# MERCURY

## WEALTH MANAGEMENT

*Creating, Managing and Protecting your wealth*

MARCH / APRIL 2010

# ISA surgery, use it or lose it

Have you taken advantage of the increased ISA allowance?

# Key tax planning tips

What you can do to reduce tax

# 50 per cent tax rate

Mitigating the impact of the forthcoming rate increase

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Where's your money growing?

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# 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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# Inside this issue

Welcome to the latest issue. With further tax increases on the horizon, there really is no time like the present to consider your tax position carefully and explore what planning can be effectively put in place to help mitigate or defer the upcoming increased income tax liabilities. On page 12, we look at the areas you may like to consider prior to the end of the current fiscal year. Specific matters may be relevant to you or this may be an appropriate moment to review your affairs generally, especially following the announcements in the 2009 Pre-Budget Report.

If you have not already talked to us about using your 2009/10 Individual Savings Account (ISA) allowance, time is running out. Any unused ISA allowance from this current tax year cannot be rolled over to the next tax year and will be lost forever. Find out more on page 10.

Helping you protect your wealth is another important part of what we do, and one thing is certain, you need to plan to protect your wealth from a potential Inheritance Tax (IHT) liability. 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 IHT threshold. Read the full article on page 16.

Also inside this issue, for investors concerned about global warming and other environmental issues, we consider a plethora of ethical investments that cover a multitude of different strategies. In addition, wherever you are with your retirement savings, don't be put off from taking action – it's not too late. There are still steps you can take to boost the income you'll receive when you retire.

**To discuss your financial planning requirements or to obtain further information, please contact us.**

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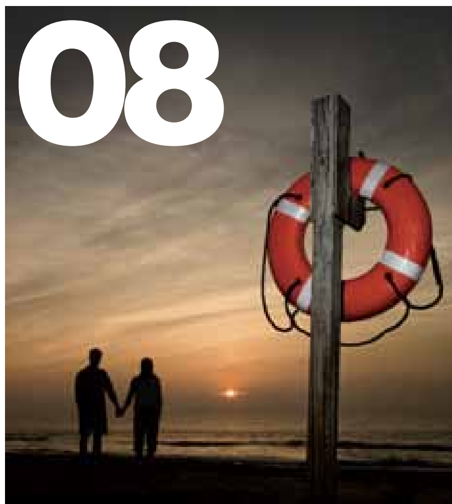

# Ethical investment opportunities

## Where's your money growing?

For investors concerned about global warming and other environmental issues, there is a plethora of ethical investments that cover a multitude of different strategies. The terms 'ethical investment' and 'socially responsible investment (SRI)' are often used interchangeably to mean an approach to selecting investments whereby the usual investment criteria are overlaid with an additional set of ethical or socially responsible criteria.

The Ethical Investment Research Service (EIRIS) defines an ethical fund as 'any fund which decides that shares are acceptable, or not, according to positive or negative ethical criteria (including environmental criteria).'

**“The terms 'ethical investment' and 'socially responsible investment (SRI)' are often used interchangeably to mean an approach to selecting investments whereby the usual investment criteria are overlaid with an additional set of ethical or socially responsible criteria.”**

Funds that use negative screening, known as dark green funds, exclude companies that are involved in activities that the fund manager regards as unethical. Each fund group has a slightly different definition of what is unethical, but this typically includes gambling, tobacco, alcohol and arms manufacture. It could also cover pollution of the environment, bank lending to corrupt regimes and testing of products on animals.

Positive screening funds use positive criteria to select suitable companies. Funds that take this approach look for companies that are doing positive good, such as those engaged in recycling, alternative energy sources or water purification. So an ethical fund of this type might buy shares in a maker of wind turbines or solar panels.

Engagement funds take a stake in companies and then use that stake as a lever to press for changes in the way that the company operates. This could mean persuading oil and mining companies to take greater care over the environmental impact of their operations or pressing companies to offer better treatment of their workers.

In addition, this process may involve making judgements regarding the extent to which such investments are perceived to be acceptable, and about the potential for improving through engagement the ethical performance of the party offering the investment.

Ethical investors will believe that they should not (or need not) sacrifice their life principles in exchange for chasing the best financial returns, with some arguing that in the long term, ethical and SRI funds have good prospects for out-performing the general investment sectors.

Since ethical investment, by definition, reduces the number of shares, securities or funds in which you can invest, it tends to increase the volatility of the portfolio and therefore the risk profile. This can be mitigated by diversifying between funds, and between different styles of funds and fund managers. Like their non-ethical equivalents, some ethical funds are much higher risk than others. ■

**To find out more, or to discuss your ethical options please contact us.**

## Don't be put off from taking action

**Wherever you are with your retirement savings, don't be put off from taking action – it's not too late. There are still steps you can take to boost the income you'll receive when you retire.**

Pensions are a very tax-efficient way to save. If you already have a pension, now would be a good time to talk to us about making a lump sum contribution to boost it, especially as the end of tax year is rapidly approaching, or starting a SIPP to increase your options. You won't have to draw all your pensions at the same time.

If you're employed or self-employed, you can contribute up to 100 per cent of the value of your relevant UK earnings (salary and other earnings), up to a maximum of £245,000 for the 2009/10 tax year rising to £255,000 for the tax year 2010/11. Contributions above this annual limit are allowed but will be taxed. You can contribute into any number of pension schemes (personal and/or company) each year.

You'll receive tax relief on your contributions, so if you are a higher rate tax payer a £20,000 investment would cost just £12,000. Basic rate tax relief is added by the government to all contributions at a rate of 20 per cent. Higher rate tax payers can claim up to a further 20 per cent tax relief via their tax return. If you earn more than £150,000 you will see the tax relief on your pensions cut from April 2011, tapering from 40 to 20 per cent for those earning more than £180,000. Earners below £130,000 will not be affected. For more details see the article on page 6 entitled '50 per cent tax rate…Mitigating the impact of the forthcoming rate rise'.

