FINANCIAL FOCUS

PAVEY GROUP FINANCIAL SERVICES NEWSLETTER

WINTER ISSUE 2020 ■ ISSUE 16

For richer, for poorer

Pension and asset advice should be part of the divorce process

Divorce – it's one of the most difficult subjects to talk about. The emotional upheaval of divorce can be difficult to deal with, but so too can the financial implications. When relationships come to an end, there are so many things to consider. Children, home and support are naturally the first things you focus on.

When you begin the process of separating a shared life, the sheer number of things to deal with is daunting. On top of that, the settlement may come with its own financial pressures, having a lasting impact on your plans for later in life.

Divorce rates are increasing for men and women over 55

A study from Research Plus[1] shows that divorcees retiring in 2018 expected to receive up to 18% less in retirement income. And with the Office for National Statistics[2] confirming that divorce rates are increasing for men and women over 55, it's an issue likely to affect a growing number of the baby-boomer generation.

One of the most difficult assets to split

Divorcing spouses are often unaware of their rights and still less aware of how to begin to approach the issue of a fair split of pension assets. While it may not be the first thing you need to think about, a pension fund is likely to be one of the most difficult assets a couple will have to split in the event of a divorce, so it's best to start early.

The stress of getting through a divorce can mean people understandably focus on the immediate priorities like living arrangements and childcare, but a pension fund and income in retirement should also be a priority.

Advice is crucial as early as possible in any separation

A pension fund is one of the most complex assets a couple will have to split, so anyone going through a divorce should seek legal and professional financial advice to help them do so. For many more couples, the increase in the value of pensions means that it is often the largest asset.

It goes without saying that this advice is crucial as early as possible in any separation where couples have joint assets. The law on divorce is different across the UK. Taking legal advice in the early stages of separation is important.

How much money you think you'll need to live on later in life

Before planning how to separate your pension assets, you may want to consider how much money you think you will need to live on later in life. It's never easy when things come to an end, but support and advice can make this clearer.

So what are the options available when you are ready to look at separating your assets? Firstly, it's important that you both list the different pensions you and your ex-civil partner or spouse have. Then you can start to explore the options.

Across the UK, there are three core options to consider when you're separating pension assets. These are pension sharing orders, pension attachment orders (called 'pension earmarking' in Scotland) and pension offsetting. Some of these options need to be administered by the courts, and not all of them will be suited to your individual circumstances.

Pension sharing order

Pension sharing is one of the options available on divorce or the dissolution of a registered civil partnership. Each party owns a share of the pension fund but is able to decide what to do with their share independently. This provides a clean break between parties, as the pension assets are split.

Pension attachment order

This redirects some or all of the pension benefits to you or your ex-civil partner or spouse at the time of payment. When the person who owns the pension receives their benefits, the pension provider makes a payment to their ex-civil partner or spouse. With this option, you don't get the clean break as you would from the pension sharing order.

Pension offsetting

With pension offsetting, the total assets are considered and then divided up. For example, if your ex-partner has a large pension pot, they may keep this as you may agree to receive an asset of similar value (the house, for example). This may be an appropriate option if there are overseas pension assets that need to be split, as these cannot be shared via a UK court order.

When contemplating divorce, many people put themselves under undue stress worrying about their financial well-being. Much of that stress is due to the fear of the unknown before, during and after divorce. It is important to focus on your financial situation realistically, since doing so will give you a sense of control over your life, which in turn can reduce your stress level. ■

PROTECTING YOUR PENSION AND ASSETS IN A DIVORCE

A divorce is never something people plan, but it should be something to plan for. There are so many assets to consider and so much legislation to understand. If you are considering a divorce and want to know more about the options available to you regarding your finances, please contact us.

Source data:

[1] Research Plus conducted an independent online survey for Prudential between 29 November and 11 December 2017 among 9,896 non-retired UK adults aged 45+, including 1,000 planning to retire in 2018.

[2] Divorce statistics from the Office of National Statistics, published 26 September 2018

Pavey Group Financial Services Ltd

Minerva House, Orchard Way, Edginswell Park, Torquay, TQ2 7FA

Tel: 01803 652030 **Email:** enquiries@paveygroupfs.co.uk

Tax-wise

Make the most of your valuable allowances, reliefs and exemptions

Once we enter January, the end of the 2019/20 tax year will be just over three months away on 5 April. As this date approaches, the window of opportunity reduces if you want to make the most of valuable allowances, reliefs and exemptions that could help reduce your tax bill and make sure your finances stay tax-efficient.

Some of these allowances will be lost forever if they are not used before the tax year end – and the sooner you claim them the better. Every year, some people leave end-of-year tax planning until the last minute. But leaving planning until the eleventh hour increases the risk that you will discover you have left it too late and missed out on the chance to improve your financial position.

Acting well before the tax year end means you can also be sure that you are maximising your opportunities and minimising your stress. The list we've provided below isn't exhaustive, but it highlights some of the main areas to consider if appropriate to your particular situation. If you would like to discuss your own financial position, please contact us.

Income Tax

Consider making use of lower-rate tax bands. It's important to review the tax implications of transferring income-producing assets and taking note of anti-avoidance and settlements legislation.

