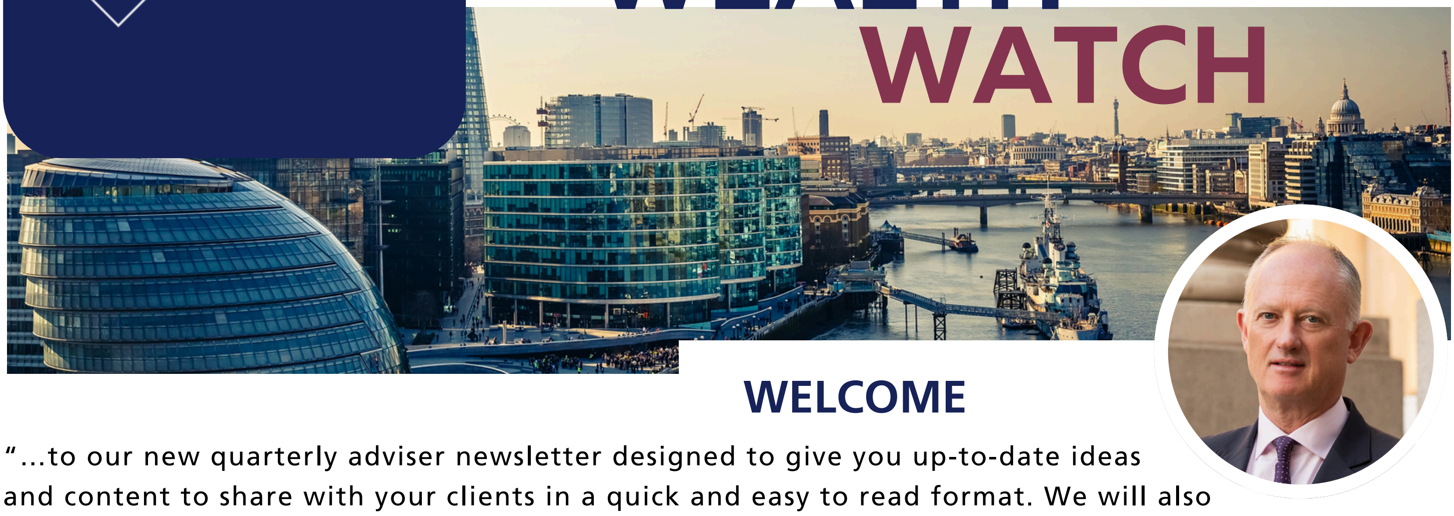
Wealth Management

July 2024

# WEALTH WATCH



## WELCOME

"...to our new quarterly adviser newsletter designed to give you up-to-date ideas and content to share with your clients in a quick and easy to read format. We will also look to update you on the key changes to our proposition. LGT has always prided itself on working with advisers in real partnership and I would urge you to speak with your LGT Business Development Director if you would like any additional information or explore further how we can work with you."
**– Tony Allan, Head of Business Development**

## TOPICS FOR DISCUSSION

- Tax and financial planning
- The new Labour Government
- Key tax proposals and what we know so far?

The Labour manifesto listed half a dozen tax-raising measures, all of which had been well-trailed and earmarked against planned expenditure:

- Reducing tax avoidance.
- Revising taxation rules for non-domiciled individuals.
- Applying business rates and VAT to private schools.
- Stopping the capital gains tax treatment of carried interest.
- Levying an additional windfall tax on oil and gas companies.
- Increasing stamp duty land tax rates on residential property bought by non-UK residents.

The Labour Manifesto said, ''We will ensure taxes on working people are kept as low as possible. Labour will not increase taxes on working people, which is why we will not increase National Insurance, the basic, higher, or additional rates of Income Tax, or VAT."

This careful wording could leave open higher rates of tax on dividend and savings income, including a possible cap on total ISA investment. It could also allow for a tweak that the Scottish government introduced in its last Budget – a new rate of tax.

The manifesto also placed a cap on corporation tax at 25%, the current mainstream rate, a pledge that could permit Labour to raise or scrap the 19% small company rate, together with the accompanying marginal relief (which creates a marginal rate of 26.5%).

## CAPITAL TAXES

Ruling out rate increases to the four main sources of revenue does not mean they are completely off the table for additional tax receipts.

Fiscal drag remains a key tenet in tax policy with thresholds being frozen (as the personal allowance, higher rate thresholds are until 5 April 2028) or even reduced (as the additional rate threshold was from the tax year). Could it be possible that these thresholds will be frozen beyond April 2028?

The areas that are being discussed most in terms of tax-raising targets are capital gains tax (CGT) and inheritance tax (IHT). Rachel Reeves has refused to rule out increasing CGT, saying only that she has 'no plans' to.

