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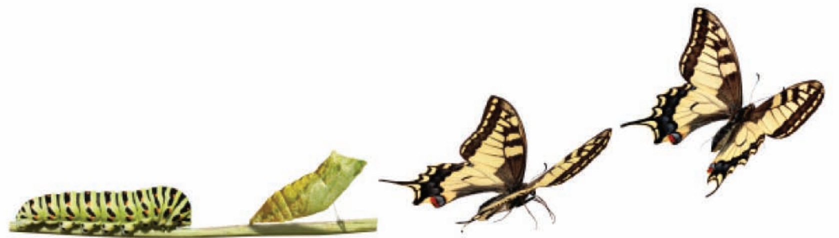

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SEPTEMBER / OCTOBER 2010

Phasing out the compulsory retirement age

A 'one size fits all' retirement policy is no longer acceptable

Taxing times

Using your pension top-ups to mitigate the effects of CGT

Wrapping up your money

Sheltering investments from tax

Final salary pension changes

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Income drawdown

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Planning ahead is the key

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Welcome

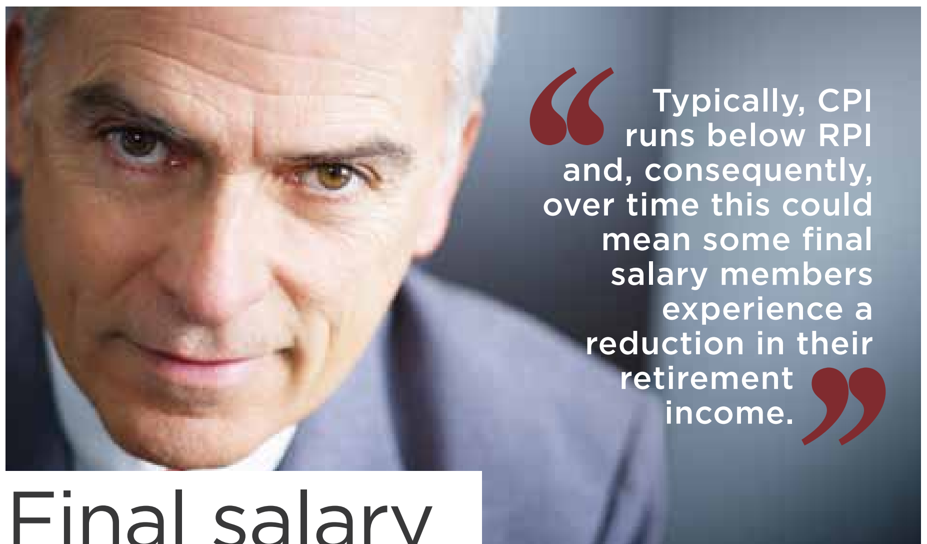
Welcome to our personal financial planning and wealth management magazine.

With an ageing population, increasing weight has been given to the argument that a 'one size fits all' retirement policy is no longer acceptable and that people aged 65 or over should not be considered incapable of carrying out their jobs to the standards expected. In July, the government announced that it would launch a consultation process to look at plans to end the default fixed retirement age for the UK's workforce. Read the full article on page 3.

Following the emergency Budget, the Chancellor, George Osborne, has confirmed that the 28 per cent capital gains tax (CGT) rate introduced would remain in place for at least the length of this parliament. On page 10 we consider why, from a financial planning perspective, this enables us to make positive decisions for our clients about how best to reduce its impact until at least May 2015.

Even though the end of this current tax year may seem fairly distant, if you haven't yet taken full advantage of your Individual Savings Account (ISA) allowance you could be missing out on sheltering your investments from tax. On page 7 we look at the benefits of ISAs, which enable you to hold investments and pay no capital gains tax and no further tax on the income you receive.

Also inside this issue: the relaxing of the annuity law, which could revolutionise investor attitudes towards pensions, and ten tax saving tips to make more of your money. A full list of the articles featured in this edition appears on page 3.



Final salary pension changes

How the new rules could affect your retirement provision

From 2011, private sector final salary pensions need only be uprated in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI), the government announced recently. Typically, CPI runs below RPI and, consequently, over time this could mean some final salary members experience a reduction in their retirement income.

This may not apply to all schemes. Some schemes may specifically state in their rules that they will uprate benefits in line with RPI. It's also worth bearing in mind that although the government sets what the minimum inflation-linking schemes must provide, it's perfectly possible for a scheme to provide increases in excess of this level.

If your scheme does intend to adopt CPI uprating, this could have a negative impact on the income you can expect to receive from the scheme. Ultimately, this depends on the RPI and CPI levels and how they differ, but historically CPI has trailed behind RPI. The impact on your income will also depend on when you built up benefits, because the inflation protection afforded to final salary scheme members has changed over the years.

