer stands of consumer protection across financial services'. One of the outcomes from this has been to increase the evidence we are required to maintain to show whether a requested withdrawal could potentially lead to issues around the sustainability of the remaining money you have. In other words, by withdrawing funds now, even relatively modest amounts, are you putting yourself at risk of running out of money later.

### 2. Advice

In the UK, other than in very specific and limited circumstances, the FCA requires financial planning firms to treat withdrawal instructions as advice. While a request for money may come from you, we are still required to provide 'advice' to confirm whether this is in your interests, whether there are any alternatives you should consider, if there are any potential disadvantages to the selected course of action, etc. This may also include highlighting when, in our professional opinion, a withdrawal could have a detrimental affect on your long term security, so please do not be offended if we ask a lot of questions.

In order to prove compliance the regulations require us to collect and record certain information, in particular regarding all assets, liabilities, income, expenditure and future plans, which we then use to calculate and show whether a proposed withdrawal could cause issues for you at a later date. For example, withdrawing what might seem like a relatively modest sum now could result in you running out of money during your lifetime, and it is our duty, both from a regulatory perspective and morally, to make sure you understand this before proceeding.

It is your Financial Planner's professional responsibility to tell you if they think you are making a mistake, so please understand they only have your best interests in mind.

### **3. Administration & Documentation**

Having outlined all of the above, I am sure it will come as no surprise that requesting a withdrawal also requires a significant amount of administration and documentation.

The regulatory and administrative machinery behind investment products is complex, involving multiple layers of approval and coordination. Each step in the withdrawal process, from the initial request to the release of funds, requires strict adherence to both our own internal policies and current regulations.

### **4. Timescales - Investments Are Not Cash**

While this may sound like a very obvious statement, in a practical sense taking cash out of an investment or pension will always take longer than from a bank or building society account.

The regulations and associated paperwork that surround pensions and investments are much stricter than with deposits. Not only does selling investments and processing the resulting funds take much longer, many providers will also only process payments on set days each month.

We will always give an indication of how long a provider states a withdrawal will take, and will update you if we are advised there will be any delays, but please bear in mind that we are wholly in the fund manager's or provider's hands during this part of the process.

### **Summary**

As I hope comes across from the brief summary above, while many people feel that drawing money from an investment or pension should be easy (it is your money, after all) the combination of regulatory compliance, documentation requirements, administrative processes, and market considerations make it anything but straightforward.

As frustrating as it may occasionally feel please remember that all of the legislation and regulations are designed to protect you as consumers of financial products and services.

# Investment Commentary

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## Market overview

After an excellent couple of months for markets to end 2023, returns were rather more mixed in January. Global developed market equities rose slightly over the month however there was a wide dispersion of returns with Japan and the US positive and the UK market lagging. In contrast, emerging markets fell quite sharply with broad indices down close to 5%.

Economic data in January was positive overall, which supported hopes of a soft landing, particularly in the US where labour and GDP data again surprised on the upside. This positive economic news did, however, also trigger renewed uncertainty over the timing and extent of a potential reversal in interest rate policy and the dovish sentiment that prevailed at the end of last year was also dampened by some cautionary comments from the US Federal Reserve at their latest policy committee meeting.

The more hawkish sentiment weighed on some areas of the equity markets, taking the edge off some of the recent strong rally. The negative sentiment within emerging markets once again stemmed largely from China where markets were disappointed to see a more limited set of stimulus measures than they had hoped for. Retail sales in China also disappointed and the property market remains fragile however the latest annual GDP growth number of just over 5% was in line with expectations. In contrast the Japanese market, a region we added to last year, continued its run of strong performance, further buoyed in the short term by expectations that ultra loose monetary policy might remain in place for longer than expected.

The shift in rate expectations also pushed bond yields higher (and values down) and the global sovereign bond index fell nearly 2% in sterling terms. Corporate bonds proved more resilient as spreads narrowed and pockets of high yield ended the month in positive territory.

