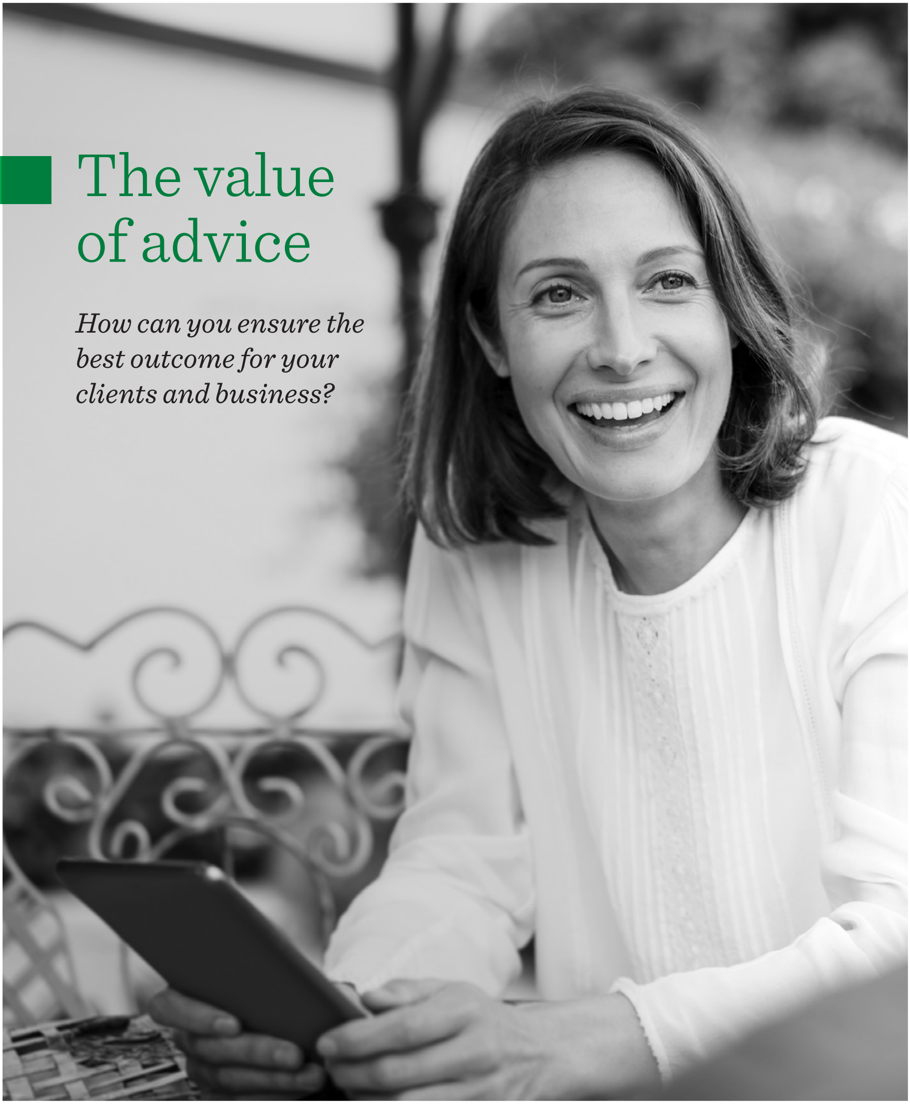
Quilter



The value of advice

How can you ensure the best outcome for your clients and business?

For financial advisers only.

Please note the following case study is fictional and only considers products and solutions offered by Quilter.
There are many different options available taking into account individuals circumstances and this case study is purely illustrative.

Quilter
Where families prosper
The home of the family office

Say hello to Isaac & Leanne

Age:

Isaac 40, Leanne 37

Family situation:

Sandwich generation *– established with a young family*

Aspirations:

"We've got a lot of catching up to do" - Start saving for their futures

Isaac & Leanne are having Sunday lunch with their parents Quinn & Ursula. They're excited to share two bits of good news. First, Leanne is pregnant, and they are so happy that their 10 year old son Ethan will now have a sibling.

They are also now confident about their business. They feel the worst is finally behind them. Their import business is going to be on a more stable footing after winning a long-term contract.

