RT FP

RT FINANCIAL PLANNERS LTD

NEWSLETTER – October 2021

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Paying for Health and Social Care

UK taxpayers are facing an increase in taxation from April 2022 to fund long awaited reforms in social care and additional support for the NHS. It is proposed that an extra 1.25% will be added to the rates of National Insurance (NI) for employees, employers and the self-employed. The same amount will be added to the tax rates on dividends.

So someone with a salary (or profits) of £50,000 will face additional NI of £505 per year, rising to £1,130 at a salary of £100,000. It should also be noted that unlike standard NI contributions, the extra 1.25% will be payable by those still working and over State Pension age.

Salary sacrifice is a commonly used method for redirecting NI contributions into pension savings, but it is not known whether legislation will allow this, particularly given that from April 2023 the increase in NI will become a separate 'health and social care levy'.

Dividends will not escape this additional tax charge, as the dividend ordinary rate, upper rate and additional rate will increase to 8.75%, 33.75% and 39.35% respectively. There will be nothing to pay if dividends fall within the personal allowance and/or the 0% band of £2,000.

It is therefore increasingly important to make the most of ISAs or pensions to protect savings from increased tax, and couples should also ensure where possible that assets are split to make the most of personal allowances and tax bands if necessary.

It is worth mentioning that the dividend rates for trusts is not specifically mentioned in the paper. However, they are linked to the dividend ordinary rate and dividend additional rate and are expected to increase in line.

Turning to the impact on business owners, the rate of employer NI will also rise by 1.25% to 15.05%. However, existing NICs reliefs to support smaller employers will also apply to the levy.

One of the reasons many business owners take their profits as dividends is because, unlike salary, they are not subject to NI, but the increase in the dividend rate coupled with the rise in corporation tax to 25% from 2023 could have a significant impact when making future decisions on how to take profits. This could strengthen the benefit of taking profits as a pension contribution (subject to the annual allowance).

It is unlikely that most employees or employers will be able to avoid the proposed tax increases, but it may be time for business owners to re-think their remuneration strategy.

Proposals for Changes in Social Care

Having set out the proposed tax increases, it is only right to provide a little more information about the proposed changes in the rules about funding of care costs, and the recent announcement from the Government is briefly summarised below.

- From October 2023, no one arranging support (such as home care or residential care) will have to pay more than £86,000 in total, as this will be the level of the cap on care costs across an individual's lifetime.
- Anyone with less than £20,000 of assets won't have to pay anything towards their care from their assets. People with between £20,000 and £100,000 of assets will be eligible for some means-tested financial support on a sliding scale. The new upper limit of £100,000 is more than four times the current limit of £23,250.
- It's not yet clear exactly what costs will be included in the cap, but the government says that this will only apply to 'personal care' costs. This means that people receiving care may still face significant additional costs, such as food and accommodation costs in a care home, for example, which won't count towards the £86,000 cap.
- The cap would only cover the cost of a care home that an individual's local authority was willing to pay for (not, for example, a more expensive one, even if it would be more convenient). Or if an individual receives home care, it would only cover the number of hours their local authority thinks they need at the price it is willing to pay
- The government also said it intends to tackle 'persistent unfairness' in the social care system by ensuring that self-funders are able to ask their local authority to arrange care on their behalf, so they can get a better deal. Currently, people who fund their own care tend to pay higher fees than people who are funded by their local council.

Although there was no specific clarification, we believe that where an individual has care in their own home, the value of the home will not be included in the means testing.

Sadly, the cap on care costs will only apply for those starting care from October 2023. This means that those already paying for care – or starting that process before 2023 – will get little help from the new measures.

We will await any further clarification, and as ever, the devil will be in the detail.

The Benefit of a Sound and Sustainable Financial Plan

One of the communities that has come to our attention recently is the Financial Independence Retire Early movement (abbreviated to FIRE) – some of you may be aware of this from recent press coverage.

