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wealth management

JULY / AUGUST 2010

# EMERGENCY BUDGET 2010 AT A GLANCE

WERE YOU A WINNER OR A LOSER?

# OPEN FOR BUSINESS

BUSINESS TAXES GIVEN  
SOME RESPIRE



## CAPITAL GAINS TAX

'ONE OF THE MOST  
CHAOTIC AREAS OF TAX'

## IN SEARCH OF INCOME

ALTERNATIVE HOMES FOR  
YOUR NEST EGGS

## LIFESTYLE PROTECTION

HAS YOUR NEED FOR  
PROTECTION CHANGED?

## FINANCIAL FOUNDATIONS

WE TAKE THE TIME TO FIND  
OUT ABOUT YOU

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Creating wealth for you



# WELCOME



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

The Chancellor of the Exchequer, George Osborne MP, delivered on 22 June what he described as a 'tough but fair' emergency Budget. In his speech, the Chancellor set out his five-year plan to reduce the Budget deficit, rebalance the British economy and design a new model for economic growth. Find out how you fared on this page and on page 12.

Saving for your retirement is one of the most important financial plans you can make. If you're currently in your 40s, 50s or 60s, you may be looking forward to a time when you have the freedom to do what you want, when you want. On page 4 we look at how you can make sure you stay on track to achieve a comfortable retirement.

The Bank of England's decision to keep interest rates low means that many savers will now receive virtually no return from their money. As a result, many will be looking for alternative homes for their nest eggs. If you are considering building a portfolio of income-producing funds, your first priority should be to decide the level of risk you're happy with and the investment term. On page 10 we consider some of the options available.

Also inside this issue: green investors have been rewarded for their principled approach and the Chancellor of the Exchequer explains why he wants a sign to go up over the British economy saying 'Open for Business'.

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



## A 'TOUGH BUT FAIR' BUDGET REBALANCING THE BRITISH ECONOMY

The Chancellor of the Exchequer, George Osborne MP, delivered on 22 June what he described as a 'tough but fair' emergency Budget. In his speech, the Chancellor set out his five-year plan to reduce the Budget deficit, rebalance the British economy and design a new model for economic growth.

There will be a two-year pay freeze for public sector workers earning more than £21,000, although the 1.7 million lowest paid will get a flat £250 pay rise each year. Limits will be put on the salaries of the highest paid public sector workers.

Around 880,000 workers will no longer pay income tax after the Chancellor raised the personal allowance by £1,000 to £7,475 from £6,475. Basic-rate taxpayers will be

£170 a year better off as a result.

Those earning more than £40,000 will not benefit because they will be subject to the rise in National Insurance contributions, a Labour policy that Mr Osborne has decided to retain.

For investors, basic-rate taxpayers will continue to pay capital gains tax (CGT) at 18 per cent and the annual exemption of £10,100 remains. Higher-rate taxpayers will now pay 28 per cent.

Child tax credits will be withdrawn for families earning more than £40,000 a year, rather than £50,000, while child benefit will be frozen for the next three years.

For business, there were reductions in corporate tax rates and proposals to consult on corporation tax reform. However, the banking sector will have to bear the cost of a new bank levy.

# 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 \_\_\_\_\_  
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 Tel. (work) \_\_\_\_\_  
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“ THE RATE OF CGT WILL BE HELD AT 18 PER CENT IF YOUR COMBINED TAXABLE GAINS AND INCOME ARE BELOW THE UPPER LIMIT OF THE BASIC RATE OF INCOME TAX, CURRENTLY £37,400. ”



# CAPITAL GAINS TAX

‘ONE OF THE MOST CHAOTIC AREAS OF TAX’

During his first emergency Budget speech, the Chancellor of the Exchequer, George Osborne MP, announced that higher-rate taxpayers would see the rate of capital gains tax (CGT) increase to 28 per cent from the previous 18 per cent, while the annual exemption of £10,100 would remain in place. He also said basic-rate taxpayers will continue to pay CGT at a rate of 18 per cent.

The rate of CGT will be held at 18 per cent if your combined taxable gains and income are below the upper limit of the basic rate of income tax, currently £37,400.

