smartmoney

Kingfisher
Independent Financial Planning

SEPTEMBER/OCTOBER 2013

SURVIVING INVESTMENT VOLATILITY
RESISTING THE TEMPTATION TO MAKE SHORT-TERM ADJUSTMENTS

BUILDING NEW UNTOUCHED PENSION SAVINGS
AN OPPORTUNITY TO POTENTIALLY IMPROVE TAX-EFFICIENCY

BAND OF GOLD
ARE YOU BENEFITING FINANCIALLY FROM YOUR MARITAL STATUS?

REAL HELP WHEN YOU NEED IT MOST
A VERY DIFFICULT TIME FOR YOUR HEALTH AND YOUR WEALTH

NEW OFFSHORE HORIZONS
TAKE YOUR MONEY WHEN IT SUITS YOU

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IN THIS ISSUE

Welcome to the latest issue of our magazine crammed full of articles about how we can help you grow and protect your wealth.

Some investors may have had a roller-coaster ride in recent years. A market fall can happen at any time. In years past, they've been triggered by natural disasters, oil price spikes, wars, bank collapses – and now there's the eurozone debt crisis. The reality is that market swings happen often, and when they do, it can be unsettling for many investors. On page 06 we look at how you can reduce the peaks and troughs of investing.

The diagnosis of a serious illness can mean a very difficult time for your health and your wealth. On page 08 we look at how critical illness cover can provide vital financial security when you need it most. Most homebuyers purchase life assurance when they arrange a mortgage, but overlook critical illness cover, another form of financial protection that we are statistically more likely to need before reaching retirement.

On page 10 we also examine why tying the knot can bring financial advantages to the relationship. Tax and pensions are probably the least romantic reasons for getting married, but we consider four ways to benefit from your marital status.

A full list of all the articles featured in this edition appears opposite.

WE HOPE YOU ENJOY READING THE MAGAZINE. TO DISCUSS YOUR FINANCIAL PLANNING REQUIREMENTS OR TO OBTAIN FURTHER INFORMATION, PLEASE CONTACT US.

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SEPTEMBER/OCTOBER 2013

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

NEW OFFSHORE HORIZONS

Take your money when it suits you

Finding the right offshore investments can be a key factor in making the most of your wealth, and it's not only for the wealthiest of investors. With a few well-advised decisions you could broaden your investment portfolio.

Offshore bonds provide an opportunity for your assets to grow in a tax-free environment. They also allow you to choose when any tax liability becomes payable. There are a number of other tax benefits with offshore bonds, especially if you have spent time living abroad. But they are complex structures that require professional financial advice.

While many investors will be aware that investing in an Individual Savings Account (ISA) or pension can help reduce their tax bill, you may be less familiar with offshore bonds. Like pensions and ISAs, offshore bonds are effectively 'wrappers' into which you place your investments, for example, funds or cash. They are offered by life insurance companies which operate from international finance centres.

The main tax benefit of investing in an offshore bond is gross roll-up. This means that any underlying investment gains are not subject to tax at source – apart from an element of withholding tax. With an onshore bond, life fund tax is payable on income or gains made by the underlying investment. This means your offshore investment has the potential to grow faster than one in a taxed fund.

> **“AS LONG AS INVESTMENTS ARE HELD WITHIN THE OFFSHORE BOND WRAPPER, YOU DON'T PAY ANY INCOME TAX OR CAPITAL GAINS TAX ON THEM.**

As long as investments are held within the offshore bond wrapper, you don't pay any income tax or capital gains tax on them and you can switch between different funds tax-free. While you do have to pay tax on any gains when you withdraw assets, there are a number of ways you can potentially reduce the amount you pay.

You can withdraw up to 5 per cent of your initial investment every year for 20 years, and defer paying tax until a later date. If you are a higher-rate taxpayer now but expect to become a basic-rate taxpayer when you retire, you can defer cashing in your assets until retirement and possibly pay half the tax due on any gain realised.

You can assign (transfer ownership) an offshore bond – or parts of it – as a gift without the recipient incurring any income or capital gains tax, although this may cause an Inheritance Tax (IHT) liability if you were to die within seven years. All future tax on withdrawals will be charged at the new owner's tax rate, if any. This can be a tax-efficient way to help fund your children's university fees, for example, since your children are likely to be low or non-earners as students.

