



# FINANCE UPDATES

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**CAMPBELL & McCONNACHIE**  
chartered financial planners

## MAKING THE MOST OF A WINDFALL

What to consider if you come into big money.

Anyone who watched ITV's recent drama *Quiz*, depicting Charles Ingram cheating his way to £1m on *Who Wants to Be a Millionaire?* back in 2001, can be forgiven for dreaming of scooping a windfall.

Those dreams are likely to become more vivid this year, with the UK likely to be in a "significant recession" and the employment rate falling as the effects of the coronavirus hit home.

From receiving a share of an estate following the death of a loved one to seeing shares bounce back if the recession is V-shaped, windfalls can arrive in various amounts and forms.

If used wisely, coming into a windfall can provide a life-changing moment and it is particularly important to consider your options before you go splashing the cash.

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### TAX IMPLICATIONS

#### Inheritance

If one of your nearest and dearest has passed away and you receive all or part of their estate after any inheritance tax has been deducted, consider updating your own will.

This will ensure as much of your new-found wealth passes on to the people or causes closest to you, while potentially shielding as much of your estate from tax as possible.

Inheritance tax of 40% usually applies on estates worth more than £325,000 in 2020/21.

Any inherited money or possessions will count towards the value of your estate.

No inheritance tax is liable if the value of your estate is less than £325,000, while an extra £175,000 is available if you elect direct descendants to inherit the family home.

Be aware that any inherited assets that generate income after you receive it may be liable for income tax and capital gains tax in certain circumstances.

#### Bonuses

Given that we are three months into a new tax year and the UK recession will be confirmed at the end of the month, it's unlikely many employers will be handing out staff bonuses in 2020/21.

For those lucky enough to get a bonus this year, PAYE and national insurance contributions (NICs) will be deducted at source before the bonus arrives in your pay cheque.

Any Christmas bonuses provided later in the year will be put through payroll in the same way, with any income tax and NICs deducted before you get the net sum.

#### Tax rebates

Whether you are working or receiving a pension, it can be all too easy to have more tax deducted than you actually owe.

This usually happens if you started a new job and had an emergency tax code, if you went from part-time to full-time work, or if you have more than one job.

Employers and pension providers may use the wrong tax codes, while you could have problems if you had more than one pension or an error was made when accessing a pension lump sum.

P800 tax calculations or simple assessments are usually sent out between now and October, but 2019/20 reconciliations may arrive later than usual with HMRC diverting all resources towards its coronavirus response.

### Asset disposals

If your windfall arrives from the sale of any assets – such as shares, businesses, properties or valuables – that have grown in value, you will usually have to pay capital gains tax.

The taxman is interested in the difference between what you paid for an asset and what you sold it for. What most people view as a profit, HMRC refers to as the 'gain'.

Everyone can make a gain of £12,300 in 2020/21 and how much you pay depends on the type of asset you've made a gain on and your marginal rate of income tax.

On the sale of most assets exceeding £12,300 this year, the tax rate is usually 10% (basic-rate) or 18% (higher-rate or above).

Higher rates of 20% (basic-rate) and 28% (higher-rate or above) apply for the sale of property that is not your main residence and has increased by more than £12,300 or £24,600 for married couples or civil partners.

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### WINNINGS

Whether you win the EuroMillions jackpot or a bet on the football – if the 2019/20 season resumes this month – all winnings are tax-free and cannot be taken away from you.

How you spend your windfall is what may attract the attention of HMRC, and that's where careful financial planning is vital.

For example, let's say you legitimately won £1m on *Who Wants to Be a Millionaire?* last month and want to spend 20% of that on stocks for the alternative investment market (AIM).

That would be a high-risk strategy in the current climate with AIM values falling by 36% so far in 2020, but you have £800,000 to fall back on if your investment backfires and are comfortable with the level of risk.

You recognise an opportunity presented by the lockdown and invest in an independent video games label, whose stock increases 30% by the end of the year.

In December you cash the £60,000 profit on your investment and, as a higher-rate taxpayer, you are liable for capital gains tax of 20% on the gain.

Your £12,300 tax-free allowance kicks in to reduce the gain to £47,700, meaning your liability relating to this asset is £9,540 due before midnight on 31 January 2021.

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### WHAT HAPPENS NEXT?

Once you have considered your tax implications, you can weigh up the potentially limitless options available.

#### Savings

You can take advantage of the annual ISA allowance, which enables you to save up to £20,000 into various ISAs without paying tax on the interest, income or gains.

This may be attractive if you have certain dependents, such as children who will be going to university or if you have elderly relatives who are likely to need ongoing care.

Alternatively, you could just leave the money in a deposit account until you retire, but the interest may be subject to income tax minus any allowances and exemptions available.

#### Investments

You could use your windfall to buy properties to let or purchase neglected homes to renovate and sell on at a profit, but you may incur tax on the gains in the case of the latter.

It could also be a good time to invest in stocks and shares, although understanding your appetite for risk and seeking expert advice should be your first port of call.

Remember to spread your risk, invest for the long term and hold your nerve with inevitable market fluctuations ahead.

#### Gifts

You can give away cash or assets worth up to £3,000 in 2020/21 tax-free, although any amount above this may be part of your estate and liable for inheritance tax if you die within seven years.

You can carry forward your annual exemption into 2021/22 if you fail to use it all in 2020/21, while there are other inheritance tax-exempt gifts we can advise on.

 **We can help with your financial planning.**

### IMPORTANT INFORMATION

The way in which tax charges (or tax relief, as appropriate) are applied depends on individual circumstances and may be subject to future change.

This document is solely for information purposes and nothing in it is intended to constitute advice or a recommendation. You should not make any investment decisions based on its content.

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