ISSUE 35 ■ WINTER 2021

INFORMED

Working with professional partners

by Clayden FINANCIAL
INDEPENDENT FINANCIAL ADVISERS

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Money raised to be ring-fenced for health and social care costs

UK PENSIONERS UNDERPAID

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Deadline for non-taxable trust registrations with non-taxable trusts announced

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In this issue...

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WELCOME TO OUR **WINTER ISSUE**

2021 has been a challenging year for both individuals and businesses and I hope that this newsletter finds you and your family doing well. It's been a very busy year for Clayden's and all of us are looking forward to the Christmas break!

On the staff front I am rather sad to report that Shirley LeGrice will be retiring at the end of the year. Shirley has been with the firm since 2000 and many of you will know her well. We will all be very sorry to see her leave and will miss her very much. We all wish her well in this new exciting stage of her life. See the opposite page for a message from Shirley.

Those clients living or working in or near London, may be interested to know that we now have the use of an office space in Central London for client meetings. Just a 15-minute walk from Liverpool Street Station and 7 minutes from Farringdon Station, the address is Work.Life, 120 Aldersgate Street, London, EC1A 4JQ. https://work.life/locations/farringdon/

If you would like the opportunity to tie in a meeting with us on your working day in London, do let us know. Clients are also welcome to host their own meetings in this flexible workspace.

If you are in business, do remember that if your trading year ends on 31 December you need to make your employer pension payments before this date if you wish the contribution to be used to reduce your Corporation Tax bill.

Finally, our very best wishes from all of us for a wonderful Christmas and a happy and healthy 2022.

Leigh Clayden

CHRISTMAS ARRANGEMENTS

Clayden Financial will close at 1pm on Christmas Eve, Friday 24th December, and will re-open for business on Tuesday 4th January 2022.

Our calls will be monitored regularly over the festive break so if you need to speak to us urgently, do leave a message on **01473 730090**.

We will not be sending out Christmas cards again this year, and instead we will be making contributions to the following amazing organisations who organise food banks to support those in need.

www.colchester.foodbank.org.uk
www.findipswich.org.uk and
www.gatehouse.org.uk
(based in Bury St Edmunds)

SHIRLEY'S RETIREMENT

Having previously worked with Leigh and John Brown in the good old days at the Ipswich Branch of Guardian Royal Exchange, I was asked to join Claydens when the Belstead offices opened in May 2000. At that time there were just two advisers and two admin staff with Leigh's wife Jane coming in to help with the filing. Currently we have six advisers with seven full-time, and two part-time admin staff.

Now after 21 years, (where have those years gone?), it is time for me to hang up my keyboard and take a well-earned rest, as I will be retiring in the New Year.

My first retirement plan (after spending more time, of course, with my first grandchild Rosa May, born on 13th October) is to catch up on all those little tasks around the house which I have been putting off while using the work excuse! I shall then look around for some volunteering opportunities which do not involve having to set the alarm clock!

It has been lovely to get to know and help so many of Clayden's clients, but I leave in the knowledge that you will be in the safe and capable hands of Angela and all of the admin team.

