THE GOOD GUIDE TO FINANCIAL PLANNING

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Contents

3 Introduction

4 Buying your first home

8 Getting married

11 Having kids

13 The 'peak earning' years

15 5 tax year-end tips for the self-employed

18 Divorce

20 Retirement:
Before state pension
After state pension

22 Keep your financial goals on track in 2025

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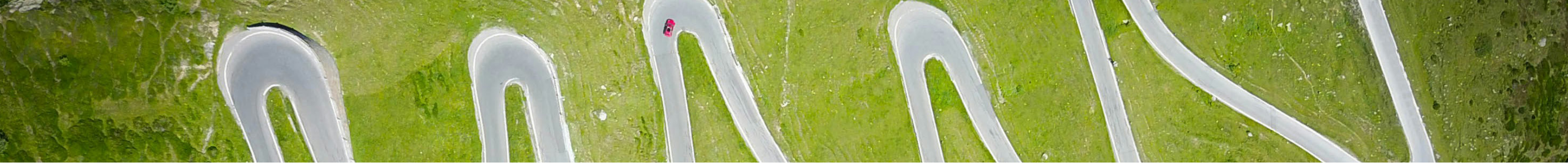

By Lori Campbell
Editor of Good With Money

Introduction

Who knows what the future holds? We are living in times of uncertainty, with an economic landscape that seems to keep changing before our eyes.

The last couple of years alone have thrown us a cost-of-living crisis, rising interest rates to combat runaway inflation, a change of government and a Budget that is likely to affect us all.

Keeping on top of all this to make ends meet month-to-month is no easy task - let alone making a financial plan for the future.

Despite this general unpredictability of life, having a semblance of a plan is a very good idea - and revisiting it regularly is equally as important.

Crucially, having a plan can make whatever money you have stretch much further and give you a solid financial foundation to cope with whatever life has in store. And it doesn't have to be daunting.

This guide - sponsored by ethical financial planners EQ Investors - can help you get started with making your own plan from scratch, or you can dip into it at whatever part is most relevant to you.

To make the guide easy to navigate, we've separated it into six key life events. In doing so, we've made some generalisations and assumptions. We assume, for instance, that most people in their early thirties face a potential 'triple cost whammy' of buying a house, getting married and having kids (not necessarily in that order, indeed not necessarily at all).

For those in their forties, we assume that most of these big costs will have been borne and people have entered what we optimistically describe as the 'peak earnings' years (this is not really an assumption, it's what the Office for National Statistics earnings by age data tells us).

We've also thrown in a financial curveball: divorce. No one gets married planning for divorce, but it does happen. It's not a bad idea to have a few "what would happen if...?" thoughts in entirely good faith, if it means you suffer less financially should the 'D' word end up happening to you.

Of course, not everyone's lives pan out according to national averages. But whenever big life events do happen, the chances are you will have them and there will be opportunities to both spend and save large amounts of money along the way - and avoid losses that might otherwise have occurred without a plan.

The trick is spotting the savings and investment opportunities and grabbing them - as early as possible. Part of that is knowing what's likely to be around the corner.

Being more conscious about your money also means you can consider how it impacts the world around you. When you save, spend and invest in the right places, you can make a positive difference to the planet's future as well as your own.

So dive in. Start planning! Life happens - but if you're ready for it, your finances will help rather than hinder your plans.

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Buying your first home

Buying your first home can be an exciting time, but also daunting - especially in a time of economic flux, higher mortgage interest rates and rising house prices.

That's on top of the hefty deposit you'll need and all the other costs involved. Thankfully, there are steps you can take to get your finances in shape that really can help make your first home a reality.

Buy now or wait?

Many first time home buyers put their plans on hold last year to see what would happen with interest rates, which hit a 16 year high in November 2023.

The Bank of England base rate - which mortgages are linked to - has slowly come back down, which 'should' make buying a first home in 2025 more affordable. However, inflation is proving sticky so it's hard to predict whether rates will fall further.. and when.

This is the tricky part. It might be tempting to wait for interest rates to fall more so you can get a cheaper mortgage - but on the flip side, house prices are rising.

Average house prices - which had been falling due to less demand - could increase by as much as £84,000 over the next five years, according to Savills. This means that even if you secure a cheaper mortgage, you'll be borrowing more. The threshold for stamp duty is also set to drop from March 2025 (see below), making a first-time move more expensive.

It's all about getting the balance right. Whether you should buy now or wait will depend on your individual circumstances, including the size of your deposit, and how much any rent you currently pay is costing you.

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Saving for a deposit

The average asking price for first homes in the UK is now £249,100, according to Zoopla. The average first-time buyer puts down a £56,000 deposit and takes out a 30 year term.

It's no surprise then, that it now takes the average first-time buyer 11 years and 3 months to save a deposit - compared to just three months in 1974.

The cost of a first home (and therefore the deposit you'll need) will vary hugely depending on where you live - from an average of £126,000 in the North East of England and £176,500 in Wales to an eye-watering £411,900 if you're looking to buy in London.

The bigger, the better

Most lenders require a minimum deposit of at least 10 per cent of the property value, though some will go as low as five per cent. However, be aware that the less deposit you put down, the higher your interest rate is likely to be. So if you can bear to hold on and grow your pot, it could be well worth it in the long run.

