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Investor / Saver

High earners can reduce tax bills with pensions.

UK taxpayers may be able to cut their tax bill while boosting their pension pot. The warning comes as millions of earners are set to pay hundreds more in income tax as wages rise with inflation, but the income tax thresholds remain frozen until 2028. We're facing the highest overall tax burden in a generation thanks to the deep freeze of tax thresholds and allowances which, in tandem with wage inflation, means we'll be more in tax in the years to come. Known as 'fiscal drag', this is the ultimate stealth tax which feels particularly tough at a time when inflation remains high. Fiscal drag hits us all – even if we don't change tax band. That's because as our pay rises with inflation, more and more of our pay packet is taxed and our overall tax burden increases. There may be a way to reduce the impact of fiscal drag, although it means that that portion of money can't be accessed for many years. For those who can afford to do so, increasing pension contributions could help people beat fiscal drag in the long term. Experts have pointed out that the freezing of income tax threshold and other personal allowances has bolstered the allure of paying into a workplace pension through salary sacrifice. This arrangement allows employers to reduce employees' salary and pay the equivalent amount as pension contributions. Basic-rate taxpayers get 20% pension tax relief, turning a £80 contribution to £100. If you are a higher-rate taxpayer, you could reclaim an additional 20% tax on your pension contributions, for a total of 40% tax relief. Think of a pension as deferred income and this seems like a good way to reduce your overall National Insurance bill without reducing your income, if you are happy to take it after age 55 (from 6th April 2028, this will be after age 57) instead. Prior to the National Insurance rate cut being announced, interactive investor figures showed high earners with a £50,000 salary in 2022 are due to pay £1,967 extra tax by 2027 due to frozen tax thresholds, compared to if they had increased with inflation, while middle earners earning £30,000 and low earners on £20,000 face paying £889 extra tax. If you can afford to, then one the best ways to minimize your tax bill is to pay more into your pension. Pension payments receive tax relief, meaning you can claw back any income tax paid on your contributions as the taxman will pay tax relief straight into your pension. This means it only costs £80 to pay £100 into your pension and £60 to pay in £100 for higher rate taxpayers.

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All

How AI is supercharging financial fraud and making it harder to spot.

AI investing is a growing trend that uses software and algorithms to analyse market trends and make predictions based on historical data while considering price volatility and risk. But now, scammers are turning to the AI hype as a means of tricking investors and stealing their money. By leveraging sophisticated automations and deepfake technologies, scammers can create deceptive voices and videos that are incredibly convincing. This undermines trust and leaves people vulnerable to manipulation.

Deepfakes

Deepfakes are a form of artificial intelligence used by scammers to create seemingly legitimate audio and video. Typically, this will involve scammers using large datasets of images, video and audio to replicate the voice and appearance of a famous face. Software is then used to make the 'person' say and do things before being posted online. Already, this technology has been used for attempted financial fraud, with Martin Lewis being the victim of one recent attempt at impersonating him. The video attempts to convince the viewer that Lewis endorses a supposed new investment opportunity from Elon Musk - but it is quickly apparent that no such scheme exists and Lewis himself has hit out against the risks such technology poses.

ChatGPT phishing

Email phishing is nothing new - scammers have long been sending out emails purporting to be from a genuine source, such as a bank, technology provider or government department. The scammers will often attempt to make you visit a website that could lead to your bank details or other personal information being stolen. But AI has revolutionised how scammers can produce the emails used to lure you in. ChatGPT, and other generative AI tools, can easily create bodies of text that impersonate the tone and coherence of legitimate messages for free. This means misspellings, clumsy grammar and other tell-tale signs of a fake email are harder to spot. Such software is freely available, and although ChatGPT has some built-in functions to stop it from being used for misuse, these can be easily subverted.

Voice cloning

This is another form of deepfake AI, but rather than producing a video, voice cloning replicates the tone and language of an individual - ideal for convincing someone they're having a genuine phone conversation with that person. In one noteworthy example, a mother in America received a call appearing to be from her daughter in a state of distress asking for money. It soon transpired that the call was fake, and the daughters' voice cloned using AI. According to tech security firm McAfee, it only takes three seconds of audio for scammers to put together a convincing AI voice clone.

