Financial Planning for Barristers

Introduction

Welcome to our second edition of ‘Financial Planning for Barristers’. We hope its contents might deliver some useful information to its readers who are short on time, but keen to get a grasp on their financial health and future. Perhaps now more than ever, in light of the current global uncertainty, getting to grips with your finances has never been more important.

As a barrister, we know you are busy building and maintaining your practice. That often means that your own financial planning takes a back seat. Some of the many challenges that we see barristers face include, but are not limited to:

No business to sell – What happens when you retire? There is no lump sum to come from selling your practice. Are you saving enough in your working years to fund your retirement?

No employer to fund pension – The most tax efficient way to save for your retirement is through a pension. Without an employer to help arrange or fund this, the onus is just on you.

Ongoing large tax bills – Being able to budget effectively and reduce income tax bills where possible is high on your agenda. Especially considering an irregular and sometimes unpredictable income flow.

No employer to insure you – Without being able to fall back on the business cover of an employer, ensuring you are adequately insured is a must for any self-employed barrister. This could be in terms of protecting your income in times of injury or illness or leaving a lump sum to family and/or dependents in the event of an untimely death.

No time to review your finances – We find that the majority of barristers are often too busy with their practice and family life to get the time to sit down and properly review their finances. Unfortunately, this takes a back seat for other more pressing personal or professional matters.

Tax bill panics – Paying tax every six months makes it hard to budget and often leads to panic at the eleventh hour. It is not helped by large fluctuations in tax that is due from one year to the next.

Pension planning

Overview of rules

Pensions can be seen as complex beasts but are actually one of the most tax efficient savings pots available. You can start contributing to a pension from the day you are born and under current legislation you can start to withdraw from age 55 (rising to 57 in 2028). Currently, you are able to take 25% of your pension tax-free and the remaining 75% is subject to tax at your marginal income tax rate.

The following few pages aim to summarise some of the more complex aspects of pension planning and include some worked examples. All of the rules we discuss are subject to legislative change in the future. Pensions are a bit of a political hot potato and are constantly being tinkered with.

Tax relief examples

Utilising your available annual pension allowance is one of the most tax efficient forms of saving for higher and additional rate taxpayers. The standard annual allowance is £60,000 but it can be as low as £10,000 (more on this later). A higher rate taxpayer would need to contribute a net amount of £48,000 into their pension for it to ‘grossed’ up to the annual limit of £60,000. The pension scheme will reclaim the basic rate relief from HMRC and add it to the individual’s pension. The remaining £12,000 tax relief comes through a reduction in your tax bill once your self-assessment is completed. A £60,000 gross pension contribution has therefore cost the higher rate taxpayer just £36,000 once all tax reliefs are accounted for.

"Ifamax have streamlined my savings and investments and made the whole process more transparent and predictable."

Mr D, Guildhall Chambers.

Pension planning

Pension carry forward

Here is an example of carry forward at work (assuming an individual has the standard annual allowance):

Tax year	Pension contributions	Annual allowance	Carry forward remaining
2024/25	£10,000	£60,000	£50,000
2023/24	£10,000	£60,000	£50,000
2022/23	£10,000	£40,000	£30,000
2021/22	£10,000	£40,000	£30,000
		Total for 2024/25	£160,000

Pension carry forward is a useful tool for pension planning. Once an individual has fully utilised their current tax year's allowance, they can go back and utilise any unused pension allowance from the previous three tax years, starting with the oldest first. Potentially, this enables someone to make quite a large pension contribution in a given year. Care needs to be taken on various issues especially having sufficient 'earned income' for the large pension contribution.

Pension planning

Tapered annual allowance

The tapered annual allowance rules complicate pension planning for ‘high earners’. This first started on 6th April 2016, when those with taxable earnings over £210,000 per annum were limited to pension contributions of £10,000 gross each tax year. This was a controversial piece of legislation and also quite complicated. The rules have been tweaked several times since 2016, with the allowance dropping as low as £4,000, but is now back to £10,000 again. There are two definitions of income; adjusted income and threshold income. For most barristers, it is the threshold income calculation that is required. It is not within the scope of this guide to explain this in full but keeping it really simple it can affect you if your total income from all sources is in excess of £200,000.

Some good news, the carry forward rules still apply to those affected by the taper.

The table below aims to illustration how restricted an individual could be, when affected by the taper rules:

Tax year	Income amount	Pension contributions	Annual allowance	Carry forward remaining
2024/25	£320,000	£0	£10,000	£10,000
2023/24	£320,000	£0	£10,000	£10,000
2022/23	£320,000	£0	£4,000	£4,000
2021/22	£320,000	£0	£4,000	£4,000
			Total for 2024/25	£18,000

"I have been delighted with the pension fund growth which I have seen, far better than I was achieving with my previous arrangements. I cannot think of anything which Jamie could have done better. I have been very pleased with the service provided."

Mr S, Guildhall Chambers

Pension planning

Lifetime Allowance (LTA)

The standard lifetime allowance was £1,073,100. This was the maximum total value of benefits that an individual could take from registered pension schemes prior to 6th April 2024 before tax charges were applied.

