



INDEPENDENT DIRECT FINANCIAL MANAGEMENT

JANUARY / FEBRUARY 2011

## Savvy ISA returns of the year

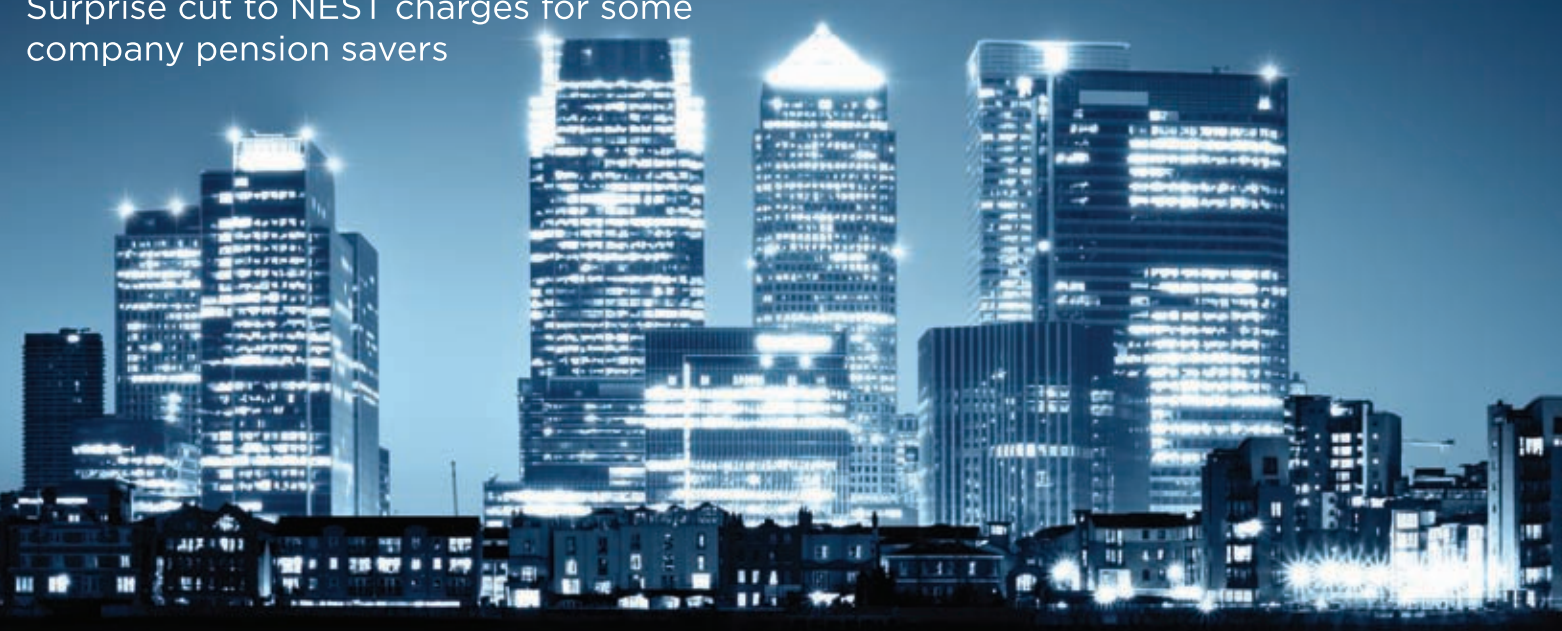
Will you be rushing to use up your tax-free allowance?

## 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

## 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 10, follow our guide to some of the key areas to consider during the period leading up to 5 April.

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 Inheritance Tax (IHT)? If so, and you have a potential liability, have you planned to reduce it? On page 08 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. The 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 this page.

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.

# 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. The 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.*

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.

# 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, 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.

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## WANT TO MAKE MORE OF YOUR MONEY?

FOR MORE INFORMATION PLEASE TICK THE APPROPRIATE BOX OR BOXES BELOW, INCLUDE YOUR PERSONAL DETAILS AND RETURN THIS INFORMATION DIRECTLY TO US.

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| <input type="checkbox"/> Arranging a financial wealth check                            | <input type="checkbox"/> Capital gains tax planning            |
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| <input type="checkbox"/> Generating a bigger retirement income                         | <input type="checkbox"/> Director and employee benefit schemes |
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You voluntarily choose to provide your personal details. Personal information will be treated as confidential by us and held in accordance with the Data Protection Act. You agree that such personal information may be used to provide you with details and products or services in writing or by telephone or email.



# 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. Providing the fund is not depleted by excessive income withdrawals or poor investment performance, there is also the opportunity to increase the income taken as they get older.

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).

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 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.

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.

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.

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. ■

**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.**

*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.*



# 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.



# 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. ■

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*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 and 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.*

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.

# Savvy ISA returns of the year

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

ISAs are tax-free, 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. ■

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.

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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 & Shares ISA only	£10,200 maximum in a Stocks & Shares ISA
or	
Cash ISA and Stocks & Shares ISA	No more than £5,100 in Cash ISA and the balance in the Stocks & Shares ISA up to a combined total of £10,200



# 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 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.

**Loan Trust** – this type of plan could be suitable for those people who wish to take steps to mitigate IHT but still wish to retain access to their original capital. Based upon an investment bond (or any other suitable investment) which is placed in a 'loan trust', any growth on the investment belongs to the trust and is free of IHT, while the original investment belongs to the settlor and is fully accessible at any time and remains within the estate.

**Discounted Gift Schemes** – outright gifts can be a highly efficient method of mitigating IHT, although they are not suitable for many people because of the loss of access to income from the

investments they gift away, an income that many people rely on to live on or even to provide the occasional luxury. Discounted gifts are a way of giving the money away IHT-free after seven years, but the person who makes the gift can also have access to a regular, predetermined income for life. In addition to this, based on a number of factors including age and level of income selected, there could potentially be an immediate discount to IHT.

This means that an investment into a 'discounted gift scheme' usually results in a saving in IHT from the moment the monies are placed in the plan.

**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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*Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts. Inheritance Tax advice is not regulated by the FSA, but any investment products as illustrated would be.*

# 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.

Now will also be an appropriate time to obtain professional advice about whether it makes sense to consolidate your existing pension plans, perhaps into a Self-Invested Personal Pension (SIPP), or to take steps

to protect capital values. There are a number of guaranteed products that could help you achieve this.

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. Many 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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# 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.

### 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 CGT 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 provide an income and capital gains tax-free form of investment. 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 year's Emergency Budget, the government announced the reduction of the annual allowance to £50,000 with effect from 6 April 2011. ■

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# Cost of care: affordability gap widens

## Why an increasing number of older people are giving away their wealth

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. 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.