Verification fraud

We've all become accustomed to passwords, passkeys and biometrics to access our phones and banking apps. Even when setting up an account for digital-first banks like Monzo, you have to send a video of yourself saying a certain phrase. But AI can be used to subvert these security checks, a huge risk for consumers and institutions alike.

Investor / Saver / Retired

How to protect your portfolio in a recession.

The Bank of England (BoE) no longer expects the UK economy to fall into recession, but it does expect the economy to stagnate for the next two years. High interest rates are one of the factors set to weigh on economic activity. The central bank recently hiked interest rates for the 14th time in a row to 5.25% as it attempts to bring down inflation, and rates could continue to rise in the months ahead. That said, the UK economy actually grew slightly in the three months to June 2023. Gross domestic product (GDP) increased by 0.2% in the second quarter, according to the Office for National Statistics (ONS), beating economists' forecasts for zero growth. In the first quarter, GDP ticked up by 0.1%. However, the figures weren't enough to convince most analysts that the UK will avoid a recession. An ideal portfolio contains a mix of asset classes. As the old saying goes, 'buy stocks so you can dream, buy bonds so you can sleep.' Experts suggest thinking about investing in bonds. These tend to move in the opposite direction to equities, so they are good for portfolio diversification, and they tend to do better in tough economic climes. Rising interest rates have also made bond yields much more attractive. You can actually get a decent return from these safer investments nowadays. If you don't want to manage an allocation to bonds yourself you might consider investing in a multi-asset fund which holds a combination of shares, bonds and cash, and sometimes property, commodities and currencies too. These funds come in a range of risk profiles ranging from conservative to more adventurous, so everyone should be able to find one which meets their own needs. Another thing to remember is even defensive shares are likely to decline in a recession. As such, investors might be positioned in those companies which have the ability to pass on price rises to consumers, even if volumes are declining. This also applies to a portfolio which might be considered inflation-proof to an extent. Companies which have tended to display these characteristics have been the likes of the tobacco companies (where inelastic demand feeds through to continued consumer purchasing), high end drinks companies such as Diageo, high end retailers such as Burberry (where the average consumer may be less affected by the recession) and utility companies where generally higher (and more secure) yields can ease the pain of some share price losses. Another key tip to managing your portfolio in the midst of a recession is not to panic. When you see your investment portfolio going down in value by the day, it's going to be tempting to consider selling everything to liquidate. The problem with this is that you're likely selling at a loss. From a sector perspective, investors should consider avoiding or exiting sectors which will clearly suffer in a recessionary environment, such as retailers, big ticket/white goods providers and leisure companies. The key attributes to look for in shares if you think a recession is looming are companies with strong pricing power, that can sustain their margins and won't be easily undercut by cheaper rivals because their product commands strong loyalty, as well as businesses with a high degree of recurring income rather than ones reliant on transaction volumes.

All

Ensuring your charity donations cut your inheritance tax bill.

Any bequests made to registered UK and European Economic Area charities are exempt from IHT. This includes gifts made during your lifetime as well as those specified in your will. When calculating the IHT due on your estate on death, the value of the bequests to charities will be deducted from the value of your total estate. Following this, IHT is generally charged at 40% on the net taxable value of the estate, after deducting the nil-rate band and residence nil-rate band (RNRB) – if these are available. However, this 40% rate can be reduced if an individual leaves 10% or more of the net value of their estate to charity. Provided this criterion is met, the taxable estate is charged to a lower IHT rate of 36%. In order to qualify for this lower 36% rate, the total amount left to charity must be at least 10% of what is known as the baseline amount. This baseline amount is calculated using the value of the estate chargeable to IHT after deducting liabilities, exemptions, and the available nil-rate band, but before deducting the amount donated to charity and the RNRB, if available. It can be tricky to ensure that you meet this threshold, so you need to get good advice on the drafting of your will. Under the current IHT position, each individual is entitled to a nil-rate band of £325,000 as well as a RNRB. The latter is an allowance of up to £175,000, which is available if an individual's estate includes their main residence and this is closely inherited, i.e. by a lineal descendant such as a child or grandchild. There is also the potential for any unused nil-rate band and RNRB from a spouse's previous death to be carried forward. As a result, it is possible for an individual to have an estate worth up to £1million without being subject to IHT. However, if your estate exceeds £2million, the RNRB band is tapered by £1 for every £2 over the limit, down to nil. The current government has stated that the nil-rate band and the RNRB will remain at the same level until 2027-28 tax year.