There's a lifetime limit on the size of your pension pot, which is currently £1.75m in the tax year 2009/10 but rises to £1.8m for the 2010/11 tax year. If your fund exceeds this, you'll incur tax charges of 55 per cent if the excess benefits are taken as a lump sum and 25 per cent if taken as income. The income will then be subject to income tax at your highest rate.

From 6 April 2010, the age at which you can start drawing your pension rises to 55. If you need to, pension benefits can be deferred until you are up to 75 years old. You may still be able to take your pension before age 55 in certain circumstances, for example if you retire through ill-health. ■

*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.*

> **"From 6 April 2010, the age at which you can start drawing your pension rises to 55. If you need to, pension benefits can be deferred until you are up to 75 years old."**

**To discuss structuring your pension requirements in a way that minimises the impact of these changes, please contact us.**

# Shaping your portfolio

## Deciding between growth and income

Several factors will determine the shape of your portfolio. The first of these is your investment objective. This takes into account whether you're investing for income or for growth. If you want to generate income, perhaps to supplement your pension or salary, then you need to consider income-producing investments such as fixed interest or equity income funds. However, if it's growth you're after, then your portfolio could be more biased towards equities. Or, you may achieve growth by opting for an equity income fund and reinvesting the income.

Your attitude to risk is also important. How you decide between growth and income investments depends on your investment time frame and what you need the investment to provide for you. If you need a regular stream of income, you could focus your portfolio on assets that will help you achieve this, such as cash and bonds that will provide a fixed income. If you have a longer investment time period, or you do not need an immediate income, you could think about a larger allocation to growth-focused investments.

Whatever your preference, if you hold a variety of investments, both growth and income, you should be better prepared for whatever economic ups and downs might be ahead of you. As your financial situation changes over time, you should be prepared to make the necessary adjustments to your investment portfolio and switch from growth assets to income as your investment needs change.

### INVESTING FOR INCOME

The most popular forms of income investment are bonds (which are also known as 'fixed income' investments) and cash, both of which pay a regular, consistent rate of interest either annually, twice a year or four times a year. You can also obtain an income from shares in the form of dividends, and many equity funds are set up solely with the aim of generating a stable income.

Income stocks are most usually found in solid industries with established companies that generate good cash flow. They have little need to reinvest their profits to help grow the business or fund research and development of new products, and are therefore able to pay sizeable dividends back to their investors. Examples of traditional income-generating companies historically include utilities such as oil and gas, telephone companies, banks and insurance companies.

### INVESTING FOR GROWTH

An investment grows in value when its price increases and you can sell it for more than you paid for it. The difference between the price you paid and the price you sell for is known as your capital gain.

Growth investments usually suit people who are willing to keep their money tied up for five years or more. The longer you leave your money invested, the greater the likelihood that you'll get a significant capital gain when you decide to sell.

Investors looking to see their assets grow over time should think about investing in the stock market, which is generally considered to be the best home for a long-term investment.

Most growth stocks do not pay a dividend, instead preferring to reinvest the money back into the business to fund expansion or product development. While growth stocks can be volatile in the short-term, they can potentially generate greater returns over the long-term than income-focused investments. Many areas of growth tend to be subject to changes in investor sentiment, the technology sector being a good example of this. ■

To discuss how we could help you with your investment planning requirements, please contact us for further information.

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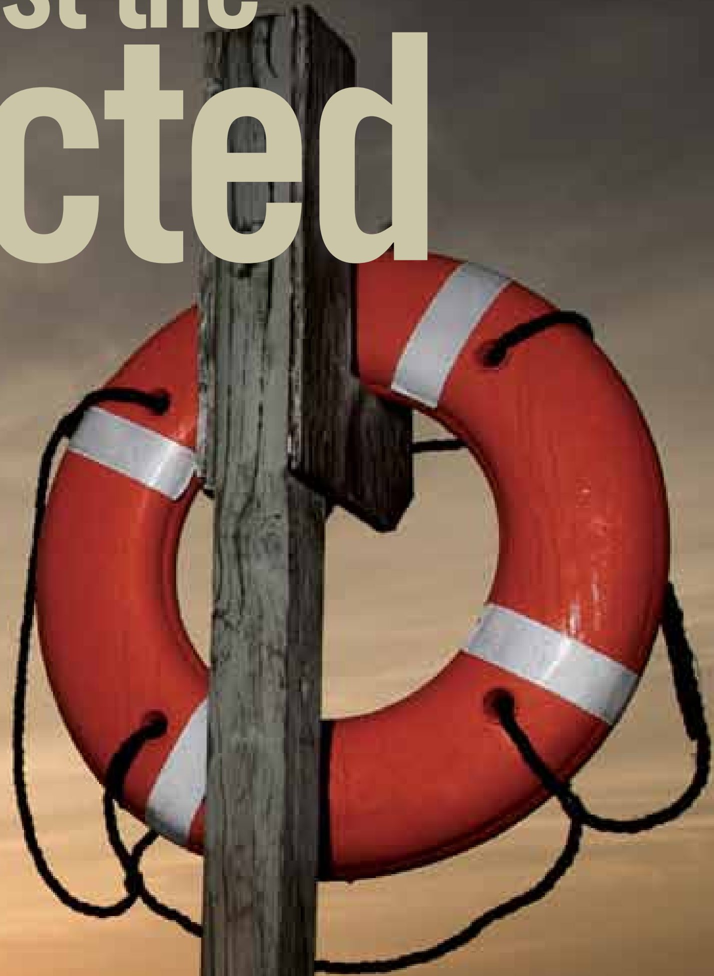
# Protecting against the unexpected



## Putting steps in place to protect your standard of living, and that of your family

Whatever happens in life, we can work with you to make sure that you and your family are provided for. Premature death, injury and serious illness can affect the most health-conscious individuals and even the most diligent workers can be made redundant.

