Rewrapping client wealth

Rewriting the traditional wealth-building story

For financial advisers only

Rewrapping client wealth - a new era for financial planning

As we dissect the impact of the Autumn Budget and layer in the previous fiscal changes, there is no doubt that we are now facing the biggest shake up to financial planning we have seen in a long time.

The landscape for advice has fundamentally shifted. We need to reimagine yesterday's financial planning rule book and look again at how we approach client wealth management – if we continue to do what we've always done, some clients will inevitably pay more tax.

As we progress on this new journey, revisiting and reassessing your clients' needs and outcomes will be invaluable. For some clients, rewrapping their wealth is going to be critical – and this can only be managed properly if you have access to multiple tax wrappers.

We know many of you have already taken action, and we urge those who haven't, to start now.

70%

"Nearly 70% of advisers are adjusting their advice to maximise tax efficiency."

"Over half are considering alternative investment products to general investment accounts".

Source: Quilter adviser survey, 20 June 2024.

This is a seismic change, and we are here to support you and your clients.

To support you on this journey, we have summarised:

- ✓ Fiscal policy changes
- ✓ The changing landscape
- ✓ Embracing a new approach to wealth management
- ✓ Why our platform is uniquely positioned to support you and your clients

Fiscal policy changes

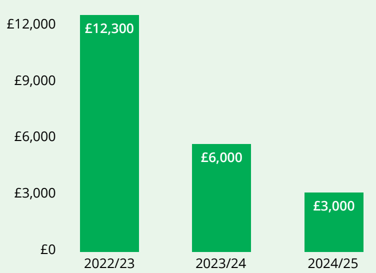
Capital gains tax (CGT) rates rocket

18%
10%
Basic rate taxpayers

24%
20%
Higher rate taxpayers

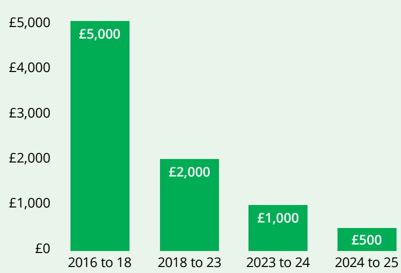
Up **80%** for basic rate taxpayers and **20%** for higher rate taxpayers since the October 2024 Budget.

CGT annual exempt amount slashed



Now just **£3,000**, a 76% cut since 2022/23.

Dividend annual allowance slashed



Now just **£500**, a 90% cut since 2017/18.

More allowances frozen

Frozen allowances are a form of stealth tax and are having a growing impact.

Key allowances impacted are:

- Income tax bands frozen until 2028.
- Inheritance tax (IHT) nil-rate band frozen since 2009 until 2030.
- Pension commencement lump sum (PCLS) frozen at **£268,275.**

