Voyage Financial Planning

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Investing a lump sum

Received an inheritance, windfall, or proceeds from a business or property sale?

Receiving a lump sum of money, whether from an inheritance, windfall, or proceeds from a business or property sale, can be exciting and overwhelming. Deciding where to invest this money is crucial, and with numerous options available, it can be challenging to determine the best course of action.

Knowing where to put a cash windfall can be difficult, particularly in times of market and economic uncertainty. We explore ways to invest your lump sum to help you make an informed decision and ensure you maximise your financial growth and security.

ASSESSING YOUR GOALS

The right decision for you will largely depend on what you want to do with your money and your needs and goals, which we can help you assess. In the meantime, here are some of the main options to consider.

CASH SAVINGS ACCOUNT

A cash savings account is a good choice if you want to use your lump sum to fund short-term goals – a holiday or new car, perhaps – or if you're not quite sure what to do with it yet. By holding your lump sum in a cash savings account instead of investing it in the stock market, you won't risk your money falling in value just before you need to access it.

If you don't need your money for several months, you may wish to consider a notice or fixed-term savings account, as these may offer higher rates than easy-access savings accounts. It's always worth shopping around to find the best rate on your savings, as a difference of only 0.5% could significantly impact large sums of money.

UK GOVERNMENT BONDS

UK government bonds ('gilts') could be an attractive choice if you want to use your windfall to fund a medium-term goal. Gilts are secure savings vehicles guaranteed by the government and listed on the London Stock Exchange.

If gilts are held inside an Individual Savings Account (ISA) or other tax-free wrapper, there is no Capital Gains or Income Tax to pay. If held outside of an ISA or similar, gilts are free from Capital Gains Tax when you profit from a trade, but any income you get is subject to Income Tax.

STOCK MARKET INVESTMENTS

For longer-term goals, such as retirement or leaving a legacy for the next generation, you may wish to invest a portion of your lump sum in the stock market. Although the stock market is volatile, history shows that it tends to outperform cash and bonds over extended periods. You should be comfortable committing your money for at least five years, ideally longer. This will hopefully give your investments time to recover from any stock market downturns.

One way to reduce risk is to spread your money across different asset classes, such as equities, bonds and cash, as well as across sectors and regions. This is because different assets, sectors and regions tend to perform differently under various market conditions. We can assist you in building a diversified portfolio that suits your needs and attitude towards risk.

INVESTMENT ISA BENEFITS

If you haven't utilised your ISA allowance this year (2024/25), investing your lump sum in an Investment ISA will potentially allow it to grow over the long term while also shielding it from Capital Gains Tax (CGT) and Income Tax. If you sell investments outside of an ISA, you could be taxed on your profits above your annual CGT exemption.

Additionally, if your investments pay dividends or interest, this could be included when calculating your overall Income Tax bill, potentially pushing you into a higher Income Tax bracket. The ISA allowance currently stands at £20,000. It is a 'use it or lose it' allowance, meaning you cannot carry it forward from one tax year to the next.

MAXIMISING PENSION CONTRIBUTIONS

Another option is to maximise your annual pension allowance. You can invest up to £60,000 or 100% of your UK relevant earnings, or £3,600 if you have no relevant earnings (whichever is lower) into pensions yearly and benefit from Income Tax relief up until age 75. Income Tax relief provides an immediate boost to your personal pension contributions, helping to increase how much money you have at retirement.

In some circumstances, you might be able to 'carry forward' unused annual allowances from the previous three tax years. Remember that your pension annual allowance might be lower than £60,000 if you earn a high income or have already flexibly accessed your defined contribution pensions. We can help you determine how much your annual allowance is and whether making a pension contribution is the right choice for you. ■

READY TO DISCUSS HOW TO INVEST A LUMP SUM OF MONEY?

If you come into a lump sum of money, you'll need to decide how best to use it. Please contact us for further information and personalised advice. We are here to help you make the most informed and beneficial decisions for your financial future.