



NEWSLETTER



Photo by Andrew Spybey@TheGuildfordian

WINTER 2023



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Welcome



A year can be a long time, especially in the worlds of finance and politics.

Looking back to look forward, 2008 was a momentous financial year for numerous negative reasons and the fallout re-aligned many financial markets in quick succession.

Following the banking collapses of that period, most major global markets saw inflation fall to minimum levels, along with interest rates, and indeed annuity rates. This 15-year era continued until 2022/2023 when positions began to change again.

The press will not have allowed you to escape the news on higher interest and inflation rates, unseen for decades, but now likely to be with us for a good few years ahead. A re-alignment if you will, with many mortgage borrowers feeling the pinch, and savers possibly having to declare interest above £1,000 gross (for a basic rate taxpayer) for the first time in many years.

Recent data releases indicate that inflation is falling from its recent peaks. However, the Bank of England's unchanged inflation target of 2.0% now seems unrealistic looking forward, and it will be interesting to see if this is reviewed, along with a few other positions that are being considered.

Mid-October saw the Office for National Statistics confirm that the Consumer Prices Index (CPI) for September 2023 stayed at 6.7%, unchanged from August. Inflation is remaining 'sticky' but is anticipated to fall at the next assessment. Remember, the State Pension 'Triple Lock' uses the September rates to decide next year's rise, and with earnings increasing at 8.5%, the increase might be high if they keep the promise.

One article in this newsletter looks at the fallout from the Truss 'mini-budget' of 2022. The policy changes announced were largely reversed in the lead up to, and following, Truss's resignation in mid-October 2022. Did the mini-budget and

subsequent back-tracking bring about the economic re-alignment that we now see? We think not; however, it did help fast-track the position, with the Bank of England base rate in mid-October 2022 being 2.25%, and now steady at 3.00% above this level at 5.25% in September 2023.

Remember, we are likely to have a general election in around a year's time, if not before, and this again may see significant change to the economy and taxes.

With reference to pensions and investments, the fundamentals of investment risk remain largely unchanged following this re-alignment. However, your views may have changed as to your risk appetite. Many of you will have a copy of our Investment Risk Scale and you may want to reference this when considering your current position. If you need a new copy, then please let us know and we welcome the opportunity to review existing arrangements to ensure that they meet your ongoing needs and circumstances. We have now reached the middle of the tax year (2023/2024) and this might be a great time to revisit any outstanding tax allowances available.

Conference season at the end of September and beginning of October saw political parties outlining thoughts as to the way they see personal taxation being applied. Plans from the potential simplification of ISA arrangements to the possible abolition of inheritance tax made the headlines, as examples. We have the next autumn statement from the Chancellor, Jeremy Hunt MP, due on 22 November 2023 (perhaps his last before the next general election) and it will be interesting to see if he has any 'rabbits' to pull out of the tax hat.

Whatever your plans are for the remainder of 2023, the team at Chapters Financial are here to help with your pension, investment, and overall financial planning.

Keith Churchouse



The Growth Plan (that wasn't) of 2022



We are now past the halfway point of the current financial year 2023/2024, and it seems a lifetime ago since the then Chancellor of the Exchequer, Kwasi Kwarteng MP, delivered a Ministerial Statement entitled "The Growth Plan" to the House of Commons on 23 September 2022. This 'mini-budget', as it was widely referred to, contained a set of economic policies and tax cuts, and was proposed to generate growth within the UK.

You will remember from summer 2022 that there was much political turmoil in the country, and with an internal election completed, Liz Truss MP took control of the Prime Ministerial post in the UK and appointed her new Chancellor.

Many will remember that some markets did not take kindly to the new proposals and following widespread negative response to the mini-budget, some of the proposed policies and tax cuts were reversed within days.

Confidence in the UK's gilt and bond markets fell sharply. These sectors, which should be at the lower end of the risk scale, saw significant volatility. It was subsequently widely reported that the cost to the UK following the proposals, which were eventually all largely reversed, was around £30bn (Source: Resolution Foundation).

