INSIGHT

ISSUE 20

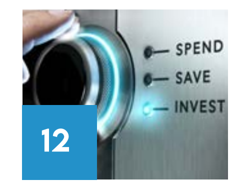
A WEALTH OF ADVICE

HOW CAN FINANCIAL PLANNING HELP AFTER THE BUDGET ANNOUNCEMENT

THE VALUE OF GOOD ADVICE – ALL UNDER ONE ROOF

PENSION LIFETIME ALLOWANCE

ArmstrongWatson®
Accountants, Business & Financial Advisers



INSIDE THIS ISSUE

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WELCOME

Welcome to our latest issue of Insight – A Wealth of Advice. We hope you, your families and your loved ones continue to remain safe and well. After what seems like an awful long time we are beginning to see light at the end of the tunnel with the vaccine rollout and a gradual return to some sort of normality where we can see our family and friends.

Our Insight magazine has been produced for 5 years now and this is our 20th edition. We want to keep our clients informed throughout the year on the most important topics at that time. It seems a long time ago publishing our first edition and including this one we have written 166 articles on a broad range of topics. One of the first articles, in the first edition, we featured the biggest change to pensions legislation in a hundred years and this continues to be one of the most talked about issues in financial services, and one we have frequently featured. Another article was a reaction to the BREXIT referendum and how it might affect personal finances and investment markets. Who would have thought we would still be writing about Brexit at the end of 2021 and how it affects your finances!

In this issue our list of articles include:

How has the Budget affected your financial plans? There was nothing major announced but looking behind the headlines there were many allowances frozen which may affect you which will require careful planning not least in the area of pensions around the Lifetime Allowance.

What financial lessons have we learned from this pandemic? The last year has been a traumatic one in which much has changed, perhaps never to revert to the old 'normal', however, maybe it might also have provided some useful financial lessons.

There is more talk recently of a potential rise in inflation when the economy reopens. That will have an effect on cash savings as savings rates remain very low. We discuss what you can do to potentially offset the impact of inflation.

Diversification is key when investing money in to your ISA, Collective Account of Pension. Holding different assets in your portfolio is commonly discussed as is a mix of domestic and international exposure. Another important consideration is investment style. Richard Cole, our fund manager with Future Money explains why you should not ignore it.

We hope you enjoy this issue of our magazine. If you would prefer to download a digital copy or subscribe to new issues electronically, please visit www.armstrongwatson.co.uk

PAUL DICKSON

CHIEF EXECUTIVE AND MANAGING PARTNER
ARMSTRONG WATSON

HOW CAN FINANCIAL PLANNING HELP AFTER THE BUDGET ANNOUNCEMENT

Once upon a time, the concept of 'Budget Purdah' meant that very little of a Budget's contents trickled out before the day. Major leaks would prompt serious investigations and demands for resignations. The latest Budget underlined how that principle has been eroded. Despite extensive coverage ahead of 3rd March, some rumours proved true, others didn't materialise and Mr Sunak still had some surprises.

BUDGET 2021

Income Tax

The personal allowance will rise to £12,570 and the higher rate threshold will increase to £50,270 for 2021/22. Both will then be frozen for the next four tax years. In Scotland, the higher rate threshold for non-savings, non-dividend income is set to rise to £43,662 in 2021/22.

Many of the important tax thresholds were once again frozen, such as the £50,000 starting point for the High Income Child Benefit Charge and the £100,000 level at which the personal allowance starts to be tapered away.

There are ways to avoid losing some or all of your personal allowance. The personal allowance of £12,570 for 2021/22 is reduced by £1 for every £2 by which income exceeds £100,000. One consideration is to consider making a pension contribution or a charitable gift to bring your income back below £100,000, or back below the other key thresholds such as the higher rate tax threshold of £50,270 (or £43,662 in Scotland), and the unchanged individual income threshold where Child Benefit entitlement is reduced.

Pensions

The lifetime allowance for pension savings, which started out in 2006 at £1,500,000, was frozen at £1,073,100 and will remain at that level until April 2026. No changes were made to the annual allowance. The possibility that the Chancellor will reduce tax relief on pension contributions in his next Budget, due in the autumn, remains a real one.

We discuss in-depth what this will mean for many pension savers in this edition titled "Pension Lifetime Allowance freeze likely to affect many more pension savers"

Capital gains tax

The capital gains tax (CGT) annual exempt amount was also frozen for five tax years at its 2020/21 level of £12,300. The Chancellor made no mention of the report he commissioned last year from the Office for Tax Simplification (OTS) on the reform of CGT which he received in November.

Now may be a good time to review whether to realise any gains before any future changes.

Inheritance tax

After being frozen since 2009, the inheritance tax (IHT) nil rate band was due to benefit from an indexation uplift in 2021/22. It did not happen, and the nil rate band joined the freeze-until-2026 tax group. Had the band been linked to inflation since 2009, it would be about £90,000 higher from 6 April 2021. The residence nil rate band will also remain at its current level (£175,000) until 2026. As with CGT, Mr Sunak also has a report from the OTS on reform of IHT in his inbox.

Whilst IHT reform has been on the radar it is remaining untouched for now. However, now may also be a good time to review your plans before any changes potentially take place.

Individual savings account (ISA) subscription limits

The ISA annual subscription limit for 2021/22 will remain at £20,000 and the corresponding limit for junior ISAs (JISAs) and child trust funds (CTFs) will stay at £9,000.

As the dividend allowance and personal savings allowance has been frozen since 2018/19, one consideration is to use your ISA allowances to best effect. Only a current tax years ISA allowance is available to be used, as once the tax year finishes the allowance is lost. There are a number of different ways, for example either by using a Cash ISA or a Stocks & Shares ISA, depending on a individuals objectives and risk appetite and outlook, that an ISA allowance can be used.