It has been confirmed, in the Finance Act 2024, that the LTA will be completely abolished from 2024/25. It should be noted though that there is no guarantee the LTA will not be reintroduced in some form in the future.

The lifetime allowance is being replaced with three different allowances:
- *the lump sum allowance - £268,275*
- *the lump sum and death benefit allowance - £1,073,100*

Both of these allowances limit the amount of tax-free benefits that can be paid.

There is also:
- *the overseas transfer allowance - £1,073,100*

A check is made against these allowances when benefits are paid.

These allowances may be higher if the individual holds any form of Lifetime Allowance Protection.

These allowances are reduced if any pension benefits have already been taken between 6 April 2006 and 5 April 2024.

Lump Sum Allowance (LSA)
From 6th April 2024 each time you move money into drawdown and take-tax free cash, it will use up a percentage of your LSA, which is currently £268,275 for most people. If you try to take tax-free cash that exceeds the LSA, any excess will then be taxable.

Lump Sum and Death Benefit Allowance (LSDBA)
From 6th April 2024 inherited pension funds that fall within the LSDBA (which is £1,073,100 less the total LSA utilised during the deceased's lifetime for most people) should be received tax free by your beneficiaries, where the deceased was under 75 at the time of death. This provides a useful inheritance planning tool.

Capital Gains Tax

Capital Gains Tax (CGT) is paid by an individual when they have either sold or ‘disposed’ of an asset and made a gain on the original price they paid for it. The potential tax is only paid on the gain and not on the total sale value.

For example, if you bought some shares in Company X for £10,000, and then later sold these for £25,000, your total gain on which you would potentially pay capital gains tax would be £15,000.

The rate of capital gains tax you pay depends on both your income for the year and potentially the type of asset you dispose of.

For the majority of disposals over the allowance, gains would be subject to:

- 10% if the gains fall within the unused basic band

- 20% if the gains are above the basic rate band

But you are subject to different rates if you dispose of a residential property that is not your main home. So, this is likely to affect those who are selling a rental property or a second home.

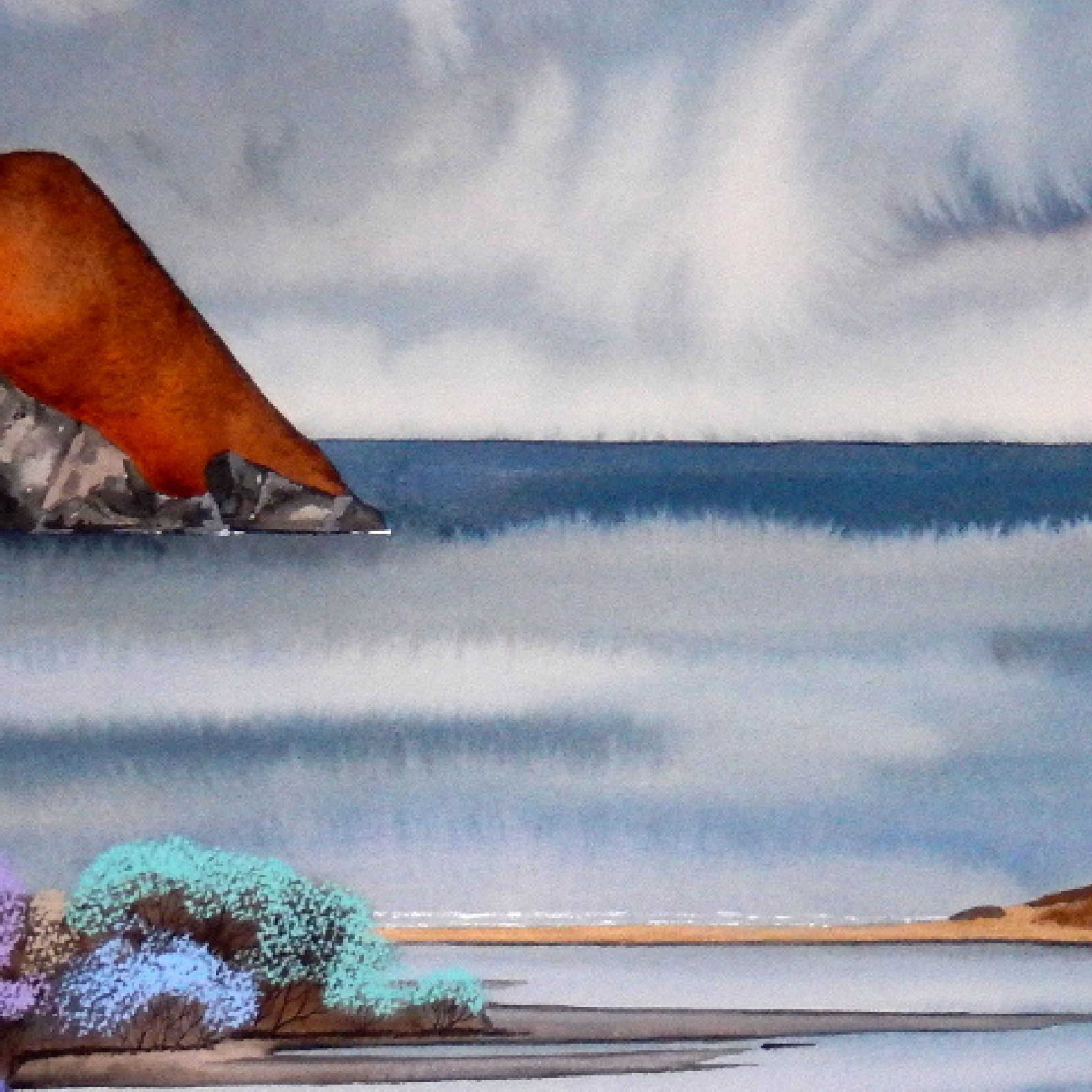
These rates are slightly increased as below:

- 18% if the gains fall within the unused basic band
- 24% if the gains are above the basic rate band

However, each individual is entitled to an annual capital gains tax allowance, of £3,000 for the 2024/25 tax year, on which all gains within this amount are free of tax.

"The clarity of the firm's advice and efficiency of the service it provides is impressive, as is its ability to achieve investment growth whilst keeping a firm eye on environmental, social and governance principles."

Mr L, Enterprise Chambers.



Capital Gains Tax

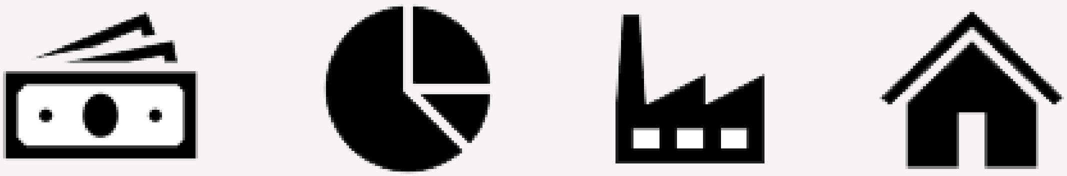
Capital Gains Tax planning

One important rule that is often overlooked and could potentially be a powerful tax planning tool is that you do not normally pay Capital Gains Tax on assets you transfer to your spouse or civil partner. This can be particularly useful where one party has utilised their full allowance and the other has not as you can potentially double your annual allowance.

You can also use losses to reduce any gain. When you report a loss, the amount is deducted from the gains you made in the same tax year. If your total taxable gain is still above the tax-free allowance, you can deduct unused losses from previous tax years. If they reduce your gain to the tax-free allowance, you can carry forward the remaining unused losses to a future tax year.

ISA Planning

The ISA allowance is something that can strangely be both under and over appreciated by people, dependent on their perception of it. Understanding the rules and advantages of the various ISAs available in line with your own personal situation is something that can be a powerful planning tool. The ISA allowance for the 2024/25 tax year has remained the same as last year at £20,000 and this can be spread across each of the four types of ISA available to you.
The four types of ISA's are:

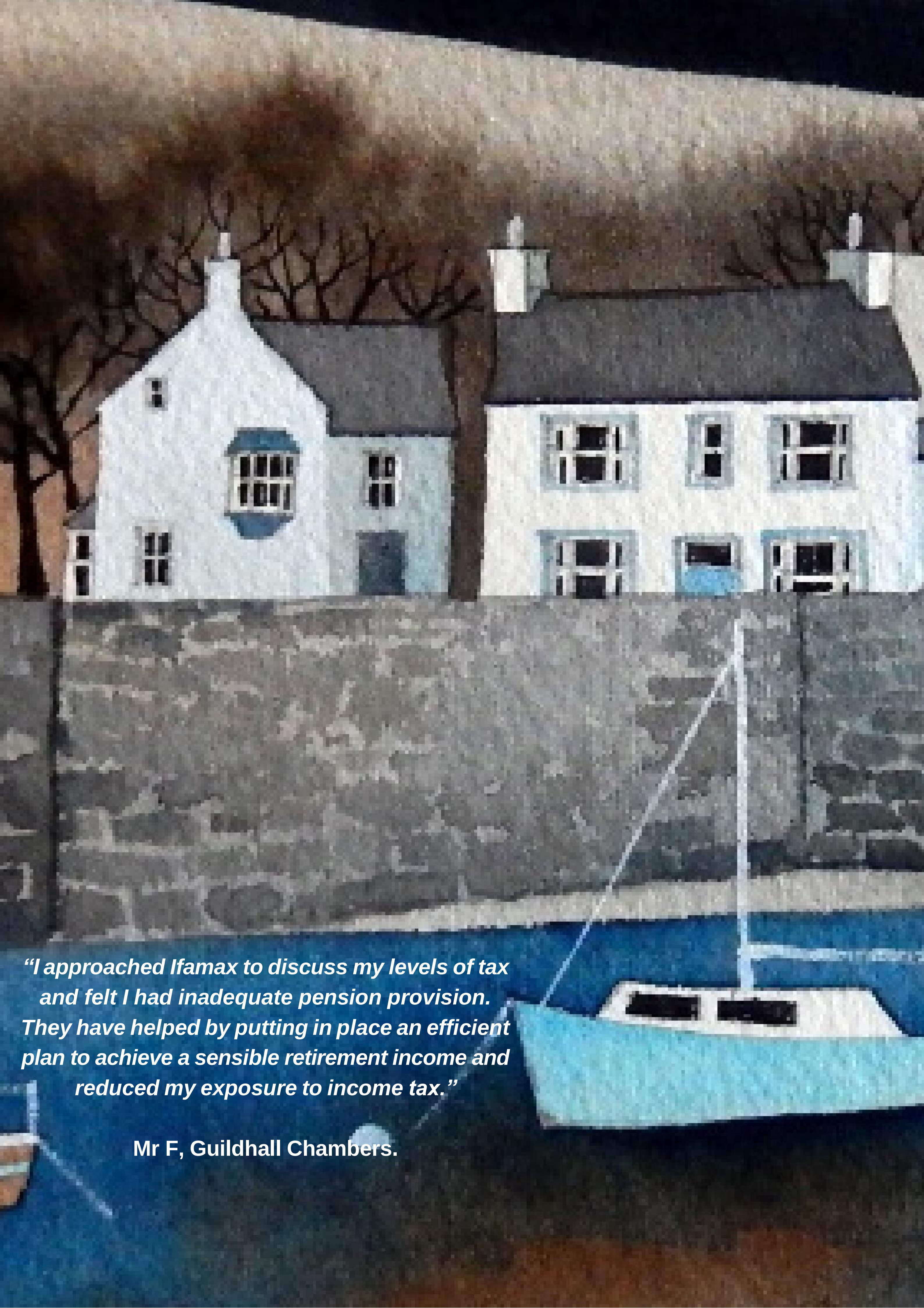


Cash ISA | Stocks and Shares ISA | Innovative Finance ISA | Lifetime ISA

The basic premise of any ISA is that you do not pay tax on

a) interest on cash in an ISA
b) income or capital gains from investments in an ISA.

This can be especially useful for those who have large investment or cash holdings outside of any tax advantaged wrappers. By ‘sheltering’ as many of these assets as possible in ISAs, you are potentially reducing ongoing tax bills. However, with the respective allowances we all have for both interest and dividend income and capital gains, striving to get everything into ISA where possible isn’t always required.



"I approached Ifamax to discuss my levels of tax and felt I had inadequate pension provision. They have helped by putting in place an efficient plan to achieve a sensible retirement income and reduced my exposure to income tax."

Mr F, Guildhall Chambers.

ISA Planning

Whilst most are familiar with the relatively well-known cash or stocks and shares ISAs, the ‘newer ISAs on the block’; Innovative and Lifetime, may need a bit more of an introduction.

Innovative ISA

This allows you to invest in peer to peer (P2P) lending within in an ISA wrapper. P2P is the process of lending your money to other individuals for a set period for a set rate of return. By removing the middleman of the bank lenders can get better rates of return on their cash and borrowers can pay a lower rate of interest. In theory, the process should lead to a better outcome for both lenders and borrowers. However, they clearly come with their own risks in that the borrower may default and you could be left with nothing.

Lifetime ISA (LISA)

