PERSPECTIVE

FINANCIAL ADVISERS • FUND MANAGERS

SMARTMONEY

MAY / JUNE 2010

TAKING CONTROL OF YOUR EXISTING PENSIONS

TRANSFERRING YOUR PENSIONS TO A SIPP

WHY IT'S TIME TO TALK INHERITANCE TAX

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FUND FOCUS

HOW TO INVEST FOR GROWTH, INCOME OR FOR BOTH

SPRING-CLEAN YOUR PORTFOLIO

TAKING THE OPPORTUNITY TO REVIEW YOUR FINANCIAL AFFAIRS

Perspective Financial Management Ltd.
The Old Library, 24 Walker Avenue, Wolverton Mill, Milton Keynes, MK12 5TW
Tel: 01908 579665 **Fax:** 01908 579664 **Email:** info@perspective-group.com **Web:** www.perspective-group.com

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WELCOME

Welcome to the new edition of our personal financial planning and wealth management magazine.

Each person has their own way of looking at life and their own set of unique circumstances; therefore we believe that it is essential you obtain professional advice when it comes to generating an income for your retirement. If your pension fund is due to mature in the next twelve months, make sure you talk to us sooner rather than later to help ensure that you don't miss out on the best pension arrangement available for your requirements. On page 4 we explain why converting pension savings into an income is probably the most important financial decision you will ever make – and there is no second chance if you get it wrong.

There is no one investment strategy that suits everyone and your decisions on how to divide up your investment portfolio into different types of investment could change over time. If appropriate to your particular situation, now may be a good time to reconsider your attitude towards risk for return and give some thought to whether the structure of your portfolio is still in line with your wishes or whether your investment attitude has changed. Find out more on page 7.

Some major tax changes that had been announced in previous Budgets came into effect on 6 April 2010. From 6 April, income tax has been set at 50 per cent on earnings above £150,000. In addition, income tax allowances and bands have been frozen – meaning that everyone will pay more tax on their earnings if they receive a pay rise. Read the full article on page 8.

A full list of the articles featured in this edition appears on page 3.

CORPORATE RETIREMENT PLANNING

HOW TO CHOOSE THE RIGHT PENSION SCHEME OPTIONS FOR YOU AND YOUR EMPLOYEES

For the entrepreneurial company director or self-employed owner-manager, we can provide advice on setting up small pension schemes not only to fund your own individual pension pot, but also to provide a flexible and tax-efficient vehicle to assist in achieving business economic success.

Employer contributions to the scheme will reduce taxable profits and the funds within the scheme may be used in a variety of ways to assist the business. These include the ability to invest in the company via secured loans or hold company shares. The scheme may also purchase the company premises to lease back to the company in order for the property to be held in a tax-free environment (the rent paid to the scheme will further reduce taxable profits for the company). As the pension scheme can also borrow additional funds, this can help provide further liquidity for the company.

With good planning advice you could make the scheme work for your business by saving tax and providing additional finance, while building up a pension fund to benefit you and your family in retirement. ■

We can help to ensure you meet your obligations under UK law in providing Stakeholder or Group Personal Pension Schemes for your employees. These can act as a legitimate business expense as well as a powerful recruitment tool. You might also like to discuss salary sacrifice arrangements, where employees give up a taxed salary in lieu of employer pension contributions that reduce taxable profits and employer National Insurance costs. These savings can then be shared between employer and employee. If you would like to arrange a meeting or for more information, please contact us today.

WANT TO MAKE MORE OF YOUR MONEY?

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

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

Name ....

Address ....

.... Postcode ....

Tel. (home) ....

Tel. (work) ....

Mobile ....

Email ....

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.

SALARY SACRIFICE

WHY BIG SAVINGS COULD BE MADE BY GIVING UP SOME OF YOUR SALARY

The top rate of income tax increased from 40 per cent to 50 per cent on 6 April for those earning more than £150,000, while the personal allowance will be gradually withdrawn for those earning more than £100,000 and from April 2011 National Insurance contributions (NICs) rise from 11 per cent to 12 per cent.

If appropriate to your particular situation, participating in a salary sacrifice scheme could reduce your taxable income. A salary sacrifice scheme brings down your taxable pay in return for other benefits, so it could help you avoid paying the highest rate of tax. For big public sector employers, it is also a way to give a pay rise.

The most common form of salary sacrifice is to make pension contributions out of your pre-tax earnings. You do not have to pay NICs on contributions and if you can bring your pre-tax income down to a lower band, you will save income tax as well. Most big companies offer pension schemes that save employees tax but not NICs.

From 6 April, someone earning £160,000 will now pay £62,880 in income tax and NICs with no pension contribution. However, if you contributed £16,000, you could bring down your taxable income to £144,000, and pay tax and NICs of £55,320 instead. You would avoid 50 per cent tax on £10,000 of the contribution and 40 per cent tax on the other £6,000, a total tax saving of £7,400 according to figures from Standard Life, the insurer.

You would also reduce NICs by £160 (you pay NICs at 1 per cent on earnings above £43,888). Your employer also saves NICs. If you had earned £16,000 as salary, your employer would have paid NICs at 12.8 per cent, or £2,048. This will instead go into your pension.