One important part of the wealth management process is to develop a protection strategy designed to remain relevant to your situation. We can help you put steps in place to protect your standard of living, and that of your family, should an unexpected event occur. We achieve this by assessing your existing arrangements and providing you with guidance on how to protect your wealth and family.

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 that could help ensure that a lump sum, or a replacement income, becomes available to you in the event that it is needed. We can help you 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, over a specified period, 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.

## OTHER PROTECTION SOLUTIONS

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) also 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.

Critical illness insurance is a long-term insurance policy designed to pay you a tax-free lump sum on the diagnosis of specified life-threatening or debilitating (but not necessarily fatal) conditions, such as some forms of heart attack, stroke, certain types/stages of cancer, multiple sclerosis and loss of limbs. 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.

The illnesses covered are specified in the policy along with any exclusions and limitations, which may differ between insurers. Critical illness policies usually pay out only 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 specified critical illness, or you die, whichever happens first.

Accident, Sickness and Unemployment (ASU) can be taken out for any purpose to protect your income and 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.

You should receive professional advice on IHT planning as part of writing your will. Simple measures could save your beneficiaries significant amounts in tax.

Of course, all these protection options also apply to your spouse and to those who are in civil partnerships. ■

This article does not constitute advice and you should seek professional advice. We have a range of solutions available that have been designed to help you protect your financial plans. If you would like to discuss how we could help you with your protection requirements, please contact us for further information.

# ISA surgery, use it or lose it

## Have you taken advantage of the increased ISA allowance?

If you have not already talked to us about using your 2009/10 Individual Savings Account (ISA) allowance, time is running out. Any unused ISA allowance from this current tax year cannot be rolled over to the next tax year and will be lost forever.

An ISA is a tax-efficient wrapper in which you can hold investments such as cash, shares and stock market funds to avoid capital gains tax and to reduce income tax.

ISAs can be used to save cash and the interest will be tax-free. If you invest in shares or funds, any capital growth will be tax-free and there is no further tax to pay on any dividends you receive.

### YOUR ISA QUESTIONS ANSWERED

**Q: Since the ISA contribution limit changes, how much can I now invest?**

**A:** If you were born on or before 5 April 1960 (that is, aged 50 or over during the current tax year) you can save up to £10,200. The full £10,200 can be invested in a stocks and shares ISA with one provider or up to £5,100 can be saved in a cash ISA with one provider, with the remainder being saved in a stocks and shares ISA with either the same provider or another.

If you were born after 5 April 1960 you can save up to £7,200. The full £7,200 can be invested in a stocks and shares ISA with one provider or up to £3,600 can be saved in a cash ISA with one provider, with the remainder being saved in a stocks and shares ISA with either the same or another provider. From 6 April this year, the ISA limit will increase to £10,200, up to £5,100 of which can be saved in cash for all ISA investors.

According to the age 50 rule, someone who is currently under age 50 but who will reach age 50 between 6 October 2009 and 5 April 2010 will only be able to pay in more than £7,200 during the 2009/10 tax year (up to a maximum of £10,200) once they have attained their 50th birthday. So, for example, if an investor will not attain age 50 until 1 March 2010, they will not be able to pay in more than £7,200 until 1 March 2010.

**Q: Can I invest the full £10,200 in a cash ISA?**

**A:** No. Although ISA limits have been extended, there are still separate limits for cash ISAs and stocks and shares ISAs. The maximum amount you can save in a cash ISA if you are over 50 is £5,100. If you are under 50 the current limit remains at £3,600. However, from 6 April 2010 this will increase to £5,100 for everyone.

**Q: Can I save in a cash ISA and also invest in a stocks and shares ISA at the same time?**

**A:** The limits may have changed but the principle behind ISAs remains the same. From 5 October last year, if you were saving the maximum amount allowable in a cash ISA, at the same time you could also invest the rest of your allowance in a separate stocks and shares ISA – up to the permitted limits.

So if you are currently aged 50 or over and have saved £5,100 in your cash ISA, you could also invest a further £5,100 in a stocks and shares ISA within this current tax year. If you are under the age of 50 you can save £3,600 in your cash ISA and a further £3,600 in a stocks and share ISA in the current tax year.

**Q: I am not 50 until March this year. When can I take advantage of these increased limits?**

**A:** As long as your 50th birthday falls within this current tax year, that is, before 5 April 2010, you will be able to take advantage of these new allowances that became effective from 6 October last year.

**Q: I am over 50 and have already taken out an ISA this year. Will I be able to increase my ISA?**

**A:** In the vast majority of cases you should be able to pay more into your ISA, up to the new limits. If you already have £3,600 saved in your cash ISA, you should be able to increase this by a further £1,500.

Alternatively, if you don't already have a stocks and shares ISA, you could invest a further £5,100 before 5 April this year. Or you could invest a total of £6,600 into a stocks and shares ISA if you don't want to increase your existing cash ISA. This would mean you have fully used the maximum £10,200 allowance limit for your two different ISAs.

If you have already invested the full £7,200 in a stocks and shares ISA you will be able to put a further £3,000 into this account.

**Q: Can I transfer money from my cash ISA to a stocks and shares ISA?**

**A:** Yes, if you have money saved from a previous tax year, you could transfer some or all of the money from your cash ISA to a stocks and shares ISA without this affecting your annual ISA investment allowance. However, once you have transferred your cash ISA to a stocks and shares ISA it is not possible to transfer it back into cash. ■

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If you miss the deadline for investing in any given tax year, you will lose that part of your ISA allowance forever. We can help you find the right ISAs for you and integrate these investments into your overall wealth strategy. Please contact us to discuss your requirements.

# Key tax planning tips

## What you can do to reduce tax?

With further tax increases on the horizon, there really is no time like the present to consider your tax position carefully and explore what planning can be effectively put in place to help mitigate or defer the upcoming increased income tax liabilities. There are a number of areas that you may like to consider prior to the end of the current fiscal year. Specific matters may be relevant to you or this may be an appropriate moment to review your affairs generally, especially following the announcements in the 2009 Pre-Budget Report.