Tax is not applicable on the money you are paid out on retirement. But from April next year, if you earn more than £150,000 you will have to pay a tax bill based on your age, length of service and salary. ■

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

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?

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.

Phasing out the compulsory retirement age

A 'one size fits all' retirement policy is no longer acceptable

With an ageing population, increasing weight has been given to the argument that a 'one size fits all' retirement policy is no longer acceptable and that people aged 65 or over should not be considered incapable of carrying out their jobs to the standards expected.

In July, the government announced that it would launch a consultation process to look at plans to end the default fixed retirement age for the UK's workforce. Subject to the consultation paper, from October 2011 employers will not be able to force employees to retire at 65 without offering them financial compensation.

The change in the rules would mean that the employer's only obligation would be to hold a meeting with each older member of staff to discuss their options at least six months before they reach 65.

As an employer must give six months' notice before someone is made to retire on age grounds, the change in the rules could become effective from 6 April next year.

Removing the default retirement age (DRA) of 65 will mean that employers may have to change how they manage their workforce. Employees will not be forced to work beyond 65, but will have the option to do so and could even stay on into their 70s or 80s.

A handful of individual employers will still be able to operate their own compulsory retirement age but only if they can justify it objectively on the basis that older staff are unable to do a job properly. Examples could include air traffic controllers and police officers.

Employment relations minister, Ed Davey, said: 'With more and more people wanting to extend their working lives, we should not stop them just because they have reached a particular age.

'We want to give individuals greater choice and are moving swiftly to end discrimination of this kind.

'Older workers bring with them a wealth of talent and experience as employees and entrepreneurs. They have a vital contribution to make to our economic recovery and long-term prosperity.

'We are committed to ensuring employers are given help and support in adapting to the change in regulations'.

Employers that wish to retire older members of staff will be able to do so only on the same grounds that would apply for someone much younger – for instance, because of their conduct or performance.

Before 2006, the compulsory retirement age was set at 65, or earlier for some jobs. But the previous government changed the law so that workers could request to stay on. However, companies are not compelled to let them. ■

> "Increasing weight has been given to the argument that a 'one size fits all' retirement policy is no longer acceptable."

THE PROPOSED CHANGES PROVIDE YOU WITH AN OPPORTUNITY TO SAVE MORE FOR YOUR RETIREMENT TO ENSURE THAT IT IS A COMFORTABLE ONE. TO DISCUSS THE OPTIONS AVAILABLE TO YOU, PLEASE CONTACT US FOR MORE INFORMATION.

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Wealth protection

10 tax saving tips to make more of your money

1. Tax-sheltered ISA wrappers

Hold higher yielding investments in tax-sheltered ISA wrappers. On 6 April 2010, the annual Individual Savings Account (ISA) subscription limit rose to £10,200. The whole sum can be placed in a stocks and shares ISA or, alternatively, up to half can be put into a cash ISA and the remainder into a stocks and shares ISA. So for a couple, this represents £20,400 savings protected from capital gains or income tax. Make sure you use your entire allowance, as it can't be carried over into the next tax year.

2. Claim tax relief on your pension

Utilise remaining pension contribution allowances in 2010/11 where higher-rate income tax relief is available. Currently, if you pay higher-rate tax but earn less than £130,000, HM Revenue & Customs (HMRC) will give you £40 tax relief on every £100 saved. People with earnings can invest up to 100 per cent in their pension each year up to a current annual limit of £255,000. The lifetime investment allowance is £1,800,000.

3. Make a will to minimise an inheritance tax bill

If you pass away without making a will, HMRC rules dictate how your estate is divided up. Yet if you do make a will, not only can you have a say over who gets what, but you can also minimise the inheritance tax (IHT) payable. Any amount you leave above £325,000 (2010/11) will be taxed at 40 per cent. However, some gifts, such as money left to charities or paid into trust funds for children and grandchildren, are not taxable. A little planning goes long way in reducing this tax liability.

4. Capital gains tax

Utilise capital gains tax allowances, worth £10,100 (2010/11) per person, and consider transferring assets to spouse/civil partner as necessary.

5. Shelter income-producing assets

Transfer non-tax sheltered income-producing assets to lower-rate taxed spouses/civil partners. By transferring assets from one spouse to another, couples could pay less tax. Many partners hold joint savings. But if your income differs, it may be more sensible from a tax perspective to move assets into the sole name of the individual on the lower tax band.

6. Enterprise investment schemes

If you subscribe for new shares in an enterprise investment scheme, you receive 20 per cent income tax relief on the amount subscribed up to a limit of £500,000 (2010/11) a year, as long as you hold onto the shares for three years and have paid enough income tax.