Putting an offshore bond in a trust could help your family reduce or avoid IHT, provided you live for seven years after setting it up. ■

SEEK PROFESSIONAL ADVICE

For more information on investing with us, or to discuss your requirements, please contact us.

Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts. Levels and bases of, and reliefs from, taxation are subject to change and their value depends on the individual circumstances of the investor. The value of your investments can go down as well as up and you may get back less than you invested.

WANT TO MAKE MORE OF YOUR MONEY IN 2013?

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

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

Name ....

Address ....

.... Postcode ....

Tel. (home) ....

Tel. (work) ....

Mobile ....

Email ....

You voluntarily choose to provide your personal details. Personal information will be treated as confidential by us and held in accordance with the Data Protection Act. You agree that such personal information may be used to provide you with details and products or services in writing or by telephone or email.

ESTATE PRESERVATION

Helping you to look after and maintain your wealth in the most efficient way

If you are UK domiciled, Inheritance Tax (IHT) is currently charged at 40 per cent and is payable on your estate once your net assets exceed £325,000. For some married couples and registered civil partners, any unused percentage of the available allowance from the estate of the first to pass away may be claimed when the second spouse dies. Once the domain of the super-rich, wide-scale home ownership and rising property values have meant that more and more people need to implement an estate preservation strategy to protect their wealth.

> **“GIVING YOUR WEALTH AWAY TO ANOTHER INDIVIDUAL WHILE YOU ARE STILL ALIVE COULD ALSO REDUCE YOUR ESTATE’S EXPOSURE TO AN IHT LIABILITY.**

MAKE PROVISIONS FOR A WILL

In the UK, if you don’t have a will, your estate will be distributed according to rules set out by law. These are known as the ‘Rules of Intestacy’. For example, in England and Wales, if you’re married with children, the first £250,000 of your estate (plus any personal possessions) would pass to your spouse. The remainder would be split, half going to your children when they reach the age of 18 and the other half used to generate an income for your spouse, passing to the children on your spouse’s death.

If you’re not married, your estate will go to your blood relatives, even if you’ve been living with someone for several decades. This could be far from what you wish. Think about where you want your money to go and why. A will makes your wishes concrete and clarifies who should get what, but can also be reviewed over time.

LIFE ASSURANCE

Life assurance can play a big part in your estate preservation strategy. Rather than reduce a potential IHT liability, by taking out a plan to cover your estate’s potential IHT liability and writing it in an appropriate trust, the payout can be used to meet any bills. More importantly, by putting it in an appropriate trust, it will be outside your estate so it won’t form part of your estate and will not be liable for IHT.

GIVE IT AWAY

Giving your wealth away to another individual while you are still alive could also reduce your estate’s exposure to an IHT liability. These transfers are potentially exempt from IHT and there is no limit on such transfers. This is an excellent way of transferring assets that you do not need to keep in your estate. However, it may be advisable to cover substantial gifts by insurance against death within seven years.

Any gifts you make to individuals will be exempt from IHT as long as you live for seven years after making the gift. If you give an asset away at any time but keep an interest in it – for example, you give your house away but continue to live in it rent-free – this gift will not be a ‘Potentially Exempt Transfer’.

If you die within seven years and the total value of gifts you made is less than the IHT threshold, then the value of the gifts is added to your estate and any tax due is paid out of the estate.

Some gifts are immediately outside your estate. You can give as many people as you like up to £250 each in any tax year. If you want to give larger gifts, either to one person or several, the first £3,000 of the total amount you give will be exempt from tax. You can also make a regular gift as long as it is out of your income and doesn’t affect your standard of living. A wedding or registered civil ceremony can also be a good excuse for an IHT-exempt gift. A parent can give up to £5,000, a grandparent £2,500 and anyone else £1,000.

TRUST IN YOUR FUTURE

Utilising a trust could be useful if you want to give some money to, for example, your children or grandchildren but are concerned they might not spend it wisely during their teenage years. Or, if you wanted to give away capital while keeping control over how it is managed and, in some instances, still being able to receive an income from it.

