



Kingfisher

Independent Financial Planning

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TAX-SAVING IDEAS TO BEAT THE END OF TAX YEAR

Now is the time you should be reviewing your financial affairs

AUTUMN STATEMENT 2012

Key announcements from the Chancellor at a glance

DO YOU NEED GROWTH, INCOME OR BOTH?

Preparing for whatever economic ups and downs might be ahead

WHAT CHALLENGES LIE AHEAD FOR INVESTORS IN 2013?

Navigating your way around a wide range of investment products and strategies

KEEPING A WATCHFUL EYE ON YOUR MONEY

Taxing times for the average 50-year old

EDITORIAL

Although making resolutions to improve your financial situation is good whatever the time of year, many people find it easier at the beginning of a New Year. Regardless of when you begin, the basics remain the same. So it's with this in mind that we have provided a number of ideas inside this issue to get you ahead financially.

In a period of slow global growth, aggressive central bank actions and near paralysis on the part of many fiscal policy makers, investors enter 2013 facing a plethora of challenges. On page 6 we look at the three main hot topics that are likely to impact on making investment decisions over the next 12 months: China, the US and the Eurozone.

With the end of the tax year rapidly approaching on 5 April, now is the time to focus on ways to mitigate any tax liability. To make the most of the opportunities available, if you've not already done so, you should start putting plans in place now. On page 10 we consider some of the areas you may need to review to minimise a potential tax liability.

This tax year 2012/13, you can shelter up to £11,280 from tax by investing in an Individual Savings Account (ISA), and the good news is that the Chancellor, George Osborne, announced during his Autumn Statement last December plans to increase the ISA limit to £11,520 from 6 April this year. To make the most of the current tax year's allowance, you need to act before the fast-approaching deadline. Read the full article on this page. A full list of all the articles featured in this edition appears on page 3. ■

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HAPPY ISA TAX YEAR

Don't get bitten - talk to us

This tax year you can shelter up to £11,280 from tax by investing in an Individual Savings Account (ISA). During his Autumn Statement last December, the Chancellor, George Osborne, announced plans to increase the ISA limit to £11,520 from 6 April this year.

ISA ALLOWANCE

Each tax year you have an ISA allowance. For the tax year 2012/2013 (6 April 2012 until 5 April 2013) you can save up to £5,640 in a Cash ISA with the remainder in a Stocks & Shares ISA, or you can invest your full allowance in a Stocks & Shares ISA. You're only permitted to invest with one Cash ISA provider in each tax year and the same, or another, Stocks & Shares ISA provider.

MAKE UP ANY UNUSED SHORTFALL

If you haven't already used up your full ISA allowance you can't retrospectively make up any unused shortfall later - it's lost forever. UK residents aged 16 and over can choose to save in a Cash ISA or, if they are 18 or over, a Stocks & Shares ISA or a combination of both. Parents or guardians can also open a Junior ISA for children under 18.

The interest on a Cash ISA isn't taxed, so all the interest you earn you keep. With a Stocks & Shares ISA, all gains are free from Capital Gains Tax and you don't need to declare your ISA investments to the taxman. ■

The value of investments and the income from them can go down as well as up, and you may not get back the full amount invested. The tax benefits and liabilities will depend on individual circumstances and may change in the future. Past performance is not a guide to the future.

DISCUSS YOUR ISA OPTIONS - DON'T DELAY

Whether you're new to investing or looking to grow your portfolio, we can help - please contact us to find out more.



INHERITANCE TAX, ONE OF LIFE'S UNPLEASANT FACTS

Helping you to protect and preserve your estate

Inheritance tax (IHT) is generally payable upon death and during the life of someone where they give away assets. IHT can be reduced significantly by tax planning in advance.

Everyone is entitled to an IHT-free allowance of £325,000 in the current 2012/13 tax year. A married couple or registered civil partnership would therefore generally have no IHT to pay if their estate on second death is less than £650,000. The IHT allowance threshold which has been frozen at £325,000 since 2009 is set to increase to £329,000 in 2015/16.

While net estate values might be less than £650,000 now because of a mortgage or some other liability or loan, it is possible that at the time of death the estate

will be worth much more as debt is being paid off. Over the IHT tax-free allowance band, IHT is paid at 40 per cent and so it is a significant tax charge levied on your assets. ■

DON'T LEAVE YOUR FAMILY WITH A TAX BILL

If you have significant wealth you need to consider IHT at an early stage. To discuss the options available to you, please contact us for further information.

