

smartmoney

Autumn 2009

## Planning your retirement income

Maximising an income from your pension fund

## The search for income

Investing for an income in a low interest rate environment

## Emerging markets

Do they have the potential to lead the recovery when the world economy begins to stabilise?

## Transferring your pensions

Your questions answered

## Wealth management

Aiming to preserve your wealth and shelter it from the burden of higher taxes

## Financial protection for you and your family

With the abundance of choice, we can help you make the right decisions



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## Inside this issue

**W**elcome to the latest issue of our personal finance and wealth management magazine. Achieving the standard of living you require during your retirement will largely depend on the choices you make when considering how to take an income from your pension fund. On page 7 we consider some of the options that may be appropriate to your particular situation and the degree of control you want over your pension.

With so many different protection options available, making the right decision to protect your personal and financial situation can seem overwhelming. On page 8 we look at the plethora of protection solutions which could help ensure that a lump sum, or a replacement income, becomes available to you in the event that it is needed.

If you are an income-seeking saver in search of good returns from your savings in this low interest rate environment, turn to page 6 to find out how we can provide you with the professional advice you need to enable you to consider all the options available.

At the time of going to press, the global financial crisis and events have been changing very quickly, and some further changes are likely to have occurred by the time you read this issue. A full content listing appears on page 3.

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

# Emerging markets

## Do they have the potential to lead the recovery when the world economy begins to stabilise?

The term 'emerging markets' first appeared during the 1990s and is now widely used to describe countries not considered to be developed, in other words Third World, lesser-developed or under-developed countries. Developed countries, on the other hand, are essentially the major European countries plus the USA, Canada, Japan, Australia and New Zealand.

In recent months emerging stock markets have reached levels last seen before the collapse of the Lehman Brothers investment bank. The ongoing rally has been due to a returning belief in 'decoupling', the theory by which emerging markets will in future be less dependent on the fortunes of developed markets because they will be able to rely on stronger domestic demand.

Asia and Latin America haven't had the recent fundamental problems in the banking sector that the developed world has had, so lending and credit growth have resumed rapidly and this is helping drive growth.

Emerging markets, particularly China, have seen strong demand for recent initial public offerings, many of which have raced higher in the style of the dotcom boom, raising fears that another bubble could be forming. Emerging markets have had a stormy and volatile past,

rallying and slumping far more violently than the developed world.

With world markets remaining volatile, it is important to make sure that your investment portfolio is continually meeting your specific requirements. To arrange a review of your particular situation, please contact us.

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## want to make more of your money?

For more information please tick the appropriate box or boxes below, include your personal details and return this information directly to us.

- 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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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.



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# Corporate bonds

## Attracting investors for all the right reasons

Corporate bonds are a type of fixed interest security. A fixed interest security is a way of 'lending' money to a company in return for a fixed rate of interest over a set period. This type of investment is intended to provide you with a regular, reliable income.

Over the coming years, if the yields from corporate bonds outperform the returns from cash, corporate bonds could become an increasingly larger part of investors' portfolios. This will largely be dependent on the state of the economy, unemployment levels, interest rates and future tax rises.

Every bond issued by a company is given a credit rating by an agency such as Morningstar or Moody's. These credit rating agencies assess how likely it is that the company will be able to make the interest payments and repay the capital. The most secure rating is an AAA rating.

When you invest into a corporate bond fund, you are lending your money to companies who agree to pay you an amount of interest over a certain period of time. Corporate bonds are issued at different rates of interest by different companies. Generally speaking, the more secure a company is, the lower the interest rates it will need to offer to attract investors.

When held within a trust or fund, 'fixed interest' does not mean 'fixed income'. Corporate bonds offer different rates of interest and mature at different times. Money may be invested

into, or withdrawn from, a fund that invests in corporate bonds. The income levels from trusts vary because bonds are continually bought and sold by the fund manager at different rates. Yields are used to indicate the income levels received from corporate bond trusts.

The value of your capital in a corporate bond fund is not guaranteed and can vary. In addition, the value of your investment is likely to fall if interest rates begin to rise in the medium to long-term, but on the flip side, it is likely to increase in value if interest rates fall.

