Alexander House Associates LTD

YOUR SUMMER NEWSLETTER

FROM ALEXANDER HOUSE ASSOCIATES

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How to plan for inheritance tax

Following the news that thousands more people are expected to pay the standard 40% inheritance tax this year because of the effects of the pandemic, we explore some of the ways to navigate the complexities of inheritance tax.

The complex laws around inheritance tax (IHT) caught many people off guard during the Covid-19 pandemic.

Along with the often-sudden loss of a loved one came the issues arising from IHT on gifts passed down to children and grandchildren.

This tax year marks the latest in a series where the number of people being charged IHT on gifts has increased.

Since 2009, beneficiaries have paid 40% IHT on estates worth more than £325,000.

Inheritance tax facts

Following the Budget in March, it was announced that thresholds will remain the same for IHT until 2026:

For single people, the threshold is **£325,000**.

For those who are married or in a civil partnership, the threshold is **£650,000**.

Couples can also pass on their assets (like an owned home) worth up to **£1 million** in total if they leave it to children or grandchildren.

Gift your way to less inheritance tax

There are ways to avoid passing on a large IHT bill to your family, whether it's through gifting or charitable donations:

— You can give away assets or cash worth up to £3,000 a year (known as the annual exemption) with no IHT to pay regardless of the total value of your estate when you die.

— You can give as many gifts of up to £250 to as many people as you want each year – although not to anyone who has already received a gift of your whole £3,000 annual exemption. To make use of this exemption, it's important to keep accurate records.

— If you are married or in a civil partnership, you can pass on your entire estate to your surviving spouse, tax free, when you pass away. Things could become more complicated, however, if your spouse was born in a different country.

— If you give a gift – of any amount – and live for a further seven years after the gift has been given, the beneficiaries will not have to pay any IHT if you pass away after that seven-year period.

— Leaving money to a charity means it's free of IHT and could cut the tax rate on the remaining amount in your estate.

Transferring to a trust or pension

Setting up a trust to transfer some of your estate into for the benefit of your grandchildren is another way to reduce the IHT liability on your assets. However, the trustees could still encounter some income or capital gains tax.

While it may not be the most obvious choice, setting up a pension for your children or grandchildren could be a tax-efficient option. The fund will transfer to them when they turn 18 but they won't be able to access the money until they're much older.

As with anything tax-related, the rules are especially complex when it comes to where your inheritance goes and how much your beneficiaries will end up receiving. That's why it's so important to speak with your financial adviser to review all your options and find the most efficient ways to pass on your wealth.

To learn more about how to make the most of your money this tax year and for more information about inheritance tax and your tax-free allowances, speak to your financial adviser.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen

OW3370 Exp. 05/04/22

How to make the most of your lockdown savings

The pandemic has reportedly created 6 million accidental savers, but what's the best way to use this extra cash?

The effect of the lockdown on millions of bank accounts has been to boost savings for people whose incomes have remained the same but whose spending has dropped.

With the prospect of life returning to a new normal, it's a chance to think about how to make the most of these savings and build on them too.

Where were savings made?

Working from home meant the cost of commuting was put on hold. Holidays were not booked, and the closure of restaurants, bars and entertainment venues cut spending in those areas, resulting in slightly healthier current accounts.

All this, the Bank of England estimates, resulted in over £125 billion saved in 2020. Its survey does note that only a fraction of this is likely to be spent by households, suggesting a cautious approach.

This is understandable given the drop in income for furloughed employees, the loss of income for the unemployed and an unstable job market.

How to invest your lockdown savings

Leaving your savings in a high-street bank account won't build much interest. But there are options out there for those who want better returns on what they've saved:

- Invest in a stocks and shares ISA – not only will any dividends paid to you be tax-free, but any gains will also be exempt from capital gains tax.
- Contribute to your private pension – this comes with the benefit of tax relief status on your contribution if you're a taxpayer.

Other ways to make the most of your savings

Aside from investing, there are some useful ways to use any extra money saved during lockdown:

- Pay down debt – if you have lingering debts, whether they're credit cards or student loans, consider using your extra cash to help eliminate them for good.
- Mortgage overpayments – you could make regular overpayments on your mortgage, reducing its overall term length and the amount you owe on the loan. Check with your mortgage company about their terms and conditions relating to overpayments.
- Build an emergency fund – this fund should contain enough to cover the essentials for a month (like bills, food and your rent or mortgage payments) if anything were to happen affecting your income. Consider opening a separate bank account — easily accessible to you — to store your fund.

A great place to start with all of these options is to create a budget that tracks your income every month compared to your spending, allowing you to work out how much you can put aside.

Our trusted financial advisers are here to help you find the best ways to invest your money to make the most of your savings — whatever your situation.

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

OW3317 Exp. 02/08/2021

The perks of protection

What support do insurers offer after the event?

Illness and bereavement help.
Many providers give free access to services offering practical and emotional support for those left behind after the death of the policyholder.

Rehabilitation.
Insurers usually offer back-to-work support services, including physiotherapy, careers guidance or advice if you choose to go self-employed. If you're returning to work following a mental health issue, providers will continue to cover counselling sessions for a set period of time.