Tax charges can also come into play on the money placed in trust; however, generally, if this remains below the nil-rate band, you won’t need to pay any tax, and in many cases it is likely that the level of tax suffered will be less than the 40 per cent headline IHT rate. ■

WANT TO GIVE YOUR FAMILY LASTING BENEFITS?

The structures into which you can transfer your assets can have lasting consequences for you and your family and it is crucial that you choose the right ones. The right structures can protect assets and give your family lasting benefits. To discuss how we could help you, please contact us for further information.

Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts. Levels and bases of, and reliefs from, taxation are subject to change and their value depends on the individual circumstances of the investor. The value of your investments can go down as well as up and you may get back less than you invested.

BUILDING NEW UNTOUCHED PENSION SAVINGS

An opportunity to potentially improve tax-efficiency

Drawdown is the main alternative to a secure annuity income. It is more flexible than an annuity but is also more complex and higher risk. Figures from Skandia (08 July 2013) show only one third (35 per cent) of people in drawdown are actually taking their full income allowance.

This means two thirds (65 per cent) of people with money purchase pension savings have the opportunity to potentially improve their tax-efficiency, and hence their overall long-term wealth. This can be achieved by opting to use some or all of their available pension income to build new untouched pension savings.

QUALIFY FOR TAX RELIEF

Individuals under 75 can currently achieve tax relief on contributions into a pension of up to £3,600 each year, even if they are not working. If someone is working they will qualify for tax relief on further contributions, subject to the annual contribution allowance and the level of their earnings.

NEW PENSION SAVINGS

Using the pension income to invest into new pension savings can have many benefits and no real downside. The income tax paid when money is taken from the existing pension is offset by the tax relief received when it is invested as new pension savings.

FUTURE RETIREMENT INCOME

Utilising unused drawdown income in this way, the new pension fund is not deemed to be 'in drawdown' and is not subject to the 55 per cent tax liability on lump sums paid to beneficiaries on death before age 75. The newly created pension fund will provide a further 25 per cent tax-free lump sum as part of their future retirement income (provided the savings are within the Lifetime Allowance).

TAX-FREE SUM

For those in drawdown who have taken their tax-free lump sum but are not using all of their available income to improve the tax-efficiency of those savings with no real cost to themselves, not only does this planning reduce the potential tax liability for their beneficiaries on any available lump sum if they die before 75, it will also build another 25 per cent tax-free lump sum, helping to provide greater income in the longer term. This is good news for appropriate pensioners who may not be taking the maximum income allowance each year to build a more effective retirement income strategy. ■

Drawdown is a complex product. If you are at all uncertain about its suitability for your circumstances, you should seek professional financial advice. Your income is not secure. You control and must review where your pension is invested, and how much income you draw. Poor investment performance and excessive income withdrawals could deplete the fund.

"BY UTILISING UNUSED DRAWDOWN INCOME IN THIS WAY, THE NEW PENSION FUND IS NOT DEEMED TO BE 'IN DRAWDOWN' AND IS NOT SUBJECT TO THE 55 PER CENT TAX LIABILITY ON LUMP SUMS PAID TO BENEFICIARIES ON DEATH BEFORE AGE 75.

WANT TO CONSIDER YOUR DRAWDOWN OPTIONS?

To discover if drawdown could form part of your retirement income strategy, please contact us to discuss your requirements.

SURVIVING INVESTMENT VOLATILITY

Resisting the temptation to make short-term adjustments

Some investors may have had a roller-coaster ride in recent years. A market fall can happen at any time. In years past, they've been triggered by natural disasters, oil price spikes, wars, bank collapses – and now there's the eurozone debt crisis. The reality is that market swings happen often, and when they do, it can be unsettling for many investors.

“UNDERSTANDABLY, SOME INVESTORS MAY OVERREACT TO SHORT-TERM MARKET VOLATILITY THAT ISN’T USUALLY RELEVANT TO THEIR LONG-TERM GOALS. YOUR TIME HORIZON, GOALS AND TOLERANCE FOR RISK ARE KEY FACTORS IN HELPING TO ENSURE YOU HAVE AN INVESTMENT STRATEGY THAT WORKS FOR YOU.