At Armstrong Watson our quest is to help our clients achieve prosperity, a secure future and peace of mind. We work with our clients to build robust financial plans. By regularly reviewing these plans they can be adapted when your circumstances change or new legislation, such as a budget, happens. If you need to review your plans please contact us on 0808 144 5575 or email help@armstrongwatson.co.uk

DAVID SQUIRE

HEAD OF ADVICE - ARMSTRONG WATSON FINANCIAL PLANNING & WEALTH MANAGEMENT

> **"NOW MAY BE A GOOD TIME TO REVIEW WHETHER TO REALISE ANY GAINS BEFORE ANY FUTURE CHANGES."**

PENSION LIFETIME ALLOWANCE FREEZE LIKELY TO AFFECT MANY MORE PENSION SAVERS

> MORE PEOPLE ARE BEING CAUGHT BY THE SPECIAL TAX CHARGE. HMRC'S LATEST FIGURES SHOWED THERE WERE OVER 4,500 LTA CHARGE PAYERS IN 2017/18 AGAINST 1,240 FIVE YEARS EARLIER.

In the latest Budget Rishi Sunak announced that the lifetime allowance (LTA), which governs how much can be saved in a pension before tax charges apply, would remain at its current level of £1.073m until 2025/26. This is a reversal of policy introduced 3 years ago where the LTA was due to increase in line with inflation.

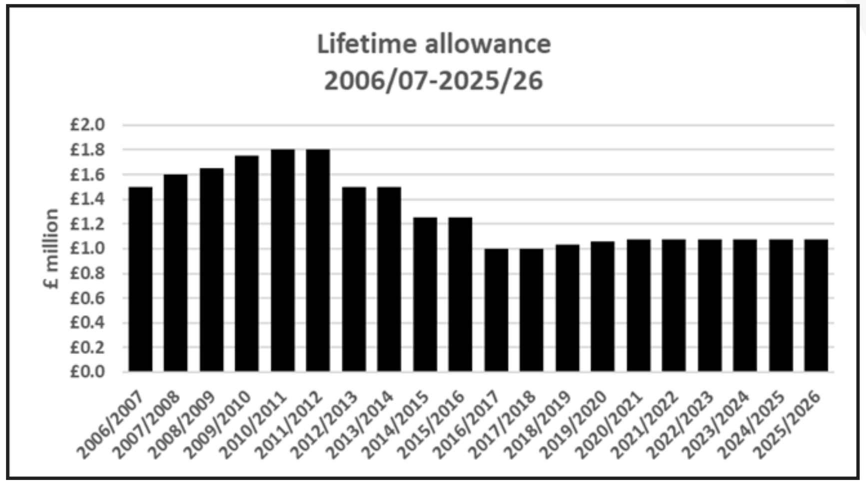
This change has come due to the increasing pressure on The Treasury to raise revenue due to the unprecedented levels of debt the UK has accumulated because of the global pandemic. The potential amounts that could be raised as a result of this change have been set out and certified by the Office for Budget Responsibility and by the end of the tax year 2025/26 this could be approaching £1 billion.

The LTA is a very important pensions consideration. It effectively sets the maximum tax efficient value of all your retirement benefits, assuming you have not already applied for any of the protections that are available. If your accumulated pension benefits exceed the LTA there is a tax charge which is 25% if the excess is drawn as taxable income and 55% if it is received as a lump sum.

When the LTA was first introduced in 2006, it was set at £1.5 million, a level which equated to an annual pension income of £75,000. The initial legislation set out increases for the LTA to £1.8 million in 2010/11. That proved to be the LTA's highwater mark. It was frozen in the following year and then the first of three cuts were introduced. By 2016/17 the LTA was down to £1 million.

The freezing of the Lifetime Allowance has three consequences:

- The total pension protected from the Lifetime Allowance tax charge has fallen. Currently for someone in a defined benefit (final salary) scheme, due to the way the calculation works, it is £53,655. For defined contribution pension arrangements, such as personal pensions, the erosion is greater. Low annuity rates mean that £1,073,100 will buy an inflation proofed income of just over £26,970 a year (before tax) for a 65-year-old on a single life basis with a guaranteed period of 5 years increasing in line with inflation.
- More people are being caught by the special tax charge. HMRC's latest figures showed there were over 4,500 LTA charge payers in 2017/18 against 1,240 five years earlier. This is now likely to increase further of course over the coming years.
- The legislative protections, some of which date back to 2006, are now all the more valuable as they provide protection in some cases much greater than the current LTA.



At Armstrong Watson our quest is to help our clients achieve prosperity, a secure future and peace of mind. If you think you might need to consider how you may be impacted by the Lifetime Allowance, either based on current benefits or when you reach retirement, you could benefit from personalised financial advice.

We can provide a full review of your pension arrangements, with our compliments in the first instance, to help you to understand, based on your individual circumstances and arrangements, your position with regards to your current pension arrangements and whether this is an area you need to consider.

JOHN HUNT
CHARTERED FINANCIAL PLANNER – DUMFRIES

DIVERSIFICATION – READY, WHATEVER THE WEATHER

Diversification – every investor should be aware of this concept. By holding a mixture of assets with varying characteristics, an investment portfolio should be lower in risk and, on average, experience a smoother return profile. Such a process is an important first step in effective portfolio construction and is one which is commonly followed, up to a point.

Three Stage Process

Combining equity allocations with bonds is one popular strategy. Mixing domestic investments with international exposure is another. Beyond this, however, the importance of diversification is often ignored. How many investors question the blend of management styles used in their portfolio?

Value vs Growth

When investing via collective funds, the manager employed will have a preferred style of investing. This can be characterised in many different ways but one common distinction when considering equity funds is whether they follow a "value" or a "growth" style. In simplistic terms, value investors favour unloved companies whose price is below their true current worth; while growth investors seek more popular opportunities which promise ever expanding revenue and profitability, comfortable that the future reward will justify higher current prices.

