

Retirement income planning

AF8 2022–23 edition

Web update 1: 02 November 2022

Please note the following update to your copy of the AF8 study text (corrections are underlined):

National Insurance contributions (NICs) & health and social care levy

As announced in the Growth Plan 2022, the following changes have been announced:

- The additional 1.25 percentage points previously added to all 2022/23 Class 1 and 4 NICs rates have been scrapped with effect from 6 November 2022.
- The 1.25% health and social care levy, which was due to replace the NICs increase from 2023/24, will be abandoned.

The following sections should be updated as follows:

Chapter 3, section A4, pages 3/14–3/15

Comparison of Lifetime ISA and pension funding

Another tension for those with limited resources would be the choice between a Lifetime ISA and pension funding as highlighted in the following analysis. Assuming the individual is a 20% taxpayer both during the accumulation stage and in retirement (ignoring any investment growth), the following table (using the NICs values from 8 November 2022) shows that, from a tax perspective, the Lifetime ISA is more attractive.

	Pension	Lifetime ISA
Gross earnings amount	£100.00	£100.00
Net earnings amount (after tax and NICs)	<u>£68.00</u>	<u>£68.00</u>
Basic rate tax relief at source or bonus	<u>£17.00</u> (£68.0 ÷ 0.8 – £68.00)	<u>£17.00</u> (£68.0 ÷ 0.8 – £68.00)
Contribution into wrapper	<u>£85.00</u>	<u>£85.00</u>
Tax-free amount at withdrawal	<u>£21.25 (25%)</u>	<u>£85.00 (100%)</u>
Tax on withdrawal	<u>£12.75</u> (£63.75 × 20%)	<u>£0.00</u>
Net withdrawal	<u>£72.25</u>	<u>£85.00</u>

Chapter 4, section D5, page 4/33:

Nigel (continued)				
Income type	Non-savings	Savings	Dividends	Total
[...]	[...]	[...]	[...]	[...]
National Insurance				
£0 to £11,908 at 0%	£0			
£11,908 [†] to £47,000 (£35,092) at <u>12.73%</u>	<u>£4,467</u>			
Total National Insurance contributions (NICs) due	<u>£4,467</u>			<u>£4,467</u>
Net income £47,420 – £6,886 – £4,467 = £36,067 a year (£3,006 a month)				

Margaret				
Income type	Non-savings	Savings	Dividends	Total
[...]	[...]	[...]	[...]	[...]
National Insurance				
£0 to £11,908 [†] at 0%	£0			
£11,908 to £15,000 (£3,092) at 12.73%	£394			
Total (NICs) due	£394			
Net income £18,375 – £606 – £394 = £17,375 a year (£1,448 a month)				

[...]

[†] NICs primary threshold of £11,908 = £242 × 39 + £190 × 13.

NIC rate of 12.73% = (13.25% × 7 + 12.00% × 5) + 12.

Based on their current monthly joint income of £4,454 (£3,005 from Nigel and £1,448 from Margaret), they are able to afford their bills, though of course both are making pension contributions, which will come from this amount.

Stamp duty land tax (SDLT)

As a result of the Government's Growth Plan, announced on 23 September 2022, the SDLT rates for residential property have changed from that date onwards as follows:

- The 0% band threshold has been increased from £125,000 to £250,000.
- The 0% band threshold for first-time buyers has increased from £300,000 to £425,000 and the maximum property value first-time buyers can claim relief on has increased from £500,000 to £625,000.
- The additional property rate is unchanged and remains at 3% over standard rates in line with the new bandings.

Therefore, **table 3.2 in chapter 3, section A2A, page 3/7** should be updated as highlighted:

Table 3.2: SDLT rates in England and Northern Ireland

Slice of property value	Standard SDLT rate [*]	SDLT where more than one property is owned
Up to £125,000 (paid before 23 September 2022)	0%	3% [†]
Up to £250,000 (paid on or after 23 September 2022)		
£125,001 to £250,000 (paid before 23 September 2022)	2%	5%
£250,001 to £925,000	5%	8%
£925,001 to £1,500,000	10%	13%
£1,500,001 and over	12%	15%

^{*} First-time buyers are able to benefit from an SDLT exemption on the first £300,000 (before 23 September 2022) or £425,000 (from 23 September 2022) of property purchase where the value is up to £500,000 (before 23 September 2022) or £625,000 (from 23 September 2022).

[†] Applies to property purchases over £40,000.