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Phasing out the compulsory retirement age

A 'one size fits all' retirement policy is no longer acceptable

Wrapping up your money

Sheltering investments from tax

Final salary pension changes

How the new rules could affect your retirement provision

Income drawdown

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Taxing times

Using your pension top-ups to mitigate the effects of CGT

Defending your wealth

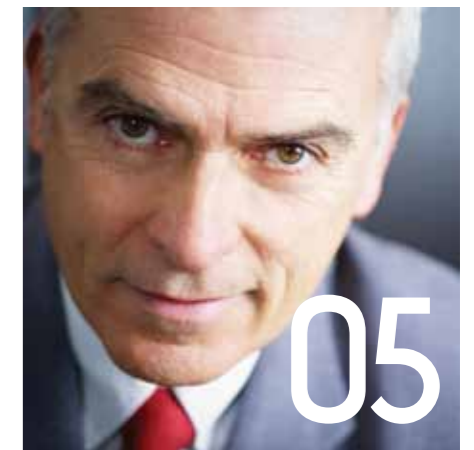
Planning ahead is the key

Financial planning is our business.

We're passionate about making sure your finances are in good shape.

Our range of personal financial planning services is extensive, covering areas from pensions to inheritance matters and tax-efficient investments.

Contact us to discuss your current situation, and we'll provide you with a complete financial wealth check.



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Welcome

Welcome to our personal financial planning and wealth management magazine.

With an ageing population, increasing weight has been given to the argument that a 'one size fits all' retirement policy is no longer acceptable and that people aged 65 or over should not be considered incapable of carrying out their jobs to the standards expected. In July, the government announced that it would launch a consultation process to look at plans to end the default fixed retirement age for the UK's workforce. Read the full article on page 7.

Following the emergency Budget, the Chancellor, George Osborne, has confirmed that the 28 per cent capital gains tax (CGT) rate introduced would remain in place for at least the length of this parliament. On page 14 we consider why, from a financial planning perspective, this enables us to make positive decisions for our clients about how best to reduce its impact until at least May 2015.

Even though the end of this current tax year may seem fairly distant, if you haven't yet taken full advantage of your Individual Savings Account (ISA) allowance you could be missing out on sheltering your investments from tax. On page 11 we look at the benefits of ISAs, which enable you to hold investments and pay no capital gains tax and no further tax on the income you receive.

Also inside this issue: the relaxing of the annuity law, which could revolutionise investor attitudes towards pensions, and ten tax saving tips to make more of your money. A full list of the articles featured in this edition appears on page 3.



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Final salary pension changes

How the new rules could affect your retirement provision

From 2011, private sector final salary pensions need only be uprated in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI), the government announced recently. Typically, CPI runs below RPI and, consequently, over time this could mean some final salary members experience a reduction in their retirement income.

This may not apply to all schemes. Some schemes may specifically state in their rules that they will uprate benefits in line with RPI. It's also worth bearing in mind that although the government sets what the minimum inflation-linking schemes must provide, it's perfectly possible for a scheme to provide increases in excess of this level.

If your scheme does intend to adopt CPI uprating, this could have a negative impact on the income you can expect to receive from the scheme. Ultimately, this depends on the RPI and CPI levels and how they differ, but historically CPI has trailed behind

RPI. The impact on your income will also depend on when you built up benefits, because the inflation protection afforded to final salary scheme members has changed over the years.

Tax is not applicable on the money you are paid out on retirement. But from April next year, if you earn more than £150,000 you will have to pay a tax bill based on your age, length of service and salary. ■

TO FIND OUT MORE ABOUT HOW WE CAN HELP YOU PLAN FOR A SUCCESSFUL RETIREMENT, PLEASE CONTACT US FOR FURTHER INFORMATION.

Levels and bases of and reliefs from taxation are subject to change and their value depends on the individual circumstances of the investor. The value of your investments can go down as well as up and you may get back less than you invested.

“Typically, CPI runs below RPI and, consequently, over time this could mean some final salary members experience a reduction in their retirement income.”

Achieving a comfortable retirement.

Do you need a professional assessment of your situation to make this a reality?

If you are unsure whether your pension is performing in line with your expectations, and that you've made the right pension choices – don't leave it to chance.

Contact us to discuss these and other important questions, and we'll help guide you to a comfortable retirement.

Phasing out the compulsory retirement age

A 'one size fits all' retirement policy is no longer acceptable

With an ageing population, increasing weight has been given to the argument that a 'one size fits all' retirement policy is no longer acceptable and that people aged 65 or over should not be considered incapable of carrying out their jobs to the standards expected.

In July, the government announced that it would launch a consultation process to look at plans to end the default fixed retirement age for the UK's workforce. Subject to the consultation paper, from October 2011 employers will not be able to force employees to retire at 65 without offering them financial compensation.

The change in the rules would mean that the employer's only obligation would be to hold a meeting with each older member of staff to discuss their options at least six months before they reach 65.

As an employer must give six months' notice before someone is made to retire on age grounds, the change in the rules could become effective from 6 April next year.

Removing the default retirement age (DRA) of 65 will mean that employers may have to change how they manage their workforce. Employees will not be forced to work beyond 65, but will have the option to do so and could even stay on into their 70s or 80s.

A handful of individual employers will still be able to operate their own compulsory retirement age but only if they can justify it objectively on the basis that older staff are unable to do a job properly. Examples could include air traffic controllers and police officers.

Employment relations minister, Ed Davey, said: 'With more and more

people wanting to extend their working lives, we should not stop them just because they have reached a particular age.

'We want to give individuals greater choice and are moving swiftly to end discrimination of this kind.

'Older workers bring with them a wealth of talent and experience as employees and entrepreneurs. They have a vital contribution to make to our economic recovery and long-term prosperity.

'We are committed to ensuring employers are given help and support in adapting to the change in regulations'.

Employers that wish to retire older members of staff will be able to do so only on the same grounds that would apply for someone much younger – for instance, because of their conduct or performance.

Before 2006, the compulsory retirement age was set at 65, or earlier for some jobs. But the previous government changed the law so that workers could request to stay on. However, companies are not compelled to let them. ■

THE PROPOSED CHANGES PROVIDE YOU WITH AN OPPORTUNITY TO SAVE MORE FOR YOUR RETIREMENT TO ENSURE THAT IT IS A COMFORTABLE ONE. TO DISCUSS THE OPTIONS AVAILABLE TO YOU, PLEASE CONTACT US FOR MORE INFORMATION.

“Increasing weight has been given to the argument that a 'one size fits all' retirement policy is no longer acceptable.”



Wealth protection

10 tax saving tips to make more of your money

1. Tax-sheltered ISA wrappers

Hold higher yielding investments in tax-sheltered ISA wrappers. On 6 April 2010, the annual Individual Savings Account (ISA) subscription limit rose to £10,200. The whole sum can be placed in a stocks and shares ISA or, alternatively, up to half can be put into a cash ISA and the remainder into a stocks and shares ISA. So for a couple, this represents £20,400 savings protected from capital gains or income tax. Make sure you use your entire allowance, as it can't be carried over into the next tax year.

2. Claim tax relief on your pension

Utilise remaining pension contribution allowances in 2010/11 where higher-rate income tax relief is available. Currently, if you pay higher-rate tax but earn less than £130,000, HM Revenue & Customs (HMRC) will give you £40 tax relief on every £100 saved. People with earnings can invest up to 100 per cent in their pension each year up to a current annual limit of £255,000. The lifetime investment allowance is £1,800,000.

3. Make a will to minimise an inheritance tax bill

If you pass away without making a will, HMRC rules dictate how your estate is divided up. Yet if you do make a will, not only can you have a say over who gets what, but you can also minimise the inheritance tax (IHT) payable. Any amount you leave above £325,000 (2010/11) will be taxed at 40 per cent. However, some gifts, such as money left to charities or paid into trust funds for children and grandchildren, are not taxable. A little planning goes long way in reducing this tax liability.

