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JULY / AUGUST 2009

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Safety in numbers

Reducing the risk of acquiring wealth

Trust in your future

Investment solutions for the diverse needs of our clients

Tax-efficient wealth creation

Taking advantage of the increased savings allowance

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Inside this issue

Welcome to the latest issue of our personal finance and wealth management magazine. In this issue we take a look at a number of topics that you may wish to discuss with us. In particular, if you are a higher rate taxpayer it may be prudent to talk to us sooner rather than later, following remarks made by the government's pensions spokesman, Lord McKenzie. He refused recently to allay the concerns of individuals earning below £150,000 that they may see their ability to claim income tax relief on pension contributions restricted by lowering still further the threshold announced during Budget 2009. Turn to page 3 to read the full article.

Even though the economy has been experiencing deflationary pressures, investors should be very mindful of the return of inflation and the need to factor this into their future plans. Even though inflation may take longer to reach the government's two per cent target, once there, it could start to rise quickly. On page 12 we look at what you should be considering today to protect yourself from the return of inflation tomorrow.

If you want to be more in control of your own pension fund and have the flexibility to make your own investment decisions, a Self-Invested Personal Pension (SIPP) could be one option to discuss with us. Although SIPPs are more sophisticated and costly vehicles for accumulating retirement funds, they are no longer the elite product they once were. Find out more on page 4.

At the time of going to press, the global financial crisis and events have been changing very quickly, and some further changes are likely to have occurred by the time you read this issue. A full content listing appears on page 3.

We advise employers about how to create the most suitable employee benefits package.

Corporate financial advice

Meeting the distinct and changing needs of you and your business

Did you know that we provide a comprehensive planning service designed to meet the distinct and changing needs of you and your business? We understand that having a sound financial plan is vital to the success and growth of your business, and to your own personal wealth and security.

We advise employers about how to create the most suitable employee benefits package, including staff pensions, flexible benefits packages, shareholder and key person assurance and protection for employees against premature death or long-term illness.

We also assess and recommend planning actions that can be taken to enhance and protect the personal affairs of directors, senior executives and employees.

To discuss the needs of your business please contact us.

want to make more of your money?

For more information please tick the appropriate box or boxes below, include your personal details and return this information directly to us.

- ☐ Arranging a financial wealth check
- ☐ Building an investment portfolio
- ☐ Generating a bigger retirement income
- ☐ Off-shore investments
- ☐ Tax-efficient investments
- ☐ Family protection in the event of premature death
- ☐ Protection against the loss of regular income
- ☐ Providing a capital sum if I'm diagnosed with serious illness
- ☐ Provision for long-term health care
- ☐ School fees/further education funding
- ☐ Protecting my estate from inheritance tax
- ☐ Capital gains tax planning
- ☐ Corporation tax/income tax planning
- ☐ Director and employee benefit schemes
- ☐ Other (please specify)

Name

Address

Postcode

Tel. (home)

Tel. (work)

Mobile

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You voluntarily choose to provide your personal details. Personal information will be treated as confidential by us and held in accordance with the Data Protection Act. You agree that such personal information may be used to provide you with details and products or services in writing or by telephone or email.

Pension tax relief threshold could be lowered still further

Higher rate taxpayers should talk to us now

If you are a higher rate taxpayer it may be prudent to talk to us sooner rather than later about your retirement planning provision, following remarks made by the government's pensions spokesman, Lord McKenzie. He refused recently to allay the concerns of individuals earning below £150,000 that they may also see their ability to claim income tax relief on pension contributions restricted by lowering still further the threshold announced during Budget 2009.

The Chancellor announced his intention that from 6 April 2011 anyone whose income exceeds £150,000 would start to see a progressive reduction in the tax relief they obtain on pension contributions. Those with an income over £180,000 will only receive tax relief at the basic rate, currently 20 per cent.

Anti-forestalling provisions were also introduced with effect from Budget Day to prevent individuals anticipating the future changes and taking advantage of the consultation period to maximise their position.