The Chancellor said the CGT regime was ‘one of the most chaotic areas of tax’ inherited from the Labour government and that he endeavoured to ‘balance the competing demands of fairness, simplicity and competitiveness’ in the reforms. He said the existing system had encouraged people to avoid paying tax by exploiting ‘the wider gap between the rate of capital gains tax and the top rates of income tax’.

He also announced that the 10 per cent CGT rate for entrepreneurs, which previously applied to the first £2m of qualifying gains made over a lifetime, would be extended to the first £5m of lifetime gains.

The Chancellor said that by leaving the rate at 18 per cent for low- and middle-income earners, he was excluding half the payers of CGT from the tax increase. The annual exempt amount for CGT remains at £10,100 this year and will continue to rise with inflation in future years. He said the government had considered introducing tapers or indexation allowances

instead of the flat rates, but had concluded that the complexity and administration involved would have been ‘self-defeating’.

## Did you know?

Each taxpayer can realise an amount of capital gains each tax year free of CGT. This annual exemption is currently £10,100 (2010/11) of capital gains and therefore, when planning to sell a capital asset, consideration should be given to splitting ownership between husband and wife, or between civil partners, to benefit from two annual exemptions. The transfer of assets between spouses or civil partners is on a ‘no gain no loss’ basis, so this can provide an immediate saving of CGT. Similarly, you could consider spreading disposals over a number of years.

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

*Thresholds, percentage rates and tax legislation may change in subsequent finance acts.*

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# PENSION PLANNING IN YOUR 40s, 50s AND 60s

## STAYING ON TRACK FOR A COMFORTABLE RETIREMENT

Saving for your retirement is one of the most important financial plans you can make. You can choose to save in a pension scheme and/or a savings plan, but whatever you decide, you'll want your funds to grow and be worth as much as possible in the long term.

If you're currently in your 40s, 50s or 60s, you may be looking forward to a time when you have the freedom to do what you want, when you want. Staying on track to achieve a comfortable retirement requires careful planning, which is why we provide professional advice to enable our clients fully to understand the different options available that can help boost their savings during retirement.

When advising our clients, we also take into account investing in non-pension savings that could be used to supplement pension savings and provide the facility to access money in the event of an emergency. We consider the importance of making sure our clients have the right mix of investments, which is crucial to ensure their savings outpace the return of any threat of future rising inflation. In addition, some of our clients as they approach retirement may also want to take up to 25 per cent of their pension fund as a tax-free lump sum, which they could use to supplement their retirement income by reinvesting in a flexible investment.

Complete retirement from work or changing work patterns, such as becoming a part-time or temporary worker, will also mean changes in lifestyles. We can help you implement a bespoke retirement planning strategy to

ensure that you can look forward to a comfortable retirement. So what do you need to consider?

### 40 somethings

If you haven't started saving for your retirement by the time you reach your 40s, you need to do something about it! You may already be saving or investing via a tax-efficient Individual Savings Account (ISA), which could be used to supplement part of your income during your retirement years.

### If you haven't started saving for your retirement by the time you reach your 40s, you need to do something about it!

During this stage of your life your earnings may be rising, so it's crucial to allocate the right percentage of your income towards your future pension provision. Ideally, by the time you reach your 40s you will already have built up some retirement savings, whether in the form of ISAs or a company or personal scheme.

But if you haven't started, it's not too late – it will just require more effort. This is a very crucial time for your retirement planning and it's imperative that you act now. Your earnings are likely to be approaching their highest level during this period of your working life and it's important to make the most of any pay rises and bonuses to help increase your retirement savings.

We can help you set a realistic target retirement age and provide an understanding about

what your lifestyle may look like during retirement.

### 50 somethings

This decade is perhaps the most important of all when it comes to retirement planning. As you enter your 50s you should be maximising your contributions, and as you move towards your late 50s you should be considering reducing an element of investment risk from your retirement strategy.

If you are looking to achieve greater control over where

your money is invested, and if appropriate to your particular situation, you may wish to consider a Self-Invested Pension Plan (SIPP). A SIPP is a personal pension but with added flexibility. 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. We can make sure you are aware of any penalties you may be charged or any bonuses or guarantees you could 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 may affect you. Switching regular contributions to a new pension could mean future regular contributions are subject to a £20,000 limit.