Nothing ignites the fear of losing one’s hard-earned money like a short-term market correction. A natural reaction to that fear might be to reduce or eliminate any exposure to the stocks, thinking it will stem further losses and calm your fears. But disciplined investors typically do just the opposite: they try to maintain an appropriate, diversified mix of investments and resist the temptation to make short-term adjustments. The simple truth is that volatility is a fact of investing life and you’re often better served staying in the markets over the long term than pulling out. Here’s why, and how, you can do it.

TOLERANCE FOR RISK

Understandably, some investors may overreact to short-term market volatility that isn’t usually relevant to their long-term goals. Your time horizon, goals and tolerance for risk are key factors in helping to ensure you have an investment strategy that works for you. Your time horizon is the number of years until you will begin to use what you’ve invested. Your tolerance for risk should take into account your broader financial situation such as your savings, income and debt – and how you feel about it all. Looking at the whole picture can help you determine whether your strategy should be aggressive, conservative or somewhere in between.

SET REALISTIC EXPECTATIONS

If you are nervous when the market goes down, you may not be in the right investments. Even if your time horizon is long enough to warrant a more aggressive portfolio, you have to be comfortable with the short-term ups and downs you’ll encounter. If watching your balances fluctuate is too nerve-racking for you, think about re-evaluating your investment mix to find one that feels right. But be wary of being too conservative, especially if you have a long time until you need the money. Set realistic expectations, too. That way it may be easier to stick with your long-term investment strategy.

EXTREME MARKET VOLATILITY

The key to long-term investment success is having a balance to your investments. Having all of your money invested in one asset class can be a very high risk approach. One of the most important things you can do to help protect your portfolio from volatility and down markets is to diversify. While it won’t guarantee that you won’t have losses, it can help limit them. It was put to the test during the extreme market volatility during the global credit crisis in 2008.

CORE ASSET CLASSES

So how do you diversify? First, consider spreading your investments among at least the three core asset classes: stocks, bonds and short-term investments. You may also want to include other assets that are not always closely correlated with the core asset classes. Then, to help offset risk even more, diversify the investments within each asset class. Check where your funds are invested and spread holdings over different sectors and geographical areas. Review the balance of your assets: are you exposed to too much or too little risk? You should also check to see if new asset allocations match your risk profile.

SMOOTH OUT RISK

Attempting to move in and out of the market can be costly, particularly because a significant portion of the market’s gains over time have tended to come in concentrated periods. Many of the best periods to invest in stocks have been those environments that were among the most unnerving. Drip-feeding money into investments at regular intervals can allow investors to smooth out risk through ‘pound-cost averaging’. This requires you to invest in all conditions, thereby helping to avoid the poor decisions that some people may make when trying to second-guess the market. When the market falls, your payment will buy more shares or units in a fund so you’ll have a bigger holding at the point markets recover.

THE RIGHT MIX

Look at the type of investment funds you hold and make sure they are best placed to give you some protection if markets fall, but also to benefit when they rise. Good quality fixed-interest funds are likely to be relatively stable, whereas equity funds can be more volatile, so if appropriate to your particular situation, you could consider holding a combination in the right mix for you. ■

HELPING YOU GROW YOUR WEALTH IS AN IMPORTANT PART OF WHAT WE DO

There are many different ways to grow your wealth. Our skill is in helping you to understand your choices, and then helping you to make the investment decisions that are right for you. That depends on your life priorities, your goals and your attitude to risk. To discuss how we could help you, please contact us for more information.

Past performance is not necessarily a guide to the future. The value of investments and the income from them can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested. Tax assumptions are subject to statutory change and the value of tax relief (if any) will depend upon your individual circumstances.

REAL HELP WHEN **YOU NEED IT MOST**

A very difficult time for your health and your wealth

The diagnosis of a serious illness can mean a very difficult time for your health and your wealth. But critical illness cover can provide vital financial security when you need it most. Most homebuyers purchase life assurance when they arrange a mortgage, but overlook critical illness cover, another form of financial protection that we are statistically more likely to need before reaching retirement.