Start saving early

When it comes to saving for your deposit, the earlier you start, the better. We really can't stress the importance of this. With time on your side, you can save far more than those who save higher amounts than you but start later in life. This is because of a brilliant effect called 'compounding,' where you get to earn interest on the interest you already have.

As soon as you can (ideally when you start your first paid job - but whatever age you are, just start NOW), put a fixed amount that you can afford aside each month. Set up a standing order for pay day, and you won't notice this money not being available to you.

As Warren Buffet said, "Do not save what is left after spending; instead spend what is left after saving."

Think carefully about where you save your deposit. The upside of a period of higher interest rates is that savers can finally get better returns on cash savings accounts. Just make sure you shop around, as many high street banks haven't been forthcoming in passing on rate rises to savers.

If you care about the future of the planet as well as your own, then interest rates won't be the only important factor you consider when choosing a cash savings account.

Ethical banks and building societies will not invest in fossil fuels and other destructive industries like tobacco and weapons, and some go so far as to only lend your money to businesses and projects that are making a positive impact on the planet and society. See our top ethical savings accounts here.

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Consider a Lifetime ISA

If you're aged between 18 and 39, and your first home will cost under £450,000, you can benefit from saving into a Lifetime ISA (LISA). The government will top up your savings (up to £4,000 a year) by a generous 25 per cent - so for every £4,000 you save, you will get a £1,000 bonus.

You can also save up to £20,000 a year tax-free into a regular ISA (the money you put into a LISA will count towards this). See our top ethical LISAs here.

Leave investing for the long term

Deciding whether to invest your house deposit should largely depend on when you plan to buy. When you invest your money, you put it at risk of falling in value and potentially losing some - or even all - of it.

While over the long term, any falls are likely to even out and potentially bring you higher returns than the banks, over the shorter term the stock market is too fickle to rely on. A good rule of thumb is that if you need the money within the next five years, then stick to cash savings.

How to choose a mortgage

An independent, whole-of-market mortgage adviser can show you what your options are based on your personal financial situation. Lenders will evaluate your credit score and your ability to repay based on your income, assets, debts, and credit history. If you want a mortgage from an ethical lender, see our top picks here.

Fixed rate or tracker?

Deciding whether to opt for a fixed-rate mortgage (which is set for an agreed term) or a tracker (which moves up and down with interest rates) in the hope that rates continue to drop can be tricky.

A fixed rate deal helps with budgeting as your monthly repayments won't suddenly rise if the Bank of England increases interest rates again during your mortgage term.

But if interest rates fall, you could be stuck paying over the odds. Tracker mortgages are often cheaper than fixed rates, but you should only consider one if you can afford the repayments if interest rates were to go up.

There's no right answer for everyone - especially in the current unpredictable times - so consider your circumstances to weigh up the pros and cons of each.

Other costs to consider

Stamp Duty: First-time buyers currently pay no Stamp Duty on properties costing up to £425,000, and a discounted rate of five per cent, up to £925,000. However, following the Autumn Budget, these **rules are set to change from March 31, 2025**. The zero per cent threshold will reduce to £300,000 and those buying a home for over £500,000 will no longer benefit from any first time buyer's relief.

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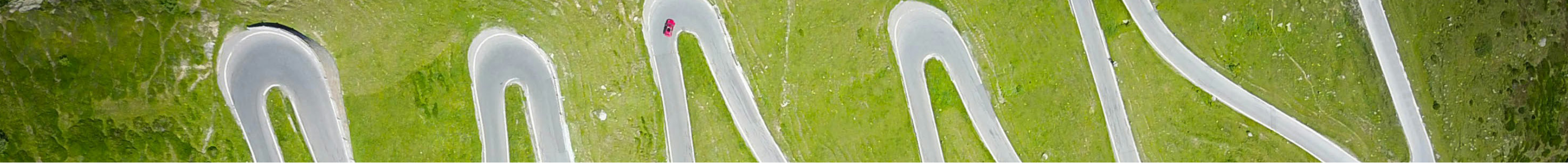

Valuation fee: The mortgage lender will assess the value of the property to establish how much they are prepared to lend you. The cost can be £150 to £1,500 based on the property's value.

Surveyor's fee: Before you commit to buying a property, get it checked by a surveyor to find out if there are any 'deal-breaker' problems with it. A basic home condition survey will cost around £300, while a full structural survey will set you back from £650.

Legal fees: You'll usually need a solicitor or licensed conveyor to carry out all the legal work. Fees are typically £900 to £1,900. They will also do local searches, which will cost you £250-£300, to check whether there are any local plans or problems.

Electronic transfer fee: This covers the lenders' cost of transferring the mortgage money from the lender to the solicitor and is usually £40-£50.

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Getting married and civil partnerships

Marriage is much more than an emotional commitment, it's also a huge financial and legal one. You may be head over heels in love, but you need to understand the practical risks (and benefits) of legally binding yourself to another person.

While we talk here about marriage, the same guidelines apply to civil partnership as it carries the same rights and responsibilities.

Plan your finances BEFORE you tie the knot

It's smart to sit down with your partner well before the wedding to do some financial planning.

Ok, it's not the most romantic of pre-wedding activities, but the decisions you and your spouse-to-be make now about how to handle money will have major long-term repercussions for you both.