7. Don't lose out on interest

Savings interest usually has 20 per cent tax deducted before the saver receives it. But anyone over 16 whose income is less than their tax allowance does not have to pay income tax on their savings. If you have children who are not working and have a savings account, then they should complete HMRC form R85 to ensure that they are paid gross interest, that is, without tax being deducted.

8. Check your tax code

Your personal tax code is critical to working out how much tax you should pay. Yet HMRC's shift to a new computer system earlier this year saw thousands of erroneous codes sent out. Now more than ever, it's vital to check your payslip to make sure your salary is stated correctly and that you are being taxed at the appropriate rate.

> "By transferring assets from one spouse to another, couples could pay less tax"

9. Tick for Gift Aid

Whether you are sponsoring somebody raising money for charity or donating through the payroll, make sure the Gift Aid box is selected so that the cause gets the full, tax-free amount. Charities take your donation - which is money you've already paid tax on - and reclaim the basic rate tax from HMRC on its 'gross' equivalent - the amount before basic rate tax was deducted.

10. Trading losses

Freelancers and other self-employed individuals who make a loss can set the loss against income in the year of the loss or carry it back to the previous year. In addition, losses that arise in the first four years of the business can be carried back up to three years. Claims to carry back losses in 2008/09 must be made by 31 January 2011. ■

THE UK TAX SYSTEM IS COMPLICATED ENOUGH AND FURTHER CHANGES ARE INEVITABLE UNDER THE NEW GOVERNMENT. TO DISCUSS HOW WE CAN HELP YOU NAVIGATE THROUGH THE TAX RULES, PLEASE CONTACT US FOR FURTHER INFORMATION.

The value of investments and the income from them can go down as well as up and you may not get back your original investment. Past performance is not an indication of future performance. Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances. Thresholds, percentage rates and tax legislation may change in subsequent finance acts.

Annuity law relaxed

Revolutionising investor attitudes towards pensions

The Treasury has announced that it is looking to relax the law requiring everyone to buy an annuity by age 75. This follows the coalition government's decision in the emergency Budget to end compulsory annuitisation by April 2011.

The aim is to revolutionise investor attitudes towards pensions and encourage greater retirement saving so that we take greater responsibility for our financial futures. It will also mean that everyone who invests in a pension can retain control of their pension assets right through until the day they die.

The proposed law change is aimed at giving individuals greater flexibility over how they use the savings they have accumulated. This would see the replacement of some pension tax rules with a new system that gives people greater freedom and choice.

This consultation is a revolutionary change and also includes tax breaks available on pensions. It is expected that investors will have the choice of buying an annuity, as at present, and in addition they will have a choice of two drawdown options to select from.

Investors who can demonstrate that they have secured a minimum level of income will have the choice of taking money from a flexible drawdown plan at will. This means receiving it all back in one go as a cash sum if required. Income withdrawals will be subject to income tax.

For those investors with insufficient income to satisfy the 'minimum income requirement', there will be the option of a capped drawdown. This capped drawdown will have fairly conservative income limits, designed to ensure that investors never run out of money.

Those investors who do not want to take the high risk involved with drawdown will still be able to convert their pension fund into an annuity, which will pay a secure taxable income for life.

The death benefit rules are changing and becoming simpler and the government has confirmed that it will be ending the Alternatively Secured Pension. ■

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

The value of investments and the income from them can go down as well as up and you may not get back your original investment. Past performance is not an indication of future performance. Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances. Thresholds, percentage rates and tax legislation may change in subsequent financeac ts.

What will the default retirement age changes mean to workers and pre-retirees?

Your questions answered

Q: Why is the government planning to end the default fixed retirement age?

A: Many people are not saving enough for retirement and risk not having the income they would hope for if they retire at the 'traditional' age of 65.

By working for one year past the existing state retirement age, currently 60 for women and 65 for men, people could potentially increase their retirement income by between 3 per cent and 10 per cent. The government says it wants to tackle age discrimination, but this move will also alleviate the burden on the state.

Q: Am I able to work beyond 65 now if I want to?

A: This will ultimately depend on your own employer. Employers do not have to retire employees once they reach 65, and are free to continue to employ them as long as they wish, but some may require you leave at 65.

Q: Will I still be able to retire at 65 under the new proposals?

A: Yes. The government has not indicated that it will prevent people from retiring at 65.

Q: Will I be able to retire even earlier?

A: Some people with private pensions are already able to retire from the age of 55. Individual employers may allow you to retire early.

Q: Will I be able to contribute to my company pension beyond 65?

A: Yes, you will be able to keep contributing to your pension. You can continue to make pension contributions and receive tax relief up to your 75th birthday.

Q: If I work longer, can I save less for retirement?

A: No. The government wants workers to contribute more to their pension provisions, not less. The larger your pension, the less of a burden as a retiree you might be on the state.

