

Turning Tax challenges into opportunities to improve intergenerational outcomes



TONY WICKENDEN

Founder & Managing Partner

SYNOPSIS

This session will cover the importance of intergenerational planning, including the challenges and opportunities in the context of the Consumer duty rules, the current tax context through accumulation, decumulation, preservation and transfer, the potential changes a Labour Government might bring, and the right product choices as part of an "all asset approach " to the renewed role of UK investment bonds.

LEARNING OBJECTIVES

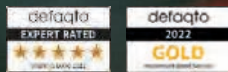
After attending this session, you'll be able to:

- ▶ Describe the main recent changes in taxation including those in the 15/03 Budget
- ▶ Explain the impact of the current tax content on financial planning strategy - especially for higher and additional rate taxpayers
- ▶ Identify the opportunities to improve tax and financial well-being through the use of appropriate products and strategies and in particular how onshore investment bonds (combined with appropriate trusts when relevant) can strongly contribute to great client outcomes



Turning Tax challenges into opportunities to improve intergenerational outcomes

Tony Wickenden,
Managing Director, Technical Connection
In conjunction with HSBC Life



Learning Objectives

After attending this session, you'll be able to:

- ◆ Describe the main recent changes in taxation including those in the 15/03 Budget
- ◆ Explain the impact of the current tax context on financial planning strategy – especially for higher and additional rate taxpayers
- ◆ Identify the opportunities to improve tax and financial well-being through the use of appropriate products and strategies and in particular how onshore investment bonds (combined with appropriate trusts when relevant) can strongly contribute to great client outcomes



PUBLIC

2

Taking an Intergenerational approach to financial planning

(And recognising the methods of engagement that are preferred by, and most effective with, different generations)

The importance of recognising

- ◆ The value to your clients, and
- ◆ The value to the long-term value to your business of taking an intergenerational approach to financial planning strategy

Both outcomes depend on advisers having engagement with, and understanding of the financial needs and aspirations of, their “main client” **and** those near and dear to them

Statement of the Obvious:

Building, preserving and facilitating the transfer of wealth ...with the knowledge of all the needs and aspirations of all “interested generations” will (rightly and deservedly) make retention of funds and continued family relationships more likely

First a Little Bit of Background

The context for successful Intergenerational
Planning

Advice Alpha – What Is It?

The net, non market dependent, improvement in financial well-being delivered as a result of adviser know-how, experience and expertise.



And to Be a Little More Specific ...

Tax Alpha (basically having more money)
is the result of maximising appropriate use of
available reliefs, exemptions, allowances and tax
efficient investments

The levels and bases of taxation, and reliefs from taxation, can change at any time.
The value of any tax relief depends on individual circumstances.

PUBLIC

6

First a Little Bit of Background

Updating you on what's changed recently
..and the fundamentals

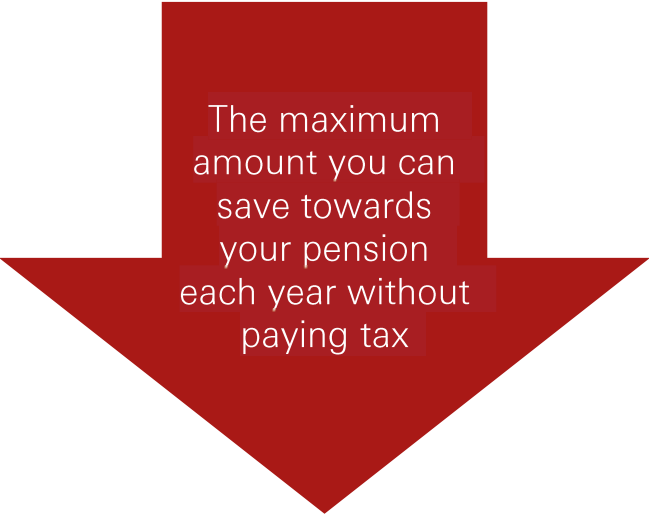
Spring Budget 2023: Extra! Extra! Read all about It.

Main Changes:

- ◆ Changes to the annual limits on tax relieved pensions savings, giving greater scope for many to save
- ◆ Removal of Lifetime Allowance charges as of April 2023
- ◆ LTA charge being removed on funds designated to income in excess of the LTA, funds drawn as a lump sum in excess of the LTA will be chargeable to income tax
- ◆ LTA to be abolished on 6 April 2024
- ◆ The gradual extension of free childcare of up to 30 hours per week for children up to age 3 starting in April 2024 and fully implemented by September 2025
- ◆ Various employment incentives including for the disabled and over 50s

The Annual Allowance

What is your annual allowance?



The maximum amount you can save towards your pension each year without paying tax

Annual Allowances	
Standard	£60,000 (2023)
Tapered	£10,000-£60,000
Money Purchase AA	£10,000

- ◆ Unused allowances can be carried forward for three years
- ◆ Advice is key to ensure this is done correctly

The levels and bases of taxation, and reliefs from taxation, can change at any time. The value of any tax relief depends on individual circumstances

The Lifetime Allowance

What is your annual allowance?



Removed

Lifetime Allowances	
Enhanced Protection	
Primary Protection	
	£1,800,000
	£1,500,000
Individual Protection Value	
	£1,250,000
Individual Protection 2016 Value	
	£1,073,100

The levels and bases of taxation, and reliefs from taxation, can change at any time.

The value of any tax relief depends on individual circumstances

Spring Budget 2023: Extra! Extra! Read all about it.

Main Changes (CTD):

- ◆ New and continuing incentives for businesses investing in qualifying capital equipment and including most office machinery and I.T equipment allowing 100% of the expenditure to be fully deductible for tax purposes. The scheduled increases to corporation tax from 1st April 2023 will however proceed
- ◆ 12 new investment zones to be designated subject to successful application. These would qualify for a range of incentives, support and tax reliefs
- ◆ An extension of the energy support guarantee at the current level of £2,500 for an average household for a further three months until July 2023

Not a Budget change..but worth knowing

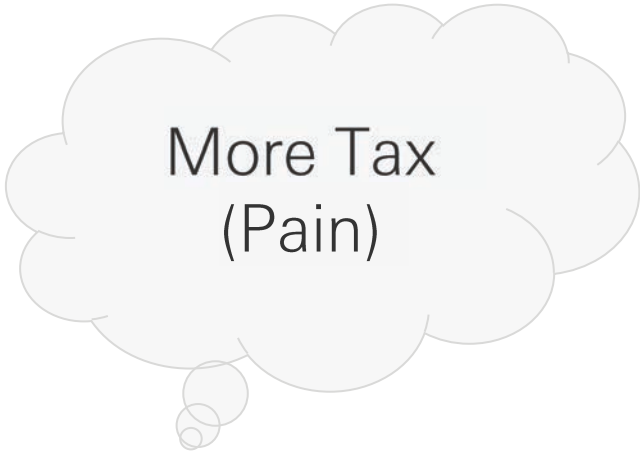
DGT Discounted Values

- ◆ Interest rate adopted by HMRC in arriving at the value of the retained right to income under a DGT has increased from 4.5% to 6.75% from 1st May 2023.
- ◆ This increase will reduce the value of the retained benefit (think of it as a higher interest rate making an annuity cheaper per £1 of income). Effectively the “discount” to be applied to the value of the “deferred “ income payments to arrive at their present value will increase to reflect the higher rate of “lost” interest.
- ◆ The corollary is that the “discount” applied to the value transferred will fall as if the value of the retained benefit is lower then the value of the gift will be greater
- ◆ eg For a 65 year old with 5% withdrawals, a current discount of 66.88% would go down to about 56%. For a couple aged 65, the difference is between about 77% and 61%. The discount reduction shrinks as age increases.

