the Investment & Mortgage centre

# MoneyMatters

NOVEMBER/DECEMBER 2010

## A quick guide *to the* pension changes

## Retirement Matters

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savings to be made

## EQUITY RELEASE
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☆ Lifestyle Protection ☆ Creating Wealth ☆ Tax Rules ☆

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# A QUICK GUIDE to the pension changes

## High Earners

From April 2010 under changes introduced by the Labour Government, high earners have limits on how much they can pay into their pension in 2010-11. A high earner is a person whose income has exceeded £130,000 in 2010-11 or either of the previous two years.

You are allowed to save up to £20,000 in a pension with no restrictions on tax relief. Or, if you had been making regular contributions, monthly or quarterly, you can continue to do so up to the level you were already saving.

If you were making irregular contributions (less frequently than quarterly), you may pay in the average of the previous three tax years' contributions up to a maximum of £30,000.

As from April 2011: The coalition Government has scrapped Labour's rules and introduced a limit of £50,000 on the level of annual pension contributions that attract tax relief, down from the current £255,000, or 100 per cent of income, whichever is lower. The requirement to buy an annuity at 75 will also be abolished.

## All pension savers

Spring 2011: NEST, National Employment Savings Trust, workplace pension scheme for lower earners starts on a limited basis with volunteer employers.

In October 2012: Workers will be automatically enrolled into NEST, or the company's alternative, unless they opt out. The minimum contribution will be 8 per cent of earnings, with 3 per cent from the employer, 1 per cent from tax relief and 3 per cent from the worker.

## State pensions

In October 2012: The link between state pensions and earnings is to be re-established.

In 2016: The earliest date for the male retirement age to rise to 66.

In 2020: Women's state pension age will reach 65, possibly increasing to 66 in line with men.

In 2024: State pension age, under current legislation, starts to increase towards 68, likely to be superseded by a revised timescale.

## Members of final salary schemes

As from April 2011: The new Governments cap on pension contributions could see members of final salary schemes receiving large tax bills because of the way their contributions are calculated, even if they are on modest earnings.

Typically, someone earning £45,000 who has worked for their employer for 15 years, and receives a pay rise of £15,000, could see their final salary pension entitlement rise from £11,250 a year to £16,000. The rise of £4,750 would be multiplied by 15 to give a contribution of £71,250. This exceeds the £50,000 limit so would be subject to 40 per cent tax. Additionally, the default retirement age in company schemes will end.

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# Alternative gifts

## *IHT and the 7 year clause*

Some gifts can be arranged as potentially exempt transfers (PETs) and are not liable to immediate IHT. These can be outright gifts to individuals, or gifts into trusts, where there is a named beneficiary which cannot be changed, this is also known as a bare trust. After seven years the PET will fall outside your estate for IHT purposes. However, if you die within the seven year period the PET will become chargeable and IHT will be due at up to 40 per cent on the gift amount after deduction of any available nil rate band. This percentage could be reduced by taper relief if you should die between three and seven years after making the gift arrangement, as this reduces the tax on a sliding scale.

Another area of gifts consideration is chargeable lifetime transfers (CLTs). These are gifts into a trust, other than a bare trust. If the CLT amount exceeds your available nil-rate band it can be subject to IHT at 20 per cent at outset. Should you die within seven years, additional tax may be payable on a CLT, again this may be reduced by taper relief. There is no refund on any overpayment of tax paid during your lifetime. A very important point to note is there is no maximum limit to how much can be given as a PET or CLT, but tax may be due.

Inheritance tax is payable if your estate, including any assets held in trust and some gifts made within seven years of death, is valued above the current Inheritance Tax threshold which is currently £325,000 in 2010-11. The IHT tax is payable at 40 per cent on the amount above the threshold.

Gifts can be made free from IHT under a number of exemptions. Examples being: the spouse/civil partner exemption, there is no IHT to pay on transfers between most married couples or civil partners (as defined by the Civil Partnership Act 2004) regardless of the amount. Those married to a non-UK domiciled spouse/civil partner, the exemption is limited to £55,000 after the nil rate band has been taken into account. In effect the amount liable to IHT is generally deferred until the death of the second spouse or civil partner.

Under the annual exemption, individuals are allowed to give away £3,000 in total, in any tax year, free of IHT. Where the full £3,000 is not used in one tax year it can be carried forward to the next year. This means a married couple could give away a total of £6,000 a year to their offspring without incurring any IHT or £12,000 if the previous year's allowances were unused.