Key points to discuss:

- You should both disclose your full financial situation. Don't leave anything out. Include all assets (bank balances, pensions, savings, investments etc), debts (credit cards, loans, car payments etc), credit ratings, and monetary responsibilities for any children from previous relationships.
- Work out how being married can benefit you financially, for example reduced living costs, savings on health insurance and lower car insurance premiums.
- Talk about how you will share any assets you both already have. Where will you live? Will one of you need to sell a property?

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Do you need a pre-nuptial agreement?

If one partner has considerably more assets or income than the other, is likely to come into a large inheritance, or owns a business, you might want to sign a prenuptial agreement.

This is a contract that can protect premarital assets and provide for children from previous relationships. It can also set out responsibility for debts acquired before marriage and pre-arrange spousal support in case of divorce (or dissolution, in the case of civil partnership).

Make a plan for paying off debt

If either or both of you carry a lot of debt, draw up a plan for paying it off. One spouse's premarital debt does not automatically become the other's upon marriage, but that debt will affect your joint finances - and potentially your relationship.

Improve your credit ratings

While marriage itself has no impact on your credit score, once you tie the knot you might want to apply for joint mortgages, car loans, and/or bank accounts.

When you borrow jointly but one person has poor credit, a lender may charge higher interest and fees than the other person with a good credit score could have been eligible for on their own. So - if one of you has a poor credit score, get started on improving it.

Set joint financial goals

You may already be living together, but it's important to set out (and agree on) your financial goals before you take your wedding vows.

- What are your long-term career goals and prospects?
- Will either of you need financial support for further education or retraining?
- Will one of you stay at home full or part-time to care for children?
- If either of you have children from a previous relationship, what are your financial responsibilities and how are these likely to change?
- Are either of you likely to be called on to care for elderly relatives?
- What are your money priorities? E.g. holidays abroad, a nice car, or big house?
- At what age do you hope to retire, and what kind of retirement are you aiming for?
- What are your attitudes towards saving and spending? How will you manage any differences?
- How much financial independence do you want? Will you combine your finances completely or keep certain parts separate?

You probably won't have all the answers, but you'll get a good sense of where you both stand and any compromises you might need to make to achieve your financial goals.

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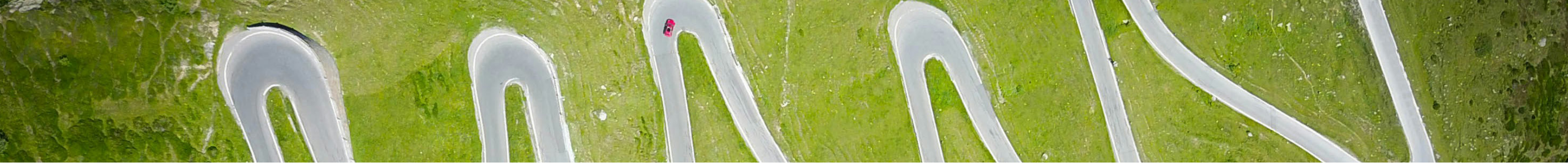

Set a wedding budget

The average cost of getting married in 2024 was an astonishing £20,775 - rising to £25,952 if you include the rings and honeymoon.

But if you are paying for a wedding yourselves, especially if you have little money saved up, you MUST set an affordable budget - and stick to it. Don't saddle yourself with debt as you start your new life together.

Share financial tasks

A poll of 2,000 British adults by legal firm Slater and Gordon found that money worries top the list of reasons that married couples split up, with one in five saying it was the biggest cause of marital strife.

To help minimise anxieties over money, do financial tasks together at least some of the time. You should both be able to access every account and know how to manage the household's money.

You could also schedule regular 'money talks,' so you can look at your shared spending and plan ahead for any unexpected expenses.

Marriage and taxes

Once you're married you can choose to file your tax returns jointly or separately. The joint option often has the most financial benefit, but this will depend on your individual circumstances.

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Having kids

Children are wonderful - and expensive! The basic cost to a couple of raising one child to the age of 18 is now £166,000 for a couple or £220,000 for a lone parent, according to the Child Poverty Action Group. Then you just need to multiply this cost by the number of children you want to have.

Costs are usually higher in the early years (depending on your schooling plans etc), so a little financial planning before you start a family can go a long way.

Check your parental leave entitlement

If you have been working at your company for at least 26 weeks and earn £123 or more on average per week, you are entitled to Statutory Maternity or Paternity Pay (SMP). This is 90 per cent of your average gross weekly earnings for six weeks, followed by 33 weeks at £184.03 or 90 per cent of your average weekly earnings (whichever is lower).

Most larger companies will have their own (more generous) scheme. You can check your parental leave entitlement in your contract, or ask your HR department.

If you're not eligible for SMP, you might be able to claim Maternity Allowance.

You can get this if you've been either registered as employed or self-employed for at least 26 weeks in the 66 weeks before your baby's due.

If you're employed, you'll get £184.03 a week or 90 per cent of your average weekly earnings (whichever is less) for up to 39 weeks.

If you're self-employed, you can get between £27 to £184.03 a week for up to 39 weeks, depending on how many Class 2 National Insurance contributions you've made in the 66 weeks before your baby is due.