4. Capital gains tax

Utilise capital gains tax allowances, worth £10,100 (2010/11) per person, and consider transferring assets to spouse/civil partner as necessary.

5. Shelter income-producing assets

Transfer non-tax sheltered income-producing assets to lower-rate taxed spouses/civil partners. By transferring assets from one spouse to another, couples could pay less tax. Many

partners hold joint savings. But if your income differs, it may be more sensible from a tax perspective to move assets into the sole name of the individual on the lower tax band.

6. Enterprise investment schemes

If you subscribe for new shares in an enterprise investment scheme, you receive 20 per cent income tax relief on the amount subscribed up to a limit of £500,000 (2010/11) a year, as long as you hold onto the shares for three years and have paid enough income tax.

7. Don't lose out on interest

Savings interest usually has 20 per cent tax deducted before the saver receives it. But anyone over 16 whose income is less than their tax allowance does not have to pay income tax on their savings. If you have children who are not working and have a savings account, then they should complete HMRC form R85 to ensure that they are paid gross interest, that is, without tax being deducted.

8. Check your tax code

Your personal tax code is critical to working out how much tax you should pay. Yet HMRC's shift to a new computer system earlier this year saw thousands of erroneous codes sent out. Now more than ever, it's vital to check your payslip to make sure your salary is stated correctly and that you are being taxed at the appropriate rate.

9. Tick for Gift Aid

Whether you are sponsoring somebody raising money for charity or donating through the payroll, make sure the Gift Aid box is selected so that the cause gets the full, tax-free amount. Charities take your donation - which is money you've already paid tax on - and reclaim the basic rate tax from HMRC on its 'gross' equivalent - the amount before basic rate tax was deducted.

10. Trading losses

Freelancers and other self-employed individuals who make a loss can set the loss against income in the year of the loss or carry it back to the previous year. In addition, losses that arise in the first four years of the business can be carried back up to three years. Claims to carry back losses in 2008/09 must be made by 31 January 2011. ■

THE UK TAX SYSTEM IS COMPLICATED ENOUGH AND FURTHER CHANGES ARE INEVITABLE UNDER THE NEW GOVERNMENT. TO DISCUSS HOW WE CAN HELP YOU NAVIGATE THROUGH THE TAX RULES, PLEASE CONTACT US FOR FURTHER INFORMATION.

The value of investments and the income from them can go down as well as up and you may not get back your original investment. Past performance is not an indication of future performance. Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances. Thresholds, percentage rates and tax legislation may change in subsequent finance acts.

“By transferring assets from one spouse to another, couples could pay less tax.”



Annuity law relaxed

Revolutionising investor attitudes towards pensions

The Treasury has announced that it is looking to relax the law requiring everyone to buy an annuity by age 75. This follows the coalition government's decision in the emergency Budget to end compulsory annuitisation by April 2011.

The aim is to revolutionise investor attitudes towards pensions and encourage greater retirement saving so that we take greater responsibility for our financial futures. It will also mean that everyone who invests in a pension can retain control of their pension assets right through until the day they die.

The proposed law change is aimed at giving individuals greater flexibility over how they use the savings they have accumulated. This would see the replacement of some pension tax rules with a new system that gives people greater freedom and choice.

This consultation is a revolutionary change and also includes tax breaks

available on pensions. It is expected that investors will have the choice of buying an annuity, as at present, and in addition they will have a choice of two drawdown options to select from.

Investors who can demonstrate that they have secured a minimum level of income will have the choice of taking money from a flexible drawdown plan at will. This means receiving it all back in one go as a cash sum if required. Income withdrawals will be subject to income tax.

For those investors with insufficient income to satisfy the 'minimum income requirement', there will be the option of a capped drawdown. This capped drawdown will have fairly conservative income limits, designed to ensure that investors never run out of money.

Those investors who do not want to take the high risk involved with drawdown will still be able to convert their pension fund into

an annuity, which will pay a secure taxable income for life.

The death benefit rules are changing and becoming simpler and the government has confirmed that it will be ending the Alternatively Secured Pension. ■

TO FIND OUT MORE OR TO DISCUSS YOUR RETIREMENT OPTIONS, PLEASE CONTACT US.

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What will the default retirement age changes mean to workers and pre-retirees?

Your questions answered

Q: Why is the government planning to end the default fixed retirement age?

A: Many people are not saving enough for retirement and risk not having the income they would hope for if they retire at the 'traditional' age of 65.

By working for one year past the existing state retirement age, currently 60 for women and 65 for men, people could potentially increase their retirement income by between 3 per cent and 10 per cent. The government says it wants to tackle age discrimination, but this move will also alleviate the burden on the state.

Q: Am I able to work beyond 65 now if I want to?

A: This will ultimately depend on your own employer. Employers do not have to retire employees once they reach 65, and are free to continue to employ them as long as they wish, but some may require you leave at 65.

Q: Will I still be able to retire at 65 under the new proposals?

A: Yes. The government has not indicated that it will prevent people from retiring at 65.

Q: Will I be able to retire even earlier?

A: Some people with private pensions are already able to retire from the age of 55. Individual employers may allow you to retire early.

Q: Will I be able to contribute to my company pension beyond 65?

A: Yes, you will be able to keep contributing to your pension. You can continue to make pension contributions and receive tax relief up to your 75th birthday.

Q: If I work longer, can I save less for retirement?

A: No. The government wants workers to contribute more to their pension

provisions, not less. The larger your pension, the less of a burden as a retiree you might be on the state.

Q: Does the change affect my state pension entitlement?

A: The state pension has its own timetable, which is also currently under review. The government is consulting on how it can accelerate the planned rises to the state pension age more quickly than is currently legislated for, initially to age 66 but ultimately to 68.

The government has yet to announce whether those working longer will be able to defer their state pension. If you take it at age 66 but work until you're 70, you would pay tax on your state pension as if you are still working, so there are plenty of details to be ironed out by the government. ■

You've protected your most valuable assets.

But how financially secure are your dependents?

Timely decisions on how jointly owned assets are held, the mitigation of inheritance tax, the preparation of a will and the creation of trusts, can all help ensure your dependents are financially secure.

Contact us to discuss how to safeguard your dependents, wealth and assets, don't leave it until it's too late.

Wrapping up your money

Sheltering investments from tax

Even though the end of this tax year may seem fairly distant, if you haven't yet taken full advantage of your Individual Savings Account (ISA) allowance you could be missing out from sheltering your investments from tax.

ISAs enable you to hold investments and pay no capital gains tax and no further tax on the income you receive. From 6 April 2010, the government increased the ISA allowance limit to £10,200 for all eligible ISA customers.

An ISA is a tax-efficient 'wrapper' in which you can hold either stock market-based investments or a traditional savings account. Any interest earned on savings or bonds and any capital gains made on investments within an ISA are tax-free. ■

FOR FURTHER INFORMATION ON THIS SUBJECT OR IF YOU WOULD LIKE TO REVIEW YOUR CURRENT SITUATION, PLEASE CONTACT US.

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ISA investment limits (2010/11)

You can invest up to £10,200 in two ways:

- Put all £10,200 in stocks and shares, or
- Put up to £5,100 in cash and the balance in stocks and shares

You don't even need to declare ISAs on your tax return, which makes ISAs particularly appealing to higher-rate taxpayers. In many instances, it costs

no more to hold investments inside an ISA than to hold them outside, which means you would generally receive the benefits free of charge.

With an increase in capital gains tax already announced in the emergency Budget and potential future tax increases, it has never been a more important time to take full advantage of your ISA allowance.

