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AN INTRODUCTION TO

Receiving a Windfall

GETTING TO GRIPS WITH THE BASICS

Handling an inheritance

Received a large bonus?

Or even won the lottery?

Selling your business or property

Top tips for making the most of your windfall

Flexible solutions to meet your changing needs

Throughout life, many things can have a significant impact on your financial needs and plans for the future, including receiving a sudden windfall. As your life journey progresses, you will need to adapt to an endless list of variables such as:

- Changes in personal relationships
- property purchase
- helping younger members of the family
- business commitments
- retirement
- inheritance planning.

The financial planning process will help to support you by ensuring that your financial plans remain relevant and on track for the future. Our conversations with you are expertly focused on all aspects of your goals, alongside our knowledge to help you stay on the best financial path for you.

This guide focuses on ***Receiving a Windfall***, a sudden and unexpected financial event that requires careful consideration and planning. Our specialist advisers are on hand to help you understand the tax implications of your windfall, advise you on how to best invest it to further your financial goals, and help you to review and adjust your existing financial plan to reflect your new circumstances.

Financial advice after receiving a windfall could help you improve your lifestyle and reach your long-term financial goals.

WHAT CONSTITUTES A WINDFALL?

The phrase 'windfall' is used to refer to a sum of money that is received suddenly or unexpectedly. This could take the form of a lottery win, for example, or more commonly an inheritance, lifetime gift, large bonus or redundancy lump sum.

The receipt of what can be a life-changing sum of money can be challenging even for those who consider themselves to be relatively financially astute. From understanding specific tax rules relating to your windfall, to deciding how to best invest the proceeds to meet your financial goals, dealing with a windfall requires careful planning and consideration, which can prove stressful without professional financial advice.

WHAT TO CONSIDER WHEN YOU RECEIVE A WINDFALL

When you receive a large sum of money, it can feel overwhelming. The most important thing is not to hurry, but to take the time you need to think about what you want the money to achieve. You may wish to deposit your windfall into a separate savings account so that it can accrue interest until you decide what to do with it.

Depending on your financial goals, you may wish to consider:

- Paying down debt or reducing your mortgage
- Using your tax-free allowances to pay into an ISA and/or pension
- Building up an investment portfolio
- Buying a property or investing in buy-to-let.

Depending on the source of your windfall, there may also be tax to pay on the money you receive.

> ***The phrase 'windfall' is used to refer to a sum of money that is received suddenly or unexpectedly***

The value of investments and income from them may go down as well as up. You may not get back the original amount invested. A pension is a long-term investment. The fund value may fluctuate and can go down. Your eventual income may depend on the size of the fund at retirement, future interest rates and tax legislation.

Handling an inheritance

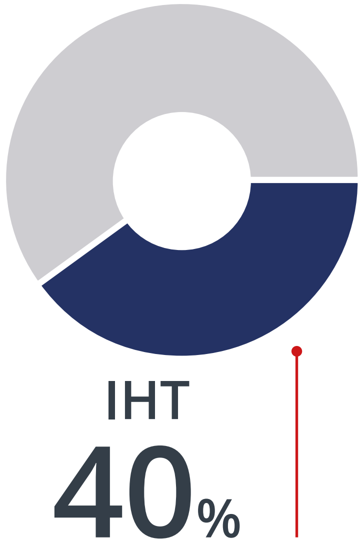
If a loved one passes away and leaves you an inheritance in their Will, dealing with your windfall at an already emotional time may feel overwhelming. This is where professional financial advice can really help.

For example, there may be Inheritance Tax (IHT) payable on the money or assets you receive, depending on the size of your inheritance. IHT is currently payable at 40% on estates over the value of £325,000. The main residence nil rate band is currently £175,000 and applies when a residence is passed on death to a direct descendant, such as a child or grandchild. When added to the existing threshold of £325,000, this could potentially give rise to an overall allowance of £500,000 for those who are single or divorced, or £1m for those who are married or in civil partnerships. Larger estates will find that residence relief is tapered. It will reduce by £1 for every £2 of value for estates valued over £2m.

IHT will usually be paid from the funds of your loved one's estate before you receive it, so there normally won't be any further tax to pay on your windfall once you receive it. Although there are some circumstances where this isn't always the case, so it is best to consult a financial adviser to fully understand the tax due on your inheritance and the best way of funding any potential IHT bill which may arise.

If a loved one gifts assets while they are still alive, there will be no IHT to pay if they live for another seven years after gifting it to you. This is called lifetime gifting and is a common method of passing down assets tax-efficiently. However, it is best to put some money aside for a potential IHT bill in case your loved one were to pass away before the seven-year period has passed. IHT-free gifts can also be made, although these involve smaller sums – limits and conditions apply.

It is advisable to place your inheritance money in a separate, easy-access and high-interest savings account while you take financial advice and decide what to do with it. The money will be protected by the Financial Services Compensation Scheme (FSCS), which protects 'temporary high balances' up to the value of £1m for a period of six months.