Background

Isaac and Leanne have been married for 12 years and have a son Ethan who is 10. Leanne is pregnant with their second child. They own their own small import business (50:50 shareholder directors), which they started 8 years ago. They run the business together and their focus has been on growing it whilst raising a family, which has been a struggle putting them under significant strain, financially and emotionally, investing all the money they can spare to get it established.

Finally, their hard work is paying off and are now confident about their business but are worried they have a lot of catching up to do with their personal finances. Their earnings are expected to grow materially next year after signing a new long-term customer contract.

Their financial situation

Currently they take a gross income of £27k each in 2022/23 (a salary of £9,880 each and the remainder as dividends). They own their own house valued at £300,000 (with a £200,000 capital repayment mortgage with decreasing term life cover). They have life insurance of £250k each. Company gross profits (before salary) are expected to average £100k a year for the next five years.

They have focused on their company and consequently have had little time to consider their own savings and investments. They have some short-term cash savings, and cash ISA's with their bank. Isaac has 3 paid up pension pots and Leanne has one paid up pot. All defined contribution. They are exempt from auto-enrolment, as neither have a contract of employment with their business and haven't made pension contributions for a while.

They are unsure of how their pension funds are invested, but broadly understand what investing responsibly means. They aren't sure where to start but are happy to invest in assets that do have an ESG focus but only when there is a high likelihood, they generate a good return. Performance is key.

They know it is now time to start saving for their futures but don't know where to start, and Ursula has suggested to them that they speak with you for help.

The risks of Isaac and Leanne doing nothing

Isaac and Leanne want to put a plan together swiftly before time is lost, after all their family is about to grow. They don't tend to shop around for things in their spare time, although they want a good deal, and don't monitor their own investments – the focus on the company is all encompassing. They want a way to be able to monitor things quickly.

They are slightly nervous about the current economic environment and wondered whether holding cash is a good idea until things improve. They are worried about tying up all their money in case they need it to help the company.

By speaking to you they can avoid:

- ✓ paying more tax than they need to, by organising how they take their income
- ✓ concentration risk – having all their assets tied up in their company
- ✓ investing too much into cash over the long term
- ✓ paying higher costs than are necessary
- ✓ not having an expert manage their plan to make sure they are on track
- ✓ not shopping around
- ✓ a lack of diversification

Most importantly, they risk ignoring their long-term financial future.

How your advice can help

Isaac and Leanne currently have the following investments:

- **£9k** cash in an instant access savings account
- **2 cash ISA's** both held with their bank (their full allowances are available for this tax year)
  - Isaac - **£8,000**
  - Leanne - **£6,000**
- Isaac has **3 paid up pension pots** combined value **£80k**
- Leanne has **1 paid up pension pot** of **£40k**

The recommendations surround 4 areas:

1. Tax efficiency
2. Consolidation
3. Value
4. Professional investment expertise

1 Tax efficiency

An adviser will assess (in conjunction with the accountant, where required) the tax efficient way to organise their income so that they continue to accrue state benefits but drive efficiency of tax through a combination of salary and dividends. Currently, Isaac and Leanne are aware that its always best to pay a small amount of salary and make up a large portion of their income from dividends as this is tax efficient.

This will be re-assessed reflecting:

- the changes in corporation tax rates for the tax year 2023/24
- the Primary Threshold
- change in dividend allowance,
- availability of the employment allowance

This will ensure that they are paid a combination of salary and dividends, taking into account their personal allowances and tax free options but making sure they accrue state pension by taking sufficient income.

The adviser explains that changes in the Primary Threshold to £12,570, reduction in the dividend allowance and changes to corporation tax for profits over £50k have changed the long-held position that taking dividends provides a tax advantage <u>in all cases</u>. That strategy may cost them more in tax. Their individual circumstances must be assessed as the level of profit that the company makes is key.

The following example compares two options – like the last company return Isaac and Leanne plan to extract £27k of income each for 2023/24.

Option 1 shows a similar strategy previously followed of taking individual salary up to the Primary Threshold with the remaining paid as dividends.

Option 2 illustrates how taking more salary could save them tax in their situation.