Frozen and Falling Allowances and Thresholds



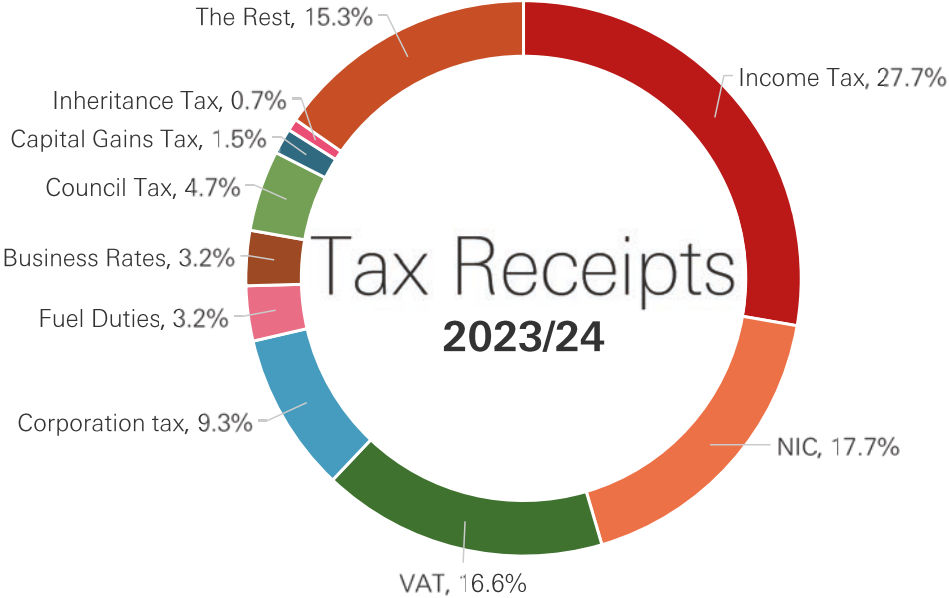
Cause



Effect

Where Does the Governments' Money Come from?

US!



PUBLIC

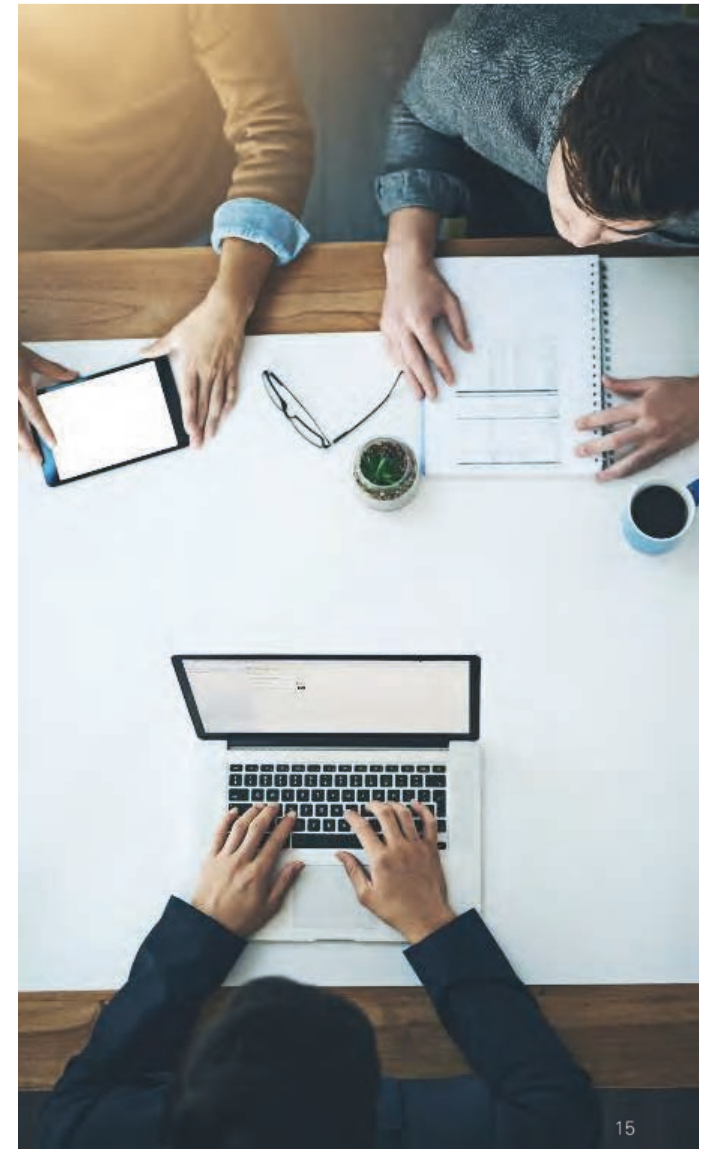
The Tax Context

Income Tax:

- ◆ Personal allowance and higher rate threshold frozen until the end of the 2027/28 tax year (2.6m more HR taxpayers)
- ◆ Basic Rate Tax to remain at 20% indefinitely
- ◆ Additional Rate tax (@45%) payable from 2023/24 on income above £125,140 (currently £150,000): more AR taxpayers
- ◆ Dividend tax allowance halved to £1,000 from 2023/4, then halved again to £500 in 2024/25
- ◆ Dividends above the allowance taxed at 8.75% (Basic rate), 33.75% (Higher rate), 39.35% (Additional rate)

National Insurance:

- ◆ The 1.25% addition remains excluded
- ◆ NIC Thresholds frozen until April 2028