The Financial Services Authority does not regulate estate planning, wills or trusts.

TO DISCUSS
YOUR FINANCIAL
PLANNING
REQUIREMENTS
OR TO OBTAIN
FURTHER
INFORMATION,
PLEASE
CONTACT US

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WANT TO MAKE MORE OF YOUR MONEY IN 2013?

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

Name _____

Address _____

_____ Postcode _____

Tel. (home) _____

Tel. (work) _____

Mobile _____

Email _____

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



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.

AUTUMN STATEMENT 2012

Key announcements from the Chancellor at a glance

ECONOMIC GROWTH

- Forecasts for the next few years are: 1.2% in 2013, 2% in 2014, 2.3% in 2015, 2.7% in 2016 and 2.8% in 2017.

PENSIONS AND BENEFITS

- Most working-age benefits to rise by 1% for each of the next three years.
- From 2014/15 lifetime pension relief allowance to fall from £1.5m to £1.25m – annual allowance cut from £50,000 to £40,000.
- Capped drawdown limit increased for pensioners of all ages with these arrangements from 100% to 120% of the value of an equivalent annuity.
- Basic state pension to rise by 2.5% to £110.15 a week.
- Child benefit to rise by 1% for two years from April 2014.

TAXES AND ALLOWANCES

- Personal basic income tax allowance for those aged under 65 increasing by £1,335 in cash terms to £9,440 in 2013/14.
- Higher rate threshold to rise to £41,450 in 2013/14, to £41,865 in 2014/15, and in 2015/16 it will be £42,285.
- Main rate of corporation tax to be cut by extra 1% to 21% from April 2014.
- Capital gains annual exempt will increase to £11,000 in 2014/15 and £11,100 in 2015/16.
- Temporary doubling of small business rate relief scheme to be extended by further year to April 2014.
- Inheritance tax threshold to be increased to £329,000 in 2015/16.
- Bank levy rate to be increased to 0.130%.
- £5bn over six years expected from treaty with Switzerland to deal with undisclosed bank accounts.
- ISA contribution limit to be raised to £11,520 from 6 April.
- Prosecutions for tax evasions up 80%, with anti-abuse rule to come in.

OUTLOOK FOR THE NEW CENTENARIANS

Financial pressures to snowball for future generation

A generation of 'New Centenarians' will be forced to work well into their 70s to stay afloat, according to new research from Scottish Widows. In addition to working longer, they will face a hat-trick of financial pressures as early as their mid-twenties, with the stresses of saving for their first home, paying back their student loans and starting a retirement fund impacting on them much earlier than other generations.

The Office for National Statistics believes that one in three babies born in 2012 in the United Kingdom will live to be 100. This unsurpassed average life expectancy, combined with the rising costs of living, education and housing, means that our children and grandchildren will need to plan much earlier for their future and work for longer than ever before.

The Scottish Widows survey of 1,000 parents with children under the age of five reveals that nearly 78 per cent are concerned that their children may need to work well into their 70s.

Leading economist and trend forecaster Steve Lucas of Development Economics analysed the financial and life milestones that babies born in 2012 will reach before they turn 100. Looking backwards from 2112, the research paints a picture of what life might look like for these babies and examines the steps an average

New Centenarian will have taken throughout life in comparison to his or her parents and grandparents.

THE PERSONAL FINANCIAL LANDSCAPE 100 YEARS IN THE FUTURE

Changes to ways that student loans (and, for many people, high tuition fees) are provided mean that those

New Centenarians who complete higher education could be paying off their student debts of £73,000 until they are 52 years old.

Couples will increasingly delay having their first child until they are in their early 30s, compared to their late 20s now. An increasing proportion of people will either have no children or just one child. After the purchase

of their home, considering the financial burden of having children is probably the most important financial decision they will face in their lives.

Financial products are likely to change to allow for mortgages to be paid over a longer period of time due to people working longer and increased life expectancy. New Centenarians are likely to be paying off their mortgage until they are at least 61, four years later than their parents and seven years later than their grandparents.

In order for New Centenarians to provide an acceptable standard of living for themselves in old age, a pension pot of £2.4m in retirement

savings will need to start sooner.

The cost of social care is likely to be another major concern for this future generation. Many New Centenarians will need to contribute financially to the care costs of their parents' generation, as well as try to put some funds aside for their own care costs in their final years.