**If you consider that corporate bonds still look undervalued and would like to discuss the options available to you, please contact us to discuss your particular requirements.**

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# Self-Invested Personal Pensions

Why astute investors are talking to us about taking control of their own investment decisions

Following the introduction of Pension Simplification legislation in 2006, Self-Invested Personal Pension Plans (SIPPs) have become more accessible to more sophisticated investors who require greater control over their pension planning and want greater access to different investment markets. They also offer excellent tax planning solutions, and in these current difficult financial markets provide for the appropriate investor the maximum amount of flexibility when planning for retirement.



SIPPs are wrappers that provide individuals with more freedom of choice than other conventional personal pensions. They allow investors to choose their own investments or appoint an investment manager to look after their portfolio.

As a SIPP investor you have the option of choosing when, where and how you invest the assets of your pension fund. Contributions that you make to your SIPP will currently receive tax relief of between 20 per cent and 40 per cent, depending on which personal tax band you are in.

You have to appoint a trustee to oversee the operation of your SIPP, but having done this you can then effectively run your pension fund according to your investment requirements. The range of available investments will depend largely on your choice of SIPP provider – we can discuss this with you to ensure that you select the most appropriate scheme provider.

Ultimately it is down to the trustees of your pension plan to agree whether they are happy to accept your investment choices into the SIPP. The trustees are responsible and liable for ensuring that the investment choices fall within their remit. A fully fledged SIPP can accommodate a wide range of investments under its umbrella. However, you are likely to pay for the wider level of choice with higher charges.

At its most basic, a SIPP can contain straightforward investments such as cash savings or government bonds. You can also include unit and investment trust funds, and other more esoteric investments such as commercial properties and direct share investment. Other options are derivatives, traded endowment policies and shares in unquoted companies. So investments held within your SIPP wrapper can range

from low to high risk, but crucially cannot include a second home or other residential property.

If you are considering transferring your existing pension money into a SIPP, there are a number of important considerations you should discuss with us first. These will include the potential charges involved, the length of time you have to retirement, your investment objectives and strategy, your existing pension plan guarantees and options (if applicable) and the effects on your money if you are transferring from with-profits funds.

As a SIPP investor you have the option of choosing when, where and how you invest the assets of your pension fund. Contributions that you make to your SIPP will currently receive tax relief of between 20 per cent and 40 per cent depending on what personal tax band you are in.

If you are an expatriate living overseas or hoping to move overseas in the very near future, then it may also be worth considering a Qualifying Recognised Overseas Pension Scheme (QROPS). A QROPS is a pension scheme set up outside the UK that is regulated as a pension scheme in the country in which it was established, and it must be recognised for tax purposes (i.e. benefits in payment must be subject to taxation). The procedure for overseas transfers has been simplified significantly since April 2006. Now, as long as the overseas scheme is recognised by HM Revenue & Customs as an approved arrangement, the transfer can be processed in the same way as a transfer to a UK scheme.

There is in fact no financial limit on the amount that you can contribute to your SIPP, although there is a maximum amount on which you will be able to

claim tax relief in any one tax year and a lifetime allowance restricting the total fund size. Under the rules which came into force from April 2006, investors now have much more freedom to invest money in their SIPP.

You can make contributions of up to 100 per cent of your net relevant earnings and receive full tax relief on the total, subject to a maximum earnings limit of £245,000 in 2009/10. If you were to invest more than your earnings but within the annual allowance you would not receive any additional

tax relief. Where the total pension input amount exceeds the annual allowance a tax charge of 40 per cent of the amount in excess of the limit will be levied.

Contributions can be made by employers, employees and the self-employed. Where previously employees in a company pension scheme who earned more than £30,000 were not permitted also to contribute to a SIPP, they are now free to do so, provided that they do not exceed the limit of 100 per cent of their earnings, up to the maximum earnings limit.

Alternatively, an employer can also make an annual contribution of up to £245,000 in 2009/10 on behalf of an employee regardless of their remuneration.

There are charges associated with SIPPs, these include, the set-up fee and the annual administration fee. A low-cost SIPP with a limited range

of options, such as shares, funds and cash, might not charge a set-up fee and only a modest, if any, annual fee.

A full SIPP will usually charge a set-up fee and then an annual fee. The charges are usually a flat rate, so they benefit investors with larger pension pots. There will, in addition to annual charges, be transaction charges on matters such as dealing in shares and switching investments around.