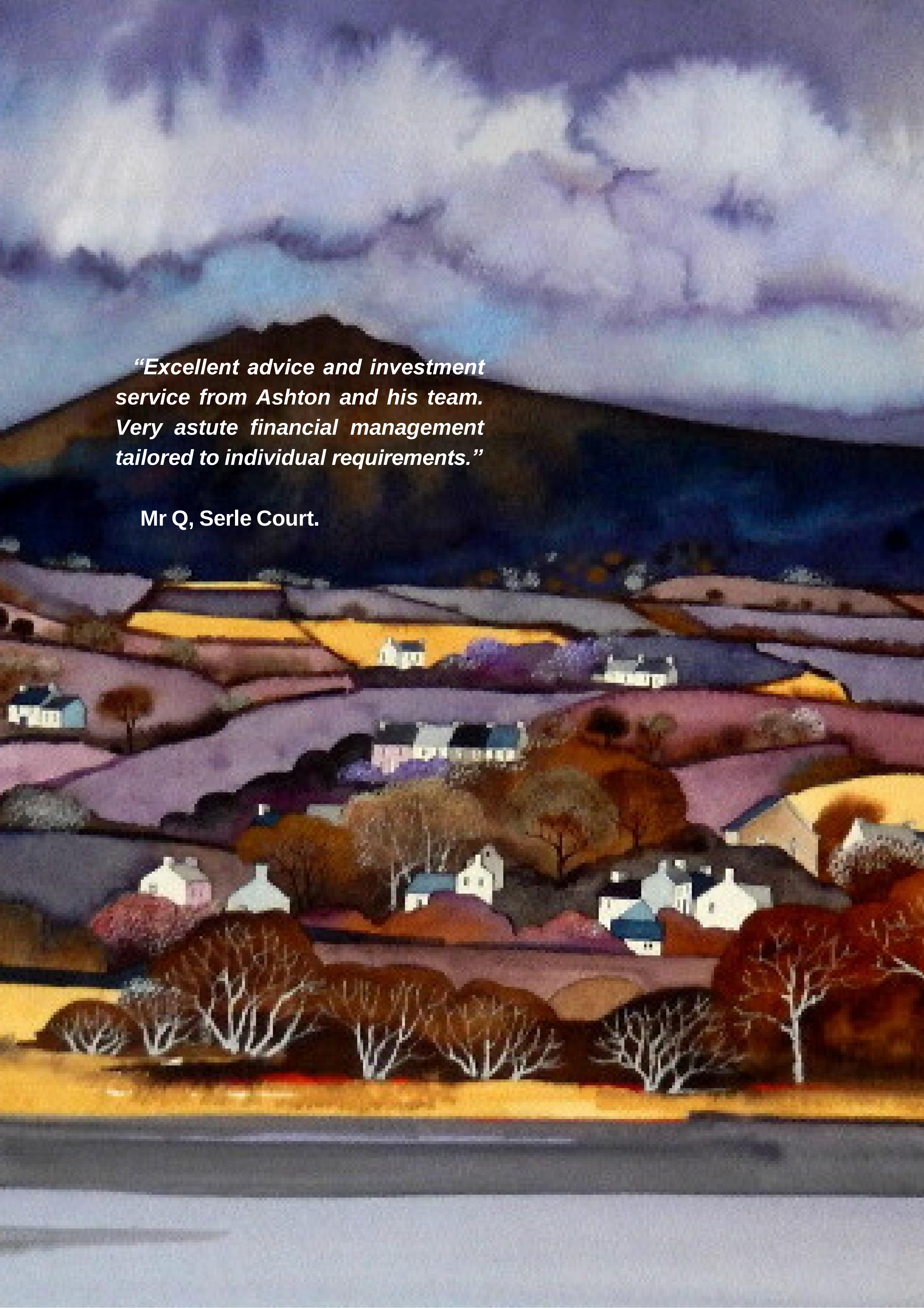
The LISA was introduced in the 2017/18 tax year and designed to be used by either first time house buyers or saved for later life income. You can put in up to £4,000 each year until you are 50 and can be opened from age 18-39. The government will add a 25% bonus to your savings, up to a maximum £1,000 per year. You can withdraw funds from a LISA any time, but if you do this before the age of 60 and it does not relate to a qualifying house purchase, you could be hit with a penalty.

Broadly speaking, for the majority of people saving, a LISA is most efficient for first time house buyers, so this could be an option for yourself or those seeking to help children/grandchildren onto the property ladder.

Junior ISA (JISA)

Junior ISAs are long-term tax-free savings accounts for children. In order to open a JISA, a child must be under the age of 18 and be living in the UK. The current subscription limit for JISAs is £9,000 a year. Like the standard adult ISA, children can have either a cash or stocks and shares JISA. Parents or guardians can open and manage a JISA on behalf of a child, however, the money belongs to the child. It is important to remember that whilst children can take control of their own JISA at age 16, they will not be able to access any of the proceeds until they are at least 18. Equally important to remember is that children are entitled to their JISAs at 18 and can do as they wish with the funds.

Whilst some providers may offer what look like attractive interest rates on cash JISAs, you must be careful to remember that if the child has a number of years before they can access the fund, it may be better off being invested into stocks and shares. Given time, this would be expected to give returns beyond any cash JISAs. Anyone can add money to a JISA for a child, so parents and grandparents could see this as a good opportunity to build savings for a child in a protected 'environment'.



“Excellent advice and investment service from Ashton and his team. Very astute financial management tailored to individual requirements.”

Mr Q, Serle Court.

Tax efficient planning

A Venture Capital Trust (VCT) is a listed company, run by a fund manager, that invests in smaller companies that are not typically quoted on stock exchanges. Investments in Venture Capital Trusts carry tax reliefs to encourage you to invest in these smaller, higher risk companies. By pooling your investments with those of other customers, VCTs allow you to spread the risk over a number of small companies. Enterprise Investment Schemes (EIS) and Seed Enterprise Investment Schemes (SEIS) both encourage investment in qualifying early-stage and seed-stage growth-focused companies by giving investors handsome tax and loss reliefs.