**Budget 2009 contained the following announcements:**

- 50 per cent income tax rate for all income over £150,000 from 6 April 2010.
- Top dividend rate to increase to 42.5 per cent.
- Personal allowances to be withdrawn for individuals earning more than £100,000, on a phased basis so that there will be a £1 reduction in allowance for every £2 of income earned above this level. This means that there will be no personal allowances for incomes over £112,950.
- Higher rate tax relief on pension contributions to be restricted from April 2011 for those with incomes over £150,000, and those with incomes over £180,000 will receive only basic rate relief on pension contributions. In addition, anti-forestalling provisions were introduced so that individuals front-loading pensions in advance of 6 April 2011 could not benefit from increased relief where the amounts contributed were significantly in excess of amounts currently being contributed. The provisions are very detailed and it will be important to review pension contributions carefully to ensure maximum relief is obtained on contributions made between now and April 2011.
- Capital gains tax (CGT) set at a flat rate of 18 per cent.

As of this April, there will be a 32 per cent differential between income and capital gains rates, and it follows that investing for gains and seeking to defer income are likely to become ever more important planning strategies.

## CAPITAL GAINS DEFERRAL

Properly structured single premium offshore insurance wrappers provide income and capital gains deferral and can be held alongside other wrappers. On exit or sale income will be realised, so it is important to consider the exit strategy, which may involve residence planning (in which case a review of the applicable tax in the jurisdiction in which you anticipate being resident on exit of the policy is key). Insurance is an especially helpful wrapper through which to hold assets such as hedge funds and obtain the benefits of gross income roll-up.

## INCOME TAX RELIEF

Enterprise Investment Schemes (EISs) and Venture Capital Trusts (VCTs) grant income tax relief and can be used alongside strategies such as insurance in income tax planning. However, a thorough investment analysis is important before taking such action.

## INVESTMENT LOSSES

Consider setting certain investment losses on holdings in some unquoted trading businesses against income to reduce the overall effective rate.

## SPOUSE'S INCOME TAX ALLOWANCE

If you are married (or in a civil registered partnership) and your spouse pays less tax than you, consider moving income-yielding savings and investments into their name and make full use of their personal allowances and basic rate tax bands, where applicable.

## USE YOUR INDIVIDUAL SAVINGS ACCOUNT (ISA) ALLOWANCE

The income you receive from ISAs and any capital growth is tax-free. Therefore, make sure you fully utilise your allowance this year. If you are currently aged 50 or over you can invest up to £10,200 this tax year. If you are under 50 you can invest up to £7,200 this tax year and £10,200 in the next. Married couples should ensure they use both ISA allowances. Even if one spouse is a non-taxpayer, it still makes sense to use their ISA; with changes to the tax regime in future, they might become a taxpayer one day.

## MAKE FULL USE OF YOUR PENSION CONTRIBUTIONS

Pensions offer considerable tax incentives, so making full use of your pension allowance is still one of the most tax-efficient ways to save. However, if you earn more than £150,000 you will see the tax relief on your pensions cut from April 2011, tapering from 40 to 20 per cent for those earning more than £180,000. This was announced during last April's Budget and the restriction will now apply to those with 'gross' incomes of more than £150,000, where gross income includes employer pension contributions. This means that if you earn less than the original £150,000 level you could also be caught in the new rules. Earners below £130,000 will not be affected. If you are concerned about how these changes could affect you, please contact us.

## CONSIDER MAKING GAINS

Not only are income and capital gains taxed at different rates but this tax year you can also make gains of up to £10,100 without paying any tax whatsoever. Any gains in excess of this limit are taxed at just 18 per cent, whereas income will be taxed by as much as 40 per cent this year and 50 per cent from 6 April 2010. So you should consider making gains in this tax year before any future tax rises.

## MORE TAX FACTS

Even if you have no earnings or you don't pay tax, anyone under 75 can still invest £2,880 in a pension and HM Revenue & Customs will top-up their contribution to £3,600. Make full use of pension contributions for you and your spouse. Building up income in both names is one of the most tax-efficient ways of generating income in retirement. At age 65 the current personal allowance, the amount of taxable income you're allowed to receive each year tax-free, rises to £9,490.

If you plan carefully, this means that married couples can receive income from pensions, savings and investments of almost £20,000 a year tax-free. Contributions can be made on behalf of a child and also benefit from tax relief. Come retirement, the tax relief and investment returns can turn even a relatively small investment into a sizeable sum. ■

**Effective planning requires time and consideration, but with our help, you could significantly reduce your business and personal tax burdens. To talk to us about your personal and business financial planning requirements, please contact us to arrange a meeting.**

# Strong stock market growth pushes up values

## Record amounts paid into investment funds last year

Many savers turned their back on high street deposit accounts last year as new figures show a record year for investments.

According to figures from The Investment Management Association (IMA), a record amount was paid into investment funds last year. Consumers invested £25.8bn in unit trusts and open-ended investment companies (OEICs), types of investments that allow individuals to pool money together to buy stocks and bonds.

The figures are the highest since records began in 1992 and 45 per cent higher than the previous record set in 2000, when new investments totalled £17.7bn.

An IMA spokeswoman said: 'A combination of factors led to this significant increase in 2009. Low returns on savings accounts caused people to look at putting their money into other assets. At the same time, the recession caused them to increase their savings levels.'

In total, £9.9bn was invested in bonds during the year, while £7.3bn went into shares, compared to 2008, when people withdrew £1.3bn more from equities than they invested.

The increase in investments, combined with strong stock market growth during the year, also helped to push up the value of funds under management to record levels. ■

**"According to figures from The Investment Management Association (IMA), a record amount was paid into investment funds last year."**

Professional advice will enable you to navigate new taxes and legislation, volatile markets, inflation and changes in your personal life. To discuss structuring your investment requirements in a way that minimises the impact of these changes, please contact us.