ISA tax savings

Income tax

	Bonds and bond funds	Shares, or funds investing in shares
Basic-rate taxpayer	save up to 20%	n/a
Higher-rate taxpayer	save up to 40%	save up to 22.5%
Super (50%) taxpayer	save up to 50%	save up to 32.5%

Capital gains tax

	Tax savings
Basic-rate taxpayer	save up to 18%
Higher-rate taxpayer	save up to 28%
Super (50%) taxpayer	save up to 28%

Income drawdown

Keeping control of your investments

Income Drawdown (or Unsecured Pension) is the name given to the facility that enables you to continue to keep your retirement savings invested and take an income each year rather than buying an annuity. This facility can only be continued to age 75, with transitional rules in place from 22 April 2010 to 5 April 2011 increasing the age to 77, at which time an annuity has to be bought or the money transferred into an Alternatively Secured Pension (ASP). From 6 April 2011, the rules will change again. The government is currently running a consultation on the new rules to apply from this date.

Income drawdown is an alternative to an annuity. It allows you to draw an income directly from your pension while the fund remains invested. One of the most attractive features of income drawdown is that you keep control of your investments and choose the level of income you draw (within limits).

You continue to manage and control your pension fund and make all the investment decisions. Providing the fund is not depleted by excessive income withdrawals or poor investment performance, it may be possible to increase your income later in life.

The income that can be taken from a drawdown arrangement can be varied each year between a minimum and a maximum. The minimum is £0 and the maximum is 120 per cent of a pension, calculated according to tables produced by the Government Actuaries Department (GAD).

These tables are based on the amount your fund would buy as an annuity based on your life only and with no allowance for any future increase. The maximum amount needs to be recalculated every five years. After each review you will be advised of the new annual GAD limit, which could be lower or higher than the limit from the previous five years.

A review will also be triggered if you add more money into your drawdown account from your main pension fund or if you take money out to buy an annuity. Each year you may request that a review takes place on the plan anniversary. This will restart the five-year period. In some cases, funds may also have to be moved out as a result of a divorce court order and this will also trigger a review.

You decide how much of your pension you want to move into drawdown. You can normally take up to 25 per cent of this as a tax-free lump sum and draw a regular income from the rest. There is no minimum withdrawal amount, so you could choose zero income if you wish. Any income is subject to tax at source, on a Pay As You Earn (PAYE) basis. You decide where the remainder of the fund is invested and you should review and monitor the situation regularly.

“ One of the most attractive features of income drawdown is that you keep control of your investments and choose the level of income you draw (within limits). ”

The maximum income you can draw can be more than the income from a level, single life annuity bought using the same fund. The maximum is calculated at the start of your drawdown plan, using GAD tables that use your age and 15-year gilt yields to calculate the income available from your fund. The income limits calculated at this point are fixed until the next review, although you should review any income you take more frequently.

As long as you stay within the maximum limit, you can control how much income you take and when you take it. You always need to be aware of the risk that your income withdrawal can deplete your capital. This reduces the capacity for income in the future.

If you smoke, or suffer from ill health, an annuity income could be higher than the GAD limit allowed under income drawdown, as the GAD calculation does not take health or lifestyle into account.

You can use your income drawdown fund to buy a lifetime annuity. If you want to continue drawing an income directly from the fund when you reach your 75th birthday it can continue into an ASP, although income is restricted and death benefits are severely limited. The fund is automatically moved to an ASP if you have not set up an annuity by age 75.

You also need to consider when using income drawdown that your capital is not only being eroded by income withdrawals but is also exposed to market movements. In the worst case scenario your pension fund could be eroded, meaning you have little or no private money to live on in retirement. ■

Levels and bases of and reliefs from taxation are subject to change and their value depends on the individual circumstances of the investor. Thresholds, percentage rates and tax legislation may change in subsequent finance acts.

IF YOU ARE AT ALL UNCERTAIN ABOUT THE SUITABILITY OF INCOME DRAWDOWN, YOU SHOULD ALWAYS SEEK PROFESSIONAL FINANCIAL ADVICE. FOR FURTHER INFORMATION ON THIS SUBJECT OR IF YOU WOULD LIKE TO REVIEW YOUR CURRENT SITUATION, PLEASE CONTACT US.

The critical factor

Protecting your lifestyle from the unexpected

Most home buyers purchase life assurance when they arrange a mortgage, but far fewer obtain another form of financial protection that they are considerably more likely to need before they reach retirement.

Critical illness cover is a long-term insurance policy designed to pay you a tax-free lump sum on the diagnosis of certain specified life-threatening or debilitating (but not necessarily fatal) conditions such as a some forms of heart attack, stroke, certain types/stages of cancer, multiple sclerosis and loss of limbs. The cover can provide cash to allow you to pursue a less stressful lifestyle while you recover from illness, or you can use it for any other purpose.

A more comprehensive policy will cover many more serious conditions including loss of sight, permanent loss of hearing and a total and permanent disability that stops you from working. Some policies also provide cover against the loss of limbs.

If you are single with no dependants, critical illness cover can be used to pay off your mortgage, which means that you would have fewer bills, or a lump sum to use if you became very unwell. And if you are part of a couple, it can provide much-needed financial support at a time of emotional stress.

The illnesses covered are specified in the policy along with any exclusions and limitations, which may differ between insurers. Critical illness policies usually only pay out once, so are not a replacement for income. Some policies offer combined life and critical illness cover. These pay out if you are diagnosed with a critical illness, or if you die, whichever happens first.

If you already have an existing critical illness policy, you might find that by replacing a policy you would lose some of the benefits if you have developed any illnesses since you took out the first policy. It is important to seek professional advice before considering replacing or switching your policy, as pre-existing conditions may not be covered under a new policy.

Some policies allow you to increase your cover, particularly after lifestyle changes such as marriage, moving home or having children. If you cannot increase the cover under your existing policy, you could consider taking out a new policy just

to 'top up' your existing cover.

Very few policies will pay out as soon as you receive diagnosis of any of the conditions listed in the policy and most pay out only after a 'survival period', which is typically 28 days. This means that if you die within 28 days of meeting the definition of the critical illness given in the policy, the cover would not pay out.

Permanent total disability is usually included in the policy. Some insurers define permanent total disability as being unable to work as you normally would as a result of sickness while others see it as being unable to independently perform three or more 'Activities of Daily Living' as a result of sickness or accident.

ACTIVITIES OF DAILY LIVING INCLUDE:

- Bathing
- Dressing and undressing
- Eating
- Transferring from bed to chair, and back again

“ Critical illness cover is a long-term insurance policy designed to pay you a tax-free lump sum on the diagnosis of certain specified life-threatening or debilitating (but not necessarily fatal) conditions. ”



TO DISCUSS HOW WE CAN HELP YOU PROTECT YOURSELF AND YOUR FAMILY IN THE CASE OF UNFORESEEN CIRCUMSTANCES, PLEASE CONTACT US TO DISCUSS YOUR PARTICULAR SITUATION.

Taxing times

Using your pension top-ups to mitigate the effects of CGT

Following the emergency Budget, the Chancellor, George Osborne, has confirmed that the 28 per cent capital gains tax (CGT) rate introduced for higher-rate taxpayers would remain in place for at least the length of this parliament.

From a financial planning perspective we now have some certainty about the rules, which enables us to make positive decisions for our clients about how best to reduce the impact of CGT until at least May 2015. This also gives you more stability and certainty when it comes to your tax and investment planning.

The threshold for gains before CGT becomes payable is £10,100 (2010/11) for all. Most basic-rate taxpayers could face 18 per cent tax on gains above this, while higher-rate taxpayers may be subject to a 28 per cent CGT rate.

A pension can be used as a highly effective tax shield, so the higher the rate of CGT, the more incentive there is to place funds under the protection of a pension. If you are now facing a 28 per cent CGT rate, we would like to have the opportunity to discuss the options available to you. Even as a basic-rate taxpayer you may for the first time find that your gains, when added to your income, push you into paying the higher-rate of CGT.