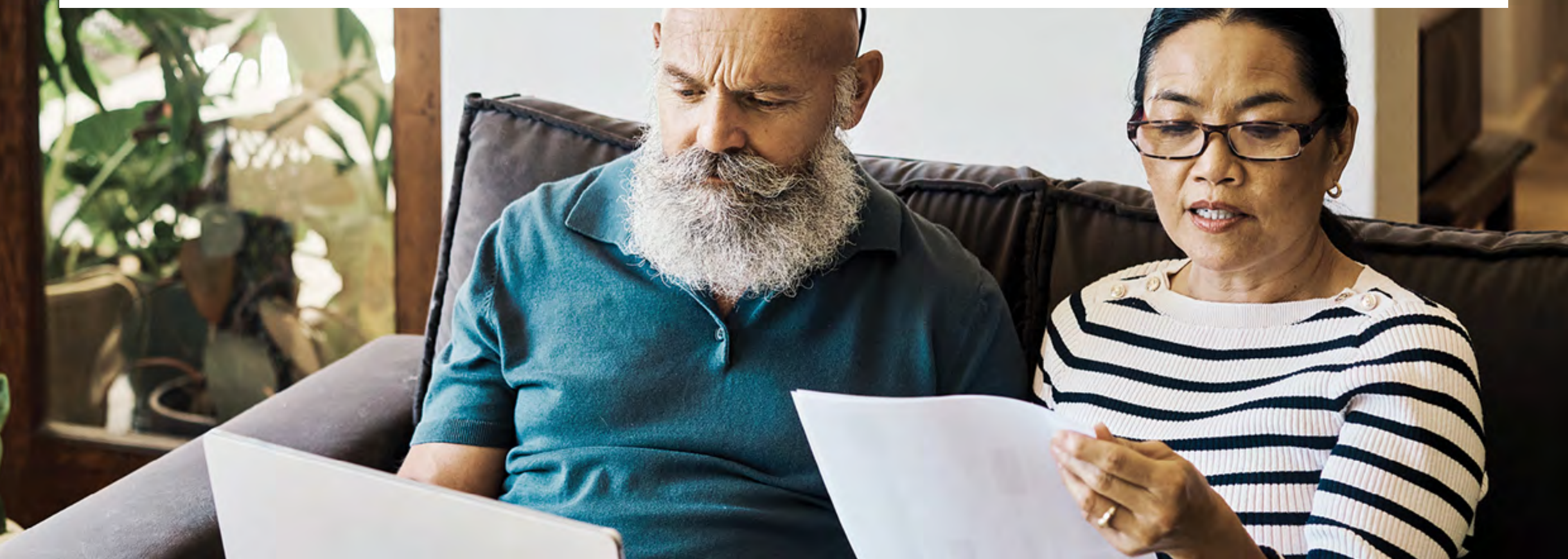
High inflation

- Underpinning all these fiscal policy changes is high inflation.
- Inflation peaked at 11.1% in Oct 2022* and has been steadily declining – but continues to be a concerning factor.

**Source: The Consumer Price Index*

Retirement planning shake up

- Pensions will be brought into the IHT net from 6 April 2027.
- This structural change of bringing unused pensions into the inheritance tax regime is one of the biggest changes impacting financial planning in decades. We know it's coming – the question just remains how they will bring this into force, not if.



The changing landscape

More clients will pay higher rates of tax

40%

11.5m* people could be dragged into paying the higher or additional rate of income tax over the next four years.

**Source: Quilter Freedom of Information Request to HMRC, July 2024*

More pensioners subject to income tax

The new state pension of £11,973 p.a. for the 2025/26 tax year uses up 95.2% of a pensioner's personal allowance – it won't be long before this reaches 100% of the personal allowance.

More estates will face IHT

IHT

Frozen inheritance tax bands, rising house prices, and the inclusion of unused pension wealth from 6 April 2027 means more clients will face IHT in the future.

> "Research by Quilter shows that a single person with an average priced home and a moderate retirement pot could become liable to IHT."

Higher cost of living

£59K

Due to higher living costs, achieving a comfortable standard of living in retirement requires a much bigger pot than it used to.

> "Research from the Pensions and Lifetime Savings Association shows a couple now needs £59,000 income a year net of tax for a comfortable retirement!"

Uncertainty for clients holding pension wealth

?

The removal of IHT efficiency on pensions will mean uncertainty for clients with substantial pension wealth as they seek alternative planning opportunities.

Impact on clients holding unwrapped investments

More clients will pay tax

HMRC

More clients holding unwrapped investments will become liable to dividend tax (even if they only hold accumulation shares) and capital gains tax when they sell assets.

Planning is more complex

Changes to CGT mean even simple steps need careful consideration/calculation. This includes moving money from a GIA to fund a bed and ISA or to transfer wealth to a basic rate taxpayer.

More admin

More clients holding unwrapped investments may now need to complete a tax return - even if they don't take any action.

Embracing a new approach to wealth management

The new fiscal landscape will bring many challenges. How you navigate these will depend on the unique circumstances of each client.

Advice areas to consider:

1. Maximise tax allowances
2. Take care when considering a general investment account (GIA)
3. Consider onshore investment bonds
4. Refocus on making wealth IHT efficient
5. Consider what to do with the pension commencement lump sum

1 Maximise tax allowances

Following the fiscal changes, helping clients navigate the right tax wrapper for their individual situation will take careful planning and is a great opportunity to demonstrate the value of your advice. Maximising tax allowances across multiple tax wrappers is key.

2 Take care when considering larger investments into a general investment account (GIA)

The changes to the dividend allowance and capital gains tax inevitably creates greater financial planning considerations around the suitability of GIAs (both new and ongoing) for client wealth. If advisers continue to use GIAs as they always have, some clients could face significant tax liabilities. This could mean self-assessment returns to HMRC, maybe for the first time for many clients.