Shirley LeGrice

Shirley seen here at her daughter's wedding

ANGELA'S DAUGHTER'S WEDDING

Mark, Carmen and Angela

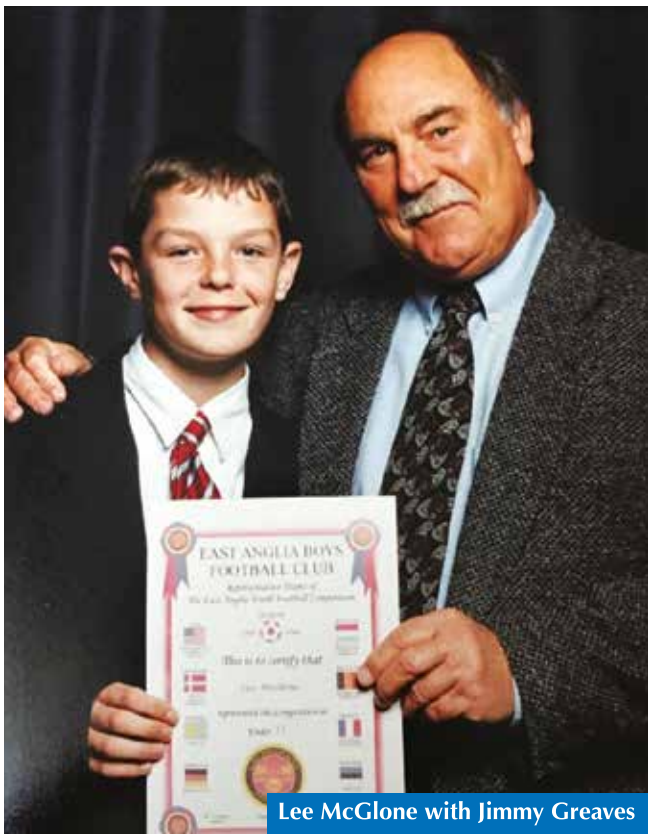
Office Supervisor Angela Smith's daughter Carmen married her long-term boyfriend Mark on the beautiful island of Antigua in September. Due to the onset of the pandemic, the relaxed, stress-free wedding they had booked two years prior turned out to be an immensely worrying and complicated operation. However, following lots of COVID testing, it went ahead and a few close friends and family were able to travel. In the end all was well; the wedding was wonderful and an unforgettable experience.

JIMMY GREAVES

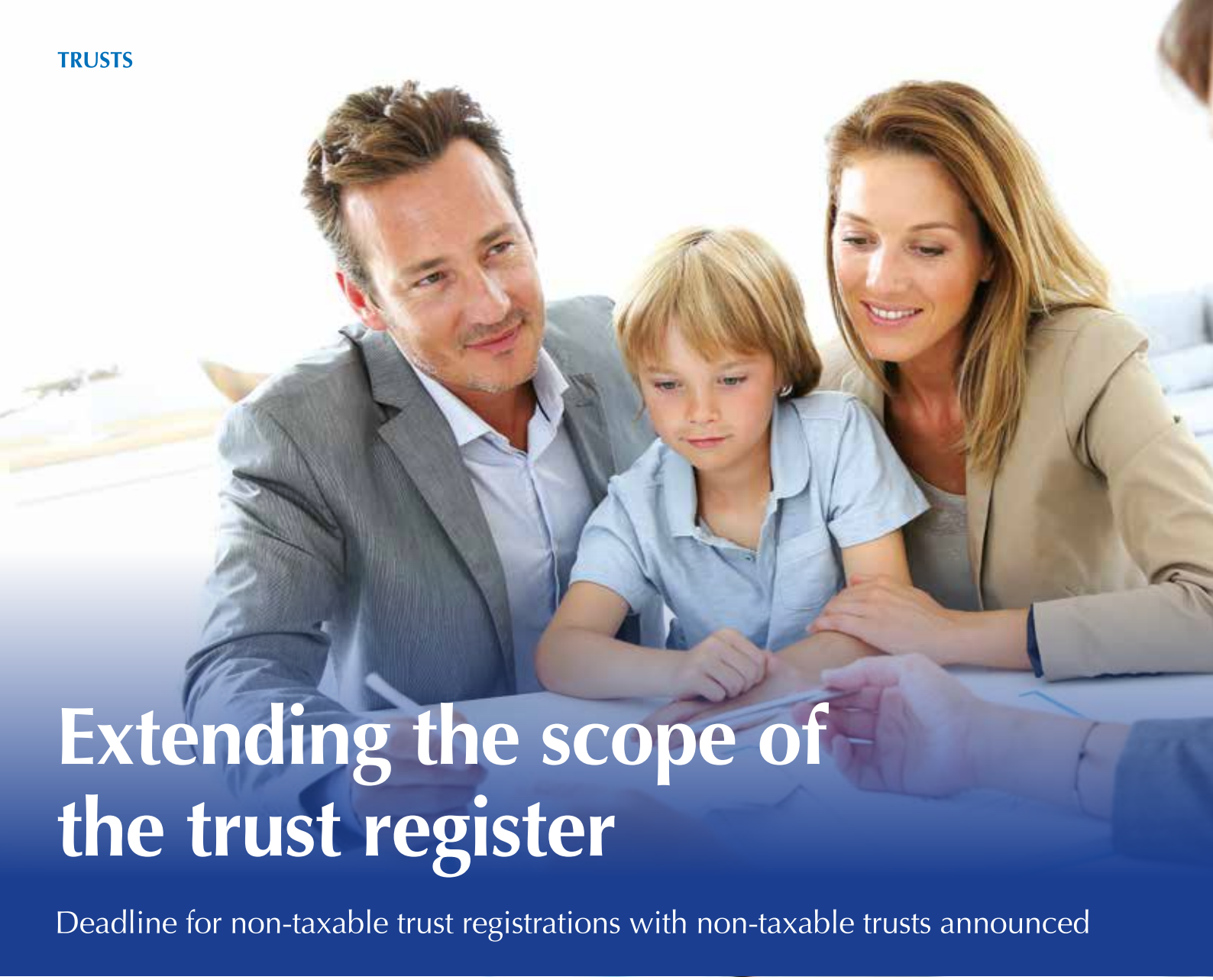
As some of you football fans will know, Jimmy Greaves passed away in September 2021, and here's a little story for you.....