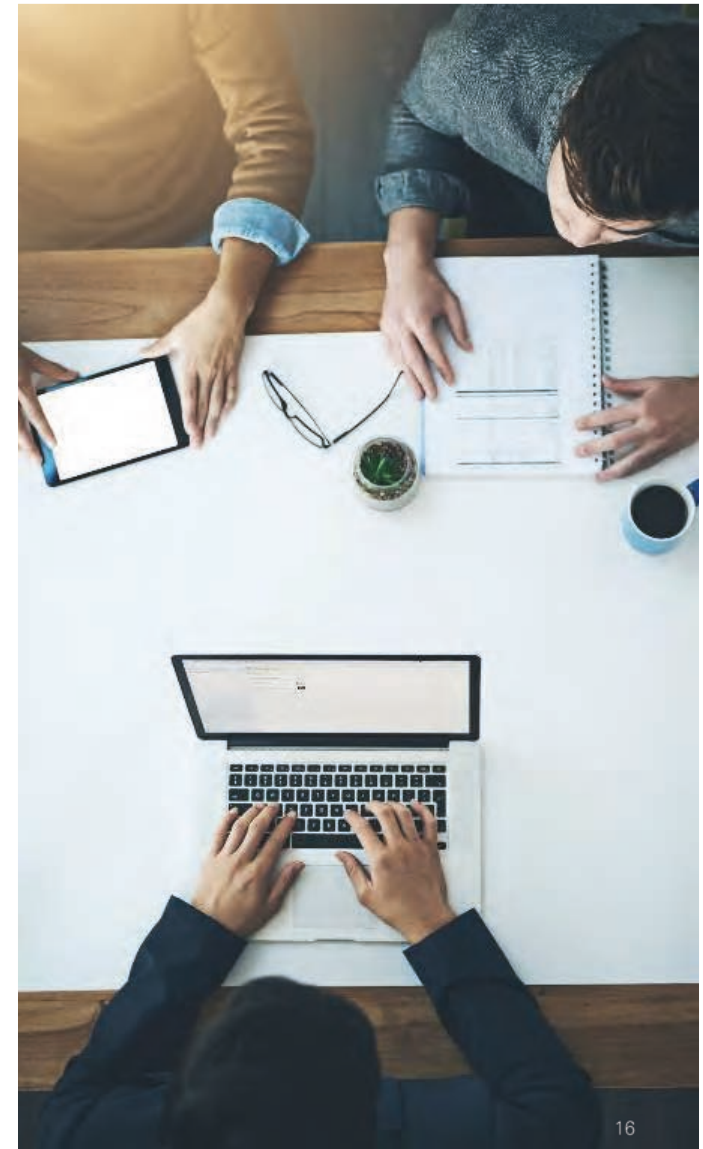
The Tax Context

Tax Efficient Investments:

- ◆ The tax efficiencies delivered by ISAs, VCTs and EIS all remain unaffected

Pensions:

- ◆ While there have been material changes to the Annual Allowance and the Lifetime Allowance in the 15/03/23 Budget, there are no other changes to pensions tax relief for contributions, tax freedom of the income and gains of the pension fund, tax free cash (PCLS - subject to the cap) or IHT freedom



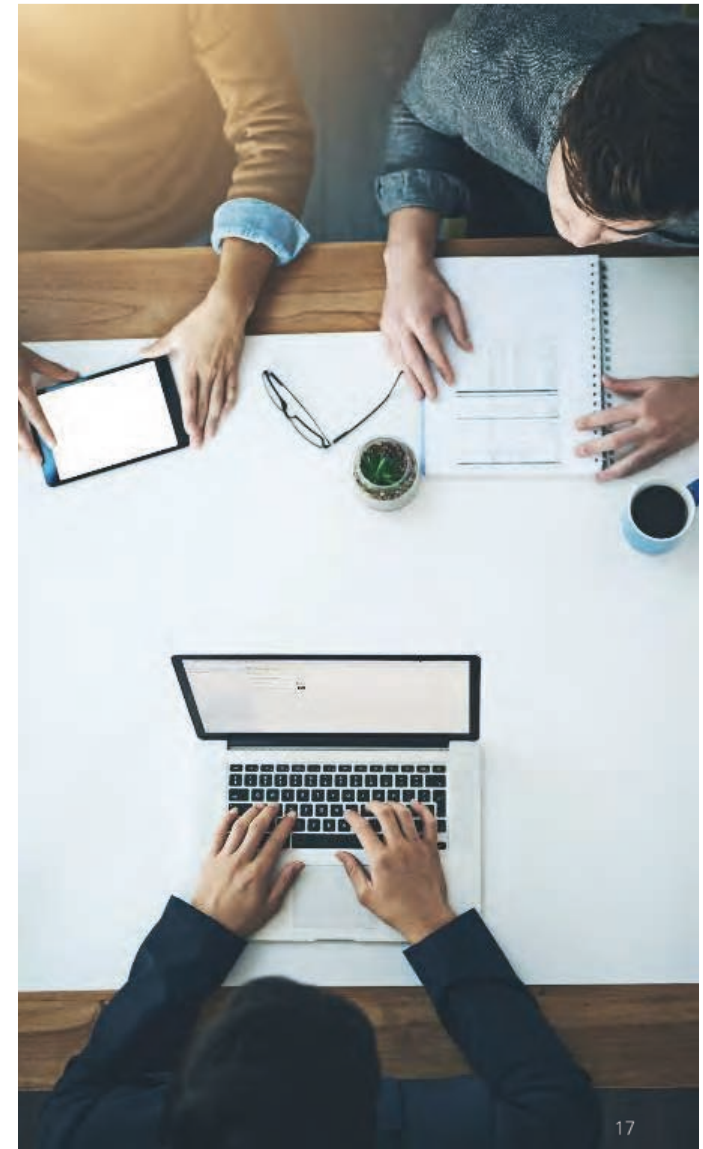
The Tax Context

Capital Gains Tax:

- ◆ Annual CGT Exemption to reduce to £6,000 in tax year 2023/24 and to £3,000 in tax year 2024/25 (current exemption is £12,300): CGT Payers doubled as a result
- ◆ Non-exempt gains to remain taxable at 10% basic rate, 20% higher and additional rate and 28% on gains on disposal of property that is not the main residence

Inheritance Tax:

- ◆ The nil rate band and residence nil rate band (£325,000 and £175,000 respectively) will remain frozen until the end of tax year 2027/28