# 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.

# Inheritance Tax mitigation

## Whose wealth is it anyway?

Helping you protect your wealth is an important part of what we do, and one thing is certain, you need to plan to protect your wealth from a potential Inheritance Tax (IHT) liability. 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 IHT threshold.

Your entire worldwide estate, including your property, savings, car, furniture and personal effects could be subject to IHT. This also includes all of your investments and life insurance policies and it is crucial that your life polices are held in an appropriate trust so they don't add to the value of your estate.

IHT is levied on your estate after your death. The first £325,000 (£650,000 for couples) is tax-free but if the value of your assets is more than that, tax will be levied at 40 per cent.

Anything left to your spouse or civil partner is exempt from IHT. However, the value of those assets will form part of their estate on their death. If the first person's IHT allowance isn't used, the surviving spouse will have a double allowance.

You can gift up to £3,000 a year and it is immediately exempt from IHT, or £6,000 if you did not make a gift of this kind in the previous tax year. A married couple giving for the first time could, therefore, hand over £12,000 to their children in one year. After that, the maximum for a couple is £6,000.

You can also escape IHT by giving £250 to any number of people every year, but you cannot combine it with the above exemption. Parents can give £5,000 to each of their children as a wedding or civil partnership gift. Grandparents can give £2,500 and anyone else £1,000. And if a gift is regular, comes out of income and does not affect your standard of living, any amount of money can be given away and ignored for IHT.

It is possible to make further tax-free gifts known as potentially exempt transfers (PETs), but you have to survive for seven years after making the gift. If you die within seven years and the gifts are valued at more than the nil-rate band threshold, you apply taper relief. The tax reduces on a sliding scale if the gift was made between three and seven years earlier.

You can give away most assets, including cash and shares. However, it has to be an outright gift from which you can no longer benefit. This excludes giving away your family home. If you hand it to your children and continue to live there, you have to pay a market rent, which can cancel out the tax benefits.

Loan trusts are designed for people who cannot give away assets because they need to live off the income but want future investment growth to be IHT-free. You make a payment to a trust, which is treated as an interest-free loan to the trustees. The trust then repays your loan capital in instalments, giving you an income. When you die, any outstanding loan forms part of your estate, but all investment growth is free from tax. ■

*Levels and bases of and reliefs from taxation are subject to change and their value depends on the individual circumstances of the investor.*

“IHT is levied on your estate after your death. The first £325,000 (£650,000 for couples) is tax-free but if the value of your assets is more than that, tax will be levied at 40 per cent.”

Planning your finances in advance should help you to ensure that when you die everything you own goes where you want it to. Making a will is the first step in ensuring that your estate is shared out exactly as you want it to be.

If you leave everything to your spouse or civil partner there'll be no IHT to pay, because they are classed as an exempt beneficiary. Or you may decide to use your tax-free allowance to give some of your estate to someone else or to a family trust.

If you would like to discuss the options available to you for protecting your legacy, please contact us for further information. We can help you with the many aspects of IHT planning to ensure your wealth is best structured for your beneficiaries.

# Creating wealth

## Solutions for the diverse needs of both our wealthy clients and those who aspire to become wealthy

We provide solutions for the diverse needs of both our wealthy clients and those who aspire to become wealthy, enabling each individual to structure their finances as efficiently as possible.

There are many different ways to grow your wealth, from ensuring you receive the best rates for short-term cash management, to a more complex undertaking of creating an investment portfolio to grow your wealth for the long-term.

We can help you make informed decisions about the investment choices that are right for you, by assessing your life priorities, goals and attitude towards risk for return. Any number of changing circumstances could cause your wealth to diminish, some inevitable and some unpredictable - new taxes and legislation, volatile markets, inflation and changes in your personal life. Structuring your wealth in a way that minimises the impact of these changes is essential. ■

**To discuss structuring your investment requirements in a way that minimises the impact of these changes, please contact us.**

# Pooled investments

## Providing the potential for capital growth or income, or a combination of both

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.

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'.

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.

**“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 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. ■

# 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.

# 50 per cent tax rate

## Mitigating the impact of the forthcoming rate increase

An increase in the top rate of personal income tax for all income above £150,000 was announced in the 2009 Budget. The new 50 per cent rate will come into force from 6 April 2010. This is a significant increase (and an increase in the original figure announced in the Pre-Budget Report in November 2008, which stated that the rate would be 45 per cent as of April 2011) and also represents a structural change to the tax planning landscape.

The 50 per cent income tax rate (42.5 per cent on dividends) requires a structural change to tax planning to ensure that robust, practical and sensible planning is put in place, sooner rather than later, to ensure maximum tax-efficiency.

The new rate, and other changes announced in the 2009 Budget, mean that it is paramount that employees and investors carefully consider their tax position to explore what planning can be effectively put in place now to help mitigate or defer the upcoming increased income tax liabilities.

There is a range of sensible and effective options that will mitigate the impact of the forthcoming rate increase. Planning now rather than later is, as ever, the best approach and planning for both employment and investment income is essential. A bespoke approach will typically provide the best solution, since planning should always be appropriate to your particular tax and personal profile. Key factors will include your long-term residence plans, your various sources of income and your anticipated expenditure. Tax planning should be perfectly integrated with your commercial objectives, so your succession planning and business strategies will be relevant.

In addition, the gradual withdrawal of the personal allowance for those with incomes of £100,000 or more, and the restriction of higher rate tax relief for pension contributions for those with incomes of more than £150,000 (from April 2011) will increase the tax burden on higher income earners, giving a marginal rate of tax for some of 60 per cent. The transitional provisions on pension relief have immediate effect, particularly for those who usually pay significant annual contributions, such as senior executives and partners in professional partnerships.

Now is an appropriate time to review strategies to ensure they are consistent with your personal objectives.

> **“There is a range of sensible and effective options that will mitigate the impact of the forthcoming rate increase.”**

One approach could be to maximise income so that it is subject to the current top rate of 40 per cent (32.5 per cent for dividends). Bonus payments, realisation of gains on unapproved share schemes, dividend payments or remittances of income, for those not domiciled in the UK, might be brought forward so that the income falls to be taxed before 6 April 2010.