We can help you plan for a specific retirement target age. It might not be definitive, but it will serve as a point of focus. Calculating the sort of income you may require and taking a detailed look at your pension and where it's invested are also crucial planning requirements. Positioning your pension fund for your choice of retirement income options is also essential.

If you are likely to purchase an annuity when you retire, you may wish to phase out volatility from your pension fund. This will mean there is less risk of a reduction in value prior to taking your benefits and can be achieved by moving money out of higher-risk equities and into safer cash investments.

### 60 somethings

During this decade, you will be making important decisions about how your pension fund produces cash and income in retirement. These will often be lasting decisions that can have a major impact on your future finances. This is particularly true in the case of annuities, where the options are varied. You may also qualify for a higher annuity rate if you are a smoker or have an illness.

Making choices at retirement is about so much more than simply choosing the most competitive annuity rate. You may wish to utilise alternative methods to achieve greater control over your income flexibility in retirement and phase the payment of tax-free cash over several years to reduce income tax bills.



## DID YOU KNOW?

### Forecasting your pension

It's important to check how much pension you'll receive on retirement, which means you can take action now if you think you won't have enough to live on when you retire. You can do this by obtaining a forecast of what your State Pension or other pensions will pay.

### Gaps in your National Insurance record

You get a State Pension if you've paid enough National Insurance Contributions (NICs) during your working life. If there are gaps in your NICs record, your entitlement to the State Pension may be affected. You might want to consider filling in the gaps by paying extra contributions.

### Pension rule changes from 2006

Since April 2006, simpler rules have been applied to both personal and company (occupational) schemes. These allow most people to pay more into their pension schemes and on more flexible terms.

*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. The value of tax savings and eligibility to invest in an ISA or SIPP will depend on individual circumstances, and all tax rules may change in the future. 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.*

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

# GREEN INVESTORS

## A PRINCIPLED APPROACH

Green investors have been rewarded for their principled approach after it was revealed that the performance of the ethical funds sector had improved over the past year.

The latest survey from Moneyfacts showed that ethical investment funds had enjoyed strong returns over the last 12 months. The Ethical Investment Research Service (EIRIS) also recently revealed that investments into green and ethical funds in the UK had hit a record high.

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

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

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

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# PROTECTING YOUR WEALTH

## VALUING AN ESTATE FOR INHERITANCE TAX

Helping you protect your wealth is an important part of what we do, and one thing is certain, you need to plan to protect your wealth from a potential Inheritance Tax (IHT) liability. Benjamin Franklin once said that 'nothing is certain but death and taxes', and thanks to IHT, they're not only certain, they're intrinsically linked. Once only the domain of the very wealthy, the wide-scale increase in home ownership and rising property values over the past decade have pushed many estates over the IHT threshold. However, in recent years we have also seen property price reductions.

IHT applies to your entire worldwide estate, including your property, savings, car, furniture and personal effects. You should also consider all of your investments, pensions and life insurance policies and ensure that life policies are held in an appropriate trust so they do not add to the value of your estate.

When valuing a deceased person's estate, you need to include assets (property, possessions and money) they owned at their death and certain assets they gave away during the seven years before they died. The valuation must accurately reflect what those assets would reasonably receive in the open market at the date of death.

Valuing the deceased person's estate is one of the first things you need to do as the personal representative. You won't normally be able to take over management of their estate (called 'applying for probate' or sometimes 'applying for a grant of representation/confirmation') until all or some of any IHT that is due has been paid.

### Valuation process

This initially involves taking the value of all the assets owned by the deceased person, together with the value of:

- their share of any assets that they owned jointly with someone else – for example, a house that they owned with their partner
- any assets that are held in a trust, from which they had the right to benefit
- any assets that they had given away, but in which they kept an interest – for instance, if they gave a house to their children but still lived in it rent-free
- certain assets that they gave away within the last seven years

Next, from the total value above, deduct everything that the deceased person owed, for example:

- any outstanding mortgages or other loans
- unpaid bills
- funeral expenses

If the debts exceed the value of the assets owned by the person who has died, the difference cannot be set against the value of trust property included in the estate.

The value of all the assets, less the deductible debts, gives you the estate value. The threshold above which the value of the estate is taxed at 40 per cent is £325,000 for the 2010/11 tax year.