Q: Does the change affect my state pension entitlement?

A: The state pension has its own timetable, which is also currently under review. The government is consulting on how it can accelerate the planned rises to the state pension age more quickly than is currently legislated for, initially to age 66 but ultimately to 68.

The government has yet to announce whether those working longer will be able to defer their state pension. If you take it at age 66 but work until you're 70, you would pay tax on your state pension as if you are still working, so there are plenty of details to be ironed out by the government. ■

Defending your wealth

Planning ahead is the key

An increasing number of people are becoming liable to inheritance tax (IHT) because of the increase in property prices from the early 1980s to 2007. IHT applies to your entire worldwide estate (including property) and is charged at 40 per cent. But you also need to add in the value of savings, investments and chattels (such as antiques, jewellery and paintings) to estimate the entire value of your estate.

Making a will and being sure people know where to find it is the first step to ensuring that your estate is shared out exactly as you want it to be when you die.

Planning ahead for when you die allows you to set out clearly who should get what from your estate. It also means you can maximise IHT reliefs and exemptions if your estate might be worth more than the IHT threshold when you die (£325,000 in 2010/11).

Making a will and being sure people know where to find it is the first step to ensuring that your estate is shared out exactly as you want it to be when you die.

If you don't leave a will, your estate will be shared out among your next of kin according to a strict order of priority called the 'rules of intestacy'. This means that people you want to benefit from your estate, such as a partner you're not married to or in a registered civil partnership with, might get nothing. The rules are different in Scotland.

Gifts are treated in a number of ways for IHT purposes. However, you only need to worry about making gifts if you think your estate, including the value of any gifts you make, might exceed the IHT threshold when you die. If your estate is over the threshold, any gifts you make more than seven years before you die will be exempt from IHT.

There can be tax implications if you give your home away to your children or someone else, especially while you're still alive. If you give your home away and continue to live in it, your estate or the person you gave your home to might still have to pay IHT on the property when you die, as well as other taxes.

You can also use a trust to pass assets on to others, for example to those who aren't immediately able to look after their own affairs, such as your children. Gifts into a trust may still be subject to IHT if your estate, including the amount being transferred, is over the IHT £325,000 threshold. ■

OUR EXPERTISE CAN HELP YOU FIND THE RIGHT WEALTH STRUCTURE OR COMBINATION OF STRUCTURES FOR YOU. WE'RE ABLE TO OFFER MANY DIFFERENT WEALTH-STRUCTURING SOLUTIONS SUITED TO YOU AND YOUR FAMILY'S NEEDS. IF YOU WOULD LIKE TO REVIEW YOUR CURRENT REQUIREMENTS, PLEASE CALL US FOR FURTHER INFORMATION.

“Planning ahead for when you die allows you to set out clearly who should get what from your estate. It also means you can maximise IHT reliefs and exemptions if your estate might be worth more than the IHT threshold when you die (£325,000 in 2010/11).”

“An ISA is a tax-efficient ‘wrapper’ in which you can hold either stock market-based investments or a traditional savings account.”

Wrapping up your money

Sheltering investments from tax

Even though the end of this tax year may seem fairly distant, if you haven’t yet taken full advantage of your Individual Savings Account (ISA) allowance you could be missing out from sheltering your investments from tax.

ISAs enable you to hold investments and pay no capital gains tax and no further tax on the income you receive. From 6 April 2010, the government increased the ISA allowance limit to £10,200 for all eligible ISA customers.

An ISA is a tax-efficient ‘wrapper’ in which you can hold either stock market-based investments or a traditional savings account. Any interest earned on savings or bonds and any capital gains made on investments within an ISA are tax-free. ■

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

Levels and bases of and reliefs from taxation are subject to change and their value depends on the individual circumstances of the investor. Thresholds, percentage rates and tax legislation may change in subsequent finance acts.

ISA investment limits (2010/11)

You can invest up to £10,200 in two ways:

- Put all £10,200 in stocks and shares, or
- Put up to £5,100 in cash and the balance in stocks and shares

You don’t even need to declare ISAs on your tax return, which makes ISAs particularly appealing to higher-rate taxpayers. In many instances, it costs no more to hold investments inside an ISA than to hold them outside, which means you would generally receive the benefits free of charge.

With an increase in capital gains tax already announced in the emergency Budget and potential future tax increases, it has never been a more important time to take full advantage of your ISA allowance.