## Strategy Positioning

Global stock market returns in 2023 were hugely distorted by the performance of a small handful of (principally US-listed 'mega cap') shares. Selectively, we expect further participation from some of the market behemoths however a turn in the interest rate cycle should particularly favour less-expensive, quality growth companies further down the market cap scale. We see opportunities across both developed and emerging markets and in thematic areas, which include infrastructure, environmental and climate change initiatives, and the beneficiaries of advances in artificial intelligence.

Oscillating rhetoric on inflation and interest rates during 2023 has meant several false dawns for fixed interest investments however our phased re-introduction of risk within bond markets over the past 12 months was well rewarded at the end of last year. Notwithstanding recent volatility, we still see attractive opportunities in both sovereign and corporate bond markets as expectations move towards a reversal in rate policy across key regions.

Continued resilience in the US economy should support the US dollar and we remain comfortable with our exposure – it remains the international currency of choice, both when the global economy is thriving and also in times of trouble.



## Making the most of tax allowances

**Careful tax planning can help maximise the benefits of your income as you consider your long term financial goals. With the end of the tax year fast approaching, avoid the last-minute rush and ensure you make the most of the tax allowances before they run out for 2023/24.**

In this article we look at some current tax allowances to help you keep more of your money, however, please bear in mind that limits and rules may change in the future.

### Pensions

Pensions have important tax benefits whether you are an employee, are self-employed or want to provide for those closest to you. They are one of the few investment products to give tax relief at the outset (for basic tax rate and through your tax return at a higher rate) and can protect from Capital Gains Tax (CGT) and income tax. In addition, and regardless of earnings, everyone is eligible for basic tax relief on pension contributions up to £3,600.

Last year, in the March 2023 Budget, the Chancellor made some surprising changes to allowances which will come into effect in the 2024/25 tax year. The biggest change was the abolition of the Lifetime Allowance (LTA).

The LTA is the limit on how much money that can build up in your pension pot over your lifetime without paying extra tax. Previously it was set at £1,073,100, with anything above that limit taxed at up to 55%. However, the charge for breaching the LTA was effectively removed on the 6th of April 2023 and the allowance itself will be abolished from the 6th of April 2024. The Office for Budgetary Responsibility (OBR), which reviews the Government's finances, stated that the number of LTA charges "rose from around 1,000 in 2010-11 to nearly 9,000 in 2020-21, with the value of these charges rising from around £40 million to close to £400 million<sup>1</sup>". It also removes the disincentive to save into pensions to secure your future and will particularly benefit those with higher earnings who plan to make larger contributions to their pension later in life.

Some of your pension value can still be taken as a tax-free lump sum, but this amount has changed from being 25% of the value up to the LTA to 25% of the value up to a maximum of £268,725 (which is 25% of the previous LTA). While this doesn't sound problematic there was no suggestion that this cap will be increased in future, either by inflation or anything else. It is estimated that around 1.6 million people are set to breach the LTA in 2026<sup>2</sup>, so as the value of the tax-free amount declines in real terms over time the lump sum will fall to less than 25% of the pot for an increasing number of people.

Another big change was the increase in the pension Annual Allowance (AA) from £40,000 to £60,000. The AA is the maximum gross amount you can save into your pension each tax year and still get tax relief, and is the lower of someone's gross taxable income or £60,000.

There was also good news in the last Budget for pension savers who have already withdrawn money from their pension. The Money Purchase Annual Allowance (MPAA) rose from £4,000 to £10,000 from 6 April 2023. The MPAA was introduced to stop people withdrawing money tax-free from their pension and then reinvesting it back into their pension to benefit from tax relief, and is triggered in specific circumstances when someone flexibly accesses benefits. The government recognises that people might legitimately want to access some of their pension, for instance taking a lump sum to pay off some of their mortgage, but want to continue saving for their retirement.

