FINANCIAL FOCUS

PAVEY GROUP FINANCIAL SERVICES NEWSLETTER

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PAVEY group FINANCIAL SERVICES

A new era for Individual Savings Account planning

Are you making the most of your options in a changing tax landscape?

For many years, pensions have been regarded as one of the most tax-efficient ways to save for retirement and to pass wealth to future generations. However, significant changes on the horizon could prompt many savers to rethink how they balance pensions with Individual Savings Accounts (ISAs).

Although the new rules will not take effect until April 2027, now may be an appropriate time to review your savings strategy. Understanding how pensions and ISAs work together could help ensure your long-term financial plans remain aligned with your objectives.

Changing priorities for savers

From April 2027, pensions will no longer automatically fall outside an individual's estate for Inheritance Tax (IHT) purposes. As a result, some pension funds may become subject to IHT at 40%, potentially reducing the amount passed to beneficiaries.

This change may affect how some people draw on their retirement savings. Historically, some savers chose to spend ISA assets first, preserving pension wealth for future generations. Going forward, the opposite approach may become more attractive, with pensions potentially used earlier and ISA savings retained for longer.

Reviewing your retirement savings

The forthcoming changes could make it worthwhile to review whether you are directing too much of your savings into your pension. While pensions remain highly valuable retirement planning tools, maintaining a balance across different tax-efficient wrappers may provide greater flexibility.

For those approaching retirement, there may also be merit in considering how to use tax-free pension lump sums. In some circumstances, transferring available funds into an ISA over time could create additional flexibility while maintaining tax-efficient growth.

Aligning investments with your goals

As ISAs potentially become a more important vehicle for passing wealth to loved ones, some investors may wish to reassess how these funds are invested. Money intended for long-term legacy planning can often be invested differently from assets that may be needed in the near future.

At the same time, retirement income needs should not be overlooked. Ensuring that pension investments remain aligned with planned withdrawals and future spending needs is equally important.

Supporting future generations

The rule changes may also encourage some individuals to consider gifting strategies. Making regular gifts from surplus income could help family members use their own ISA allowances while potentially reducing future IHT concerns.

More broadly, the changes serve as a reminder of the importance of diversification. Relying too heavily on any single tax wrapper can leave savers exposed to future legislative changes. Spreading wealth across different types of accounts may help improve long-term flexibility and resilience. ■

IS IT TIME TO REVIEW YOUR STRATEGY?

Tax rules and financial planning opportunities evolve over time. Regularly reviewing your pension and ISA arrangements can help ensure your savings remain structured to support both your retirement lifestyle and your legacy objectives.

If you would like further information on ISAs, pensions, Inheritance Tax planning or your wider investment strategy, please contact us. Professional guidance will help you understand your options and develop a financial plan tailored to your circumstances and long-term goals.

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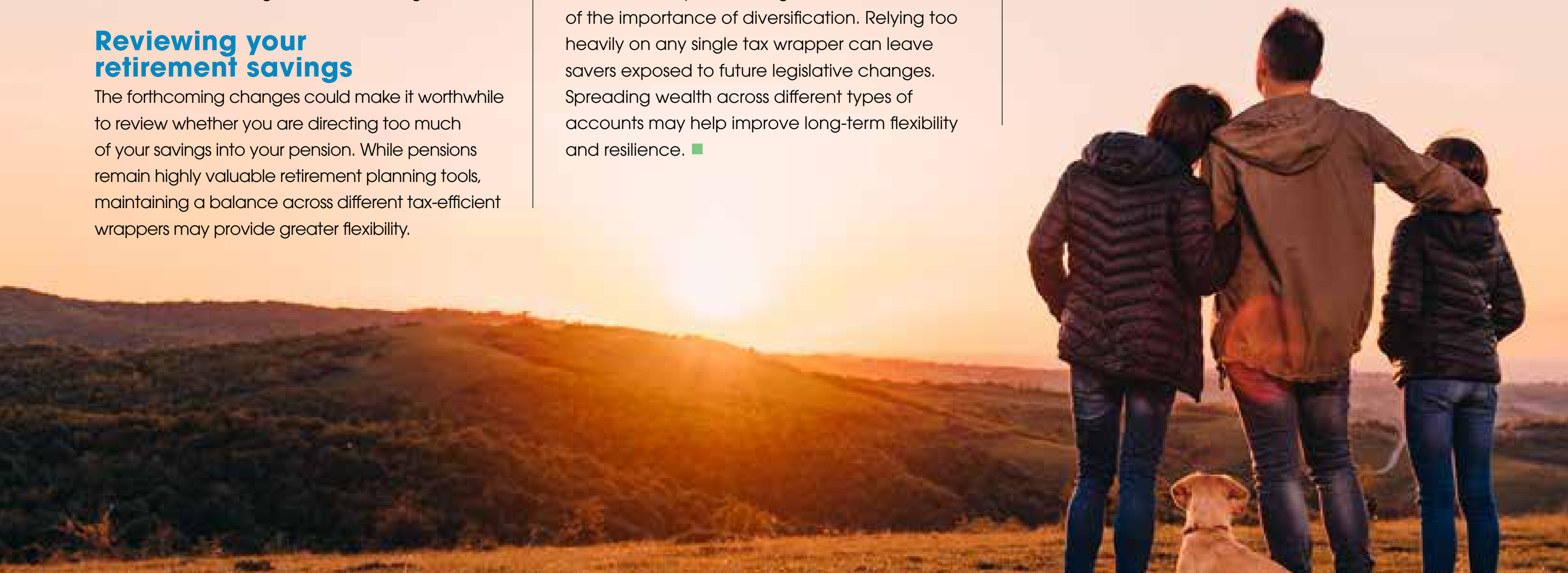