The new rules could impact on anyone who makes personal pension contributions, either as a self-employed individual or as an employee, or for whom contributions are made by their employer to either a defined contribution or defined benefit company scheme. This includes contributions made by way of a salary sacrifice arrangement, where a reduced salary is taken which the employer then contributes to a corporate pension scheme.

Currently, if you earn less than £150,000 annually, pensions still remain a very tax-efficient way to accumulate wealth for your retirement. Contributions paid to your pension receive tax relief, the money grows free of capital gains tax and at retirement you can withdraw up to 25 per cent of your fund's value as a tax-free lump sum.

The Association of British Insurers (ABI) have warned that the changes announced to restrict pension tax relief for higher earners would also introduce an extra layer of complexity to pensions, going against the 'A-Day' measures that were introduced in 2006 to simplify the pensions tax regime.

The measures in themselves, the ABI commented, would affect only a small number of high earners, but they were concerned that the government was breaching the principle under which people who saved for their retirement got tax relief.

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For further information or to arrange a review of your own retirement provision, please contact us.

Inside this issue

Investing for retirement

The flexibility to decide on your pension investments at all times

If you want to be more in control of your own pension fund and have the flexibility to make your own investment decisions for retirement, a Self-Invested Personal Pension (SIPP) could be one option to discuss with us. Although SIPPs are more sophisticated vehicles for accumulating retirement funds, they are no longer the elite product they once were.

A SIPP is a tax-efficient wrapper in which you can select your own investments from a wide variety of options. These may include stocks and shares, bonds, gilts, unit trusts, investment trusts and even commercial property (but not private property). This diversity provides you with the flexibility to spread your money across a whole range of different types of investments. Depending on your own personal objectives and requirements, you have the flexibility to change or add new investments whenever you choose.

Using a SIPP to invest in a commercial property may be a particularly useful vehicle if you are the owner of a small business, enabling you to purchase the premises through your pension fund. One tax advantage of using your SIPP to purchase a commercial property is the receipt of tax-free income generated from the rents. Another is that, at the point you sell the property, which must be before your pension is drawn and under current taxation rules, there would be no capital gains tax to pay on the proceeds.

Personal contributions into your SIPP would receive income tax relief, and in some circumstances the value of the fund may also be passed on to your beneficiaries free from inheritance tax, provided that no benefits have been drawn.

You could withdraw funds between the ages of 55 and 75 (50 and 75 before 6 April 2010) and normally take up to 25 per cent of your fund as a tax-free lump sum. The remainder is then used to provide you with a taxable income. A SIPP also allows you to choose from the full range of options at retirement, including purchasing an annuity or taking a managed income withdrawal from your fund.

If you have accumulated a number of previous pensions throughout your working life, and if appropriate, you could consider transferring these pension arrangements into your SIPP. This would mean that you then have only one company carrying out your pension administration, which could reduce the reporting and paperwork that you receive.

You need to balance the advantages of investing in a SIPP with the fact that the set-up costs and charges are likely to be more expensive than for a stakeholder or personal pension. In addition, SIPPs are unlikely to be suitable for smaller pension funds and can be complicated, making them more suitable for investors who have a high degree of investment experience and a desire to make their own decisions. It is important to be aware that it may take longer to realise the value of some SIPP assets compared to others.

Personal contributions into your SIPP would receive income tax relief, and in some circumstances the value of the fund may also be passed on to your beneficiaries free from inheritance tax, provided that no benefits have been drawn.

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This is a very specialist area of retirement planning and you should always obtain professional financial advice before taking action. If you would like to discuss your current retirement planning requirements, please contact us with your enquiry.

Money Makeover

Tips to make your finances more financially savvy

Follow our quick guide to structuring your financial affairs more tax-efficiently.

TIP 1

If you are married or in a registered civil partnership, you could potentially increase your tax-free income by switching assets that produce income into the name of the person who has not used all of their personal tax allowance. If you are both under the age of 65, you can currently each receive up to £6,475 (2009/10) a year before income tax is payable. For the over-65s there are even higher allowances available.

In addition, if one of you pays tax at the higher rate, it could be worthwhile considering shifting assets into the name of the other spouse or partner, who might be a basic rate or non-taxpayer.

