

# MERCURY

—WEALTH MANAGEMENT—

*Creating, Managing and Protecting your wealth*

## Savvy ISA returns of the year

Will you be rushing to use up  
your tax-free allowance?

## Good news for your nest egg

Surprise cut to NEST charges for some  
company pension savers

Make time to  
review your  
personal  
tax position

Essential planning to beat  
the 5 April 2011 deadline

### Is your retirement clock ticking?

Steps you can take to  
catch up on a shortfall

### In search of boosting your income

Strategies that  
pay dividends

### Diversifying your investments

Selecting assets that  
behave in different ways

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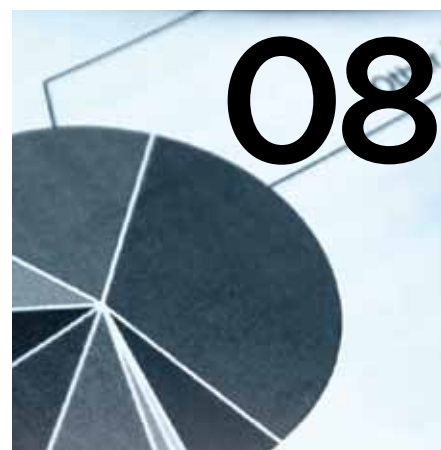
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# Financial planning is our business...

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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## Welcome

Welcome to the latest issue of our magazine, full of information about how we can help you protect and grow your wealth in 2011.

Despite the current economic uncertainty as to what the future holds, pressure will continue for increased rates of taxation. This will be further fuelled by the disparity in rates of taxation, particularly for income and capital gains. We can't over-emphasise the importance of tax planning at an early stage. Ideally you should commence your tax planning before the year even starts but after that, the earlier the better. The current 2010/11 tax year ends on 5 April and, if you haven't done so already, now is the time to start assessing how you could trim a potential tax bill. On page 16, follow our guide to some of the key areas to consider during the period leading up to 5 April.

In the event of our premature death, unless we plan carefully, our families could end up paying a sum in Inheritance Tax (IHT). Have you recently assessed your potential liability to Inheritance Tax (IHT)? If so, and you have a potential liability, have you planned to reduce it? On page 12 we explain how we could help you ensure that more of your hard-earned assets go to the people you want them to rather than falling into the hands of the taxman.

The new employer duties under the government's workplace pension reforms will be introduced over a four year period from 1 October 2012. This staggered introduction of these duties is known as 'staging'. Broadly speaking, the new duties will apply to the largest employers first with some of the smallest employers not being affected until 2016. As part of the new duties firms will be enrolled into the National Employment Savings Trust (NEST). Read the full article on page 24.

Also in this issue we consider why many families with elderly relatives in care could find themselves in a difficult financial situation. We explain, too, how important it is that any investment vehicles you hold match your feelings and preferences towards risk and return. A full list of the articles featured in this edition appears on page 03.

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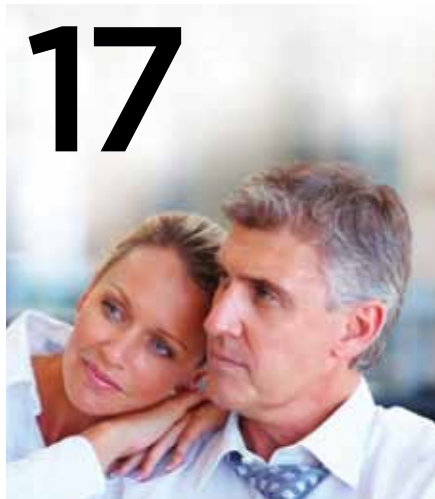
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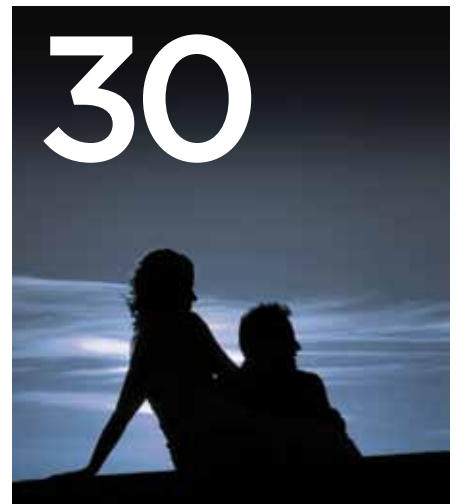
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*Content of the articles featured in this publication is for your general information and use only and is not intended to address your particular requirements. They should not be relied upon in their entirety and shall not be deemed to be, or constitute, advice. Although endeavours have been made to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough examination of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions taken in respect of any articles. 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 investments can go down as well as up and you may get back less than you invested.*

# 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.

# Enterprise Investment Schemes

## Why film investing is still one of the few remaining tax breaks on the market

Film investing through the government's Enterprise Investment Scheme (EIS) is very high risk, but for the sophisticated speculative investor it offers unique tax breaks. For high net worth investors, it is one of the few remaining tax breaks on the market.

When it comes to film investing, investors need to be clear about what part of the process they are investing in and at which point the money will be paid out. EISs are not only restricted to the film industry, there are also many other investment opportunities available, across a number of different sectors such as renewable energy, health care and pharmaceuticals.

Following the changes announced in various Budgets, the EIS is the only tax-efficient investment offering a capital gains tax deferral. Capital gains tax on the disposal of other assets can be deferred by reinvesting the proceeds in EIS shares.

This relief is slightly different from the basic EIS relief, as there is no limit on the gain that can be reinvested in this way. However, the tax on the original gain will become payable once the EIS investment is sold. The reinvestment can take place up to three years after (or one year before) the original disposal.

The maximum that can be invested in an EIS in the tax year 2010/11 is £500,000 and the same amount can be carried back to the previous year provided the limit in the previous year was not reached. EIS shares are also exempt from capital gains tax once

they have been held for three years. Investors in an EIS cannot get their money out before the fund has been wound up and are unlikely to find a buyer if they want to sell their stake early as there is no secondary market.

EIS funds fall into two distinct camps: those that wind up after the three years that investments must be held to qualify, known as 'planned exit EISs', and those that carry on until investors agree that a wind-up makes commercial sense. As high-risk investments, EISs may only be suitable for wealthier investors as part of a diversified investment portfolio.

For EIS funds and portfolios, the manager may not be able to invest as quickly as hoped. This may reduce the return on your investment, and the investment may lose its EIS status or tax relief may be delayed. The past performance of an EIS is not a reliable indicator of future results and you should not subscribe to an EIS

unless you have taken appropriate professional advice.

Investments in these smaller companies will generally not be publicly traded or freely marketable and may therefore be difficult to sell. There will be a big difference between the buying price and the selling price of these investments. The price may change quickly and it may go down as well as up. ■

*EISs will only be suitable for wealthier investors as part of a diversified investment portfolio. 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.*

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WE OFFER A WIDE RANGE OF INVESTMENT PRODUCTS AND STRATEGIES. TALK TO US ABOUT HOW YOU CAN HARNESS OUR EXPERIENCE AND KNOWLEDGE – PLEASE CONTACT US FOR FURTHER INFORMATION.





# Diversifying your investments

## Selecting assets that behave in different ways

Investment is intrinsically linked with risk and return – they go hand in hand. Which is why it's important that any investment vehicle matches your feelings and preferences towards risk and return. There are a wide variety of different asset classes available in which to invest and there are commensurate risks attached to each one.

