

N O V E M B E R 2 0 2 4

# SPOTLIGHT ON:

Financial planning for  
major life events





# THE IMPORTANCE OF MANAGING FINANCES DURING LIFE'S KEY MOMENTS.

Life is full of significant milestones – whether it's getting married, buying a home or preparing for retirement. These moments can be both exciting and financially challenging. Without proper planning, they can bring unexpected stress. That's why financial planning is essential for navigating these changes with confidence.

Having a financial strategy ensures you're prepared for both immediate expenses and long-term impacts on your financial health. This might include managing new costs, adjusting your budget or making the most of tax benefits. While online resources can offer budgeting advice, nothing beats the value of professional guidance tailored to your unique situation.

By working with your accountant, you can make informed financial decisions at every life stage. We can help you avoid mistakes, maximise tax reliefs, and create a budget that supports your long-term goals. Their expertise can help you feel more secure as you navigate big life changes.



## COMMON LIFE CHANGES THAT REQUIRE FINANCIAL PLANNING

Throughout life, many events come with financial implications. Here are some common life changes where financial planning is critical.

- **Marriage or starting a family:** Marriage often brings shared income and new living arrangements, while starting a family introduces costs like childcare and education. In 2023, the average UK wedding cost was £20,700, highlighting the importance of financial planning for events like marriage.
- **Buying a home:** A major financial commitment, budgeting for mortgage payments, insurance and maintenance is crucial when buying a home.

- **Starting a business:** Careful planning ensures your business has the cashflow it needs, with accountants guiding you on tax-efficient structures.
- **Career changes:** A job or career shift can impact your income, benefits and pensions. Financial planning can protect your long-term goals.
- **Sending children to university:** Higher education is a major expense, so planning early for tuition fees, accommodation and living costs can ease the financial burden.
- **Retirement:** Approaching retirement requires a solid strategy to ensure your pension and savings support a comfortable lifestyle. The average UK pension pot in the UK varies depending on age and other factors, but it can range from £37,000 to £95,000.

With the right guidance, these changes can be managed effectively. Your accountant can ensure your finances are structured to meet your goals.

## SETTING FINANCIAL GOALS: SHORT TERM VS LONG TERM

When facing life changes, it's important to distinguish between short-term and long-term financial goals. Short-term goals cover immediate needs, like saving for a house deposit or budgeting for childcare. Long-term goals include saving for retirement, paying off your mortgage or funding children's education.

Balancing both types of goals is key to a sound financial strategy. Your accountant can help prioritise them, ensuring you don't sacrifice long-term security for short-term needs. They can also guide you on potential savings or investments that support your future ambitions.

### CREATING A REALISTIC BUDGET

Once you've set your financial goals, the next step is to create a realistic budget. This budget will act as your roadmap, helping you track where your money goes, identify areas to cut back on to ensure you have enough to meet your priorities.

**1. Review your current situation:** Assess your income, expenses, debts and savings. This provides a baseline before major life changes.



- 2. Factor in new expenses:** New life events often come with added costs, such as increased utility bills or education fees.
- 3. Adjust for lifestyle changes:** Consider how your spending habits might change over time and account for inflation.
- 4. Stick to your budget and review it regularly:** It's important to keep track of your budget and make adjustments as your circumstances evolve.

A well-planned budget can provide clarity and reduce stress as you move through different life stages.

## PLANNING FOR THE UNEXPECTED: EMERGENCY FUNDS AND INSURANCE

No matter how well you plan, life can be unpredictable. Having an emergency fund and the right insurance coverage can provide a financial safety net.

- 1. Building an emergency fund:** Financial experts recommend saving enough to cover three to six months of living expenses. This fund should be easily accessible to cover urgent costs like medical bills or car repairs. According to the Financial Conduct Authority (FCA), 39% of UK adults have less than £1,000 in savings, making it difficult to handle unexpected financial emergencies.
- 2. The role of insurance:** Insurance can provide extra protection. Depending on your life stage, consider the following.
  - **Life insurance:** If you're starting a family, life insurance can ensure financial support for your loved ones.
  - **Health insurance:** Major medical events can be costly, so having health or critical illness cover is key.
  - **Home insurance:** Protect your investment from damage or theft with buildings and contents insurance.

Your accountant can help you calculate how much to save and determine which types of insurance best suit your needs. This planning ensures you're prepared for the unexpected.



## TAX IMPLICATIONS OF MAJOR LIFE CHANGES

Every significant life event brings tax consequences that can impact your financial situation. Whether it's buying a home, starting a business or retiring, understanding the tax implications and taking advantage of reliefs and allowances is essential.

## BUYING OR SELLING A HOME

When buying property in the UK, stamp duty land tax (in England and Northern Ireland), land and buildings transaction tax (in Scotland) or land transaction tax (in Wales) will be a key consideration. The amount depends on the property's value and whether it's your first or additional home. Additionally, selling a property might trigger capital gains tax (CGT), especially if it isn't your primary residence.

Your accountant can help calculate the tax liabilities and advise on how to minimise your tax bill through available reliefs, such as principal private residence relief.

## MARRIAGE AND STARTING A FAMILY

Marriage offers potential tax benefits, such as the marriage allowance, allowing a lower-earning spouse to transfer part of their personal allowance to their partner. Starting a family introduces new considerations, including eligibility for child benefit and access to tax-free childcare schemes.

An accountant ensures you're aware of all applicable reliefs and helps you claim them effectively, reducing your overall tax bill.