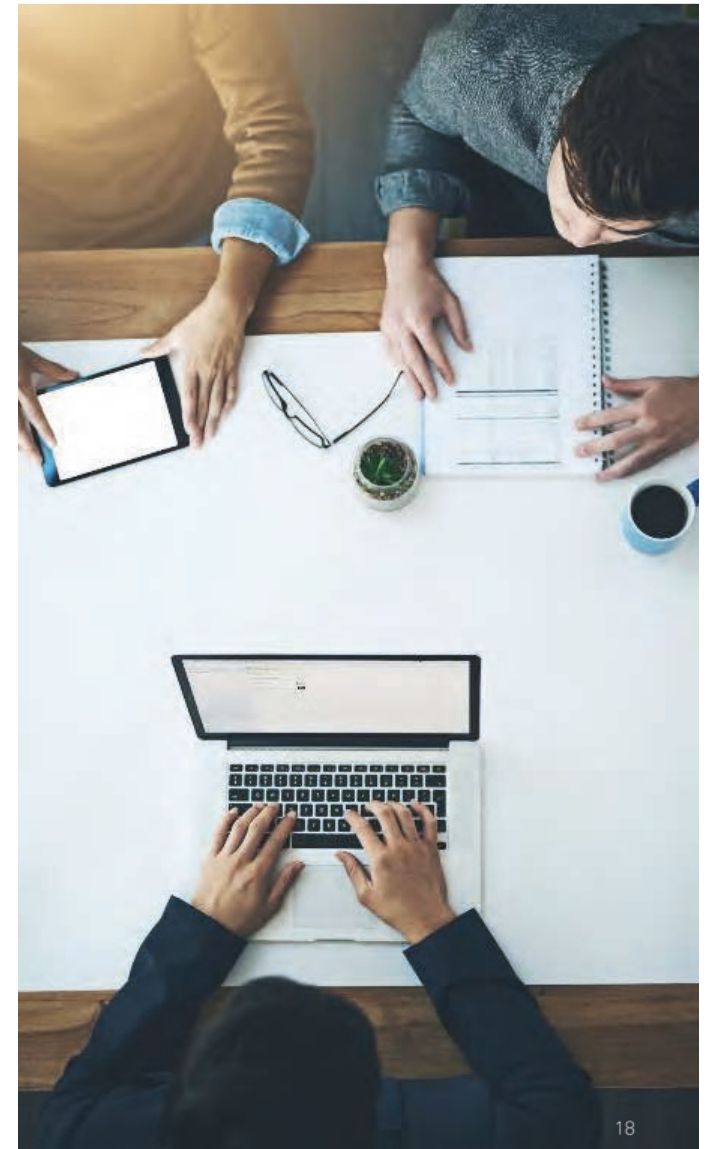


The Tax Context

Corporation Tax:

- ◆ 19% on profits up to £50,000
- ◆ 26.5% marginal rate on profits between £50,000-£250,000
- ◆ 25% on all profits if profits exceed £250,000

These changes do not apply to the Policyholder Funds of UK Life Companies



And All of This Amounts to

A “Boiling Frog” Strategy

The Impact of the Freeze: Income Tax

The six year freeze on the personal allowance the higher rate threshold leads to:

3.2million
New taxpayers

2.6million
New higher rate taxpayers

The Impact of the Freeze: Income Tax

Additional Rate Taxpayers



From **2023-24** the reduced AR threshold

(to **£125,140**) will affect **792,000** taxpayers

232,000 of whom would not otherwise have paid ART



Source: HMRC Policy Paper:
<https://www.gov.uk/government/publications/lowering-of-the-additional-rate-threshold/income-tax-additional-rate-threshold-from-6-april-2023>

The Impact of the Freeze: Dividend Tax

Reduction of the Dividend Tax Allowance Numbers Affected

2023-24	3,235,000	(46% with divs unaffected)
2024-25	4,405,000	(27% with divs unaffected)

The Impact of the Freeze: Capital Gains

Capital Gains Tax

Q. How many more CGT payers as a result of reducing the AEA?

A. 500,000 in 2023/24
570,000 in 2024/25

Individuals and trusts

260,000 individuals and trusts will pay CGT for the first time

Where Would We Be If.....

We Hadn't Had The Big Freeze?

	2021/22	2027/28
Personal Allowance	£12,570	£16,460
Higher rate threshold	£50,270	£66,060
Additional rate threshold	£125,140	£245,600 ¹

.....and by 2027/28 the PA will just about cover the state pension

Notes:

1. Based on £150,000 indexed from 2010/11: £144,300 from 2022/3
2. Consumer Prices Index

Where Would We Be If.....

Inheritance Tax

Remember.....

NRB frozen from April 2009 until April 2028
RNRB frozen from April 2020 until April 2028

But what if.....

Those bands had been indexed...

	2023/24	2027/28
NRB	£465,000	£537,000
RNRB	£200,000	£233,000

Where Would We Be If.....

	Frozen at	(If Indexed) 2023/24	(If Indexed) 2027/28
Standard LTA	£1,073,000	£1,218,800	£1,403,200
Annual Allowance	£40,000	£49,900	£57,700

* Major changes proposed in the March 2023 Budget

What Could the Future of Tax Look Like ...If

Labour wins the next general election



Capital
Gains Tax



Inheritance
Tax



Wealth
Tax



Non-Dom
Taxation

.....And possibly a lot more

Tax Alpha ...An Antidote to Tax Pain

Tax conscious
investment
avoids wealth
destruction

PUBLIC

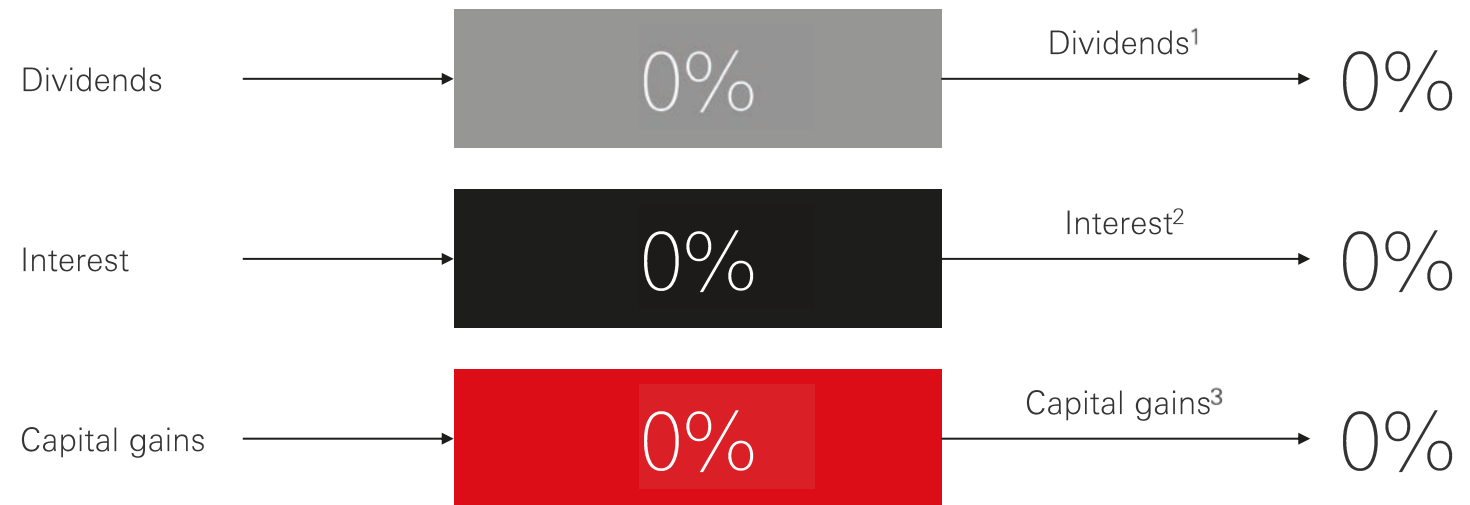
28

What Do The Reductions to The Dividend Allowance and The CGT Annual Exemption Do to Investment Decision Making?