By diversifying, investment risk can be mitigated as part of your overall investment portfolio. In addition, spreading your investments over a wide range of asset classes and different sectors enables you to reduce the risk that your portfolio becomes overly reliant on one particular asset's performance.

Depending on your risk profile, this will determine the mix of investments you choose. It's important that you only invest in what you can afford to lose and have savings to cover any short- to medium-term needs. As an absolute minimum, you should consider holding at least three to six months' earnings in a savings account that offers immediate access, in case of an unforeseen emergency.

The key to diversification is selecting assets that behave in different ways. Some assets are said to be 'negatively correlated'. This may include bonds and property, which often behave in a

contrarian way to equities by offering lower, but less volatile returns. This provides a 'safety net' by diversifying many of the risks associated with reliance upon one particular asset.

It is also important to diversify across different 'styles' of investing, such as growth or value investing, as well as diversifying across different sizes of companies, different sectors and different geographic regions. Growth stocks are held as investors believe their value is likely to grow significantly over the long term, whereas value shares are held because they are regarded as being cheaper than the intrinsic worth of the companies in which they represent a stake.

By mixing styles that can out- or under-perform under different economic conditions, the overall risk rating of your investment portfolio is reduced. Your attitude to risk for return is determined by your circumstances, age, goals and other factors and these will help you decide what type of investments to hold.

A general rule is that the greater the risk you're prepared to take, the higher the potential returns could be. On the flip side, any losses are potentially greater. If you are unwilling to take any risk with your money, you may be better

off putting your savings into cash, but you should be aware that inflation can eat into the value of your money. ■

**WE CAN HELP YOU MAKE AN INFORMED DECISION ABOUT YOUR FINANCIAL FUTURE BASED ON YOUR FINANCIAL GOALS. IF YOU WOULD LIKE TO DISCUSS THIS AND CONSIDER YOUR 2011 INVESTMENT STRATEGY, 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. These investments do not include the same security of capital which is afforded with a deposit account. As property is a specialist sector it can be volatile in adverse market conditions, there could be delays in realising the investment. Property valuation is a matter of judgement by an independent valuer therefore it is generally a matter of opinion rather than fact.*



# In search of boosting your income

## Strategies that pay dividends

For UK savers investing for income, it is important to strike a balance between hunting out good dividend paying shares, robust corporate bonds, well-managed funds or just the best savings account. Investing for income for most requires a mixture of investments, to balance risk with returns.

Historically low interest rates have left many UK savers searching for real returns, but the obligatory warning that past performance is no guide to how markets will perform in future always applies.

Utilising UK equity income funds that pay good dividends can have an integral part to play in a well-structured income portfolio. When looking to generate an income from UK equity funds, the objective is to select funds that invest in businesses that have the potential to provide sustainable long-term dividend growth.

The sector is divided in two, making it easier to select a suitable fund. Funds in the UK equity income sector must aim for a yield at least 10 per cent higher than the FTSE All-Share index, whereas UK equity income & growth funds must aim for a yield of at least 90 per cent of the All-Share.

If you invest in a UK equity income fund where the growth potential is not reflected in the valuation of its shares, this not only reduces the risk, it can also increase the upside opportunity.

In the short-term, UK equity income fund prices are buffeted by all sorts of influences, but over longer time periods fundamentals come to the fore. Dividend growth is the key determinant of long-term share price movements, the rest is sentiment.

Even when UK investors don't need an immediate income from their portfolio, steady and rising dividend yields from UK equity income funds, together with the potential for capital growth, can play a central part in an investment strategy. In addition, dividend income may be particularly relevant as the UK hauls itself out of the economic doldrums we've experienced over the past few years.

For UK investors requiring income in retirement, it's all about the compounding of returns over the long term. UK equity income funds look to invest in businesses that can demonstrate consistent returns on invested capital and visible earnings streams.

Companies with a high and growing free cash flow will typically attract UK investors. These are companies with money left over after paying out for capital expenditure, as this is the stream out of which rising dividends are paid. The larger the free cash flow relative to the dividend payout the better.

As with any investment strategy, diversification is the key to diminishing risk, which is particularly important for UK income-seekers who cannot afford to lose capital. Also, don't forget to utilise tax shelters, which can deliver tax-free income, or a pension, where contributions attract initial tax relief. ■

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IF YOU'RE LOOKING TO GENERATE INCOME, MAYBE YOU'RE FULLY OR PARTIALLY RETIRED AND WANT TO USE YOUR INVESTMENTS TO SUPPLEMENT YOUR PENSION. TO FIND OUT HOW WE COULD HELP YOU, PLEASE CONTACT US.

# Is your retirement clock ticking?

## Steps you can take to catch up on a shortfall

If you are in your fifties, pension planning has never been so important, which is why there are a number of steps you should take to improve your pension prospects if you discover you have shortfall. Planning for retirement is one of the biggest financial challenges people face and the one you can least afford to get wrong.

In the final ten years prior to your planned retirement date, to begin with you need to calculate what you are worth. As a starting point establish what your likely state pension entitlement will be. You should also contact the pension trustees of your current and previous employers, who will be able to provide pension forecasts, as will the companies managing any private pension plans you hold.

Next you need to look at how much income you will need in retirement. It's important to be realistic. You may spend less if you are not commuting to work, but don't forget to include holidays, travel and any debts you may still have.

If you are currently on target to receive less than you will need, you should obtain professional advice about how you could make up a shortfall. During the final ten-year period in the run-up to your retirement, it's crucial that you maximise savings. This may not only mean contributing to pensions but into other investments that may include Individual Savings Accounts (ISAs). You also need to consider whether options such as retiring later or working part-time beyond your retirement date may be a more realistic way of meeting your retirement goals.

It is not only how much you save but where it is invested that can make a difference, so you should also review your investment strategy. Use this opportunity to carry out an audit of existing pension plans; look at where they are invested, how they have performed and what charges are levied on them. Don't forget also to find out whether there are guarantees on any plans.

As part of your review, look at the diversification of your assets, as this can help protect against sudden market movements. With a ten-year time frame, investors need to weigh up the risks of equity investments against safer cash-based products.

Generally, the nearer to drawing your pension you are, the less investment risk you should take. But over this period it is reasonable to include equities within a mixed portfolio, particularly given the very low returns currently available on cash. Bonds, gilts and some structured products may also provide a halfway house between cash and equities.

When you enter the next phase of your retirement planning – five years or less to go – you need to review your specific retirement goals. Obtain up-to-date pension forecasts and review your retirement plans.

Consider moving stock market-based investments into safer options such as cash, bonds or gilts. If there is a sudden market correction now, you may have insufficient time to make good any losses.

If you've lost details of a pension scheme and need help contacting the provider, the Pension Tracing Service may be able to help you trace 'lost' pensions and other investments.

It's also important to maximise savings. Save what you can, utilising pensions, ISAs and other investments. Also don't forget to consider your spouse's pension. If you have maximised your pension contributions it is also possible to contribute into a partner's pension plan.

Higher earners and those in final salary

schemes should ensure any additional pension savings do not exceed the lifetime allowance, as this could mean you end up having to pay a tax bill.

Don't leave it until the last minute to decide what you will do with your pension plan. Some people fail to consider their options properly and simply buy the first annuity offered by their pension provider. This can significantly reduce your income in retirement and there is no second chance to make a better decision.