TIP 2

If you have not taken advantage of your tax-friendly cash ISA (Individual Savings Account) allowance, you are missing out on receiving interest that is paid free of tax. Also, starting from 6 October this year if you are over the age of 50, and from 6 April next year for everybody else, you will be able to save up to half of the new increased ISA allowance, i.e. £5,100 (currently £3,600), or £10,200 for a couple, in a cash ISA.

TIP 3

Many investments give you the option to receive income payments monthly, quarterly or annually, and usually, the more frequently you take income, the lower the interest rate. If this is true of your particular situation, you can maximise the amount of income you receive if you take an income only when it is required.

TIP 4

It is important continually to monitor your investments. If you have acquired different savings and investments over the years, especially in this current economic climate, it is vital to review them regularly to ensure that they meet your investment objectives, i.e. provision of income or growth or a combination of the two. For example, if you have low-yielding investments it may be appropriate to replace them with funds that potentially give you a better income.

TIP 5

You can currently shelter up to £7,200 in an ISA that invests in shares. These ISAs can be used to buy unit trusts, investment trusts and OEICS, with any income paid free of further income tax. The annual limit is set to increase to £10,200 from 6 October this year for those over 50 years old and for everyone else from 6 April 2010.

TIP 6

Make sure that you are claiming any benefits or tax allowances to which you are entitled. If you are a non-taxpayer make sure that you have registered to receive bank or building society interest gross by completing tax form R85. If you are planning to retire this year you could also be entitled to the repayment of some of the income tax you have already had deducted through the PAYE system. To reclaim any overpayment, you will need to complete a P50 claim form.

TIP 7

If appropriate to your particular situation, consider an investment bond that could be set up to provide you with an income either monthly, quarterly or annually. The underlying investments are taxed, but there is no further income tax payable on distributions of up to 5 per cent of the original sum invested each year. HM Revenue & Customs treats this as a return of the original capital, spread over 20 years.

TIP 8

Selling a few units or shares each year from an investment portfolio may offer another way to generate additional income but care needs to be taken not to erode the value of your capital.

TIP 9

Make sure you are fully funding your pension. Contributions are exempt from tax, which means that you can reduce your income tax bill by putting extra cash into your pension. The money will be deducted from your pre-tax income.

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In this recessionary environment your personal finances may have been affected in a number of different ways, which means reviewing your current situation is even more important to ensure that you are on target to achieving your financial objectives. To discuss your requirements please contact us with your enquiry.

Dates for your diary

Don't miss these deadlines

The deadline for submitting your 2008/09 tax return by post is 31 October 2009

Returns filed manually after this date will result in a £100 fine. Paper returns must reach HM Revenue & Customs (HMRC) by this date so that it can calculate the tax you owe before the 31 January payment deadline.

The end of October is also the final submission date for paper returns if you want the tax you owe to be collected through your tax code. This is possible if you owe less than £2,000.

The deadline for filing your 2008/09 tax return online is 30 December 2009 if you want to pay through your tax code

Six million taxpayers filed online last year, an increase of 50 per cent on the previous year. This method means the tax owed is calculated automatically. Rebates are also paid back more quickly to online filers. All tax owed must be paid by 31 January 2010.

Late filing and payment means taxpayers are automatically fined £100. If the balance has not been paid by 28 February 2010, a further five per cent surcharge is added to the bill and if the tax still has not been paid by 31 July 2010 another five per cent charge is applied.

NEED MORE INFORMATION?

PLEASE CONTACT US WITH YOUR ENQUIRY

If you are under the age of 50 you will also be able to take advantage of the increased allowance from April 6, next year.

Tax-efficient wealth creation

Taking advantage of the increased savings allowance

If you are considering your Individual Savings Account (ISA) options, the good news is that the permitted contribution allowance will be extended for investors over the age of 50 from 6 October this year.

If you are under the age of 50 you will also be able to take advantage of the increased allowance from 6 April next year.