In the 1995/1996 football season, Chris McGlone's son Lee, then aged 11, was selected to play football for East Anglia Boys in Denver, Colorado and Minneapolis, Minnesota.

After nearly a month in America, the team returned to England and a couple of weeks later attended a presentation evening. The guest of honour was no less than the great Jimmy Greaves and Lee was of course absolutely delighted to receive his certificate and treasures this photo.



Lee McGlone with Jimmy Greaves



Extending the scope of the trust register

Deadline for non-taxable trust registrations with non-taxable trusts announced

Trusts are a way of managing wealth, money, investments, land or property, for you, your family, or anyone else who you'd like to benefit. When assets are put into a trust, they are under the control of an appointed person or persons called 'trustees'. The trustees then manage the trust according to your instructions, even after your death.

New rules were introduced on 6 October 2020, as part of the UK's implementation of the Fifth Money Laundering Directive (5MLD), which extend the scope of the trust register to all UK and some non-UK trusts that are currently open, whether or not the trust has to pay any tax, but with some specific exclusions.

PREVENTATIVE WORK IN THE FIELD OF ANTI-MONEY LAUNDERING

From 1 September 2021, the extended Trust Registration Service (TRS) opened for non-taxable trust registrations with non-taxable trusts having until 1 September 2022 to register. Under the new rules, organisations and persons involved in preventative work in the field of anti-money laundering, counter terrorist financing and associated offences, can request access to details on the register about the people associated with a trust.

The information will only be released on request in certain limited circumstances and anyone with a legitimate interest will be able to view information on the TRS from late 2022. HMRC has stated that "each request will be reviewed on its own merits, and access given only where there is evidence that it furthers work to counter money laundering or terrorist financing activity".

BUSINESS RELATIONSHIP WITHIN THE UK

There are also safe-guarding measures to protect trusts with minors and vulnerable beneficiaries from requests for information from third-parties.

Trusts that need to be registered are broadly all UK express trusts, unless they are specifically excluded; non-UK express trusts: acquire land or property in the UK and have at least one trustee resident in the UK and enter into a 'business relationship' within the UK. If the trust needs a Unique Taxpayer Reference (UTR) for Self Assessment purposes, it must still register to get this, even if it's highlighted in the exclusion list.

TRUSTS THAT DO NOT NEED TO BE REGISTERED

Certain trusts do not need to register unless they are liable to pay UK tax.