There are now many more retirement alternatives, from investment-linked and flexible annuities to phased retirement options, as well as the conventional annuities and income drawdown plans. To find out what is most appropriate for your particular situation, you should obtain professional advice. ■

WE CAN WORK WITH YOU TO DEVELOP THE RIGHT STRATEGY TO ACCUMULATE WEALTH IN ORDER FOR YOU TO ENJOY YOUR RETIREMENT YEARS - TO FIND OUT MORE, PLEASE CONTACT US.

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# Inheritance Tax

## Isn't it time you assessed your estate's potential liability?

In the event of your premature death, unless you plan carefully your family could end up paying a sum in Inheritance Tax (IHT). Have you recently assessed your potential liability to IHT? If so, and you have a potential liability, have you planned to reduce it? We can help you ensure that more of your hard-earned assets go to the people you want them to rather than falling into the hands of the taxman.

### IHT facts

If you are single or divorced, current UK legislation allows the first £325,000 (2010/2011 tax year) of your estate to be free from IHT, or £650,000 if you are married or have entered into a civil partnership or are widowed (providing no previous gifts were made by the deceased spouse). Under current legislation the taxman could take 40 per cent of everything you leave over the threshold (known as the nil rate band) and this includes properties, personal effects, cars, savings, investments and insurance – collectively known as your estate.

There is a range of allowances that you can use to mitigate a potential IHT liability. The major ones are as follows:

**Annual Exemption** – everyone is entitled to give away £3,000 exempt from IHT in any one tax year. If not previously used, then this allowance can be backdated one tax year, so in effect £6,000 could be given per donor to begin with, thereafter £3,000 per annum (optional).

**Marriage Gifts Exemption** – each parent can give wedding gifts of up to £5,000 to each of their children. Grandparents can gift up to £2,500 to each grandchild. Also, you can give up to £1,000 as a wedding gift to anyone

else. These gifts must be given before the wedding day. You can make gifts utilising more than one of the above allowances to the same person.

**Small Gifts Exemption** – any number of gifts to different people up to a value of £250 each can be made in a tax year. If the total value of gifts to any one person exceeds £250, then all gifts to that person must be deducted from the £3,000 Annual Exemption mentioned above. All of the above have the effect of reducing the estate upon which the IHT can be levied.

In most cases, any direct gift amount made either direct or into an absolute trust by any one person over the exempt gift allowances is a Potentially Exempt Transfer (PET). This means that you, as the donor, need to live for seven years from when the transfer is made for the gift to fall outside your estate. During the seven-year period the amount of tax payable on death reduces each year. This is known as 'taper relief'. However, this relief applies only to the part of a gift that is in excess of the nil rate band.

**Gifts to Trust** – this method allows the placement of monies in a suitable investment and then this is wrapped

within a trust, of which you and other people of your choosing can be trustees. The monies remain in trust and all, or amounts of this, can be distributed when you choose.

**Life Assurance Policy** – this is used to insure the liability with a 'whole-of-life policy'. Under some circumstances, this can be a cost-effective way of providing for the eventual bill and can be reasonably simple to set up. The 'whole-of-life policy' has a sum assured which is paid to the beneficiaries on death; due to the fact it is written under an appropriate trust, it can be paid prior to the rest of the estate being released and can, therefore, be used to contribute towards or pay for the IHT bill for the estate. ■

THIS IS A VERY COMPLEX AREA OF FINANCIAL PLANNING AND CONSIDERATION SHOULD BE GIVEN TO FURTHER TAX IMPLICATIONS, FOR EXAMPLE, CHARGEABLE LIFETIME TRANSFERS, ANY PERIODIC CHARGES AND IMMEDIATE TAX CHARGES OR PROPORTIONATE EXIT CHARGES. TO FIND OUT HOW WE COULD HELP YOU REDUCE THIS TAX BUT STILL RETAIN CONTROL OVER YOUR INVESTMENTS AND ESTATE, PLEASE CONTACT US.

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# Financial reasons to make a will

## Putting it off could mean that your spouse receives less

It's easy to put off making a will. But if you die without one, your assets may be distributed according to the law rather than your wishes. This could mean that your spouse receives less, or that the money goes to family members who may not need it.

If you and your spouse or civil partner own your home as 'joint tenants', then the surviving spouse or civil partner automatically inherits all of the property.

If you are 'tenants in common', you each own a proportion (normally half) of the property and can pass that half on as you want.

A solicitor will be able to help you should you want to change the way you own your property.

### Planning to give your home away to your children while you're still alive

You need to bear in mind, if you are planning to give your home away to your children while you're still alive, that:

- gifts to your children, unlike gifts to your spouse or civil partner, aren't exempt from Inheritance Tax unless you live for seven years after making them
- if you keep living in your home without paying a full market rent (which your children pay tax on) it's not an 'outright gift' but a 'gift with reservation', so it's still treated as part of your estate, and so liable for Inheritance Tax
- following a change of rules on 6 April 2005, you may be liable to pay an Income Tax charge on the 'benefit' you get from having free or low-cost use of property you formerly owned (or provided the funds to purchase)
- once you have given your home away, your children own it and it becomes part of their assets. So if they are bankrupted or divorced, your home may have to be sold to pay creditors or to fund part of a divorce settlement
- if your children sell your home, and it is not their main home, they will have to pay Capital Gains Tax on any increase in its value

If you don't have a will there are rules for deciding who inherits your assets, depending on your personal circumstances. The following rules are for deaths on or after 1 July 2009 in England and Wales; the law differs if you die intestate (without a will) in Scotland or Northern Ireland. The rates that applied before that date are shown in brackets.

### If you're married or in a civil partnership and there are no children

The husband, wife or civil partner won't automatically get everything, although they will receive:

- personal items, such as household articles and cars, but nothing used for business purposes
- £400,000 (£200,000) free of tax – or the whole estate if it was less than £400,000 (£200,000)
- half of the rest of the estate

The other half of the rest of the estate will be shared by the following:

- surviving parents
- if there are no surviving parents, any brothers and sisters (who shared the same two parents as the deceased) will get a share (or their children if they died while the deceased was still alive)
- if the deceased has none of the above, the husband, wife or registered civil partner will get everything

### If you're married or in a civil partnership and there were children

Your husband, wife or civil partner won't automatically get everything, although they will receive:

- personal items, such as household articles and cars, but nothing used for business purposes
- £250,000 (£125,000) free of tax, or the whole of the estate if it was less than £250,000 (£125,000)
- a life interest in half of the rest of the estate (on his or her death this will pass to the children)
- The rest of the estate will be shared by the children.

### If you are partners but aren't married or in a civil partnership

If you aren't married or registered civil partners, you won't automatically get a share of your partner's estate if they die without making a will.

If they haven't provided for you in some other way, your only option is to make a claim under the Inheritance (Provision for Family and Dependents) Act 1975.

### If there is no surviving spouse/civil partner

The estate is distributed as follows:

- to surviving children in equal shares (or to their children if they died while the deceased was still alive)
- if there are no children, to parents (equally, if both alive)
- if there are no surviving parents, to brothers and sisters (who shared the same two parents as the deceased), or to their children if they died while the deceased was still alive
- if there are no brothers or sisters then to half brothers or sisters (or to their children if they died while the deceased was still alive)
- if none of the above then to grandparents (equally if more than one)
- if there are no grandparents to aunts and uncles (or their children if they died while the deceased was still alive)
- if none of the above, then to half uncles or aunts (or their children if they died while the deceased was still alive)
- to the Crown if there are none of the above

It'll take longer to sort out your affairs if you don't have a will. This could mean extra distress for your relatives and dependants until they can draw money from your estate.