If you're a dad, you could claim Paternity Pay. You can take one or two weeks off, all in one go, once the baby's born. You'll get £184.03 per week, or 90 per cent of your average weekly earnings, whichever is lower.

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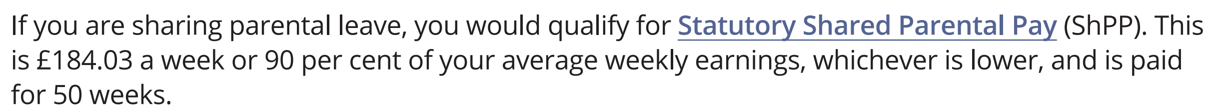

If you are sharing parental leave, you would qualify for Statutory Shared Parental Pay (ShPP). This is £184.03 a week or 90 per cent of your average weekly earnings, whichever is lower, and is paid for 50 weeks.

Check your benefits entitlement

Some benefits are available to most families with children, such as child benefit, and others paid only to those on a lower income, such as Universal Credit.

Child benefit: You can get £25.60 a week for your first (or only) child and £16.95 a week for any additional children, up until their 16th birthday - or later if they stay in education or training. (From April 2025, these rates will increase to £26.05 and £17.25 respectively).

While child benefit is payable regardless of income, those who earn more than £60,000 a year must pay a tax charge. If you or the other parent earns more than £80,000, the charge cancels out the Child Benefit you receive.

Universal Credit

Universal Credit is the government benefits model for people on a low income that replaced Working Tax Credit and Child Tax Credit, plus several other means-tested benefits. You can use this free benefits calculator to work out how much you might get.

Start saving for the future

You can give your child the best possible financial start in life by opening a savings pot for them early. Putting aside just £10 a week from birth to age 18 in a savings account paying six per cent interest would turn into almost £17.000.

A Junior ISA allows you to save up to £9,000 a year tax-free. You can choose to save your money in cash or invest it in stocks and shares, which comes with higher risk but potentially greater returns. Consider investing ethically on behalf of your children - see our top ethical JISAs here.

It will provide a useful introduction to them of the impact money has in the wider world, where profits come from, and being responsible citizens and investors. Be aware that once your child reaches 18, they can access and withdraw the money themselves.

Another option is to use your own, or your partner’s, ISA allowance (up to £20,000 a year) to save for your children. You can pay up to £2,880 into a child’s pension per tax year. The government will add 20 per cent in tax relief, taking this up to £3,600.

Make a will!

If you haven’t already, you need to organise your will to protect your children’s future. Remember that if you’re not married or in a civil partnership, then your partner won’t receive anything from your estate (that isn’t jointly owned by them) unless this is specified in your will.

You should review your will whenever your circumstances have changed: for example, marriage can invalidate an earlier will. It is also a good idea to set up a Lasting Power of Attorney at the same time, as this will ensure someone you know can deal with your affairs if you lose the ability to do so.

Buying a house after children

People will go through their financial life stages in various orders, and this could mean having kids before buying a home. Bear in mind that having children first could dent your chances of getting the size of mortgage you need for a home. Lenders use affordability criteria (which can include childcare costs) to work out how much you can borrow.

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The 'peak earning' years

'Peak earning' is the age when you earn the highest wage relative to the hours you work. And it might come earlier than you think. The average age for women to hit this 'sweet spot' is 40, while men are slightly later at 44.

Between ages 40 to 49, women earn an average of £35,250, while for men it's £42,260, according to the latest figures from the Office for National Statistics.

So, while your earnings are at their highest, and outgoings are potentially at their lowest, now is the time to iron out any debt and maximise your retirement savings.

Get out of debt

You may well have built up debt in your 30s that you are now potentially in a better position to pay off. If you have debt (which is normal: the average UK adult has £4,279 in unsecured debt as of August 2024, according to The Money Charity), choose a strategy for paying it off and see it through.

The snowball method involves focusing on your smallest debt first and funnelling as much cash as you can toward paying it off (while paying the minimum balance on the others). Once it's paid off, move to the next smallest and so on.

Or, you could take the avalanche method, where you pay the debt with the highest interest rate first. This will minimise how much you spend on interest rates over time.

Build some emergency cash savings

If the past few years have taught us anything, it's that you never know what's around the corner. If you don't have one already, start building a cash savings pot that you can fall back on in emergencies.

Ideally, you will have three months' worth of salary in an easy-access savings account - see our top-paying ethical savings accounts here. For money that you won't need for one to three years, you could look at a (potentially higher paying) fixed-rate account - see our top ethical fixed-rate picks here.

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Spring clean your pensions

Now is a good time to check that you are on track to retire comfortably. With people living longer than they used to (men on average can expect to live to 79, while for women it's 83), planning for your retirement years as early as possible is key.

Check your National Insurance contributions

A state pension can give you the financial foundation for your retirement. You'll usually need at least 10 qualifying years on your NI record to get any state pension. They do not have to be 10 qualifying years in a row. To receive the full amount, you will need 35 years' worth of NI contributions. Check you're on track by getting an online forecast from the DWP of the amount you could get, and the earliest date you could get it.