Under the small gift exemption you can make gifts of up to £250 each, to any number of people in any one year, and these will be exempt from IHT. However, the total of any one person's allowance cannot form part of any larger gift.

Additional exempt gifts include wedding or civil partnership ceremonies, cash or gifts. On such occasions parents can each make gifts worth £5,000, grandparents £2,500 and anyone else £1,000 and these will be exempt from IHT.

Regular gifts taken out of income may also be exempt from IHT. Lifetime gifts for the raising of children are free from IHT liability. Also exempt are gifts to charities, national purposes and gifts for public benefit.

**INHERITANCE TAX PLANNING IS NOT REGULATED BY THE FINANCIAL SERVICES AUTHORITY.**

# Inheritance TAX

## Wealth protection planning

**Inheritance Tax (IHT) is an emotive burden that has incredibly complex implications, but much potential for clever financial planning.**

### Double Allowance

The Government announced changes in October 2007 to the use of individuals' nil-rate bands. The changes allow a transfer of any unused nil-rate band on a person's death to the estate of their surviving spouse or civil partner. This allows the unused nil-rate band to reduce the IHT liability on the surviving spouse or civil partner's estate upon their death.

As an example, Mr and Mrs Smith are married. Mr Smith dies in early November 2009 leaving his entire estate to Mrs Smith. Leaving 100 per cent of the nil-rate band available, Mrs Smith dies in May 2010, her executors have her nil-rate band available and can claim to transfer Mr Wright's unused nil-rate band, for tax year 2009/10 and for 2010/11 this would equate to £650,000, which is the two individual allowances of £325,000 combined.

### Gifting

Under the annual exemption, a person can give away £3,000 in any one tax year free from IHT. This can be carried forward but only by one year, and only where the full allowance is used for the current year.

For instance, if you gave away nothing in the 2008/9 tax year, you could give away up to £6,000 in the 2009/10 tax year. But if instead, you gave away £3,000 in the 2009/10 tax year that would count in full as that year's allowance rather than the previous year's. You would be able to give away £3,000 again in the 2010/11 tax year, but not £6,000.

A further gift of up to £250 can be given to any number of people in a tax year under the small gift exemption, once again free of IHT. The total of any single person's allowance cannot form part of any larger gift. As an example, you would be able to give a single grandchild either part of the £3,000 annual exemption allowance or a gift of up to £250, but not both.

### Making Plans Clear

Writing a Will and keeping it up to date is essential for good IHT planning. Many people wrongly believe their whole estate will go to their spouse or civil partner when they die. This is only going to happen if a Will has been drawn up correctly.

Writing a Will allows you to specify exactly how you would like your assets to be distributed after your death. This allows you to name your executors, as well as any guardians for your children, it can also be used to minimise your tax bill.

Always keep your existing Will up to date to reflect your wishes, your assets and your current tax position. Marriage, civil partnership, dissolution or divorce can all have an effect on an existing Will. An important point to also consider is that Marriage or civil partnerships will revoke a Will entirely, whereas a divorce will only revoke part of the Will.

Should a person die without making a Will, then they are said to have died 'intestate'. In such cases a variety of problems can arise. Assets will be distributed to individuals according to the intestacy rules rather than to those chosen by the deceased. Additionally, there may be delays in the settling of a deceased's affairs, which could prove distressing for surviving family members, and without a Will in place an avoidable IHT bill may be incurred.

*Will writing is not regulated by the Financial Services Authority*

# Investment TRUSTS

## Explaining the data

**Investment trusts are public limited companies. A trust becomes a PLC by selling shares to investors which are then traded on a stock exchange. The shareholders sell their shares at the exchange.**

As an investment trust is a listed company it is controlled by company rules. The major one and the most significant, is that an investment trust has a board of directors who are elected by its shareholders. The board have responsibilities to ensure investment trust managers are performing well and can make corporate decisions without consulting their shareholders. However, disgruntled shareholders can challenge their board of directors if they are unhappy with the decisions made.

An investor in a listed company is entitled to see the activities of other investors in that company. Some investors take comfort in knowing who the larger investors actually are.

### How to identify a performing investment company

Sifting through data as an investment trust investor can be hard work, but the surest measurement for quality of a trust is usually its performance. This will be evident in its share price and dividend payments, although past performance is not a guarantee for future performance.