The reduction in salary would not have the same effect as asking the employer to make the contributions on the employee's behalf. An employee's cash salary will be permanently reduced and replaced with the pension benefit. Before taking out salary sacrifice, employees should consider the effect this may have on:

- their ability to borrow money, for example for a mortgage
- the amount that can be contributed to their pension plans, or pension plan if they are taken
- their entitlement to redundancy payments, and National Insurance Rebates, State Pensions or other benefits such as Statutory Maternity Pay, working Tax Credit or Child Tax Credit

This may also affect other policies held, such as some forms of income protection. ■

In this Issue

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.

CONVERTING PENSION SAVINGS INTO AN INCOME

PROBABLY THE MOST IMPORTANT FINANCIAL DECISION YOU'LL EVER MAKE

Each person has their own way at looking at life and their own set of unique circumstances; therefore we believe that it is essential you obtain professional advice when it comes to generating an income for your retirement. If your pension fund is due to mature in the next twelve months, make sure you talk to us sooner rather than later to help ensure that you don't miss out on the best pension arrangement available for your requirements. Here we explain why converting pension savings into an income is probably the most important financial decision you will ever make – and there is no second chance if you get it wrong.

If you have an occupational pension the company will usually provide you with a retirement income automatically. If you have private plans or certain types of workplace schemes, these funds will be used either to provide an income or give a percentage of the fund tax-free, using the remainder to generate an income.

It's important to start thinking about your retirement well in advance. You should contact us at least twelve months prior to your intended retirement date. This will enable you to consider what your income requirements will be and also give us the time needed to research the best option available for you.

Time is also required to gather information, collect up-to-date fund valuations and, if applicable, see how any private pensions will complement the State and your workplace pensions.

You may find that you end up using your personal pension fund to buy an annuity from an insurer, swapping your accumulated pension fund for a guaranteed lifetime income.

It is also important to note that your pension provider is not always the one offering the best annuity rates. We can help you consider taking advantage of the Open Market Option (OMO), which involves searching the market place for the best possible annuity.

You must take into account any Guaranteed Annuity Rate (GAR) that may be offered by the existing scheme, as this 'guarantee' is usually valuable and will be lost on transfer. If you are taking your benefits before or after the selected retirement date, you may find the transfer value is subject to a penalty charge.

A GAR is a fixed rate, written into your pension contract, at which you can convert your fund into an annuity irrespective of what OMO rates are doing at that time. There are normally some conditions written into the application of the GAR. It is usually only available at the scheme's Selected Retirement Age, i.e. it will not apply if you retire early or late. It will normally only provide an annuity on your own life and often will not provide for post-retirement increases.

If you are a member of a defined benefit scheme, where you know what retirement income you will receive based on income and length of service, you must begin to draw your pension on or before age 75. If you are a member of a money purchase occupational scheme, a personal pension plan or a stakeholder scheme, where premiums build up a lump sum, a lifetime annuity must be secured on or before age 75.

Unsecured Pensions are a popular alternative to buying a lifetime annuity. They allow you to draw an income from your pension fund while the fund remains invested.

Anyone in a personal or stakeholder pension scheme can use a USP. However, some pension schemes will not operate USPs for small funds. If you are in an occupational money purchase scheme, you may be able to use a USP if the scheme rules allow it. If you are in an employer's scheme that doesn't offer a USP and you want to use it, you must first transfer your pension rights from that scheme into a personal pension scheme.

Another alternative to an annuity at 75 is to put your funds into an Alternatively Secured Pension (ASP). This is an arrangement that can be used at age 75 to avoid buying an annuity if you believe this does not suit your needs or if you believe that better annuity terms may be available at a later date or you want to keep your pension fund invested under your control.