ISA tax savings

Income tax

	Bonds and bond funds	Shares, or funds investing in shares
Basic-rate taxpayer	save up to 20%	n/a
Higher-rate taxpayer	save up to 40%	save up to 22.5%
Super (50%) taxpayer	save up to 50%	save up to 32.5%

Capital gains tax

	Tax savings
Basic-rate taxpayer	save up to 18%
Higher-rate taxpayer	save up to 28%
Super (50%) taxpayer	save up to 28%

Income drawdown

Keeping control of your investments

Income Drawdown (or Unsecured Pension) is the name given to the facility that enables you to continue to keep your retirement savings invested and take an income each year rather than buying an annuity. This facility can only be continued to age 75, with transitional rules in place from 22 April 2010 to 5 April 2011 increasing the age to 77, at which time an annuity has to be bought or the money transferred into an Alternatively Secured Pension (ASP). From 6 April 2011, the rules will change again. The government is currently running a consultation on the new rules to apply from this date.

Income drawdown is an alternative to an annuity. It allows you to draw an income directly from your pension while the fund remains invested. One of the most attractive features of income drawdown is that you keep control of your investments and choose the level of income you draw (within limits).

You continue to manage and control your pension fund and make all the investment decisions. Providing the fund is not depleted by excessive income withdrawals or poor investment performance, it may be possible to increase your income later in life.

The income that can be taken from a drawdown arrangement can be varied each year between a minimum and a maximum. The minimum is £0 and the maximum is 120 per cent of a pension, calculated according to tables produced by the Government Actuaries Department (GAD).

These tables are based on the amount your fund would buy as an annuity based on your life only and with no allowance for any future increase. The maximum amount needs to be recalculated every five years. After each review you will be advised of the new annual GAD limit, which could be lower or higher than the limit from the previous five years.

A review will also be triggered if you add more money into your drawdown account from your main pension fund or if you take money out to buy an annuity. Each year you may request that a review takes place on the plan anniversary. This will restart the five-year period. In some cases, funds may also have to be moved out as a result of a divorce court order and this will also trigger a review.

You decide how much of your pension you want to move into drawdown. You can normally take up to 25 per cent of this as a tax-free lump sum and draw a regular income from the rest. There is no minimum withdrawal amount, so you could choose zero income if you wish. Any income is subject to tax at source, on a Pay As You Earn (PAYE) basis. You decide where the remainder of the fund is invested and you should review and monitor the situation regularly.

> One of the most attractive features of income drawdown is that you keep control of your investments and choose the level of income you draw (within limits).

The maximum income you can draw can be more than the income from a level, single life annuity bought using the same fund. The maximum is calculated at the start of your drawdown plan, using GAD tables that use your age and 15-year gilt yields to calculate the income available from your fund. The income limits calculated at this point are fixed until the next review, although you should review any income you take more frequently.

As long as you stay within the maximum limit, you can control how much income you take and when you take it. You always need to be aware of the risk that your income withdrawal can deplete your capital. This reduces the capacity for income in the future.

If you smoke, or suffer from ill health, an annuity income could be higher than the GAD limit allowed under income drawdown, as the GAD calculation does not take health or lifestyle into account.

You can use your income drawdown fund to buy a lifetime annuity. If you want to continue drawing an income directly from the fund when you reach your 75th birthday it can continue into an ASP, although income is restricted and death benefits are severely limited. The fund is automatically moved to an ASP if you have not set up an annuity by age 75.

You also need to consider when using income drawdown that your capital is not only being eroded by income withdrawals but is also exposed to market movements. In the worst case scenario your pension fund could be eroded, meaning you have little or no private money to live on in retirement. ■

Levels and bases of and reliefs from taxation are subject to change and their value depends on the individual circumstances of the investor. Thresholds, percentage rates and tax legislation may change in subsequent finance acts.

IF YOU ARE AT ALL UNCERTAIN ABOUT THE SUITABILITY OF INCOME DRAWDOWN, YOU SHOULD ALWAYS SEEK PROFESSIONAL FINANCIAL ADVICE. FOR FURTHER INFORMATION ON THIS SUBJECT OR IF YOU WOULD LIKE TO REVIEW YOUR CURRENT SITUATION, PLEASE CONTACT US.

The critical factor

Protecting your lifestyle from the unexpected

Most home buyers purchase life assurance when they arrange a mortgage, but far fewer obtain another form of financial protection that they are considerably more likely to need before they reach retirement.

Critical illness cover is a long-term insurance policy designed to pay you a tax-free lump sum on the diagnosis of certain specified life-threatening or debilitating (but not necessarily fatal) conditions such as a some forms of heart attack, stroke, certain types/stages of cancer, multiple sclerosis and loss of limbs. The 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.

A more comprehensive policy will cover many more serious conditions including loss of sight, permanent loss of hearing and a total and permanent disability that stops you from working. Some policies also provide cover against the loss of limbs.

If you are single with no dependants, critical illness cover can be used to pay off your mortgage, which means that you would have fewer bills, or a lump sum to use if you became very unwell. And if you are part of a couple, it can provide much-needed financial support at a time of emotional stress.