If you feel that you have not received reasonable financial provision from the estate, you may be able to make a claim under the Inheritance (Provision for Family and Dependents) Act 1975, applicable in England and Wales. To make a claim you must have a particular type of relationship with the deceased, such as child, spouse, civil partner, dependant or cohabitee. ■



# Life expectancy rises unexpectedly

## Further pressure on public sector pension schemes

In England and Wales the life expectancy of people has risen unexpectedly, data from a report published by the Faculty and Institute of Actuaries last November has shown. This has raised further the issue of additional increases in the cost of providing pensions and the state pension age.

An extra year of life for a retired person typically means a pension scheme must increase its stock of assets by 3-4 per cent to generate the necessary extra income.

The Faculty and Institute of Actuaries said in their report that life expectancy had increased in 2009, despite data from the previous year indicating a 'slowing down' in mortality improvement, the rate of decrease in the death rate. 'This trend has been partially reversed by the 2009 data for males, and wholly negated for females,' the group said.

Chancellor George Osborne revealed in October last year that the state pension age would rise to 66 by 2020 to tackle the rise in longevity. Increasing longevity also puts pressure on public sector pension schemes, as well as on people who have not saved for their retirement. This issue is likely to affect a wide range of other areas, including healthcare and care for the elderly.

The figures calculated by the actuarial profession come from its long-running research project, known as the Continuous Mortality Investigation (CMI).

### What the numbers show

The improvement in life expectancy is greatest for those who are oldest, particularly for men aged over 80 and women aged over 70.

The current projections suggest that a man who is 100 this year will live, on

average, only a further two and a quarter years. This is a 3.7 per cent increase on the 2009 prediction.

By contrast a man aged 20 is predicted to live on average another 70 years, to the age of 90. This is only 0.2 per cent longer than was estimated in 2009.

Women aged 90 are expected to live a further three and a half years on average, which is 2 per cent more than last year.

But the improvement in life expectancy for women aged 20 has risen by just 0.3 per cent in the past year, to just under 92 years. ■

TO FIND OUT HOW THE PROPOSED CHANGES COULD AFFECT YOUR RETIREMENT PLANNING PROVISION, PLEASE CONTACT US - DON'T LEAVE IT TO CHANCE.

# Savvy ISA returns of the year

## Will you be rushing to use up your tax-efficient allowance?

As the 5 April Individual Savings Account (ISA) deadline approaches, every year there is a flurry of last-minute activity. But why leave it to the last minute? We can help you make an informed decision and ensure you take advantage of using your full ISA allowance.

In this current 2010/11 ISA season, the new limit increased to £10,200 for everyone, so it makes sense to make the most of your tax-efficient allowance.

ISAs are tax-efficient, meaning the interest you earn is exempt from UK Income Tax and Capital Gains Tax. The tax treatment depends on your individual circumstances and may not be maintained in future.

To open an ISA you must be aged 16 or over and a UK resident or Crown employee serving overseas, or married to or a civil partner of a Crown employee serving overseas.

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AS WE COUNT DOWN TO THE END OF THE TAX YEAR, INVESTORS BEGIN THE SEARCH FOR THE BEST PLACE TO PUT THEIR ISA MONEY. TO FIND OUT HOW WE COULD HELP YOU TO MAKE THE RIGHT DECISION FOR YOUR ISA MONEY, CONTACT US FOR FURTHER INFORMATION.

## Take full advantage of using your ISA allowance

ISA Option	Total ISA investment allowed in the tax year 2010/11
Cash ISA only	£5,100 maximum in a cash ISA
or	
Stocks and Shares ISA only	£10,200 maximum in a stocks and shares ISA
or	
Cash ISA and Stocks & Shares	No more than £5,100 in cash ISA and the balance in the stocks and shares up to a combined total of £10,200



# Make time to review your personal tax position

## Essential planning to beat the 5 April 2011 deadline

Despite the current economic uncertainty as to what the future holds, pressure will continue for increased rates of taxation. This will be further fuelled by the disparity in rates of taxation, particularly for income and capital gains. We can't over-emphasise the importance of tax planning at an early stage.

Ideally you should commence your tax planning before the year even starts but after that, the earlier the better. The current 2010/11 tax year ends on 5 April and if you haven't done so already, now is the time to start assessing how you could trim a potential tax bill.

Wherever the terms 'spouse', 'spouses' or 'married couple' are used, these also apply to same sex couples who have entered into a civil partnership under the Civil Partnership Act as well as to a husband-and-wife married couple.

### Income splitting between spouses

Married couples in 2010/11 could potentially make tax savings by reducing or eliminating higher rate tax liabilities, achieved by reviewing the split of income between spouses.

It may be possible to save significant amounts of tax where assets on which investment income arise are transferred from a higher tax rate paying spouse to a lower tax rate paying spouse or to one with no income.

For a redistribution of income to be effective, there must be an unconditional and outright transfer of the underlying asset that gives rise to the income. This means that tax savings may not immediately arise following an asset transfer between spouses until new income arises.

### Examples of tax savings:

Moving £43,000 of investment income from a 40 per cent tax-paying spouse to one with no income could generate a saving of up to almost £10,000 in 2010/11.

A gross dividend of £50,000 arising to an additional tax rate paying spouse

means an additional tax bill (after taking the 10 per cent tax credit into account) of £16,250 compared to only £11,250 for a 40 per cent tax rate paying spouse, providing £5,000 of tax savings.

Moving £10,000 of investment income from a spouse whose income is expected to be between £100,000 and £112,950 to a non tax-paying spouse saves £6,000 due to the recovery of personal allowance as well as the higher rate tax saving.

These high levels of tax saving are unlikely to be possible for many but savings can still be made by much smaller transfers of income. Moving just £1,000 of savings income from a 40 per cent higher rate tax-paying spouse to one with income below the personal allowance (£6,475) may save £400 this tax year.

### Jointly owning assets

Income arising from assets owned jointly but in unequal shares is automatically taxed in equal shares unless a declaration on Form 17 is made to HM Revenue & Customs (HMRC) stating that the asset is owned in unequal shares. The election must be made before the income arises. This could be particularly relevant for a property investment business producing rental income, so consider such a declaration when a new jointly owned asset is acquired.

The exception to this rule is dividend income from jointly owned shares in 'close' companies, which is split according to the actual ownership of the shares. Close companies are broadly those owned by the directors or five or fewer people.

Income tax savings may also be made if you are self-employed. For example, your spouse could be taken into partnership or employed by the business. Alternatively, a spouse could be employed by the family

company. However, in each case, the level of remuneration must be justifiable and payment of the wages must actually be made to the spouse.

### Using a child's allowance

Children have their own allowances and tax bands. Therefore it may be possible for tax savings to be achieved by the transfer of income-producing assets to a child. Generally this is ineffective if the source of the asset is a parent and the child is under 18. In this case the income remains taxable on the parent unless the income arising amounts to no more than £100 gross per annum.

### The 65 and overs

Taxpayers aged 65 and over are able to claim higher personal allowances. The benefit of these allowances is eroded where income exceeds £22,900. In such circumstances a move to capital growth or tax-free investments may preserve the higher personal allowances.

### Capital Gains Tax (CGT)

Each individual has an annual exemption for CGT purposes. This is £10,100 for 2010/11. You should review your chargeable assets and consider selling before 6 April 2011 to utilise the exemption.

Bed and breakfasting (sale and repurchase overnight) of the same class of shares is no longer tax effective. However, sale by one spouse and repurchase by the other, or sale outside an Individual Saving Account (ISA) allowance and repurchase inside, may achieve the same effect. This can be done either to utilise the annual exemption or to establish a capital loss to set against gains.