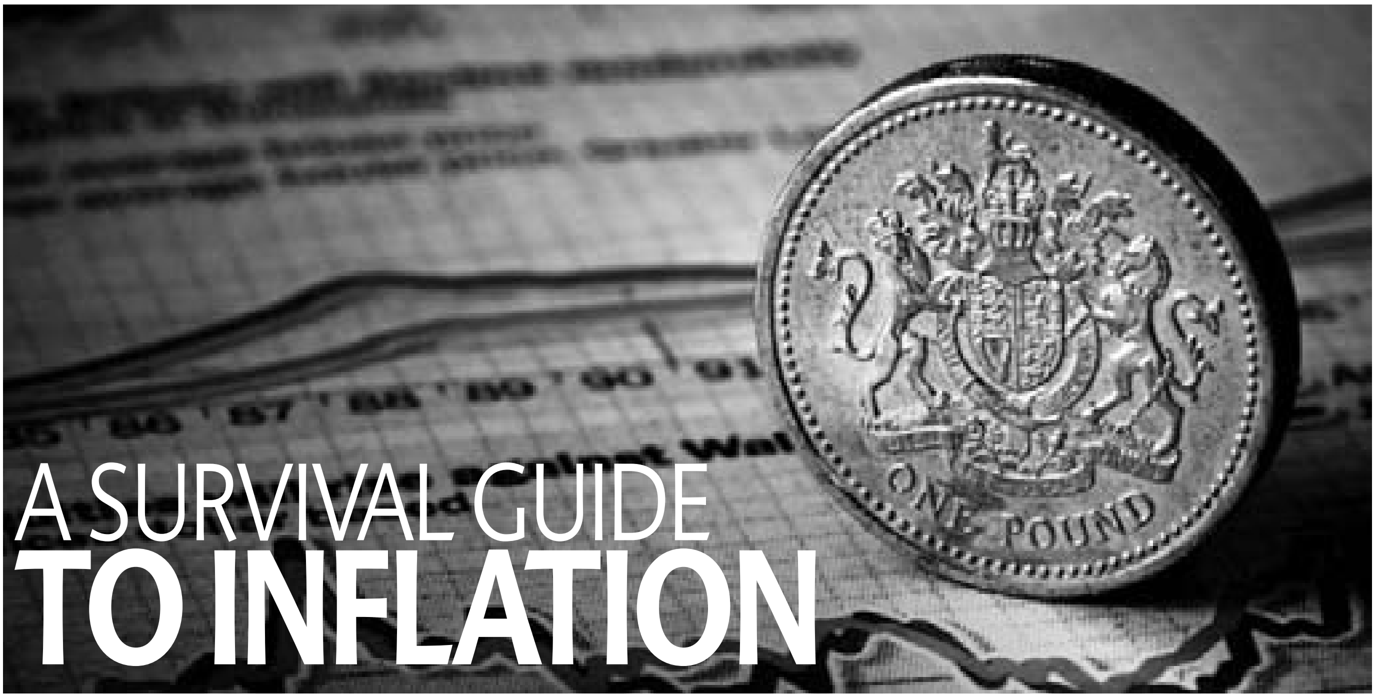
With an ASP, all your pension monies not invested in annuities or scheme pensions already in payment make up your ASP fund at age 75. Any capital growth or income arising from those assets are treated as part of the ASP fund. An income can then be drawn from the ASP fund and the member is free to vary the amount paid year-by-year within the specified limits. The minimum amount of income is 55 per cent and the maximum is 90 per cent of the amount that could have been bought at age 75. This rate is laid down in tables produced by the Government Actuaries Department (GAD). The maximum amount must be recalculated each year at the beginning of the pension year.

The first pension year runs from your 75th birthday. The recalculation is made by reference to the then current GAD tables for someone aged 75. Each year as you get older the maximum continues to be assessed as if you were still 75. You can stop your ASP at any time and apply your fund to buy an annuity. ■

It is also important to note that your pension provider is not always the one offering the best annuity rates.

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.

We recognise our clients as individuals, which is why we deal with every case on a one-to-one individual basis. There are many other options in retirement – to discuss your specific retirement planning requirements, please contact us.



A SURVIVAL GUIDE TO INFLATION

PLANNING FOR INFLATIONARY PRESSURES AND THE EFFECTS ON YOUR ASSETS

Rising inflation poses a risk to any investor. Cash and gilts are the most vulnerable asset classes when it comes to erosion from inflation: cash because the returns are generally quite low and gilts because they pay a fixed interest. In contrast, rental income and company earnings tend to rise in line with inflation. Equity income funds, which invest in companies, aim to pay and grow dividends above the rate of inflation.

If you hold a spread of different asset classes you should be reasonably well protected from the return of inflation. If inflationary pressures begin to build you will need to be aware of the effects this could have on your assets. Rising inflation for savers can reduce the real value of their cash, and for those on a fixed income their purchasing power could diminish.

For savers, the rise in inflation is a real concern. Inflationary erosion can have an impact on money left in a savings account, particularly as few savings products now on the market pay a healthy level of interest. Most people only look at the interest rates they are earning and forget the effect of a rising cost of living. If inflation rises, it could decrease the spending power of your funds.

It's important to make the most of your tax-free savings. Your cash Individual Savings Account (ISA) allowance has increased to £5,100 this year. National Savings & Investments (NS&I) savings certificates are another way to beat inflation and they offer a tax-free return.

Investing in shares is another effective strategy for sheltering your money from inflation over longer periods, as they have the potential to appreciate faster than the rate of inflation. Equity income funds, which invest in companies, can pay and grow dividends above the rate of inflation. Corporate earnings have a good track record of keeping pace with inflation as companies can raise their prices. The compounding effect of reinvesting dividends should also help your money grow ahead of inflation.

Index-linked gilts are government bonds that pay interest calculated with reference to changes in the Retail Prices Index (RPI). The capital value of the investment also changes according to movements in RPI inflation. However, if inflation turns out to be lower than anticipated, your investment value could fall and your income might be lower than expected.

Property is another investment to consider during an inflationary environment. A small exposure to commercial property may be worthwhile to help offset inflationary pressures. It is early days in the recovery, but yields could begin to look more reasonable and there is the prospect of capital growth over the longer term.

Gold also has the ability to retain value over time. It can be bought through an exchange traded fund (ETF) but there will be management charges to consider. Historically, gold has retained its spending power over very long periods of time, whereas paper currencies are gradually eroded by inflation. An ETF tracks the price by investing in physical gold. It is bought and sold just like ordinary shares.