As history will record, the selection of Liz Truss as PM was not popular, and her resignation followed on 20 October with the subsequent election of Rishi Sunak MP to the role. Mr Sunak's new Chancellor, Jeremy Hunt MP, then deployed his own plan, which had a largely stabilising effect on many UK markets.

This market volatility was unwelcome, and certainly saw sectors such as UK gilts and corporate bonds, along with UK smaller companies, taking significant downturns around the same time, with some yet to recover at the time of writing.

It has also been suggested that the September 2022 mini-budget was the start of the increase in inflation and, as we have seen correspondingly, the increase in Bank of England base rates. We do not believe this to be the case; all it did was to highlight and possibly speed the increase in inflation, which then peaked, and is now reducing but still stubbornly high. Bank of England base rates have now reached 5.25%.

These global economic pressures are shared across the world, and many developed economies are seeing sustained problems with inflation and its effects as an economic transition occurs from the last decade or so.

It is important that you keep your investment and pension planning under review, to ensure that the underlying investments meet with your attitude to investment risk. In the longer term, the fundamentals of investment risk have not changed; however, the recent past demonstrates how volatility can affect even the lower end of the investment risk scale.

2023 has proved to be volatile so far, although perhaps less so than 2022, and it is important to remember that investment and pension planning is for the longer term, rather than the shorter term.

If you would like to review your existing arrangements, then please do not hesitate to let us know.

Chapters Financial celebrates its 19th birthday: traditional values in a changing world



October 2023 heralded Chapters Financial's 19th birthday. Established in 2004, the company has grown over the years and the office relocation to Tunsgate, in the heart of Guildford, has been very successful, with great feedback from many clients.

As we know, the journey has not been without its challenges. We have navigated recessions, Brexit, a pandemic, regulatory change and everything in between. There have also been some great advancements.

Technology, as an example, has advanced significantly in most sectors over this time. Embracing this opportunity alongside the

application of our traditional financial advice process continues to attract many clients and referrals. The options as to how to invest into plans such as ISAs, pensions and investments have also advanced, which is mainly positive. A good example is the expansion and maturing of the environmental, social and governance (ESG) investment market, which has increasingly allowed clients to invest in line with their beliefs and views.

The fundamentals of investment remain largely unaltered, despite the changing world we live in. However, life changes for clients as we all age can bring new thinking in terms of attitude to investment risk and capacity for loss, as examples, and changes can be made to reflect updated circumstances.

We look forward to the continued evolution of the company over the years ahead, and to providing financial advice, planning, and implementation for our clients as their circumstances also evolve.

Why referrals matter to all

It is always good to receive a client referral to the team at Chapters Financial. I understand that there is a saying that there is only one thing worse than being talked about, and that's not being talked about at all.

We find that referrals for pension, investment and financial planning advice are helpful to all involved. The new enquirer has taken guidance from someone they trust as to where to seek financial advice so they can have confidence that they are heading in the right direction when making contact.

It is also helpful for us to know the source of the referral to Chapters Financial for reference purposes, and of course to say thank you.

There are times when we cannot offer service and advice in the circumstances and this might be because other specialists, such as accountants and solicitors, are best placed to



cover the issue at hand. We have a good network of other professionals to whom we can refer, signposting where appropriate.

Most of the enquiries we receive are focused on the work we undertake, and we are pleased to help meet the objectives of individuals and organisations alike. It's great to know that the service we offer is recommended by many clients and contacts when thinking about money planning.

We send our thanks for all the referrals we receive, and we look forward to more into the future.

A taxing topic - IHT and your estate



Inheritance tax can be a thorny issue and a difficult topic to consider between partners and relatives. It's quite natural to want to avoid the subject of death, particularly your own or of loved ones, but this reticence can mean that opportunities for important tax planning during life are missed.

Data published by HMRC earlier this year showed that inheritance tax (IHT) receipts for June 2023 were £795 million – the highest monthly total on record. The Office for Budget Responsibility (OBR) predicts that IHT will raise £7.2bn in the tax year 2023/2024.

The total number of liable estates has also increased every year since 2009/2010, with 27,000 estates being liable to IHT in 2020/2021 (source: Inheritance Tax Statistics).