High earners

If you have used up your annual pensions allowance and your annual ISA allowance, then you may already be familiar with tax efficient investments such as a VCT, EIS and SEIS. Listed below are some other reasons why you might benefit from investing in one of these tax- efficient products:

-Offsetting tax on a capital gain

-Selling a buy to let property

-Sheltering investments from inheritance tax

-Selling shares with an IHT problem

-Extracting profits from a business

-Managing chargeable events for single premium investment bonds

Tax efficient planning

	VCT	EIS	SEIS
Annual investment	£200,000	£1,000,000*	£200,000
Initial income tax relief	30%	30%	50%
Minimum hold period	5 years	3 years	3 years
CGT tax relief^	None	CGT deferral	CGT exemption at 50%
Tax free dividends?	Yes	No	No
Tax free capital gains?	Yes, after hold period	Yes, after hold period	Yes, after hold period
Tax relief for losses?	No	Yes, against gains or income	Yes, against gains or income
IHT business property relief?	No	Yes, after 2 years	Yes, after 3 years
Expected hold period of investment	5 to 10 years	5 to 10 years	5 to 10 years

*This is increased to £2 million provided that anything above £1 million is invested in knowledge-intensive companies. There is no limit on CGT deferral.

^Subscriptions into EIS can be used to defer capital gains (e.g. from selling a property). These gains can be from up to one year before and three years after the investment is made.

50% of a subscription into an SEIS can be taken off any realised capital gain. The SEIS subscription must be made in the same tax year that the gain is realised or the following tax year and then carried back.

"I have always found the excellent team at Ifamax charming, professional, and reliable. They always respond to my inquiries (even the ones in gibberish) politely and promptly."

Mr B, Guildhall Chambers.

Cash management

Efficient cash management can be an effective planning tool that is often overlooked.

Personal Savings Allowance

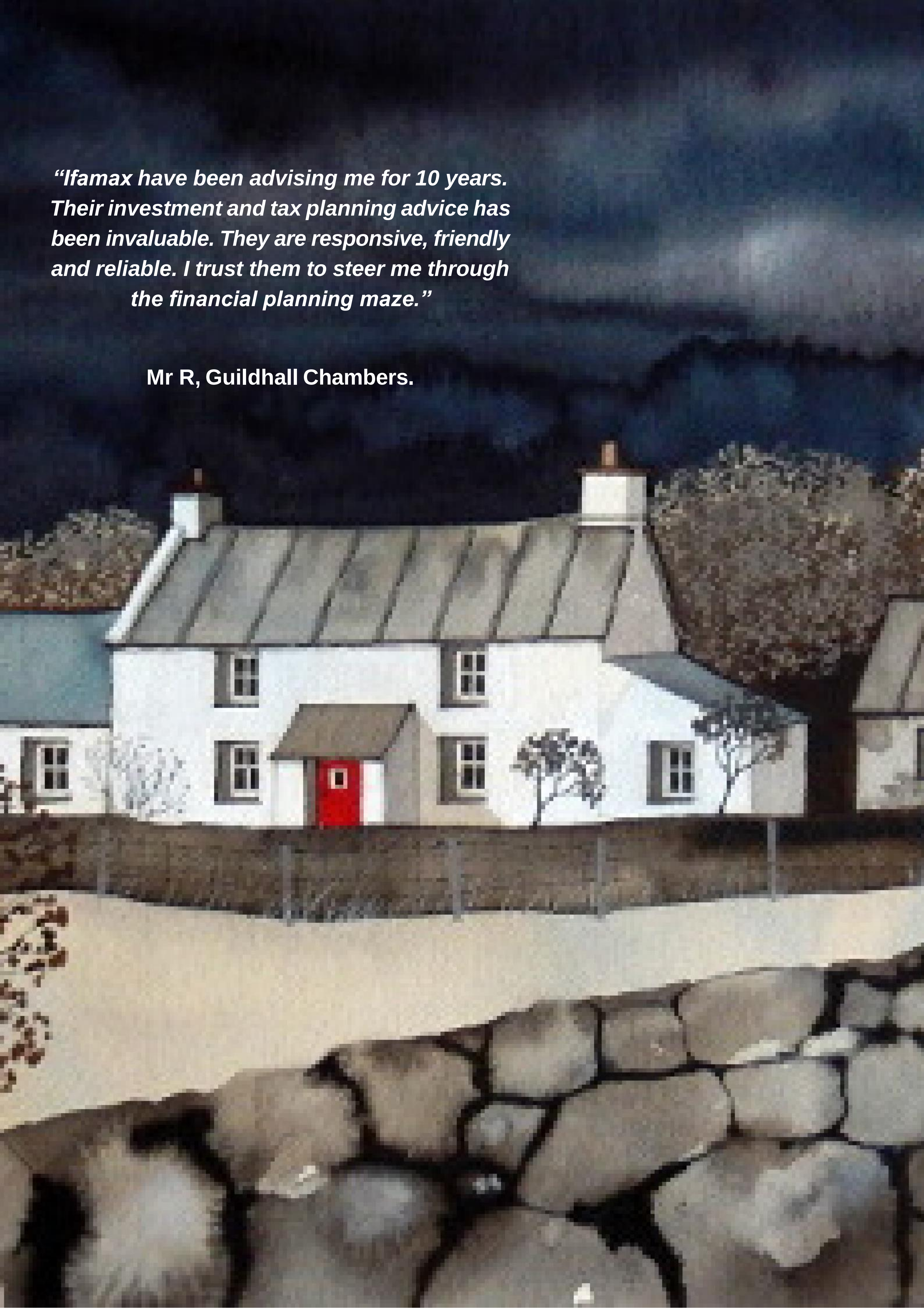
Savings interest is paid gross and most will not pay any tax on it at all. Basic rate taxpayers can earn £1,000 per annum tax-free and higher rate taxpayers £500, additional rate taxpayers have no allowance.