Where a company is planning to purchase its own shares, with the shareholders taxed on the proceeds as income rather than gains, the value to shareholders would be increased by completing the exercise before the change in tax rates.

Of course, the timing cost of any action that accelerates the date for the payment of tax should be borne in mind.

For the self-employed and those in partnership, strategies to maximise profits taxable at 40 per cent rather than 50 per cent, for example, by changing the accounting date, could be considered.

Given the current differential of 32 per cent between the income tax and capital gains tax rates, from 6 April 2010 onwards capital returns will have a significant tax advantage over income returns. Various investment vehicles for trading, property holding or wider investment activities alongside tax-efficient profit extraction techniques could be considered.

Changing an investment structure could also be explored at a time when asset values are relatively low, so that any future returns deliver your longer-term objectives. How investments are held across the family should be reviewed to ensure holdings are efficient.

Another approach could be to plan to minimise exposure to the 50 per cent rate before it arrives. Strategies that allow income to accumulate in tax-efficient ways should be considered. ■

*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.*

**This article does not constitute advice and you should seek professional financial advice. If you would like to discuss how we could help you with your financial planning requirements, please contact us for further information.**

# Unit trusts

## Participating in a wider range of investments

Unit trusts are a collective investment that allows 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.

**"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."**

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.

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 round the world and for the more adventurous investor, there are funds investing in individual emerging markets, such as China, 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. 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. ■

To discuss how we could help you with your investment planning requirements, please contact us for further information.

INVESTMENT

## Open-ended investment companies

### Investing in a variety of assets to generate a return for investors

Open-ended investment companies (OEICs) are stock market-quoted collective investment schemes. Like unit trusts and investment trusts they invest in a variety of assets to generate a return for investors.

An OEIC, pronounced 'oik', is a pooled collective investment vehicle in company form. They may 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. OEICs may also offer different share classes for the same fund.

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. ■

# Investment trusts

One of the easiest and most cost-effective ways to invest in the stock market

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 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."

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. ■

To discuss your financial planning requirements or to obtain further information, please contact us.

# Protecting your business

## Don't overlook your most important assets – the people who drive 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 coporate protection requirements or to obtain further information, please contact us.

# Life assurance

## When you should review your life assurance requirements

Life assurance helps your dependants to cope financially in the event of your premature death. When you take out life assurance you set the amount you want the policy to pay out should you die, this is called the 'sum assured.' Even if you consider that currently you have sufficient life assurance, you'll probably need more later on if your circumstances change. If you don't update your policy as key events happen throughout your life, you may risk being seriously under-insured.

As you reach different stages in your life, the need for protection will inevitably change. These are some events when you should review your life assurance requirements:

- Buy your first home with a partner
- Have other debts and dependents
- Get married or enter into a civil partnership
- Start a family
- Become a stay-at-home parent
- Have more children
- Move to a bigger property
- Salary increases
- Change your job
- Reach retirement
- Rely on someone else to support you
- Personal guarantee for business loans

Your life assurance premiums will vary according to a number of different factors, including the sum assured and the length of your policy (its 'term'), plus individual lifestyle factors such as your age, occupation, gender, state of health and whether you smoke.

If you have a spouse, partner or children, you should have sufficient protection to pay off your mortgage and any other liabilities. After that, you may need life assurance to replace at least some of your income. How much money a family needs will vary from household to household so, ultimately, it's up to you to decide how much money you would like to leave your family that would enable them to maintain their current standard of living.

There are two basic types of life assurance, 'term' and 'whole-of-life,' but within those categories there are different variations.

Term assurance in its simplest form pays out a specified amount of life cover if you die within a selected period of years. If you survive, it pays out nothing. It is a cost-effective way of buying the cover you need.

Whole-of-life assurance provides cover for as long as you live. Since the policy must eventually pay out, it may build up an investment element that you can cash in by surrendering the policy. However, it could take many years for a surrender value to build up. A variation called a 'maximum protection policy' enables you to buy a higher level of cover at a premium that is initially lower. Whole-of-life insurance is also available without an investment element and with guaranteed premiums from some providers.

It makes sense to cover yourself until your normal retirement age, usually 60 or 65. However, if you have young children, you should cover yourself until they are financially independent, which usually comes after they have left school or university and are earning their own money.

Although the proceeds from a life assurance policy are tax-free, it could form part of your estate and become liable to Inheritance Tax (IHT). The simple way to avoid IHT on the proceeds is to place your policy into an appropriate trust, which enables any payout to be made directly to your dependants. Certain kinds of trusts allow you to control what happens to your payout after death and this could speed up a payment. However, they cannot be used for life assurance policies that are assigned to (earmarked for) your mortgage lender.

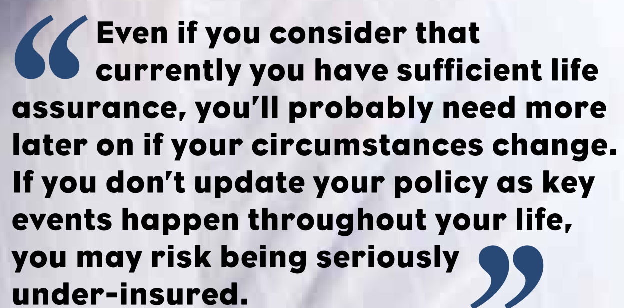
Generally speaking the amount of life assurance you may need should provide a lump sum which is sufficient to remove the burden of any debts and, ideally, leave enough left over to invest to provide an income to support your dependants for the required period of time.

The first consideration is to clarify what you want the life assurance to protect. If you simply want to cover your mortgage then an amount equal to the outstanding mortgage debt can achieve that.

However, if you want to prevent your family from being financially disadvantaged by your premature death and provide enough financial support to maintain their current lifestyle, there are a few more variables you should consider.