These include:

- trusts used to hold money or assets of a UK-registered pension scheme, such as an occupational pension scheme
- trusts used to hold life or retirement policies providing that the policy only pays out on death, terminal or critical illness or permanent disablement, or

"When you put assets in a trust, they are under the control of an appointed person or persons called 'trustees'. The trustees then manage the trust according to your instructions, even after your death."

to meet the healthcare costs of the person assured

- trusts holding insurance policy benefits received after the death of the person assured, providing the benefits are paid out from the trust within two years of the death
- charitable trusts which are registered as a charity in the UK or which are not required to register as a charity
- 'pilot' trusts which were set up before 6 October 2020 and which hold no more than £100 – pilot trusts set up after 6 October 2020 will need to register
- co-ownership trusts set up to hold shares of property or other assets which are jointly owned by two or more people for themselves as 'tenants in common'
- Will trusts which are created by a person's will and come into effect on their death providing they only hold the estate assets for up to two years after the person's death
- trusts for bereaved children under 18 or adults aged 18 to 25 set up under the will (or intestacy) of a deceased parent or the Criminal Injuries Compensation Scheme
- 'financial' or 'commercial' trusts created in the course of professional services or business transactions for holding client money or other assets

EXCLUDED FROM REGISTRATION

Other less common types of express trusts which are set up for particular purposes are also excluded from registration unless they have to be registered because they are liable to pay tax. These are set out in the legislation and will be described in the detailed guidance.

Trusts which are not set up deliberately by a settlor but are imposed by Courts or created by legislation, are not 'express trusts' and therefore do not have to register unless they are liable to tax.

Examples of such trusts include a trust:

- set up under the intestacy laws when a person dies without a valid Will and the assets in the estate are held by a trust before passing to relatives
- set up under a Court Order to hold compensation payments
- to hold jointly owned assets, such as a home jointly owned with a spouse, partner or relation as 'joint tenants', or a joint bank account

TAXABLE AND NON-TAXABLE TRUSTS

You should obtain professional advice if you are unsure whether a product or arrangement is a trust or if it should be registered. The trustees or agents will have to give some basic information about the persons involved in the trust (the settlors and beneficiaries). This will apply to both taxable and non-taxable trusts.

Registerable taxable trusts are required to register by 31 January following the end of the tax year in which the trust had a liability to UK taxation, or 5 October after the end of the tax year for a first time liability to Income Tax or Capital Gains Tax.

FURTHER GUIDANCE AND CONFIRMATION

The Money Laundering Regulations currently require registerable express trusts to register on TRS by 10 March 2022. HMRC has announced they will extend this deadline until 1 September 2022, to give trustees sufficient time to register. From 2022 onwards, any beneficial ownership information of a trust registered on TRS must be kept updated. Trustees must notify HMRC of any changes to registered information within 90 days from the date the trustees become aware of the change: further guidance and confirmation of procedures is expected from HMRC in due course.

PROTECT AND MANAGE YOUR ASSETS NOW AND FOR THE FUTURE

We understand that every person's financial and family situation is totally unique. If you have any concerns about your financial situation, please contact us.

UK-wide tax & National Insurance Contribution (NICs) increases

Money raised to be ring-fenced for health and social care costs

From 6 April 2022, the Government plans to create a new social care levy which will see UK-wide tax and National Insurance Contribution (NICs) increases. There will be a 1.25% increase in NICs on earned income, with dividend tax rates also increasing by 1.25%. The money raised will be ring-fenced for health and social care costs.

NEW SURCHARGE

The levy will be a new tax and separate from NICs, but it will take some time for HMRC to update their IT systems. Initially the funds will be raised by increasing the NICs rates. Once HMRC systems have been updated (anticipated in 2023/24), a new surcharge of 1.25% will replace the increase in NICs rates and will also apply to those working above State Pension age.

AN EXAMPLE OF HOW NI CONTRIBUTIONS WILL CHANGE WITH A 1.25% INCREASE:

- £50,000: £4,852 paid now; £5,357 with 1.25% increase = £505 extra each year
- £80,000: £5,479 paid now; £6,359 with 1.25% increase = £880 extra each year
- £100,00: £5,879 paid now; £7,009 with 1.25% increase = £1,130 extra each year

SMALLER EMPLOYERS

The rate of employer National Insurance 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 dividend is because, unlike salary, they are not subject to National Insurance.

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 arguments for taking profits as a pension contribution subject of course to the annual allowance limits.