Financial Services Compensation Scheme (FSCS) protection

As long as the banking institution you use is fully regulated in the UK, you get up to £85,000 of your money protected in the event of the bank going bust. It is important that you look to manage this effectively so you are not putting your cash at unnecessary risk.

Emergency Cash

We always recommend that individuals hold at least six months' worth of expenditure in cash in an instant access account. This avoids being caught short in the event of a sudden need for cash; this could be for unforeseen expenditure or income shock.



"Ifamax have been advising me for 10 years. Their investment and tax planning advice has been invaluable. They are responsive, friendly and reliable. I trust them to steer me through the financial planning maze."

Mr R, Guildhall Chambers.

Cash Management

Introducing Insignis Cash Management

All asset classes are important to us, and cash is just one of them. To enhance our service model, Ifamax has partnered with Insignis. Insignis Cash Solutions is an innovative cash management solution that complements your asset portfolio by looking after your cash.

Cash is different to your other assets due to its liquidity and return potential. This service allows you to get a better return than you would at a traditional high street bank, while still allowing you to determine what liquidity requirements suit you. The great benefit of using this service is that it is done with a single sign in procedure, making it as easy for you as possible. Insignis use a number of secure UK-based financial banks to invest your cash.

All the banks used have FSCS protection, which is currently £85,000 per bank, per individual. This gives our clients a variety of options, depending on the capital amount and term requirements. The service is aimed towards those that typically hold high cash balances as the minimum account size is £50,000.

Charitable Gifting

The ability to support charity is one that is extremely important for many of our clients and indeed for people all around the UK.

The Charities Aid Foundation calculate that around £10 billion is gifted to charity in the UK each year. With the events of 2020 and effects of Covid-19, the need for charitable gifting is one that has been highlighted even more so, both with individuals wanting to make donations, and also the necessity for donations for charities to survive and continue with their respective works.

Gift Aid

The most popular, and often easiest, way to gift to charity in the UK is through cash donations though the government's Gift Aid scheme. Gift Aid is a tax relief allowing UK charities to reclaim an extra 25% in tax on every eligible donation made by a UK taxpayer. Or put simply for every £1 you donate the charity can claim back an extra 25p from the government.

The basic premise for this is that as you are donating utilising money you have already paid tax on the government agree to forward this tax paid (up to the basic rate of 20%) onto the charity.

"I have been a client of Ifamax for over 10 years. I have always found them to be friendly and approachable and their advice sound, well-explained and useful. I have no hesitation in recommending them."

Mr W, Guildhall Chambers.

Charitable gifting

Limits

There are limits to the amount of gift aid that can be claimed by the charity and you could face a tax charge if the Gift Aid relief exceeds the UK tax you have paid during the tax year. You will need to have paid sufficient income or capital gains tax in the UK for a charity to claim the additional 25% of the donation. A simple rule to confirm your donations will qualify is to ensure they are not more than 4 times what you have paid in tax in that tax year (income or capital gains).

Example: Dave will pay income tax of £2,500 for the 2024/25 tax year. He can, therefore, be comfortable that following a gift of £10,000 to Cancer Research UK the charity can claim full gift aid on his contribution. Anything over this gift amount cannot be claimed as gift aid.

Benefits for higher and additional rate taxpayers

An additional benefit to individuals who pay tax at the higher and additional rate is that you can claim further tax relief against your own income tax liabilities through your self-assessment return. This is the difference between the respective rate of tax at 40% or 45% and the basic rate at 20%.