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NATURE OF WORK IS LIKELY TO CHANGE

The state retirement age will be at least 70 by the turn of the next century and an increasing proportion of people will continue working well into their 70s, either because they can't afford to retire or because they feel it is in their best interest to continue working.

However, the nature of their work is likely to change. According to Lucas, 'In the future, older workers – especially in the professional and business services sector – are likely to stay working longer into their 70s, but the nature of this work will become more flexible and probably more part-time. Workers in manual or vocational careers are also likely to look to extend their working lives by undertaking a less strenuous, more part-time role.'

However, this means that New Centenarians could be supporting themselves with a potentially limited income for up to 30 years of retirement. In order to properly prepare for prolonged retirement and counter the effects of the collision of financial pressures, Lucas explains that New Centenarians will need to begin saving for their retirement from at least age 25 and that parents should encourage their children to start understanding finances and the importance of saving from a young age.

IT ISN'T ALL DOOM AND GLOOM FOR THIS GENERATION

Almost 45 per cent are concerned that their children will not be able to save enough money for a longer retirement. Yet almost 40 per cent of parents are not considering their child's long-term future as part of their financial planning and half of all parents would not consider starting a pension for their child on their first birthday.

However, it isn't all doom and gloom for this generation, as 41 per cent of parents are excited about the potential for long-lasting family relationships and a further 37 per

cent are pleased to think their children will accomplish more in life because they will be healthier longer. ■

SAVING ENOUGH FOR A RETIREMENT OF 30 YEARS OR MORE

The dramatic speed at which life expectancy is increasing means we need to radically rethink our perceptions of life, especially for our children. Most workers today expect their pension to fund a retirement of up to 20 years but increased life expectancy means New Centenarians may have to save enough for a retirement of 30 years or more. To discuss how we could help you plan for your children's and grandchildren's future, please contact us for further information. Don't leave it to chance.

This research was undertaken based on past and expected future demographic trends using published research and data from the Office for National Statistics (ONS); this included trend data on life expectancy, healthy life expectancy, fertility, marriage, divorce, having children,

commencement of working lives and ages of retirement. ONS data was also used to estimate expected future trends for financial matters including earnings, rents, house prices, mortgage costs and retirement incomes. A range of other information sources – published and unpublished – were utilised to obtain insights into recent and expected future social trends.

Estimates of future financial costs – including earnings, housing costs, student debt and retirement savings – were calculated using bespoke economic and financial models developed by the authors of the research. These figures were estimated by projected-forward underlying trends evident in existing datasets, coupled as appropriate with trend-based inflation assumptions.

The main exception is in the area of future student debt, where a new system is currently being introduced and for which current data cannot be used to construct forward estimates. In this case future estimates were based on a literature review of estimated future student debt liabilities, using sources including the Department for Education, the National Union of Students and student loan companies.

2.4M
The pension pot New Centenarians will need to provide an acceptable standard of living for themselves in old age.





WHAT CHALLENGES LIE AHEAD FOR INVESTORS IN 2013?

Navigating your way around a wide range of investment products and strategies

In a period of slow global growth, aggressive central bank actions and near paralysis on the part of many fiscal policy makers, investors enter 2013 facing a plethora of challenges.

There are three main hot topics that are likely to impact on making investment decisions over the next 12 months: China, the US and the Eurozone. Chinese monetary policy-making by the new leadership needs to tread a fine line between slowing economic growth, which could cause social unrest, and creating asset bubbles. A US debt ceiling breach around March 2013 could lead to draconian consequences if an agreement is not reached. Finally, the on-going Eurozone sovereign debt crisis – although steps have been taken in the right direction, Europe is still not fixed.

GOOD FINANCIAL PLANNING

Navigating your way around the plethora of investment options out there can be very daunting and requires professional financial advice. Before investing, you need to ask yourself a basic question. What are you investing for? Good investment requires good financial planning first of all. You must decide what your objectives are, what return you need to achieve that objective and what risk you are willing to take to achieve that return.

Deciding how much to invest in equities, fixed interest (gilts and corporate bonds), property and cash is the first step in constructing a portfolio. Many investors are understandably nervous about taking risks with their hard-earned capital during this current period but not taking enough risk can be just as damaging as taking too much.