Children may use their own annual exemption and take advantage of this by investing for capital growth. So with some careful planning this could lead to a £10,100 of gain per family member being realised every year tax-free.

### A split tax year

This year is unique in that there is a split tax year position in relation to CGT.

### Before 23 June 2010

Certain qualifying business gains were eligible for an effective 10 per cent tax rate where Entrepreneurs' Relief (ER) was available.

Other gains were charged at a flat rate of 18 per cent.

The ER lifetime limit available covers the first £2m of eligible gains.

### From 23 June 2010

Certain qualifying business gains are charged at 10 per cent where ER is available.

CGT of 18 per cent or 28 per cent will apply to any other chargeable gains once the annual exemption has been used.

Both the annual exemption and capital losses can be allocated to minimise an individual's CGT liability.

The 18 per cent rate will only be available for gains when an individual is deemed to have basic rate band available after taking income and business gains into consideration.

### Other considerations

If you have two homes you may be able to make elections to maximise the 'main residence' exemption.

It may be possible to establish capital losses for use by making a claim where assets no longer have any value – a 'negligible value' claim.

### Family companies

A director/shareholder of a family company can extract profits from the company in a number of ways. The two most common are by way of bonus or dividend. For every £1,500 retained by a 40 per cent higher rate tax-paying individual, the cost to the company is £2,000 if a dividend is paid and £2,266 if a bonus is paid.

This assumes the company is liable to corporation tax on its profits at the small companies' rate of 21 per cent. There are other factors that may affect a decision to pay a dividend, including ensuring there are sufficient distributable profits. However, paying a dividend can often result in significant tax savings.

### Giving to charity

To encourage charitable giving, the government has created a number of ways of securing tax relief on charitable donations. Gift Aid is the most common method and applies to cash charitable donations large or small, whether regular or one-off. The charity currently claims basic rate tax of 20 per cent back from HMRC plus a further 2 per cent supplement.

For the individual donor who is a higher rate tax payer, a cash gift of £78, (£100 for the charity due to 22 per cent rebate) only costs £58.50, due to the additional 20 per cent tax relief of £19.50. Always remember to keep a record of any gifts you make.

It may also be possible to make gifts of quoted shares and securities or land and buildings to charities and claim income tax relief on the value of the gift. This may be tax efficient for larger charitable donations.

### Individual Savings Accounts (ISAs)

ISAs are a tax-efficient form of investment and income and capital gains are tax exempt. Maximum annual limits apply so to take advantage of the limits

available for 2010/11; the investment(s) must be made by 5 April 2011. The rules allow a maximum investment in one cash ISA of £5,100 or a stocks and share ISA of £10,200. However, if you want to invest in both, then the investment should be capped so that overall you do not exceed the £10,200 limit. 16- and 17-year-olds are able to open a cash ISA only.

### Pensions

There are many opportunities for pension planning but the rules can be complex in certain circumstances. Individuals can obtain tax relief on contributions up to £3,600 (gross) per year with no link to earnings. This makes it possible for non-earning spouses and children to make contributions to pension schemes.

Tax relief for further contributions is available on up to 100 per cent of earnings as long as this does not exceed the annual allowance (currently £255,000). Earnings include pay, benefits and trading profits and are generally referred to as 'net relevant earnings'.

The rules include a single lifetime limit (£1.8m for 2010/11) on the amount of pension saving that can benefit from tax relief. This lifetime limit is measured when pension benefits are taken. In last years Emergency Budget, the government announced the reduction of the annual allowance to £50,000 with effect from 6 April 2011. ■

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# The need for protection

## Helping your dependants to cope financially

Making sure you have the correct amount of life assurance will enable you to protect your loved ones from having to deal with your financial burdens. That's why obtaining the right advice and knowing which products to choose – including the most suitable sum assured, premium, terms and payment provisions – is essential.

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 typical events when you should review your life assurance requirements:

- Buying your first home with a partner
- Having other debts and dependants
- Getting married or entering into a civil partnership
- Starting a family
- Becoming a stay-at-home parent
- Having more children
- Moving to a bigger property
- Salary increases
- Changing your job
- Reaching retirement
- Relying 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 or not 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.

The cheapest, simplest form of life assurance is term assurance. It is straightforward protection, there is no investment element and it pays out a lump sum if you die within a specified period.

There are several types of term assurance.

The other type of protection available is a whole-of-life assurance policy designed to provide you with cover throughout your entire lifetime. The policy only pays out once the policyholder dies, providing the policyholder's dependants with a lump sum, usually tax-free. Depending on the individual policy, policyholders may have to continue contributing right up until they die, or they may be able to stop paying in once they reach a stated age, even though the cover continues until they die.

### Tax matters

Although the proceeds from a life assurance policy are tax-free, they 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 trust 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 that is sufficient to remove the burden of any debts and, ideally, leave enough over to invest in order 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 requirements such as 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?

WITH SO MANY OPTIONS AVAILABLE, MAKING A DECISION CAN SEEM OVERWHELMING. LOTS OF FACTORS NEED TO BE TAKEN INTO CONSIDERATION, SUCH AS THE RIGHT LEVEL OF COVER AND HOW LONG IT SHOULD LAST. WE CAN HELP YOU MAKE AN INFORMED DECISION – PLEASE CONTACT US TO DISCUSS YOUR REQUIREMENTS.

# When you will be allowed to retire

## The coalition government's intent to speed up the process

The age at which you could claim your state pension benefits had for many years been 65 for men and 60 for women. But the previous Labour government set out plans, based on recommendations from Lord Turner, to steadily increase the state pension age to 68 for both men and women over the next four decades.

The Labour government's policy had been to raise the state pension age to 66 by 2026 and then incrementally to 68 by 2046. Retirement was due to equalise for men and women at 65 by 2020, rise to 66 between 2024 and 2026, 67 between 2034 and 2036, and 68 between 2044 and 2046.

In May last year, the new coalition government initially signalled its intent to speed up the process, bringing forward the first rise to 66 for men from 2026 to 2016. In the end, the Comprehensive Spending Review in October 2010 settled on a less radical option, confirming that the rise to 66 for both men and women would come by 2020.

The government has said it will have to raise the state pension age even higher in following years, which could see many Britons working today waiting until age 68 or even 70 before they receive their state pension. It had been expected that the women's state pension age would rise to 65 by 2020. It will now move to 65 by 2018 and then be hiked to 66 (same as men) by 2020.

### Decisions, decisions, decisions

When you reach the state pension age, you essentially have three choices:

- Cease your working life and get your state pension
- Continue to work and receive your state pension as well
- Carry on working and hold off claiming your state pension

If you postpone claiming your state pension, you may receive an extra state pension when you do finally decide to claim it. And you can put off taking it for as long as you like.

When you do eventually decide to take your state pension, you can choose to receive either the extra state pension for the rest of your life, or receive a one-off, taxable lump-sum payment, equivalent to the benefits you put off claiming plus interest, as well as your regular weekly state pension. In addition, you can choose to stop claiming it after having claimed it for a period.

## Pension savings

### Annual allowance reduced

The annual allowance on pension savings will be reduced from £255,000 to £50,000, commencing 6 April this year, the Treasury announced after revealing the outcome of its consultation on alternatives to restricting tax relief on retirement savings.

The changes will also include reducing the lifetime allowance from the current £1.8m to £1.5m commencing 6 April 2012.