Prevailing Winds

Following such strategies will likely result in investment portfolios with contrasting characteristics and so they tend to perform well in different market environments. Even prior to the pandemic, conditions in the global economy were lacklustre with broad corporate profitability, inflation and interest rates all subdued. The onset of Covid-19 and the subsequent economic collapse then furthered this trend. Such conditions created a headwind for value stocks, which are more likely to thrive in a dynamic economy, and a tailwind for growth stocks, where companies can generate their own success, regardless of the environment.

Concentration Risk

With growth funds topping the performance tables over recent years, many investor portfolios have been drawn towards this area, with value funds shunned due to their relatively weak performance. Yet, such performance trends will not always be in place, and this is why diversification must be remembered.

A Precedent

Value investing has faced similar periods of prolonged underperformance historically, only for a turning point to eventually be reached. The tech bubble of the late 1990's is one such example, where value strategies missed out on the stellar gains of dotcom growth stories leading up to the millennium, yet reaped their rewards in the subsequent crash.

Prepared for Change

The valuations of many growth style stocks are now arguably stretched and with the global economy in recovery mode, the potential for a change in trends does exist. The question of management style is therefore timely. Diversification is about ensuring that not all investments are pointing in the same direction. While a portfolio full of the latest winners may initially seem attractive, it is wise to consider what could happen when the winds change.

Important Information

Please note that the contents are based on the author's opinion and are not intended as investment advice.

Any research is for information only, does not constitute financial advice or necessarily reflect the views of the author and is subject to change.

Past performance is not a reliable indicator of future performance. The value of investments and the income derived from them can fall as well as rise and investors may get back less than they invested.

> "THE VALUATIONS OF MANY GROWTH STYLE STOCKS ARE NOW ARGUABLY STRETCHED AND WITH THE GLOBAL ECONOMY IN RECOVERY MODE, THE POTENTIAL FOR A CHANGE IN TRENDS DOES EXIST ."

RICHARD COLE
FUND MANAGER – FUTURE MONEY LTD

INFLATION -

IS IT AT A TURNING POINT AND WHAT ELSE CAN YOU DO TO HELP OFFSET YOUR SAVINGS?

The pandemic has some interesting problems for the Office for National Statistics (ONS) when it comes to calculating the rate of inflation. For example:

- How do you measure the price of an item or service when a lockdown means it is not for sale? Two good examples are the 'Restaurants and hotels' category, which in 2020 took up almost 12% of the Consumer Prices Index (CPI) and the 'Package holidays' subgroup of the 'Recreation and culture' category which had a 4.2% weighting in the Index. In February 2021, the ONS said that in the previous month it had managed to collect only 88% of the prices it had collected before the first lockdown.
- Are the right items and services being measured? All inflation indices measure the prices of a 'basket' of goods and services. The ONS reviews and amends that basket each year to reflect changing spending patterns. This can often be a source of some quirky headlines, such as the replacement of crumpets by individual fruit pies last year.

The new 'basket' for 2021 would normally have been based on expenditure in 2019. However, that was in the pre-pandemic era and spending patterns shifted in 2020, as we all know. The ONS has therefore created a special 2021 'basket' that uses data from both 2019 and, where there have been significant changes, 2020. As a result, the weighting for 'Restaurants and hotels' and 'Recreation and culture' have both fallen while those for 'Food and non-alcoholic beverages' and 'Alcoholic beverages and tobacco' have risen. Eating and drinking in is now the new, or at least current, dining out…

Annual inflation over the last ten years to January 2021 has averaged 1.8%, as measured by the CPI, which means overall prices have increased by almost a fifth since 2011 – bad news for anyone with a fixed income. Although 2021 started with annual inflation of 0.7%, by May the figure could be higher as a result of price rises already built in. There has been much speculation in the recent press about the prospect of higher inflation as the economy recovers from lockdown.

Why invest rather than simply save?

It is common for people to feel the need to retain money on deposit ie cash. Bank and building society accounts are the ideal place for deposit savings and emergency funds as they are easily accessible and tend to be the safest place to put your money. However, with near zero interest rates cash on deposit current earns very low returns, although cash itself is not risk-free. The capital value may be secure but the impact of inflation reduces the purchasing power of each pound over time. Investing in savings accounts, including Cash ISA's, may lead to long-term financial disappointment as prices rise faster than the value of your savings.

So what can you do to potentially offset the impact of inflation?

All savings and investments involve some degree of risk, however, making an informed decision to accept risk creates the opportunity for greater returns, known as the risk/reward trade-off.

In order to invest successfully, a clear understanding of your financial goals will help you decide how to balance current versus future spending. You also need to decide how long you are prepared to invest for, as well as the level of risk you are prepared to take and most importantly, whether you can tolerate any losses in the short term. Many people find this aspect of financial planning difficult and prefer to work with a financial professional to help them create their own plan.

We have produced "Our Guide To Investing" to help you understand the basic principles of investing to help support better informed decisions. To download please visit: https://www.armstrongwatson.co.uk/sites/armstrongwatson.co.uk/files/awfp-downloads/our_guide_to_investing.pdf

Armstrong Watson Financial Planning & Wealth Management, as well as providing Independent Financial Advice and personalised investment planning also access a cash management service aimed at maximising interest rates by identifying the most competitive cash accounts, whilst ensuring clients` savings are afforded full FSCS protection.

AMANDA HEYS
FINANCIAL PLANNING CONSULTANT - KENDAL

THE VALUE OF GOOD ADVICE – ALL UNDER ONE ROOF

Background

Our clients, a husband and wife, had been reducing their farm business over recent years. They were in the unique position of having land with development potential to sell and wanted to take the opportunity to help secure the financial future of their family.

The couple sought tailored advice from our Financial Planning Consultant and Tax Consultant who worked closely with them to established four personalised key objectives.