TAKING A LONG-TERM VIEW

All asset classes carry risk – including cash, which can lose its spending power over time because of inflation. Most investors see risk as the risk of short-term price falls but fail to consider the risk that their investments will not grow fast enough to meet their objectives. Those who can afford to take a long-term

view and see their capital fluctuate in value could consider taking more risk to try and achieve an inflation-beating return.

Shares are different from most goods in that demand often increases as prices rise. If an investment area is fashionable, it could be a sign that it is overvalued. Traditional areas, such as blue chip companies, often generate the best long-term returns, so it makes sense for most investors to avoid the latest fad. However, it is important to remember that all stock market investments will fluctuate in value, so you could get back less than you invest.

MAXIMUM USE OF TAX SHELTERS

Investors also need to make the maximum use of tax shelters as tax can eat away at your returns. These can include pensions and Individual Savings Accounts (ISAs) at one end of the spectrum to Enterprise Investment Schemes and Venture Capital Trusts at the other, higher-risk end.

Even following the proposals announced by the Chancellor, George Osborne, concerning pension tax relief in his Autumn Statement, pensions still offer very attractive tax benefits through the income tax relief you receive on the contributions.

In the current 2012/13 tax year, there is no tax to pay within an ISA on any capital gains and no further tax to pay on any income and you can shelter up to £11,280, which is set to rise to £11,520 from 6 April this year.

Having said this, making an investment decision based on a tax saving alone should not be the main consideration at the expense of the other rules of investing.

DIFFERENT AREAS PERFORM WELL AT DIFFERENT TIMES

An undiversified portfolio will only perform well some of the time. Good examples of this are the banking crisis of 2008 and the technology crash of

2000 – many investors who were over-exposed to these areas suffered heavy losses. Diversification mitigates risk, as different areas perform well at different times. Paradoxically, though, it's also important not to be too diversified.

One of the biggest dilemmas investors face is market timing. Jumping in and out of markets on a regular basis not only requires constant monitoring of daily events but also requires the skill to act on such events. The return from a lump sum investment can depend heavily on the entry point. One way to achieve this is to spread or drip-feed a lump sum into the market as opposed to investing it all in one go. In fact, during volatile times this strategy allows you to benefit from what is known as 'pound cost averaging'. Regular investing provides an alternative method of building positions over time. ■

IMPROVED RETURNS WITHIN YOUR INVESTMENT STRATEGY

Our services cover a wide range of investment products and strategies. Our dedication to flexibility and innovation ensures we are able to secure new and tactical opportunities for improved returns within your investment strategy. To discuss what you need to do next, please contact us for further information.

Information is based on our current understanding of taxation legislation and regulations. Levels and bases of and reliefs from taxation are subject to legislative 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.

FLEXIBLE RETIREMENT PLANNING SOLUTIONS

Take the legwork out of your retirement planning

People are living longer and the number of retirees is growing. Longevity should be a blessing but many investors are worried they will outlive their savings. So it is essential to consider saving for retirement as early as possible and to decide where best to invest for your requirements.

DECIDING HOW TO PLAN

There is a bewildering choice when deciding how to plan for your retirement, and it is important to weigh up the cost and complexity against the potential returns. If appropriate, one option to consider is a Self-Invested Personal Pension (SIPP). Originally designed for people with higher-value pension funds, they've become more prevalent since the UK pension simplification legislation of 2006.

SIPPs are tax-efficient wrappers within which you can select your own pension investments from a wide variety of sources and choose how to spread your money among a whole range of different investment types subject to both HM Revenue & Customs rules and any limits set by the SIPP provider.

TAX-EFFICIENCY

A SIPP offers the same tax benefits as other personal pension plans, with personal contributions eligible for Income Tax relief and investments within the SIPP able to grow free of Capital Gains Tax.

INVESTMENT CHOICE

You can invest in a wide range of investments and this includes any number of approved funds. Most SIPP providers allow you to select from a range of assets, including:

- stocks and shares quoted on a recognised UK or overseas stock exchange
- government securities
- unit trusts
- investment companies
- insurance company funds
- traded endowment policies
- deposit accounts with banks and building societies
- National Savings products
- commercial property (such as offices, shops or factory premises)

RETIREMENT FLEXIBILITY

A SIPP allows you to choose from the full range of options at retirement, from purchasing an annuity to taking a managed income withdrawal from your fund.