The impact on pensions will depend on whether the period of inflation is prolonged. The effects of inflation on a pension can be considerable in the long run. Also, if you are in or approaching retirement, the headline inflation rate is only ever part of the story and the actual inflation rate for those in retirement is usually much higher than the official figures.

If you're a pensioner on a fixed income, price inflation will be a particular concern. It's important to take the time to review the performance of your portfolio in terms of actual returns. However, if an annuity has already been selected and it is fixed, there may be little that can be done to protect against inflation.

If you are approaching retirement you have a few more options, such as an index-linked annuity that escalates either at a fixed rate or in line with price inflation. However, these are more expensive than level annuities and will mean starting at a lower level of income, but while the spending power of your level annuity will fall, the inflation-linked annuity should remain the same.

Another alternative is an unsecured pension, which keeps the pension fund invested while drawing an income. This could mean that you benefit from capital growth in line with inflation and could maintain your purchasing power. ■

Holding a spread of different asset classes could protect you from the return of inflation. If you would like us to review your particular requirements, please contact us.

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

> GENERATING AN INCOME FROM YOUR INVESTMENT IS OFTEN AN IMPORTANT REQUIREMENT FOR PEOPLE WHO ARE RETIRED OR APPROACHING RETIREMENT OR THOSE WHO NEED TO SUPPLEMENT THEIR SALARY.

HOW TO INVEST FOR GROWTH, INCOME OR BOTH

WHETHER YOU WANT TO GROW YOUR CAPITAL, INCREASE YOUR INCOME OR BOTH, THIS WILL DETERMINE THE TYPE OF INVESTMENTS YOU CHOOSE. A GROWTH INVESTMENT IS DESIGNED TO EXPAND THE ORIGINAL AMOUNT OF MONEY YOU'VE SET WHEREAS AN INCOME-DRIVEN INVESTMENT IS MEANT TO GENERATE REGULAR PAYMENTS TO YOU, IDEALLY WITHOUT EATING INTO YOUR MONEY.

GROWTH INVESTMENTS

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

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

Although past performance is not an indication of future performance, investors looking to see their assets grow over time should consider investing in the stock market, which is generally considered to be the best home for a long-term investment.

Growth stocks are also less stable than their income-generating counterparts, because there is no guarantee that their value will continue to rise. Many areas of growth tend to be subject to changes in investor sentiment.

GENERATING AN INCOME

Generating an income from your investment is often an important requirement for people who are retired or approaching retirement or those who need to supplement their salary.

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

DECIDING BETWEEN GROWTH AND INCOME INVESTMENTS

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

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

Investing is all about choice and making sure that the investments you choose are the right ones to meet your personal objectives. If you would like to discuss how we could help you, 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.

SPRING-CLEAN YOUR PORTFOLIO

TAKING THE OPPORTUNITY TO REVIEW YOUR FINANCIAL AFFAIRS

There is no one investment strategy that suits everyone and your decisions on how to divide up your investment portfolio into different types of investment will change over time. If appropriate to your particular situation, now may be a good time to reconsider your attitude towards risk for return and give some thought to whether the structure of your portfolio is still in line with your wishes or whether your investment attitude has changed.

You also need to bear in mind any other changes in your personal circumstances that could impact your selection of stocks. It's generally accepted, for example, that as people approach retirement age the balance of their portfolio tends to switch away from capital growth stocks towards those that provide a source of income. Also, if you are planning to buy an annuity, you are likely to want to reduce volatility.

It's important, too, to check that any price limits or targets you may have set yourself are still at a level with which you are comfortable. In addition, consider how best to monitor the performance of your portfolio going forward.

You should review the weighting and balance of the constituents of your portfolio. Above all, there is the importance of diversification, both geographically and between sectors, even between asset classes and the weightings you wish to keep in each part of your portfolio. Not having all your eggs in one basket means if one part of your portfolio underperforms, this could be compensated for elsewhere.

The process of deciding what proportion of your portfolio should be invested in different types of investment is called 'asset allocation'. The four main asset classes are:

- Equities
- Bonds
- Cash
- Property

These asset classes have different characteristics for risk. There is a wide variety of different asset classes available to invest in and commensurate risks attached to each one. While these implicit risks cannot be avoided, they can be mitigated as part of the overall investment portfolio by diversifying.

Different investments behave in different ways and are subject to different risks. Saving your money in a range of assets helps reduce your exposure should one of your investments suffer a downturn.

There is also a need to diversify within each type of investment. This is especially important in the case of share and bond investing, but can even be true of cash, where the risks are generally lowest.

By spreading your investments over a wide range of asset classes and different sectors, it is possible to avoid the risk that your portfolio becomes overly reliant on the performance of one particular asset. Key to diversification is selecting assets that behave in different ways.

Some assets are said to be 'negatively correlated' – for instance, bonds and property often behave in a contrary 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 across different sizes of companies, and different sectors and geographic regions.

Growth stocks are held because investors believe their value is likely to grow significantly over the long term, whereas value shares are held since they are regarded as being cheaper than the intrinsic worth of the companies in which they represent a stake. By mixing styles that can outperform or under-perform under different economic conditions, the overall risk rating of the investment portfolio is reduced. Picking the right combination of these depends on your risk profile, so it is essential to seek professional advice to ensure that your investment portfolio is commensurate with your attitude to investment risk.