The way you receive an income, and the rates and allowances that apply, should be at the front of your mind. How much you pay depends on where you live in the UK, with Scotland and Wales in receipt of devolved powers to set their own Income Tax bands on top of the personal allowance.

The annual dividend allowance remains at £2,000 for 2019/20 after reducing from £5,000 this time last year. With the new personal allowance of £12,500 added to the frozen dividend allowance, the maximum tax-free income you can receive through dividends is £14,500 in 2019/20.

Some smaller amounts of income are tax-free up to annual limits. Under the Government's rent-a-room scheme, you can continue to earn tax-free income of up to £7,500 a year from letting out a furnished room in your home.

Individual Savings Account (ISA) allowance

With a Cash ISA or a Stocks & Shares ISA (or a combination of the two), you can save or invest up to £20,000 a year tax-efficiently.

If you are in a position to, it makes sense for you and your spouse to take advantage of each other's ISA allowance, particularly if one of you has more financial resources than the other. That way, you can save (in the case of Cash ISAs) or invest (in the case of Stocks & Shares ISAs) up to £40,000 tax-efficiently in 2019/20.

Currently, 16 and 17-year-olds actually get two ISA allowances, as they're able to open a Junior ISA (which for 2019/20 has a limit of £4,368) and an adult Cash ISA. This means that you can put away up to £24,368 in your child's name tax-efficiently this tax year.

People aged 18–39 can open a Lifetime ISA, which entitles them to save up to £4,000 a year until they're 50. The Government will top up the savings by 25%, up to a maximum of £1,000 a year.

Pension contributions

The annual pensions allowance enables you to contribute up to £40,000 in 2019/20. If your adjusted income exceeds £150,000 in 2019/20, your annual allowance will be reduced by £1 for every £2 that exceeds this threshold down to a limit of £10,000.

Any unused pensions annual allowance can be carried forward for three tax years, providing you were a member of a registered pension scheme during that period. This unused allowance can be added to your 2019/20 annual allowance, giving a maximum pension contribution of £160,000, all of which will attract personal tax relief if you have the required level of relevant earnings.

You can also increase your basic State Pension by paying voluntary Class 3 National Insurance Contributions (NICs).

Consider contributing up to £2,880 towards a pension for your non-earning spouse or children. Tax relief is added to your contribution, so if you contribute £2,880, a total of £3,600 a year will be paid into the pension scheme, even if you earn less than this or have no income at all.

You begin to lose your personal allowance once your adjusted net income exceeds £100,000, such that the allowance reduces to £0 when adjusted net income reaches £125,000.

Inheritance Tax

You can act at any time to help reduce a potential Inheritance Tax (IHT) bill when you're no longer around.

Gifts of up to £3,000 per year can be made on an IHT-free basis. The limit increases to £6,000 if the previous year's annual exemption was not used.

A married couple can therefore make IHT-exempt gifts totalling £12,000 – if unused, the annual allowance can be carried forward to the next tax year only. This simple technique could save a possible IHT bill of £4,800 in the event of your untimely death.

You should also consider using other annual gifts such as gifts in consideration of marriage or £250 small gifts.

Business Relief (BR) is a valuable IHT relief, with business property potentially receiving up to 100% relief if certain criteria are met. BR is an important part of succession planning, but due to the complexity of the BR rules, the relief may not be due even though you expect to meet the conditions.

It is important to regularly review your BR position to ensure that it continues to apply and that your business activities do not jeopardise your BR position.

Capital Gains Tax allowance

Capital Gains Tax (CGT) is a tax on the gains and profits you make when you sell something, such as an investment portfolio or second home.

Everyone has an annual allowance of £12,000 (in 2019/20) before CGT applies. Like the ISA allowance, it doesn't roll over – so if you don't use it, you'll lose out. And you may have to pay more CGT in the future.

Also, it's worth remembering the allowance is for individuals, so couples have a joint allowance for 2019/20 of £24,000. In some situations, it may be appropriate to transfer assets into your joint names so you both stay within your individual allowances. However, this is only effective if the gift is a genuine gift of beneficial ownership, and the transferor does not continue to benefit from the asset following the transfer.

Not every investment portfolio is subject to CGT. If you're looking for a tax-efficient way to invest, a Stocks & Shares ISA could be for you. Just like any investment, it carries risk – meaning you could lose some or all of your money – but if you do make a profit due to share price increases, you won't be required to pay CGT on it.

A Bed & ISA will allow you to utilise the current year's ISA allowance by moving investments from an unwrapped environment to the ISA tax-efficient wrapper. This is achieved by disposing of the unwrapped investment and repurchasing it via an ISA. The disposal of the unwrapped investments may be liable to CGT, but once inside the ISA, the investments are sheltered from CGT in the future. ■

DON'T LOSE IT, USE IT

As we make our way towards the end of the tax year, now is the ideal time to review your tax affairs to ensure that you have taken advantage of all the valuable allowances, reliefs and exemptions available to you. To discuss the planning opportunities available to help you, your family and business reduce your tax bill, please contact us.

To arrange a complimentary consultation or review, please contact our Independent Financial Advisers on 01803 652030.