The illnesses covered are specified in the policy along with any exclusions and limitations, which may differ between insurers. Critical illness policies usually only pay out once, so are not a replacement for income. Some policies offer combined life and critical illness cover. These pay out if you are diagnosed with a critical illness, or if you die, whichever happens first.

If you already have an existing critical illness policy, you might find that by replacing a policy you would lose some of the benefits if you have developed any illnesses since you took out the first policy. It is important to seek professional advice before considering replacing or switching your policy, as pre-existing conditions may not be covered under a new policy.

Some policies allow you to increase your cover, particularly after lifestyle changes such as marriage, moving home or having children. If you cannot increase the cover under your existing policy, you could consider taking out a new policy just to 'top up' your existing cover.

Very few policies will pay out as soon as you receive diagnosis of any of the conditions listed in the policy and most pay out only after a 'survival period', which is typically 28 days. This means that if you die within 28 days of meeting the definition of the critical illness given in the policy, the cover would not pay out.

Permanent total disability is usually included in the policy. Some insurers define permanent total disability as being unable to work as you normally would as a result of sickness while others see it as being unable to independently perform three or more 'Activities of Daily Living' as a result of sickness or accident.

ACTIVITIES OF DAILY LIVING INCLUDE:

- Bathing
- Dressing and undressing
- Eating
- Transferring from bed to chair, and back again

> “Critical illness cover is a long-term insurance policy designed to pay you a tax-free lump sum on the diagnosis of certain specified life-threatening or debilitating (but not necessarily fatal) conditions.”

TO DISCUSS HOW WE CAN HELP YOU PROTECT YOURSELF AND YOUR FAMILY IN THE CASE OF UNFORESEEN CIRCUMSTANCES, PLEASE CONTACT US TO DISCUSS YOUR PARTICULAR SITUATION.

Taxing times

Using your pension top-ups to mitigate the effects of CGT

Following the emergency Budget, the Chancellor, George Osborne, has confirmed that the 28 per cent capital gains tax (CGT) rate introduced for higher-rate tax payers would remain in place for at least the length of this parliament.

From a financial planning perspective we now have some certainty about the rules, which enables us to make positive decisions for our clients about how best to reduce the impact of CGT until at least May 2015. This also gives you more stability and certainty when it comes to your tax and investment planning.

The threshold for gains before CGT becomes payable is £10,100 (2010/11) for all. Most basic-rate taxpayers could face 18 per cent tax on gains above this, while higher-rate taxpayers may be subject to a 28 per cent CGT rate.

A pension can be used as a highly effective tax shield, so the higher the rate of CGT, the more incentive there is to place funds under the protection of a pension. If you are now facing a 28 per cent CGT rate, we would like to have the opportunity to discuss the options available to you. Even as a basic-rate taxpayer you may for the first time find that your gains, when added to your income, push you into paying the higher-rate of CGT.

Selling an asset with gains over the CGT threshold would generate sale proceeds that could be used to fund a pension contribution that would attract tax relief of 20 per cent plus a further 20 per cent for higher-rate taxpayers to claim back through self-assessment. The tax relief could enable you to reduce the effect of any CGT that is paid and contribute to recovering any investment losses from falling markets.

It may be important that you maintain exactly the same portfolio of assets and the same investment strategy. This is possible through an *in specie* (the distribution of an asset in its present form, rather than selling it and distributing the cash) contribution of assets (or part of the asset, such as a property) which is viewed as a disposal for CGT purposes but also attracts tax relief.

Some Self-Invested Personal Pension (SIPP) providers may not allow *in specie* contributions in this way but those with experience can manage the process to ensure investors work within the overall contribution limits to maximise the benefits.

An alternative option if you're a higher earner could be to sell your portfolio into the SIPP. In this instance, CGT would be payable on the sale and there is no tax relief as it is not a contribution. But it could be a useful way of releasing cash held by the SIPP back to you while sheltering the assets from any future CGT liability.

If you're a high earner there may be other advantages to using pension arrangements. An example of this is if you find dividend income or rent from property push your earnings over £100,000 so that your tax-free personal allowance is reduced. In this instance, shifting the assets into a pension would protect against both an effective rate of income tax of up to 60 per cent and CGT going forward. ■

> 'A pension can be used as a highly effective tax shield, so the higher the rate of CGT, the more incentive there is to place funds under the protection of a pension.'

THE PROPOSED CHANGES PROVIDE YOU WITH AN OPPORTUNITY TO SAVE MORE FOR YOUR RETIREMENT. WE CAN WORK WITH YOU TO DEVELOP STRATEGIES TO ACCUMULATE WEALTH IN ORDER FOR YOU TO ENJOY YOUR RETIREMENT YEARS. PLEASE CONTACT US FOR MORE INFORMATION.