### Coalition government proposals announced October 2010

From 6 April 2011 the annual allowance for tax-privileged saving will be reduced from its current level of £255,000 to £50,000.

Deemed contributions to defined benefit schemes will be valued using a 'flat factor' of 16.

Individuals will be allowed to offset contributions exceeding the annual allowance against unused allowance from the previous three years.

The lifetime allowance will be reduced on 6 April 2012 from its current level of £1.8m to £1.5m.

The maximum tax-free lump sum will remain at 25 per cent of the standard lifetime allowance.

Major ill-health cases will be exempted (on top of serious ill-health and death). Redundancy will not.



# Income drawdown

## Keeping your pension funds invested beyond your normal retirement date

Income drawdown or 'Unsecured Pensions', became available in 1995. It allows people to take an income from their pension savings while still remaining invested and is an alternative to purchasing an annuity. You decide how much of your pension fund you want to move into drawdown and then you can normally take a 25 per cent tax-free lump sum and draw an income from the rest.

Pensioners funding their retirement through income drawdown are permitted to keep their pension funds invested beyond their normal retirement date. They continue to manage and control their pension fund and make the investment decisions. There is also the opportunity to increase or decrease the income taken as they get older. However, the fund may be depleted by excessive income withdrawals or poor investment performance.

From 6 April 2010 you are now able to choose to take an income from your pension fund from age 55. Tax rules allow you to withdraw anything from 0 per cent to 120 per cent (2010/11) of the relevant annuity you could have bought at outset. These limits are calculated by the Government Actuaries Department (GAD). These GAD rates are reviewed every 5 years. There's no set minimum, which means that you could actually delay taking an income if you want to and simply take your tax-free cash lump sum. The amount of yearly income you take must be reviewed at least every five years.

From age 75, income drawdown is subject to different government limits and become known as Alternatively Secured Pensions (ASPs). If you're already receiving income from an income drawdown plan, currently when you reach the age of 75 it will become an ASP. But you will still be able to receive a regular income while the rest of your fund remains invested. The minimum amount you can withdraw is 55 per cent (2010/11) of an amount calculated by applying the funds available to the GAD table, while the maximum is 90 per cent (2010/11). These limits must be reviewed

and recalculated at the start of each pension year.

The government is currently consulting on changes to the rules on having to take a pension income by age 75 and, following a review conducted in June 2010, plans to abolish ASPs. Instead, income drawdown would continue for the whole of your retirement. The withdrawal limits are significantly less for ASPs, and the vast majority of people will be better off purchasing an annuity.

The new rules are likely to take effect from April 2011. If you reach 75 before April 2011 there are interim measures in place. Under the proposals, there will no longer be a requirement to take pension benefits by a specific age. Tax-free cash will still normally be available only when the pension fund is made available to provide an income, either by entering income drawdown or by setting up an annuity. Pension benefits are likely to be tested against the Lifetime Allowance at age 75.

Currently, on death in drawdown before age 75, there is a 35 per cent tax charge if benefits are paid out as a lump sum. On death in ASP, a lump sum payment is potentially subject to combined tax charges of up to 82 per cent. It is proposed that these tax charges will be replaced with a single tax charge of around 55 per cent for those in drawdown or those over 75 who have not taken their benefits.

If you die under the age of 75 before taking benefits, your pension can normally be paid to your beneficiaries as a lump sum, free of tax. This applies currently and under the new proposals.

For pensioners using drawdown as

their main source of retirement income, the proposed rules would remain similar to those in existence now with a restricted maximum income. However, for pensioners who can prove they have a certain (currently unknown) level of secure pension income from other sources, there will potentially be a more flexible form of drawdown available that allows the investor to take unlimited withdrawals from the fund subject to income tax.

As a general rule, you should try to keep your withdrawals within the natural yields on your investments. This way you will not be eating into your capital.

Since 6 April 1996 it's been possible for protected rights money to be included in an income drawdown plan, but before A-Day protected rights couldn't be included in a phased income drawdown plan.

For investors who reached age 75 after 22 June 2010 but before the full changes are implemented, interim measures are in place that, broadly speaking, apply drawdown rules and not ASP rules after age 75. These interim measures are expected to cease when the full changes are implemented. Any tax-free cash must still normally be taken before age 75, although there will be no requirement to draw an income. In the event of death any remaining pension pot can be passed to a nominated beneficiary as a lump sum subject to a 35 per cent tax charge.

As with any investment you need to be mindful of the fact that, when utilising income drawdown, your fund could be significantly, if not completely, eroded in adverse market conditions or if you make poor investment decisions. In the worst case scenario, this could leave you with no income during your retirement.

You also need to consider the implications of withdrawals, charges and inflation on your overall fund. Investors considering income drawdown should have a significantly more adventurous attitude to investment risk than someone buying a lifetime annuity.

In addition there is longevity to consider. No-one likes to give serious

thought to the prospect of dying, but pensioners with a significant chance of passing away during the early years of their retirement may well fare better with an income drawdown plan, because it allows the pension assets to be passed on to dependants.

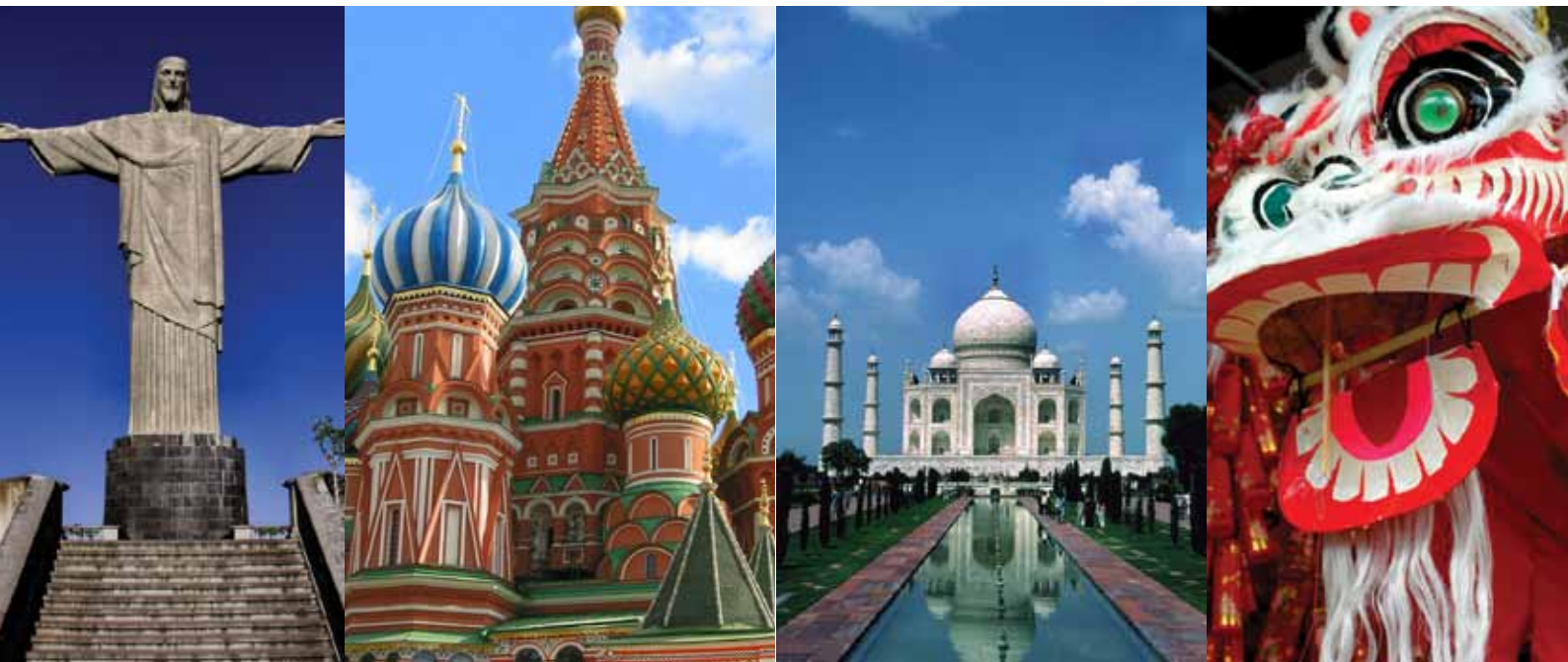
A spouse has a number of options when it comes to the remaining invested fund. The spouse can continue within income drawdown until they are 75 or until the time that their deceased spouse would have reached 75, whichever is the sooner. Any income received from this arrangement would be subject to income tax. By taking the fund as a lump sum, the spouse must pay a 35 per cent tax charge. In general, the residual fund is paid free of inheritance tax, although HM Revenue & Customs may apply this tax. ■