The SIPP wrapper is separate from the contents and, as such, has distinct, often fixed charges. Because you can now accumulate a number of pensions over your working life, consolidating them all into a SIPP means that you have one company carrying out your pension administration. This could reduce your reporting and paperwork; however, you should ensure that the additional investment options a SIPP provides are required, as it can cost more to administer than a normal personal pension plan.

SIPPs are appropriate for people comfortable with making their own investment decisions and are not a risk-free product. The capital may be at risk due to the investments held within this pension arrangement; the value of investments can go down as well as up and you could get back less than you invested. Tax reliefs will also depend on your personal circumstances and the pension and tax rules are subject to change by the government. ■

BUILDING A BIGGER PENSION

Before applying for a SIPP, you should seek professional financial advice. To find out how much you should be saving to help achieve your desired retirement income, contact us for further information.

Information is based on our current understanding of taxation legislation and regulations. A SIPP is a long-term investment, and the fund value may fluctuate and can go down. Your eventual income may depend upon the size of the fund at retirement, future interest rates and tax legislation.



SIPPs are tax-efficient wrappers within which you can select your own pension investments from a wide variety of sources and choose how to spread your money among a whole range of different investment types.



BAD NEWS CAN IMPACT ON ANY ONE OF US AT ANY TIME

Safeguarding and protecting your family's standard of living

Bad news can impact on any one of us at any time, in the form of an illness or sudden death. We don't like to think about it but we do have to plan for it. So having the correct protection strategy in place will enable you to protect your family's lifestyle if your income suddenly changes due to premature death or illness. However, choosing the right options can be difficult without obtaining professional advice to ensure you protect your family from financial hardship.

Obtaining advice is essential to making an informed decision about the most suitable sum assured, premium, terms and payment provisions. We work with our clients to create tailored protection strategies that meet their financial goals and needs and we're committed to ensuring that our clients enjoy the best financial planning service available.

Whether you're wanting to provide a financial safety net for your loved ones, moving house or a first-time buyer looking to arrange your mortgage life insurance – or simply wishing to add some cover to what you've already got – you'll want to make sure you choose the right type of cover. That's why obtaining the right advice and knowing which products to choose is essential.

Life assurance helps your dependants to cope financially in the event of your premature death. When you take out life assurance, you set the amount you want the policy to pay out should you die – this is called the 'sum assured'. Even if you consider that currently you 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 typical events when you should review your life assurance requirements:

- Buying your first home with a partner
- Having other debts and dependants
- Getting married or entering into a registered civil partnership
- Starting a family
- Becoming a stay-at-home parent
- Having more children
- Moving to a bigger property
- Salary increases
- Changing your job
- Reaching retirement
- Relying 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 or not 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.

The cheapest, simplest form of life assurance is term assurance. It is straightforward protection, there is no investment element and it pays out a lump sum if you die within a specified period. There are several types of term assurance.

The other type of protection available is a whole-of-life assurance policy designed to provide you with cover throughout your entire lifetime. The policy only pays out once the policyholder dies, providing the policyholder's dependants with a lump sum, usually tax-free. Depending on the individual policy, policyholders may have to continue contributing right up until they die, or they may be able to stop paying in once they reach a stated age, even though the cover continues until they die. ■

ADDED PEACE OF MIND

We can help make sure you and your family is financially protected, which means added peace of mind for you and protection for them. Contact us today to discuss your requirements.





KEEPING A WATCHFUL EYE ON YOUR MONEY

Taxing times for the average 50-year-old

The average 50-year-old has paid £190,400 in direct taxes by the time they celebrate their 50th birthday – equivalent to around three-and-a-half times more than they've invested in their pension, new analysis from MetLife [1] shows.

This study of the finances of 50-year-olds shows they have an average of £54,300 saved in pension funds but have paid out more than three-and-a-half times that in tax and National Insurance.

People on median earnings starting work at 21 will have paid out £114,148 in income tax with the other £76,000 going on National Insurance during the course of their working lives, figures show. For men the total direct tax bill by 50 comes in at £205,000, while women pay an average £167,370 in income tax and National Insurance.

The amount paid in tax is another illustration of the financial pressures on the group born between 1961 and 1981. While the tax bill appears high, the good news is that pension saving continues to attract significant tax relief and is a good way to maximise tax efficiency while planning for retirement.

According to the analysis, people working on to 66 from age 50 on median earnings will find their total tax bill rising to £290,560 – another £100,000 in the

last 16 years of their working lives when their focus will be on retirement planning.

