

PLANNING



Planning beyond the horizon

The changes happening in 2026/27 tax year are only part of a much broader story.

Short-termism is a criticism often directed at politicians. However, they are not unique in their focus on getting through the next twelve months rather than considering the longer term. The frenetic flow of news tends to shorten both our horizons and attention spans.

In this age of hyperfocus, those same short-termist politicians have found it useful to defer the start of difficult changes, such as tax increases original. What is announced in a Budget in year one may not take effect until year four, by which time the original chancellor may have been replaced. Such delayed implementation can create problems for financial planning.

Diverted attention

A good example is the freeze to the personal allowance and income tax thresholds, which was extended for another three years to April 2031 in the Autumn 2025 Budget. That may seem too distant to worry about, but it increases the odds that if you are a basic-rate taxpayer today, you will be a higher-rate taxpayer in the future.

On pensions, the last Budget also included a change to salary sacrifice rules, not due to take effect until April 2029. But before that, April 2028 brings an increase to 57 for the normal minimum age at which benefits can be drawn, another measure announced long before its implementation.

It is hard to keep abreast of all the revenue-raising tax changes that various chancellors have scattered across future tax years, which is why experts can really make a difference when it comes to long-term planning.

❖ *The Financial Conduct Authority does not regulate tax advice. Tax treatment varies according to individual circumstances and is subject to change.*

Occupational pension schemes are regulated by The Pensions Regulator.



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PENSIONS

Pension savers losing millions in tax relief

Millions of people may be due tax refunds as a result of tax code errors and confusion over pensions tax relief. However, individuals will need to apply for refunds, as HMRC won't necessarily automatically correct these errors.

Multiple income streams

Wrong tax codes can be issued when HMRC does not have up-to-date information on company benefits or employee earnings. This can occur when people previously held more than one job, or had external sources of income, such as rental income, dividends or freelance work. It is estimated HMRC overcharged employees £3.5bn last year through such coding problems.

Higher-rate taxpayers can claim further relief

Many higher earners are also paying too much tax on their income, as they are not claiming back additional tax relief.

Basic-rate tax relief, at 20%, is automatically added to pension contributions at source. But higher-rate taxpayers, contributing to SIPPs or private pensions, can claim an additional 20% tax relief (or 25% for additional-rate taxpayers).

Some workplace schemes automatically give higher earners full tax relief, but not all. Those missing out are able to reclaim this money through self-assessment. HMRC also offers an online tax relief refund service for those that don't normally file a tax return.

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Time for an estate planning review?

Amendments to inheritance tax (IHT) rules, announced in the Autumn 2024 Budget, are about to start biting.

IHT payments have been rising much faster than inflation in recent years. In the last decade IHT receipts rose by over 115% and are projected to increase by another 75% over the next six years.

The Autumn 2024 Budget helped IHT revenues further along their upward course by introducing two important reforms:

- Business and agricultural reliefs** For 2025/26 these reliefs are at a rate of 50% or 100%, with no limit. From 2026/27, the 100% relief will be capped at a combined £2.5 million per individual, with any unused amount transferable to a surviving spouse or civil partner.
- Pension death benefits** At present, pension death benefits are normally excluded from your estate for IHT purposes. From 6 April



2027 that is due to change, and most pension death benefits will fall within the scope of IHT.

Of these two changes, the reduction in agricultural relief has attracted by far the most attention. However, in practice the changes to reliefs will be much less significant than the inclusion of pensions in the IHT net. Even before the yuletide climb down, the relief reforms were projected to raise little more than a third of the revenue of the pension change.

In addition, including pension values into estates will, for some homeowners, mean that their residence nil rate band is reduced or completely extinguished due to the effect of tapering.

The cumulative effect of the extended nil rate band freezes and Autumn 2024 Budget reforms means that any estate

planning should now be reviewed. If you have no estate planning at present, the pension change could be a reason to start. Estate planning requires expert advice, as in some instances it may be necessary to restructure other aspects of your financial planning, such as retirement provision.

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RETIREMENT

Annuities cycle back

Retirement-funding behaviours have shifted in recent years, with annuities staging a comeback.

These retirement products, which provide a guaranteed income for life, fell out of favour over the past decade, but economic conditions have pushed up annuity rates, making them a more attractive proposition. Last year, annuity sales totalled £7.4bn – the highest level since 2014.

Annuities offer peace of mind, guaranteeing a regular income no matter how long you live. On the downside, however, they are inflexible. Once purchased, you cannot switch provider or unwind the contract. There is also the risk that if you die early, you may have received less in income than the amount paid for the annuity.

Many annuities pay a level income that does not rise over time, meaning inflation can erode spending power, particularly over a long retirement. Escalating annuities are becoming more popular with sales up 10% from 2024 to 2025. They increase payments each year, either at a fixed rate or in line with inflation, but they cost more and usually start with a lower income.

Other choices matter too. Joint-life annuities continue paying a reduced income to a



surviving spouse or civil partner, while enhanced or impaired-life annuities offer higher payouts to those with health conditions.

Changing tax rules add another consideration. From April 2027, unused pension pots will fall within inheritance tax calculations, potentially influencing how retirees use their savings.

Importantly, annuities need not be an all-or-nothing decision. Many retirees combine an annuity with flexible drawdown, or delay converting pension funds to annuities until later in retirement.

❖ *The value of your investment, and the income from it, can go down as well as up and you may not get back the full amount you invested.*

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INVESTMENT

The best-selling fund sector in 2025 was...

Sales of investment funds threw up a surprise winner in 2025.

The Investment Association recently published its 2025 report on investment fund sales and assets under management. For individual investors, the fund sector with the highest net sales (purchases less redemptions) over the year and the last three quarters of 2025 was Short Term Money Market funds – low-risk funds offering deposit-like returns. The worst selling sector, as usual, was UK All Companies.

Contradictory result

And yet, according to Trustnet, in 2025 the average UK All Companies fund produced a return of 15.4%, whereas the average Short Term Money Market fund return was 4.3%.

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Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.