If appropriate, you are also permitted to consolidate several different pensions under the one SIPP wrapper by transferring a series of separate schemes into your SIPP. However, it is important to ascertain if there are any valuable benefits in your existing schemes that would be lost on such a transfer. The actual transfer costs also have to be taken into consideration, if applicable.

If you would like to arrange a review of your current retirement provision and discuss the options available to you, please contact us.

SIPPs are not appropriate for everybody and there are alternative methods of saving for retirement.

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# The search for income

## Investing for an income in a low interest rate environment

If you are an income-seeking saver in search of good returns from your savings in this low interest rate environment, we can provide you with the professional advice you need to enable you to consider all the options available. In addition, we can help you determine what levels of income you may need and work with you to review this regularly as your requirements change. Another major consideration is your attitude towards risk for return and availability. This will determine which asset class you are comfortable investing in.

Cash, especially in the current climate, is an important element for any income investor. One option you may wish to discuss with us is cash funds, dubbed 'money market' portfolios. These use the pooled savings of many investors to benefit from higher rates not available to individuals. They can invest in the most liquid, high-quality cash deposits and 'near-cash' instruments such as bonds. But, unlike a normal deposit account, the value of a cash fund can fall as well as rise, although in theory, at least, it should not experience volatile swings.

Bonds are a form of debt, an 'IOU' issued by either governments or firms looking to raise capital. As an investor, when you purchase a bond you are essentially lending the money to the government or company for a set period of time, which varies according to the issuer. In return you will receive interest, typically paid twice a year, and when the bond reaches maturity you usually get back your initial investment. But you don't have to keep a bond until maturity. You can, if you wish, sell it on.

Much of the government's debt, including the additional money being used to aid the economy and refinance the banks, is in the form of bonds it issues. Gilts are bonds issued by the British

government. The advantage of gilts is that the government is unlikely to fail to pay interest or repay its debt, so they are generally the safest investments. To date, the UK government has never failed to pay back money owed to investors. Government bonds pay a known and regular income (called the coupon) and a lump sum at maturity (called the par). They typically perform well as the economy slows and inflation falls.

Government bonds tend to move in the opposite direction to shares and historically are good diversifiers. But on the flipside, the government is likely to issue more gilts and this large supply may lead to falls in gilt prices. As government bonds pay a fixed income stream, the real value of these payments erodes if inflation rises. Similarly, the value of bonds typically falls when interest rates rise.

Corporate bonds operate under the same principle as gilts, in other words companies issue debt (bonds) to fund their activities. High-quality, well-established companies that generate lots of cash are the safest corporate bond issuers and their bonds are known as 'investment grade'.

High-yield bonds are issued by companies that are judged more likely to default. To attract investors, higher interest is offered. These are known as 'sub-investment grade' bonds.

The risks related to investing in bonds can be reduced if you invest through a bond fund. Here the fund manager selects a range of bonds, so you are less reliant on the performance of one company or government. The 'distribution yield' gives a simple indication of what returns are likely to be over the next 12 months. The 'underlying yield' gives an indication of returns after expenses if all bonds in the fund are held to maturity.

An alternative route to generating income is by investing in stocks that pay a dividend. If a firm is

making good profits it can decide to share this with investors rather than reinvest it in the business, so essentially dividends are the investors' share of company profits. Share prices of companies that regularly pay dividends tend to be less volatile than other companies, but remember that company shares can fall in value. In addition, dividends can be cut if a company finds itself in need of extra cash.

Another way to invest in equities for the purpose of obtaining a better income is via an equity income fund. The fund manager running the portfolio selects a wide range of equities, so you are less reliant on the performance of any one particular company, and will try to select companies that pay regular dividends.

If you would like to discuss how you could generate more income from your savings in this low interest rate environment, please contact us. We'll ensure that you make an informed decision based on the options available to you.

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# Planning your retirement income

## Maximising an income from your pension fund

The earliest you are currently permitted to take your retirement benefits is from the age of 50, but this is set to rise to age 55 from April 2010. If you are considering setting up a conventional-lifetime annuity, which pays a secure income for life, there is now no requirement to buy an annuity by the age of 75. However, you must start to take your benefits from the age of 75, in addition to any tax-free element.