Land sale

Following a review of their individual circumstances, the clients were advised to move their pensions into Self Invested Personal Pensions (SIPPs) to facilitate the purchase of 12 acres of land they owned at agricultural value.

The land, which was originally purchased for £100,000, was sold to the new SIPPs for £300,000. While this created an initial capital gains tax charge for each of them on the profits made, once the land was in their new pension schemes it became protected from any further capital gains tax to pay. It was also no longer subject to future Inheritance Tax, as it would be in a personal pension arrangement.

For these clients, the timing of this advice paid dividends as two years later they were able to sell the land to a developer for £1.8m - with no capital gains tax to pay.

Had it been sold personally to the developer it would have had a gain of £139,000 per acre - a total gain of £1,668,000 - with only a combined Capital Gains Tax allowance of £24,600 to offset against it.

Expertise under one roof

The land sale was just one area where our advisers supported the couple in managing their assets to secure theirs and their family's financial future.

We established assets totalling close to £2m, in cash, investments, their home and farmland. Their investment portfolio - totalling £430,000 was invested across 13 different investment contracts - was so varied they were confused by the different tax rules of ISA's, General Investment Accounts and Investment Bonds, which had been invested at different times by other advisers.

Our asset management business Future Money, led by Fund Manager Richard Cole, was engaged to produce a detailed analysis of all of their investments. The clients were recommended a flexible investment portfolio that matched their objectives and tolerance for loss. Using this overarching strategy, investment diversification is achieved but a client receives a simple overall valuation and access to both a financial adviser and fund manager, as required, along with regular reviews.

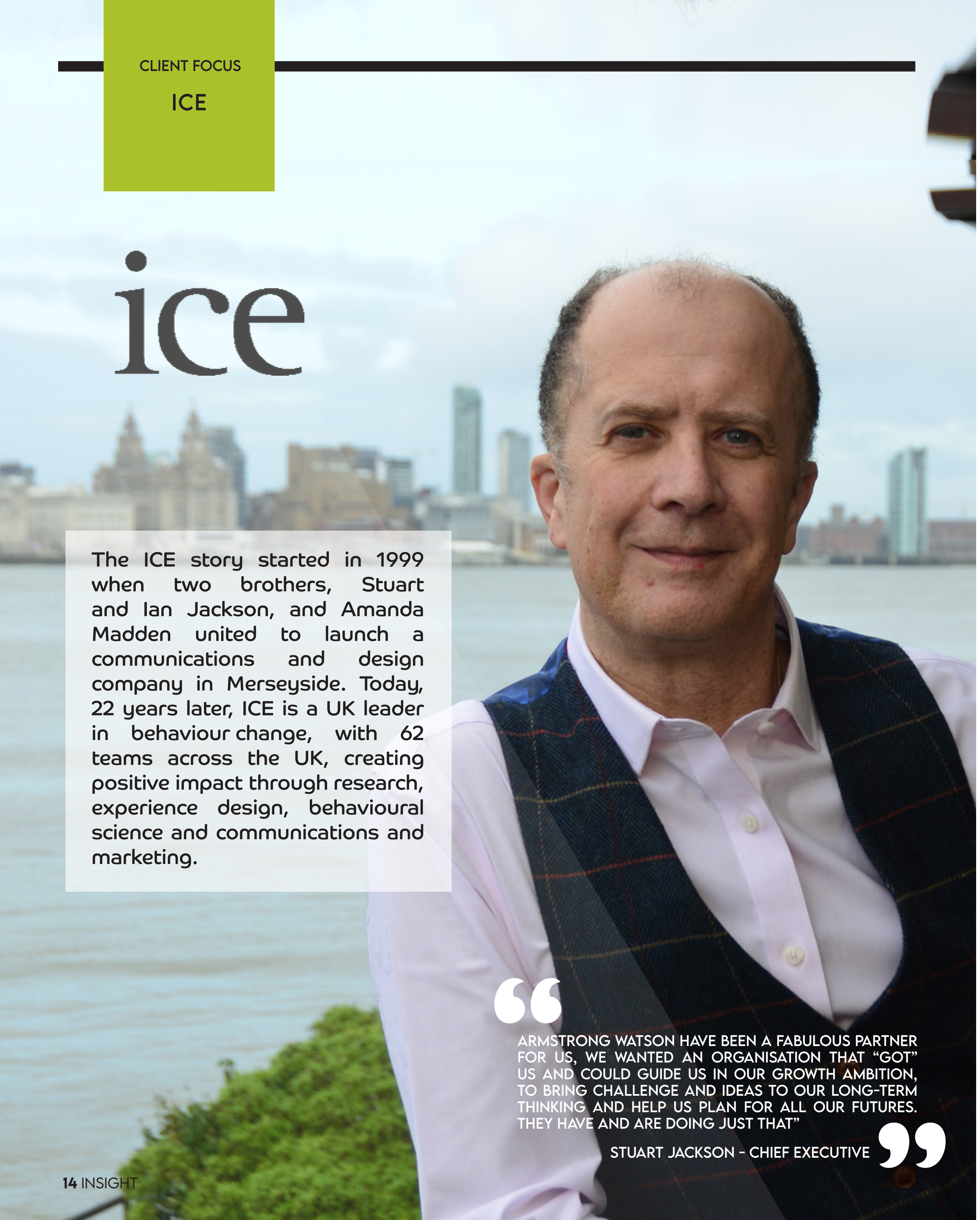
Additionally, our Chartered Tax Consultancy team supported the clients in establishing a flexible reversionary trust to protect other monies from Inheritance Tax.

We worked with our clients for 12-18 months and involved a range of professionals across the Armstrong Watson business, together, with our clients' legal professionals. The outcome has seen them retain sufficient land to maintain their farming at a level they are more comfortable with, whilst allowing them to take advantage of development land prices, combined with careful financial and tax planning to secure the long-term financial future for both themselves and their family.