TAX-PAYING DIRECTOR

For example, from 2023 every £1,000 of company profit taken as dividend would produce a net income of £497 for a higher rate tax-paying director. If instead the £1,000 is paid into a pension, this could provide the same director with a net income in retirement of £700.

Taking the dividend option at today's rates would net a little more at £547, still with a £700 return from a pension, i.e. the pension option from 2023 could return an extra 5% (ignoring growth).

CARE COSTS

The Prime Minister announced the plans which outlined proposals for social care funding in England, featuring a new lifetime cap of £86,000 on the amount individuals will be expected to pay for their personal care.

In England, the £86,000 cap is just for the costs of personal care, whether this care is provided at home or in residential care. The so-called 'hotel' costs in respect of accommodation and meals in a care home remain uncapped.

This cap will apply to anyone entering care from October 2023. Those with assets below £20,000 will not have to pay anything towards the cost of care, while people with assets over £100,000 will have to pay all their care costs before the cap is reached. Those with assets between these two thresholds will share the costs with their local authority based on a means test. Currently (in England), anyone with assets over £23,250 gets no help towards care costs.

The cap will provide a little more certainty for families, but the actual amounts paid while in residential care could still come to much more than £86,000 and this should be factored into any savings and planning for later life care. The Government also hopes that their proposals will inspire insurance providers to develop products to help with costs of care.

WHAT DOES THIS MEAN FOR YOU?

This announcement will impact employees and directors of small businesses, including the self-employed and contractors, who remunerate themselves partly or wholly through dividends rather than a salary. To discuss your options, please contact us.

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

UK pensioners underpaid

More than £1 billion in State Pensions impacted due to 'repeated human errors'

The Department for Work and Pensions (DWP) underpaid 134,000 pensioners in State Pension to the tune of £1 billion, according to the National Audit Office (NAO)[1].

Complex State Pension rules, outdated and unautomated IT systems, and a high degree of manual review and understanding required by case workers led to the errors uncovered by the investigation.

STATE PENSION CLAIMS

The NAO said some level of error in the processing of State Pension claims was almost inevitable given 'the complex rules and high degree of manual review necessary' when assessing them.

Errors affected those pensioners who first claimed their State Pension before April 2016, did not have a full National Insurance record, and who should have received certain increases in their basic State Pension.

LEGAL ENTITLEMENTS

The DWP has not assessed the demographics of pensioners likely to be affected, but it has estimated that 90% are likely to be women.

Cases started getting reviewed from January 2021, in a legal entitlements and administrative practices (LEAP) exercise. This exercise was originally expected to take over six years to complete, but following a ministerial decision to recruit additional staff, the DWP revised the completion date to the end of 2023.

The government department said it will contact pensioners if it finds they have been underpaid. The report found that, of the 134,000 cases, around 94,000 are still alive. For the 40,000 who have died, the NAO suggested payments could be made to estates.

UNABLE TO TRACE THE PENSION

Yet, the DWP has identified around 15,000 cases where it might be unable to trace the pension or their heirs.

Also, the true number who were underpaid before they died is likely to be higher, because records for the deceased are generally destroyed within four years. As at August 2021, the DWP had not approved a formal plan to trace the estates of deceased pensioners.

VALUE OF THE UNDERPAYMENTS

DWP estimates it will need to pay the affected pensioners it can trace a total of £1 billion. This represents an average of £8,900 per pensioner affected. The estimates are highly uncertain and the true value of the underpayments will only become clear once the DWP has completed its review of all affected cases.

According to the NAO report, DWP normally has around 40,000 live (uncompleted) new State Pension claims on the go. Yet, this had increased to 80,000 as of July 2021.

HISTORICAL ERRORS

A DWP spokesperson said: 'We are fully committed to ensuring the historical errors that have been made by successive governments are corrected, and as this report acknowledges, we're dedicating significant resources to doing so.

'Anyone impacted will be contacted by us to ensure they receive all that they are owed.

'Since we became aware of this issue, we have introduced new quality control processes and improved training to help ensure this does not happen again.'