Men working from 21 to 66 will pay a total of £316,950 in tax and National Insurance during their working lives, while women will pay £247,350, the figures show. ■

CONCERNED ABOUT YOUR RETIREMENT PROVISION?

If you are concerned about your retirement provision, please contact us to review your current situation – it's always better to do something rather than nothing. The problem will not go away and over time will only get worse.

[1] MetLife analysis of HMRC and ASHE data published 07/11/12.

COULD YOU BE SHORT-CHANGED FROM YOUR FUTURE PENSION INCOME?

Reaching retirement is the catalyst for seeking professional financial advice

There is a world of choices and decisions to be made when reaching retirement, and that's before you even look at whether you should take an enhanced annuity.

For many individuals, reaching retirement is the catalyst for seeking professional financial advice. Suddenly you can be faced with a pension pot – be it large with myriad options, or small and needing to be stretched as far as possible.

According to the National Association of Pension Funds (NAPF), nearly two-thirds of us could be eligible for higher pensions when we retire. Thousands of people are missing out because they do not realise that having certain medical or lifestyle conditions could significantly boost their retirement incomes when buying an annuity or annual pension.

The NAPF estimates that about half a million people retiring each year are being short-changed by up to £1bn from their total future pension income.

If you or your partner suffers from medical and/or lifestyle conditions, you may qualify for enhanced terms on your annuity option, which could increase your retirement income. Enhanced annuities take into consideration detailed information about your health and lifestyle to provide you with a more personal annuity.

Typically, when an annuity provider quotes for an enhanced annuity, they will pay close attention to all the factors that will affect your life expectancy. This includes where you live, whether you smoke and drink, your lifestyle and your medical history. They can then build a more accurate picture of your life expectancy, on which they base their calculations.

SECURING A BIGGER RETIREMENT INCOME

You need to bear in mind that once you commit to an annuity, you will be stuck with it for life, so it is essential to obtain professional financial advice. Contact us today to discuss how you could secure a bigger retirement income.

TAX-SAVING IDEAS TO BEAT THE END OF TAX YEAR

Now is the time you should be reviewing your financial affairs

With the end of the tax year rapidly approaching on 5 April, now is the time to focus on ways to mitigate any tax liability. To make the most of the opportunities available, if you've not already done so, you should start putting plans in place now. Here we look at some of the areas you may need to consider to minimise a potential tax liability.

If your partner pays a lower rate of tax than you, you could consider transferring assets into their name. This makes particular sense if one of you is a non-taxpayer, as your taxable income will be lower than your tax allowances, which means you won't have to pay any tax on savings interest. Interest on savings accounts is usually paid after 20 per cent has been deducted by the provider. Higher rate tax payers pay 40 per cent interest.

To receive your interest paid tax free, you will need to complete form R85. This is available from banks, building societies or the HM Revenue and Customs (HMRC) website. If you are a non-taxpayer, but have paid tax on your savings, make sure you claim it back. You need form R40 from HMRC.

Income from jointly owned assets is generally shared equally for tax purposes. This applies even where the asset is owned in unequal shares unless an election is made to split the income in proportion to the ownership of the asset. The exception is dividend income from jointly owned shares in 'close' companies, which is split according to the actual ownership of the shares. Close companies are broadly those owned by the directors or five or fewer people.

CHILDREN

Children have their own allowances and tax bands. Therefore it may be possible for tax savings to be achieved by the transfer of income-producing assets to a child. Generally this is ineffective if the source of the asset is a parent and the child is under 18. In this case the income remains taxable on the parent unless the income arising amounts to no more than £100 gross per annum.

You could consider transferring assets from other relatives, for example, grandparents and/or employing teenage children in the family business to use personal allowances and the basic rate tax band.

Children also have their own Capital Gains Tax (CGT) annual exemption of £10,600 (2012/13). If appropriate, it may be more effective for parents to invest for capital growth rather than income.

The government introduced the Child Trust Fund (CTF) for children born on or after 1 September 2002. The idea was to promote tax-efficient savings by family and friends and included government contributions as an incentive. All government contributions have now ceased and children born on or after 3 January 2011 no longer qualify for a CTF account.