The overall ISA limit will increase to £10,200 (up from £7,200), although the maximum tax-free entitlement will remain unequal for those depositing savings and those investing in shares. You will be able to invest up to £10,200 in a share ISA, whereas the maximum cash ISA deposit will be £5,100.

If you would like to discuss the tax-efficient saving options available to you, please contact us for more information.

News in brief

Cutting the time taken for annuity transfers

The pensions industry's 'Options' initiative has delivered significant improvements in its first three months of operation, cutting the time taken for annuity transfers between providers signed-up to the Options initiative to an average of just eight calendar days, compared to a pre-Options pilot scheme achieving an average transfer time of 31 days. This improvement of over three weeks will see annuity policies processed through Options being set up much more quickly. The system is designed to speed up the exchange of information and funds as part of the annuity transfer process, including those carried out under the Open Market Option (OMO). Timescales are expected to improve further over time as refinements are made and more providers start to use the system.

Investing offshore

With careful planning, a variety of savers could put offshore investments to good use

For the appropriate investor looking to achieve capital security, growth or income, there are a number of advantages to investing offshore, particularly with regards to utilising the tax deferral benefits. You can defer paying tax for the lifetime of the investment, so your investment rolls up without tax being deducted, but you still have to pay tax at your highest rate when you cash the investment in. As a result, with careful planning, a variety of savers could put offshore investments to good use.

The investment vehicles are situated in financial centres located outside the United Kingdom and can add greater diversification to your existing portfolio. Cash can also be held offshore in deposit accounts, providing you with the choice about when you repatriate your money to the UK, perhaps to add to a retirement fund or to gift to children or grandchildren. Those who work overseas or have moved abroad to enjoy a different lifestyle often want to pay as little tax as is legally possible.

Many offshore funds offer tax deferral. The different types of investment vehicles available offshore include offshore bonds that allow the investor to defer tax within the policy until benefits are taken, rather than be subject to a basic rate tax liability within the underlying funds. This means that, if you are a higher rate tax payer in the UK, you could wait until your tax status changes before bringing your funds (and the gains) back into the UK.

The wide choice of different investment types available include offshore redemption policies, personalised policies, offshore unit trusts and OEICs. You may also choose to have access to investments or savings denominated in another currency.

Regarding savings and taxation, what applies to you in your specific circumstances is generally determined by the UK tax regulations and whatever tax treaties exist between the UK and your host country.

Many banks, insurance companies and asset managers in offshore centres are subsidiaries of major UK, US and European institutions. If you decide to move abroad, you may not pay any tax at all when you cash-in an offshore investment, although this depends on the rules of your new country.

Regarding savings and taxation, what applies to you in your specific circumstances is generally determined by the UK tax regulations and whatever tax treaties exist between the UK and your host country. The UK has negotiated treaties with most countries so that UK expats in those countries are not taxed twice. Basically, if a non-domiciled UK resident is employed by a non-UK resident employer and performs all of their duties outside the UK, the income arising is only subject to UK tax if it is received in or remitted to the UK.

Investor compensation schemes tend not to be as developed as in the UK, so you should always obtain professional advice to ensure that you fully understand each jurisdiction. It is also important to ensure that you are investing in an offshore investment that is appropriate for the level of risk you wish to take.

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If you are an expatriate you should find out if you are aware of all the investment opportunities available to you and that you are minimising your tax liability. For more information please contact us.

Most pooled investment funds are actively managed. The fund manager researches the market and buys and sells assets with the aim of providing a good return for investors.

Safety in numbers

Reducing the risk of acquiring wealth

If you require your money to provide the potential for capital growth or income, or a combination of both, provided you are willing to accept an element of risk pooled investments could just be the solution you are looking for. A pooled investment allows you to invest in a large, professionally managed portfolio of assets with many other investors. As a result of this, the risk is reduced due to the wider spread of investments in the portfolio.

Various funds available are based on:

Income or growth needs, such as:

- income funds providing high dividends
- capital growth funds
- balanced funds which aim to achieve a mix of both

Geographical allocation, such as:

UK funds
international or specific regional funds (e.g. Far East)

Specialist funds which invest in a specific type of company, such as a property or technology fund.