The performance of the share price is the simplest and most transparent measure of the quality of an investment trust.

There are some other factors that should be considered when evaluating when it is a good time to buy shares, such as discounts, premiums, gearing and costs. All of these can be useful but they are all contained within the price of the share. If a company has low costs, but performs badly, the costs are irrelevant; however these factors are not indicators of performance.

### Discounts

If an investment trust is trading at a discount it means that its shares are worth less than its assets.

An investment company trading at a discount would be comparable to a company with assets of £80 but investors only being prepared to invest £60 in the company. This could be because the company may not be able to make a profit from the £80 or the asset value will be worth less by the time the shares are sold.

When investors see large discounts they believe it to be a good buying opportunity. But this is not always true, an investor needs to view investment trust discounts in context of how good the managers are, or by the resilience of the assets they own.

### Gearing

Gearing is the ability to borrow money, this has traditionally been one of the main differences between unit trusts and investment trusts. The ability to borrow was one of the perks of being a company. However, it can be troublesome. If a geared investment does well, the investor sees higher returns, if the investment does badly then the returns are much reduced.

### Costs

Costs are complicated but are wrapped within the share price. If the costs of any company are high then the potential to make profits are lower. Investors should check the "Total Ratio Expense", this is the measure of the costs associated to the management and operation of the trust.

### Trading costs

Investment trusts are often described as lower cost than unit trusts because they do not include the cost of the adviser and platform. Investors in investment trusts have to pay for these charges out of their investment return. The Annual Management Charge (AMC) of an authorised fund usually includes the cost of advice and distribution. Therefore, a direct comparison of the investment returns of an investment trust and a unit trust, without taking into account advice and distribution costs, can often be misleading.

**The value of your investment and the income from it can go down as well as up and you may not get back a significant proportion of your investment. Past performance is not an indication of future performance. Please contact us for further information or if you are in any doubt as to the suitability of an investment.**

# Equity Release

# Is it right for you?

Inflation and rising prices usually hit the elderly hardest. Many have to get by on fixed incomes and may be forced to use their savings to pay their everyday bills.

An increasing number of older people are turning to equity release as a way of raising money, but it is important to consider all the implications.

Before taking the decision of equity release consider all the alternatives such as moving to a smaller home. Capital raised this way typically costs you less in moving expenses than in equity release set-up charges and interest.

If you do not want to move, you should discuss your plans with your family before proceeding with equity release. This will avoid any unnecessary family surprises later on.

There are many equity release schemes now available; it may be difficult to find the best deal yourself. It is advisable to consult a professional adviser to guide you through the different choices.
Ask your adviser about equity release fees, make sure you get value for money and contact your Citizen Advice Bureau or Local Authority who can advise on your entitlement to welfare benefits.

Only borrow as much as you intend to spend or give away. You may earn much less from cash left on deposit than the interest you will have to pay for borrowing it in the first place. It could also cut your entitlement to means-tested benefits.

You may wish to consider drawdown plans that offer a cash reserve facility. Rather than just receiving a lump sum, you have the option to release your cash over time. As interest is only payable on the cash you have taken, these plans can often prove more cost effective.

Ensure your adviser can offer continued support and advice. This could range from claiming welfare benefits, or care and support from the local authority, to mitigating inheritance tax.

Make sure that you fully understand the various features of equity release plans, and the issues most important to you. If you are planning to take out a lifetime mortgage, how do the set-up costs vary from one plan to another? Do you plan to move in the future or is there a chance that you may wish to repay some or all of the loan at a later date? Also, will you want to guarantee that some of your equity is protected so that it is passed on in your estate? A good adviser should be able to talk through all of a plan's features in a way that you can understand.

Ask your solicitor if he or she is familiar with equity release paperwork. Otherwise the process could take longer and cost you more in fees. There are many solicitors who have undertaken additional training in this specialist area. Your adviser should be able to introduce you to a solicitor with equity release experience.

Make sure you understand which route of equity release is right for you. Consider your personal priorities and views on the direction of house prices as this will influence whether a lifetime mortgage or home reversion scheme is right for you. Your adviser should be able to guide you. If not, seek alternative specialist advice.