It is interesting to note that IHT receipts are rising despite an increase in the number of claims for the Residence Nil Rate Band (RNRB) – an addition to the standard nil rate band which is applicable when a residence is passed on death to a direct descendant.

The RNRB is just one of the ways in which exposure to IHT can be managed and we've looked at this and other possible IHT planning strategies below.

Make a Will

One of the cornerstones of financial planning (and IHT planning) is to have a valid and up to date Will in place. Each individual has a standard nil rate IHT band of £325,000. Spouses can pass this to the surviving spouse/civil partner on

death, affording a joint estate protection normally to £650,000. Thereafter, inheritance tax is usually charged at 40% on any balance above this level.

If you're not married or in a civil partnership, you cannot pass on your nil rate band to the surviving partner, making a valid Will all the more important.

Powers of Attorney / Health & Wealth

If you are updating your Will, take some advice at the same time on establishing Power of Attorney arrangements. There are two types – health and wealth – and it may be sensible to put these in place.

Think about leaving a charitable legacy

Gifts to charities are not subject to IHT and if you make significant gifts to charities from your estate, the inheritance tax charge can fall. Your estate may qualify to pay inheritance tax at a reduced rate of 36% (rather than 40%) if you leave at least 10% of your net estate to charity.

Consider gifting in lifetime

There are a range of ways in which gifts can be made to reduce an estate's liability to IHT but gifting needs to be planned carefully to ensure that conflicts do not arise between the desire to reduce tax after death and the need for funds during life (e.g. for long-term care needs). Here are some points to consider:

Annual Gift Allowance: £3,000 per donor pa. If you did not use last year's allowance, you can go back one year to gift £6,000. A couple could as an example give away £12,000. We think it is sensible to document this gifting in letter format to provide a suitable audit trail.

Gifts from surplus income: if after applicable tax, you have surplus income over and above what is needed to maintain your standard of living, this can be given away and should usually fall outside the estate immediately. Again this should be documented.

Potentially Exempt Transfers (PETs): If you want to make lump sum gifts away from your estate, either to a recipient or to a trust, you can do this (although the gift only falls fully outside your estate after seven years).

Any gift (PET) above the nil rate band of £325,000 can still be made, but it should be noted that any inheritance tax charge that may become due would fall on the recipient, rather than the estate.

Establishing Trusts: For some, the thought of giving away funds directly to relatives does not appeal and this might be a good reason to use a Trust, and your legal advisers can help establish an appropriate arrangement. It's important to obtain suitable legal and accountancy advice when setting up a Trust, noting that significant tax implications can apply, and that most Trusts now have to be registered with HMRC.

Don't ignore the Residence Nil Rate Band

This additional allowance was introduced in the tax year 2017/2018 and applies when a residence is passed on death to a direct descendant (i.e. children and their lineal descendants). It only applies to one residential property, and it must have been a residence of the deceased. The current allowance, applicable since 2020/2021 onwards, is £175,000. This allowance has been frozen until 2025/2026 at the earliest.

Married couples can pass the additional allowance to a surviving spouse or civil partner. Couples who are not married or in a civil partnership cannot, in line with the rules for the standard nil rate band.

The rules regarding the residence nil rate band are complex and caveats and exclusions apply.

Nominate your pension funds

You may well have built up a range of pension plans over the years and it's important to keep the nomination of death benefits up to date on all of these, in line with your life changes.

For money purchase pension plans, the value of your pension plan usually remains outside your

estate for IHT purposes and accessible to your beneficiaries without recourse to probate, which can be a helpful source of funds at a difficult time. The fund value can pass tax-free to your chosen beneficiary/beneficiaries on your death before your age of 75. After this time, the fund can pass to your beneficiaries and will be taxed at their marginal rate of income tax.

It is important to note that if a death occurs within two years of a change in nomination, HMRC may want to check that this change was not achieved with the aim of reducing any tax position. As an additional point, and in the same way, HMRC may also investigate a pension transfer that took place within two years of death.