Increase the attraction of ISAs and Pensions...and VCT/EIS

And beyond the 'No Brainers'

- ◆ Use the annual dividend allowance
- ◆ Use the annual CGT exemption
- ◆ Use annual savings allowance and, if possible, starting rate



Notes:

1. Up to £2,000 pa tax free dropping to £1,000 (2023/24) and to £500 (2024/25)
2. Up to £6,000 pa tax free (PSA + SR)
3. Up to £12,300 pa tax free falling to £6,000 (2023/24), £3,000 (2024/25)

But What Else Do The Reductions to The Dividend Allowance and The CGT Annual Exemption Do to Investment Decision Making?

Lower the threshold above which you consider
the tax deferral and tax management
capabilities of bonds

Where The Thresholds Might Be....

Focusing on the value of a portfolio that could produce a tax free dividend

Based on the current FTSE All-Share Yield (approximately 3.6%), the value of a shareholding needed to exceed the relevant tax year's dividend allowance is:

- ◆ £55,600 in 2022/23
- ◆ £27,800 in 2023/24; and
- ◆ £13,900 in 2024/25

In Practice ..The Effective “Overall Tax Rate” Depends on What’s Driving The Growth in Value

Marginal Income Tax Rate	Nil %	Basic %	Higher %	Additional %
Equity dividends:				
Collective fund	0.00	8.75	33.75	39.35
UK bond	0.00	0.00	20.00	25.00
Offshore bond	0.00	20.00	40.00	45.00
Equity gains:				
Collective fund	10.00	10.00	20.00	20.00
UK Bond	20.00	20.00	36.00	40.00
Offshore bond	0.00	20.00	40.00	45.00
Fixed Interest distributions:				
Collective fund	0.00	20.00	40.00	45.00
UK bond	20.00	20.00	36.00	40.00
Offshore bond	0.00	20.00	40.00	45.00
Fixed Interest gains:				
Collective fund	10.00	10.00	20.00	20.00
UK bond ¹	20.00	20.00	36.00	40.00
Offshore bond	0.00	20.00	40.00	45.00

Note:

1. Loan relationship rules apply within a UK bond
2. Possible lower rate if life company reserves for tax on capital gains at a lower rate than 20%

How Much ?.....Tax Free?

Bond withdrawal/encashment		Lots more! And don't forget drawing capital
VCT dividends	∞	
ISA income	∞	
Dividend allowance	£2,000 ¹	£20,570
Personal saving allowance	£1,000	
Starting rate band 0% (savings income)	£5,000	
Personal allowance	£12,570	

Note:
1. Reducing to £1,000 (23/24) and to £500 (24/25)

And Bonds... History Is on Our Side

A

Top-Slicing: FA 1968

B

5% Tax Deferred
Withdrawals: FA 1975

Taking An Intergenerational Approach to Financial Planning

(And recognising the methods of engagement that are preferred by and most effective with different generations)

The Importance of Recognising

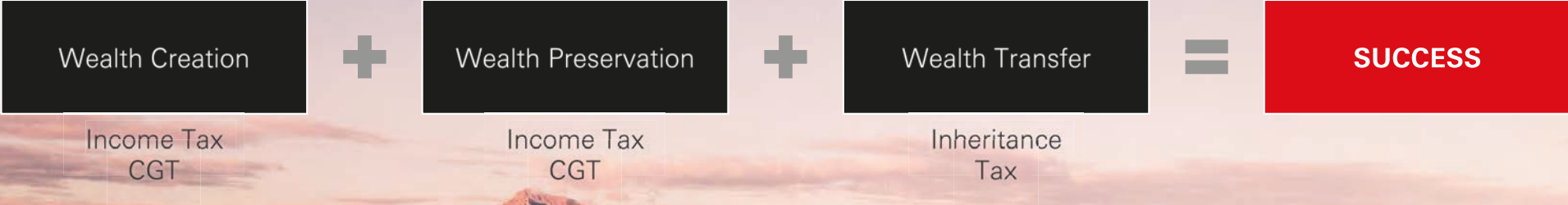
- ◆ The value to your clients and
- ◆ The value to the long-term value to your business
- ◆ of taking an intergenerational approach to financial planning strategy

Both outcomes depend on advisers having engagement with and understanding of the financial needs and aspirations of their “main client” **and** those near and dear to them

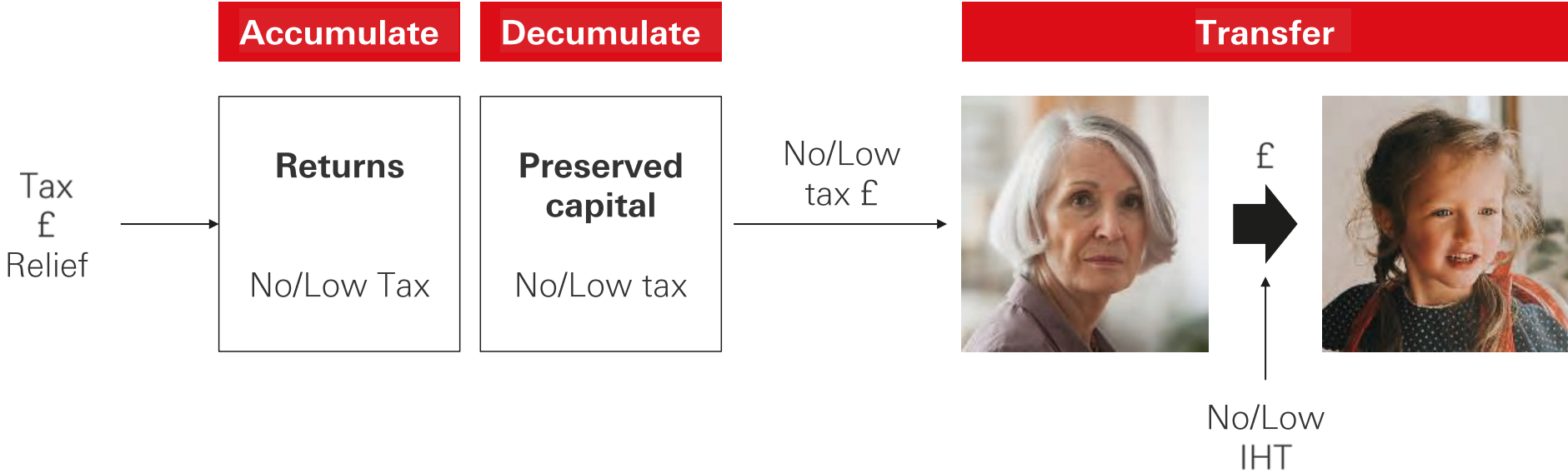
Statement of the obvious:

Building, preserving and facilitating the transfer of wealth ...with the knowledge of all the needs and aspirations of all “interested generations” will (rightly and deservedly) make retention of funds and continued family relationships more likely

Intergenerational Financial Success



Living a Tax Efficient Life...Rather than Leaving Tax Efficiency til the End



Asset Class Based Estate Planning

Main Residence

GWR/POAT Challenges
LTM: Debt and Gift of cash possibly worth considering



Investment/Holiday Property

Planning possible to overcome GWR/POAT



Investments



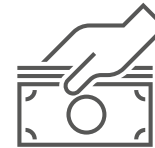
Your pension

IHT Free ... so preserve it



Your Business/Farm

and BR/AR relievable investments



Cash



Business Relief Investments

Complete exemption from IHT after two years

Full access and control

No need for Trusts (but BR investment can be gifted/gifted to a Trust IHT free after 2 years ownership...if access not important)

No need for Trust Registration (unless Trust used!)