The main vehicles for pooled investments are:

- unit trusts
- open-ended investment companies (OEICS)
- investment trusts
- insurance company funds

Pooled investments are also sometimes called 'collective investments'. The fund manager will choose a broad spread of instruments in which to invest, depending on their investment remit. The main asset classes available to invest in are shares, bonds, gilts, property and other specialist areas such as hedge funds or 'guaranteed funds'.

Benefits of pooled investments include:

Professional expertise – you arrange for an investment expert to pick investments for you, to watch those investments daily and judge when to sell them.
Spreading your risk – even if you have small amounts to invest, you can spread your money across a wide range of investments. You reduce the impact on your investment if, say, one company performs badly. Pooled investments will invest in one or more asset class.
Reduced dealing costs – if you want to buy a range of different investments directly, you would probably only be able to invest a small sum in each. This means dealing costs could reduce your profits significantly. By pooling your money, you make savings because of bulk buying.
Less administration – the fund manager handles the buying, selling and collecting of dividends and income for you. They also deal with foreign stock exchanges and brokers.
Choice – there is a very wide choice of funds so that you can pick one – or many – that suit you individually.

Most pooled investment funds are actively managed. The fund manager researches the market and buys and sells assets with the aim of providing a good return for investors.

Trackers, on the other hand, are passively managed, aiming to track the market in which they are invested. For example, a FTSE100 tracker would aim to replicate the movement of the FTSE100 (the index of the largest 100 UK companies). They might do this by buying the equivalent proportion of all the shares in the index. For technical reasons the return is rarely identical to the index, in particular because charges need to be deducted.

Trackers tend to have lower charges than actively managed funds. This is because a fund manager running an actively managed fund is paid to invest so as to do better than the index (beat the market) or to generate a steadier return for investors than tracking the index would achieve. However, active management does not guarantee that the fund will outperform the market or a tracker fund.

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For further information on this subject or if you would like to review your current savings and investments strategy, please contact us to receive a professional assessment of your particular situation.

Investing in your child's education

Make sure that your numbers add up

School fees planning is something that requires a great deal of early thought and preparation. The earlier you start planning, the greater the potential to benefit from investment gains and the greater the choice available about how you can invest in your child's future education. Having decided to educate your child or children independently, it is important to take appropriate advice to ensure the continuity of their education.

It is also essential to be fully aware of the ongoing financial implications and to be confident that you can afford the fees throughout the selected term. You may currently be looking to spread the cost of fees, either by paying for the fees by investing a lump sum or arranging a regular savings vehicle to provide funds to cover future fees.

There are a number of schemes available that are designed to help you spread some or all of the school fees. The purpose of these plans is to improve your cash flow and hence make school fees more affordable.

If you find yourself in the position of having a lump sum that you could invest specifically to meet the cost of future school fees, there is a range of plans open to you. Early investment of capital may at best avoid the need to use income for providing for school fees in later years, or at worst go a significant way towards reducing reliance on income.

The tax efficiency, flexibility of approach and your attitude to investment risk are important considerations. In addition, there could be opportunities for the effective use of trusts as part of the planning process.

Regular savings for school fees can also help pay for future costs and should be started as soon as possible. The longer you save, the less impact there will be on income when school fees fall due. There are many plans available that can be tailored to your individual requirements, leaving you with the flexibility to use funds at your discretion.

Trust planning can also be useful for grandparents who wish to make provisions for school fees and achieve inheritance tax benefits at the same time. However, trust planning is not suitable in every situation. Trusts offer the benefit of transferring the tax liability on future income and capital gains to the children to utilise their personal annual allowances. Chargeable gains on life policies may also be re-assigned, which could avoid a higher rate tax charge. It is important to take professional advice on the correct trust arrangements for the investments held.

It may also be possible in some circumstances to transfer an existing capital gain to the trust, avoiding the need to settle the tax bill on transfer. The capital gain will later be assessed against the beneficiaries or the trustees; however, indexation relief will be lost.

The tax efficiency, flexibility of approach and your attitude to investment risk are important considerations. In addition, there could be opportunities for the effective use of trusts as part of the planning process.