The important thing to remember is that with investments, even if your investment goes down, you will only actually make a loss if you cash it in at that time. If you are going to invest, you need to be prepared to take some risk and also be prepared that you may see some falls in the value of your investments.

You should also be aware of currency risk. Currencies – for example sterling, euros, dollars and yen – move in relation to one another. If you are putting your money into investments in another country, then their value will move up and down in line with currency changes as well as the normal share-price movements.

Another consideration is the risk of inflation. Inflation means that you will need more money in the future to buy the same things as now. When investing, therefore, beating inflation is an important aim. ■

Keeping your objectives and circumstances up to date will certainly give your portfolio ample opportunity to flourish. To discuss your unique requirements, please contact us.

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BUDGET2010 QUESTIONS ANSWERED

SOME MAJOR TAX CHANGES THAT HAD BEEN ANNOUNCED IN PREVIOUS BUDGETS CAME INTO EFFECT ON 6 APRIL 2010. FROM 6 APRIL, INCOME TAX HAS BEEN SET AT 50 PER CENT ON EARNINGS ABOVE £150,000. IN ADDITION, INCOME TAX ALLOWANCES AND BANDS HAVE BEEN FROZEN – MEANING THAT EVERYONE WILL PAY MORE TAX ON THEIR EARNINGS IF THEY RECEIVE A PAY RISE.

Following Budget 2010 we have provided answers to some of the most frequently asked questions we've received from clients.

Q: **I'm a first time buyer – what help was announced to enable me to get on to the property ladder?**

A: For two years starting from 25 March 2010, stamp duty has been scrapped on home purchases made by first-time buyers on properties worth up to £250,000. Couples buying homes jointly where one partner has previously bought a property will not be eligible, even if the other partner is a first-time buyer.

Q: **We're currently looking to sell our house valued at £1.4m – how will Budget 2010 impact on the sale?**

A: If you are able to sell your house before 5 April 2011, you will not be subject to the stamp duty increase announced; however, after this date the stamp duty rate payable on a property purchase of more than £1m will increase from 4 per cent to 5 per cent.

Q: **Following Budget 2010, will we need to review our current inheritance tax planning provisions?**

A: The pledge to increase the inheritance tax threshold (IHT) to £350,000 will now not take place; the Chancellor announced that he was freezing the current threshold of £325,000 for the next four years. The freezing of the IHT band for a further four years could cost a couple an additional £37,000 in IHT in real terms. If the value of your estate increases further and falls outside your current IHT provisions, it will make sense to seek professional advice and review your particular situation, especially if the value of your estate increases considerably over the next four years. Freezing the IHT threshold for another four years will mean that more families should consider estate planning opportunities by maximising reliefs and exemptions.

Q: **I'm an entrepreneur and plan to sell my business within the next year – how will Budget 2010 affect me?**

A: The Chancellor confirmed that the rate of capital gains tax (CGT) will remain at 18 per cent. However, the annual amount of gains exempt from the tax has been frozen at £10,100. The good news for entrepreneurs from April 2010 is that you will only have to pay 10 per cent on the first £2m of capital gains. Depending on the value of your business, this could save you up to £80,000 when you sell.

Q: **I'm a small business owner – were there any good news announcements in Budget 2010 for me?**

A: At the centre of this Budget was a £2.5bn package for small and medium-sized businesses. Business rates will be cut for a year from October and the investment allowance for small firms has been doubled to £100,000. Measures announced for small businesses aimed at assisting cash flow included the extension of HMRC's 'Time to pay' scheme. This scheme supports companies in distress struggling to pay their tax bills. The Chancellor has also ordered state-funded banks RBS and Lloyds TSB to provide £94bn in small business loans and has created a new credit adjudication service for business owners who feel they have been unfairly rejected for credit.

Q: **I earn £50,000 – how will my income be affected by Budget 2010?**

A: As previously announced, the Chancellor decided to freeze all income tax bands, which will mean you pay more tax on your earnings. There will be a 0.5 per cent increase in National Insurance contributions from 6 April 2011. The threshold at which you start paying tax at 40 per cent remains at £43,875 for the 2010/11 tax year. This could mean you end up paying an extra £1,248 a year based on a £50,000 annual salary. The top rate of tax for people earning more than £150,000 is 50 per cent, up from 40 per cent, which commenced on 6 April 2010.

Q: **I'm aged 42 and want to take out an Individual Savings Account (ISA) – is it correct that I will be able to save a higher amount?**

A: The Chancellor had already announced that the total ISA limit for everyone would increase to £10,200 from 6 April 2010. Depending on your attitude towards risk for return, you could now put all of your money into a stocks and shares ISA, or alternatively put up to £5,100 (previously £3,600) into a cash ISA, with the remainder available for stocks and shares. The Chancellor also announced that from 6 April 2011, the ISA limits would increase in line with inflation for every year of the next parliament. The level of the increase will be set by the level of the Retail Price Index (RPI) the preceding September.