Selling an asset with gains over the CGT threshold would generate sale proceeds that could be used to fund a pension contribution that would attract tax relief of 20 per cent plus a further 20 per cent for higher-

rate taxpayers to claim back through self-assessment. The tax relief could enable you to reduce the effect of any CGT that is paid and contribute to recovering any investment losses from falling markets.

It may be important that you maintain exactly the same portfolio

it is not a contribution. But it could be a useful way of releasing cash held by the SIPP back to you while sheltering the assets from any future CGT liability.

If you're a high earner there may be other advantages to using pension arrangements. An example

‘A pension can be used as a highly effective tax shield, so the higher the rate of CGT, the more incentive there is to place funds under the protection of a pension.’

of assets and the same investment strategy. This is possible through an *in specie* (the distribution of an asset in its present form, rather than selling it and distributing the cash) contribution of assets (or part of the asset, such as a property) which is viewed as a disposal for CGT purposes but also attracts tax relief.

Some Self-Invested Personal Pension (SIPP) providers may not allow *in specie* contributions in this way but those with experience can manage the process to ensure investors work within the overall contribution limits to maximise the benefits.

An alternative option if you're a higher earner could be to sell your portfolio into the SIPP. In this instance, CGT would be payable on the sale and there is no tax relief as

of this is if you find dividend income or rent from property push your earnings over £100,000 so that your tax-free personal allowance is reduced. In this instance, shifting the assets into a pension would protect against both an effective rate of income tax of up to 60 per cent and CGT going forward. ■

THE PROPOSED CHANGES PROVIDE YOU WITH AN OPPORTUNITY TO SAVE MORE FOR YOUR RETIREMENT. WE CAN WORK WITH YOU TO DEVELOP STRATEGIES TO ACCUMULATE WEALTH IN ORDER FOR YOU TO ENJOY YOUR RETIREMENT YEARS. PLEASE CONTACT US FOR MORE INFORMATION.



What are the new CGT rules?

Your questions answered

Q: Exactly what are the new CGT rules?

A: The capital gains tax (CGT) rate for individuals with income and chargeable gains – after allowable losses, reliefs, personal allowances and annual exemptions – below the upper limit of the income tax basic-rate band of £37,400 remains at the Pre-Budget rate of 18 per cent. The new 28 per cent CGT rate applies to chargeable gains above this limit.

The rate of CGT for capital gains which qualify for Entrepreneurs' Relief is 10 per cent and the lifetime limit is £5m. All taxpayers benefit from the CGT annual exempt amount of £10,100 for 2010/11.

Q: How do I know if I am a 'basic-rate' taxpayer?

A: Taxpayers who have total taxable income and chargeable gains, after taking into account any allowable losses, reliefs, personal allowances and annual exemptions, of up to £37,400 are subject to CGT on their chargeable gains at the rate of 18 per cent. The interaction of reliefs and losses may in some cases mean that it can be difficult to establish at the time of a chargeable disposal if gains will be subject to CGT at 18 per cent or 28 per cent.

Q: What is Entrepreneurs' Relief?

A: Entrepreneurs' Relief was introduced in April 2008 and enables qualifying gains to benefit from a reduced rate of CGT of 10 per cent. Each taxpayer has a lifetime limit on gains that can qualify for Entrepreneurs' Relief and, with effect from 23 June 2010, this limit was increased to £5m.

In order to be a qualifying disposal for the purposes of Entrepreneurs' Relief, assets must have been held for at least 12 months and involve the sale of all or part of a trading business or the sale of shares representing more than 5 per cent of the company's market capitalisation.

Q: Should I time when I dispose of assets to reduce CGT on the gain?

A: Some people paying higher-rate tax may be able to fluctuate their income in one tax year to bring it and the gain they want to realise below the threshold for higher-rate tax. This could be a good solution if you're drawing your pensions,

or for self-employed people who have more control over their incomes.

Q: Can I give assets to my wife to take advantage of a lower tax threshold?

A: Assets can be transferred to a spouse or civil partner or held in joint names to minimise CGT liabilities. Holding an asset in joint names means the annual exempt amount (currently £10,100) of each individual is deducted from the gain before tax is due.

Also, it may be appropriate to transfer full ownership to a spouse or civil partner where their income places them in the lower-rate tax band, thus leading to a lower CGT liability after allowances have been taken into account.

Q: How can I increase the value of the lower CGT band?

A: Because pension contributions are deducted from your income before tax is assessed, making additional contributions into pensions can extend the limits of the lower tax rate band. Then, any gains realised from other assets are taxed in accordance with this extended band after allowances have been taken into account.

Q: What about CGT-exempt assets?

A: Many assets can grow in value free of CGT. For example, any asset held in an Individual Savings Account (ISA) is CGT-free.

WITH THE GOVERNMENT'S ANNOUNCEMENT TO ALIGN CGT RATES FOR NON-BUSINESS ASSETS WITH INCOME TAX RATES FOR HIGHER-RATE TAXPAYERS, YOU MAY HAVE A NUMBER OF CONCERNS IF YOU HOLD CAPITAL-APPRECIATING ASSETS. TO DISCUSS YOUR INDIVIDUAL REQUIREMENTS, PLEASE CONTACT US FOR FURTHER INFORMATION.

Thresholds, percentage rates and tax legislation may change in subsequent finance acts. Levels and bases of and reliefs from taxation are subject to change and their value depends on the individual circumstances of the investor.

The value of your investment can go down as well as up and you may not get back the full amount invested.

Defending your wealth

Planning ahead is the key

An increasing number of people are becoming liable to inheritance tax (IHT) because of the increase in property prices from the early 1980s to 2007. IHT applies to your entire worldwide estate (including property) and is charged at 40 per cent. But

Making a will and being sure people know where to find it is the first step to ensuring that your estate is shared out exactly as you want it to be when you die.

you also need to add in the value of savings, investments and chattels (such as antiques, jewellery and paintings) to estimate the entire value of your estate.

Planning ahead for when you die allows you to set out clearly who should get what from your estate. It also means you can maximise IHT reliefs and exemptions if your estate might be worth more than the IHT threshold when you die (£325,000 in 2010/11).

Making a will and being sure people know where to find it is the first step to ensuring that your estate is shared out exactly as you want it to be when you die.

If you don't leave a will, your estate will be shared out among your next of kin according to a strict order of priority called the 'rules of intestacy'. This means that people you want to benefit from your estate, such as a partner you're not married to or in a registered civil partnership with, might get nothing. The rules are different in Scotland.

Gifts are treated in a number of ways for IHT purposes. However, you only need to worry about making gifts if you think your estate, including the value of any gifts you make, might exceed the IHT threshold when you die. If your estate is over the threshold, any gifts you make more than seven years before you die will be exempt from IHT.

There can be tax implications if you give your home away to your children or someone else, especially while you're still alive. If you give your home away and continue to live in it, your estate or the

person you gave your home to might still have to pay IHT on the property when you die, as well as other taxes.

You can also use a trust to pass assets on to others, for example to those who aren't immediately able to look after their own affairs, such as your children. Gifts into a trust may still be subject to IHT if your estate, including the amount being transferred, is over the IHT £325,000 threshold. ■

OUR EXPERTISE CAN HELP YOU FIND THE RIGHT WEALTH STRUCTURE OR COMBINATION OF STRUCTURES FOR YOU. WE'RE ABLE TO OFFER MANY DIFFERENT WEALTH-STRUCTURING SOLUTIONS SUITED TO YOU AND YOUR FAMILY'S NEEDS. IF YOU WOULD LIKE TO REVIEW YOUR CURRENT REQUIREMENTS, PLEASE CALL US FOR FURTHER INFORMATION.

“ Planning ahead for when you die allows you to set out clearly who should get what from your estate. It also means you can maximise IHT reliefs and exemptions if your estate might be worth more than the IHT threshold when you die (£325,000 in 2010/11). ”

Isn't it time you had a financial review?

We'll make sure you get the right advice for your individual needs.