- What are your family expenses and how would they change if you died?
- How much would the family expenditure increase on things like childcare if you were to die?
- How much would your family income drop if you were to die?
- How much cover do you receive from your employer or company pension scheme and for how long?
- What existing policies do you have already and how far do they go to meeting your needs?
- How long would your existing savings last?
- What state benefits are there that could provide extra support to meet your family's needs?
- How would the return of inflation to the economy affect the amount of your cover over time?

If you would like to discuss your requirements, please contact us for further information.


Even if you consider that currently you have sufficient life assurance, you'll probably need more later on if your circumstances change. If you don't update your policy as key events happen throughout your life, you may risk being seriously under-insured.

# Boosting your pension income

## How to choose the most appropriate annuity

If you have personal pensions, in most cases you will have to buy an annuity from an insurance company before you turn 75. But research from the Pensions Income Choice Association has found that, even though you could boost pension income by choosing a more appropriate annuity, only one-third of people chose to do so in 2008.

The result of this could mean that many British retirees have missed out on hundreds of millions of pounds by not being aware of the options available to them at retirement. Available to anyone with a UK pension, every pension provider has to offer you an 'Open Market Option'. This enables you to choose from whom you buy your annuity.

Buying the right pension income is very important as, once bought, annuities cannot be switched to another annuity provider, cannot be changed to a different type of annuity and cannot be altered in any way for the rest of your life. ■

**If you do not obtain professional advice, you could lock into an annuity that has not been arranged with the most suitable terms for you. To discuss your options and ensure you arrange your annuity on the best terms and secure the highest income, please contact us.**

# UK trusts

## Passing assets to beneficiaries using a trust

You may decide to use a trust to pass assets to beneficiaries, particularly those who aren't immediately able to look after their own affairs. If you do use a trust to give something away, this removes it from your estate provided you don't use it or get any benefit from it. But bear in mind that gifts into trust may be liable to Inheritance Tax (IHT).

Trusts offer a means of holding and managing money or property for people who may not be ready or able to manage it for themselves. Used in conjunction with a will, they can also help ensure that your assets are passed on in accordance with your wishes after you die. Here we take a look at the main types of UK family trust.

When writing a will, there are several kinds of trust that can be used to help minimise an Inheritance Tax liability. 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.

**A trust might be created in various circumstances, for example:**

- when someone is too young to handle their affairs
- when someone can't handle their affairs because they're incapacitated
- to pass on money or property while you're still alive
- under the terms of a will
- when someone dies without leaving a will (England and Wales only)

### WHAT IS A TRUST?

A trust is an obligation binding a person called a trustee to deal with property in a particular way for the benefit of one or more 'beneficiaries.'

### SETTLOR

The settlor creates the trust and puts property into it at the start, often adding more later. The settlor says in the trust deed how the trust's property and income should be used.

### TRUSTEE

Trustees are the 'legal owners' of the trust property and must deal with it in the way set out in the trust deed. They also administer the trust. There can be one or more trustees.

### BENEFICIARY

This is anyone who benefits from the property held in the trust. The trust deed may name the beneficiaries individually or define a class of beneficiary, such as the settlor's family.

### TRUST PROPERTY

This is the property (or 'capital') that is put into the trust by the settlor. It can be anything, including:

- land or buildings
- investments
- money
- antiques or other valuable property

## THE MAIN TYPES OF PRIVATE UK TRUST

### BARE TRUST

In a bare trust the property is held in the trustee's name but the beneficiary can take actual possession of both the income and trust property whenever they want. The beneficiaries are named and cannot be changed.

You can gift assets to a child via a bare trust while you are alive, which will be treated as a Potentially Exempt Transfer (PET) until the child reaches age 18, (the age of majority in England and Wales), when the child can legally demand his or her share of the trust fund from the trustees.

All income arising within a bare trust in excess of £100 per annum will be treated as belonging to the parents (assuming that the gift was made by the parents). But providing the settlor survives seven years from the date of placing the assets in the trust, the assets can pass Inheritance Tax free to a child at age 18.

### LIFE INTEREST OR INTEREST IN POSSESSION TRUST

In an interest in possession trust the beneficiary has a legal right to all the trust's income (after tax and expenses), but not to the property of the trust.

These trusts are typically used to leave income arising from a trust to a second surviving spouse for the rest of their life. On their death, the trust property reverts to other beneficiaries, (known as the remaindermen), who are often the children from the first marriage.

You can, for example, set up an interest in possession trust in your will. You might then leave the income from the trust property to your spouse for life and the trust property itself to your children when your spouse dies.

With a life interest trust, the trustees often have a 'power of appointment', which means they can appoint capital to the beneficiaries (who can be from within a widely defined class, such as the settlor's extended family) when they see fit.

Where an interest in possession trust was in existence before 22 March 2006, the underlying capital is treated as belonging to the beneficiary or beneficiaries for Inheritance Tax purposes, for example, it has to be included as part of their estate.

**Transfers into interest in possession trusts after 22 March 2006 are taxable as follows:**

- 20 per cent tax payable based on the amount gifted into the trust at the outset, which is in excess of the prevailing nil rate band
- Ten years after the trust was created, and on each subsequent ten-year anniversary, a periodic charge, currently 6 per cent, is applied to the portion of the trust assets that is in excess of the prevailing nil rate band.

The value of the available 'nil rate band' on each ten-year anniversary may be reduced, for instance, by the initial amount of any new gifts put into the trust within seven years of its creation.

There is also an exit charge on any distribution of trust assets between each ten-year anniversary.

### DISCRETIONARY TRUST

The trustees of a discretionary trust decide how much income or capital, if any, to pay to each of the beneficiaries but none has an automatic right to either. The trust can have a widely defined class of beneficiaries, typically the settlor's extended family.

Discretionary trusts are a useful way to pass on property while the settlor is still alive and allows the settlor to keep some control over it through the terms of the trust deed.

Discretionary trusts are often used to gift assets to grandchildren, as the flexible nature of these trusts allows the settlor to wait and see how they turn out before making outright gifts.