Q: **I currently receive pension tax relief – following Budget 2010 will it be limited?**

A: It really depends on your level of income. If you earn over £130,000, the Chancellor confirmed that tax relief on pension contributions will be restricted from 6 April 2011. If your pre-tax income (including your own pension contributions) is less than £130,000 you will not be affected. Previously, up to 100 per cent of an employee's salary could be paid into a pension tax-free. In an extensive report on the proposed changes, the government said: 'It is neither fair nor sustainable in the current fiscal context to offer the greatest incentive to save in a pension to those who need it least. For these reasons, the government has acted to address the disproportionate levels of relief going to individuals on the highest incomes.' The rate of relief will be tapered down so that those on incomes of £180,000 and over will receive relief at 20 per cent, the same rate as a basic rate taxpayer.

Q: **We are over 80 – what did Budget 2010 mean for us?**

A: Last year's temporary increase to the winter fuel allowance was renewed for another year. This means that each household with someone over the female state pension age will receive £250, and each household with someone over the age of 80 will receive £400. The Chancellor is also making it easier for over-60s to claim working tax credit by cutting the number of working hours needed to qualify. ■

BUDGET 2010 AT A GLANCE

WERE YOU A WINNER OR A LOSER?

Take a look at our guide and see how your finances may have been affected by Budget 2010.

Economy

- Net government borrowing estimate this year will fall from the £178bn target by £11bn this year, to £167bn or 11.8 per cent of GDP.
- Borrowing will fall to £163bn next year, which is equal to 11.1 per cent of GDP. It will then fall to £131bn in 2011/12, or 8.5 per cent of GDP. Borrowing will then decline to £110bn, or 6.8 per cent of GDP, to £89bn in 2013/14, equal to 5.2 per cent of GDP and to £74bn in 2014/15 at 4 per cent of GDP.
- Growth forecast for 2011 revised down to between 3 per cent and 3.5 per cent. Predicted growth of 1.0-1.5 per cent in 2010 in line with forecasts.
- Net debt as a share of GDP will reach 54 per cent this year. It will then increase to 75 per cent by the end of the forecast period in 2014/15 and will then begin to fall.

Jobs and education

- The number of civil servants in London is to be reduced by one third over the long term, with 15,000 posts relocated within the next five years to help to save £11bn. One thousand civil servants in the Ministry of Justice will be moved out of London, saving £41m.
- Consultation on reform of employers' right to make people retire at 65, which examines options including scrapping the default retirement age, raising it or giving employees stronger rights.
- Guarantee to provide a job or training to 18 to 24-year-olds out of work for more than six months will run until March 2012, instead of ending in March 2011.
- Government to set up a £35m University Enterprise Capital Fund to support 'innovation and spin-out companies'.
- £270m available in 2010/11 to fund an extra 20,000 university places in areas such as science, technology, engineering and maths as part of a University Modernisation Fund.
- The £2.5bn cost of training young people and extra university places will be partly funded from the tax on bankers' bonuses.

Housing

- A new stamp duty holiday introduced for properties of up to £250,000 to be funded through an increase in stamp duty from 4 per cent to 5 per cent on properties worth £1m or more from April next year.
- From October 2011, the most expensive properties across the country will be excluded from the Housing Benefit calculation in each area to save £250m a year.

Family finances and pensions

- Higher winter fuel payment will be guaranteed for another year, to be paid by closing tax loopholes.
- Inheritance tax threshold will be frozen for four years.
- Tax credit system extended for people aged over 60. People will have to work fewer minimum hours to qualify for tax credits.
- Parents of one- and two-year-olds to receive £4-a-week increase in child tax credit from 2012.

Environment

- Government to set up a new green investment bank, which will control £2bn of equity, to fund a low-carbon economy. Half the cost will come from asset sales, including the Channel Tunnel Rail Link, with the rest matched by private investment.
- Extra £60m provided to fund offshore wind farms.

Taxes

- Confirmation of the 50 per cent rate of income tax from 6 April for people earning more than £150,000.
- Continued drive to prevent tax evasion and avoidance. Tax information agreements will be signed with Dominica, Grenada and Belize.
- Confirmation of a 0.5 per cent increase in National Insurance for people earning more than £20,000, which will come into effect from April next year.

Public finances

- Public sector pay rises held at 1 per cent for two years from 2011.
- Budget plans will raise an extra £19bn to reduce borrowing.
- Government to provide £100m to repair roads and a further £285m to fix motorways.
- The government will go ahead with plans to sell the Tote as part of plans to pull in £16bn from asset sales.
- Government finalising options on the sale of the Dartford Crossing.
- An extra £4bn will be used to fund operations in Afghanistan.

> INVESTING IN COMMERCIAL PROPERTY COULD BE A PARTICULARLY USEFUL FACILITY FOR OWNERS OF SMALL BUSINESSES, WHO CAN BUY PREMISES THROUGH THEIR PENSION FUNDS.

TAKING CONTROL OF YOUR EXISTING PENSIONS

TRANSFERRING YOUR PENSIONS TO A SIPP

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 Self-Invested Personal Pension (SIPP) could be the retirement planning solution to discuss with us.

Many SIPP providers will now permit you to set up a lump sum transfer contribution from another pension with 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.