As well as peace of mind, many insurance providers offer additional benefits that you may not know about.

Whether we're crossing the road or getting on a plane, we encounter risks every day. For many of us, life has felt more uncertain than ever over the past year as we continue to deal with the coronavirus pandemic. Although we can't always control what's happening in our lives, we can plan for the unexpected.

By taking out a protection policy, you can safeguard your family's finances if your situation changes. The main types of protection include:

— Life cover – pays out a lump sum if you die

— Health insurance – pays medical costs at a private hospital or private ward

— Critical illness – pays a tax-free lump sum if you're diagnosed with a major illness

— Home contents and buildings – covers your home's structure (including fixtures and fittings) and contents (furniture)

— Income – pays out if you can't work due to illness or injury

As well as peace of mind, protection policies often come with added extras. We've highlighted examples of some of the perks you could receive when you take out a policy, even if you don't make a claim.

Welcome gifts

When you sign up for a protection policy, some providers offer a welcome gift. For example, health insurers sometimes offer gadgets like an Apple Watch to help you track your activity – with some even offering a discount based on the amount of exercise you do each month.

Discounts

Many health insurers offer discounts on gym memberships and weight-loss programmes to help you embrace a healthier lifestyle. Some also offer you the option of taking a health check to reduce the amount you pay each month.

It's worth noting that when you take out a protection policy, your provider is likely to offer you discounts on other products such as pet or travel insurance.

Additional healthcare options

Some health insurers now cover complementary therapies such as osteopathy and acupuncture, giving you more treatment choices. In addition, counselling services are now included in most health insurance policies and many also give you the option to upgrade your hospital room if you need treatment.

Will writing

Some providers of life insurance give new policyholders the opportunity to draw up a will free of charge.

Cover for children

Many critical illness plans include free cover for dependent children.

Whatever type of protection you're looking for, get in touch and we can help

OW3219 Exp. 09/03/2022

Jargon and lingo – talking about mortgages

From agreement in principle and loan-to-value to freehold and leasehold, we've compiled a list of terms you're likely to come across when buying a property and what they actually mean.

Buying a property can be a complicated process, and even more confusing when you're confronted with various terms you've not come across before. To help you make sense of it all, we've listed some key definitions you'll need to know.

This list should give you a good head start when it comes to understanding the jargon around mortgages. To help you take the stress out of buying a property, speak to a financial adviser about how they can help you find the most suitable mortgage and guide you through the process.

Agreement in principle	A document from a mortgage lender with an estimate of how much money you may be able to borrow. You can use this to prove to a seller that you can afford to buy their property.
Annual percentage rate (APR)	The overall cost of a mortgage, including the interest and fees. It assumes you have the mortgage for the whole term.
Arrangement fee	A set-up fee for your mortgage.
Base rate	The interest rate the Bank of England charges other banks and lenders when they borrow money.
Buildings insurance	Covers you for damage to the structure of your home – you'll need to have a policy in place when you take out a mortgage.
Capital	The amount of money you borrow to buy a property.
Conveyancing	The legal process you go through when you buy or sell a property done by a licensed conveyancer or solicitor.
Deposit	The amount you need to put down in cash towards the cost of a property.
Equity	The amount of the property that you own outright – your deposit as well as the capital you've paid off on your mortgage.
Fixed-rate mortgage	The interest rate on the mortgage stays the same for the initial period of the deal. Your rate won't change with the Bank of England base rate during this time.
Flexible mortgage	Allows you to underpay, overpay or take a payment holiday from your mortgage – they are usually more expensive than conventional mortgages.
Freehold	You own the building and the land it stands on.
Gazumping	When an offer has been accepted on a property but a different buyer makes a higher offer, which the seller accepts.
Guarantor	A third party who agrees to meet the monthly mortgage repayments if you can't.
Help-to-Buy	The government has introduced various Help to Buy schemes to make buying a home easier, including equity loans, mortgage guarantees, ISAs and specific schemes for Scotland and Wales.
Interest-only mortgage	You only pay the interest on your mortgage each month without repaying the capital.
Joint mortgage	A mortgage taken out by two or more people.
Land Registry	The official body responsible for maintaining details of property ownership.
Leasehold	You own the building but not the land it stands on, and only for a set period.
Loan-to-value	The size of your mortgage as a percentage of the property value.
Porting	Allows you to transfer your borrowing from one property to another if you move, without paying arrangement fees.
Repayment mortgage	You pay off interest and part of your capital each month.
Stamp duty	You'll need to pay stamp duty land tax when you buy a property over a certain price.
Standard variable rate (SVR)	The default interest rate your lender will charge after your initial mortgage period ends.
Tracker mortgage	The interest rate on your mortgage tracks the Bank of England base rate at a set margin above or below it.
Valuation survey	Lenders will carry one of these out to check whether the property is worth around the amount you're paying for it.