**AN EQUITY RELEASE PLAN WILL REDUCE THE VALUE OF YOUR ESTATE, WILL NOT BE SUITABLE FOR EVERYONE AND MAY AFFECT YOUR ENTITLEMENT TO STATE BENEFIT.**

**THESE ARE LIFETIME MORTGAGES AND HOME REVERSION PLANS. TO UNDERSTAND THE FEATURES AND RISKS ASK FOR A PERSONALISED ILLUSTRATION.**

# Pension changes

# Questions & Answers

The outlook for pensions has rarely looked so uncertain, for both high earners and members of workplace schemes facing sweeping changes over the next few years.

The unpopular shake-up of the pensions tax system for high earners, planned by the last Government, was put on hold while the coalition consulted on an alternative programme. The consultation period has now ended, but no date has been provided for the new rules to be announced.

Workers in occupational schemes face upheaval due to the launch of the auto-enrolment system for workplace pensions in 2012. This will require all employers to offer a workplace pension to all staff, unless they opt out. Employers without a scheme will be able to use the Government's NEST (National Employment Savings Trust) scheme, which will begin in 2012 for big companies, but small firms will be allowed more time to comply.

The minimum contributions will be 4 per cent of salary from employees, 3 per cent from employers and 1 per cent from the Government.

## Higher earners

What are the rules?

An area for the Government to save money is the £28 billion annual bill for tax relief on pension contributions. The previous Government announced a complex set of rules that would have seen higher-rate tax relief clawed back from high earners from next April.

Anyone earning more than £150,000 a year or £130,000 where pension contributions take them over the £150,000 limit would have reduced tax relief on their contributions from 40 per cent to 20 per cent once their income reached £180,000.

To prevent savers taking advantage of the existing rules before next April, the Labour Government introduced a complex set of "anti-forestalling" rules for the current year. Everyone can still save up to £20,000 into a pension this year. Those who have been making regular contributions to a pension before this year may continue to do so up to the amount they were already saving.

If you make irregular contributions, one or two a year, you may invest the average of your contributions in 2006/7, 2007/8 and 2008/9, up to a maximum of £30,000. HM Revenue & Customs (HMRC) will consider your income in 2010/11 and the previous two years. If it exceeded £130,000 in any of those years, you will have to repay tax relief above the contribution limits.

If you make contributions to a pension as a high earner, tax relief is currently granted at your highest rate which is 50 per cent for anyone earning more than £150,000 this year.

## What is changing?

The coalition Government announced that it would scrap Labour's pensions tax regime for high earners. However, in order to save the same amount of money, it has been proposed that the annual allowance for pension contributions be cut from the current £255,000 or 100 per cent of income, whichever is lower, to £50,000. This means, that the Government will pay tax relief only on contributions up to this amount.

## What should I do?

Bring your income below the higher earnings threshold by making a pension contribution. For example, if you earn £149,000 a year and make a £20,000 pension contribution, it will bring your income below £130,000 for the purposes of tax relief.

Another good idea is to maximise pension contributions for lower-earning spouses, children and grandchildren. For children and non-taxpaying spouses, you can save up to £3,600 gross a year into pensions including basic-rate tax relief.

## Workplace pension changes

Under the coalition's plans, even modestly paid members of final salary schemes will be hit by the lower annual allowance expected to start next year.

Anyone with an accrual deemed to be higher than the annual allowance must repay tax relief on the excess. This could spell higher tax bills for people earning just £40,000, and in particular anyone receiving a pay rise or retiring early because of ill health or redundancy.

## What can I do?

If possible, bring pay rises forward to before April 2011, this will lock in increases in accrued benefits before the measurement period starts in April 2011. It will give staff substantial additional scope for tax-free accrual, but for a limited period.

## Will my employer have to offer a pension?

Between 2012 and 2016, employers will have to provide a qualifying pension scheme and make contributions to their workers' pensions. Those with over 120,000 staff or more must comply by October 2012. Companies with fewer than 50 workers have up to September 2016. Worker aged over 21 and earning more than £5,035 a year will be enrolled in their employer's scheme, unless they decide to opt out. If an employer does not have an existing pension scheme, it will be able to offer NEST, the Government's model.

**THIS ARTICLE IS BASED ON OUR CURRENT UDERSTANDING OF THE GOVERNMENT PENSION CHANGES AND THERE IS NO GUARANTEE THAT THE LEGISLATION WILL GO THROUGH IN THIS FORM.**

# Retirement Matters

## *How to achieve a* comfortable retirement

### Secure your income

Funding your retirement means creating an income stream. Where the income comes from is entirely up to you.