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For many, the decision to provide their children with an independent education is a major one. The financial implications of schools fees can often be a matter of stress and worry. If you would like to discuss the options available to you, we can offer comprehensive financial advice as to the best manner to meet and protect future school fees.

Trust in your future

Investment solutions for the diverse needs of our clients

We provide solutions for the diverse needs of both our wealthy clients and those who aspire to become wealthy. We provide expertise in financial planning designed to enable our clients to structure their finances as efficiently as possible. One solution that could be very effective when used as part of a diverse investment portfolio is an investment trust.

This is a collective type of investment that pools together the funds of investors in order to make investments in a range of companies. By pooling your money, you could gain access to a wider selection of stocks and shares than most individual investors are able to do on their own. In this current economic environment this can also help spread risk because you are not dependent on just one investment.

You leave the day-to-day responsibility for the management of your investments to a professional fund manager. Your investment manager has more access to information about companies in which to invest than most individual investors. This can be particularly valuable in overseas regions or emerging markets such as China or Brazil, or in specialist sectors such as minerals, oils or telecoms, media and technology.

Investment trusts are based upon fixed amounts of capital divided into shares. This makes them closed ended, unlike the open-ended structure of unit trusts. They can be one of the easiest and most cost-effective ways to invest in the stock market. Once the capital has been divided into shares, you can purchase the shares. When an investment trust sells shares, it is not taxed on any capital gains it has made. By contrast, private investors are subject to capital gains tax when they sell shares in their own portfolio.

Another major difference between investment trusts and unit trusts is that investment trusts can borrow money for their investments, known as gearing up, whereas unit trusts cannot. Gearing up can work either to the advantage or disadvantage of investment trusts, depending on whether the stock market is rising or falling.

Investment trusts can also invest in unquoted or unlisted companies, which may not be trading on the stock exchange either because they don't wish to or because they don't meet the given criteria. This facility, combined with the ability to borrow money for investments, can however make investment trusts more volatile.

The net asset value (NAV) is the total market value of all the trust's investments and assets minus any liabilities. The NAV per share is the net asset value of the trust divided by the number of shares in issue. The share price of an investment trust depends on the supply and demand for its shares in the stock market. This can result in the price being at a 'discount' or a 'premium' to the NAV per share.

A trust's share price is said to be at a discount when the market price of the trust's shares is less than the NAV per share. This means that investors are able to buy shares in the investment trust at less than the underlying stock market value of the trust's assets.

A trust's shares are said to be at a premium when the market price is more than the NAV per share. This means that investors are buying shares in the trust at a higher price than the underlying stock market value of the trust's assets. The movement in discounts and premiums is a useful way to indicate the market's perception of the potential performance of a particular trust or the market where it invests. Discounts and premiums are also one of the key differences between investment trusts and unit trusts or OEICs.

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This is a collective type of investment that pools together the funds of investors in order to make investments in a range of companies. By pooling your money, you could gain access to a wider selection of stocks and shares than most individual investors are able to do on their own. This can also help spread risk because you are not dependent on just one investment.

Inflation matters

Protecting your finances from the return of inflation

Even though the economy has been experiencing deflationary pressures, investors should be very mindful of the return of inflation and the need to factor this into their future plans. Even though inflation may take longer to reach the government's two per cent target, once there, it could start to rise quickly. As we know, prevention is always better than cure, so what should you be considering today to protect yourself from the return of inflation tomorrow?

Currently, if you receive income from cash or gilts (government bonds) you could see this income in real returns fall considerably with the return of inflation. One prevention measure would be index-linked gilts, offering yields that rise in line with inflation. However, depending on the level of inflation, it may be more appropriate to hold conventional gilts instead. Alternatively, savings certificates from Treasury-backed National Savings and Investments (NS&I), also guarantee to beat inflation. They pay a tax-free percentage over RPI over three or five years.