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

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“ YOUR INVESTMENT GOALS SHOULD DETERMINE YOUR INVESTMENT PLAN AND THE TIME QUESTION ‘HOW LONG HAVE I GOT BEFORE I NEED TO SPEND THE MONEY?’ IS CRUCIAL. ”

# PLANNING YOUR INVESTMENT STRATEGY

## WHAT ARE YOU TRYING TO ACHIEVE WITH YOUR INVESTMENTS?

There are different types of risk involved with investing, so it's important to find out what they are and think about how much risk you're willing to take. It all depends on your attitude to risk (how much risk you are prepared to take) and what you are trying to achieve with your investments.

### Things to think about before investing

- How much can you afford to invest?
- How long can you afford to be without the money you've invested (most investment products should be held for at least five years)?
- What do you want your investment to provide: capital growth (your original investment to increase), income or both?
- How much risk and what sort of risk are you prepared to take?
- Do you want to share costs and risks with other investors (using a pooled investment, for example)?
- If you decide to invest using pooled investments, consider which type would be most suitable for you. The main differences between pooled investments are the way they pay tax and the risks they involve (especially investment trusts and with-profit funds).
- What are the tax benefit implications and what tax will you pay and can you reduce it?

You may be looking for an investment to provide money for a specific purpose in the future. Alternatively, you might want

an investment to provide extra income. So having decided that you are in a position to invest, the next thing to think about is: 'What am I investing for?' Your answer will enable us to recommend the most suitable type of investment for you. If you have a particular goal, you will need to think about how much you can afford and how long it might take you to achieve your goal.

You may have a lump sum to invest which you would like to see grow, or from which you wish to draw an income. Equally, you may decide to invest in instalments, (for example, on a monthly basis) with a view to building up a lump sum.

Your investment goals should determine your investment plan and the time question 'How long have I got before I need to spend the money?' is crucial.

Generally, the longer it is before you need your money, the greater the amount of risk you are able to take in the expectation of greater reward. The value of shares goes up and down in the short term, and this can be very difficult to predict, but long term they can be expected to deliver better returns.

The same is true to a lesser extent of bonds. Only cash offers certainty in the short term.

Broadly speaking, you can invest in shares for the long term, fixed interest securities for the medium term and cash for the short term.

As the length of time you have shortens, you can change your total risk by adjusting the 'asset mix' of your investments, for example by gradually moving from share investments into bonds and cash. It is often possible to choose an option to 'lifestyle'

your investments, which is where your mix of assets is risk-adjusted to reflect your age and the time you have before you want to spend your money.

Income can be in the form of interest or share dividends. If you take and spend this income, your investments will grow more slowly than if you let it build up by reinvesting it. By not taking income you will earn interest on interest and the reinvested dividends should increase the size of your investment, which may then generate further growth. This is called 'compounding'.

THE PERFORMANCE OF YOUR INVESTMENTS COULD MAKE A CRITICAL DIFFERENCE TO YOUR FINANCIAL WELL-BEING IN THE FUTURE, SO RECEIVING RELIABLE AND PROFESSIONAL FINANCIAL ADVICE IS ESSENTIAL. PLEASE CONTACT US TO DISCUSS YOUR PARTICULAR SITUATION.

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# SPREADING YOUR INVESTMENTS

## RISK IS AN IMPLICIT ASPECT OF INVESTING

When deciding whether to invest, it is important that any investment vehicle matches your feelings and preferences in relation to investment risk and return. Hence your asset allocation needs to be commensurate with your attitude to risk. Another key question to ask yourself is: 'How comfortable would I be facing a short-term loss in order to have the opportunity to make long-term gains?' If your answer is that you are not prepared to take any risk whatsoever, then investing in the stock market is not for you.

However, if you are going to invest, you need to be prepared to take some calculated risk in the hope of greater reward. Risk is an implicit aspect of investing: shares can fall, economic conditions can change and companies can experience varying trading fortunes.

The process of deciding what proportion of your investment 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. When you are young, you may want to invest in assets with a higher potential for growth but greater risk, because you have the time to benefit from their long-term growth. As you get closer to retirement, you may want to choose more conservative investments that are steadier in both risk and return.

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.

If you put all your eggs in one basket, you are more vulnerable to risk. Different investments behave in different ways and are subject to different risks. Saving your money in a range of assets helps reduce the loss, 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. Putting all your money in one deposit account runs the risk that the interest paid on that account will change relative to other accounts. This could mean that the interest you receive is no longer as good as when you originally invested.