Tax year 2023/24	Company Gross Profit (before salary) £100k Extract £27k of income each director			
	Option 1		Option 2	
	Salary	*Dividend*	*Salary*	*Dividend*
Income	£12,570	£14,430	£26,000	£1,000
*Effective tax rate**	0.00%	35.52%	16.52%	23.46%
Total effective rate	**18.89%**		**16.78%**	

* *Effective rate includes, NIC liability for the company and individual as well as income tax liability for salary payments. For dividends, rate includes corporation tax paid prior to net profits as well as income tax liability.*

Isaac and Leanne's company is eligible for the employment allowance. This reduces employer NIC liability.

Their adviser shows that if they wanted to extract a further £12k each of profit, the option of using Pension contributions remains the most tax efficient way for company shareholder directors.

The following compares the tax efficiency of extracting a further £12,000 of profit as either salary, dividends or an employer pension contribution having already extracted £27k of income each using option 2.

Compares extracting further £12k profit (based on option 2 salary and dividends already having been taken)

	Salary	Dividends	Employer Contribution
Profit	£12,000.00	£12,000.00	£12,000.00
Income gross	£10,692.00	£9,720.00	n/a
Employer NICs	£1,475.50	n/a	n/a
Employer NICs after Employment Allowance**	£1,307.70		
Corporation Tax	n/a	£2,280.00	n/a
Income Tax (basic rate)	£2,138.40	£850.50	n/a
Employee NICs	£1,283.04	n/a	n/a
Net receipt	£7,270.86	£8,869.50	£12,000.00
Effective tax rate	**39.41%**	**26.09%**	**0.00%**

** *Employer NICs reduced by the remaining employment allowance*

Pension contributions save on corporation tax and build up long term savings separate from the company and safe from creditors.

Is an IHT efficient vehicle and allows intergenerational wealth transfer (must keep expression of wish up to date).

2 Consolidation

Pensions

Exisitng pensions can be consolidated into the CRA, with ongoing funding made by contributions by the Company (Isaac and Leanne's company are exempt from automatic enrolment). Employer contributions via the limited company are permitted for tax purposes even though they have no contract of employment as owner directors.

ISA

The cash ISA didn't align to their attitude to risk. The ISA on the Quilter Platform will benefit from the Managed Portfolio Service.

The flexi ISA provides the required flexibility in case they need to loan the company money for short periods of time to help with temporary cash flow issues. This can then be replenished before end of same tax year without impacting their annual ISA allowance.

Consolidation brings several benefits:

- Lower overall charges are achieved. The marginal cost of regular contributions is 25 basis points bringing down the overall cost of investing over time.

	Isaac	Leanne
Day One		
CRA	£80,000	£40,000
Flexi ISA	£8,000	£6,000
Totals	£88,000	£46,000
Grand total		**£134,000**
Regular Contributions (Annual)		
CRA	£12,000	£12,000
Flexi ISA	Ad hoc contributions will be made out of excess income	Ad hoc contributions will be made out of excess income
Value at age 68 (not adjusted for inflation)	Mid rate 4.8%	Mid rate 4.5%
CRA	£789,744	£694,063

- By switching to a new pension contract, Isaac and Leanne will be able to keep track of their long-term investments in one place and hold them within a contract that has a wide range of withdrawal options. And if the worst was to happen, the full death benefit flexibility means the funds can be passed on tax efficiently.
- Isaac and Leanne will be able to monitor their investments online via the web or through the new Quilter app.
- They will benefit from a single investment strategy managed by professionals.