### THE OPTIONS

#### CONVENTIONAL-LIFETIME ANNUITY

A conventional-lifetime annuity converts your pension fund into an income for the rest of your life, however long you live. You can add different options and purchase different types depending on your needs and circumstances. For example, your annuity can pay out to your spouse or partner on your death, or you can choose an enhanced or impaired life annuity, which may give a higher income than a conventional annuity if you have an illness or medical condition, or are a smoker. A conventional-lifetime annuity is the simplest retirement option and provides a secure, taxable income which is payable for the rest of your lifetime.

#### INVESTMENT-LINKED ANNUITY

Investment-linked annuities offer the chance to obtain a higher level of income, but you need to be comfortable with linking your income in retirement to the stock market. They may be suitable if you

have other income sources, are prepared to take a risk to achieve a higher income or can accept the risk that your income may reduce. Investment-linked annuities are designed to give you the opportunity to obtain an income that increases during your retirement. If the risk of an unpredictable and possibly falling retirement income worries you, then conventional annuities may be more appropriate.

#### UNSECURED PENSION (FORMERLY INCOME DRAWDOWN)

Under the option of Personal Pension Fund Withdrawal, you can choose to take a tax-free cash lump sum immediately and then, instead of buying an annuity, leave the remainder of the fund in a tax-efficient environment. An annual income (taxed as earned income) can be taken, within prescribed limits, from the invested pension fund. This is a flexible option which may be a consideration for more substantial funds or if you have other sources of income. This allows you to take a taxable income directly from your fund, leaving the

remainder invested. It is available up to age 75.

#### PHASED RETIREMENT

Phased retirement is a personal pension plan and allows you to buy an annuity or income drawdown in stages rather than all at once. It is up to you to decide how much income you need and when you would like to start taking it. You then cash in as much of the plan as necessary to provide your chosen level of income. You can take out a phased retirement plan any time after the age of 50 (55 from April 2010).

#### ALTERNATIVELY SECURED PENSION FROM AGE 75

The government's A-Day pensions simplification legislation, which came into force in April 2006, created Alternatively Secured Pensions (ASPs). ASPs are available to people reaching age 75 who do not want to buy an annuity with their pension fund. ASPs are intended to provide an income in retirement for scheme members and their dependants, rather than be used as a device to pass on tax-privileged pension funds.

If you are approaching retirement and would like to discuss the options available to you, please contact us.

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# Financial protection for you and your family

With the abundance of choice, we can help you make the right decisions

With so many different protection options available, making the right decision to protect your personal and financial situation can seem overwhelming. There is a plethora of protection solutions which could help ensure that a lump sum, or a replacement income, becomes available to you in the event that it is needed. We can make sure that you are able to take the right decisions to deliver peace of mind for you and your family in the event of death, if you are too ill to work or if you are diagnosed with a critical illness.

You can choose protection-only insurance, which is called 'term insurance'. In its simplest form, it pays out a specified amount if you die within a selected period of years. If you survive, it pays out nothing. It is one of the cheapest ways overall of buying the cover you may need.

Alternatively, a whole-of-life policy provides cover for as long as you live.

## LIFE ASSURANCE OPTIONS

- Whole-of-life assurance plans can be used to ensure that a guaranteed lump sum is paid to your estate in the event of your premature death. To avoid inheritance tax and probate delays, policies should be set up under an appropriate trust.
- Level term plans provide a lump sum for your beneficiaries in the event of your death over a specified term.
- Family income benefit plans give a replacement income for beneficiaries on your premature death.

- Decreasing term protection plans pay out a lump sum in the event of your death to cover a reducing liability for a fixed period, such as a repayment mortgage.

Simply having life assurance may not be sufficient. For instance, if you contracted a near-fatal disease or illness, how would you cope financially? You may not be able to work and so lose your income, but you are still alive so your life assurance does not pay out. And to compound the problem, you may also require additional expensive nursing care, have to adapt your home or even move to another more suitable property.

Income Protection Insurance (IPI) formerly known as permanent health insurance would make up a percentage of your lost income caused by an illness, accident or disability. Rates vary according to the dangers associated with your occupation, age, state of health and gender but IPI is particularly important if you are self employed

or if you do not have an employer that would continue to pay your salary if you were unable to work.