The community does not specifically target removing yourself from the workplace as its goal. Rather, it advocates that having the financial freedom and therefore flexibility to choose to work, change your pattern, increase your involvement in the charity sector or dedicate time to other endeavors earlier than a traditional retirement time-horizon can be achieved by being disciplined with your finances.

Importantly, it does not say that you have to be so frugal with your finances to the point of denying yourself some of life's luxuries; after all, life is for living.

It's principles advocate:

- Saving over-and-above the 'normal' savings rate than that advocated for a typical retirement in your 60s.
- Investing this surplus in a diversified spread of tracker funds to minimise the costs involved * *see comment below.*
- Assume an inflation-adjusted return of 4% per annum on your invested savings.
- Take your required expenditure net of all taxes and multiply this by 25 to determine a target amount to reach.
- Monitor your expenditure on an ongoing and periodic basis.

We support the view that good financial discipline is important and have no issue with this principled approach. We would only add that this is perhaps slightly simplified and building a model should factor in variations: stock market crashes, critical care costs, and other anomalies, as well as considering things such as protection needs (to name a few).

We also feel that trackers or passive funds have a role to play in keeping costs manageable but there may be too much emphasis on this aspect, as they are by no means the solution in isolation.

Plans and assumptions also need to be questioned, and we prefer to fully discuss your plans, to ensure we understand your objectives and also focus on and prioritise your financial security. We can then work with you to help you achieve your goals and ambitions.

We believe it is sensible to explore questions such as:
Are my plans realistically achievable? Are my expectations realistic? How much can I afford to spend in 'retirement'? What investment return do I need to achieve to reach my objective, and what risk do I need to take to achieve that return? Do any shortfalls occur that I can plan for? What is my estate likely to be and will there be an inheritance tax liability to pay?

It is only by thoroughly understanding this that we can work towards achieving your objectives. So, please contact us if you would like to discuss planning to meet your aspirations.

We Welcome New Advisers To The RT Team

We are delighted to confirm that we have been joined by two new advisers, some of you may have met or spoken to them already, but I wanted to provide a little more information and a warm welcome.

Firstly, we have been joined by James Highett, a financial planner who has already proved himself to be very proficient technically. James has been working at Handelsbanken in more recent years, having previously worked in a smaller firm of London based advisers. His background is accountancy so he has an in depth knowledge of financial and tax planning, and is settling into the firm very well.

We have also just welcomed Joe Bretti, another qualified financial planner with a background as a banking manager, having also (and purely coincidentally) previously worked at Handelsbanken. This was followed by a brief spell at an advisory firm before joining our team. Joe has only recently joined us and we are finalising the formalities with the regulators to enable him to provide advice to our clients.

Both of our new advisers will work with the current team we have in place, and will be ably assisted by both business support teams, as well as Investment and Operational Director Simon Fell.

An Update on the Compulsory Registration of Trusts

I have covered this previously, so firstly, just a brief reminder that for many years, the requirement to register Trusts with a Registration Service (TRS) was only applicable for trusts which have UK tax to pay. But the rules are changing and trusts with no UK tax liabilities, including the likes of gift plans, loan plans, and discounted gift plans will also need to register. These are trusts commonly used in tax planning.

The deadlines for registration was originally March 2022, but this has been delayed, and the deadline for registration of a non-taxable trust is now set at the 1st September 2022 (or 90 days from trust creation if later). Non-taxable trusts created after 1st September 2022 must register within 90 days.

When registering, the Trustees will need to identify the persons involved with the trust (i.e. settlor, trustees and beneficiaries). However, taxable trusts must also provide additional information on the assets held within the trust at the time of the registration. The majority of trusts we arrange for our clients may have an investment bond as the sole trust asset, so will have no ongoing liability annually to declare. But the Trustees will still need to register the trust.

Although this isn't mandatory yet, we will put together some basic details on how to go about this. If you would like a copy of this, please let us know and we will be pleased to provide it.