FINANCIAL FOCUS

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It's good to talk

How to approach financial conversations with older family members

Discussing finances is not always easy, particularly with older family members. Nevertheless, these conversations are essential for alleviating stress and ensuring everyone's long-term wellbeing. Whether it involves managing unexpected expenses, such as medical bills, or addressing insufficient savings, financial challenges can weigh heavily on ageing relatives. Families can work towards smoother transitions as circumstances evolve by engaging in open discussions and planning ahead.

Why financial discussions are crucial

Many people shy away from discussing money, even though it's vital. Research reveals that nearly half of parents (49%) have never shared their Will's instructions or details with their adult children, often assuming their estate is too small to justify a conversation. Equally concerning, only 34% of parents have informed their children where their Will is stored.

Avoiding such discussions creates unnecessary stress and a lack of preparation. For example, recent research notes that 55% of adults either provide financial support or expect they will need to help their parents in retirement[1]. Yet, confidence in older relatives' financial stability remains low, especially among younger adults. Only 2% of 18 to 24-year-olds feel optimistic about their parents' financial health. Initiating these conversations early helps families plan for key issues such as estate distribution, retirement needs and long-term care.

Professional advice can provide a helpful framework

Initiating financial discussions with older relatives might feel uncomfortable, but it is essential to break the ice. Seeking professional advice can offer a valuable framework for ensuring these conversations are successful. Below are important questions to consider, which will help prepare your family for the future.

Have living costs been assessed recently?

Understanding and managing everyday costs is key to maintaining financial independence for older relatives. You can create a budget for essentials, leisure expenses, savings and one-off costs. Reviewing outgoings such as utility bills, insurance plans and subscriptions ensures these are necessary and competitively priced.

Younger family members can help older generations identify online deals and discounts, which they may be less familiar with. Additionally, consider whether all potential tax reliefs, such as the marriage allowance, are being used to ease financial pressures further and optimise savings.

Have you tackled the increasing concerns regarding Inheritance Tax?

Rising house prices and frozen tax thresholds have significantly increased Inheritance Tax (IHT) bills. Legislation set to bring pensions into the IHT framework from April 2027 will further complicate this issue, potentially impacting even more families.

Families should consider strategies such as setting up trusts – including gift trusts or loan trusts – or gifting assets. Thoughtful planning can alleviate IHT liabilities. Exploring tailored advice on these solutions can help ensure your family is prepared for this financial challenge.

The importance of updating a Will

Having a Will ensures that a person's assets are distributed according to their wishes, preventing disputes among family members. Regular updates are equally vital, especially following significant life events like births, marriages, divorces or deaths. For example, a marriage automatically invalidates an earlier Will, requiring a new document.

Although discussing the contents of a Will openly with the entire family may feel daunting, it fosters transparency and helps manage expectations. This avoids misunderstandings and ensures everyone is on the same page.

Do you need a Lasting Power of Attorney?

Another critical consideration is establishing a Lasting Power of Attorney (LPA). An LPA allows a trusted individual to make financial or medical decisions if the person becomes unable to do so themselves. Setting up an LPA alongside a Will can save time, reduce costs and eliminate potential distress in unforeseen circumstances.

Planning for long-term care costs

The rising care costs in later years can severely deplete savings if not planned for in advance. While these costs can feel daunting, there are financial tools that may help. For instance, an immediate needs annuity can provide tax-free income to cover care services directly.

Preparing for long-term care is a complex process that requires careful consideration of options. Families benefit significantly from exploring solutions that safeguard their wealth while ensuring that loved ones can access the care they need.

Are financial and legal documents well organised?

The proper organisation of key documents is crucial. Encourage loved ones to maintain updated and easily accessible records of their Wills, trust documents, pensions and financial commitments. It is equally important to inform family members where these documents are stored.

Tracking gifts and expenditures over time also simplifies matters in the future, especially if exemptions from IHT become necessary. Clear, well-organised records make a difficult time more manageable and ensure critical information is readily available when needed.

Why financial planning as a family is important

Collaborating as a family on financial planning fosters transparency, decreases stress and strengthens family ties. While these conversations may initially be challenging, they lay the ground-work for a future with reduced uncertainties and greater peace of mind.

By addressing these aspects early, families can enjoy their time together, assured that everyone's financial wellbeing has been thoughtfully considered. ■

READY TO TAKE THE FIRST STEP TOWARDS FINANCIAL WELLBEING?

If you're ready to embark on these important discussions or require guidance, don't delay. Ensuring your family is financially prepared will offer peace of mind today and security for the future. For professional advice or to make use of available resources to clarify your next steps and safeguard what matters most, please reach out to us. We look forward to hearing from you.

Source data:

(1) Second 50 report – survey of 900 UK workers and 100 retired UK residents is the foundation of this second edition of our Second 50 report, complementing 12 years of research in the UK. Unless otherwise stated, the research referred to throughout this guide was conducted by Aegon in July 2024 in a study nationally representative of UK age, gender and regions.