If you are diagnosed with suffering from one of a number of specified 'critical' illnesses, a critical illness insurance policy would pay out a tax-free lump sum if the event occurred during the term of your policy. Many life insurance companies offer policies that cover you for both death and critical illness and will pay out the guaranteed benefit on the first event to occur.

Accident Sickness and Unemployment (ASU) can be taken out for any purpose to protect your income and to give you peace of mind. The benefits only pay for 12 to 24 months on a valid claim if you have an accident, become ill or unemployed. Most of these protection policies operate a 'deferred period', which is the period from when a claimable event happens to when the policy starts paying out.

Private medical insurance covers you for private medical treatment and you can choose to add on extra cover, such as dental cover. You may select the hospitals where you would want to be treated close to home. As always, the more benefits and the more comprehensive the policy you select, the more it will cost.

Beyond taking the obvious step of ensuring that you have adequate insurance cover, you should also ensure that you have made a will. A living will makes clear your wishes in the event that, for example, you are pronounced clinically dead following an accident, and executes an enduring power of attorney, so that if you become incapable of managing your affairs as a result of an accident or illness, you can be reassured that responsibility will pass to someone you have chosen and trust.

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

Choosing the right mix of financial protection for your particular situation is essential to ensure that your specific requirements are fully covered. To discuss your options, please contact us.





# Transferring your pensions

## Your questions answered

There are a number of different reasons why you may wish to consider transferring your pension schemes, whether this is the result of a change of employment, poor investment performance, issues over the security of the pension scheme, or a need to improve flexibility.

You might well have several different types of pension. The gold standard is the final-salary scheme, which pays a pension based on your salary when you leave your job and on years of service. Your past employer might try to encourage you to move your pension away by boosting your fund with an 'enhanced' transfer value and even a cash lump sum.

However, this still may not compensate for the benefits you are giving up, and you may need an exceptionally high rate of investment return on the funds you are given to match what you would get if you stayed in the final-salary scheme.

Alternatively, you may have a money purchase occupational scheme or a personal pension. These pensions rely on contributions and investment growth to build up a fund. When you retire, this money can be used to buy an annuity which pays an income.

If appropriate to your particular situation, it may make sense to bring these pensions under one roof to benefit from lower charges, and aim to improve fund performance and make fund monitoring easier.

### TRANSFERRING YOUR PENSION

Pension transfers are a complicated area of financial planning and there are many things to consider before proceeding with a transfer. Here are some of the most common questions we are asked by our clients considering this course of action.

**Q: Will the new pension be more expensive than my existing one(s)?**

**A:** If the new pension costs more, you must make

sure you are satisfied that any additional costs are for good reason. For example, if the new pension is offering you access to more funds than your current pension(s), consider whether you need them. You will receive information about the costs of the new pension in the Key Features Illustration (KFI) that is provided to you. The Key Features Illustration refers to the actual funds and investments that you will be using in your new pension.

**Q: Is it a good idea to transfer all of my pensions into a single new pension?**

**A:** If you currently have several pensions and are looking to put them into one new pension, you need to fully understand the associated costs. You may not necessarily need a new pension to put all of your pensions together. If one of your existing pensions already meets your needs and objectives it might be possible to transfer all of your other existing pensions into that one.

**Q: Will I lose any benefits?**

**A:** It is possible that your current pension may have valuable benefits that you would lose if you were to transfer out of it, such as death benefits or a Guaranteed Annuity Rate (GAR) option. A GAR option is where the insurance company will pay your pension at a particular rate, which may be much higher than the rates available in the market when you retire.

**Q: Are there any penalties if I transfer?**

**A:** Some pensions may apply a penalty when you transfer out.

**Q: Would a stakeholder pension meet my needs and objectives?**

**A:** Stakeholder pensions are often the cheapest pensions available and, if appropriate, this could be an option to consider.