If you're fortunate enough to have final salary (defined benefit) pension benefits, either in payment or in deferral, these could provide a spouse's pension on your death, and possibly even a pension for your children in some cases. If you're not married or in a civil partnership, it is important to check the scheme rules to see whether the scheme would pay a dependant's pension to your partner, as some schemes may not allow this.

Review, review, review

Solutions to inheritance planning are numerous and invariably use annual allowances. Using a combination of the options noted above is not uncommon, perhaps including a series of gifts. It is important that any planning is reviewed regularly to ensure that it still meets its objectives, that annual gift allowances are used, and that if you are making substantial gifts during your lifetime, your needs are still protected.

Summary

As you can see, there is much to consider in terms of managing exposure to inheritance tax. The team at Chapters Financial is qualified to help clients and enquirers in this area and we are happy to work with your legal advisers to meet your ongoing needs.



Photo by Andrew Spybey@TheGuildfordian

WYSIWYG is ever more important



There is much press attention at the moment on some large financial advice companies having to adjust their charging structures because of the implementation of the Financial Conduct Authority's (FCA's) new Consumer Duty regulations. These are designed to ensure that clients gain good outcomes from their arrangements over both the shorter and longer terms. Exit penalties have also come into sharp focus for funds already invested, where performance and charges are indicated to be poor value.

This article is a little simplistic in its wording of the title (WYSIWYG), but cuts to the core of all we do at Chapters Financial from a business ethic perspective and the way we deliver service and implementation of financial plans to our clients.

We have always maintained a view that our work and the service we provide should be transparent and clear from the start of a new client contact, through to the implementation of any agreed

plans, to ongoing service and review. No dramas, no unexplained fees, and a healthy scepticism of new products or 'investment opportunities' until they have a proven track record. This stance has proved a solid approach over the last 19 years of trading and is why our clients have not been caught by the recent issues with large providers that the press has identified, some of which feature some usually hefty exit penalties.

Indeed, transparency has reached the headlines for fund management in recent weeks with the integration of Consumer Duty launched at the very end of July 2023. It is good to see these regulatory changes gaining momentum early.

Our approach is universal in each part of the process in keeping a client informed and up to date on where they are in the process and what they have achieved. Clear valuations in funds (that we put in place) that have no exit penalties. A 'what you see is what you get' approach, or 'WYSIWYG - wizzy-wig' - for short. The number of clients who have been with us for over a decade is a testament, we believe, to this approach and ethos and to treating clients fairly and meeting our Consumer Duty obligations.

Our website features our Terms of Business and independent financial advice process; however, talk to Chapters Financial about your specific financial, pension and investment planning needs for the future. We look forward to your enquiry.

Collaboration to bring a new defibrillator to Tunsgate, Guildford

The Chapters Financial team was delighted to be involved in helping the Castle Green Bowling Club achieve their goal of establishing a new defibrillator unit in the central Tunsgate area.

Having purchased the unit with the support of local businesses, the siting of the new unit proved a challenge. We were pleased to help with the process and the full launch of the new facility was achieved at the very beginning of September.

We of course hope it will not see regular use; however, it is ready if the need arises.

Congratulations to everyone involved, including John at the Club and Chris, Facilities Manager at Shaw House, in helping achieve such a positive outcome.



Workplace pensions: are minimum contributions about to increase again?



Automatic enrolment – the legal requirement for an employer to enrol all eligible workers into a workplace pension and contribute to it – is one of the biggest changes in pensions legislation in recent times. The initiative has proved to be a great success with around 22.6 million people with savings in a workplace pension in April 2021. Invariably pensions need two things, namely money and time. Adding in as much as you can, as early as you can is normally beneficial, irrespective of whether you plan to retire in 40 years’ time or 4 months’ time.

October 2022 marked a decade since the first employees in the UK were automatically enrolled into workplace pension schemes. Large employers (with 250 or more workers) were required to start automatically enrolling their workers from October 2012, with other smaller organisations following in stages over subsequent years. Now, auto-enrolment rules apply to all employers, no matter how small.

What has changed over time?