Consolidate your pension pots

Chances are that you've worked in quite a few places by the time you reach your early 40s, which means you're likely to have a few forgotten pensions dotted around. It's wise to find out where they are, because they could be sitting in a poorly-performing fund or in a scheme with horribly high fees. If you find having multiple pensions a hassle, consider moving them to one place. Providers such as PensionBee can help you with this.

Some schemes do come with valuable benefits such as guarantees - you will need to check this before moving your pot.

Look for a provider that will easily tell you how much money is in your pension, as well as how your funds are performing and how much you'll receive on retirement. This will make keeping on top of your contributions infinitely easier.

While you're organising your pension pot, consider making it ethical. According to Make My Money Matter, greening your pension is 21x more effective at reducing your carbon footprint than giving up flying, going veggie and switching energy provider combined.

Max out your contributions

What you're putting into your pension now will shape your later life, so it's important to find the right level of contributions and keep them up. Consider the balance of any existing pension(s), your planned retirement age and ideal retirement income to get a ballpark figure to start aiming at - see the final section on Retirement, for examples.

Consider a SIPP

To boost your pension savings, you can make extra contributions to your workplace pension, or alternatively, make contributions to a Self-Invested Personal Pension (SIPP).

A SIPP gives you tax-relief on your savings. Basic and higher rate taxpayers receive 20 per cent (an £800 contribution gets topped up to £1,000 by the government), while additional rate taxpayers can claim 25 per cent. For the 2024/2025 tax year, the annual pension contribution limit for tax relief purposes is £60,000, or 100 per cent of your salary, whichever is lower.

While it's good to have an understanding yourself of how to plan your finances, it's worth considering using a chartered financial planner such as guide sponsors EQ Investors - or our other top ethical picks - to really help you make the most of your money.

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By Peter Hargreaves
Financial Planner at EQ Investors

Tax-year end tips for the self-employed

Do you work for yourself? Here are five end of tax year considerations for the self-employed.

1. Take advantage of the dividend allowance.

Because the rate of dividend tax is significantly lower than income tax, self-employed contractors who own a limited company often choose to pay themselves a minimum salary and the bulk in dividends.

In the 2024/25 tax year, you won't need to pay any tax on the first £500 of dividend income you receive. This is called the tax-free dividend allowance.

If your only income is from investments, then you can also use your tax-free personal allowance before you start paying tax on dividends.

So, on top of the £500 dividend allowance, you could earn another £12,570 tax-free in 2024/25.

During the Budget it was confirmed that the existing freeze on income tax and National Insurance thresholds introduced by the previous government in 2021, will remain in place until April 2028.

2. Review your pension payments

Whether you're a sole trader, in partnership with one or more others, or run a limited company, finding ways to minimise how much tax you pay should be an important aim right now.

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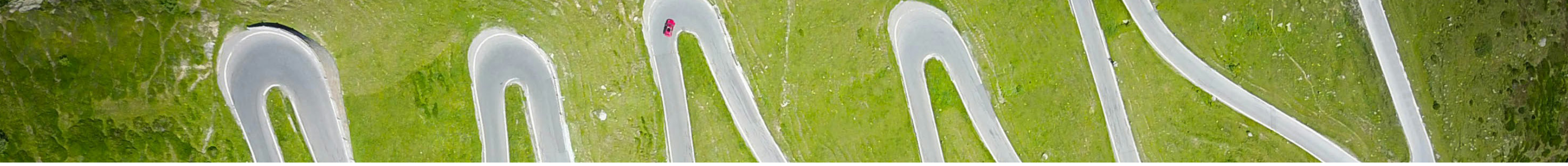

A great way to reduce your tax bill while delivering a boost to your financial future in the process, is to make pension contributions - especially if you've enjoyed a good business year and have surplus profits.

Sole traders and partnerships

If you're a sole trader or in partnership, the only way to pay into a pension is to make personal contributions into a pension.

If you're aged 75 or younger, you can usually contribute the lower of 100% of profits or £60,000 and get an immediate 25% boost in the form of basic-rate tax relief.

And if profits exceed £50,270 or £125,140, you might be able claim back an extra 20 per cent or 25 per cent, respectively, on the total contribution (net payment plus basic-rate tax relief) via self-assessment.

An important part here is that you must remember to reclaim the tax. Thousands of people don't do this every year and lose out on the tax relief.

Private limited company directors

If you own and run a limited company, you have a couple of options when it comes to pension funding. You can either make personal contributions as laid out above or pay via the business.

If you choose the latter, payments can be made from pre-tax profits, thus trimming your corporation tax bill. What's more, if you planned to draw that money as salary, you'll save national insurance too.

Importantly, the 100 per cent of earnings rule does not apply on company contributions. So, if you draw a small salary and take the rest in dividends for tax purposes, you can still pay up to £60,000 into a pension and get corporation tax relief.

And unlike personal pension contributions, where you need to be under age 75 to benefit from up-front tax relief, there is no age restriction on company contributions to save corporation tax.

Understand your accounting dates...

It's possible that your company's accounting period differs from the official UK tax year. For instance, it may run from 1 January to 31 December or 1 April to 31 March. This means that, to offset pension contributions against this year's corporation tax bill, you must make the payment before the end of your accounting year.

3. Put your surplus profits to work.

Utilise your excess profits effectively by putting them to work for your long-term financial future. If your business has surplus profits that you won't need to access for several years, consider investing them wisely.