Retired

Why it's a good time to buy an annuity.

After a few years of relative insignificance, annuities have come back to the fore in the past two years, as rates have become increasingly attractive. Rates remained relatively enticing at the start of 2024, but that could change over the next few months. Annuity rates are closely tied to interest rates because providers invest the money in fixed-income securities. In February 2021, a 65-year-old in good health with £100,000 to spend could buy a single-life level annuity with a five-year guarantee that would pay an income of £4,626 a year, according to Hargreaves Lansdown data. Three years later, the amount had risen to £7,117. After softening towards the end of 2023, annuity rates increased slightly again at the beginning of February, following the Bank of England's decision on 1 February to hold interest rates. The past year has again underlined that forecasting the future path of interest rates is no easy task, but while it is hard to say when base rate cuts might actually begin, further hikes do not appear very likely. In a nutshell, if you are confident that buying an annuity is the right choice for your retirement plan, there is a decent case for doing it soon. It looks unlikely that rates will get higher, and it is quite possible that they will start coming down later this year. Having said that, annuities remain solid value for money compared with a few years ago, and this isn't going to change overnight. While fluctuations in rates are anticipated throughout 2024 and will be impacted by market expectations on long-term interest rates… rates are not anticipated to drop to the historic lows seen previously, and potential annuity buyers should not overly focus on market timing.

All

What's the new cost of an 'ideal' retirement in the UK?

Rising energy and grocery bills are placing significant financial strain on pensioners, emphasizing the urgency of bolstering retirement savings. Amidst escalating living costs, pensioners find themselves grappling with the necessity to stretch their funds to maintain their desired standard of living. A recent study suggests that achieving a comfortable retirement in the UK now requires an annual income of approximately £43,000, driven by the escalating costs of food and energy bills. In response to inflationary pressures, a single retiree must now contend with an additional £5,800 in expenses to maintain the same standard of living as the previous year. For retired couples, the necessary income for a comfortable retirement stands at £59,000, representing a £4,500 increase compared to the previous year, according to the Pensions and Lifetime Savings Association (PLSA). These figures are based on calculations from various sources, including Nucleus Financial, taking into account current life expectancies and allowance rates. To sustain this lifestyle, a joint pension fund of £870,000 is required, while a single 65-year-old would need savings of £635,000 to generate an income of £43,000 until their passing. This comfortable standard of living encompasses essential expenses such as food, energy, and clothing, along with additional indulgences like an annual two-week holiday in Europe and modest gifts for Christmas or birthdays. The PLSA attributes the surge in retirement costs to high energy and food bills, alongside the rising expenses associated with motoring and holidays. According to their report, less affluent retirees will face even higher price increases. For a single individual to meet their basic financial needs, they would require £14,400 per year, representing a 12.5% rise compared to previous estimates. Notably, this surpasses the full new state pension, which is set to increase by 8.5% to just over £11,500 per annum starting in April.

Property Owner

House prices rise for the fourth month in a row in January.

UK average house prices rose by 1.3% to £291,029 in January, the fourth monthly rise in a row, data from Halifax shows. Property prices are now growing at 2.5% annually, the highest yearly growth since last January, according to the lender's latest House Price Index. Northern Ireland posted the strongest growth across all the UK's nations and regions lifting 5.3% to £195,760 from a year ago. However, homes in the South East fell the most last month across the country, selling for an average of £379,220, which is 2.3% lower than a year ago. London retains the top spot for the highest average house price in the UK, at £529,528, although prices in the capital have slipped 0.4% on an annual basis. The recent reduction of mortgage rates from lenders as competition picks up, alongside fading inflationary pressures and a still-resilient labour market has contributed to increased confidence among buyers and sellers. This has resulted in a positive start to 2024's housing market. However, while housing activity has increased over recent months, interest rates remain elevated compared to the historic lows seen in recent years and demand continues to exceed supply. For those looking to buy a first home, the average deposit raised is now £53,414, around 19% of the purchase price. It's not surprising that 63% of new buyers getting a foot on the ladder are now buying in joint names. But while there's no doubt the housing market has got off to a strong start this year, with buyer and seller confidence boosted by four consecutive interest rate holds and the growing belief that the next move in rates will be downwards, most commentators agree there will still be bumps in the road ahead. While increased competitiveness has led to lower mortgage rates this year, some lenders have also been raising rates. Swap rates, which underpin the pricing of fixed-rate mortgages, have been rising since the turn of the new year, resulting in some 'best buy' mortgage rates increasing.