We provide professional financial advice covering most areas of financial planning, including, tax-efficient savings, investment advice, retirement planning, estate & inheritance tax planning, life protection, critical illness cover and income protection.

To discuss your options, please contact us.

Estate preservation

Finding the right wealth structures to protect your assets

One of the great things about wealth is knowing that it can be passed on to others. Your wealth might encompass businesses, property and investments in the UK and abroad that require specialist considerations. We work closely with our clients in order to plan to minimise Inheritance Tax liabilities, which is often linked to the making of wills and setting up trusts.

There are a number of different wealth structures that could help reduce your family's Inheritance Tax bill but unless you plan carefully, all your assets or your beneficiaries, could eventually become liable to Inheritance Tax. Once only the domain of the very wealthy, the wide-scale increase in home ownership and rising property values over the past decade have pushed many estates over the Inheritance Tax threshold. However, in recent years we have also seen property price reductions.

Inheritance Tax applies to your entire worldwide estate, including your property, savings, car, furniture and personal effects. You also need to consider your investments, pensions and life insurance policies and ensure that life policies are held in an appropriate trust.

Since October 2007, married couples and registered civil partners can now effectively increase the threshold on their estate when the second partner dies to as much as £650,000 in 2010/11.

Inheritance Tax is the tax that is paid on your 'estate', chargeable at a current 2010/11 rate of 40 per cent. Broadly speaking, this is a tax on everything you own at the time of your death, less what you owe. It's also sometimes payable on assets you may have given away during your lifetime. Assets include property, possessions, money and investments. One thing is certain, careful planning is required to protect your wealth from a potential Inheritance Tax liability.

Not everyone pays Inheritance Tax on their death. It only applies if the taxable

value of your estate (including your share of any jointly owned assets and assets held in some types of trusts) when you die is above the £325,000 nil rate band or threshold (2010/11). It is only payable on the excess above this amount.

Passing on amounts without any Inheritance Tax

There are also a number of exemptions which allow you to pass on amounts (during your lifetime or in your will) without any Inheritance Tax being due, for example:

- if your estate passes to your husband, wife or civil partner and you are both domiciled in the UK there is no Inheritance Tax to pay, even if the estate is above the £325,000 nil rate band
- most gifts made more than seven years before your death are exempt
- certain other gifts, such as wedding gifts and gifts in anticipation of a civil partnership up to £5,000 (depending on the relationship between the giver and the recipient), gifts to charity and £3,000 given away each year are also exempt

Transfers of assets into most trusts and companies will become subject to an immediate Inheritance Tax charge if they exceed the Inheritance Tax nil rate band (taking into account the previous seven years' chargeable gifts and transfers).

In addition, transfers of money or property into most trusts are also subject to an immediate Inheritance Tax charge on values that exceed the Inheritance Tax nil rate band. Tax is also payable ten-yearly on the value of trust assets above the nil rate band; however certain trusts are exempt from these rules.

Gifts and transfers made in the previous seven years

In order to work out whether the current Inheritance Tax nil rate band of £325,000 has been exceeded on a transfer, you need to take into account all 'chargeable' (non-exempt, including potentially exempt) gifts

and transfers made in the previous seven years. If a transfer takes you over the nil rate band, Inheritance Tax is payable at 20 per cent on the excess.

Where the transfer was made after 5 April and before 1 October in any year, the tax is payable on 30 April in the following year. Where the transfer was made after 30 September and before 6 April in any year, it is payable six months after the end of the month in which the transfer was made.

Rule changes regarding trusts

On 22 March 2006, the government changed some of the rules regarding trusts and introduced some transitional rules for trusts set up before this date. Trusts not affected by the new rules (and so where no Inheritance Tax is immediately payable on any transfers, but with regard to transfers made during someone's lifetime may be payable if the individual dies within seven years) are:

- lifetime transfers into a trust for a disabled person
- trusts created on death for a disabled person
- trusts created on death for a minor child of the deceased in which the child will become fully entitled to the assets at age 18
- trusts set up under a will for someone who is not a disabled person or minor child of the deceased who becomes entitled to their benefit on the death of the person who wrote the will

Existing accumulation and maintenance trusts had until 6 April 2008 to change (where appropriate) the trust's rules to enable them to fall outside the new rules.

Interest in possession (IIP) trusts that existed before 22 March 2006, or which replaced a pre-March 2006 IIP up to 5 October 2008, continue to benefit from the old rules until they come to an end. All other

newly created IIP trusts will come under the new rules.

Recalculating Inheritance Tax

If you die within seven years of making a transfer into a trust on which you have already paid 20 per cent Inheritance Tax, the tax due is recalculated using the Inheritance Tax rate applicable on death (currently 40 per cent). Tax will be payable by your estate to HM Revenue & Customs on the difference.

If you made a transfer on which no Inheritance Tax was due at the time, its value is added to your estate when working out any Inheritance Tax that might be due.

Trusts that count as 'relevant property trusts' must also pay:

- a 'periodic' tax charge of up to 6 per cent on the value of trust assets over the Inheritance Tax nil rate band once every ten years
- an 'exit' charge proportionate to the periodic charge when funds valued above the Inheritance Tax nil rate band are taken out of a trust between ten year anniversaries

These rules don't apply to trusts which are exempt from the new rules.

Planning ahead for when you die allows you to set out clearly who should get what from your estate. In order to protect your family and loved ones, it is essential to have the correct wealth structures in place after you're gone. This is a complex area of financial planning, so to prevent unnecessary future Inheritance Tax payments you should always obtain professional financial advice based on your individual circumstances and needs. ■

TO DISCUSS THE OPTIONS AVAILABLE TO YOU, PLEASE CONTACT US FOR FURTHER INFORMATION.

“One of the great things about wealth is knowing that it can be passed on to others. Your wealth might encompass businesses, property and investments in the UK and abroad that require specialist considerations. We work closely with our clients in order to plan to minimise Inheritance Tax liabilities, which is often linked to the making of wills and setting up trusts.”



Self-Invested Personal Pensions

Taking control over your own pension fund

Self-Invested Personal Pensions' (SIPP) have been around since 1989, but after the introduction of Pension Simplification legislation on 6 April 2006, SIPPs have become more accessible.

If you would like to have more control over your own pension fund and be able to make investment decisions yourself with the option of our professional help, a SIPP could be the retirement planning solution to discuss with us.

What is a SIPP?

A SIPP is a personal pension wrapper that offers individuals more freedom of choice than conventional personal pensions. They allow investors to choose their own investments or appoint an investment manager to look after the portfolio on their behalf.

Individuals have to appoint a trustee to oversee the operation of the SIPP, but having done that the individual can effectively run the pension fund on his or her own.

A fully fledged SIPP can accommodate a wide range of investments under its umbrella, including shares, bonds, cash, commercial property, hedge funds and private equity.

How much can I contribute to a SIPP?

Many SIPP providers will now permit you to set up a lump sum transfer contribution from another pension for as little as £5,000, and while most traditional pensions limit investment choice to a short list of funds, normally run by the pension company's own fund managers, a SIPP enables you to follow a more diverse investment approach.

Most people under 75 are eligible to contribute as much as they earn to pensions including a SIPP (effectively capped at £255,000 each tax year). For instance if you earn £50,000 a year you can contribute up to £50,000 gross (£40,000 net) into all your pension plans

combined in the 2010/11 tax year.

If your total annual income has reached £130,000 since April 2008, you may experience further restrictions on the amount you can contribute and obtain higher or additional rate tax relief.

The earnings on which you can base your contribution are known as Relevant UK Earnings. If you are employed this would generally be your salary plus any taxable benefits. If you are self employed, this would normally be the profit you make (after any adjustments) for UK tax purposes.

Even if you have no Relevant UK Earnings, you can still contribute up to £3,600 each year to pensions. Of this the government will pay £720 in tax relief reducing the amount you pay to just £2,880.

Can I transfer my existing pension to a SIPP?