“CRITICAL ILLNESS ASSURANCE PAYS A TAX-FREE LUMP SUM ON DIAGNOSIS OF ANY ONE OF A LIST OF SPECIFIED SERIOUS ILLNESSES, INCLUDING CANCER AND HEART ATTACKS.

SOMETHING CRITICAL

Critical illness assurance pays a tax-free lump sum on diagnosis of any one of a list of specified serious illnesses, including cancer and heart attacks. The good news is that medical advances mean more people than ever are surviving life-threatening conditions that might have killed earlier generations. Critical illness cover can provide cash to allow you to pursue a less stressful lifestyle while you recover from illness, or you can use it for any other purpose.

CORE SPECIFIED CONDITIONS

All policies should cover seven core specified conditions. These are cancer, coronary artery bypass, heart attack, kidney failure, major organ transplant, multiple sclerosis and stroke. They will also pay out if a policyholder becomes permanently disabled as a result of injury or illness.

But not all conditions are necessarily covered. The Association of British Insurers (ABI) introduced a set of best practice guidelines. In May 2003, the ABI introduced other measures. These included conditions such as non-invasive skin cancers and less advanced cases of prostate cancer. Tumours that have not yet invaded the organ or tissue, and lymphoma or Kaposi’s sarcoma in the presence of HIV are excluded.

There are also more restrictive conditions for heart attacks. There has to be evidence of typical chest pain, or changes in the electrocardiogram (ECG), for example, if a claim is to be successful. Cardiac conditions, such as angina, will not be covered.

GETTING IT COVERED

While life assurance is often the priority of those with dependant family members, critical illness cover can be vital if you are the sole breadwinner, rely heavily on your income or are single. It provides a welcome financial boost at a time of emotional stress and financial hardship.

Before you take out critical illness cover, you need to obtain professional financial advice to make sure that it is right for you and offers sufficient cover. ■

DO YOU HAVE PEACE OF MIND SHOULD THE WORST HAPPEN?

No one ever likes to think about getting ill, but how would you and your family cope if you became too ill to work? To talk to us about your concerns, please contact us – we look forward to hearing from you.

WE CAN'T CONTROL FATE BUT WE CAN CONTROL OUR FINANCES

Leaving your property and possessions to your loved ones

There are compelling financial and emotional reasons for making a will. But why do so many of us shy away from it?

When it comes to important decisions – particularly financial ones – we tend to put them off, or make excuses: 'there's plenty of time' or 'it's too big a job'.

None of us likes to think about dying, but what happens if you put off making your will? At the very worst, the state could keep everything you own – loved ones get nothing.

When you make a will, everything for which you have worked so hard (including your home) is protected; all your hard-earned assets will go to exactly the people you want to have them. An up-to-date will, therefore, completes the circle of all the financial planning you've undertaken.

MY FAMILY SITUATION IS COMPLICATED, I DON'T KNOW WHERE TO START

This is a common problem, but a complex family situation should be an incentive to make a will. If you're not married but living with someone, your assets will automatically go to blood relatives – not your partner – in the event of your death.

The intestacy rules determine who will benefit from your estate if you die without making a valid will. If you are separated but not divorced, your spouse will still inherit regardless of your intentions. In England and Wales they would be entitled to your personal possessions, the first £250,000 of your estate and would have a life interest in half of anything after that. Children would inherit only if the estate is worth more than £250,000 and any new unmarried partner would get nothing.

If you have no will, two things follow. Firstly, it's much harder for your grieving relatives to get control of your assets; secondly, rigid rules step in to fill the void and decree who gets what. A painful, practical consequence of that is usually a higher tax bill. Unmarried partners are the biggest losers.

I DON'T NEED A WILL, I OWN EVERYTHING JOINTLY WITH MY SPOUSE/REGISTERED CIVIL PARTNER

It's sometimes true that property and investments would go to your spouse or registered civil partner, but what about any personal possessions that you might wish to pass on?

A will also goes further than just dealing with property. It allows you to appoint executors to deal with paperwork, organise funeral arrangements and give to charity.

MY CIRCUMSTANCES ARE CHANGING

You should usually review your will at least every five years and after any major life change such as getting separated, married or divorced, having a child, or moving house. It is best to deal with any major changes by getting a new will drawn up. But it is also possible to make minor changes (codicils) to your existing will.