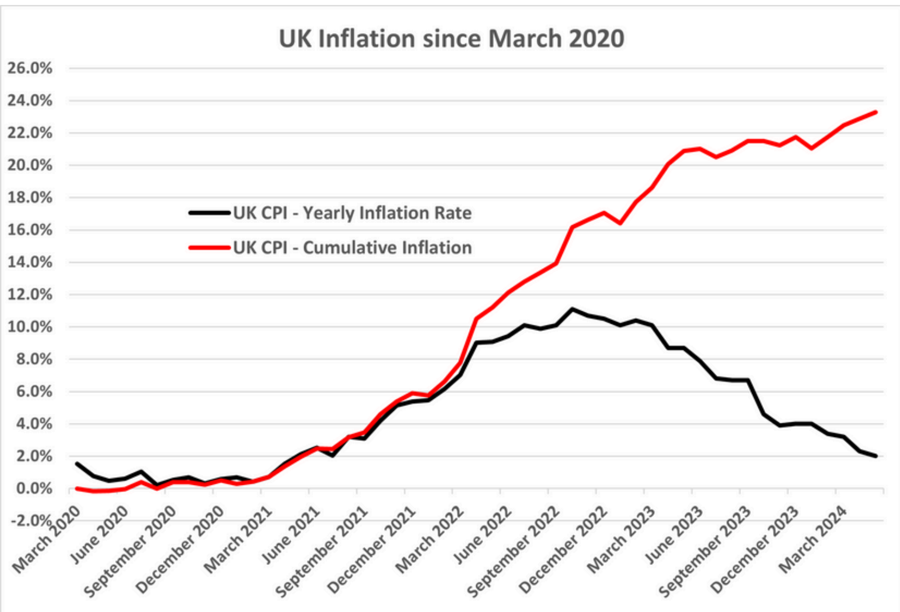
Labour when in opposition had a team that were tasked at looking at the vast range of tax allowances and exemptions buried in the UK tax code and it is worth remembering that three years ago, Reeves told a Labour conference that she would examine "every single tax break".

Additionally, The Institute of Fiscal Studies recently highlighted three opportunities to raise extra revenue from IHT that could appeal to Rachel Reeves. The three options all involved reform to existing reliefs – for business assets (including AIM shares), agricultural property and pension death benefits.

### HOW CAN LGT SUPPORT YOU?

- Our portfolio management services can be accessed via a range of tax wrappers, such as SIPPs, ISAs and Offshore Bonds. (Tax treatment depends on the individual circumstances of each client and may be subject to change in the future).

## UK INFLATION SINCE MARCH 2020




Source: ONS and Technical Connection

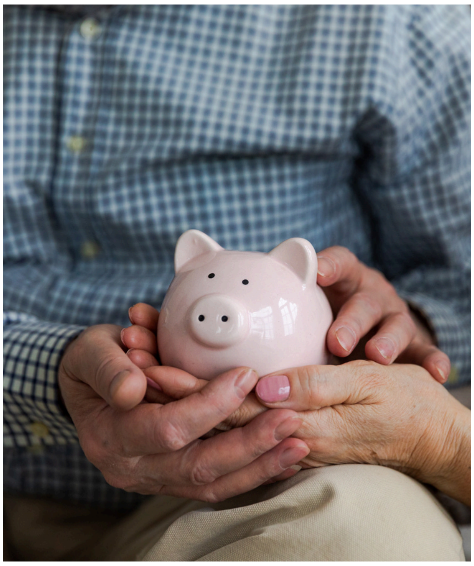
The effects of inflation on a client's financial planning are critical and how inflation is depicted in the media can be very different to the lived experience. For example, the black line is annual CPI inflation. The red line shows the cumulative effect of inflation since March 2020, when COVID-19 first hit. By May 2024, the gap between the two was just over 21% - 23.3% cumulative inflation against 2.0% annual inflation.

## WHAT INFLATION MEANS FOR YOUR CLIENTS' FINANCIAL PLANS?

This is a good time to review your underlying assumptions for cashflow planning. A particular area that the FCA focused on in their 2024 thematic review on retirement planning (TR24/1).

The FCA has published its Retirement Income Advice Assessment Tool (RIAAT), developed for the purpose of the review to assess the suitability of advice files. "The RIAAT has been published to help firms understand our methodology for assessing advice files. This is supported by an article on cashflow modelling which sets out points for firms to consider when preparing and using a cashflow model."

More information can be found on the FCA website here.



## RETIREMENT PLANNING

The latest costings for the Retirement Living Standards were published earlier this year, based on prices at April 2023. These are figures for each standard covering couples and singles, living in London and living elsewhere in the UK.