TIME TO DISCUSS PLANNING YOUR RETIREMENT INCOME?

Whatever retirement looks like for you, it's important to review your situation and make plans now so that you have the freedom to enjoy the time when it comes, however you choose to fill it. Speak to us today and make sure your plans are on track for the future you want.

Source data:

[1] https://www.nao.org.uk/report/investigation-into-underpayment-of-state-pension/

How can I protect my money from inflation?

Hot Topic

Five questions to ask before inflation really takes off

'How can I protect my money from inflation?' is a question that many people may be asking themselves right now. In the current economic climate, rising inflation is becoming a concern for people with savings and investments.

The negative impact of inflation upon the real value of an investor's portfolio will be a concern, particularly for the older generation with not enough investments, who may live mostly or entirely off their savings and pensions.

If you're middle-aged or young, it's also important to consider how much inflation will affect you and your investments. Savers may currently be receiving very low returns on their cash deposits, but with many households sitting on more cash than ever following COVID-19, protecting cash from inflation is becoming vital.

FIVE QUESTIONS TO ASK TO PROTECT YOUR CASH FROM INFLATION

1) Is the amount you have in cash appropriate for your circumstances?

The amount of cash you have should be appropriate for your personal circumstances, (because we all have different needs and wants), and should always match your circumstances and income level. Since we don't know what life will bring, we need to be able to take care of ourselves and our families – without having to resort to, or depend on, credit cards or loans from others. It's important to build an emergency fund which should contain three months' worth of expenses at the bare minimum. It could be more, but since this will be at the mercy of inflation, some savers may opt to hold the bare amount in cash to avoid incurring losses on the value of their money.

2) Should you consider investing some of your cash?

This will depend on your cash flow needs and investment preferences. But you should consider investing some of your money, even though this may seem counter-intuitive.

Ultimately building a diversified investment portfolio rather than putting all your eggs into one basket, by having some cash savings and some investments for growth, is likely to suit most people's risk profiles

While past performance is no guarantee of future performance, investing some of your cash savings may be worth considering. If you're saving for a long-term goal, like retirement, then it's really important to factor in inflation. If you don't it could erode the value of your money and jeopardise your plans for the future.

3) Have you maximised your pension savings in recent years?

How much money you get in retirement depends on how much you put in, and when. When you retire, the money you have saved up in your pension will provide an income. The bigger that pot is, the more you'll get each year to help pay for your living expenses. On average, people retiring today may need to replace about half of their pre-retirement income with savings and investments (income from pensions or other savings)

To give yourself the best chance of a comfortable retirement, you need to make sure as much as possible goes into your workplace or personal pensions as early as possible.

Pensions are still a very tax-efficient investment for the majority of people, with tax relief on contributions, as well as tax-free growth within the fund.

4) Have you made use of your ISA allowance this year, and those of your family (assuming you're feeling generous)?

Have you made use of this year's allowance and do you plan to make any changes in the future to your ISA savings strategy? Have you made use of your family's ISA allowance this year?

Everyone aged 18 and over can invest £20,000 per annum into a Stocks & Shares ISA; those under 18 can invest £9,000 each year. Those aged 16 or over can invest £20,000 per annum into a Cash ISA. ISAs grow tax-efficiently, whether invested in cash or other asset classes like stocks and shares, and the long-term effects of this tax-efficient growth can be significant.

5) Are you making the most of your income allowances?

Personal income allowances give you the ability to control how much or how little tax you pay on money that has been earned over the year.

Often, we find people squander the opportunity to use a spouse's or partner's lower Income Tax rate, or even their Personal Savings Allowance (currently £1,000 for 2021/22), by holding investments or cash balances in the higher earner's name. This could mean, for example, paying tax on interest at 45% when the spouse would pay just 20%, or even no tax at all. There is no limit on the amount of money that can be transferred (the transfer must be of genuine beneficial ownership to apply) between spouses, so you might want to consider whether transferring holdings to or from your partner would benefit your family.

Few savers will be untouched by inflation in the near future. But by asking yourself the questions above, you can mitigate the effect of inflation by making sure your money is working as hard as possible.

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