Whilst there are still exemptions and reliefs that can be used, the change in tax environment means other options, such as onshore investment bonds, should be considered for some clients as a complement to a GIA.

! Assess existing GIA holdings

Where your client holds an existing GIA, you should consider how this will be taxed as part of your client's review process.

The change in tax allowances may mean an onshore bond is more tax efficient over time for some clients.

Comparing the long-term taxation benefits of retaining an existing general investment account with closing the account and reinvesting the proceeds into an onshore bond requires some complicated calculations. Quilter has a new tax comparison tool that can help you – see page 10 for more information.

3 Consider onshore investment bonds

More advisers are now turning to onshore bonds. Changes to the dividend tax allowance and CGT mean your clients could pay significantly less ongoing tax in an onshore bond compared to a general investment account.

Here are some key benefits of onshore bonds:

5%

5% tax-deferred withdrawals a year for up to 20 years – allowance can be rolled over.

No personal tax to pay or tax return to complete (provided the withdrawals stay within specified limits)*.

Bond policy segments can be assigned to loved ones or placed in a trust tax efficiently.

* Bonds are taxed under the chargeable event rules. Gains made on chargeable events are liable to income tax. Events include partial withdrawals above the 5% allowance mentioned above and full surrender of the bond or policy segments within. Whilst onshore bonds can provide tax efficiency for the medium- to long-term, care is needed when taking withdrawals, for example when funding an ISA on a yearly basis.

4 Refocus on making wealth IHT efficient

From 6 April 2027, many more clients will become liable for a tax originally intended for the very wealthy.

The new regime means those who saved significant sums into their pensions, assuming they would be free of inheritance tax, now face new challenges.

However, there are steps you can take to mitigate your client's IHT exposure. Simple actions like outright gifting can reduce your client's taxable estate if they live seven years beyond the gift date. More flexible options, such as onshore bonds wrapped in trust, will also play a crucial role.

Trusts will become crucial

Trust planning can help to remove wealth from your client's estate, potentially lowering their inheritance tax bill if they survive seven years after the transfer. Additionally, trusts offer control and flexibility over how and when assets are distributed to beneficiaries, ensuring that your client's family is supported according to their wishes.

! Bonds are an effective tax wrapper to hold within a trust; with Quilter, your client could invest in a bond today and assign it into trust at any point in the future, without the need to sell the bond and realise a gain.

5 Consider what to do with the pension commencement lump sum (PCLS)

When the PCLS maxima of **£268,275** is reached, it becomes a critical advice point.

The changing landscape means advisers need new financial planning strategies to achieve good retirement outcomes for their clients.

We need to try and reframe the primary purpose of a pension, and consider the amount clients may need in retirement. There is no right and wrong here, but we must ensure clients' needs and objectives are properly met. Considering the spouse and family position, as well as using all tax wrappers, will help ensure the client's financial plan is fully optimised.

£268,275

Use a trust for IHT efficiency

Given the future direction of IHT on unused pension wealth, it may now be beneficial for the client to consider withdrawing their PCLS and placing it in a trust (using an onshore bond as the investment vehicle in the trust).

This will help remove wealth from the estate and mitigate any IHT exposure for the client.

Invest into a pension for a low earning spouse or grandchild

Investing some PCLS into a pension for a low-earning spouse, child, or grandchild could be a very effective strategy.

For basic rate taxpayers, every £1 invested becomes £1.25 with tax relief (up to £2,880 net each tax year for non-earners). As tax allowances get squeezed ever tighter, many clients are missing out on these valuable tax breaks.

Rebalancing pension wealth between spouses is particularly important given the ongoing inequality between couples.

> “90%
>
> Research from The University of Manchester shows that in half of couples with pensions, one partner has 90% of the pension wealth.”