## STARTING A BUSINESS OR CAREER CHANGE

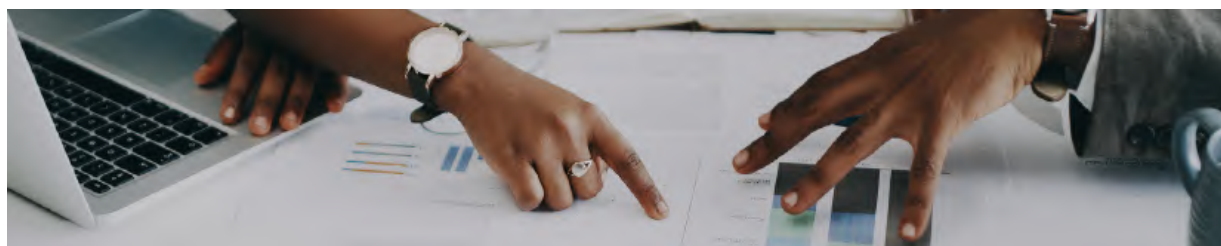
Launching a business involves tax decisions, including VAT registration, corporation tax and selecting a business structure (sole trader, partnership, limited liability partnership or limited company) to determine tax obligations. Similarly, career changes might affect your tax bracket, pension contributions and benefits.

An accountant helps navigate these complexities, guiding you toward the most tax-efficient business structure and career transition strategy.

## RETIREMENT AND PENSIONS

Retirement brings several tax considerations, especially around pension withdrawals. In the UK, 25% of your pension pot can be withdrawn tax-free (although there is currently speculation that this might soon be reduced), but the remainder is subject to income tax. Additional retirement income, such as from rental properties or investments, also requires careful tax planning.

Your accountant can optimise your pension withdrawals, ensuring you reduce tax liabilities while maximising your retirement income.



## INHERITANCE TAX

Major life events, such as marriage or purchasing property, often prompt estate planning. Inheritance tax (IHT) planning ensures your loved ones benefit from your estate without facing large tax bills. Effective use of gifts, trusts and IHT allowances can significantly reduce the burden on your estate.

An accountant or financial adviser can develop an estate plan aligned with your financial goals, making the most of tax-free allowances and ensuring your estate is handled efficiently.

## OTHER TAX RELIEFS AND ALLOWANCES

Beyond the above scenarios, there are many other tax reliefs, such as for charitable donations, pension contributions and capital allowances on business equipment. Each life event has unique tax rules, making professional advice essential to navigate them effectively.

## RETIREMENT AND TAX-EFFICIENT PLANNING

Retirement is a major financial transition that requires careful planning, especially concerning tax efficiency. The decisions you make now will shape your future quality of life. Your accountant plays a key role in ensuring your retirement savings and tax planning align with your goals.

## REVIEWING PENSION OPTIONS

In the UK, retirement plans include workplace pensions, personal pensions and the state pension. Each has its own rules and tax implications.

- **Workplace pensions:** Employer contributions often match yours, making it a key benefit to maximise.

- **Personal pensions:** Offer flexibility in terms of investment and contributions but require active management.
- **State pension:** Based on national insurance contributions, it provides a basic level of retirement income.

Your accountant can review your pension arrangements and suggest how to optimise contributions, ensuring you stay on track for a secure retirement.





## CREATING A RETIREMENT INCOME PLAN

Retirement planning isn't just about saving; it's about how you draw on those savings. A retirement income plan balances different sources of income – pensions, investments and property – in a tax-efficient manner.

Your accountant will help:

- strategise pension withdrawals to reduce income tax
- shift investments to lower-risk options to preserve capital
- plan how other assets, like property, will support your income.

## ADAPTING TO LIFE CHANGES IN RETIREMENT

Life events like marriage, divorce or starting a business can affect retirement planning. Marriage or a new partnership might mean reassessing retirement needs and merging pension plans, while divorce could impact pension savings or require pension-sharing orders. Starting a business later in life might involve setting up a pension scheme and managing fluctuating income.

Regular reviews with your accountant ensure your retirement strategy adapts to changing circumstances.

## MAXIMISING TAX RELIEFS

Pension contributions are one of the most tax-efficient ways to save for retirement. Basic-rate taxpayers receive 20% tax relief, while higher-rate taxpayers can claim additional relief. However, limits like the annual allowance and lifetime allowance must be carefully managed to avoid penalties.

Your accountant can help you understand how to maximise contributions and use strategies like pension carry-forward to boost savings.

## ESTATE PLANNING AND PENSIONS

Pensions can play a valuable role in estate planning, as many pension funds are not subject to IHT. Reviewing your pension beneficiaries and aligning it with your estate plan ensures that your assets are distributed according to your wishes.




## TAKE CONTROL OF YOUR FINANCIAL FUTURE

Big life changes are inevitable, and each one brings its own set of financial challenges and opportunities. Whether you're starting a family, buying a home or approaching retirement, careful financial planning can help you navigate these transitions smoothly. The key is to be proactive – set clear goals, create a realistic budget, plan for the unexpected and seek professional advice to optimise your financial situation.

By working with an accountant, you can ensure that your finances are not only well managed but also positioned for long-term success. Accountants offer expert guidance on everything from tax implications to pension planning, helping you to make informed decisions at every stage of life. They provide the support and insight you need to stay on track, even when unexpected events arise.

Your accountant or financial adviser will work with you to create a personalised financial plan that's tailored to your unique circumstances and goals. They can help you identify potential savings, tax reliefs and investment opportunities, ensuring that your financial strategy evolves with you.

 **Contact us today to ensure that you're fully prepared for life's major financial changes and challenges.**



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