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Are you unknowingly paying an effective 60% tax rate?

The hidden tax trap that could be costing higher earners thousands

With wages rising and frozen tax thresholds pushing more people into higher tax bands, many UK professionals are finding that earning more does not always mean taking home more. In fact, individuals earning £110,000 a year can face surprisingly high tax bills and may even lose valuable tax allowances.

The good news is that there are legitimate and highly effective ways to reduce your taxable income, which can lower your tax liability and strengthen your long-term financial position. One of the most powerful tools available is pension planning.

Understanding the tax trap

For the 2026/27 tax year, higher rate taxpayers pay 40% Income Tax on earnings above the basic rate threshold. However, an additional challenge arises when income exceeds £100,000.

At this level, your personal allowance is reduced by £1 for every £2 of income above £100,000. This means someone earning £110,000 loses £5,000 of their tax-free personal allowance. The result is an effective tax rate of up to 60% on the portion of income between £100,000 and £125,140.

For many people, this hidden tax trap is an unwelcome surprise.

The power of pension contributions

One of the simplest ways to reduce taxable income is through pension contributions. Personal pension payments receive tax relief and can effectively reduce your adjusted net income for tax purposes.

For example, if you earn £110,000 and make a £10,000 gross pension contribution, your adjusted income could fall to £100,000. This may restore your full personal allowance and increase your retirement savings.

The combined benefit can be substantial. Not only could you reduce your current tax bill, but you could also avoid losing part of your tax-free allowance.

Building wealth while reducing tax

Pension contributions offer a double advantage. They help reduce tax today and provide an opportunity to build long-term wealth for retirement.

Funds held within a pension can generally grow free of Income Tax and Capital Gains Tax. Over time, this tax-efficient environment can help investments compound more effectively than in a taxable account.

For higher earners, redirecting a portion of income into a pension can therefore be an important part of a broader financial planning strategy.

Other allowances worth considering

Pensions are not the only option. Tax-efficient savings vehicles, such as Individual Savings Accounts (ISAs), can help shelter investment returns from tax, while charitable donations made through Gift Aid can also reduce adjusted net income in certain circumstances.

Couples may also benefit from reviewing how assets and investments are structured within the household to ensure that available allowances are used efficiently.

However, pension contributions remain one of the most effective ways for many higher earners to reduce exposure to the £100,000 tax trap and secure their future financial wellbeing.. ■

ARE YOU KEEPING YOUR LONG-TERM FINANCIAL GOALS ON TRACK?

As tax thresholds remain frozen and more people pay higher rates of tax, proactive planning has become increasingly important. Taking action before the end of the tax year can help maximise available allowances and potentially reduce your tax bill significantly. If you earn £110,000 or more and would like to understand how pension contributions or other tax-efficient strategies could suit your circumstances, contact us for further information. Professional advice will help ensure you make the most of available opportunities while keeping your long-term financial goals on track.

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To arrange a complimentary consultation or review, please contact our Independent Financial Advisers on 01803 224888.

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