**Q: Will the investments in the new pension be right for the amount of risk I am prepared to take?**

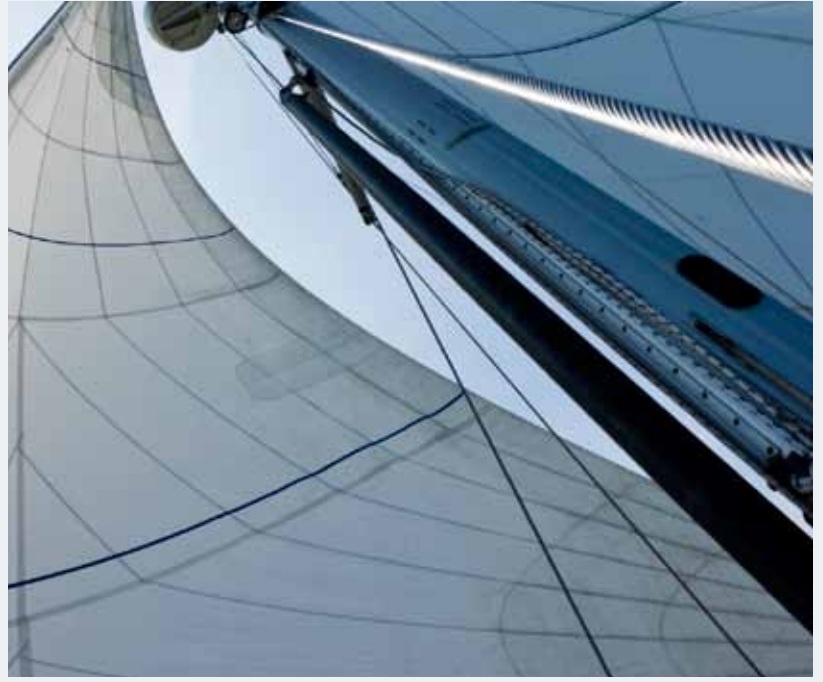
**A:** We can explain the different funds and investments and make recommendations so that the investments chosen are appropriate for the amount of risk you are prepared to take with your money.

**Q: Will I need ongoing advice?**

**A:** Some fund selections may need to be reviewed from time to time to maintain the balance of your portfolio. It is also possible that the amount of risk you are prepared to take could change over time, for example, if your financial situation changes or as you get nearer to retirement.

**WHILE TRANSFERRING YOUR PENSIONS MAY SEEM LIKE A GOOD IDEA, IT IS A DECISION THAT REQUIRES PROFESSIONAL ADVICE BEFORE ANY ACTION IS TAKEN. IF YOU WOULD LIKE TO DISCUSS YOUR PARTICULAR REQUIREMENTS, PLEASE CONTACT US.**

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# Inheritance tax planning

## Keeping your hard-earned assets out of the hands of the taxman

Effective inheritance tax planning could save your beneficiaries thousands of pounds, maybe even hundreds of thousands depending on the size of your estate. At its simplest, inheritance tax (IHT) is the tax payable on your estate when you die if the value of your estate exceeds a certain amount.

IHT is currently paid on amounts above £325,000 (£650,000 for married couples and registered civil partnerships) for the current 2009/10 tax year, at a rate of 40 per cent. From 2010/11 this figure is set to increase to £350,000 (£700,000 for married couples and registered civil partnerships). If the value of your estate, including your home and certain gifts made in the previous seven years, exceeds the IHT threshold, tax will be due on the balance at 40 per cent.

Without proper tax planning, many people could end up leaving a substantial tax liability on their death, considerably reducing the value of the estate passing to their chosen beneficiaries.

Your estate includes everything owned in your name, the share of anything owned jointly, gifts from which you keep back some benefit (such as a home given to a son or daughter but in which you still live) and assets held in some trusts from which you receive an income.

Against this total value is set everything that you owed, such

as any outstanding mortgages or loans, unpaid bills and costs incurred during your lifetime for which bills have not been received, as well as funeral expenses.

Any amount of money given away outright to an individual is not counted for tax if the person making the gift survives for seven years. These gifts are called 'potentially exempt transfers' and are useful for tax planning.

Money put into a 'bare' trust (a trust where the beneficiary is entitled to the trust fund at age 18) counts as a potentially exempt transfer, so it is possible to put money into a trust to prevent grandchildren, for example, from having access to it until they are 18.

However, gifts to most other types of trust will be treated as chargeable lifetime transfers. Chargeable lifetime transfers up to the threshold are not subject to tax but amounts over this are taxed at 20 per cent with a further 20 per cent payable if the person making the gift dies within seven years.

