CORELLIA

Wealth | Legacy | Partnership

Article

How Should I Invest a Large Cash Windfall?

Coming into a large cash windfall is exciting, but it can also be overwhelming.

This is especially the case if it is unexpected – for example, a lottery win requires an entirely different perspective from a workplace bonus.

An inheritance may trigger different feelings depending on the circumstances and your relationship with the deceased person.

It's a good idea to take some time to think about the best use of the money. A cash windfall can be life-changing, but only if you carefully consider what you would like to achieve.

Top Up Your Cash Reserve

A key part of any financial plan is a healthy cash reserve. You should aim to keep at least six months' worth of essential spending in an easily accessible account.

This means that if you are faced with an unexpected bill, repair, or period out of work, you can easily cover the cost without dipping into your investments or going into debt.

If you don't already have an emergency fund in place, this should be your first priority for your cash windfall.

Clear Expensive Debt

With increased interest rates, you may find that your monthly mortgage payments are becoming more expensive. You might also have other types of expensive debt, such as loans or unpaid credit cards.

It's worth clearing expensive consumer debt first – this will save on interest and free up your monthly payments. Clearing your mortgage is a bigger decision, as the rate may be lower and the balance significantly larger.

If your repayments are manageable, you may want to weigh this against other options.

Use Your ISA Allowance

If you decide to invest the money, a Stocks and Shares ISA is a good way to get started. You can contribute up to £20,000 per year to your ISA, and all returns are tax-free.

You can place all or part of your allowance in a Cash ISA (for example, as part of your emergency fund), but non-ISA savings accounts often pay a higher rate of interest, and most people can earn reasonable amounts of interest tax-free.

There are thousands of investment options available for your ISA, including funds, shares and investment trusts. You can even buy shares that are listed on the Alternative Investment Market (AIM).

A Stocks and Shares ISA may be the answer if you are looking to invest for the long-term, are seeking growth above inflation, and would like to benefit from the tax advantages.

Contribute to Your Pension

Pensions are extremely tax-efficient, as you receive tax relief on your contributions as well as any growth achieved within the funds. You can also take 25% of your pot as a tax-free lump sum at retirement.

Pensions offer a wide range of investment options, although the availability varies between providers. For example, a workplace pension may offer a handful of funds, while a SIPP allows access to all allowable funds and shares (including unlisted) from the open market, as well as commercial property.

However, once you have contributed to a pension, you can't take the money out until you reach the minimum retirement age. This is currently 55, but will be increasing to 57 in April 2028 under current UK government plans.

Depending on your circumstances and investment timescale, a pension, ISA, or a combination of both could offer the best option. Generally, you should consider pensions and ISAs before looking at other types of investment.

You can find out more about pension contributions and tax relief here.

Consider Other Investments

If you have a reasonable emergency fund, manageable debt, and have made the maximum ISA and pension contributions for the year, you may want to consider other investments:

- General investment accounts are straightforward and flexible, but have no particular tax advantages. Income and gains are taxable, but you can use allowances and reliefs to offset this.
- Investment bonds can be suitable for lump-sum investments. You don't pay any tax while the money is invested, although UK-based bonds do deduct some tax within the funds. Withdrawals of up to 5% per year are tax-free, and this allowance rolls up each year if it is not used. Exceeding the allowance, or encashing the bond at a profit, can incur tax. Bonds are especially useful if you are likely to consider inheritance tax planning in the future.
- Investments such as Venture Capital Trusts (VCT) and Enterprise Investment Schemes (EIS) offer significant tax benefits, but are also extremely high risk. You may want to consider these options if you want to reduce your tax bill and can afford to lose the money. Advice is recommended.

Buy a Property

You may decide to use your windfall to get on the property ladder or to start building a buy-to-let portfolio.

Property is a popular investment, as it offers the chance for capital growth as well as a regular rental income. You can also increase your purchasing power by borrowing some of the cost.

However, property is not a liquid asset, and it might be difficult to sell if the market takes a downturn. Landlords also face a higher tax burden than other investors or business owners. It's important to weigh up your options carefully.

Invest in a Business

Receiving a cash windfall could offer the opportunity for a lifestyle change. Perhaps you have always wanted to start a business, but lacked the capital to do so. Or maybe you just need a financial cushion to support your lifestyle while you build up your company.

If you are not entrepreneurially minded yourself, you can still invest in a small business. This is, of course, high risk, so it's important to do your due diligence. An EIS or VCT (mentioned above) offers the chance to invest in small businesses, while spreading your risk across a range of companies.

Spend It

If your financial plan is already on track, you may decide to simply spend the money. Perhaps a dream holiday with the family, a boat, or a sports car would enhance your life more than investing the money.

Providing this would not impact your future, and your family are on board, there is no reason why you shouldn't spend some of the money on luxuries.

Factors to Consider

Before making any big decisions, there are a few factors to think about:

- What do you ultimately want to achieve with the money, and when?
- How much risk can you afford to take?
- What is your tax position, and is this likely to change?

A financial adviser can help you make sense of the options and incorporate your windfall into your wider plan.

Please don't hesitate to contact a member of the team to find out more about your investment options.

Please note:

The value of investments can go down as well as up, and you may not get back the amount you originally invested. Your capital is at risk. Tax treatment depends on your individual circumstances and may be subject to change. Pension benefits cannot normally be accessed until age 55 (rising to 57 in 2028), and pension investments can also fall in value. Investment bonds may have tax implications when encashed. Higher-risk investments such as Venture Capital Trusts (VCTs) and Enterprise Investment Schemes (EIS) carry a significant risk of capital loss and may not be suitable for all investors. This content is for information purposes only and does not constitute personal financial advice. You should seek independent financial advice before making any investment decisions.

Discover the difference of true independence in wealth management.
Let's build your wealth, your legacy, and your future — together.

If you value depth of expertise, a personal relationship with your adviser and the reassurance that your wealth is managed with precision and care, Corellia is designed for you.

Contact us to arrange a no-obligation discussion:
e: ganesh@corelliafs.com
t: +44 20 3375 1584

Corellia Financial Services Limited
Arena Offices - 2F02, 100 Berkshire Place Winnersh, RG41 5RD Berkshire **t:** +44 20 3375 1584. **m:** +44 7801 549274.
e: ganesh@corelliafs.com **w:** corelliafs.com Corellia Financial Services Limited is authorised and regulated by the Financial Conduct Authority (FCA) No: 793798
Company Reg. No. 10984380.