Other than some fairly minor changes to the lower and upper levels of qualifying earnings, and the earnings ‘trigger’ for auto-enrolment, the most significant change to date has been in the minimum contribution levels which have increased from 2% gross pa to the current minimum of 8% gross pa of qualifying earnings - currently those earnings between £6,240 and £50,270 gross pa. Of this, the employer must pay a minimum of 3% gross pa.

What new changes are on the cards?

At the moment, the minimum age for auto-enrolment is 22, and the earnings ‘trigger’ for enrolment is £10,000 gross pa. If a worker satisfies these conditions, and is under State Pension age, they qualify for auto-enrolment.

However, a bill has just been granted Royal Assent which will extend auto-enrolment to those aged 18 and over and will also abolish the lower earnings limit for contributions.

What difference would these changes make to employers and employees?

Contribution cost is a key point here. For employers, assuming the changes come into effect following consultation, two things would happen.

Firstly, more staff members would become eligible for auto-enrolment, through the reduction in the age limit and the removal of the lower earnings limit.

Secondly, for all existing and future members of a workplace pension scheme, contributions would be based on all earnings, to a maximum of £50,270 gross pa, using the current upper limit. That’s an additional £6,240 gross pa per individual to take into account, and at the minimum contribution level for an employer of 3% gross pa would amount to a further £187.20 gross pa in contributions. A small amount, maybe, on an individual basis, but it could be a significant increase to an employer’s workplace pension budget across the whole team.

For employees, the same applies, as more individuals would become eligible for auto-enrolment and more of their earnings would be taken into account in calculating their own contributions.

Summary

Encouraging as many people as possible to start saving for their retirement as early as possible is important and any changes that move this forward are to be welcomed. As suggested earlier, pensions usually only need two things – money and time – and the State Pension alone will not normally provide sufficient income for a comfortable retirement. The potential for more to go into your pension is usually a good thing, if affordable. However, check your overall pension position (State Pension / old employers’ plans / current employer’s arrangements) to ensure you are on track for your future needs.

And finally...

The most wonderful time of the year?



With Christmas only a few weeks away and the major retailers already gearing up their much-anticipated advertising campaigns, we thought it would be fun to take a look at what the UK public really thinks of the holiday season and on what they actually spend their hard-earned cash.

YouGov Ratings measures Christmas’s popularity and fame in Britain every quarter. In the most recent survey, 98% of people had heard of Christmas (possibly by mid-December we might be a little jealous of that remaining 2%!). Christmas is slightly more popular with women than men (82% versus 74%) and with Generation X than with Baby Boomers (80% versus 75%).

According to YouGov, the average Briton spent £642 on the holiday season in 2022 and here are some statistics on where that money was spent.

Presents and gifts	47%
Food and drink	15%
Social events	15%
New clothes	8%
Travel	8%
Hotel stays	7%

Unsurprisingly, nearly half the money was used to buy presents and gifts for loved ones , whilst food & drink and social events each used 15% of

the funds. Other expenses included new clothes, travel and hotel stays.

YouGov’s Christmas Shopping Tracker showed last year that 44% of Britons had bought all their festive presents by 19 December, 29% had bought most of their gifts and 10% had bought at least some. 4% hadn’t bought any yet. The remainder didn’t intend to buy any presents at all, and this was most prevalent in those aged 18-24.

If you decide to skip the Christmas shopping crowds this year and give money instead of gifts to your family and friends, the following allowances might be helpful.

Small gift allowance

You can give as many gifts of up to £250 per person as you want each tax year, as long as you have not used another allowance on the same person. Birthday or Christmas gifts you give from your regular income are exempt from Inheritance Tax.

Gift allowance

As covered earlier in this newsletter, you can also use your annual gift allowance to give away up to £3,000 in total. Any unused annual exemption can be carried forward to the next tax year, but only for one tax year. Further information can be found at www.gov.uk/inheritance-tax/gifts.

Summary & Review

Please do pass our details on to contacts you may have that may benefit from our service.
We are always pleased to receive referrals.

Please contact the team at Chapters Financial; Keith, Vicky, Esther, Catherine or Suzanne on 01483 578800 or by email at info@chaptersfinancial.com to discuss your requirements and to book a meeting or financial planning review.

If you would like to receive this information in e-mail format, please let us know.



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