At Armstrong Watson, we have Chartered Independent Financial Advisers and can discuss and advise on all aspects of financial planning, including retirement, inheritance tax planning and other specialist investment areas. Our advice is personalised based on individual circumstances. As all our expertise is "under one roof" this allows our Financial Planning Consultants to also work alongside our Tax advisers to ensure the right overall advice and support is provided.

JUSTIN ROURKE

SENIOR FINANCIAL PLANNING MANAGER - PENRITH



The ICE story started in 1999 when two brothers, Stuart and Ian Jackson, and Amanda Madden united to launch a communications and design company in Merseyside. Today, 22 years later, ICE is a UK leader in behaviour change, with 62 teams across the UK, creating positive impact through research, experience design, behavioural science and communications and marketing.

> ARMSTRONG WATSON HAVE BEEN A FABULOUS PARTNER FOR US, WE WANTED AN ORGANISATION THAT "GOT" US AND COULD GUIDE US IN OUR GROWTH AMBITION, TO BRING CHALLENGE AND IDEAS TO OUR LONG-TERM THINKING AND HELP US PLAN FOR ALL OUR FUTURES. THEY HAVE AND ARE DOING JUST THAT"
>
> STUART JACKSON - CHIEF EXECUTIVE

Online and offline we help business' build brands, campaigns, experiences and build the best leaders and teams to power organisations. We unlock hearts and minds, we get customers and employers alike to connect, feel huge loyalty and take action, for example a buying decision or a commitment to stay and grow with your company. Our range of services, tools, products and experience means we are built to help the whole business, not just a part. We work with our clients guiding them through the application of customer and employee insights to create solutions that resonate with people and helps them to do things more easily, quickly and enjoyably, to know more and be their best, making a difference to their daily lives and what is important to them.

Whether big or small, on or off-line, our work pushes the envelope to challenge the status quo and, never settling for second best, increasing opportunities that emerging technologies offer us. We tell stories and narratives that don't just activate a behaviour but see it through, build relationships and influence behaviours for our clients to achieve their goals and ambitions - we think the balance is people, profit, planet.

Our clients include private sector companies, small and large including agriculture and farming, we are proud to have the Red Shepherdess as part of our team, not forgetting our work with NHS and Public Health, local Government and Global Pharma.
Our aspiration has always nudged us toward work that could make a bigger impact to our society. Using our engagement techniques, we have mobilised large groups of people to do amazing things - to sign up, to engage and to take action.

This insight into how as people we are motivated and behave led us to apply our knowledge to develop a ground breaking development experience launched in Cumbria in 2014. Natural leaders is an immersive action learning experience tailored to business strategy, leadership and teams. To drive and accelerate the performance at a human level, to make sure you can achieve the maximum return form your investment in technology systems and people whilst yielding the best reward and happiness for your teams.

Based at Brookside Farm in Croglin, a picturesque fellside top class facility placed between the Pennines and the River Eden, Natural Leaders creates growth and change safely and fast like no other. Brookside farm is home to the Red Shepherdess and the Jackson family; there is a warmth and familiarity to the place that promotes calmness, tranquillity and space for self-development. Our partners tell us that the location, and particularly the barn, is a home from home experience.

We facilitate a powerful action-based learning experience, utilising the open fields and man's best friend – the working sheepdog – to provide the space and tools to give leaders the time and space to re-assess behaviours with a focus on developing transformational and adaptive leadership styles. The beauty of Natural Leaders is that teams can immediately and safely put into practice what is learnt and gain confidence to be ready to implement new ways of work into the business environment.

Positive transformation is the focus of our work whether that be lifestyle change, strategic development and support, leadership and team culture or b2b and consumer strategy – we build strong relationships with clients that nurtures trust, confidence and, ultimately, results. We believe everyone is a leader. First, we lead ourselves, then others. Being clear about why and how we want to be is central to the ICE and our Natural Leaders paradigm.

I offered to review their business protection needs, initially for the main shareholders Stu and Mandy. Initial research showed that their previous adviser had arranged inappropriate levels of cover. I advised bespoke cover to the needs of ICE Creates Ltd which led on to a discussion about personal protection needs for two shareholders. Then I was asked to review their SIPPs which were invested in a mish mash of funds.

More recently I have been referred two other shareholders and I am in the process of advising them on their pensions and have referred them to L&C for mortgage advice. I also advised ICE to arrange some new Relevant Life Plans bespoke to their needs.

STEVE SHOVLIN
CHARTERED FINANCIAL PLANNER - CARLSILE

SECTOR FOCUS

HOSPITALITY, TOURISM & LEISURE

SELLING YOUR HOSPITALITY BUSINESS IN THE MIDST OF COVID-19

A business sale is unchartered terrain for many people at the best of times, but those in the hospitality, leisure and tourism sector – the industry hardest-hit by the Covid-19 pandemic - would be forgiven for feeling they've had enough and want to sell up.

MARCUS DODDS

CHARTERED FINANCIAL PLANNING CONSULTANT - CARLISLE

DARCIE RAE

CORPORATE FINANCE SENIOR MANAGER - CARLISLE

This is likely to be something you only do once in your life so it's vital you get the right advice and support. Here are some of the things to consider Please note, within this article, areas identifying the preparation of a sale of a business are provided by our Corporate Finance Consultants and advice around the proceeds of the sale are provided by our Financial Planning Consultants:

1. Asses the financial impact of Covid-19

Many hospitality businesses don't have a clear view on profit until their year-end statutory accounts are prepared, which can be eight or nine months after the year-end. A buyer will want reliable and readily available information to understand the financial impact of Covd-19. They'll need to see monthly management accounts, statistics relating to wet and dry gross margins, average room rates and occupancy levels. If you've diversified during the pandemic, for example to sell takeaways, these profits should be separately identified. Demonstrate the impact of cancelled/ rearranged bookings, show where discounts have been offered and account for gift vouchers, including the impact of extending their expiry. Also consider additional health and safety costs, and the potential reductions in income due to social distancing measures. How will all of this impact cashflow and profitability, and therefore the value of your business?