IF YOU ARE LOOKING TO RETAIN OWNERSHIP OF YOUR CAPITAL AND A DEGREE OF CHOICE ABOUT HOW AND WHEN YOU DRAW AN INCOME AND YOU WANT TO FIND OUT MORE ABOUT INCOME DRAWDOWN - PLEASE CONTACT US.

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“ Pensioners funding their retirement through income drawdown are permitted to keep their pension funds invested beyond their normal retirement date. They continue to manage and control their pension fund and make the investment decisions. ”





# Investing in BRIC countries

## The driving force of the new global economies

BRIC is an acronym for the combined economies of Brazil, Russia, India and China. The BRIC nations are increasingly providing investors turning to emerging markets with growth potential for their portfolios. The four BRIC countries are the largest emerging markets by population size.

While there are plenty of emerging market opportunities to invest in outside of the BRIC nations, Brazil, Russia, India and China are considered to be the driving force of the new global economies. These nations are rich in resources, are not saddled with debt and are home to a young and increasingly educated population. The BRIC economies are predicted to enjoy boom years for investors and many believe that these economies hold real potential, looking 5 to 20 years into the future, compared to Western economies.

If you want to invest in the BRIC regions, whether it is via a high-risk country-specific fund or a more generalist emerging markets fund, one way to do this is to drip-feed your money into a fund that gives you exposure to a wide range of equities. Regular savings can take some of the risk out of investing by allowing you to buy more when prices are low and less when they are rising.

In all cases you need to be comfortable with the wide range of risks, not just day-to-day volatility, but also markets closing, expropriation, currency risk and political turmoil, to name just

a few. The fortunes of these economies can fluctuate, which results in big swings in stock markets. Investors also need to understand that there are political risks in some of these countries, which can have a negative impact on markets.

Few financial concepts have caught on as quickly as investing in the BRIC economies, which are well known as a symbol of the shift in worldwide economic power away from the developed G7 economies in the direction of the developing world. ■

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# Open-ended investment companies

Making potential gains from the growth in value of company shares

Are you looking to make potential gains from the growth in value of company shares on the stock market but don't have the time to manage a share portfolio yourself? If the answer is 'yes', then open-ended investment companies (OEICs) could be worth considering. They 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.

Each fund is divided into shares of equal size. The price of each share moves in line with the fund's underlying portfolio performance and is calculated daily. New shares can be created if more investors want to invest in the fund, or cancelled when investors decide they want to sell their holding. 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. ■

*Management charges will be applicable if investing in OEIC's. 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.*

**TO FIND OUT MORE ABOUT INVESTING IN AN OEIC OR TO DISCUSS YOUR INVESTMENT REQUIREMENTS, PLEASE CONTACT US.**

# Good news for your nest egg

## Surprise cut to NEST charges for some company pension savers

The new employer duties under the government's workplace pension reforms will be introduced over a four year period from 1 October 2012. This staggered introduction of these duties is known as 'staging'. Broadly speaking, the new duties will apply to the largest employers first with some of the smallest employers not being affected until 2016. As part of the new duties firms will be enrolled into the National Employment Savings Trust (NEST).

Last November NEST announced a surprise cut to the charges it will apply. NEST said that it would initially apply a 0.3 per cent annual management charge and a contribution charge of 1.8 per cent, after the former Labour government had indicated that the contribution charge would be 2 per cent.

The former government established NEST as part of pension reforms aimed at tackling a lack of adequate pension savings among low- and middle-income UK workers. The NEST's investment strategy will be low-risk and there may be a possibility that, after five years, savers will be able to move their money out of the NEST into other pension schemes.

The reforms include the stipulation that from 2012 employers either pay a minimum contribution of 3 per cent into the scheme or automatically enroll workers in existing pension vehicles. NEST will launch its scheme for voluntary enrolment in the second quarter of this year.

The new two-part charge by NEST will work as follows: if a member has a fund of £10,000, they will pay £30, due to the 0.3 per cent annual management charge;

if that same member makes a monthly contribution of £100, including tax relief, they will pay £1.80 on the sum, due to the 1.8 per cent contribution charge.

NEST also said that in the long term, once the costs of establishing the scheme had been met, the contribution charge could fall away, leaving a flat annual management charge of 0.3 per cent. ■

WHETHER YOU'RE AN EMPLOYEE OR EMPLOYER, IF YOU WOULD LIKE TO FIND OUT MORE ABOUT HOW THE INTRODUCTION OF THE NEST COULD AFFECT YOUR PARTICULAR SITUATION, PLEASE CONTACT US.

*A pension is a long term investment. The fund value may fluctuate and can go down. NEST schemes are regulated by the Pensions Regulator.*



# 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.**

# Self-Invested Personal Pensions'

## A pension wrapper that offers more freedom of choice

Self-Invested Personal Pensions (SIPPs) have been around since 1989, but after the introduction of Pension Simplification legislation on 6 April 2006, they've 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, however they are more complex than conventional products and it is essential you seek expert professional advice.

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 of 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.

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 fund. 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 that 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 should 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. ■

*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 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.*

IF YOU WOULD LIKE TO DISCUSS YOUR RETIREMENT PLANNING OPTIONS, PLEASE CONTACT US FOR FURTHER INFORMATION.

# Inheritance Tax glossary

## Common estate planning terms

### Administration

Dealing with the affairs and estate of a person who has died, including collecting their assets, paying their debts and paying the residue to the people who are to benefit.

### Affidavit

A document giving evidence which is sworn in front of a solicitor or other person who can administer oaths.

### Agricultural Property Relief (APR)

Relief from Inheritance Tax for the agricultural value of some farms and farmhouses (the value if the land and buildings could only be used for agricultural purposes and not the open market value). Various conditions apply, including a minimum ownership period.

### Beneficiary

A person or organisation who will receive assets from the estate of the deceased.

### Bequests and Legacies

Bequests and legacies are names for gifts left in a will.

### Business Property Relief

Relief from Inheritance Tax for businesses; a minimum ownership period applies and the business or interest in the business must fulfil the conditions.

### Capital Gains Tax

This is tax which may be payable on a disposal (for example, when you sell an asset) if you make a chargeable gain. Usually you have made a gain if the asset is worth more at disposal than it was when you acquired it. A disposal is not only a sale for money's worth. You will only pay Capital Gains Tax on capital monies (monies that you received) that do not form part of your income. The tax applies not to the value of the asset but to the increase in value.