Many people rely on pension plans from various sources, personal, employer, and the state to deliver the income they need in retirement. However there are other, more flexible ways to save.

ISAs can be a very good alternative. They provide a similar tax-efficient environment for your assets to grow over time. More importantly though, they are flexible in how and when you eventually draw your income on retirement, and are not subject to tax when you take out your money.

For maintaining wealth and inheritance tax (IHT) purposes, the money remains in your control over time and even through retirement. So if you decide to gift some of the money to reduce your IHT liability, you could.

### Save as soon as possible

The sooner you start saving, the more time you have to grow your retirement fund. It is up to you how you save for the future, it could be a pension plan, collecting art, or a second or third home.

Two rules remain, however, the first is that you should start saving in one form or another and the second, take professional financial advice, this is often critical in turning good decisions into great ones.

Don't delay planning for your retirement, because one day of delay is one less day for your plans to work and your pension pot to grow.

### Diversify

The fog surrounding pensions can put people off saving into them. This is a big mistake, if pension plans are not right for you there are many other good alternatives available, including a tax-free ISA. If you have no savings and you were retiring today, your income from the state could approximately be just £132 a week.

Usually, at retirement most people have an income from a number of investment sources, including their state pension, private pensions, company pensions, ISAs, and perhaps even property.

This is key, you should diversify your retirement savings to guard against any single poor performing investment.

### Consider contributions

If your income is in the 20 per cent tax band, it will cost £8,000 to get £10,000 into your pension after basic rate tax relief.

Higher-rate tax currently starts at £43,875. So, if you wait until your income is £53,875, getting £10,000 into your pension only costs you £6,000 as you get 40 per cent tax relief.

But if you are a 20 per cent taxpayer now, and believe you will be promoted in the next few years, it may be worth considering delaying pension contributions.

### Tidy up

When you have around 10 years before retirement, you should start to plan seriously and disentangle the jumble of pensions which may have been built up over the years, with little cohesion. Taking control of the various plans and making sure the mix is right could prove very beneficial.

### Watch out for risk

Many stock market and other market-linked funds such as managed funds are volatile over a short period, we have seen between 10 per cent and 20 per cent swings in fund values over just a few weeks in 2010. When the markets are volatile look for lower risk options, like cash funds, if available.

Losing 20 per cent of your fund value just before you are due to retire may mean you get locked into a pay cut for the rest of your life or you have to wait many weeks, months or even years for your fund to grow back to its original fund value.

### Annuity homework

It is vitally important at retirement, if you have any kind of money purchase pension, to shop around for the best annuity rate when you retire.In addition, you can find enhanced rates for people who smoke or have poor health.

The range of conditions are fairly broad so it is always worth having this assessed by arranging for a professional financial adviser to submit an impaired life annuity quote request on your behalf.



**To discuss how you can get the most out of your retirement planning, please contact us for further information**

## on your investment portfolio

# *How to survive and prosper*

Should investors focus on repositioning their investment portfolio, it can be possible to protect themselves against turbulence, whilst also ensuring they are ready for future recovery.

Many investors are feeling unsure of their future and may be considering quitting the markets altogether. Stocks had a volatile summer as fears of a double-dip recession in America returned and the FTSE 100 index fluctuated. The property market also suffered, and returns remain lean on cash deposits as inflation remains high.

Safe-haven assets have continued to attract cash: bonds and gold in particular. But this has only fuelled fears that bubbles are forming, we suggest tips on how to survive and possibly even prosper during such tricky times.

### Equities

Large swings in share prices have afflicted stock markets and as a consequence the FTSE 100 is almost exactly where it was at the start of the year. The turbulence is expected to continue as doubts about the strength of the US recovery persist. Many advisers suggest that equities are still the best place for your money over the long term.

Some British shares are at their cheapest for 50 years relative to Government bonds, according to Barclays Capital, dividend yields on shares have traded at a premium to gilt yields for the first time since 1958, a sign that they are good value.

For the more adventurous investor, emerging markets could be worth considering. Having corrected from recent highs earlier in the year, emerging market equities now offer medium-term value.

### Bonds

Money has been pouring into bonds, particularly Government bonds such as UK gilts, however this has raised concerns. Demand has pushed down yields, the income as a proportion of the bond's capital value to the lowest levels in more than a year. The ten-year gilt now yields less than 3 per cent, which is less than inflation.