2. Ensure good housekeeping

Buyers will want to do both legal and financial 'due diligence', the investigation and research carried out by the buyer and their advisers into the business' affairs. It highlights risk and identifies areas where they might be exposed to future losses and costs. For sellers, this will be the most labour-intensive part of any sale. If everything is in order and readily obtainable, this reduced the time the due diligence process takes and avoids any last-minute price reductions as a result. In a hospitality business, staff contracts, supplier agreements and documents relating to the property within the business are areas where there is frequently missing documentation.

The more gaps identified, the more the buyer thinks 'what else have they missed or not done?' For example, buyers will likely want assurances that the furlough scheme has been used correctly and that claims have been calculated properly.

3. Cashflow

Most businesses will have accessed government support during the pandemic - through grants, the furlough scheme, VAT deferrals, bounce back loans or Business Interruption Loans. You will need to factor in if and when any monies need to be repaid and how this will impact your cashflow. Businesses are commonly sold on a 'cash-free, debt-free' basis meaning buyers will want to see all debts repaid before completion. Debt will not only impact operational cashflow but it could impact on the overall business value.

4. Demonstrate resilience and versatility

Some buyers look for distressed businesses to acquire at bargain prices but sellers looking to take away value from their lifetime investment should demonstrate they have a resilient and versatile business with a strong chance of attracting a premium, despite Covid-19. Demonstrate actions you've taken to prove this such as retaining key staff, staff working from home, reduction of overheads, how you've diversified and altered policies.

5. Use a corporate finance adviser

You may have a fantastic relationship with your accountant, but they won't necessarily have the experience or dedicated resource to ensure you get the best outcome. A corporate finance adviser will add more value to a sale than the fees they charge. Their specialist advice, careful planning and structuring are essential and can make the difference between achieving the best outcome, achieving an outcome which may not necessarily be the best one, or languishing on a business for sale listing until you give up on the process entirely.

6. What to do with the proceeds

When you find a buyer, you will need to work out what you want to do with the proceeds of the sale. Will you fund another project or supplement your retirement? A joined up approach between a Corporate Finance Adviser and a Personal Financial Adviser can assist you in extracting money from the business in the most tax-efficient way. This may be a company pension contribution prior to the sale of the business, to help extract some money from the business before a potential tax charge is incurred, or it may be that you need help with a retirement plan or cashflow forecast. Professional advice ensures your money is working as hard for you as it possibly can.

Armstrong Watson's Chartered Accountants and Chartered Independent Financial Advisers can advise on all aspects of business and financial planning needs tailored to each individual circumstance. Our expertise is "under one roof" allowing our Corporate Tax Advisers and Financial Planners to work alongside each other to ensure business owners get all the advice and support they need. Any advice given under our financial planning service is regulated by the Financial Conduct Authority.

TAX FACTS 2021/2022

TAX IS COMPLICATED, SO YOU NEED TO KNOW THE FACTS

INCOME TAX

MAIN PERSONAL ALLOWANCES AND RELIEF	2021/22	2020/21
PERSONAL ALLOWANCE*	£12,570	£12,500
MARRIAGE/CIVIL PARTNER'S TRANSFERABLE ALLOWANCE	£1,260	£1,250
MARRIED COUPLE'S/CIVIL PARTNER'S ALLOWANCE AT 10%†		
(IF AT LEAST ONE BORN BEFORE 6/4/35) – MAXIMUM	£9,125	£9,075
– MINIMUM	£3,530	£3,510
BLIND PERSON'S ALLOWANCE	£2,520	£2,500
RENT-A-ROOM RELIEF	£7,500	£7,500
PROPERTY ALLOWANCE AND TRADING ALLOWANCE (EACH)	£1,000	£1,000

***Personal allowance reduced by £1 for every £2 of adjusted net income over £100,000**
†Married couple's/civil partner's allowance reduced by £1 for every £2 of adjusted net income over £30,400 (£30,200 for 20/21), until minimum reached

UK TAXPAYERS EXCLUDING SCOTTISH TAXPAYERS' NON-DIVIDEND, NON-SAVINGS INCOME	2021/22	2020/21
20% BASIC RATE ON FIRST SLICE OF TAXABLE INCOME UP TO	£37,700	£37,500
40% HIGHER RATE ON NEXT SLICE OF TAXABLE INCOME OVER	£37,700	£37,500
45% ADDITIONAL RATE ON TAXABLE INCOME OVER	£150,000	£150,000

SCOTTISH TAXPAYERS NON-DIVIDEND, NON-SAVINGS INCOME	2021/22	2020/21
19% STARTER RATE ON TAXABLE INCOME UP TO	£2,097	£2,085
20% BASIC RATE ON NEXT SLICE UP TO	£12,726	£12,658
21% INTERMEDIATE RATE ON NEXT SLICE UP TO	£31,092	£30,930
41% HIGHER RATE ON NEXT SLICE UP TO	£150,000	£150,000
46% TOP RATE ON INCOME OVER	£150,000	£150,000

		2021/22	2020/21
STARTING RATE AT 0% ON BAND OF SAVINGS INCOME UP TO**		£5,000	£5,000
PERSONAL SAVINGS ALLOWANCE AT 0%:	BASIC RATE	£1,000	£1,000
	HIGHER RATE	£500	£500
	ADDITIONAL RATE	£0	£0
DIVIDEND ALLOWANCE AT 0%:	ALL INDIVIDUALS	£2,000	£2,000
TAX RATES ON DIVIDEND INCOME:	BASIC RATE	7.5%	7.5%
	HIGHER RATE	32.5%	32.5%
	ADDITIONAL RATE	38.1%	38.1%
TRUSTS: STANDARD RATE BAND GENERALLY		£1,000	£1,000
RATE APPLICABLE TO TRUSTS:	DIVIDENDS	38.1%	38.1%
	OTHER INCOME	45%	45%