It is important to remember that all investments have a degree of risk. Even choosing not to invest is risky. The key is to get the right balance. Most people need a mix of assets in order to achieve their goals. The mix required depends upon individual needs.

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 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 across different sizes of companies and different sectors and geographic regions.

Growth stocks are held as investors believe that 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 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. When you see your investment value fall, this is known as a paper loss, as it is not a real loss until you sell.

If you are going to invest, you need to be prepared to take some risk and to see at least some fall in the value of your investment.

While all investments carry an element of risk, the amount of risk you take directly affects any potential returns and losses. Generally speaking, if there is less risk to your investment, your money will grow more slowly, whereas with more risk your investment may fluctuate more.

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 with 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. Investing in cash may not beat inflation over the long term.

**WE CAN HELP YOU MAKE INFORMED DECISIONS ABOUT THE INVESTMENT CHOICES THAT ARE RIGHT FOR YOU BY ASSESSING YOUR LIFE PRIORITIES, GOALS AND ATTITUDE TOWARDS RISK FOR RETURN. ANY NUMBER OF CHANGING CIRCUMSTANCES COULD CAUSE YOUR WEALTH TO DIMINISH, SOME INEVITABLE AND SOME UNPREDICTABLE – NEW TAXES AND LEGISLATION, VOLATILE MARKETS, INFLATION AND CHANGES IN YOUR PERSONAL LIFE. STRUCTURING YOUR WEALTH IN A WAY THAT MINIMISES THE IMPACT OF THESE CHANGES IS ESSENTIAL. TO DISCUSS YOUR REQUIREMENTS, PLEASE CONTACT US.**

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# LIFESTYLE PROTECTION

## HAS YOUR NEED FOR PROTECTION CHANGED?

Most people fully understand the need to protect their valuables, but when it comes to protecting their ability to provide for their loved ones after their death, this can get overlooked. In the event of your premature death, having the correct level of life assurance will ensure that your dependants are able to cope financially and their lifestyle is protected.

When you take out life assurance, you set the amount you want the policy to provide should you die – this is called the ‘sum assured’. Even if you consider that you currently have sufficient life assurance, you’ll probably need more later on if your circumstances change. If you don’t update your policy as key events happen throughout your life, you may risk being seriously under-insured.

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

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

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

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

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

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

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

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

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

**IF YOU WOULD LIKE TO REVIEW YOUR CURRENT PROTECTION REQUIREMENTS, PLEASE CALL US FOR FURTHER INFORMATION.**



# IN SEARCH OF INCOME

## ALTERNATIVE HOMES FOR YOUR NEST EGGS

The Bank of England's decision to keep interest rates low means that many savers will now receive virtually no return from their money. As a result, many will be looking for alternative homes for their nest eggs. If you are considering building a portfolio of income-producing funds, your first priority should be to decide the level of risk you're happy with and the investment term. Let's consider some of the options available.

### Government gilts

Gilts are government bonds. Governments borrow from you, pay a fixed interest rate and then pay you back on a fixed date. Gilts involve more risk than cash because there's a chance the government won't be able to pay you back. It's highly unusual for a government to default on a debt, so they have been considered very safe – however, in the current economic climate, this risk increases.

Not all gilts are bought from the government and held to maturity; some are bought and sold along the way, so there's a chance for their value, and the value of gilt funds, to rise and fall.

### Corporate bonds

Corporate bonds are the same as gilts, except that instead of lending money to the

government, you're lending to a company. The risk lies in the fact that companies can get into financial difficulty and the debt may not be repaid. Also, the value of the bonds themselves can fall as well as rise. The fact that bonds are riskier at the moment means some companies may pay more in order to induce people to buy their debt.

Also, an increasing number of global bond funds are entering the market, which may enable investors to acquire value from a lot of different markets.

### Equity income funds

Equity income funds invest in shares, focusing on the big blue-chip firms that have a track record of good dividend payments. The dividends are your income.

You are investing in shares. Funds tend to focus on those firms they believe have cash in the bank to keep paying dividends, but there are no guarantees. In return for taking these risks, there is potential for both income and growth. Typically, funds aim to provide a stable income that grows over time, meaning income has the potential to rise in the future too, which is key to the philosophy of investing in equity income.