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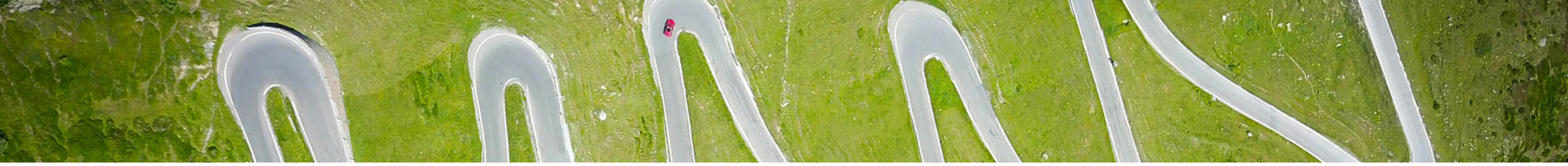

For sole traders and partnerships, surplus profits are treated as personal funds. You can take advantage of this by investing up to £20,000 before 5 April into an individual savings account (ISA) to protect future gains, dividends, and interest from HMRC.

While limited company funds cannot be invested in ISAs due to legal restrictions, directors can still invest their personal money into ISAs. Instead, consider investing company funds in the stock market to potentially boost returns on cash reserves, especially if inflation outpaces interest earnings.

Although investing company funds isn't solely an end-of-tax-year activity, it can offer tax advantages. However, it's important to note that investing in something like a general investment account (GIA) won't qualify for corporation tax relief like pension contributions.

Keep in mind that investing company reserves exposes them to market fluctuations, and there's a risk of receiving less than your initial investment. Therefore, it's crucial that your business doesn't expect needing these funds within the next five years.

4. Make a charity donation now to reduce your tax bill.

If you have the spare funds, making a charitable donation before 31 January 2026 could reduce your tax bill for the 2024/25 tax year. This is because donations can be claimed in either the current or previous tax year.

This is particularly useful if you paid a higher rate of tax last year and a lower rate this year – as you can still claim the higher rate of tax relief on your donation.

5. Correct and claim against previous tax years.

You can claim a refund for any overpayments you've made in the last four tax years. So, if you come across something you could've claimed for previously, or if you spot a mistake in previous years' tax returns, make a note.

Write to HMRC explaining that you're making a claim for 'overpayment relief'. You'll need to include:

- Proof you've overpaid tax through self-assessment.
- Signed declaration saying the details you've given are correct and that you haven't previously tried to reclaim the refund in question.
- How you'd like the repayment to be made.

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Divorce

As well as being highly emotional, dividing your financial assets during a divorce (or dissolution if you are ending a civil partnership) can be difficult and complicated.

Consider professional help

The more complicated your finances, the more likely you are to need professional help. Signs that separating your finances will be too difficult to do alone include one or both of you owning a business, one person being financially dependent on the other, having young children, having multiple homes, one person having a medical issue that affects their ability to work, and/or one person owning more assets such as property and a bigger pension.

Making a financial agreement

A financial agreement (also known as a settlement) sets out how savings, property, pensions, life insurance and any significant assets should be divided. It is not usually necessary to have the court involved, but it is advisable to use a solicitor to make your agreement legally binding with a consent order - this way both parties are protected and it will not be possible to make future claims.

The starting point for a court will be 50/50 and they will then look at your and your partner's "needs". These include suitable housing for any children and the parent they will live with most of the time and any difference in earnings (stay-at-home parents are given credit for their lost earnings).

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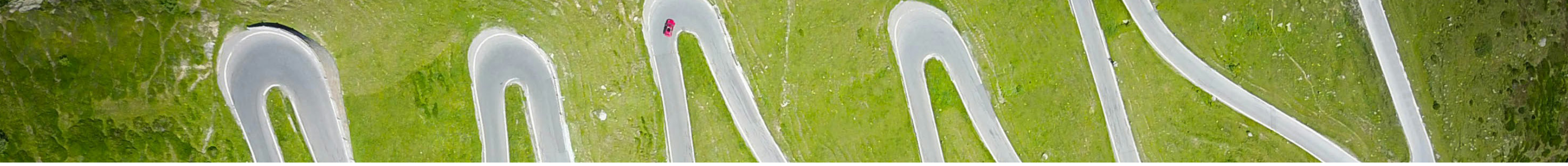

What about your pensions?

Your pension should be included in your financial settlement if you divorce or end your civil partnership, and should be confirmed through a court order.

Pre-marriage pensions may be ring-fenced, so the other person has no stake in them, but this is decided on a case-by-case basis.

Those built up during the marriage may be split or used as a bargaining tool in deciding who gets what. For example, one spouse might give an even bigger share of the family home to their ex in exchange for keeping their pension.

Protecting your pension

There are several ways to deal with pension arrangements when you divorce:

- You are given a percentage share of your former partner's pension pot. This is known as pension sharing.
- Some of your pension is paid to your former partner. This is known as pension attachment or pension earmarking and is a bit like a maintenance payment straight from one person's pension pot.
- The value of a pension is offset against other assets, known as pension offsetting. For example: you keep your pension and your former spouse or civil partner keeps the home.

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Retirement

How much will you need to retire?