****Not available if taxable non-savings income exceeds the starting rate band**
High Income Child Benefit Charge, 1% of benefit per £100 of adjusted net income between £50,000 – £60,000

REGISTERED PENSIONS

	2021/22	2020/21
LIFETIME ALLOWANCE	£1,073,100	£1,073,100
MONEY PURCHASE ANNUAL ALLOWANCE	£4,000	£4,000
ANNUAL ALLOWANCE*	£40,000	£40,000

Annual allowance charge on excess is at applicable tax rate(s) on earnings
Lifetime allowance charge if excess is drawn as cash 55%; as income 25%Pension commencement lump sum up to 25% of pension benefit value
*Reduced by £1 for every £2 of adjusted income over £240,000 to a minimum of £4,000, subject to threshold income being over £200,000

STATE PENSIONS

	ANNUAL	WEEKLY
NEW STATE PENSION – WHERE STATE PENSION AGE REACHED AFTER	£9,339.20	£179.60
5/4/16	£7,155.20	£137.60
BASIC STATE PENSION – SINGLE PERSON*	£4,287.40	£82.45
BASIC STATE PENSION – SPOUSE/CIVIL PARTNER*		

***State pension age reached before 6/4/16**

TAX INCENTIVISED INVESTMENT

	2021/22	2020/21
TOTAL INDIVIDUAL SAVINGS ACCOUNT (ISA) LIMIT EXCLUDING JUNIOR ISAS	£20,000	£20,000
(JISAS) LIFETIME ISA	£4,000	£4,000
JISA AND CHILD TRUST FUND	£9,000	£9,000
VENTURE CAPITAL TRUST (VCT) AT 30%	£200,000	£200,000
ENTERPRISE INVESTMENT SCHEME (EIS) AT 30%*	£2,000,000	£2,000,000
EIS ELIGIBLE FOR CGT DEFERRAL RELIEF	NO LIMIT	NO LIMIT
SEED EIS (SEIS) AT 50%	£100,000	£100,000
SEIS CGT REINVESTMENT RELIEF	50%	50%

***Above £1,000,000 investment must be in knowledge-intensive companies**

NATIONAL INSURANCE CONTRIBUTIONS

CLASS 1	EMPLOYEE	EMPLOYER
NICS RATE	12%	13.8%
NO NICS FOR EMPLOYEES GENERALLY ON THE FIRST	£184 PW	£170 PW
NO NICS FOR YOUNGER/VETERAN EMPLOYEES* ON THE FIRST	£184 PW	£967 PW
NICS RATE CHARGED UP TO	£967 PW	NO LIMIT
2% NICS ON EARNINGS OVER	£967 PW	N/A
EMPLOYMENT ALLOWANCE PER BUSINESS – NOT AVAILABLE IF SOLE EMPLOYEE IS A DIRECTOR OR EMPLOYER'S NICS FOR 20/21 £100,000 OR MORE		£4,000

LIMITS AND THRESHOLDS	WEEKLY	MONTHLY	ANNUAL
LOWER EARNINGS LIMIT	£120	£520	£6,240
PRIMARY THRESHOLD	£184	£797	£9,568
SECONDARY THRESHOLD	£170	£737	£8,840
UPPER EARNINGS LIMIT (AND UPPER SECONDARY THRESHOLDS*)	£967	£4,189	£50,270

***Employees generally under 21 years and apprentices under 25 years.**
Veterans in first 12 months of civilian employment from April 2021.

Class 1A Employer On car and fuel benefits and most other taxable benefits provided to employees and directors — 13.8%

Class 2 Self-employed Flat rate per week — £3.05 (£158.60PA)
Small profits threshold
No compulsory NICs if annual profits less than — £6,515

Class 4 Self-employed On annual profits of — £9,568 TO £50,270: 9%; OVER £50,270: 2%

Class 3 Voluntary flat rate per week — £15.40 (£800.80PA)

CAPITAL GAINS TAX

TAX RATES - INDIVIDUALS		ANNUAL	WEEKLY
BELOW UK HIGHER RATE INCOME TAX BAND		10%	10%
WITHIN UK HIGHER AND ADDITIONAL RATE INCOME TAX BANDS		20%	20%
TAX RATE – TRUSTS AND ESTATES		20%	20%
SURCHARGE FOR RESIDENTIAL PROPERTY AND CARRIED INTEREST		8%	8%
EXEMPTIONS			
ANNUAL EXEMPT AMOUNT:	INDIVIDUALS, ESTATES, ETC	£12,300	£12,300
	TRUSTS GENERALLY	£6,150	£6,150
Chattels gain limited to 5/3rds of proceeds exceeding		£6,000	£6,000

Business Asset Disposal Relief
10% on lifetime limit of £1,000,000 For trading businesses and companies (minimum 5% participation) held for at least 2 years

INHERITANCE TAX

	2021/22	2020/21
NIL-RATE BAND*	£325,000	£325,000
RESIDENCE NIL-RATE BAND*†	£175,000	£175,000
RATE OF TAX ON EXCESS	40%	40%
RATE IF AT LEAST 10% OF NET ESTATE LEFT TO CHARITY	36%	36%
LIFETIME TRANSFERS TO AND FROM CERTAIN TRUSTS	20%	20%
OVERSEAS DOMICILED SPOUSE/CIVIL PARTNER EXEMPTION	£325,000	£325,000