### Caveat

A notice entered at the Probate Registry – for example, if you have entered a caveat you will be warned before any Grant of Representation is issued.

### Charity

A charity is an organisation that has as its aim purposes which are exclusively 'charitable' (as recognised by law), such as the relief of poverty or promoting education. Charities can be structured in a variety of ways – for example, as a company with a board of directors or as a trust fund with a board of trustees. Charities must be for the public benefit. Most charities must register with the Charities Commission. Charities are strictly regulated.

### Chattels

Assets of a person other than land – for example, jewellery, ornaments, clothes, cars, animals, furniture and so on.

### Codicil

An addition to a will which may change, modify, delete, extend or add to a will.

### Deed of Variation

A document that can vary the division of a person's estate after they have died, either by changing their will retrospectively or altering the persons entitled on an intestacy (where there is no will or the beneficiaries no longer exist). This must be done within two years of the person's death.

### Discretionary Trusts

A trust where the trustees can choose which beneficiaries (if any) should receive income and/or capital. They are a flexible way of setting property aside for the benefit of one or more persons.

### Domicile

Your domicile will affect whether you pay Inheritance Tax on particular assets

and can affect how much Inheritance Tax you pay. Domicile is not the same as residence.

### Estate

All the property and assets of the person who has died.

### Executor

This is the personal representative (see below) who has been appointed by the will or codicil.

### Guardian

A guardian will have parental responsibility for any child (under 18) of whom they are named guardian. Parental responsibility means legal authority to act in relation to a child on such matters as medical care, where they are to live, their education and what surname they should be known by. Guardians may be appointed by a parent who has parental responsibility, an existing guardian or the Court. If you name a guardian in your will, the appointment may not take effect if your child has a surviving parent with parental responsibility.

### Inheritance Tax

A tax on the value of a person's estate on their death and also on the value of certain gifts made by an individual during their lifetime. You may be subject to Inheritance Tax on all your assets everywhere in the world if you are domiciled in England & Wales. Inheritance Tax also applies to most types of trust and may be charged when assets are added to or leave the trusts and on the ten-yearly anniversaries of the trust's creation.

### Intestate/Intestacy

The rules that govern where a person's estate is to pass and who can deal with the estate in the absence of a will.

### Joint Tenancy

A way of co-owning land and other

property. On the death of one of the co-owners, the other takes their share by survivorship. For example, if you and your spouse own your home as joint tenants it will automatically pass to the surviving spouse when one of you dies. Your share of your house will not be part of your estate as it passes automatically.

### Letters of Administration

A grant of representation where there is no valid will, or there is a will but no executor appointed.

### Life Tenant

This is a person who is entitled to benefit from a trust during their lifetime. They cannot have the capital in the trust fund; they are entitled only to the income or enjoyment of the property. For example, if the trust fund was a house, the beneficiary would be entitled to live there.

### Personal Representative

The person who is dealing with the administration of the estate of the person who has died.

#### Potentially Exempt Transfer (PET)

This is an outright gift by an individual to another individual or certain types of trust. If the giver (donor) survives the gift by seven years, it will become completely exempt from Inheritance Tax and will be outside the donor's estate for the purposes of calculating Inheritance Tax.

### Power of Attorney

This is a formal document giving legal authority from one person (the donor) to another (the attorney) so that the Attorney may act on behalf of their principal. Power of Attorney may be an ordinary General Power or it may be a Lasting Power of Attorney.

### Lasting Power of Attorney

A Lasting Power of Attorney can relate to your property and affairs or your personal welfare, i.e. decisions about your medical treatment. In order to make a Lasting Power of Attorney you must have mental capacity to do so, which must be certified by a certificate provider. An ordinary General Power of Attorney will come to an end if you lose your mental capacity but a Lasting Power of Attorney will not.

### Probate (Grant of)

The 'Proving' of a will by sending it to the Probate Registry.

### Residue

The remainder of the estate of the person who has died after all their debts have been paid and any specific gifts they made under their will have also been paid.

### Revocation (of will)

This is the process by which someone cancels or takes back a will (or codicil) made previously when they no longer intend that will to take effect. The Testator (person who made a will or codicil) must have mental capacity to revoke the will (or codicil). The effect of revocation is

that any earlier will is resurrected and will take effect as if the later cancelled will does not exist. If there is no previous will, then the person revoking their will becomes intestate. Most new wills contain an explicit clause stating that they revoke any previous wills. There are formal requirements for revocation of a will as there are for making a will.

### Statutory Legacy

If a person dies intestate with a spouse or civil partner, the statutory legacy is the amount of the deceased's estate that their spouse or civil partner will receive. A common misconception is that the spouse or civil partner will automatically receive all of the estate of the person who has died intestate, but this is not necessarily the case if there are surviving children and it is therefore desirable to make a will to ensure that your spouse or civil partner inherits all that you intend them to take.

### Testator/Testatrix

The person making a will (male or female).

### A Trust

A legal relationship in which one or more persons hold property for the benefit of others (the beneficiaries). A trustee is the person who is acting in the trust and holds the property for the benefit of someone else.

### A Will

The formal document known as a 'testamentary disposition' by which somebody confirms their wishes as to the division of their estate on death.



# Cost of care

## Gap between the cost of care and what local authorities are prepared to pay is growing

Many families with elderly relatives in care could find themselves in a situation of falling house prices, low interest rates and rising care home fees. For those families, the situation may be further exacerbated by local authority cost cutting.

The gap between the cost of care and what local authorities are prepared to pay is growing, requiring some families to step in and pay the difference between the council's set rate and the care home fees once their elderly relatives run out of money.

In the past five years, the gap between the income families have available to pay for care and the fees charged by homes has increased by 600 per cent for those in residential homes, according to figures from FirstStop show. For those in nursing homes, the affordability gap has widened by 200 per cent over the same time as fees for care homes have increased by more than 20 per cent since 2005.

Five years ago, fees for nursing homes were £29,851 a year on average; now they are £36,036, an increase of 20.7 per cent, according to healthcare

analyst Laing & Buisson. Costs for residential care have risen from £21,546 a year to £25,896 on average, a 20.2 per cent increase.

Figures from the Department for Works and Pensions show that the income a 75-year-old can expect to receive has been reduced by 27 per cent. Their average income is now just £15,574 against an average £19,843 in 2005.

### The cost of care

Full-time residential care costs from £30,000 a year, depending on location, the quality of home and the medical care needed. Anyone in England or Northern Ireland with assets worth £23,250 or more pays for their own care.

Those with assets between £14,250 and £23,250 receive help on a sliding scale. In Scotland the limits are £14,000 and £22,750. In Wales there is no sliding scale; the state pays for everything once assets are less than £22,000.

These means tests apply whether you need help to stay in your own home

or require residential care. Your home is not counted as an asset if a spouse or close relative aged 60 or over lives there. If you live alone and need to move into residential care, the house will come into the equation after your first 12 weeks in care.

Local councils, who make the assessments, can also check on gifts made in the years prior to applying for care. This is to prevent older people giving away wealth to beat the means test. ■

IT'S IMPORTANT TO OBTAIN PROFESSIONAL FINANCIAL ADVICE TO ENSURE YOU MAKE THE BEST USE OF YOUR SAVINGS TO COVER CARE COSTS AND RECEIVE ALL THE BENEFITS TO WHICH A RELATIVE MAY BE ENTITLED. PLEASE CONTACT US FOR FURTHER INFORMATION.