Before transferring to a SIPP it is important to check whether the benefits, such as your tax-free cash entitlement, are comparable with those offered by your existing pension. Make sure, too, that you are aware of any penalties you could be charged or any bonuses or guarantees you may lose.

If you have had an annual income of £130,000 or more since April 2007 and make regular contributions to a pension, changes announced in the 2009 Budget could affect you. Switching regular contributions to a new pension may mean future regular contributions are subject to a £20,000 limit.

A SIPP will typically accept most types of pension, including:

- Stakeholder Pension Plans
- Personal Pension Plans
- Retirement Annuity Contracts
- Other SIPPs
- Executive Pension Plans (EPPs)

- Free-Standing Additional Voluntary Contribution Plans (FSAVCs)
- Most Paid-Up Occupational Money Purchase Plans

Where can I invest my SIPP money?

You can typically choose from thousands of funds run by top managers as well as pick individual shares, bonds, gilts, unit trusts, investment trusts, exchange traded funds, cash and commercial property (but not private property). Also, you have more control over moving your money to another investment institution, rather than being tied if a fund under-performs.

With a SIPP you are free to invest in:

- Cash and Deposit accounts (in any currency providing they are with a UK deposit taker)
- Insurances company funds
- UK Gilts
- UK Shares (including shares listed on the Alternative Investment Market)
- US and European Shares (stocks and shares quoted on a Recognised Stock Exchange)
- Unquoted shares
- Bonds
- Permanent Interest Bearing Shares
- Commercial property
- Ground rents in respect of commercial property
- Unit trusts
- Open ended investment companies (OEIC)
- Investment trusts
- Traded endowment policies
- Warrants
- Futures and Options

Once invested in your pension the funds grow free of UK capital gains tax and income tax (tax deducted from dividends cannot be reclaimed).



Why would I use my SIPP to invest in commercial property?

Investing in commercial property may be a particularly useful facility for owners of small businesses, who can buy premises through their pension funds. There are tax advantages, including no capital gains tax to pay, in using the fund to buy commercial property.

If you own a business and decide to use the property assets as part of your retirement planning, you would pay rent directly into your own pension fund rather than to a third party, usually an insurance company.

Ordinarily, a business property will, assuming that its value increases, generate a tax liability for the shareholders or partners. Unless, that is, you sell the property to your SIPP. Then the business can pay rent to your pension fund, on which it pays no tax, and any future gain on the property will also be tax-free when it is sold.

What are the tax benefits of a SIPP?

There are significant tax benefits. The government contributes 20 per cent of every gross contribution you pay - meaning a £1,000 investment in your SIPP costs you just £800. If you're a higher or additional rate taxpayer, the tax benefits could be even greater. In the above example, higher rate

(40 per cent) taxpayers could claim back as much as a further £200 via their tax return. Additional rate (50 per cent) taxpayers could claim back as much as a further £300.

When can I withdraw funds from my SIPP?

You can withdraw the funds from your SIPP, between the ages of 55 and 75 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.

If you die before you begin taking the benefits from your pension the funds will normally be passed to your spouse or other elected beneficiary free of Inheritance Tax. Other tax charges may apply depending on the circumstances.

What else do I need to know?

You cannot draw on a SIPP pension before age 55 and you'll need to be mindful of the fact that you'll need to spend time managing your investments. Where investment is made in commercial property, you may also have periods without rental income, and in some cases, the pension fund may need to sell on the property when the market is not at its strongest. Because there may be many transactions moving investments around, the administrative costs are higher than those of a normal pension fund.

“ A SIPP is a personal pension wrapper that offers individuals more freedom of choice than conventional personal pensions. They allow investors to choose their own investments or appoint an investment manager to look after the portfolio on their behalf. ”

SIPPS ARE NO LONGER THE ELITE PRODUCT THEY WERE WHEN THEY WERE FIRST LAUNCHED. IF YOU WOULD LIKE TO DISCUSS YOUR RETIREMENT PLANNING OPTIONS, PLEASE CONTACT US FOR FURTHER INFORMATION.



Business protection

Providing a valuable cash injection to your business

Many businesses recognise the need to insure their company property, equipment and fixed assets. However, they continually overlook their most important assets – the people who drive the business.

Many fail to realise the impact on the financial security of a business that could result from the death or diagnosis of a critical illness of a key employee, director or shareholder.

Keyman insurance is designed to compensate a business for the financial loss brought about by the death or critical illness of a key employee, such as a company director. It can provide a valuable cash injection to the business to aid a potential loss of turnover and to provide funds to replace the key person.

Share or partnership protection provides an agreement between shareholding directors or partners in a business, supported by life assurance. It is designed to ensure that the control of the business is retained by the remaining partners or directors, but the value of the deceased's interest in the business is passed to their chosen beneficiaries in the most tax-efficient manner possible.

The above are essential areas for partnerships or directors of private limited

companies to explore. We can help you to determine the level of cover you may need, any necessary trust arrangements that could be required and provide agreements for you to use.

If a shareholding director or partner were to die, the implications for your business could be very serious indeed. Not only would you lose their experience and expertise, but consider too what might happen to their shares.

The shares might pass to someone who has no knowledge or interest in your business. Or you may discover that you can't afford to buy the shareholding. It's even possible that the person to whom the shares are passed then becomes a majority shareholder and so is in a position to sell the company.

A written legal agreement should be in place which would give the other directors or partners the right to buy the shares and gives the person to whom the shares have been passed the right to sell those shares to the remaining directors or partners.

To protect against these eventualities, each director or partner should take out a life insurance policy to cover a specified amount.

“ Many fail to realise the impact on the financial security of a business that could result from the death or diagnosis of a critical illness of a key employee, director or shareholder. ”

TO DISCUSS YOUR PARTICULAR SITUATION, PLEASE CONTACT US FOR FURTHER INFORMATION.

Unit trusts

Pooling your money with others reduces risk

Unit trusts are collective investments that allow you to participate in a wider range of investments than can normally be achieved on your own with smaller sums of money. Pooling your money with others also reduces the risk.

The unit trust fund is divided into units, each of which represents a tiny share of the overall portfolio. Each day the portfolio is valued, which determines the value of the units. When the portfolio value rises, the price of the units increases. When the portfolio value goes down, the price of the units falls.

You can choose whether you reinvest your income for growth, receive an income from your investment or have a mix of both. Typically, income is paid to you six-monthly, quarterly or monthly, depending on which fund you invest in. If you choose funds that reinvest for growth you won't receive an income, because the fund manager reinvests this income in the investment fund for growth.

The unit trust is run by a fund manager, or a team of managers, who will make the investment decisions. They invest in stock markets all around the world and for the more adventurous investor, there are funds investing in individual emerging markets, such as South Korea, or in the so-called BRIC economies (Brazil, Russia, India and China).

Alternatively, some funds invest in metals and natural resources, as well as many putting their money into bonds (gilts). Some offer a blend of equities, bonds, property

and cash and are known as balanced funds. If you wish to marry your profits with your principles, you can also invest in an ethical fund.

Some funds invest not in shares directly but in a number of other funds. These are known as multi-manager funds. Most fund managers use their own judgment to assemble a portfolio of shares for their funds. These are known as actively managed funds.

However, a sizeable minority of funds simply aim to replicate a particular index, such as the FTSE All-Share index. These are known as passive funds, or trackers.

Typically, you'll be able to invest in one or more of a range of assets such as:

Cash – The least risky of the four asset classes but the risk is often accompanied by modest returns on investment.

Shares/Equities – Shares are issued by a company normally listed on a stock exchange. Individuals who buy shares hold a share in that company and are entitled to dividend payments and voting rights.

Corporate bonds or fixed interest investments – These are loans to companies. They usually pay an agreed level of interest each year and aim to pay back the capital at the end of a stated period. There are different types of bonds determined by a credit rating system. A 'risky' or 'sub-investment grade' bond has a lower rating than an 'investment grade' bond. The lower the rating, the riskier the bond.