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

- Stakeholder Pension Plans
- Personal Pensions Plans
- Retirement Annuity Contracts
- Other SIPPs
- Executive Pension Plans (EPPs)
- Free Standing Additional Voluntary Contribution Plans (FSAVCs)
- Most Paid Up Occupational Money Purchase Plans

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.

Investing in commercial property could be a particularly useful facility for owners of small businesses, who can buy premises through their pension funds. There are tax advantages, including no capital gains tax to pay, in using the fund to buy commercial property. The rental income is received tax-free by the fund and when the property is sold, which must be before the pension is drawn.

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.

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.

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

SIPPs are no longer the elite product they were when they were first launched. If you would like to discuss your retirement planning options, please contact us for further information.

The value of your SIPP when you draw benefits cannot be guaranteed as it will depend on investment performance. The value of fund units can go down as well as up and investment growth is not guaranteed. The tax benefits and governing rules of SIPPs may change in the future. The level of pension benefits payable cannot be guaranteed as they will depend on interest rates when you start taking your benefits. The value of your SIPP may be less than you expected if you stop or reduce contributions, or if you take your pension earlier than you had planned.

WHY IT'S TIME TO TALK INHERITANCE TAX

THE DOWNTURN HAS PROVIDED AN UNEXPECTED UPSIDE

What many people are not aware of is that a pre-inheritance gift can still lead to a potential inheritance tax (IHT) issue. Any large, outright gifts are treated as Potentially Exempt Transfers (PETs), which means that there could still be a liability to IHT if you die within seven years of making the gift.

If you give away money and survive more than seven years, the full value of that PET falls outside your estate for tax purposes and, after three years, taper relief reduces the IHT payable, but otherwise it could be liable for the full 40 per cent tax charge.

Therefore, if you are confident that you could manage both now and later down the line without all your assets, and want to reduce the value of your estate and help loved ones, you should make gifts as soon as possible to begin that seven-year clock. The gift also needs to be without reservation.

Careful planning should ensure that any IHT liability is reduced or potentially eliminated entirely, so calculating your current liability is a priority. IHT is payable only if the value of your estate exceeds the nil rate band for that tax year. It currently stands at £325,000 and has been frozen for the next four tax years. Any assets above this amount are taxed at 40 per cent, so an estate worth £1m would attract an IHT bill of £270,000.

Additionally, since 2007, married couples can benefit from any unused IHT allowance when one partner dies, as the unused portion of that allowance can be transferred to the survivor. This would mean that the surviving partner could have an estate worth up to £650,000, twice the current nil rate band, without having to pay IHT.

Once you've worked out your estate value, it's time to consider making the most of your gift allowances. First, capital gifts of up to £3,000 per year can be made without incurring IHT. This allowance can also be carried forward for one year. Then, any number of small gifts, up to £250 per year, can be given to any number of recipients, plus gifts of £5,000 to a child and £2,500 to a grandchild as a wedding present.

One of the most effective ways to use these allowances is to set up regular annual savings for your children or grandchildren, so £3,000 could be paid into an ISA or a stakeholder pension.

Finally, any gifts out of income, not capital, that are 'regular and habitual' are also free of IHT, so it is possible to start drawing income from investments that are currently accumulating, then give this income as surplus. ■

Planning to reduce IHT is not just about saving money. It's about helping you to preserve and pass on your wealth in the most tax-efficient way. There are a number of different ways of addressing the subject of IHT to help you achieve the solution you want, so please contact us to discuss your requirements – don't leave it to chance!

PENSION REFORMS

HOW THE GOVERNMENT CHANGES TO PENSION RULES COULD AFFECT YOU

On 6 April this year, several changes were introduced by the Department for Work and Pensions aimed at helping women, carers and low earners in retirement, but it was not good news for everyone.

One of the most significant changes is the increased minimum age for drawing a pension. From 6 April, the minimum pension age increased to age 55, affecting more than four million people who were born between 6 April 1955 and 5 April 1960 who will now have to wait for up to five years to draw their pension.

The state pension age for women also started to rise from 6 April until it reaches 65 in 2020. By 2026, it is set to rise to 66 for everyone, until it ultimately reaches 68 in 2046.

Other changes include a reduction in the National Insurance (NI) contributions required to qualify for the full basic state pension, which increased from £95.25 a week to £97.65 a week from 6 April. Men and women will now need to build up just 30 years of contributions, which the government predicts will allow for an extra 40,000 women who reach pension age in the next tax year to qualify for the full state pension.

The state second pension will also be affected by the reforms and now payments within the upper earnings threshold have been reduced from 20 to 10 per cent. Further down the line, this will be moved to a flat-rate payment rather than an earnings-related pension, and will continue to be linked to inflation, not earnings.

A new credits system replaces the Home Responsibilities Protection (HRP) scheme, which is designed to help parents and carers to qualify for the state pension. From 6 April, qualifying years can now be built up through weekly credits. These can then be added on to any paid contributions made when at work, with no limit on the credits awarded, as long as the qualifying rules are met.

For those reaching state pension age after this change takes effect, each complete year of HRP, up to a maximum of 22 years, will be converted into qualifying years for the basic state pension.