Existing CTF accounts continue alongside a new Junior Individual Savings Account (Junior ISA) which has been introduced for those children who are not eligible for a CTF account. This includes children born before 1 September 2002 as well as children born from 3 January 2011. Both CTF and Junior ISA accounts allow parents, other family members or friends to invest up to £3,600 (2012/13) annually in a tax-efficient fund for a child. There are no government contributions and no access to the funds until the child reaches 18.

TAXPAYERS

The 50 per cent additional rate of income tax on taxable incomes above £150,000 reduces to 45 per cent on 6 April this year. This means that those who are able to defer income from 2012/13 to 2013/14 could benefit from a 5 per cent or more reduction in the tax charged on the amount deferred.

NON-TAXPAYERS

Children or any other person whose personal allowances exceed their income are not liable to tax. Where income has suffered a tax deduction at source a repayment claim should be made. In the case of bank or building society interest, a declaration can be made by non-taxpayers to enable interest to be paid gross (form R85).

Tax credits on dividends are not repayable so non-taxpayers should ensure that they have other sources of income to utilise their personal allowances.

PENSION CONTRIBUTIONS

There are many opportunities for pension planning but the rules can be complicated.

The rules include a single lifetime limit, currently £1.5m in 2012/13 but reducing to £1.25m in 2014/15, on the amount of pension saving that can benefit from tax relief. There is also an annual limit on the maximum level of pension contributions, currently £50,000 for 2012/13 reducing to £40,000 in 2014/15. The annual limit includes employer pension contributions as well as contributions by the individual. Any contributions in excess of the annual limit are taxable on the individual.

This year and in the next tax year, carry-forward provision allows investors to contribute up to a maximum of £200,000. You can carry forward any unused annual allowance from the previous three years, which will give people some scope to catch up on contributions they have missed. You could potentially invest up to £200,000 (assuming a £50,000 allowance from the current year and an assumed £50,000 allowance from the previous three). If these are personal contributions they cannot exceed your earnings in the current tax year.

Directors of family companies could, as an alternative, consider the advantages of setting up a company pension scheme or arrange for the company to make employer pension contributions. If a spouse is employed by the company, consider including them in the scheme or arranging for the company to make reasonable contributions on their behalf.

EMPLOYER-PROVIDED CARS AND FUEL

If applicable, you should also check that an employer-provided car is still a worthwhile benefit. It may be better to receive a tax-free mileage allowance of 45p per mile (up to 10,000 miles) for business travel in your own vehicle. If an employer-provided car is still preferred, consider the acquisition of a lower CO₂ emission vehicle on replacement to minimise the tax cost.

Where private fuel is provided, the benefit charge is also based on CO² emissions. You should review any such arrangements to ensure no unnecessary tax charges arise.

CAPITAL GAINS TAX (CGT)

With 5 April fast approaching, it is a good idea to be thinking about using up your CGT exempt amount to make the best use of tax advantages. For 2012/13 every individual has a CGT exempt amount of £10,600 where no CGT is payable. Any capital gains on disposal of assets or investments are added to income and taxed at 18 per cent over this exempt amount to the basic rate limit of £34,370 for 2012/13 and then at 28 per cent for any gains over this.

Depending on your income from capital gains, timing can become an important issue. If appropriate, you should aim to use up your personal exemption before 5 April but if your income from capital gains is high enough then you could wait until the 2013/14 tax year to possibly avoid paying tax at 28 per cent unnecessarily.

CGT liabilities are calculated with your Self-Assessment Tax Return and tax payable is due by 31 January 2013 for the tax year ending 5 April 2012. Therefore part of your planning may be to leave disposals until after the year end to give you another 12 months to pay the tax liability.

If you have two homes you could consider making an election, so that future gains on your 'main residence' are exempt from CGT.

A capital gain can also be deferred if the gain is reinvested in the shares of a qualifying unquoted trading company through the Enterprise Investment Scheme.

No CGT planning should be undertaken in isolation. Other tax and non-tax factors may be relevant, particularly Inheritance Tax, in relation to capital assets.

INVESTMENTS

There is a wide range of investments with varying tax treatments. When choosing investments,

always consider the differing levels of risk and your requirements for income and capital in both the long and short term. An investment strategy based purely on saving tax is not advisable.

INDIVIDUAL SAVINGS ACCOUNTS

Individual Savings Accounts (ISAs) provide an Income Tax and Capital Gains Tax investment wrapper. The maximum investment limits are set for each tax year. Therefore to take advantage of the limits available for 2012/13 the investment(s) must be made by 5 April 2013 (this tax year you can shelter up to £11,280).