100% relief: businesses, unlisted/AIM companies, certain farmland/buildings
50% relief: certain other business assets e.g. farmland let before 1/9/95
Annual exempt gifts of: £3,000 per donor £250 per donee

Tapered tax charge on lifetime gifts within 7 years of death

Years between gift and death	**0-3**	**3-4**	**4-5**	**5-6**	**6-7**
% of death tax charge	100	80	60	40	20

***Up to 100% of the unused proportion of a deceased spouse's/civil partner's nil-rate band and/or residence nil-rate band can be claimed on the survivor's death**
†Estates over £2,000,000: the value of the residence nil-rate band is reduced by 50% of the excess over £2,000,000

STAMP DUTIES AND PROPERTY TRANSACTION TAXES

Stamp Duty and SDRT: Stocks and marketable securities — 0.5%
Additional residential and all corporate residential properties £40,000 or more – add 3% to SDLT rates and 4% to LBTT and LTT rates

England & N Ireland – Stamp Duty Land Tax (SDLT) on slices of value

RESIDENTIAL PROPERTY	%	COMMERCIAL PROPERTY	%
£0–£125,000	0	UP TO £150,000	0
£125,001–£250,000	2	£150,001–£250,000	2
£250,001–£925,000	5	OVER £250,000	5
£925,001–£1,500,000	10		
OVER £1,500,000	12		

***0% on slice up to £500,000 (8/7/20–30/6/21) and £250,000 (1/7/21–30/9/21)**
First time buyers: 0% on first £300,000 for properties up to £500,000
Non-resident purchasers: 2% surcharge on properties £40,000 or more
Residential properties bought by companies etc over £500,000: 15% of total consideration, subject to certain exemptions

Scotland – Land and Buildings Transaction Tax (LBTT) on slices of value

RESIDENTIAL PROPERTY (FROM 1/4/21)	%	COMMERCIAL PROPERTY	%
£0–£145,000	0	UP TO £150,000	0
£145,001–£250,000	2	£150,001–£250,000	1
£250,001–£925,000	5	OVER £250,000	5
£925,001–£750,000	10		
OVER £750,000	12		

First time buyers: 0% on the first £175,000

Wales – Land Transaction Tax (LTT) on slices of value

RESIDENTIAL PROPERTY (FROM 1/4/21)	%	COMMERCIAL PROPERTY	%
£0–£180,000*	0	UP TO £225,000	0
£180,001–£250,000*	3.5	£225,001–£250,000	1
£250,001–£400,000	5	£250,001-£1,000,000	5
£400,001–£750,000	7.5	OVER £1,000,000	6
£750,000-£1,500,000	10		
OVER £1,500,000	12		

MAIN DUE DATES FOR TAX PAYMENTS

Income Tax, NICs and Capital Gains Tax – Self-Assessment

31 Jan in tax year / **Following 31 July** } Normally 50% of previous year's income tax (less tax deducted at source) and class 4 NICs

Following 31 Jan — Balance of income tax and class 4 NICs, class 2 NICs and balance of CGT

Inheritance Tax

On death: Normally 6 months after end of month of death
Lifetime transfer 6 April–30 September: 30 April in following year
Lifetime transfer 1 October–5 April: 6 months after month of transfer

Corporation Tax – Self Assessment

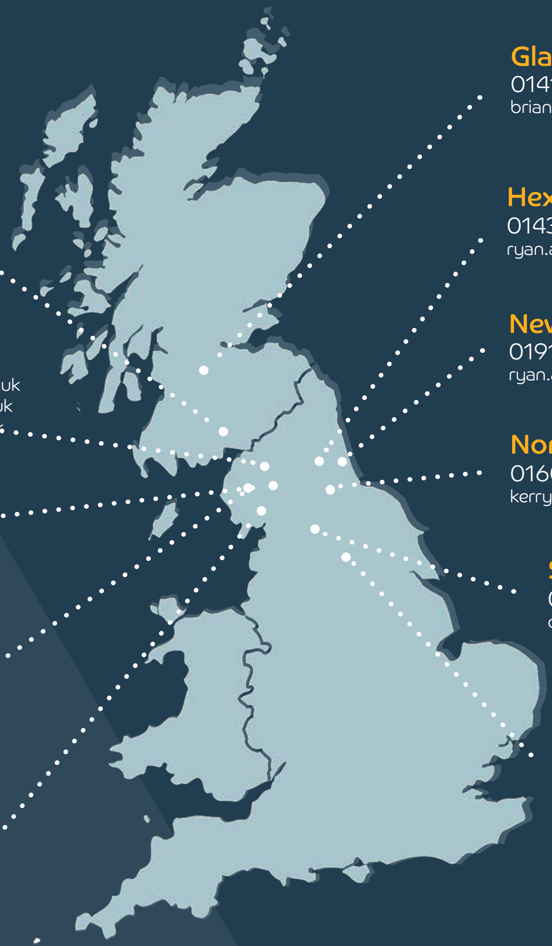
- Profits under £1,500,000: 9 months + 1 day after end of accounting period
- Profits £1,500,000 or over: normally payable in 7th, 10th, 13th and 16th months after start of the accounting period
- Profits £20,000,000 or over: normally payable in 3rd, 6th, 9th and 12th months after start of the accounting period
- Growing companies: no instalments where profits are £10,000,000 or less and the company was not a large company for the previous year.

IMPORTANT INFORMATION

This document provides information and is only intended to provide an overview of the current law in this area and does not constitute financial advice, tax advice or legal advice, or provide any recommendations.

This information regarding taxation represents a summary of our understanding of the law at the date of its last review (March 2021). Tax limits, benefits, allowances and rules are often subject to change and may change in future. Advisers and individuals should check that tax limits, allowances and rules have not changed. The value of benefits depends on individual circumstances.

Different options may have different effects for tax purposes, different implications for pension provision and different impacts on other assets and financial planning.



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