Protection

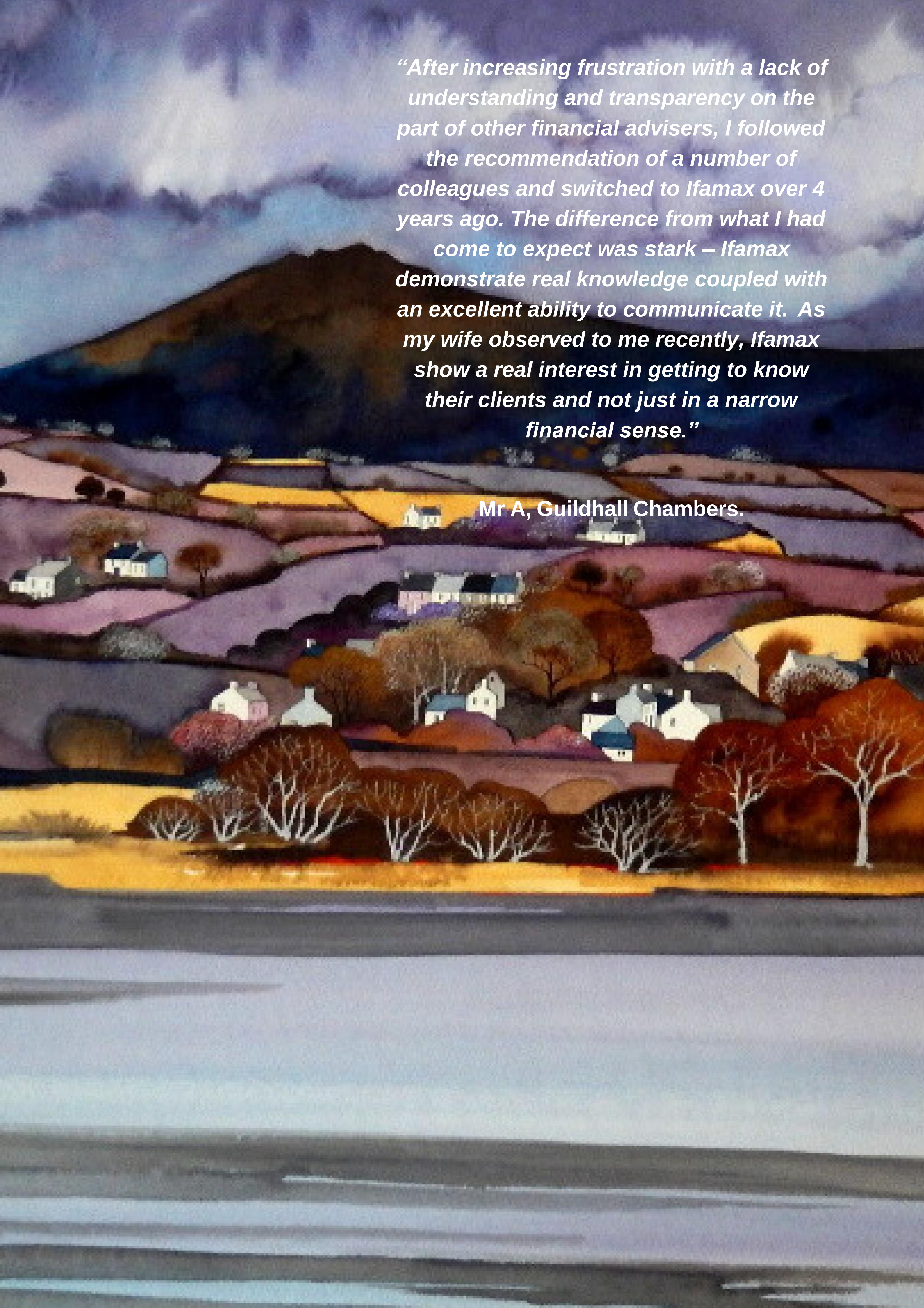
According to the Association of British Insurers every year 1 million people in the UK find themselves unable to work due to a serious injury or illness. Although many of us would like to think "that will never happen to me" or "it is not something I am worried about at the moment", it is of course often only seriously considered in a moment of hindsight when it is too late. A large number of employed individuals tend to benefit in some way from their employer in times of need, but for those who are self-employed it is left to you to personally organise any cover that you may need.

Income Protection

Income protection, (sometimes known as permanent health insurance), insures part of your earnings against illness or accidental injury. It ensures you continue to receive a regular income until you retire or are able to return to work. It is not possible to insure yourself for your entire gross income; insurers feel that you need some incentive to get back to work! Income protection is usually based on a percentage of your earnings; up to 60% is the norm.

Life Cover

The most basic type of life insurance is called term insurance. With term insurance, you choose the amount you want to be insured for and the period for which you want cover. If you die within the term, the policy pays out to your beneficiaries. If you do not die during the term, the policy does not pay out and the premiums you have paid are not returned to you. Family income benefit is similar to the above with the slight difference that the insured amount would be paid monthly/annually for the term of the policy rather than one big lump pay out.



"After increasing frustration with a lack of understanding and transparency on the part of other financial advisers, I followed the recommendation of a number of colleagues and switched to Ifamax over 4 years ago. The difference from what I had come to expect was stark – Ifamax demonstrate real knowledge coupled with an excellent ability to communicate it. As my wife observed to me recently, Ifamax show a real interest in getting to know their clients and not just in a narrow financial sense."

Mr A, Guildhall Chambers.

We hope this guide has been useful and informative to you. If you would like to read more about Ifamax please visit our website - https://www.ifamax.com/barristers

Not everyone wants to move their financial advice service. We understand and respect that decision.

But at the same time, it is not unusual for people to want a second opinion about their financial plan, and the solutions they have implemented - in fact, studies have shown that 80% of high-net-worth individuals would welcome a second opinion on their finances.

So, if you are content with your current financial adviser, but you want a second opinion on the plans and solutions they have put in place for you, or you are unhappy with your existing adviser and need to change tack, we will be happy give you a complimentary Second-Opinion Consultation.

We promise this service is completely charge and obligation free!
We'd love to hear from you.

Ifamax Wealth Management
One Temple Back
Bristol
BS1 6FL
contact@ifamax.com