Corporate bond yields have also been falling and some companies now have higher-dividend yields than the coupons on their bonds.

Buying bonds is a high-risk strategy as there is a growing consensus that the rally won't last. The bond market is reaching expensive levels. The yield on the UK corporate bond index has fallen to just 5 per cent, which is at the very low end of the past range.

Investors have enjoyed great returns from bonds since the first quarter of 2009 but are now in danger of losing some of that, through a turnaround in yields or in credit spreads.

### Gold

On average the gold price has risen about 14 per cent since the start of the year in dollar terms. In sterling terms it is up about 20 per cent. As with bonds this has prompted talk of a bubble forming, although, the gold rally has more support.

Gold has become a crowded trading area and is not cheap, but it has not yet manifested into a bubble as happened during the inflationary decade of the 1970s. It should remain a core part of a diversified portfolio while the global economy continues to readjust to the effects of the credit crunch.

**The value of your investment and the income from it can go down as well as up and you may not get back a significant proportion of your investment. Past performance is not an indication of future performance.**
**Please contact us for further information or if you are in any doubt as to the suitability of an investment**

# Review your protection portfolio

Unemployment is at the highest level in 10 years and the risk of falling ill and losing a necessary salary is a real threat.

Failing to make provisions for unexpected events whether health-wise or job-wise, could be a real problem indeed. As our investment portfolios continue to look drab, now could be a good time to make sure insurance policies are up-to-scratch and in place to protect against the unexpected.

Many people with mortgages have no protection at all and a recession can take away what they have worked hard for over many years.

## Getting advice

It can often be tough to work out what sort of protection is right for you and the best way to achieve it.

Getting good advice is always advisable, especially if you have any concerns about the protection you need. Critical illness and income protection are policies that benefit from gaining advice. Not all plans are the same and many are not a simple "one-size-fits-all" policy.

The cheapest quote will only be cheap if you have 100 per cent health. Insurers which seem cheap usually fund this by charging very high prices to those who have less than perfect health, although you only find this out after underwriting the policy.

## The Best Cover

Mortgage payment protection insurance (MPPI) and payment protection insurance (PPI) are two types of protection that most people are familiar with, and may have. However, this does not mean it is the best product available for your circumstances now.

MPPI is normally the standard policy sold by the mortgage lender, but what other cover might you need and are there better policies out there? Income protection, where you receive tax-free replacement income in the event of ill health until you return to work, or the policy expires or death occurs, is more comprehensive than MPPI or PPI, but this can be a complicated process and advice could be required.

Income protection is usually much better value than PPI or MPPI based on what you get for your money. As well as generally being more comprehensive, income protection has less exclusions.

Stress and backache are said to be two of the major reasons why people are unable to work, income protection typically covers these, but MPPI and PPI may not.

Has the recession really affected the world of protection? It is understood that there has been a slight increase in policy lapses this year. If you are considering cancelling or not renewing a plan, it is often useful to speak to a professional financial adviser first about the possibility of amending it to a more affordable level.

As the level of unemployment increases in the UK, sales of unemployment cover have also risen, but consumers should be cautious as there are usually many restrictions. Typically you have to be in full-time employment and in the same job for more than a year, and you will not obtain cover if you are already on notice of redundancy.

Many companies have pulled these policies and it is especially difficult to get protected if you work in a so called high-risk industry such as banking or construction.

Another consideration is whether to have your life insurance written in trust. If it is written in trust, your provider will pay out directly to the beneficiaries named on your policy. This means the proceeds should not form part of your estate and therefore will not be subject to inheritance tax. Many insurers provide documentation for placing policies in trust.

When you next think how the recession has affected your investments, pension, the price of your home and your debts, remember to check that you have adequate protection in place so you are covered against the unexpected.

# VAT The savings to be made

As from January 4 2011, the VAT sales tax is set to rise to 20 per cent, so now is the time to make savings

Value added tax is rising from the current 17.5 per cent to 20 per cent in January next year. This extra tax will add pence to lower value items, but larger value purchases like kitchens, cars and furniture, could see hundreds of pounds added. It therefore makes sense to consider bringing forward any large purchases you have planned for next year.

## Vehicles

For many people, the biggest VAT spend is on a new car. The increase in VAT will add more than £1,000 to top models, which can be enough to cover a year's car insurance.

Buyers should be aware that some car dealers will try to pass on the VAT increase on cars delivered after January 4, even if ordered beforehand. So buyers need to consider long waiting/delivery times for new vehicles.