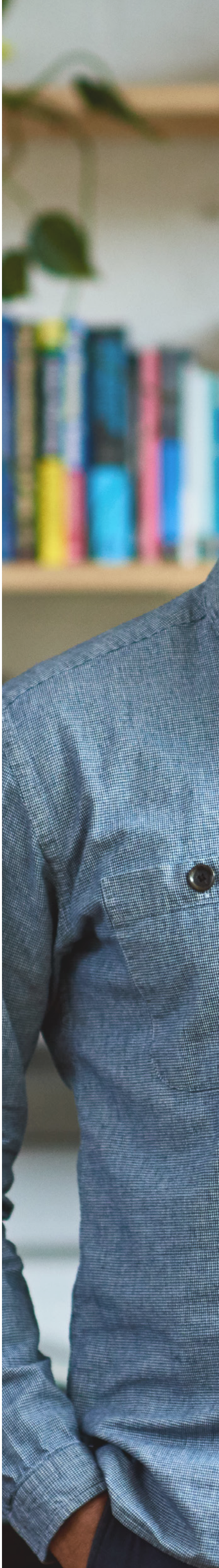
3 Value

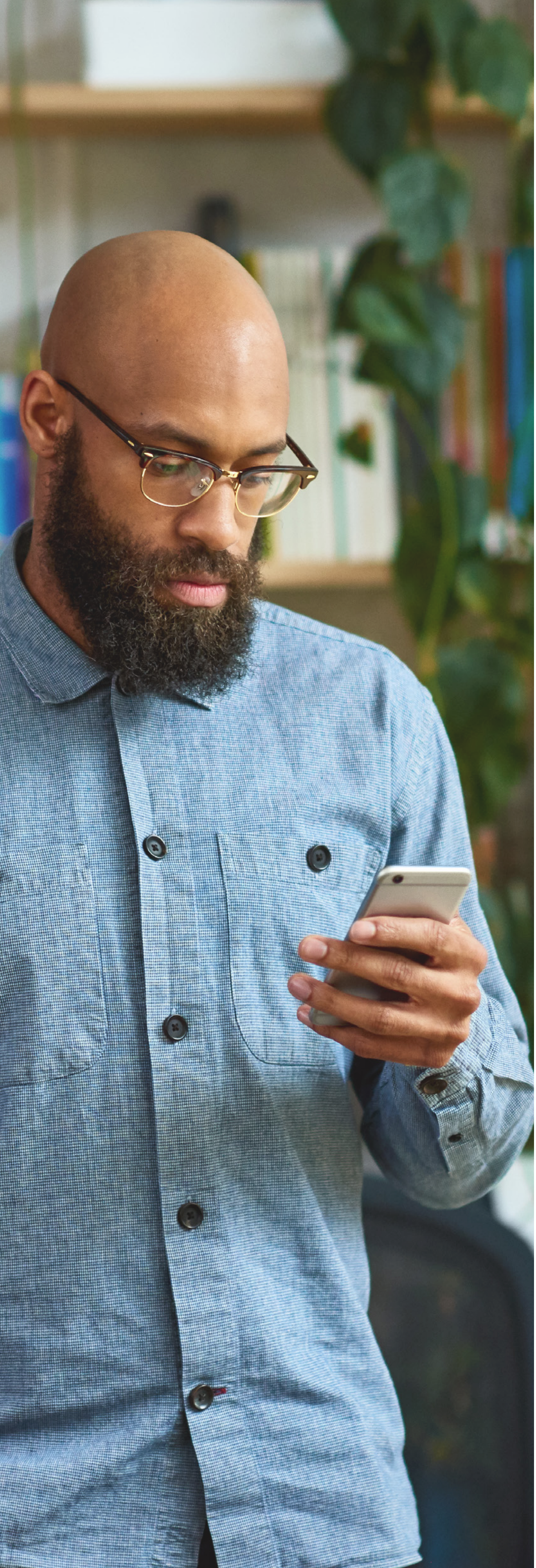
A lower basis point charge is achieved through holding all assets in one place. Isaac and Leanne will also benefit from family linking because they are married and, because existing wealth is also held by Leanne's family, Quinn, Ursula and Thomas, on the platform.

4 Professional investment expertise

Initial market scepticism can be overcome by using the phased investment option to drip investment into the platform feed either on a 3, 6 or 12 month basis.

With Quilter's help. Isaac and Leanne's adviser has implemented a robust and repeatable approach to understanding their investment needs, including their preference when it comes to responsible investment. They do this by using Quilter's Client Profiler and Solutions Explorer tools. This helps the adviser have a structured conversation with clients about their needs, and when it comes to selecting an appropriate investment, they can use the Solutions Explorer to identify the correct portfolio.





The difference financial advice can make

Efficiency of management – value and service

Right product, tax efficiency

Investment expertise – align to attitude to risk, objectives and personal values

Please remember that past performance is not a guide to future performance.

The value of your client's investments may fall as well as rise and they may not get back what they put in.

Investment involves risk. The value of investments and the income from them may go down as well as up and investors may not get back the amount originally invested. Because of this, an investor is not certain to make a profit on an investment and may lose money. Exchange rates may cause the value of overseas investments to rise or fall.

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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