All

Jeremy Hunt is unlikely to cut taxes.

Chancellor Jeremy Hunt has dampened hopes of tax cuts as he has admitted that there is less room in the spring budget than he had previously hoped. Mr Hunt has confirmed he has warned the cabinet there is less scope for tax reductions on 6 March, despite clamour within the Tory ranks for cuts to try to woo voters ahead of the looming general election. "It doesn't look to me like we will have the same scope for cutting taxes in the spring budget that we had in the autumn statement," Mr Hunt told BBC's Political Thinking podcast. The comments come after warnings from financial institutions the government would be unwise to implement large tax cuts at a time of high debt and low public spending. In last year's autumn statement, the government announced a national insurance cut from 12% to 10%, which is estimated to cost the Treasury around £9.76 billion in the 2028 tax year. But last week, the International Monetary Fund (IMF) said further tax cuts could risk the government's ability to invest money in the NHS and other vital services. Mr Hunt is under a great deal of pressure from colleagues to cut taxes further if he can, as the party continues to struggle in the polls. Speaking last month during a visit to the World Economic Forum in Davos, Switzerland, the chancellor said "the direction of travel" is for the UK to emulate successful low-tax economies. But the economic picture means this looks increasingly difficult for the chancellor. The IMF has downgraded the UK's growth forecast for next year, expected to reach 0.6% this year, and 1.6% next. This would make the UK economy the second-worst performer in the G7 this year and the joint third-worst performer in 2025. Mr Hunt's climb down follows a bleak warning from Paul Johnson, director for the Institute for Fiscal Studies, who said that promised tax cuts will need to be quickly reversed, as the increasing cost of debt will make them harder to fund. Mr Johnson has since said that Mr Hunt could only pay for tax cuts in March by public spending cuts. Tax could not be reduced "without a significant effect on public services" Mr Johnson told BBC Radio 4's Today programme, suggesting that the chancellor show where cuts in public services would have to fall in order to fund tax reductions.

All

Should you sign a pre-nuptial agreement?

In the UK, a pre-nuptial agreement is a legal written contract signed by a couple before marriage that determines how the assets (property and financial responsibilities) would be split should the marriage end in a divorce. Prenuptial agreements are one of the ways that couples can 'ringfence' any assets they are bringing into the marriage, including businesses, future inheritances, and even family commitments to children from previous relationships. A prenup has to be signed before marriage, a minimum of 28 days before your wedding date. This is to ensure that neither party was coerced into signing the agreement. Prenuptial agreements are designed to protect each person's assets and financial interests should the marriage break down and in doing so, help couples avoid costly court battles over financial disputes. Making a prenup can provide a couple with a level of certainty against the risk of divorce by outlining each party's financial rights and obligations instead of leaving it up to a Judge to decide who gets what. In England and Wales, pre-nuptial agreements are still not automatically legally binding, despite years of campaigning for prenup agreements to gain legal recognition. However, in recent years, case law shows that provided the prenup meets the qualifying criteria, it is likely to be upheld by a Judge if challenged in court. For a prenuptial agreement to be legally binding, it must meet the following qualifying criteria:

- Be a valid contract, meaning it needs to be entered into free of undue influence or misrepresentation.
- Contain a statement signed by both parties confirming that they understand the agreement will partly remove the courts' discretion to make financial orders.
- Must not be made within 28 days immediately before the wedding or celebration of civil partnership.

In addition to these conditions, at the time of making the prenup, each party must have received:

- Full financial disclosure of material information about the other party's financial circumstances.
- and independent legal advice from a family law solicitor to understand the legal position and the implications of signing the agreement.

Past performance is not a guarantee to future performance. You may get back less than invested.

Thresholds percentage rates and tax legislation may change in subsequent Finance Acts and reliefs from taxation are subject to change. The FCA does not regulate tax advice.

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