Anyone considering buying a car that might arrive after the tax increase should inquire about the VAT position before purchase and, consider negotiating hard to persuade the dealer to absorb the additional VAT increase.

New buyers should be in a strong position to negotiate because the motor trade has seen a significant slump since the Government's scrappage scheme stopped. It would also be wise for buyers to compare prices at several dealerships.

## High Value Goods

Prices for home furnishings, technology and white goods will also increase significantly with the VAT increase. One option is to aim to buy these in the period between Christmas and the New Year to take advantage of the "January" sales before the change in tax.

A variety of products are available at big discounts already thanks to unseasonal sales and discounting, especially online. Any purchase over £500 is well worth making now, especially for kitchen appliances or white goods, computers and televisions. There are usually some great offers on PCs and laptops in the lead up to Christmas.

It is worth remembering that smaller independent stores may advertise higher prices than the competition, but could be more likely to be open to negotiation.

## Clothes

It is predicted that the price of high street clothes will increase by up to 8 per cent next year as a result of the VAT increase and a rise in the world price of cotton. With this in mind it makes sense to purchase clothes which will always be needed like socks and underwear and any classic fashion items.

### Value-added tax: The basics

Value added tax is paid when you buy goods and services in the UK and the European Union (EU).

Three rates of UK VAT apply the standard rate of 17.5 per cent on most goods and services; a reduced rate of 5 per cent on some essentials such as children's car seats, domestic fuel or power and a zero rate on exempt items which include food, books, newspapers, magazines and clothing and footwear for children.

A business with an annual turnover below £70,000 (2010-11) does not have to register for and therefore charge VAT, but they can choose to do so. If they do not, the price you pay may be cheaper than from a VAT registered supplier.

# Celebration for Savers

Northern Rock propelled the protection of savers' deposits to the top of the political agenda, some three years ago. Since this time the rules have changed several times, leaving some customers confused about exactly how much of their money is protected by the state safety net should their bank goes bust.

The rules are set to change again. The maximum amount protected by the state-run deposit guarantee scheme will rise from £50,000 or £100,000 for joint accounts to £85,000 in the New Year. The exact amount is unclear as the figure comes from an EU law stipulating a minimum of €100,000.

The scheme known as the Financial Services Compensation Scheme (FSCS), will also pay out quicker, it will have to return savers' money within a week of the bank or savings institution being declared in default.

The Financial Services Authority is consulting on the exact compensation limit, but it will be based on the €100,000 figure. The exchange rate is yet to be agreed, but once decided it will not change, even if there are fluctuations between the pound and euro.

Savers with large balances in different brands of the same building society need to be careful, as other changes coming into force in the new year could mean that their money is no longer protected in full.

During the credit crisis the FSA allowed merging societies to retain their individual registrations under the FSCS. This meant that in the event of the merged society failing, customers who saved money with each of the original mutuals would be covered up to £50,000 in each separate account, so receiving a maximum payout of £100,000 per saver. This provision will end on December 30 2010.

Before the run on the Northern Rock, the FSCS protection limit was only for the first £2,000, with 90 per cent of the next £33,000 also covered by the scheme. Balances above £35,000 were unprotected. So Northern Rock customers with more than £2,000 in their accounts stood to lose some of their money if the bank failed.

After the crisis, the two-tier system was discarded and a single limit of £50,000 was introduced and all money up to that amount was protected.

Post Office savers have enjoyed 100 per cent for their money, with no upper limit, for the past two years. This is because these accounts are run by Bank of Ireland, and the Irish Government introduced a blanket guarantee for deposits at the big Irish banks in September 2008.

Due to the way Bank of Ireland is registered, savers would need to reclaim all their money from the Irish compensation scheme, including the first £50,000, which would normally be the responsibility of the FSCS.

However, Post Office deposits are about to undergo two changes. First, Bank of Ireland is about to transfer its British business to a new UK subsidiary, which will mean Post Office accounts coming under the FSCS. Subject to court approval, this change is expected to take place on November 1 2010. Savers with more than £50,000 will still have unlimited protection, but they would have to claim the excess from the Irish scheme.

The Irish Government's blanket guarantee however, is scheduled to end on December 31 2010 and the limit will revert to €100,000, the same as the new FSCS limit European legislation to the equivalent in sterling of 100 per cent of the first €100,000 per per per firm.

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