Planning matters

25th November 2021

The true impact of the budget

The budget was a bit of a non-event in terms of new measures of impact to how our clients plan their affairs, however, this disguised the continued lack of increase in any of the major tax allowances available to individuals.

Income tax bands, Capital Gains tax, and Inheritance Tax allowance have all been frozen for some time, and will continue to be until 2026. The effect of this “fiscal drag” is quite marked. The £100,000 income threshold, where the personal allowance starts to be lost, would be around £120,000 now if it had kept pace with inflation, and should be even higher by the time the “allowance freeze” is set to end in 2026.

For the Government, this “fiscal drag” is an incredibly powerful tax raising measure and it is hard to avoid its consequences, but there are things we can do. It becomes ever more critical to ensure each client uses all of the allowances and tax band available to them when structuring their finances, drawing “income” or planning for IHT. We ensure careful consideration and use of tax allowances is factored in to all our advice processes – both for new advice and when we conduct our reviews.

Environmental, Social and Governance (ESG) factors in investment

For some time it has been possible to invest with specific ESG principles in mind, historically this may have also been referred to as ethical investment or socially responsible investment.

There is no fixed definition of what good looks like, but in broad terms, considering ESG means the assessment of investments based on a broader set of criteria other than the financial metrics that might have historically been used. Examples can include many things such as environmental impact, how a business behaves with its suppliers and employees, and what sectors that business operates in. The recent COP26 clearly highlighted the climate change risks we face and how companies embrace the transition to net zero will be a key ESG criteria.

As a way of investing, this is now becoming much more mainstream due to a combination of factors:

- Regulation and EU legislation meaning all investment managers have to at least consider the impact of the companies they invest in.
- Market demand, clients, and particularly the next generation are increasingly keen to understand the impact of the way they invest and select funds that align with ESG principles.

To a degree, the whole investment industry will have to embrace these factors into their processes but their are always leaders and laggards.

Working with our research partners, we have a well researched panel of ESG investment options, and are including these options more and more in our recommendations.

We are also pleased to see many of the existing managers we use taking this seriously and whilst not explicitly branding their solutions as ESG or sustainable, having taken the principles to the heart of their processes.

Changing earliest retirement ages

The Finance Bill has confirmed a rise in the minimum pension age to 57 from April 2028 and sets out the conditions which may allow some pension savers to keep a minimum pension age of 55 beyond 2028. For those born between April 1971 and April 1973 there are transitional arrangements to phase in to the change.

Schemes that had the right to take benefits at 55 in their rules as at 11 February 2021 will be able to protect that age for existing members and any others that joined that scheme by 3 November 2021. Clients who were in the process of transferring to such a scheme before this date can still retain the protection if the transfer completes after it.

Most of our clients' personal pension schemes will have the age of 55 in their rules such that this change will only affect a few. However, care will be needed when considering a transfer of pension arrangements if drawing benefits at age 55 is important to you, and you'd otherwise be caught by these new rules.

Vulnerability

Our regulator, the Financial Conduct Authority has issued various guidance and updated its principles recently, recognising that a much wider range of customers could be deemed to be vulnerable. Of note is the wide range of individuals that could be "temporarily vulnerable" due to things like:

- Bereavement
- Divorce
- Loss of a job
- Illness
- A recent large inheritance or the sale of an asset

A lack of investment experience could equally be seen to make someone vulnerable, or indeed simply being responsible for someone who is vulnerable.

Most of us would only think about this in respect of those losing capacity as they age or as a result of a health issue, whereas the potential spectrum is much wider. We've always been keen to ensure clients don't rush decisions when their circumstances change materially and the FCA guidance only strengthens this view.