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE

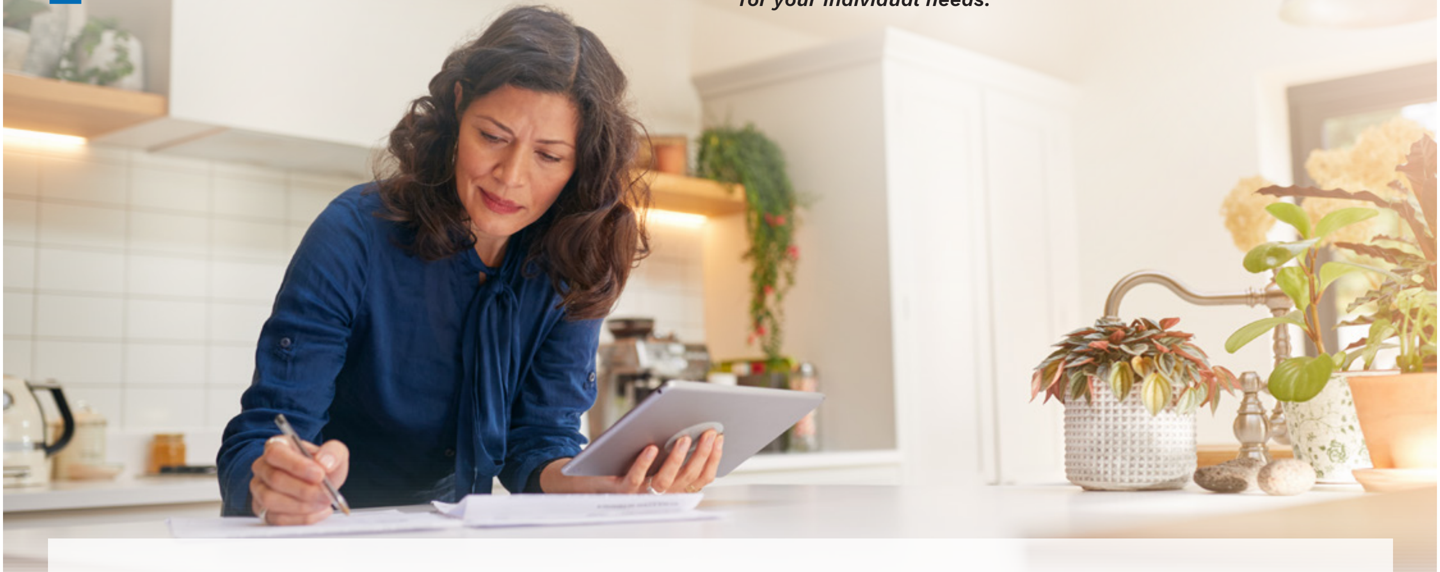
OW3277 Exp. 06/04/2021

Time to consolidate your pensions?

Employer pensions can accumulate as we change jobs, and it's easy to lose track of how much each one contains. We explore what you need to know if you're thinking about consolidating your pensions.

When you leave a job, it's easy to forget about the workplace pension you might have had there. With the average person having several jobs during their lives, along with the 2012 introduction of auto-enrolment for employer-based pensions, it's not surprising that many of us have more than one pension to our name.

Whatever the situation with your workplace pensions, the first thing to do if you're thinking about consolidation is to speak to a financial adviser. We can help you figure out the best solution for your individual needs.



Tracking down your old pensions

All pension providers are obliged to send members of their schemes annual statements to keep them updated on how much their pension contains.

The Association of British Insurers (ABI) estimates 1.6 million pension pots worth billions of pounds are forgotten about due to people just moving home. So it's vital to write to your old pension providers to let them know if your address changes.

The government is in the process of launching a dashboard where all pension providers will be able to input member details, giving customers the ability to see their pensions in one place. But the process will take some years for all providers to supply their data.

Consolidating your pensions

As to whether you should consolidate your pensions into one pot, the first step should be to check the small print. If you have an older pension (around 20 years or older), you could lose some of its benefits if you transfer and be left with steep exit fees taken out of your pension amount.

Unlike older pension schemes, the newer 'defined contribution' pensions are more common and less likely to be affected by exit penalties if you want to transfer them into one place. The funds are invested, which makes consolidation an attractive option.

It's worth noting that if you're still paying into a defined contribution scheme and want to withdraw from it, the amount you can pay in and claim tax relief on could reduce.

On average, management fees for workplace pensions are around 1%. Newer pensions could benefit from tax benefits that older ones don't come with, so it's always worth checking each policy individually and get some advice from a financial adviser.

Leaving older pensions where they are

Along with exit fees and tax privileges, pre-2006 pensions (that were not affected by tax changes established in 2006) could have benefits like guaranteed annuity rates (promising a guaranteed income after retirement), which could be lost if transferred to another pension pot.

Final salary scheme pensions are probably best where they are, too, due to the nature of their payouts when you retire (based on what you earn at retirement.)

Some people opt to create a self-invested personal pension (SIPP), which lets them choose where their pension money is invested. This is beneficial to those who want to put their money into sustainable funds and make ethical investment choices.

OW3371 Exp. 24/05/22