What are the **new CGT rules?**

Your questions answered

Q: Exactly what are the new CGT rules?
A: The capital gains tax (CGT) rate for individuals with income and chargeable gains – after allowable losses, reliefs, personal allowances and annual exemptions – below the upper limit of the income tax basic-rate band of £37,400 remains at the Pre-Budget rate of 18 per cent. The new 28 per cent CGT rate applies to chargeable gains above this limit.

The rate of CGT for capital gains which qualify for Entrepreneurs' Relief is 10 per cent and the lifetime limit is £5m. All taxpayers benefit from the CGT annual exempt amount of £10,100 for 2010/11.

Q: How do I know if I am a 'basic-rate' taxpayer?
A: Taxpayers who have total taxable income and chargeable gains, after taking into account any allowable losses, reliefs, personal allowances and annual exemptions, of up to £37,400 are subject to CGT on their chargeable gains at the rate of 18 per cent. The interaction of reliefs and losses may in some cases mean that it can be difficult to establish at the time of a chargeable disposal if gains will be subject to CGT at 18 per cent or 28 per cent.

Q: What is Entrepreneurs' Relief?
A: Entrepreneurs' Relief was introduced in April 2008 and enables qualifying gains to benefit from a reduced rate of CGT of 10 per cent. Each taxpayer has a lifetime limit on gains that can qualify for Entrepreneurs' Relief and, with effect from 23 June 2010, this limit was increased to £5m.

In order to be a qualifying disposal for the purposes of Entrepreneurs' Relief, assets must have been held for at least 12 months and involve the sale of all or part of a trading business or the sale of shares representing more than 5 per cent of the company's market capitalisation.

Q: Should I time when I dispose of assets to reduce CGT on the gain?
A: Some people paying higher-rate tax may be able to fluctuate their income in one tax year to bring it and the gain they want to realise below the threshold for higher-rate tax. This could be a good solution if you're drawing your pensions, or for self-employed people who have more control over their incomes.

Q: Can I give assets to my wife to take advantage of a lower tax threshold?
A: Assets can be transferred to a spouse or civil partner or held in joint names to minimise CGT liabilities. Holding an asset in joint names means the annual exempt amount (currently £10,100) of each individual is deducted from the gain before tax is due.

Also, it may be appropriate to transfer full ownership to a spouse or civil partner where their income places them in the lower-rate tax band, thus leading to a lower CGT liability after allowances have been taken into account.

Q: How can I increase the value of the lower CGT band?
A: Because pension contributions are deducted from your income before tax is assessed, making additional contributions into pensions can extend the limits of the lower tax rate band. Then, any gains realised from other assets are taxed in accordance with this extended band after allowances have been taken into account.

Q: What about CGT-exempt assets?
A: Many assets can grow in value free of CGT. For example, any asset held in an Individual Savings Account (ISA) is CGT-free.

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

Thresholds, percentage rates and tax legislation may change in subsequent finance acts. 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 investment can go down as well as up and you may not get back the full amount invested.

Self-Invested **Personal Pensions**

Investing in commercial property brings investors significant tax benefits

Lower prices and lower borrowing rates have led to an increased interest in putting commercial property into a Self-Invested Personal Pension (SIPP). The general fall in the price of commercial property has made it a more affordable investment and has made it possible for SIPPs to acquire property interests that may have previously been unobtainable.

It is possible for the trustees of a SIPP to borrow money from a commercial lender in order to assist with the purchase of suitable property. HM Revenue & Customs (HMRC) guidelines state that the Trustees can borrow up to 50 per cent of the net asset value of the SIPP, as calculated immediately before the borrowing takes place. This limit includes all existing borrowing.

Investing in property can be particularly beneficial when it is used to buy the business premises of the SIPP plan holder. You can invest in commercial property that you already own or plan to buy. The property becomes an asset of your pension fund, bringing you significant tax benefits:

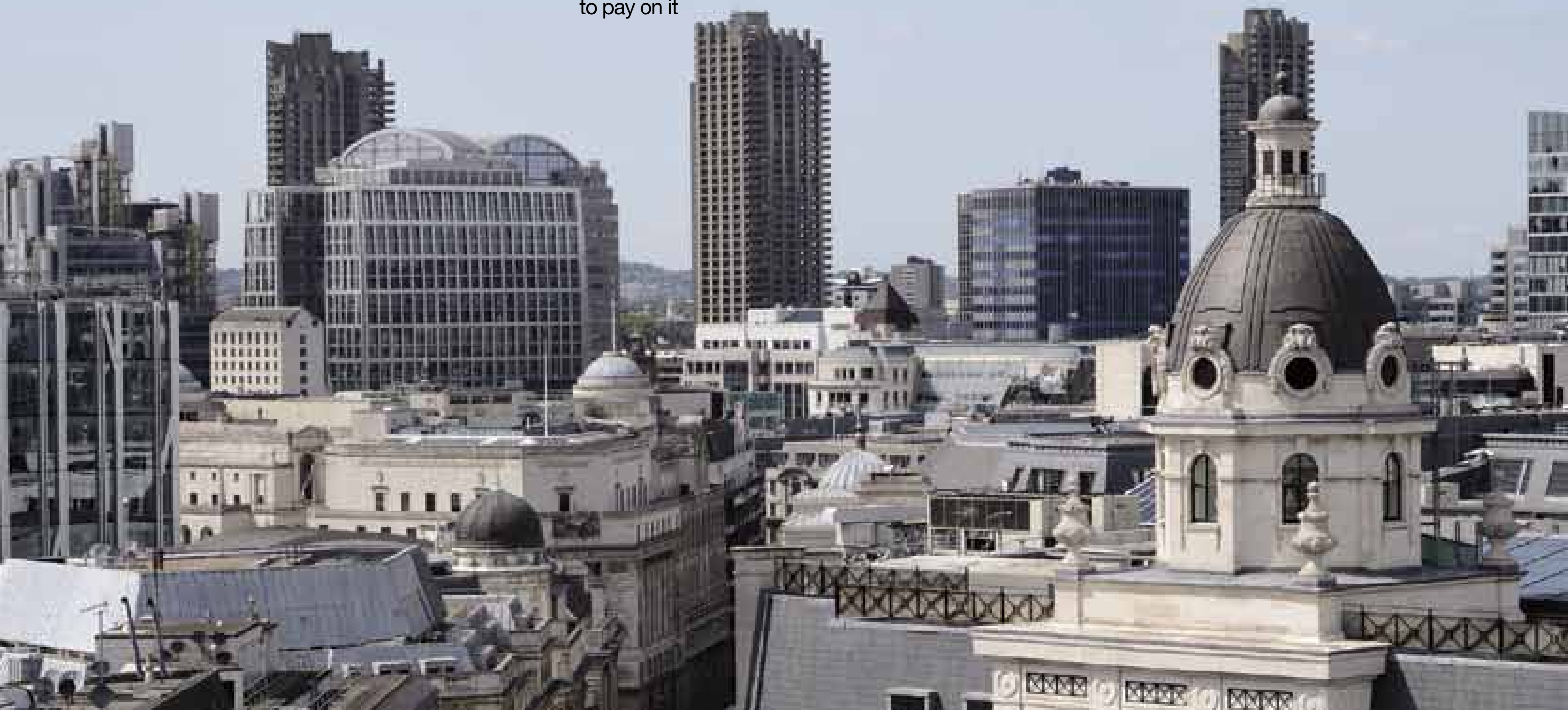
- **Any growth in the property value is tax-free** - when you come to sell the property, there's no capital gains tax to be paid on any profit
- **Rental income is free of income tax** - there's no income tax payable on any rental income you receive. However, if VAT is included in the rental income this may be payable to HMRC

In addition to these valuable tax benefits, investing your SIPP funds in commercial property has other advantages as well:

- **Protection against market volatility** - the commercial property market is generally considered less risky than investing in company shares, but you should be aware that investing in a single property could increase the investment risk and property can take longer to sell
- **Tax relief for your business** - if you use the premises for your own business, any rent you pay is an allowable business expense
- **Estate planning** - if you should die, the property doesn't usually form part of your estate, so potentially there's no inheritance tax to pay on it

INVESTING IN COMMERCIAL PROPERTY ISN'T FOR EVERYONE. PROPERTY CAN TAKE TIME TO SELL, SO YOU MAY NOT BE ABLE TO ACCESS YOUR MONEY WHEN YOU NEED IT. TAX RULES AND LEGISLATION MAY CHANGE. THE VALUE OF TAX RELIEF MAY CHANGE AND WILL DEPEND ON YOUR FINANCIAL CIRCUMSTANCES. TO DISCUSS YOUR OPTIONS, PLEASE CONTACT US.

The pension and tax rules are subject to change by the government. If the investments perform poorly, the level of income may not be sustainable. The value of your SIPP when you draw benefits cannot be guaranteed as it will depend on investment performance. The value of fund units can go down as well as up and investment growth is not guaranteed. The tax benefits and governing rules of SIPPs may change in the future. The level of pension benefits payable cannot be guaranteed as they will depend on interest rates when you start taking your benefits. The value of your SIPP may be less than you expected if you stop or reduce contributions, or if you take your pension earlier than you had planned.



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