Discretionary trusts also allow for changes in circumstances, such as divorce, re-marriage and the arrival of children and stepchildren after the establishment of the trust.

When any discretionary trust is wound up, an exit charge is payable of up to 6 per cent of the value of the remaining assets in the trust, subject to the reliefs for business and agricultural property.

### ACCUMULATION AND MAINTENANCE TRUST

An accumulation and maintenance trust is used to provide money to look after children during the age of minority. Any income that isn't spent is added to the trust property, all of which later passes to the children.

In England and Wales the beneficiaries become entitled to the trust property when they reach the age of 18. At that point the trust turns into an 'interest in possession' trust. The position is different in Scotland, as, once a beneficiary reaches the age of 16, they could require the trustees to hand over the trust property.

Accumulation and maintenance trusts that were already established before 22 March 2006, and where the child is not entitled to access the trust property until an age up to 25, could be liable to an Inheritance Tax charge of up to 4.2 per cent of the value of the trust assets.

It has not been possible to create accumulation and maintenance trusts trust since 22 March 2006 for Inheritance Tax purposes. Instead, they are taxed for Inheritance Tax as discretionary trusts.

### MIXED TRUST

A mixed trust may come about when one beneficiary of an accumulation and maintenance trust reaches 18 and others are still minors. Part of the trust then becomes an interest in possession trust.

### TRUSTS FOR VULNERABLE PERSONS

These are special trusts, often discretionary trusts, arranged for a beneficiary who is mentally or physically disabled. They do not suffer from the Inheritance Tax rules applicable to standard discretionary trusts and can be used without affecting entitlement to state benefits; however, strict rules apply.

### TAX ON INCOME FROM UK TRUSTS

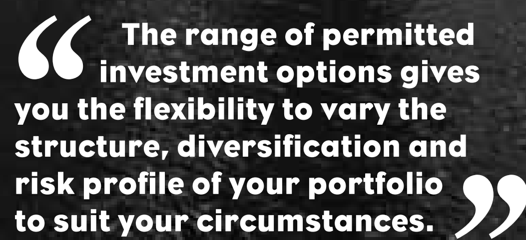
Trusts are taxed as entities in their own right. The beneficiaries pay tax separately on income they receive from the trust at their usual tax rates, after allowances.

### TAXATION OF PROPERTY SETTLED ON TRUSTS

How a particular type of trust is charged to tax will depend upon the nature of that trust and how it falls within the taxing legislation. For example, a charge to Inheritance Tax may arise when putting property into some trusts, and on other chargeable occasions – for instance, when further property is added to the trust, on distributions of capital from the trust or on the ten-yearly anniversary of the trust. ■

**To discuss your financial planning requirements or to obtain further information, please contact us.**

Trusts are very complicated, and you may have to pay Inheritance Tax and/or Capital Gains Tax when putting property into the trust. If you want to create a trust you should seek professional advice.



"The range of permitted investment options gives you the flexibility to vary the structure, diversification and risk profile of your portfolio to suit your circumstances."

# Tax-efficient SIPPs

## Greater flexibility and control over your savings

A Self-Invested Personal Pension (SIPP) is an investment savings vehicle aimed specifically at producing income, or a tax-free lump sum with a reduced income, in retirement.

A SIPP is a pension that gives you greater flexibility and control over your savings and where they are invested. It is your personal tax-efficient wrapper enclosing investments chosen by you to meet your own needs.

The range of permitted investment options gives you the flexibility to vary the structure, diversification and risk profile of your portfolio to suit your circumstances.

SIPPs can be held and contributed to by every UK resident under the age of 75 and are ideal if you are comfortable with making your own investment decisions and want a tax-efficient way to save for your retirement.

The range of investments you can hold in a SIPP are many and varied, ranging from stocks and shares to futures and options, and from collective investments such as unit trusts to bank deposits and commercial property.

**The list of permitted investments is very wide and includes:**

- UK and international company shares
- UK and international government and company debt (gilts and corporate bonds)
- Collective investment schemes such as unit trusts, pension funds, investment trusts
- Commercial property
- Deposit funds and currency
- Commodities
- Futures and options
- Warrants
- Derivatives

The tax treatment of a SIPP is identical to that of a conventional personal pension. Individual contributions receive automatic tax relief at the holder's marginal rate while any contributions by employers are allowable against corporation tax or income tax.

Income taken in retirement from either an annuity or via an unsecured pension plan (formerly income drawdown) is taxed as earned income at the member's highest marginal rate.

> **"The range of permitted investment options gives you the flexibility to vary the structure, diversification and risk profile of your portfolio to suit your circumstances."**

Understandably for a more flexible style of contract, the structure of a SIPP is slightly more complex than a personal pension and necessitates the involvement of a scheme administrator. The administrator exercises control over what happens within the SIPP and ensures that the requirements for tax approval continue to be met.

A SIPP arrangement may well be more expensive than traditional personal pensions or stakeholder pension plans due to the greater investment opportunities that they allow and other related charges. ■

**Pensions are complex and for that reason you should receive advice. To discuss your requirements, please contact us.**

*The value of investments and income from them can fall as well as rise and is not guaranteed.*

RETIREMENT

## Overestimating your retirement income

### Are you relying on the state pension to fund your retirement?

Around 18 per cent of people who intend to give up work during 2010 admit they will be relying on the state pension and income from savings to fund their retirement, according to insurer Prudential.

Nearly a third of people who are about to retire either do not know how much they will receive from the state pension or overestimate how much they will receive.

But the latest figures from the Office for National Statistics show that the average expenditure for a household headed by someone aged between 65 and 74 is £321 a week.

The research found that across all people who are planning to retire this year, the state pension will account for an average of 34 per cent of their income. Occupational pension schemes will make up 36 per cent of the average person's retirement income, with 11 per cent coming from other savings and investments and 9 per cent contributed by personal pensions. ■

**If you would like to discuss your retirement objectives or have a review of your current arrangements, please contact us.**

# 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.**

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