Property – These funds invest in

“ Unit trusts are collective investments that allow you to participate in a wider range of investments than can normally be achieved on your own with smaller sums of money. Pooling your money with others also reduces the risk. ”

commercial property, such as shops, office blocks, retail parks and warehouses.

YOU MAY CHOOSE TO SPREAD YOUR INVESTMENTS ACROSS A RANGE OF UNIT TRUSTS AND HAVE A CHOICE OF INCOME AND/OR GROWTH. TO DISCUSS YOUR REQUIREMENTS, PLEASE CONTACT US.

The value of investments and the income from them can go down as well as up and you may not get back your original investment. Past performance is not an indication of future performance. Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances. Thresholds, percentage rates and tax legislation may change in subsequent finance acts.



Financial protection

Making the right decision to protect your financial situation

With so many different protection options available, making the right decision to protect your personal and financial situation can seem overwhelming. There is a plethora of protection solutions which could help ensure that a lump sum, or a replacement income, becomes available to you in the event that it is needed. We can make sure that you are able to take the right decisions to deliver peace of mind for you and your family in the event of death, if you are too ill to work or if you are diagnosed with a critical illness.

You can choose protection-only insurance, which is called 'term insurance'. In its simplest form, it pays out a specified amount if you die within a selected period of years. If you survive, it pays out nothing. It is one of the cheapest ways overall of buying the cover you may need.

Alternatively, a whole-of-life policy provides cover for as long as you live.

Life Assurance Options

Whole-of-life assurance plans can be used to ensure that a guaranteed lump sum is paid to your estate in the event of your premature death. To avoid Inheritance Tax and probate delays, policies should be set up under an appropriate trust.

Level term plans provide a lump sum for your beneficiaries in the event of your death over a specified term.

Family income benefit plans give a replacement income for beneficiaries on your premature death.

Decreasing term protection plans pay out a lump sum in the event of your death to cover a reducing liability for a fixed period, such as a repayment mortgage.

Simply having life assurance may not be sufficient. For instance, if you contracted a

near-fatal disease or illness, how would you cope financially? You may not be able to work and so lose your income, but you are still alive so your life assurance does not pay out. And to compound the problem, you may also require additional expensive nursing care, have to adapt your home or even move to another more suitable property.

Income Protection Insurance (IPI) formerly known as permanent health insurance would make up a percentage of your lost income caused by an illness, accident or disability. Rates vary according to the dangers associated with your occupation, age, state of health and gender but IPI is particularly important if you are self employed or if you do not have an employer that would continue to pay your salary if you were unable to work.

If you are diagnosed with suffering from one of a number of specified 'critical' illnesses, a critical illness insurance policy would pay out a tax-free lump sum if the event occurred during the term of your policy. Many life insurance companies offer policies that cover you for both death and critical illness and will pay out the guaranteed benefit on the first event to occur.

Accident Sickness and Unemployment (ASU) can be taken out for any purpose to protect your income and to give you peace of mind. The benefits only pay for 12 to 24 months on a valid claim if you have an accident, become ill or unemployed. Most of these protection policies operate a 'deferred period', which is the period from when a claimable event happens to when the policy starts paying out.

Private medical insurance covers you for private medical treatment and you can choose to add on extra cover, such as

dental cover. You may select the hospitals where you would want to be treated close to home. As always, the more benefits and the more comprehensive the policy you select, the more it will cost.

Beyond taking the obvious step of ensuring that you have adequate insurance cover, you should also ensure that you have made a will. A living will makes clear your wishes in the event that, for example, you are pronounced clinically dead following an accident, and executes an enduring power of attorney, so that if you become incapable of managing your affairs as a result of an accident or illness, you can be reassured that responsibility will pass to someone you have chosen and trust.

“ Whole-of-life assurance plans can be used to ensure that a guaranteed lump sum is paid to your estate in the event of your premature death. To avoid Inheritance Tax and probate delays, policies should be set up under an appropriate trust. ”

OF COURSE, ALL THESE PROTECTION OPTIONS ALSO APPLY TO YOUR SPOUSE AND TO THOSE WHO ARE IN CIVIL PARTNERSHIPS. TO DISCUSS YOUR PARTICULAR SITUATION, PLEASE CONTACT US FOR FURTHER INFORMATION.

Funding your retirement

Shopping around for the annuity that best suits your needs

In June 2010 the government announced a review of the requirement to take your income by age 75. This is subject to consultation and new rules are likely to take effect in April 2011. If you reach 75 before April 2011 there are interim measures in place.

An annuity is a regular income paid in exchange for a lump sum, usually the result of years of investing in an approved, tax-efficient pension scheme. Currently you can choose when to start taking an income from your pension at anytime between the ages of 55 and 75. When you do this, up to 25 per cent of your pension can normally be taken as a tax-free lump sum. The remainder of your pension fund can then be converted into an annuity.

There are 2 different options to choose from:

Single Life

The income will be paid throughout your life only. When you die the income will cease.

If you're in a relationship where you're financially dependent on each other, you should consider choosing a joint life annuity which continues to pay an income to your spouse or partner, in the event that you die first.

Joint Life

You can choose up to 100 per cent of the income to continue being paid to your surviving partner after your death. If you have protected rights (from contracting out of SERPS or the State Second Pension) and are married, separated or in a civil partnership, a 50 per cent spouse's income for your protected rights must be chosen.

How do I receive an income?

The vast majority of annuities are conventional and pay a risk-free income that is guaranteed for life. The amount you receive will depend on your age, whether you are male or female, the size of your pension fund and, in some circumstances, the state of your health.

Your pension company may want you to choose its own annuity offering, but the law says you don't have to. Everyone has the right to use the 'open market option', to shop around and choose the annuity that best suits their needs. There can often be a

significant difference between the highest and lowest annuity rates available.

Some insurance companies will pay a higher income if you have certain medical conditions. These specialist insurers use this to your advantage and will pay you a higher income because they calculate that, on average, your income should be paid out for a shorter period of time.

Some older pension policies have special guarantees that mean they may pay a much higher rate than is usual. Guaranteed Annuity Rates (GARs) could result in an income twice or even three times as high as policies without a GAR.

A conventional annuity is a contract whereby the insurance company agrees to pay you a guaranteed income either for a specific period or for the rest of your life in return for a capital sum. The capital is non-returnable and hence the income paid is relatively high.

Income paid is based on your age, i.e. the mortality factor and interest rates on long-term gilts and income is paid annually, half yearly, quarterly or monthly.

Payments from pension annuities are taxed as income. Purchased life annuities have a capital and interest element, the capital element is tax-free, the interest element is taxable.

What are the different types of annuity?

The different types of annuity include:

Immediate annuity

The purchase price is paid to the insurance company and the income starts immediately and is paid for the lifetime of the annuitant.

Guaranteed annuity

Income is paid for the annuitant's life, but in the event of early death within a guaranteed period, say five or 10 years, the income is paid for the balance of the guaranteed period to the beneficiaries.

Compulsory purchase

Also known as open market option annuities, these are bought with the proceeds of pension funds. A fund from an occupational scheme or buy-out (S32) policy will buy a

compulsory purchase annuity. A fund from a retirement annuity or personal pension will buy an open market option annuity, an opportunity to move the fund to a provider offering higher annuity rates.

Deferred annuities

A single payment or regular payments are made to an insurance company, but payment of the income does not start for some months or years.

Temporary annuity

A lump sum payment is made to the insurance company, and income starts immediately, but it is only for a limited period, say five years. Payments finish at the end of the fixed period or on earlier death.

Level annuity

The income is level at all times and does not keep pace with inflation.

Increasing or escalating annuity

The annuitant selects a rate of increase and the income will rise each year by the chosen percentage.

Some life offices now offer an annuity where the performance is linked to some extent to either a unit linked or with profits fund to give exposure to equities and hopefully increase returns.