By the time you give up work you are likely to have paid off your mortgage, will no longer be bringing up children and won't have the cost of commuting. A good rule of thumb is that you will need half to two-thirds of the final salary you had when you were working to maintain your lifestyle in retirement.

Guidelines from Retirement Living Standards show that for a 'moderate retirement,' single people need £33,600 a year while a couple needs £49,700.

It helps to think about your pension income in two stages - first with your workplace or private pension savings, which you can access from age 55 (rising to 57 in 2028), and then with the state pension. You can currently claim your state pension from age 66 (rising to 67 by 2028, and 68 by 2037).

Before state pension

Workplace and private pensions

When you reach the age of 55 (57 from 2028) you have several options to access the money in your workplace or private pension:

1. Take a lump sum

You can withdraw 25 per cent of your pension pot as cash, tax-free. If you want to take more, you have to pay income tax on it. If you take all of your pension savings in one go, you might end up in a higher tax band, therefore paying more income tax.

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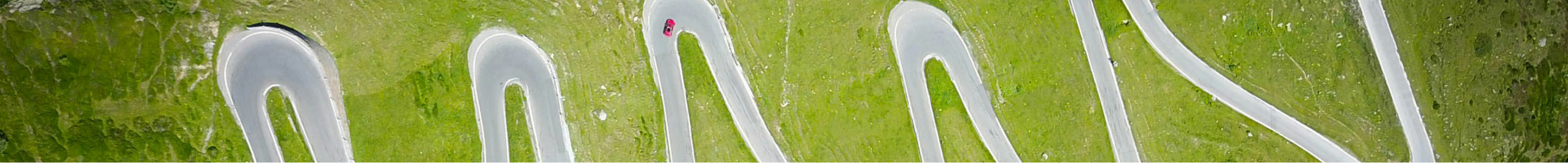

2. Take a regular income
You can choose to receive a regular retirement income from your pension pot, known as an 'annuity'. This involves 'selling' your pension pot to an insurance or pension company.

They will calculate how much income you'll receive every year until you die. The advantage of this arrangement is that you'll receive a stable income. The annuity company carries the risk of paying out more than what was in your pension pot, but this will of course come at a cost.

3. Take regular small amounts
You can decide to withdraw smaller amounts on demand instead of giving all your savings to an annuity company who decides how much you'll get.

Some benefits of taking this approach include:

- Withdraw as much as you need, as often as you like
- If you plan ahead, you can avoid going over the higher tax band
- When you die, the remaining pension pot can be passed over to anyone you choose. Bear in mind that from April 2027, pensions will be subject to inheritance tax.

4. Leave your pension for now
If you're 55 and still employed, it might be an option to leave your money where it is. The longer your money is invested, the more likely it is that your pension pot will grow. Usually, as you near your retirement age, your money is moved by your pension company to safer assets such as bonds and cash.

After state pension

The full 'flat-rate' state pension is now £221,20 per week, but not everyone will receive this amount.

It depends on how many years of NI contributions you have built up - for the maximum amount, you'll need 35 years. You'll need a minimum of 10 years (which don't have to be consecutive) to qualify for any state pension at all. As a guide, multiply the number of years you have by £5 to see how much you're likely to get a week.

To work out how comfortable a retirement you are on track to have, simply add your predicted yearly state pension to any private or workplace pensions.

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By Zoe Brett
Financial Planner at EQ Investors

Keep your financial goals on track in 2025

Put yourself on the best financial footing possible for the new year.

YouGov used AI to analyse the top resolutions Brits have pledged as we welcome the 2025 New Year. Top of the list was improving finances with 21 per cent of respondents stating this would be a priority for them.

Our finances are so intertwined with our security and happiness that it's easy to see why so many people are making this their focus for the year ahead. Here are five key tips that will get you well on your way to financial peace.

1. Make a budget and stick to it

The foundation of any good financial plan starts with a realistic budget that you can stick to. Knowing where your money is going will provide the clarity required to strategically allocate your resources to build a better financial future for yourself. You'll be able to see if you are over-spending in certain areas and what you could potentially redirect to creating wealth and financial security.

At EQ Investors, we offer a service called cashflow modelling whereby we use software to analyse your financial stability over your lifetime based on a range of assumptions.

2. Save for emergencies

Once your budget is set and you have a good idea of your surplus income, it's time to turn your attention to future proofing. Financial emergencies can come out of the blue and often at the worst of times.

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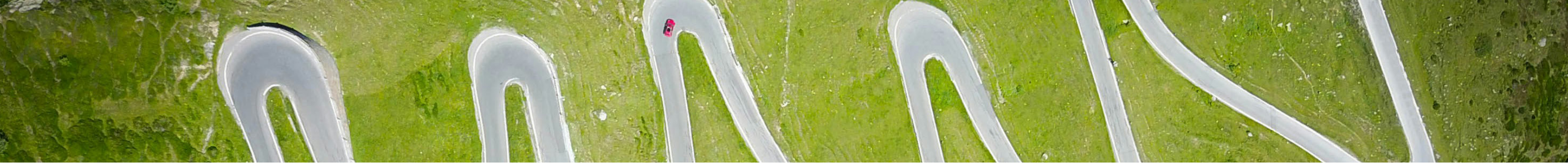

Being prepared for an unplanned expense takes a significant amount of stress out of life and keeps your financial goals on track preventing the need to go into debt or dip into investments.