Some cash gifts are exempt from tax regardless of the seven-year rule. Regular gifts from after-tax income, such as a monthly payment to a family member, are also exempt as long as you still have sufficient income to maintain your standard of living.

Any gifts between husbands and wives, or registered civil partners, are exempt from IHT whether they were made while both partners were still alive or left to the survivor on the death of the first. Tax will be due eventually when the surviving spouse or civil partner dies if the value of their estate is more than the combined tax threshold, currently £650,000.

If gifts are made that affect the liability to IHT and the giver dies less than seven years later, a special relief known as 'taper relief' may be available. The relief reduces the amount of tax payable on a gift.

In most cases, IHT must be paid within six months from the end of the month in which the death occurs. If not, interest is charged on the unpaid amount. Tax on some assets,

including land and buildings, can be deferred and paid in instalments over ten years. However, if the asset is sold before all the instalments have been paid, the outstanding amount must be paid. The IHT threshold in force at the time of death is used to calculate how much tax should be paid.

**If you have concerns about the impact IHT could have on your particular situation, please contact us so that we can review your financial position and offer professional advice about the options available.**

*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.*

# Are you taking advantage of your ISA allowance?

The earlier you invest, the longer your money is outside the reach of the taxman

By investing earlier in the tax year, you could make sure that you are using your Individual Savings Account (ISA) allowance to its full advantage.

The earlier you invest, the longer your money is outside the reach of the taxman and has the opportunity to work harder for you.

ISAs are virtually tax-free savings, which means that you do not have to declare any income from them, and you can use an ISA to save cash or invest in stocks and shares.

## WHAT CAN YOU SAVE OR INVEST IN AN ISA?

### ISAS CAN BE USED TO:

- save cash in an ISA and the interest will be tax-free
- invest in shares or funds in an ISA – any capital growth will be tax-free and there is no further tax to pay on any dividends you receive

## TRANSFERRING MONEY FROM CASH ISAS TO STOCKS AND SHARES ISAS

If you have money saved from a previous tax year, you can transfer some or all of the money from a cash ISA to a stocks and shares ISA without this affecting your annual ISA investment allowance. However please remember once you have transferred your cash ISA to a stocks and shares ISA it is not possible to transfer it back into cash.

## MONEY SAVED IN THE CURRENT TAX YEAR:

- savers are able to transfer money saved in the current tax year from a cash ISA to a stocks and shares ISA, but they must transfer the whole amount saved in that tax year in that cash ISA up to the day of the transfer
- the money transferred is then treated as if it had been invested directly into the stocks and shares ISA in that tax year. The saver is then still able to save or invest the remainder of their £7,200 annual ISA investment limit in that tax year, including up to £3,600 in a cash ISA
- from 6 October 2009, the ISA limit will increase to £10,200, up to £5,100 of which can be saved in cash for people aged 50 or over
- from 6 April 2010, the ISA limit will increase to £10,200, up to £5,100 of which can be saved in cash for all ISA investors

## HOW MUCH TAX WILL YOU SAVE?

### INTEREST FROM SAVINGS:

- if you pay tax at the basic rate, outside an ISA you would usually pay 20 per cent tax (2009/10) on your savings interest
- if you pay tax at the higher rate, outside an ISA you would usually pay tax at 40 per cent on your savings interest
- if you pay the 'saving rate' of tax for savings, outside an ISA you would pay tax at 10 per cent on your savings interest
- if you're a basic rate taxpayer inside or outside an ISA you pay tax at 10 per cent on dividend income. This is taken as a 'tax credit' before you receive the dividend and cannot be refunded for ISA investments
- if you're a higher rate taxpayer you would normally pay tax on dividend income at 32.5 per cent. In an ISA you won't get back the 10 per cent dividend tax credit element of this, but you will save by not having to pay any additional tax

## CAPITAL GAINS TAX (CGT) SAVINGS

If you make gains of more than £10,100 from the sale of shares and certain other assets in the tax year 2009/10, you would normally have to pay CGT. However, you do not have to pay any CGT on gains from an ISA.

If you would like to discuss how planning ahead and making the most of your ISA allowance early could mean you benefit from the potential of greater returns before the end of this tax year, please contact us.

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