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Are your capital gains causing you a financial headache?

Without a clear strategy, you might end up paying more tax than necessary

Navigating Capital Gains Tax (CGT) can be complicated and daunting, especially with ongoing changes to exemptions, thresholds and regulations.

Understanding the details of CGT is vital, as it directly affects how much tax you owe when disposing of investments such as property, shares or other valuable assets. Without a clear strategy, you might end up paying more than necessary, leaving less of your hard-earned money in your pocket.

However, with careful planning, informed financial decisions and an awareness of the available reliefs, you could significantly reduce a CGT liability. Not only does this ensure compliance with tax laws, but it also helps you optimise your long-term financial goals. This article explores practical, actionable strategies to help you lower your CGT liability while safeguarding your wealth.

Understand your annual CGT allowance

Every taxpayer is entitled to an annual CGT exemption, permitting tax-free gains of up to £3,000 for the 2024/25 tax year. This allowance resets each tax year and cannot be carried forward, making it essential to utilise it fully to avoid greater liabilities in the future.

Cuts to the CGT allowance mean that managing this exemption carefully is more crucial than ever. Without proper planning, you could encounter unnecessary tax bills, highlighting the need to optimise your investments according to current limits.

Utilise losses to counterbalance gains

One straightforward strategy for reducing CGT is to offset gains with losses. Gains and losses arising in the same tax year can be offset against each other, reducing the overall amount subject to CGT.

Losses from previous years can also be carried forward and set off against new gains, provided they were reported to HM Revenue & Customs within four years of the tax year in which the asset was sold. By wisely utilising this strategy, you can optimise your tax payments over time.

Maximise exemptions through spousal transfers

Transfers of assets between spouses or registered civil partners are exempt from CGT. By taking advantage of this exemption, couples can effectively double their CGT allowance, enabling each partner to claim their individual limit and thereby reduce taxable gains.

The transfer must be a genuine gift and not conditional. By strategically managing asset ownership, couples can make smarter financial decisions to minimise CGT burdens.

Take advantage of ISA allowances

Individual Savings Accounts (ISAs) are another powerful tool in reducing CGT. Any investments held within an ISA are entirely exempt from CGT. For the 2024/25 tax year, you can invest up to £20,000 in an ISA, or £40,000 for couples using two allowances.

Another helpful approach is the 'bed and ISA' strategy. This involves selling an investment to realise a capital gain and then buying it back within an ISA. While this renders future gains CGT-free, it is crucial to consider potential stamp duty costs and the risks associated with being out of the market, even for a short period.

Boost your Income Tax bands with pension contributions

Pension contributions can not only prepare you for retirement but also help reduce CGT. Contributions effectively extend your basic rate Income Tax band, meaning gains may be taxed at 18% rather than 24%.

For instance, a gross pension contribution of £10,000 would raise the higher rate tax threshold from £50,270 to £60,270 for the 2024/25 tax year. If your capital gains and taxable income fall within this extended basic rate band, the potential savings could be considerable.

Consider donating to charity

Giving land, qualifying shares or property to a registered charity can offer the dual benefits of Income Tax relief and CGT exemption. This strategy reduces your tax burden while allowing you to contribute to good causes.

Whether you are seeking relief or aligning with your personal values, a charitable donation can play a significant role in your CGT strategy for achieving higher-impact results.

Explore Enterprise Investment Schemes (EIS)

Enterprise Investment Schemes (EIS) provide opportunities for CGT relief, as gains on qualifying investments held for three or more years are exempt from CGT. Additionally, you can defer an existing capital gain by investing it in an EIS within the qualifying timeframes.

However, EIS investments carry higher risks than traditional avenues and can be harder to sell. Professional advice is strongly recommended before considering such schemes.

Investigate 'Gift Hold Over Relief'

Giving away specific business assets or selling them at a reduced value for the buyer's benefit may qualify you for Gift Hold Over Relief. This defers the CGT liability, transferring it to the recipient who will only pay CGT when they eventually sell the asset.

Eligibility criteria are strict, and professional advice is a must to ensure compliance and effective planning.

Leverage exemptions for chattels and antiques

Some possessions, including antiques and collectibles, may be exempt from CGT under certain conditions. Non-productive assets, such as antique clocks, vintage cars or pleasure boats, are exempt, provided they were not eligible for business-use capital allowances.

For non-wasting chattels like paintings or jewellery, gains might also be exempt if the sale proceeds are under £6,000. Understanding these rules can assist you in managing gains on high-value items effectively. ■

READY TO SECURE YOUR FINANCIAL FUTURE BY MAKING INFORMED AND CONFIDENT DECISIONS?

As CGT is a highly complex subject, obtaining expert advice is crucial for managing your tax liabilities. We can guide you through the options available to you, ensuring you maximise relevant tax reliefs, allowances and exemptions tailored to your unique circumstances. This planning is an essential component of long-term financial health. If you would like assistance in managing your CGT liabilities or a clearer understanding of your options, please contact a financial adviser today.