If you are considering topping up your pension, now is a good time to make the most of the new rules, in which case it's a good idea to discuss your plans with your Financial Planner so we can ensure you maximise the available reliefs.

## **Investments**

### **Capital Gains Tax (CGT)**

In a less welcome move, the Capital Gains Tax allowance for the 2023/24 tax year has decreased by more than 50% from its 2022/23 threshold of £12,300 to £6,000. This means that any individual who makes gains over the value of £6,000 annually will be required to pay capital gains tax on the excess amount at their marginal tax rate.

The allowance will be further reduced to £3,000 from April 2024, so let us know as soon as possible if you are considering selling any relevant asset. Not only can we discuss ways to reduce any potential liability but it could also affect any other investment planning being undertaken.

### **Individual Savings Accounts (ISA)**

ISAs and Junior ISAs are tax efficient savings and investment accounts and can help boost future wealth across a whole family. You don't pay Income Tax on the interest or dividends you receive from an ISA, and any profits from investments are free from CGT.

Adults can pay their whole allowance of £20,000 (for 2023/24) into an ISA or any combination of cash, lifetime, stocks and shares and innovative finance depending on their circumstances, but can only have one of each type of ISA. The Lifetime ISA has a maximum annual limit of £4,000 and is only eligible for those aged between 18 and 39. It also benefits from a 25% Government bonus as it was created to help people save for their first home or their retirement. Given the reduction in the CGT allowance, and also that tax is payable on most savings and dividends above a certain threshold (dependent on your income), it's a good idea to maximise your tax-free ISA allowance where possible. We're always happy to talk through the best way to use your tax allowances for your personal circumstances.

## **Estate Planning**

### **Inheritance Tax (IHT)**

Inheritance Tax (IHT) is usually charged at 40% on the value of your estate above the current £325,000 tax free threshold. In its most recent announcement HMRC confirmed that IHT receipts up to 31.12.2023 rose once again to their highest level ever at £5.7bn<sup>3</sup>. The Office for Budget Responsibility (OBR) has forecast it will rise to £7.2bn by the end of 2023-2024<sup>4</sup>.

This limit is per person, and can often be transferred to a spouse or civil partner on death if not fully used previously. An additional Residence Nil Rate Band of up to £175,000 can also be claimed against the value of someone's main residence subject to specific conditions, and again is per person and transferable. In essence, a single person could have up to £500,000 of allowances available and a couple up to £1m.

There are various ways to reduce IHT, including gifting to friends and family during your lifetime, although some rules apply. If you live for seven years after making the gift, it will not usually be included in your estate for IHT. You also have an annual £3,000 exemption and you can give up to £250 to anyone you want to every year (this is separate to your annual exemption, but you can't give £3,000 and £250 to the same person). There are also a number of other allowances that could help where gifts could be immediately exempt, including those in consideration of marriage and those made from your normal income.

These are just a few of the options, and the explanation above is purposely brief. The interaction between gifts, available allowances and timescales is a highly complex area of financial planning, so if you'd like to see how you can use this year's allowances to reduce the IHT bill for those closest to you, please get in touch.

## Next steps

Tax planning varies in complexity, and some areas are easier to manage than others, however when managed efficiently the outcome can be of significant benefit. We've only covered a few areas in this article, but if there's anything here you'd like to discuss in detail please get in touch. We'll be very happy to help with this year's tax planning, and we can make a head start on next year too!

1 <https://obr.uk/efo/economic-and-fiscal-outlook-march-2023/>

2 <https://www.telegraph.co.uk/money/pensions/news/pension-tax-free-lump-sum-freeze-cost-savers/>

3 <https://www.gov.uk/government/statistics/hmrc-tax-and-nics-receipts-for-the-uk/hmrc-tax-receipts-and-national-insurance-contributions-for-the-uk-new-monthly-bulletin>

4 <https://obr.uk/forecasts-in-depth/tax-by-tax-spend-by-spend/inheritance-tax/>

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