THERE ARE TWO VERY IMPORTANT POINTS TO CONSIDER WHEN SETTING UP AN ANNUITY. YOU RARELY HAVE TO STAY WITH YOUR EXISTING PENSION PROVIDER WHEN YOU RETIRE AND OFTEN THEY WILL NOT OFFER YOU THE BEST ANNUITY INCOME. ALSO, DIFFERENT ANNUITY PROVIDERS OFFER DIFFERENT ANNUITY RATES. THE DIFFERENCE BETWEEN THE BEST AND WORST ANNUITY INCOMES CAN BE SIGNIFICANT. TO DISCUSS YOUR PARTICULAR SITUATION, PLEASE CONTACT US FOR FURTHER INFORMATION.



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Open-ended investment funds

Collective investment schemes run by fund management companies

Open-ended investment funds are often called collective investment schemes and are run by fund management companies. There are many different types of fund. These include:

- Unit trusts
- OEICs (Open-Ended Investment Companies, which are the same as ICVCs – Investment Companies with Variable Capital)
- SICAV (Société d'investissement à capital variable)
- FCPs (Fonds communs de placement)

This list includes certain European funds, which are permitted under European legislation to be sold in the UK.

There are many funds to choose from and some are valued at many millions of pounds. They are called open-ended funds as the number of units (shares) in issue increases as more people invest and decreases as people take their money out.

As an investor, you buy units/shares in the hope that the value rises over time as the prices of the underlying investments increase. The price of the units depends on how the underlying investments perform.

You might also get income from your units through dividends paid by the shares (or income from the bonds, property or cash) that the fund has invested in. You can either invest a lump sum or save regularly each month.

Open-ended investment funds generally invest in one or more of the four asset classes – shares, bonds, property and cash. Most

invest primarily in shares but a wide range also invest in bonds. Few invest principally in property or cash deposits. Some funds will spread the investment and have, for example, some holdings in shares and some in bonds. This can be useful if you are only taking out one investment and remembering that asset allocation is the key to successful investment you want to spread your investment across different asset classes.

The level of risk will depend on the underlying investments and how well diversified the open-ended investment fund is. Some funds might also invest in derivatives, which may make a fund more risky. However, fund managers often buy derivatives to help offset the risk involved in owning assets or in holding assets valued in other currencies.

Any money in an open-ended investment fund is protected by a trustee or depository who ensures the management company is acting in the investors' best interests at all times.

For income, there is a difference in the tax position between funds investing in shares and those investing in bonds, property and cash. Whichever type of open-ended investment fund you have, you can reinvest the income to provide additional capital growth, but the taxation implications are as if you had received the dividend income.

No capital gains tax (CGT) is paid on the gains made on investments held within the fund. But, when you sell, you may have to pay capital gains tax.

“As an investor, you buy units/shares in the hope that the value rises over time as the prices of the underlying investments increase. The price of the units depends on how the underlying investments perform.”

BUILDING AN EFFECTIVE PORTFOLIO INVOLVES RECEIVING PROFESSIONAL ADVICE TO ENSURE THAT YOUR PORTFOLIO SUITS YOUR ATTITUDE TO RISK AND RETURN. TO DISCUSS YOUR REQUIREMENTS, PLEASE CONTACT US.

Investing for income and growth in the same umbrella fund

A more flexible alternative to established unit trusts

Open-Ended Investment Companies (OEICs) are stock market-quoted collective investment schemes. Like investment trusts and unit trusts they invest in a variety of assets to generate a return for investors. They share certain similarities with both investment trusts and unit trusts but there are also key differences.

OEICs are a pooled collective investment vehicle in company form and were introduced as a more flexible alternative to established unit trusts. They may also have an umbrella fund structure allowing for many sub-funds with different investment objectives. This means you can invest for income and growth in the same umbrella fund moving your money from one sub fund to another as your investment priorities or circumstances change.

By being “open ended” OEICs can expand and contract in response to demand, just like unit trusts. The share price of an OEIC is the value of all the underlying investments divided by the number of shares in issue. As an open-ended fund the fund gets bigger and more shares are created as more people invest. The fund shrinks and shares are cancelled as people withdraw their money.

You may invest into an OEIC through a stocks and shares Individual Savings Account ISA. Each time you invest in an OEIC fund you will be allocated a number of shares. You can choose either income or accumulation shares, depending on whether you are looking for your investment to grow or to provide you with income, providing they are available for the fund you want to invest in.

Like unit trusts OEICs provide a mechanism of investing in a broad selection of shares thus aiming to reduce the risks of investing in individual shares. Therefore you have an opportunity to share in the growth potential of stock market investment. However do remember that your capital is not secured and your income is not guaranteed.

Each OEIC has its own investment objective and the fund manager has to invest to achieve this objective. The fund manager will invest the money on behalf of the shareholders.

The value of your investment will vary according to the total value of the fund which is determined by the investments the fund manager makes with the funds money. The price of the shares is based on the value of the investments the company has invested in.

“OEICs are a pooled collective investment vehicle in company form and were introduced as a more flexible alternative to established unit trusts.”

WE OFFER EXPERTISE COVERING A RANGE OF DIFFERENT INVESTMENT PRODUCTS. TO DISCUSS YOUR REQUIREMENTS, PLEASE CONTACT US.



Self-Invested Personal Pensions

Investing in commercial property brings investors significant tax benefits

Lower prices and lower borrowing rates have led to an increased interest in putting commercial property into a Self-Invested Personal Pension (SIPP). The general fall in the price of commercial property has made it a more affordable investment and has made it possible for SIPPs to acquire property interests that may have previously been unobtainable.

It is possible for the trustees of a SIPP to borrow money from a commercial lender in order to assist with the purchase of suitable property. HM Revenue & Customs (HMRC) guidelines state that the Trustees can borrow up to 50 per cent of the net asset value of the SIPP, as calculated immediately before the borrowing takes place. This limit includes all existing borrowing.

Investing in property can be particularly beneficial when it is used to buy the business premises of the SIPP plan holder. You can invest in commercial property that you already own or plan to buy. The property becomes an asset of your pension fund, bringing you significant tax benefits:

- **Any growth in the property value is tax-free** - when you come to sell the property, there's no capital gains tax to be paid on any profit
- **Rental income is free of income tax** - there's no income tax payable on any rental income you receive. However, if VAT is included in the rental income this may be payable to HMRC

In addition to these valuable tax benefits, investing your SIPP funds in commercial property has other advantages as well:

- **Protection against market volatility** - the commercial property market is generally considered less risky than investing in company shares, but you should be aware that investing in a single property could increase the investment risk and property can take longer to sell
- **Tax relief for your business** - if you use the premises for your own business, any rent you pay is an allowable business expense
- **Estate planning** - if you should die, the property doesn't usually form part of your estate, so potentially there's no inheritance tax to pay on it

INVESTING IN COMMERCIAL PROPERTY ISN'T FOR EVERYONE. PROPERTY CAN TAKE TIME TO SELL, SO YOU MAY NOT BE ABLE TO ACCESS YOUR MONEY WHEN YOU NEED IT. TAX RULES AND LEGISLATION MAY CHANGE. THE VALUE OF TAX RELIEF MAY CHANGE AND WILL DEPEND ON YOUR FINANCIAL CIRCUMSTANCES. TO DISCUSS YOUR OPTIONS, PLEASE CONTACT US.

The pension and tax rules are subject to change by the government. If the investments perform poorly, the level of income may not be sustainable. The value of your SIPP when you draw benefits cannot be guaranteed as it will depend on investment performance. The value of fund units can go down as well as up and investment growth is not guaranteed. The tax benefits and governing rules of SIPPs may change in the future. The level of pension benefits payable cannot be guaranteed as they will depend on interest rates when you start taking your benefits.

The value of your SIPP may be less than you expected if you stop or reduce contributions, or if you take your pension earlier than you had planned.