But....

BR ignored for RNRB Taper (possible gift? ...see above)

No double deduction if borrowing to invest in BR

Care: LPA possible conflict of interest

What Do Onshore Bond Investors Look Like?

Onshore Bond investors
come in all shapes and sizes
and ages too!




Helping to 'Future-Proof' Financial Adviser recommendations



Clients in their 30's. Young children

- The HSBC Life Onshore Bond is open architecture so the full range of risk profiles & investment objectives can be accommodated
- No Capital Gains Tax, or tax returns to worry about
- Potential school fees planning opportunities
- Appointing children (or grandchildren) as life assured means bonds can continue post and/or death. This provides reassurance with the ability to continue with the bond by appointing a new owner or distribute assets in line with the wishes of the deceased client by endorsement or assignment
- Regular savings can be facilitated through bond top-ups



Clients in their mid 50's. Retirement beckons!

- The HSBC Life Onshore Bond is open architecture - so investment strategy can be altered to meet changing client requirements
- Bond segments can be assigned to help children meet the cost of university fees/focus deposit etc
- If clients are working less hours, tax-efficient onshore bond withdrawals can be switched on to supplement income
- Pension planning - an onshore bond can provide an accessible savings route for access income on a different investment strategy

The HSBC Life Onshore Bond can potentially be used to meet the changing financial needs of clients as they progress through life



Clients have passed away. What happens next?

- If the bond has additional lives assured then it can continue when the bond owner dies. This provides reassurance with flexibility in distributing assets in line with the wishes of the deceased client
- If a trust is in place then inheritance tax-free distributions (as per deceased client/wishes) are possible
- Bond ownership passes to beneficiaries via trustees



Retired clients. Looking ahead

- 5% tax-deferred withdrawals can help clients use as available basic rate tax bands and supplement pension income
- With the HSBC Life Onshore Investment Bond up to 10% regular withdrawals can be taken providing greater income flexibility for basic rate taxpayers
- Bond segment surrenders or assignments can be used to provide financial support for family members
- Onshore bonds can be placed in trust as part of an inheritance tax planning strategy
- No tax returns to worry about

Important

The value of investments can go down as well as up; meaning investors may not get back the amount of their original investment. Most investments should be viewed as a medium to long term commitment.

All projection figures shown in this presentation are examples only and are not guaranteed they are not minimum or maximum amounts. The information in this presentation is based on our understanding and interpretation of UK tax legislation and HM Revenue and Customs practice as at April 2020 which may be subject to change.

Whilst every care has been taken to ensure accuracy, HSBC Life (UK) Limited cannot accept any responsibility for any action taken or refrained from being taken as a result of the information contained in this document.

UK tax law and practice are subject to change. The value of any tax advantages will depend on individual circumstances.

For professional advisers only - not for use with clients

HSBC Life (UK) Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Registered in England (United Kingdom) number 00099695. Registered Office: 8 Canada Square, London E14 5HQ. Our Financial Services Register number is 120435. HSBC Life (UK) Limited is a member of the Association of British Insurers.