### Global equity income funds

Global equity income funds are similar to UK funds, except that there are only a handful of

big blue chips that pay reliable dividends in the UK, whereas global diversification offers a larger range of companies to choose from.

If you consider that you have too much of your investment concentrated in sterling-based assets, a global fund could provide a useful diversification. However, investing in other currencies brings an added level of risk, unless the fund hedges the currency.

### Equity income investment trusts

Equity income investment trusts are very similar to other equity income investments, but they are structured differently from the unit trusts and open-ended investment companies. Unit trusts are open-ended, which means there's no cap on how much money the fund can take, so the price depends purely on the value of the assets it holds.

Investment trusts, on the other hand, are closed-ended. They are structured as companies with a limited number of shares. The share price of the fund moves up and down depending on the level of demand, so the price of the trust depends not only on the value of the underlying investments but also on the popularity of the trust itself. In difficult times, when investors are selling up, trusts are likely to see their share price fall more than the value of their underlying investments. This also means that they have more potential for greater returns once better times resume.

### Distribution funds

Outside the basic asset types, there are a number of products designed to produce an income. These include distribution funds, which sit somewhere between bonds and equities on a risk-for-return scale. They are managed funds, investing in a combination of bonds, equities and commercial property in order to produce an income. Typically, investment is split between dividend-producing equities and corporate bonds.

*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.*

IF YOU ARE CURRENTLY LOOKING TO GENERATE AN INCOME FROM YOUR INVESTMENTS AND WOULD LIKE TO DISCUSS THE OPTIONS AVAILABLE, PLEASE CONTACT US.



# OPEN FOR BUSINESS

## BUSINESS TAXES GIVEN SOME RESPITE

The Chancellor of the Exchequer, George Osborne MP, said in his emergency Budget speech that he wants a sign to go up over the British economy saying 'Open for Business'.

Commenting, Richard Lambert, Confederation of British Industry (CBI) Director-General, said there was clear recognition in the Budget of the role that business needs to play in getting the economy back into shape and generating the jobs and wealth needed to sustain economic recovery.

### Business highlights

- Small companies' rate of corporation tax to be cut to 20 per cent in 2011.
  - The government is to agree the long-term approach to the taxation of foreign profits, intellectual property, and research and development for business.
  - Banks: the government is exploring the possibility of a 'Financial Activities Tax' on profits and remuneration; a bank levy is to be introduced from April 2011, which will apply to the balance sheet of UK banks and building societies and the UK operations of overseas banks.
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- Regional Growth Fund to provide finance for regional capital projects over the next two years.
  - The 10 per cent capital gains tax rate for entrepreneurs, which applied to the first £2m of qualifying gains made over a lifetime, will be extended to the first £5m of lifetime gains.
  - Capital allowances for the majority of plant and machinery assets to fall from 20 per cent to 18 per cent, while the allowance for longer-lived assets will fall from 10 per cent to 8 per cent from April 2012.
  - Annual Investment Allowance to fall to £25,000 a year to April 2012.
  - Mainstream corporation tax rate to fall to 27 per cent in 2011, 26 per cent in 2012, 25 per cent in 2013 and 24 per cent in 2014.

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- The furnished holiday lettings rules are to be reintroduced.
- New firms outside the South-East/East to be let off employer National Insurance contributions, up to £5,000, for each of first ten employees recruited.
- Planned tax relief for video games industry to be scrapped.

## FINANCIAL FOUNDATIONS

### WE TAKE THE TIME TO FIND OUT ABOUT YOU

In times of turbulent markets and changing tax legislation, you want to be certain your future is adequately planned for. That is why, rather than offering clients an off-the-shelf financial planning solution, we take the time to find out about you, your current financial situation and your short-, medium- and long-term goals. Only then will we make firm recommendations about how you should plan for your future.

Your financial plan should consider your entire financial circumstances, including investments, pensions and protection requirements together with your income and tax position. Having discussed with you your objectives and attitude towards risk, we are able to make recommendations about how to structure your affairs in the most efficient manner.

LAYING THE FOUNDATIONS OF YOUR PERSONAL FINANCIAL PLAN IS ONLY THE START OF OUR COMMITMENT TO YOU. TO FIND OUT MORE ABOUT HOW WE CAN HELP YOU ACHIEVE YOUR FINANCIAL GOALS, PLEASE CONTACT US FOR MORE INFORMATION.