Wills can be written to cater for things that are about to happen – in contemplation of marriage, for example, or to give everything to children who survive you.

Once you have taken a deep breath and those first few steps in making a will, you can revise it as often as you wish. The hard work has been done. And it is vital to review your will as you get older in any case. Your potential Inheritance Tax liability may change as you accumulate more assets or simply as the value of your house goes up.

I'M TOO YOUNG TO MAKE A WILL

Wills are not just for the elderly. If you have assets, and particularly if you have children under eighteen, you should use your will to dictate to whom those assets go and who should look after your children if you, and anyone else with parental responsibility, die. It's a sad fact that accidents and illness can happen, and while we can't control fate, we can control our finances. ■

NEED HELP?

The unexpected could happen at any time, so it is essential that you obtain professional advice. Don't hesitate to get in touch to discuss your requirements.

While we have made every effort to provide accurate information, the law is always changing and affects each person differently. This information is no substitute for specific professional advice about you personally and we will not be liable to you if you rely on this information.

IF YOU ARE A HIGHER-RATE TAXPAYER AND YOUR SPOUSE OR REGISTERED CIVIL PARTNER IS A LOWER-RATE OR NON-TAXPAYER, YOU HAVE THE OPTION TO TRANSFER THE BOND, OR SEGMENTS OF THE BOND, TO THEM.

BAND OF GOLD

ARE YOU BENEFITING FINANCIALLY FROM YOUR MARITAL STATUS?

Tying the knot does bring financial advantages. Tax and pensions are probably the least romantic reasons for getting married, but there are a number of ways to benefit from your marital status.

Although you can contribute whatever you wish into personal pensions, you can only receive tax relief on contributions up to the amount you earn each year, and subject to a maximum annual allowance of £50,000 (for the 2013/14 tax year). Any contributions exceeding the allowance will be taxed. If you want to contribute more than the annual allowance in a tax year, it's worth considering splitting contributions between your pension and that of your spouse or registered civil partner.

For example, if you wanted to contribute £60,000 and receive tax relief on the whole amount, you could put £50,000 into your pension and £10,000 into your spouse's, with both staying within the annual allowance limit. This is dependent on your partner's earnings being higher than the amount you have paid in. Even if your partner has no income they can receive tax relief on contributions up to £3,600 gross each year. Also, remember that if your spouse is a basic-rate taxpayer, they will only receive tax relief at 20 per cent on the contribution.

INVEST IN INDIVIDUAL SAVINGS ACCOUNTS (ISAs)

Even if you earn a very substantial income, ISAs should not be ignored, since income from them is tax-efficient and you do not incur capital gains tax when you cash them in. This is especially true for couples, who each have their own allowance. This means that, between you, you could potentially invest up to £23,040 into Stocks & Shares ISAs, or split it up and invest up to half of that into Cash ISAs. Investing the maximum year-on-year over, say, a 20-year period would create a considerable tax-free sum.

One problem with ISAs for higher earners is that they can't be gifted and they can't be made subject to a trust. That means they remain in the investor's estate for Inheritance Tax (IHT) purposes. The answer might be to continue using ISAs, and use some of the income to fund an appropriate life policy that can be held in an appropriate trust to cover the IHT liability. Alternatively, you could spend the ISA funds at retirement before buying an annuity or establishing drawdown of pension benefits, as these are more IHT-efficient up to age 75 should you die.

TRANSFER YOUR ONSHORE BOND BEFORE SURRENDER

Investment bonds provide a tax-efficient way of holding a range of investment funds in one place and aim to provide long-term capital growth. Income from investment bonds is deemed by HM Revenue & Customs to be net of basic-rate tax, although additional tax may be payable when the bond is encashed, in part or full.

If you are a higher-rate taxpayer and your spouse or registered civil partner is a lower-rate or non-taxpayer, you have the option to transfer the bond, or segments of the bond, to them. This means any future chargeable event on encashment is assessed on your partner, reducing the potential income tax liability on any gain realised. This is a complex area and you should obtain professional financial advice first.

