

How to Generate Tax Efficient Income in Retirement

After a stellar year for investment markets in 2021, the past 20 months have certainly been a very challenging period for investors with the Russia-Ukraine war, sky high inflation and rapidly rising interest rates causing significant investment market volatility.

Global equity markets have barely produced a positive return and fixed income has suffered greatly, with UK Gilts down some 25% since January 2022.

Despite this poor period for the capital value of investments, the past 20 months has actually been a great period for those investors looking to generate an income in retirement and, for periods like this, having a wealth manager adds incredible value to enable you to achieve your financial goals.

With UK interest rates now at 5.25%, up from 0.25% in January 2022, investors can finally generate a meaningful income from their savings, albeit still below that of inflation – hopefully this will not be the case by the end of the year, as inflation continues to fall.

People can easily receive 5% on their cash savings and a little more if they are willing to tie their money up for a year or so. But crucially, for those who have money in pensions, ISAs or other accounts, the income that can be generated by investments is now higher than it has been since the financial crisis of 2008.

However, despite the much-improved environment for generating an income from investments, the past 20 months has generally seen a reduction in most tax allowances:

Personal Allowance

- › a minuscule increase to £12,570 (up from £12,500 in January 2021).

Dividend Allowance

- › this is currently £1,000 (down from £2,000 in January 2021) and will reduce to £500 in the 2024/25 tax year.

Capital Gains Tax Allowance

- › this is currently £6,000 (down from £12,300 in January 2021) and will reduce to £3,000 in the 2024/25 tax year.

So, where does this leave investors today looking to generate a tax efficient income in retirement after this mixture of poor investment returns, lower tax allowances but higher interest rates?

Why not get in touch? Give us a call on 0203 143 6100 and speak to one of our Wealth Managers or send an email to info@tidewayinvestment.co.uk

Case Study

Let's review an example: John is 56, married, has a SIPP worth £1.3m, has Individual Pension Protection that allows him to take a tax free lump sum of £280,000 and he would like to draw an income of £40,000 net p.a. How can this be generated from the different accounts – SIPP, ISAs and a General Investment Account (GIA)?

This can be the strategy:

1. Taking the tax free cash of £280,000, leaving £1,020,000 in his SIPP;
2. Investing £40,000 each into ISAs for him and his wife over two tax years;
3. Investing £100,000 each into GIAs;
4. Drawing an income of £31,014 gross from his SIPP;
5. Drawing the income generated by the investments from his ISAs and GIAs.

John is in a better position in the following ways:

- › The income from the ISAs is now £5,200 – up from £4,000 (yield was 5.0%, now 6.5%).
- › The income from the GIA is now £8,000 – up from £4,000 (yield was 2.0%, now 4.0%).
- › Although John and his wife now have to pay dividend tax of £525 (assuming she is a basic rate taxpayer), the net income is still far higher at £7,475.
- › By generating and drawing a much higher level of income from the ISAs and GIA, John now only has to draw an income of £31,014 gross from his SIPP, rather than £37,875 in January 2021.
- › John therefore pays less tax on his pension income and he pays less tax overall, despite a higher tax environment; the overall tax rates drops from 11.3% to 9.5%.
- › John does not need to touch the capital from his portfolio; the income generated from the investments is greater than his income needs – John should spend more money and enjoy his retirement!!

So, despite an unsettling period both in terms of investment markets and tax allowances, people now looking to draw an income in retirement are in a far better position than in January 2021 and even for the past 15 years.

At Tideway, we ensure that our clients have strategies like this to help them secure their retirement, not only for a couple of years but for the long term.

If you know anyone who could benefit from having a conversation about how to generate income in retirement, please forward this email or share our details with them.

We're facing a time where people now, more than ever, should plan their finances to maximise their investments and secure their future.

2021 Total SIPP Value: £1,300,000



£1,020,000

£280,000

Take tax free cash of £280,000, leaving £1,020,000 in SIPP

Tax free cash
£280,000

ISAs
Asset class : Bonds
Risk: Low-medium
£80,000

GIA
Asset class : Equities
Risk: High
£200,000

Make use of £20,000 ISA allowance each (this tax year and next)