IHT IS USUALLY PAYABLE AT 40%

Received a large bonus?

Financial advice after receiving a windfall could help you improve your lifestyle and reach your long-term financial goals

Receiving a bonus at work as a reward for a job well done is highly satisfying. But with bonuses subject to Income Tax and National Insurance Contributions, you face losing a significant portion of your hard-earned money. A bonus may even push you into a higher tax band, meaning that you receive an even smaller sum than expected.

One way to use your bonus tax-efficiently is through a process called 'bonus sacrifice'. This is where you ask your employer to pay part of, or all, your bonus into your pension scheme as an employer contribution. Pension contributions benefit from tax relief at the highest rate of Income Tax you pay – so 20% for basic rate taxpayers and 40% or 45% for higher or additional rate taxpayers. e.g. a higher rate tax payer with £5k of income taxed at the higher rate, making a £15k gross contribution, will get higher rate relief on £5k and basic rate relief on the other £10k.

You can contribute up to £60,000 in total into your pension each year tax year (the current Annual Allowance). If you are a high earner, however (which is more likely if you receive large bonuses), your Annual Allowance may be reduced. For every £2 of taxable income you earn over £260,000, your Annual Allowance is reduced by £1, tapering down to a minimum of £10,000.

We can help you understand how to make the most tax-efficient contributions into your pension.

OR EVEN WON THE LOTTERY?

We've all dreamt about what we would do if those all-important numbers came up. While a bigger home, faster car and luxury holidays may have featured on your list, these may not be conducive to your longer-term financial goals. Taking a step back and thinking rationally about how the money you have won could be used to improve your lifestyle on a long-term basis will really help you to make the most of your new wealth.

There's no need to take all the excitement and joy out of your lottery win, however! Allowing yourself a set percentage of your win for 'fun' spending will ensure you don't feel hard-done-by about investing the remainder sensibly.

Remember, while lottery wins are in themselves tax-free, what you decide to do with it may be subject to tax. If you deposit your winnings in a savings account, you may have to pay tax on the interest accrued, while you're likely to be subject to Stamp Duty Land Tax if you purchase a home with your winnings. When you die, your beneficiaries may also have to pay Inheritance Tax on what is left.

A bonus may even push you into a higher tax band, meaning that you receive an even smaller sum than expected

The value of investments and income from them may go down as well as up. You may not get back the original amount invested. A pension is a long-term investment. The fund value may fluctuate and can go down. Your eventual income may depend on the size of the fund at retirement, future interest rates and tax legislation.

WE'RE HERE TO HELP
If you have queries or would like to discuss any aspect of receiving a windfall, get in touch

Selling your property or business

The proceeds of selling a property or your business can be substantial, but you will likely have to pay tax on the profit you make. Capital Gains Tax (CGT) is payable when you sell land or property that is not your home, such as a buy-to-let property, business premises, land or inherited property. The profit (or 'gain') is the difference between what you bought the property for, and what you sold it for.

When calculating CGT, taxable gains are added on top of your income; any gain falling within the basic rate band is taxed at 18% and any gain falling above the basic rate band is taxed at 24%.

There are ways you can reduce the tax you have to pay. Firstly, there is a personal tax-free annual allowance before you have to pay any CGT at all, which is currently £3,000. You can also offset any losses against your gains, reducing the amount of tax you pay. Another thing to consider is inherited assets which are subject to Inheritance Tax rather than CGT. In this case, assets are acquired at probate value and future CGT will be based on any increase in value since the date you inherited them.

Top tips for making the most of your windfall

When you receive some unexpected money, follow our top tips for capitalising on your newfound wealth:

1. **DON'T SPEND IT STRAIGHT AWAY**
   Separate it from your regular income by placing it in a high-interest savings account. This will give you the time you need to consider your options.

2. **TAKE FINANCIAL ADVICE**
   Even if you know what you want to do with your windfall, professional financial advice can help you put a plan in place that will minimise tax and ensure your money is working hard for you.

3. **UNDERSTAND THE TAX IMPLICATIONS**
   We can explain the tax due on your windfall, and any strategies you can use to minimise it.

4. **LIST YOUR SHORT, MEDIUM AND LONG-TERM FINANCIAL PRIORITIES**
   In the short-term, you might be looking to pay off debts or build an emergency fund. A medium-term goal might be helping a child onto the property ladder or overpaying on your mortgage. While long-term goals are likely to relate to building up your pension for a comfortable retirement, for instance, or even buying a second home abroad.

5. **TREAT YOURSELF!**
   While the majority of your windfall should of course go towards improving your lifestyle and meeting your financial goals, you may want to use some of it for fun. Once your financial plan is complete, you can set some money aside for that very purpose.

Financial advice will help ensure you make the most of your windfall and meet your financial objectives.

Professional financial advice can help you put a plan in place that will minimise tax and ensure your money is working hard for you