## ANNUITY RULE CHANGE

### SECURING A RETIREMENT INCOME

A rule that requires all pension savers to purchase an annuity by age 75 will cease next year, the government announced on 22 June. Initially at least, the age will be revised up to 77, with a consultation process on whether the rule should be removed altogether.

According to the emergency Budget document: 'The government will end the existing rules that create an effective obligation to purchase an annuity by age 75 from April 2011 to enable individuals to make more flexible use of their pension savings'.

'The government will shortly launch a consultation on the detail of this change and will introduce transitional measures for those yet to secure a retirement income who will reach 75 in the meantime', it said.





# EMERGENCY 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 the emergency Budget.

### Emergency Budget 2010 highlights

#### Economy

- Growth is forecast to be 1.2 per cent this year, taking into account the emergency Budget measures. It is forecast to be 2.3 per cent next year, 2.8 per cent in 2012, 2.9 per cent in 2013 and 2.7 per cent in both 2014 and 2015.
- Debt will be falling and structural current deficit should be balanced by 2014.
- Consumer price inflation is expected to reach 2.7 per cent by the end of the year, returning to target in the medium term.
- Unemployment rate forecast to peak at 8.1 per cent this year and then fall for each of the next four years to reach 6.1 per cent in 2015.
- 77 per cent of total consolidation to be achieved through spending reductions and 23 per cent through tax increases.
- Public sector net borrowing will be £149bn this year, £116bn next year, £89bn in 2102/13, £60bn in 2013/14, £37bn in 2014/15, falling to £20bn in 2015/16.
- Public sector net debt as share of GDP will be 62 per cent this year and will peak at 70 per cent in 2013/14. It will then begin to fall, reaching 67 per cent in 2015/16.
- Additional current expenditure reductions of £30bn a year by 2014/15.
- No further reductions in capital spending totals.

#### Public sector

- Two-year public sector pay freeze on staff earning more than £21,000.

- People earning less than £21,000 will each receive a flat pay rise worth £250 in each of the two years.
- Operational allowance for troops in Afghanistan doubled to £4,800.
- Will Hutton to draw up plans for fairer pay across the public sector, without increasing the overall pay bill, so that those at the top of organisations are paid no more than 20 times the salaries of those at the bottom.
- An independent commission chaired by John Hutton will review public sector pensions. There will also be consultation on scrapping the default retirement age.
- Rise in the state pension age to 66 will be accelerated.
- Government will seek private capital injection into the Royal Mail Group.

#### Welfare

- Benefits, tax credits and public service pensions will increase in line with consumer prices rather than the Retail Price Index.
- Child benefit to be frozen for the next three years.
- Caps on housing benefit to be introduced from £280 a week for a one-bedroom property to £400 a week for a four-bedroom or larger. Together with other measures, this will reduce costs of housing benefit by £1.8bn a year by the end of the parliament.
- Sure Start Maternity Grant will go to the first child only.
- Eligibility for child tax credits to be reduced for families with a household income of more than £40,000 from April next year.

- The baby element of child tax credit will be abolished from April next year.
- Child element of the child tax credit to increase by £150 above indexation next year.

#### Taxes

- VAT to increase to 20 per cent on 4 January next year.
- Government to work with local authorities to freeze council tax for one year from April next year.
- Capital gains tax, increased for higher earners from 18 per cent to 28 per cent from midnight on 23 June. Low- and middle-income savers will continue to pay 18 per cent.
- Personal income tax allowance to be raised by £1,000 from April to £7,475.
- Higher-rate income tax threshold frozen until 2013.
- The standard rate of insurance premium tax to rise from 5 per cent to 6 per cent and the higher rate to increase from 17.5 per cent to 20 per cent.
- 50p-a-month levy on phone lines to pay for the rollout of superfast broadband scrapped.

#### Banking and savings

- Bank levy to be introduced in January next year, to apply to the balance sheets of UK banks and building societies and to the UK operations of banks from abroad.

#### Pensions

- From April next year the basic state pension will be re-linked with earnings.
- Basic state pension will increase every year by highest of earnings, inflation or 2.5 per cent.