SHARE YOUR ASSETS TO REDUCE CAPITAL GAINS TAX (CGT) AND INHERITANCE TAX (IHT)

CGT is payable when you sell or transfer an asset, but transfers between spouses or civil partners are exempt. The CGT allowance lets you make a certain amount of gains each year before you pay tax. For the 2013/14 tax year, the allowance is £10,900. However, this allowance is per individual. So, by spreading assets such as your investment portfolio between you and your spouse or civil partner, you are effectively doubling the allowance to £21,800 before you pay CGT.

What's more, the rate of CGT you pay is based on your income tax status, with basic-rate taxpayers paying 18 per cent and higher-rate taxpayers paying 28 per cent. So, holding assets in the name of the individual paying the lower rate of tax makes sense. In the same way, transfers of assets between spouses and civil partners are also exempt from IHT.

Any unused IHT nil rate band – the amount of your estate that is not subject to IHT (currently £325,000) – can be used by the surviving partner's executors on their subsequent death. ■

TIME TO TALK ABOUT YOUR OPTIONS?

We all want the future taken care of, which is why we combine genuine insight into your needs and circumstances with a comprehensive understanding of the different vehicles available. To find out more, please contact us.

Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts. Levels and bases of, and reliefs from, taxation are subject to change and their value depends on the individual circumstances of the investor. The value of your investments can go down as well as up and you may get back less than you invested.

TIME TO AIM FOR HIGHER RETURNS

Taking a different approach to investments can generate greater wealth

When it comes to taking investment risk to secure a higher return, those aged 55 and over are most likely to be taking the lead with Stocks & Shares Individual Savings Accounts (ISAs), according to research from Standard Life (08 April 2013). Over one in ten (11 per cent) of 55 and overs invest in the stock market via their ISA, compared to just 7 per cent of 35 to 44-year-olds.

Around two fifths (41 per cent) of UK adults are currently investing in Cash ISAs. However, less than one in ten (9 per cent) are investing in Stocks & Shares ISAs, despite low interest rates meaning that even tax-efficient Cash ISAs could be struggling to keep pace with inflation.

REVIEWING YOUR APPROACH

With the Monetary Policy Committee (MPC) continuing to keep interest rates low and inflation relatively high, cash held in an ISA or a savings account could be eroded in real terms. So now might be worth reviewing your approach and, if appropriate, considering whether you could take more risk with some of your cash. You could potentially invest in the stock market instead, through a tax-efficient Stocks & Shares ISA, to try to beat inflation. However, it's always sensible to keep some money in cash, where it is safe and you can get instant access to it.

CONSIDER YOUR OPTIONS

For those individuals willing to take more risk with a proportion of their money, there is the option to consider using as much of the current annual £11,520 (2013/14) Stocks & Shares ISA allowance as they can this tax year. The annual ISA allowance is per individual. This means that a husband and wife, or registered civil partnership, for example, can invest up to £23,040 between them into ISAs this tax year.

The research from Standard Life (08 April 2013) also reveals men and women take a very different approach to their investments. Over one in ten (12 per cent) men currently save into a Stocks & Shares ISA, compared to only just over one in twenty (6 per cent) women. An equal percentage of men and women are currently saving into Cash ISAs (41 per cent for both).

ISA MATTERS

Use as much of your current £11,520 (2013/14) ISA allowance as possible in this tax year. You can invest this full amount in a Stocks & Shares ISA so you have the chance of greater tax-efficient growth over the longer term. Investing regularly each month can help to smooth out any short-term ups and downs in the stock market.

Review your Stocks & Shares ISA investment regularly to make sure it is performing as expected. Reinvest to help generate more income. Remember that if you choose an ISA that generates income, you can reinvest this money as well as paying it into a bank account. This means you have the opportunity to continue to generate income based on your long-term investments. ■

INTERESTED IN ISAS?

No matter what your investment goals are, we can work with you to develop the best portfolios for your requirements. How can we help you? Please contact us for further information.

Source: All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 2,059 adults. Fieldwork was undertaken between 25-28 January 2013. The survey was carried out online. The figures have been weighted and are representative of all UK adults (aged 18+).

Past performance is not necessarily a guide to the future. The value of investments and the income from them can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested. Tax assumptions are subject to statutory change and the value of tax relief (if any) will depend upon your individual circumstances.

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