INV7771 220-1083

(Maybe) Not Many People Know This

Generally speaking..Bonds are best as tax efficient trustee investment

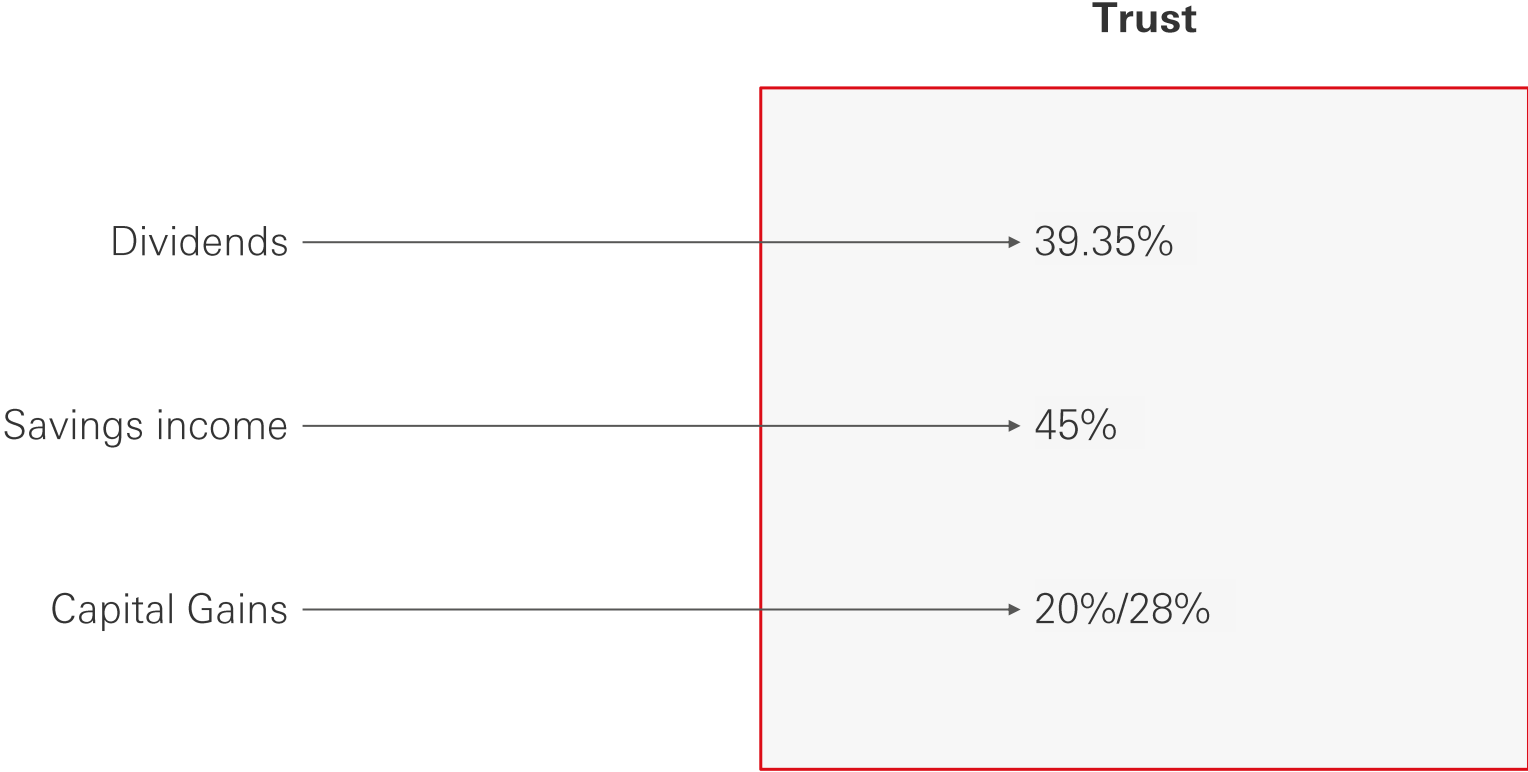
But

Collectives can underpin Loan Trusts

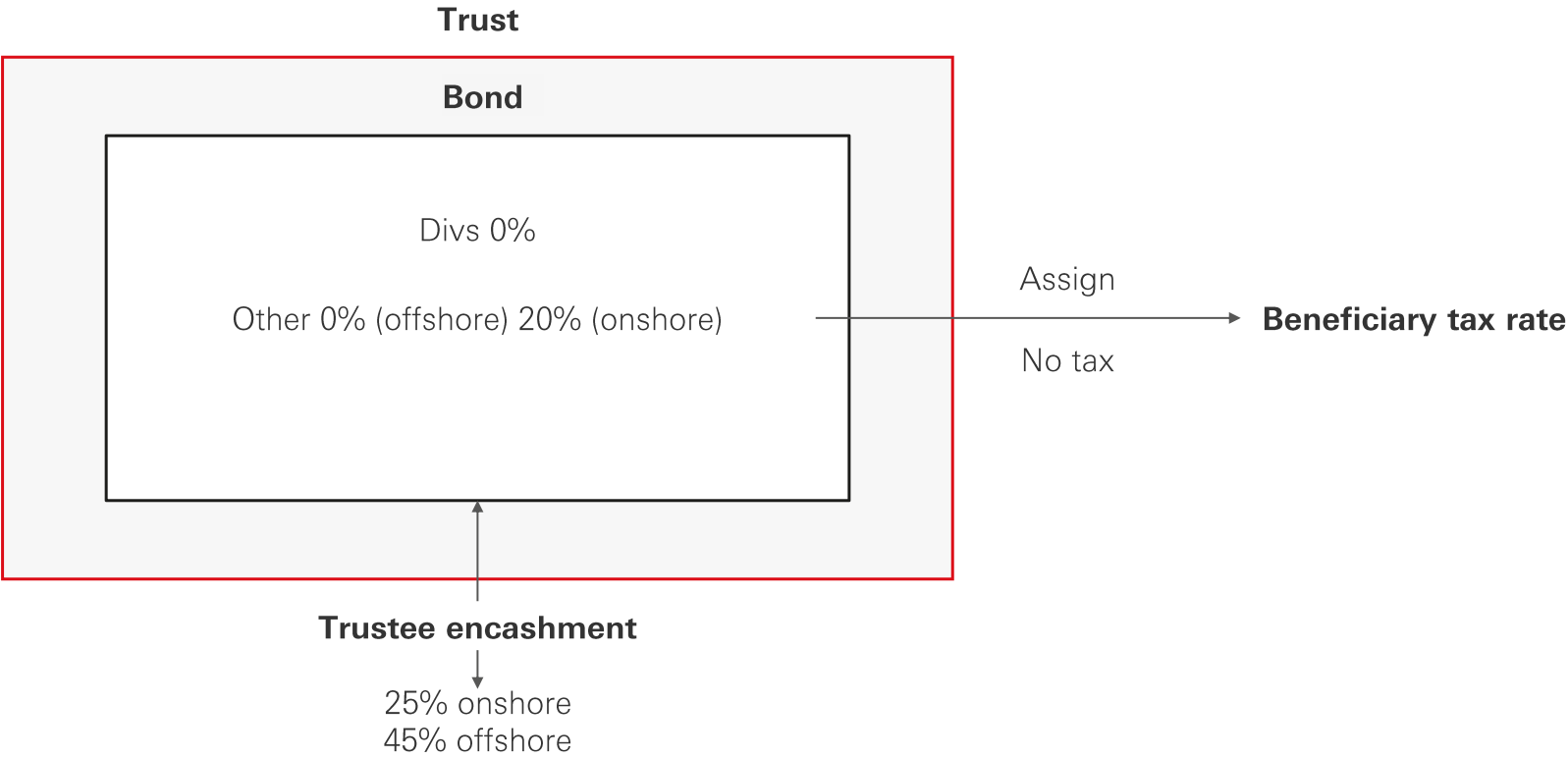
Some Collectives can underpin DGTs

Special consideration to DGTs subject to Scots law

Trustee Investment



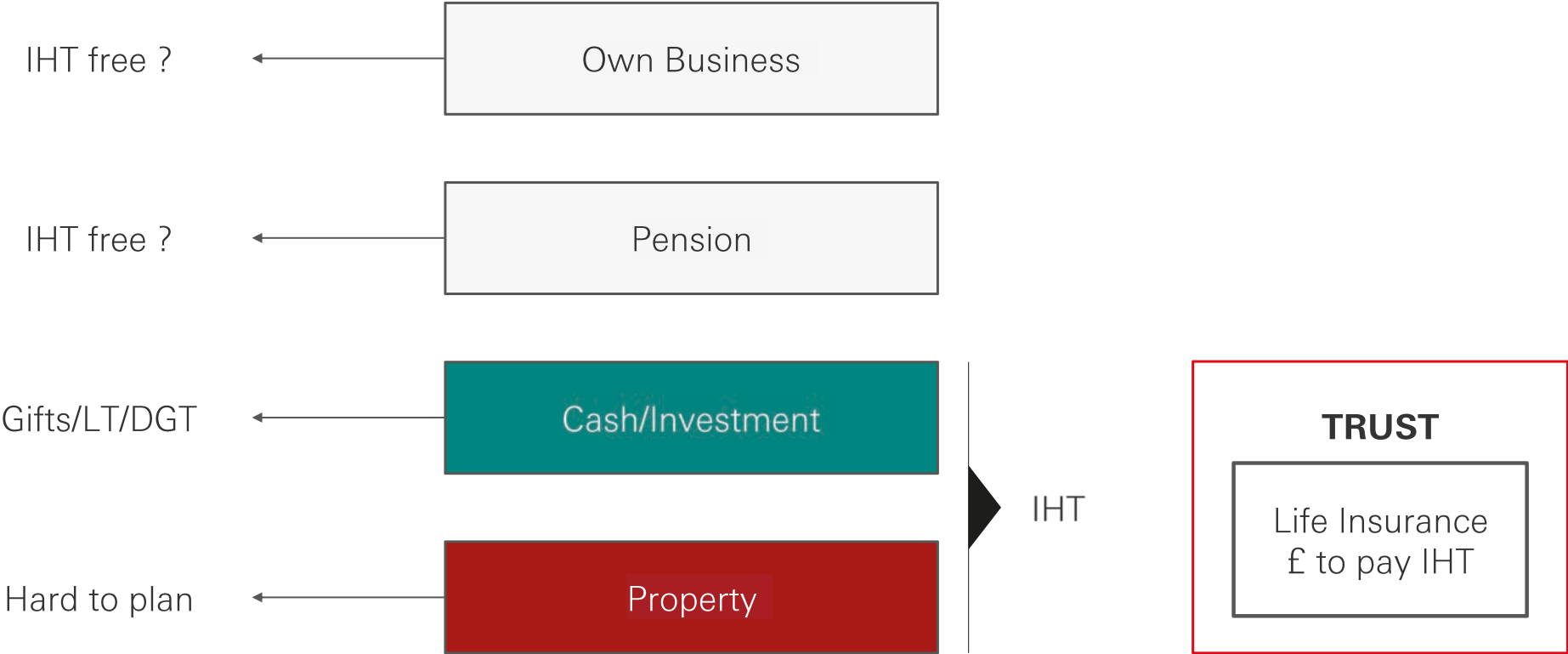
Trustee Investment



DOTAS and TRS



Wealth Transfer: Providing for the Liability and/or Creating a Legacy



Its Simple and Extremely Tax Efficient



Learning Objectives

After attending this session, you'll be able to:

- ◆ Describe the main recent changes in taxation including those in the 15/03 Budget
- ◆ Explain the impact of the current tax context on financial planning strategy – especially for higher and additional rate taxpayers
- ◆ Identify the opportunities to improve tax and financial well-being through the use of appropriate products and strategies and in particular how onshore investment bonds (combined with appropriate trusts when relevant) can strongly contribute to great client outcomes



PUBLIC

48

The Three I's of investable capital

- ◆ A comprehensive report devised and commissioned by HSBC Life into the tax efficient investment of capital to deliver Income, Investment Growth and Intergenerational Planning









Based on extensive

- ◆ Expert analysis and insight from Technical Connection
- ◆ Adviser and investor research carried out by Ad Lucem


To access your copy, email bondbdmsupport@hsbc.com or contact your regional business development manager




Supporting You

 <p>Mark Lambert Head of Business Development mark.t.lambert@hsbc.com 07880 054881</p>	
 <p>Mark Ansell-Crook Eastern mark.j.ansell-crook@hsbc.com 07387 245583</p>	 <p>Damian Jack Western damian.g.jack@hsbc.com 07387 247875</p>
 <p>Rita Solanki London & NHC rita.solanki@hsbc.com 07384 790461</p>	 <p>Adrian Calleja West Midlands adrian.n.calleja@hsbc.com 07747 200115</p>
 <p>Steve McDonald Northern steven.a.mcdonald@hsbc.com 07384 790896</p>	 <p>Paul Smith Scotland & NI paul9.smith@hsbc.com 07384 790996</p>
 <p>Jonathan Ford Southern jonathan.ford@hsbc.com 07827 357437</p>	


Bond Administration Team – Illustrations Applications & Business Servicing

 0345 603 9164
servicing@bond.hsbc.co.uk

Business Development Support

 bondbdmsupport@hsbc.com

Bond BDM Trust – Checking Support

 bondbdmsupport@hsbc.com

Important

- ◆ For professional advisers only – not for use with clients
- ◆ The value of investments can go down as well as up, meaning investors may not get back the amount of their original investment
- ◆ Most investments should be viewed as a medium to long term commitment
- ◆ All projection figures shown in this presentation are examples only and are not guaranteed they are not minimum or maximum amounts
- ◆ The information in this presentation is based on our understanding and interpretation of UK tax legislation and HM Revenue and Customs practice as at April 2023 which may be subject to change
- ◆ Whilst every care has been taken to ensure accuracy, HSBC Life (UK) Limited cannot accept any responsibility for any action taken or refrained from being taken as a result of the information contained in this document
