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MONTHLY

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Making a financial plan for your family

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In this month's newsletter, we examine how you can make a financial plan for your family.

From relieving younger generations with the financial burden of higher education to mitigating your potential inheritance tax bill, we offer tips on how to get your family's finances in shape.



SECURING YOUR CHILDREN'S FINANCIAL FUTURE

We've all heard about students leaving university laden with debt and young people struggling to get on the housing ladder. It's natural to want to help our children financially as they embark on adult life and starting early can help their money grow over the long term.

JISA or ISA?

While paying pocket money into an easy access savings account is a good way to encourage positive money management habits, if you have spare funds to put away for your child's future, then investing can be a tax-efficient way to provide a higher potential rate of return than cash over the long term. The current Junior ISA (JISA) annual allowance is £9,000, which could generate a sizable nest egg by the time your child is 18.

Family members and friends, as well as parents, can contribute up to the yearly maximum between them and, like adult ISAs, income and investment returns generated by JISAs don't count towards the child's tax allowance. The child can take control of the fund when they turn 16 and make withdrawals after their 18th birthday. This means that although you might intend the money to see them through university or go towards a house deposit, they might have other ideas.

To keep more control over the funds, you could save into your own ISA instead. As few people use their whole allowance, which currently stands at £20,000 per tax year, maxing out your ISA before investing in a JISA can make a lot of sense. You can decide when to give the money to your child and have a greater say in how it is spent. Grandparents and others could also follow the same route.

One thing to remember is that if you gift more than £3,000 in a year, it may be subject to Inheritance Tax (IHT) if you die within seven years. Regular payments made from surplus income are exempt, so one way you could manage this issue is by gifting the income from your ISA investments on a regular basis and limiting annual capital gifts to £3,000.

PASSING ON WEALTH

Leaving a legacy to future generations is another important aspect of family financial planning. Aside from the rules around financial gifts, there are a number of other considerations when passing on wealth.

WILLS AND LASTING POWER OF ATTORNEY

Even if your finances are relatively simple, writing a will makes it easier for your friends and family to sort out your estate after your death. It also ensures that your money, property, and belongings are passed on as you want, instead of in line with legal guidelines. Just remember to regularly check that your will reflects your wishes, especially if your circumstances have changed.

It is also a good idea to set up a lasting power of attorney, which is a legal document allowing someone else to make decisions about your finances and health if you are unable to. It only comes into effect if you are incapacitated and can be cancelled or replaced at any time. Accident and illness can affect anyone at any time, so putting a plan in place while you are in good physical and mental health can save a lot of money and heartache further down the line.



ESTATE PLANNING

To ensure that your loved ones, rather than the taxman, benefit most from your estate, it's important to take full advantage of the allowances available. The basic IHT allowance is £325,000 – estates valued below this amount do not pay tax, while higher value estates are charged at 40% for everything above the allowance.

However, there are several exceptions. Provided your spouse or civil partner lives in the UK, there is no tax due if you leave everything to them. Bequeathing your home to children or grandchildren can create an additional £175,000 allowance under the 'residence nil rate band', taking your tax-free total to £500,000. Your spouse or civil partner's IHT allowance rises by the unused portion of yours when you die, so if you leave them everything, the allowance for their estate could be £1 million.

The current rules around IHT are complicated, with some exemptions depending on the total value of your estate. Taking professional advice can help you make the most of your legal entitlements.

GETTING THE RIGHT PROTECTION

Similar to a power of attorney, protection insurance is something that is often overlooked in a family's financial planning, but it can offer financial security to you, or your loved ones, if the worst happens. It encompasses several different products that pay out a lump sum or regular income if you die or are unable to work through long-term sickness or injury. The type of cover you need depends on several factors, like whether you have any dependents or a mortgage, your employee benefits, and how much you hold in accessible savings.

VALUE UNPAID WORK

Remember that work doesn't always mean paid employment. When reviewing your protection insurance needs, it's important to consider unpaid caring responsibilities and domestic chores. The Money Advice Service puts the average weekly fee for a full-time nursery place for a child under two at £263, with after school clubs costing £62 per week on average and holiday clubs £138 per week¹, which could be a significant additional expenditure if unpaid childcare from a parent or grandparent was no longer an option.

A recent survey by Halifax found that three times more of us have pet insurance than critical illness cover². Affordability was highlighted as a common concern, but it is often cheaper than people think, with life insurance generally costing a few pounds a month. The price varies based on your age, health, job, lifestyle, the amount of income you want, and how long the cover will last, for instance, your mortgage term or your whole life. It's worth weighing up the cost against the benefits to your family's future financial security and the peace of mind it offers.

¹ Money Advice Service – <https://www.moneyadviceservice.org.uk/en/articles/childcare-costs>

² Yahoo! Finance – <https://uk.finance.yahoo.com/news/people-three-times-likely-pet-060000834.html> – 27 April 2021

Here to help

There's a lot to consider when planning your family finances and some aspects involve complex tax planning and important legal documents. If you would like to discuss any of these themes in more detail, we'd love to help. Please get in touch to discuss your family's financial goals with one of our expert financial planners.



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CONTACT US

0333 241 3350
info@richmondhousewm.co.uk

Richmond House

Premier House
Argyle Way
Stevenage
Hertfordshire
SG1 2AD

Midsummer Court

314 Midsummer Boulevard
Milton Keynes
Buckinghamshire
MK9 2UB

Corporate Services

0333 241 3350
info@richmondhousecs.co.uk

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