A good rule of thumb is to keep 3-6 months of expenditure in an instant access savings account, preferably with a good interest rate to help offset the effects of inflation.

3. Maximise your allowances

There are a number of allowances available to help you on your financial wellness journey. Some of the key ones are as follows:

- Personal Allowance: The majority of people can have income of £12,570 per tax year without the need to pay Income Tax. Ensure you are making the best use of this with strategic withdrawals from drawdown pensions if you are retired. If you or your spouse/civil partner are not making full use of their Personal Allowance, 10 per cent of this can be transferred between you.

  If you earn greater than £100,000, you lose your Personal Allowance at a rate of £1 for every £2 over this threshold. This means that once your adjusted income reaches £125,140 you lose your full Personal Allowance. This can be mitigated, in full or part, by making pension contributions which effectively extend your basic rate Income Tax band.

- Pension Allowance: Most individuals can contribute up to £60,000 into UK registered pensions. Pension contributions attract tax relief at the persons marginal rate of Income Tax (20 per cent for non-taxpayers). Additionally, assets invested in pensions grow free of Income and Capital Taxes.

  If an individual has no earnings, they can still contribute £2,880 per annum and receive tax relief at 20 per cent. People earning over £260,000 have slightly different limits for pension funding. Your EQ financial planner will be able to calculate your personalised allowance for you.

- ISA Allowance: UK individuals can contribute up to £20,000 per annum into ISAs. ISAs are particularly tax efficient as not only do they grow free of Income and Capital Taxes, there is no tax to pay upon withdrawal of the ISA assets either.

  You can invest £20,000 into a cash ISA, stocks and shares ISA or combination of the two. There is also the option of a Lifetime ISA (LISA) which has a limit of £4,000 per annum (accounted for within the overall £20,000 annual subscription) and receives a bonus payment of 25 per cent from the government. Unlike traditional ISAs, the LISA is specifically designed for first home purchases and retirement.

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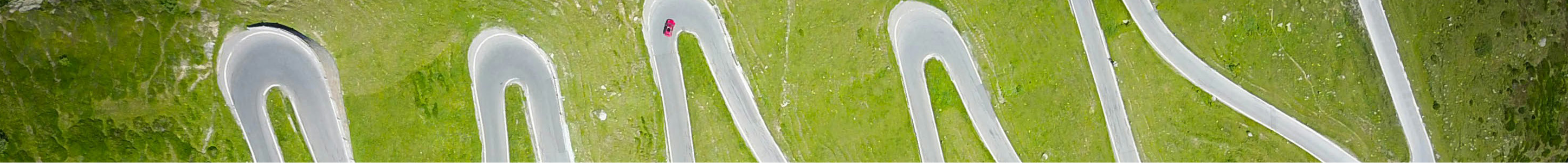

- Capital Gains Tax Allowance: The current Capital Gains Tax Allowance is £3,000. This means you can take investment gains of up to £3,000 per tax year without the need to pay Capital Gains Tax which is currently 18 per cent for investments of basic rate taxpayers or 24 per cent for higher and additional rate tax payers.

  If you have investments chargeable to Capital Gains Tax talk to your EQ financial planner about realising gains to make use of your available Capital Gains Tax Allowance.

- Dividend Tax: The Dividend Allowance for tax year 2024/25 is £500. Any dividends received above this will be chargeable to Dividend Income Tax. Basic rate tax payers pay 8.75 per cent on dividends, higher rate tax payers pay 33.75 per cent and additional rate taxpayers pay 39.35 per cent. Ensure your investments are structured to account for this and use the Dividend Allowance efficiently.

4. Review your protection needs

Protecting your future against financial loss on death, diagnosis of a critical illness, or loss of income in the event of sickness can be done with the use of protection policies. These can be set up to pay an income or lump sum at the time you and your family need it most ensuring that misfortune does not lead to financial hardship.

If you have protection in place already, make sure it still meets your needs. Life moves fast and our circumstances change rapidly. Ensuring your cover is in tune with your life at every stage is key to ensuring the financial security of you and your family.

5. Create or update your Will and Power of Attorney

The rules of intestacy can lead to your wealth being distributed in a manner outside of your wishes. To ensure your wealth passes onto the right people you need to have a Will in place.

Additionally, Wills can be used to give instructions for who will take care of young children should you pre-deceased their adulthood and can even tell your family what kind of funeral you would like.

In addition to a Will, the other key legal document everyone should have is a Lasting Power of Attorney. This elects someone you trust to make decisions for you in the event of you losing mental capacity.

There are two types of Lasting Power of Attorney, one for finances and the other for medical care. Without having these in place, it can take upwards of six months for a loved one to attain such permissions causing unnecessary suffering at an already difficult time.

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It created the **Good Egg mark**, a licence for financial services companies which make a positive impact.

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About EQ Investors

Meet an expert for a virtual coffee
EQ's financial planners help people at all stages of life with their financial goals. Over the years they have found that the best way to start this process is an initial meeting to get to know each other and to understand more about what you need and what they can offer. They offer these meetings free of charge as they are as beneficial for them as they are for you.

Learn more here: https://eqinvestors.co.uk/meet-us-for-coffee

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