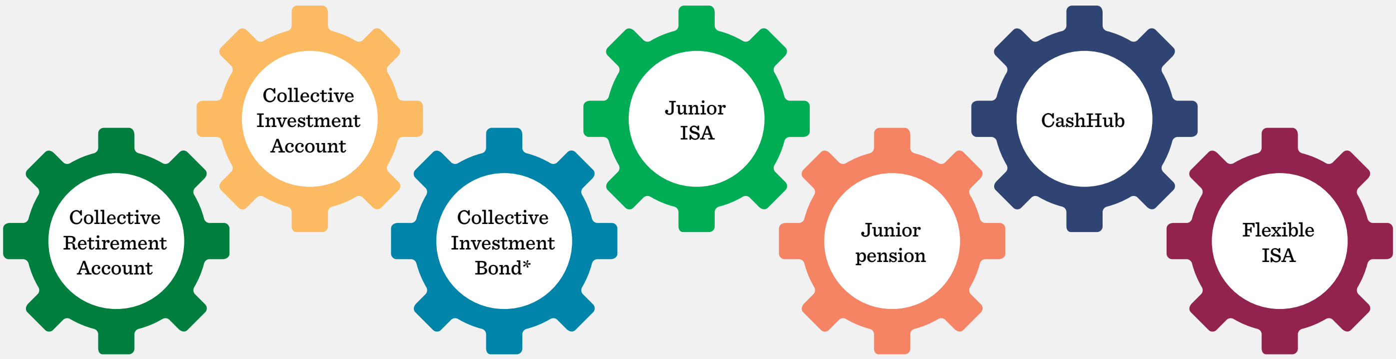
To help you understand more about this advice opportunity a case study is available: 'To crystallise or not to crystallise?' – see the next steps section on page 12 for where to go to access this.

By harnessing the power of tax relief, rebalancing pension wealth between spouses, funding pensions for children or grandchildren, and using trust planning, you can boost family wealth and facilitate passing money on.

Why our platform is uniquely positioned to support you and your clients

All wrappers available

Never before have all wrappers been so important to long-term planning. Being able to maximise tax allowances when accumulating wealth, and during the decumulation stage, can only be done effectively if you have a full range of wrappers.



**Available with Quilter's trust range*

Quilter is the only platform where you can holistically manage a whole family's financial plans and run your investment proposition easily across all wrappers in one place. Unlike many of our competitors, we already offer an onshore bond that is fully integrated into our platform. Fully integrated wrappers create efficiencies for you and your clients:

All transactions linked together across multiple products

Reduced time out of the market

No unnecessary bank transfers needed on Quilter solutions between you, your client, and us, as we'll take care of it

Family Linking – value for the whole family

Family Linking is Quilter's multi-member family discount. It provides exclusive discounts to reduce the cost of investment for your clients.

With Family Linking, we reflect the total value of the whole family's investments and cash savings held on our platform. As our charging structure is tiered, the higher the total investment value, the lower the charge rate for all family members.

Family Linking is particularly powerful for clients who open a Junior ISA or a Junior pension – allowing them to secure big reductions for smaller value investments.

No extra charge for rewrapping – future proofing your advice

If any client wealth needs to be rewrapped using other tax wrappers and/or family members, by using the Quilter platform there is no need to worry about ever triggering extra charges. This removes 'charge suitability' as a concern – enabling you, the adviser, to focus on the right advice at the right time for each client and their family members.

Assess legacy GIAs with our online tool

Quickly identify where clients could benefit from rewrapping their wealth

We've created an easy-to-use tool to help you assess the ongoing tax position of your client's GIA and whether they could lower their tax bill by closing the account and reinvesting the proceeds into a Collective Investment Bond with Quilter.

For those clients where it is in their best interests to rewrap their wealth to optimise tax, having considered their wider circumstances, the tool can act as a catalyst for your conversations.

***Scan this QR code** to start using our ongoing tax comparison tool now or find it under the help and support section of our website.*

Important pension flexibility

Quilter's platform offers the flexible pension income and death benefit options needed to maximise tax efficiency for your clients in retirement.

Flexibility. Choosing a pension provider that offers flexible pension income options in decumulation is crucial. By having the flexibility to only withdraw the money your client needs, less is withdrawn so there is less income tax to pay, and more remains invested for the long term in a gross-taxed environment.

9x

Nine flexible withdrawal options, available at no additional cost. This includes TRIO – our tax-efficient regular income options. TRIO allows your clients to take tax-free cash on a regular basis to provide a source of retirement income with no income tax liability.

Automatic cash management means your clients always receive their income. Our platform not only sets up automatic income payments for your drawdown clients, but also manages their cash accounts. It automatically disinvests to maintain sufficient cash for their pension income, reducing the time you spend on trades, disinvesting funds, and managing cash.