If you are planning to retire over the next few years you may consider exchanging your pension fund for a level-term annuity that will pay you a fixed monthly sum for life. But if you have concerns about the effects of rising inflation during your retirement and the impact this would have on your standard of living, you could purchase an annuity that increases in line with the retail price index (RPI). If this is the route that you decide to take you need to be aware that this option will initially provide a lower starting payment than a level annuity. An alternative is to split your fund and purchase a level annuity with one half and an RPI-linked product with the other.

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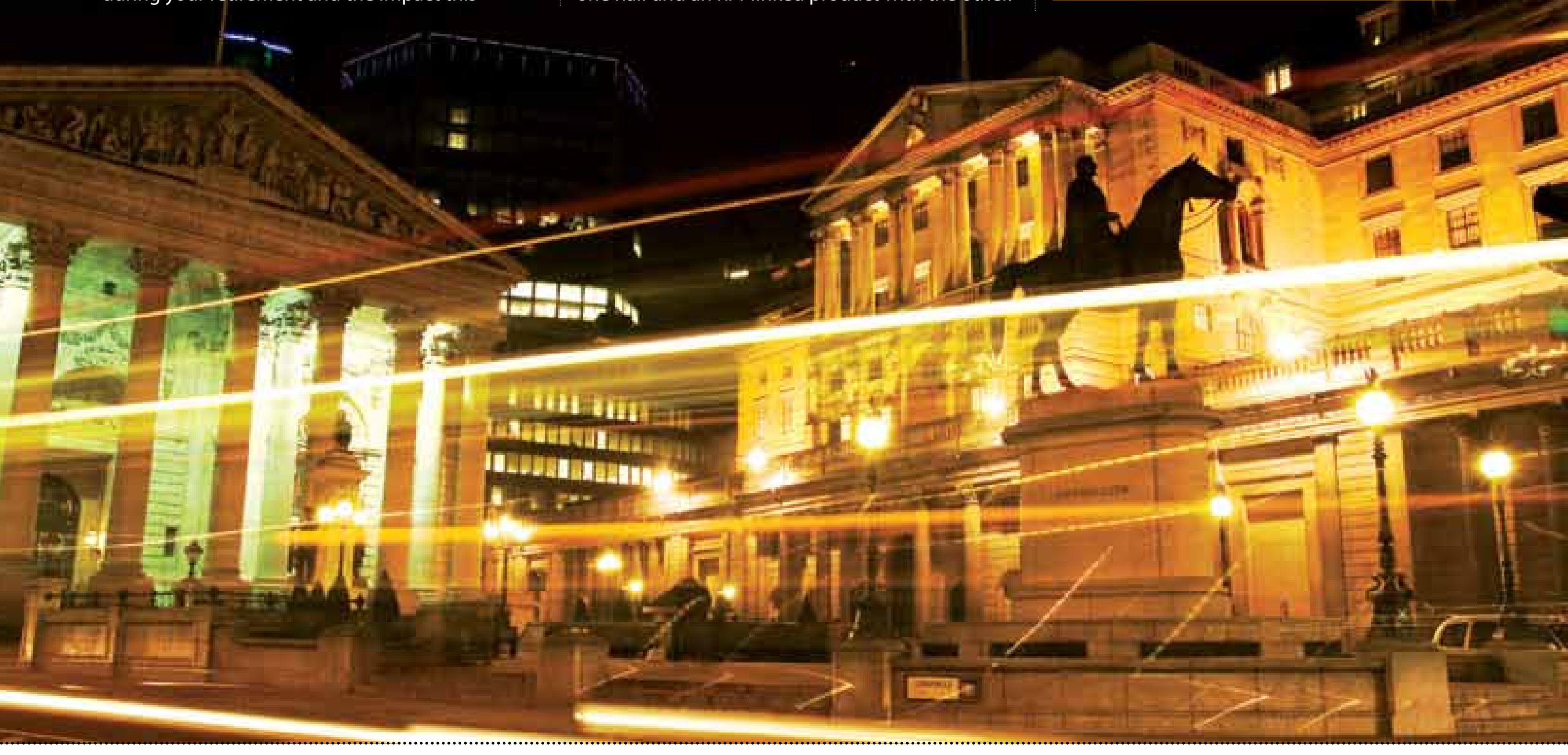

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