An individual aged 18 or over may invest in one Cash ISA and one Stocks & Shares ISA per tax year but limits apply. A Cash ISA allows you to invest up to £5,640 (2012/13) with one provider only, in any one tax year.

A Stocks & Shares ISA allows you the option to invest up to £11,280 in the current tax year with one provider.

If you want to invest in both a Cash ISA and a Stocks & Shares ISA, the overall amount is capped and you cannot exceed the £11,280 limit (2012/13).

16 to 17-year-olds are able to open an adult Cash ISA in 2012/13 and can also have a new Junior ISA account. This means that a combined maximum investment of £9,240 (£5,640 Cash ISA + £3,600 Junior ISA) is possible for 2012/13.

OTHER INVESTMENTS

National Savings & Investment bank (NS&I) products are taxed in a variety of ways. Some, such as National Savings Certificates, are tax-free.

Single premium life assurance bonds and 'roll up' funds can provide a useful means of deferring income into a subsequent period when it may be taxed at a lower rate.

The Enterprise Investment Scheme (EIS) allows income tax relief at 30 per cent on new equity investment (in qualifying unquoted trading companies) of up to £1m in 2012/13. As long as shares held for at least three years, the sale of the

shares at a profit will be CGT-free (a reduction of the current rate of 28 per cent to 0 per cent).

Any size of capital gain made on the disposal of any kind of asset can be 'deferred' by re-investment into EIS-compliant companies. The deferred gain is then due on the sale of the EIS shares unless the sale is to a spouse or on the death of the shareholder.

Investments in EIS-compliant shares can attract Inheritance Tax business property relief (BPR) equal to 100 per cent of the investment value on gifting or on death.

A Venture Capital Trust (VCT) invests in the shares of unquoted trading companies. An investor in the shares of a VCT will be exempt from tax on dividends (although the tax credits are not repayable) and on any capital gains arising from disposal of shares in the VCT.

Income Tax relief, currently at 30 per cent, is available on subscriptions for VCT shares up to £200,000 per tax year so long as the shares are held for at least five years.

Finally, review your borrowings. Full tax relief is given on funds borrowed for business purposes.

ISN'T IT TIME YOU TOOK ADVANTAGE OF ANY TAX BREAKS?

It's important to take advantage of timely tax breaks. To investigate the opportunities available to you, please contact us today.

The value of investments 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.

DO YOU NEED GROWTH, INCOME OR BOTH?

Preparing for whatever economic ups and downs might be ahead

The volatility in global markets over the past four years has tested the nerves of even the most experienced investors, making it a difficult time for individuals who rely on income from investments for some or all of their needs. The search for inflation-beating income is forcing many investors to move money out of cash accounts and into investment funds, with the aim of achieving a rising level of income.

How should you decide between growth and income investments? Much will depend on your investment time frame and what you need the investment to provide for you. When considering the answer, it's important not to ignore the concept of 'total return'. Total return looks to combine income with capital growth to achieve the best overall return. One way of achieving this is with equity income funds, where investors saving for retirement could reinvest the income until the day they retire and then elect to have it paid to them instead, producing an income without the costs of completely overhauling their portfolio.

Index-linked investments, such as certain gilts and National Savings certificates, can protect against inflation eroding capital and income, but in today's low-inflation world investors need to compare the total return to that available from an ordinary gilt or savings account.

BALANCE BETWEEN THE DIFFERENT ASSET TYPES

Wealthier investors, who can cope with a little fluctuation in their income and capital, could look to include corporate bonds, property and dividend-paying shares. Bonds and property traditionally pay higher yields than equity income shares, but equities have provided the greatest opportunity for capital growth and growth of income. A balance between the different asset types should provide the best chance for a reasonable and growing income.

Income-paying equity, bond and property funds can be a good investment for those investing for capital growth too, as it's simple to arrange for income to be reinvested.

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

investment portfolio and switch from growth assets to income as your investment needs change. ■

WHAT IS YOUR FINANCIAL PERSONALITY?

There are many facets to your financial personality and many ways to generate both growth and income from your investments. To discuss the options available to you or to review your current provision, please contact us.

Levels and bases of and reliefs from taxation are subject to legislative change and their value depends on the individual circumstances of the investor. The value of your investments and income can go down as well as up and you may get back less than you invested.