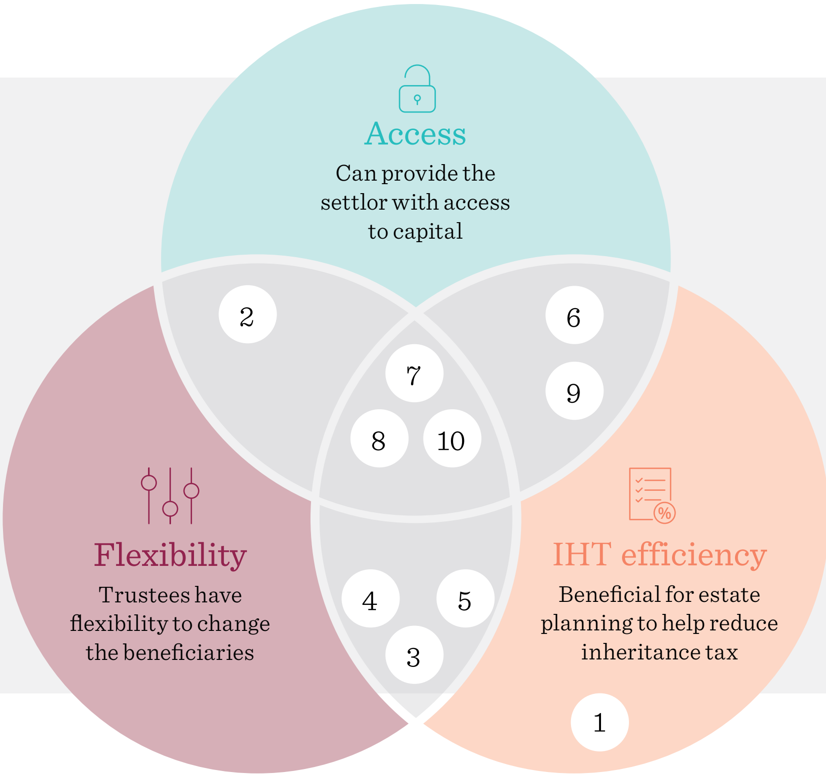
Small pots payments. The option to withdraw up to £25,500 net without triggering the money purchase annual allowance.

Beneficiary drawdown. Full flexibility for pension death benefits, with dependants, nominees, and successors all able to access beneficiary drawdown.

Range of flexible trust solutions

So that you have a full range of planning tools at your disposal, we provide a range of ten trusts, including our ever-popular Lifestyle Trust. These trusts can be applied to our Collective Investment Bond at any point in the planning cycle, including after the bond has been set up, for ultimate flexibility (except for the loan trust).

1. Absolute trust
2. Discretionary trust - settlor included
3. Discretionary trust - settlor excluded
4. Best start in life trust
5. Excess income trust
6. Discounted gift trust - bare
7. Discounted gift trust - discretionary
8. Lifestyle trust
9. Loan trust - bare
10. Loan trust - discretionary



Remove wealth from your client's estate faster

For clients keen to remove wealth from their estate immediately, without waiting for seven years to pass, our **excess income trust** could help.

Three conditions must be met for gifts to qualify as exempt from IHT:

1. It forms part of the individual's (settlor's) **normal** expenditure
2. It was made **out of their normal income**
3. It doesn't **cause a reduction in their standard of living**

If all these conditions are met then there is no limit on the amount which can be gifted and immediately exempt from IHT. Record keeping will be important to demonstrate payments are within the normal expenditure out of income rules.

Next steps

Visit our online rewrapping client wealth hub where you can access a range of support material and the new tax comparison tool.

Contact your Quilter consultant today

This is a golden opportunity for you to demonstrate the value of your advice and significantly improve financial outcomes for many of your clients. We're here to help you seize this opportunity.

Get in touch with your Quilter consultant today to learn more about how you can easily rewrap your clients' wealth and demonstrate your expertise in your ongoing advice.

This document is based on Quilter's interpretation of the law and HM Revenue and Customs practices as at January 2025. We believe this interpretation to be correct, but cannot guarantee it. Tax relief and the tax treatment of investment funds may change. The value of any tax relief will depend on the investor's individual circumstances. Your clients' investments may fall or rise in value and they may not get back what they put in.

quilter.com

Please be aware that calls and electronic communications may be recorded for monitoring, regulatory and training purposes and records are available for at least five years.

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