- ◆ UK tax law and practice are subject to change
The value of any tax advantages will depend on individual circumstances

HSBC Life (UK) Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Registered in England (United Kingdom) number 00088695. Registered Office: 8 Canada Square, London E14 5HQ. Our Financial Services Register number is 133435. HSBC Life (UK) Limited is a member of the Association of British Insurers. INV2110 223-1058



An important note



This presentation (the slides and the narrative used in their presentation) is given on the strict understanding that it is for general consideration only.

No action must be taken or refrained from based on it alone. Each case depends on its own facts and advice is essential.

Accordingly, neither Technical Connection nor Puma investments nor any of its officers or employees can accept any responsibility for any loss occasioned as a result of any such action or inaction.

Techlink professional

The screenshot shows the Techlink Professional website. At the top left is the Techlink logo with 'PROFESSIONAL' underneath. To the right of the logo is a testimonial: "Techlink allows me to have confidence that I'm totally up to date with my knowledge in terms of CPD" by Alan Dick, Forty Two Wealth Management. Below the logo are 'Login' and 'Mobile Login' buttons. The main content area is titled 'Tax, Legal and Technical' and describes the company's expertise. It includes sections for 'What We Cover' (listing business tax, investment, legal, offshore, pension, and personal aspects) and 'Most popular right now' (listing articles on progress tax, Supreme Court decisions, and Scottish succession). On the right side, there are buttons for 'Free Trial', 'Demonstration', 'Contact Us', and a 'Features: Library' section.

This graphic features a dark blue header with a testimonial: "Prescient seeks to be current and competent when advising clients: that cannot be achieved without using Techlink as a primary source of factual information and comment." by Chris Woodhams, Managing Director - Prescient Financial Intelligence Limited. Below the header, the text 'DELIVERED THROUGH' is centered. Underneath, there are eight oval icons representing different content delivery methods: Bulletins, Techcast, Techlearn, Web Content, Ask, CPD, NEEDYKNOW, and Library.

Techlink Professional

All you need to:

- ◆ Keep up to date professionally and technically
- ◆ Research the answers you need to your technical questions
- ◆ Secure business generation ideas
- ◆ Carry out, automatically track , record and test your technical CPD

Our complete communication service that enables you to keep in touch with, inform and inspire your clients and the professional advisers you do business with

1. **Quarterly Newsletters** for your clients and professional (Accountants and Solicitors) contacts

2. **"FYI"** our bi-weekly, managed, self select client email service.

3. **FYI Professional**, bi-weekly managed e-mail to be sent to your professional connections.




Contact



 www.technicalconnection.co.uk

 www.techlink.co.uk

 enquiries@technicalconnection.co.uk

 0207 405 1600