INVESTMENT MATTERS

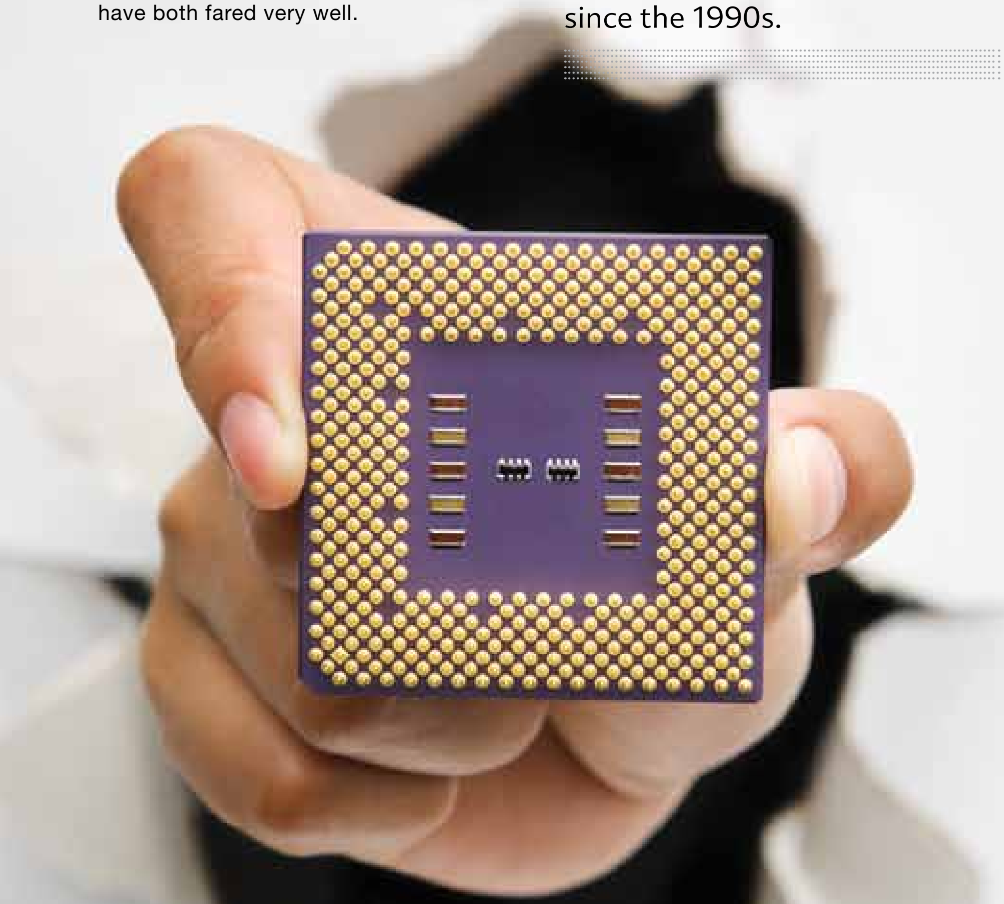
OPTIMISTIC INVESTORS RETURN TO TECH STOCKS

It is now ten years since the dotcom bubble burst and today the technology sector landscape is completely different to that of a decade ago. At the end of the 1990s and beginning of the 2000s, companies were floating based on an idea rather than profit or even sales. Many investors got caught up in the hype and then, unfortunately, got caught up in the bubble bursting. Ten years down the line, the technology sector is far removed from those heady days. There are still start-up companies looking to float but these days investors are far more savvy and demanding in what they are looking for.

However, not everyone was a casualty and research from Fidelity International shows that some technology companies that survived the crash have managed to make money for shareholders; SanDisk, the flash memory maker, and Amazon.com have both fared very well.

For most tech survivors, share prices in 1999 were generally much higher than now because prices were greatly inflated by the frenzy at the time. The fact that the sector is no longer expensive – indeed, in many cases valuations are at multi-year lows – is helping to boost the appeal of technology stocks once again but for the right commercial reasons.

For many fund managers, technology is currently one of their most favoured themes and this is despite the vastly reduced number of dedicated technology funds in recent years — a result of investors remaining wary of the sector since the 1990s.



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Technology companies have experienced an unusually profound recovery with earnings now above their mid-2008 peak, having risen more than 79 per cent from this time last year, according to Threadneedle Investments. It believes the relatively low levels of debt and high cash balances built up by technology companies after the dotcom bubble burst will serve them well in a slow recovery.

With a number of new tech product cycles ahead, either just starting or likely to start, this may mean that some companies could see very good top-line growth combined with very good earnings growth.

Technology companies are now taking a more grown-up view of forecasts. Gone are the unrealistic revenue growth predictions, replaced by a bottom-line focus on profits and cash flows.

A lot of technology company executives have been through the dotcom boom and bust and are being disciplined in the current downturn. Balance sheets across the sector are generally in very good shape and valuations are still quite attractive relative to the long-term history of the sector and to the market. But despite the positive outlook, investing in technology is not for the faint-hearted and is a high-risk strategy. ■

Whatever your reasons for investing, you'll want your money to work as hard as possible for you. We can advise on a range of funds and help you decide which funds will suit you based on your specific objectives. If you consider the technology sector holds investment potential and would like to find out more, please contact us to discuss your particular requirements.

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.

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