Make use of £2,000 dividend allowance each

Client's ISA
£40,000

Partner's ISA
£40,000

Client's GIA
£100,00

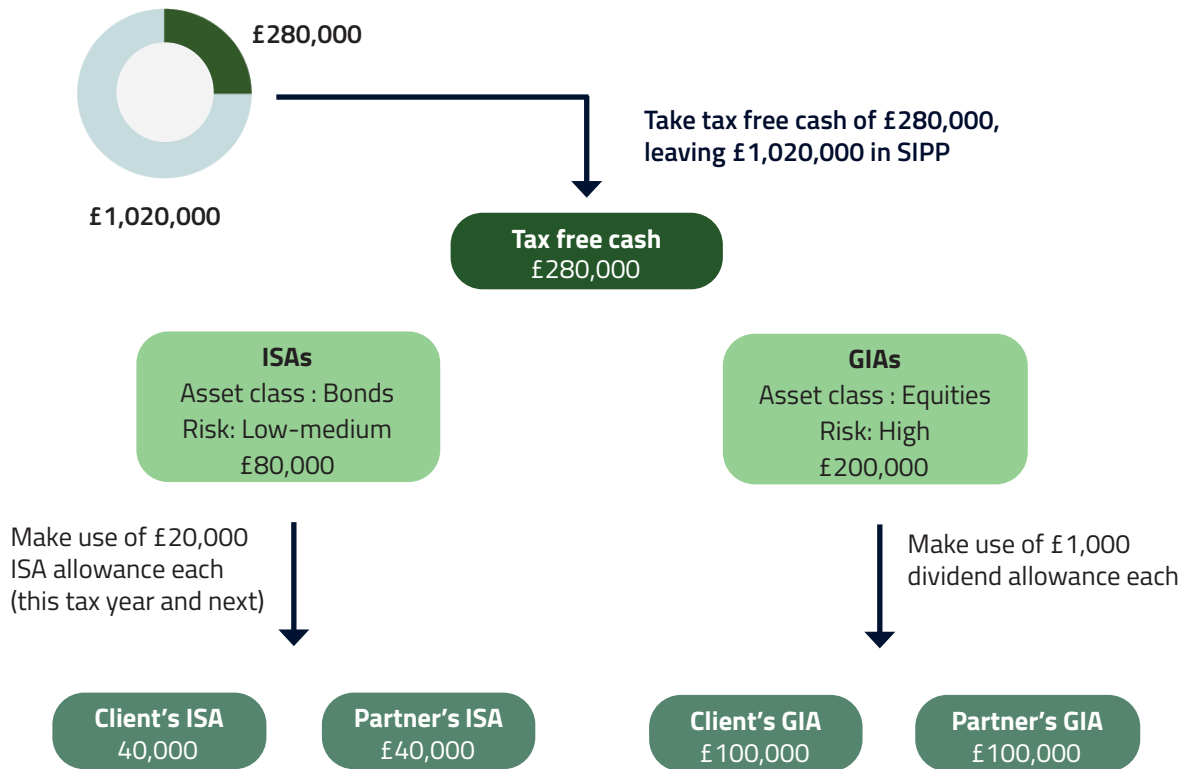
Partner's GIA
£100,00

	Client's ISA	Partner's ISA	Total
Yield	40%	40%	
Tax free income	£1,600	£1,600	£3,200

	Client's GIA	Partner's GIA	Total
Yield	20%	20%	
Income	£2,000	£2,000	£4,000
Dividend Tax	0	0	0
Net Income	£2,000	£2,000	£4,000

2021	
Total Gross Income	£45,075
SIPP Net Income	£32,800
ISA Tax Free Income	£3,200
GIA Net Income	£4,000
Total Net Income 2021	£40,000
Tax Rate	11.3%

2023 Total SIPP Value: £1,300,000



	Client's ISA	Partner's ISA	Total
Yield	6.5%	6.5%	
Tax free income	£2,600	£2,600	£5,200

	Client's GIA	Partner's GIA	Total
Yield	4.0%	4.0%	
Income	£4,000	£4,000	£8,000
Dividend Tax	£262.50	£262.50	£525.00
Net Income	£3,738	£3,738	£7,475

2023	
Total Gross Income	£44,214
SIPP Net Income	£27,325
ISA Tax Free Income	£5,200
GIA Net Income	£7,475
Total Net Income 2021	£40,000
Tax Rate	9.5%



The content of this document is for information purposes only and should not be construed as financial advice

Please be aware that the value of investments, and the income you may receive from them, cannot be guaranteed and may fall as well as rise. We always recommend that you seek professional regulated financial advice before investing.

Tideway Wealth Management Limited (TWM) is an appointed representative of Tideway Investment Partners LLP (TIP). Tideway Investment Partners are authorised and regulated by the Financial Conduct Authority (FRN: 496214).