The net yearly income required for each category (excluding rent) is shown in the table below:

| Standard | Single | | Couple | |
|---|---|---|---|---|
| | UK ex-London | London | UK ex-London | London |
| Minimum | £14,400 | £15,700 | £22,400 | £24,500 |
| Moderate | £31,300 | £32,800 | £43,100 | £44,900 |
| Comfortable | £43,100 | £45,000 | £59,000 | £61,200 |

Source: Retirement Living Standards

All these figures were a significant increase on the previous year, the largest rise being over a third for the single person/moderate standard category. CPI Inflation across the period was 8.7% but we know that different clients will have different experiences. Talk to us about how we can manage bespoke portfolios, which are specifically aligned to your clients' retirement plans and your cashflow modelling, whether that be in terms of, for example, sustainability of income or generational tax planning.

# PRIVATE SCHOOL FEES

## WHAT IS THE CURRENT LEGISLATION?

Private schools charge fees rather than being funded by the government. They may also raise capital via donations, investments or endowments. Under the current UK VAT law, education provided by an eligible body is deemed exempt from VAT, which extends to ancillary services linked to education, including boarding accommodation, school trips and catering services. This exemption significantly reduces the cost for those who choose to educate their children privately.

## IMPLICATIONS OF VAT EXEMPTION ON SCHOOLS

Currently, being VAT-exempt means that private schools cannot reclaim VAT on their expenses. For instance, if a school embarks on a capital project like constructing a new building, it must pay VAT on the related costs, thereby increasing overall expenses. Conversely, if schools lost this exemption, they would have to start charging VAT on their fees. However, they would then be able to reclaim VAT on their expenditures, which could help partly offset the increased fees.

## IMPLICATIONS OF VAT EXEMPTION ON FAMILIES

The knee-jerk response to this pending legislation has been for many to consider pre-paying school fees in advance. Any decision to pre-pay school fees is not without risk and families would need to consider a number of factors prior to making their decision. Check with the school. What are the options in getting some or all of this money back? Also, be aware that the Chancellor introduced a series of anti-forestalling measures which are set out below.

## ANTI-FORESTALLING MEASURES

Rachel Reeves announced that private school fees will be subject to 20% VAT from 1st January 2025. VAT will also apply to any fees from the 29th July 2024 for the term starting January 2025. This a mechanism to dissuade parents avoiding paying the additional VAT by paying future school fees up front.

Specifically, HMRC have confirmed that “fees invoiced or paid on or after 29 July 2024 that relate to the school terms after 1 January 2025 will be subject to the standard rate of VAT at the beginning of that term. School fees paid before 29 July 2024 will follow the VAT treatment in force at the time of the normal tax point for these supplies, where the fee rate for the relevant term has been set and was known at the time of payment.

Further details can be found by clicking here.

# STOP PRESS: BUDGET ON 30TH OCTOBER 2024

## EXPECT THE UNEXPECTED

Other areas that the Chancellor may look at in her October Budget are:

- Aligning dividend rates of tax with the tax on earnings.
- Removing the personal savings allowance and the re-introduction of the 20% tax at source rate.
- Removing the dividend allowance.
- Capping the total value of ISA investment.
- Reducing the VAT threshold from its current level of £85,000.
- Removing ‘CGT’ death uplift.

Source: Google Images

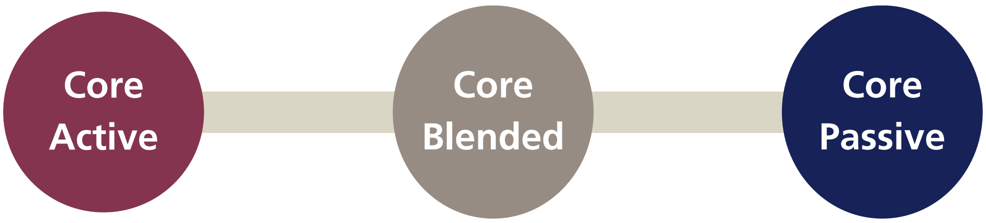
### HOW CAN LGT SUPPORT YOU?

- We will be running a series of webinars explaining the key outcomes and financial planning opportunities for your clients post-Budget.

# PROPOSITION CORNER

## CORE MODEL PORTFOLIO SERVICE

We have developed two further pillars to our Core Model Portfolio Service which now consists of:




We also offer our Volare range of multi-manager funds. Please watch this video for more information.

Our Sustainable MPS range as well as the Verus fund continue to attract new client investment and for your clients with a particular interest in sustainable investing, we have introduced our new video series Connected Capital. Click here to watch.

Please speak with your LGT Business Development Director for more information about any aspect of our proposition and how we can support you and your clients.

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