



Financial Review

Financial Information from Forum Wealth Management Ltd

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Wealth Matters

Don't lose sight of your investment goals

Investing for income

Compounding of returns for the long term

Flexible Drawdown

Removing the cap on the income you can take

Reliable returns

Alternative complementary asset class

Building a bigger pension

Reintroduction of Carry Forward rules

Protecting wealth

Planning for the future is not to be taken lightly



SAVING FOR OLD AGE
UK savers face retirement savings gap

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Welcome

In this issue of our magazine, you can read about topics that will help you make more of your money, from retirement provision to wealth protection to investment matters.

From 6 April 2011 the annual allowance for pension contributions reduced from £255,000 to £50,000. While this restricts the levels of contributions you can make without attracting an Annual Allowance charge, on the plus side the Government has brought back the Carry Forward rules. So anyone who wishes to roll up any unused contribution allowance may do so and take advantage in a future tax year. The facility also enables contributions in excess of the £50,000 annual allowance still to be possible (see page 08).

Planning for your future financial independence relies on selecting the right type of investments and balancing the risks you are comfortable with alongside the potential returns. Every investor is unique and complex, so on page 09 we consider why, when it comes to investments, a one-size-fits-all approach just doesn't work – there isn't a single investment strategy that will work for everyone.

Tax-efficient investments are increasingly being used to complement pensions as part of an overall retirement planning solution. The tax relief provides a reliable return and you are able to access your money after the tax qualification periods, either to reinvest in tax-efficient investments for another round of tax relief or to invest elsewhere. Read the full article on page 12.

Content of the articles featured in this publication is for your general information and use only and is not intended to address your particular requirements. They should not be relied upon in their entirety and shall not be deemed to be, or constitute, advice. Although endeavours have been made to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough examination of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions taken in respect of any articles. 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.

Inflationary Pressures

Counteracting the pensioner's worst enemy

Inflation is a pensioner's worst enemy. Over time, it will reduce the value of your income unless you take measures to counteract it. With retirement often stretching to twenty to thirty years, your income should keep pace with inflation.

The State Pension and most final salary schemes will usually build in an annual increase. However, if your retirement income is from other sources, you may have to decide how best to protect yourself and your family against future inflation.

With a privately owned pension (such as a personal pension), the choice is yours. You can choose to have your pension paid at a level amount every year or you can build in an annual increase. This increase can either be a fixed amount each year of, say, 3 per cent or 5 per cent or instead you can request that your income moves in line with inflation.

The downside is that the starting income for an increasing pension will be lower than if you choose a level income. You therefore need to weigh up the benefits of both before making your final decision. ■

WE CAN HELP YOU TO MAKE THE RIGHT DECISIONS ABOUT YOUR MONEY – FOR MORE INFORMATION, PLEASE CONTACT US TO DISCUSS YOUR REQUIREMENTS.



20-30
The number of years your income may need to keep pace with inflation during retirement.

Funding your wealth

Choosing from different sectors

There are thousands of investment funds to choose from and they are divided into different types or sectors. You can buy funds that invest in shares, corporate bonds, gilts, commodities and property among other things; they will also typically have some form of geographical focus.

The wealth of choice means you can target any theme you choose but making the selection can be a baffling process and, to complicate matters, funds are typically divided into two categories: active and passive.

Around one in four funds is passive. There is no stock picking involved, the fund simply buys the shares or market represented and therefore tracks it – for example, a fund that mirrors the FTSE 100 and will deliver the same returns as that market.

An active fund on the other hand has a manager buying and selling assets, attempting to beat the market. ■

PLEASE CONTACT US FOR MORE INFORMATION ABOUT HOW WE CAN HELP YOU MAKE YOUR INVESTMENT CHOICES.

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

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.

Protecting Wealth

Planning for the future is not to be taken lightly

We all want to protect our wealth and help ensure our families are provided for when we die. However, increasingly HM Revenue & Customs (HMRC) are challenging the valuations of properties given for Inheritance Tax (IHT) purposes, according to accountants UHY Hacker Young.

IHT is currently payable at 40 per cent on any amount over £325,000 – the nil rate band (tax year 2011/12). The nil rate band is the term used to describe the value an estate can have before it is taxed (£650,000 for married couples). So if you have an estate worth £500,000, £175,000 is taxed at 40 per cent, meaning the IHT bill would be £70,000.

The taxman raised £70m in additional tax last year – an average of £24,600 extra tax per case – and are targeting beneficiaries who claim a property they've inherited is worth less than it is in order to pay less tax.

During the financial year 2010/11, 16,000 estates paid IHT. Of these, more than a fifth – 3,441 – had the valuation of the property increased, while just 800 had valuations reduced, according to HMRC figures.

REDUCING AN INHERITANCE TAX BILL

WRITE A WILL

Making a Will is the first step to reducing your IHT bill. It helps you get an idea of what your estate is worth, therefore providing a good basis to understand how much IHT planning is required.

GREAT GIVE-AWAY

You can give away cash or assets up to the value of £3,000 a year without it incurring any taxes. This can also be backdated by one year if not already used, for example, a couple could effectively gift £12,000 in the first year if not already used and then £6,000 (£3,000 each) thereafter. Parents can also give up to £5,000 to each of their

children as a wedding/civil partnership gift while grandparents can give up to £2,500. Others can also contribute to loved ones' weddings/civil partnerships but are only allowed to give up to £1,000.

You can make small gifts up to £250 to as many people as you like, as long as you haven't already gifted that person in the same tax year.

If you are still working and earning an income, you are also permitted to give away any surplus amounts of your income provided that, in making these gifts, your own standard of living is not affected. You must not then access your capital (savings and investments) to live off.

SEVEN-YEAR RULE

The seven-year rule allows you to make additional tax-free gifts providing you do not pass away within the next seven years. These gifts are called 'potentially exempt transfers' (PETs) and can be anything from cash to property. However, you cannot give something away and still benefit from it, for example, you can't give away the family home and then continue to live in it unless you pay the market rent.

If you were to pass away before the seven years were up, the assets would be taxable. However, the amount would vary and depend on how close to the seven-year milestone you were. For example, if you were to die within six years, the tax bill would be less than if you passed away within a couple of months. This is known as 'taper relief'.

A MATTER OF TRUST

Placing assets into a trust in your lifetime could be a good way to decrease your

IHT bill. Limited to the nil rate band, these gifts count as potentially exempt transfers. This means the same rules apply, so if you pass away before the seven years are up, IHT will be due.

It is possible for a Settlor to place assets in excess of the nil rate band in a trust. These gifts are called 'chargeable transfers' as tax is payable immediately the asset goes into the trust. However, if the Settlor dies within seven years then there could be an IHT liability to pay too.

RURAL AMBITIONS

Buying farmland is an alternative way to help reduce a potential IHT bill, as farmland qualifies for agricultural property relief of up to 100 per cent after two years of ownership. The land has to be actively worked on for 'agricultural purposes' so, unless you have rural ambitions, this will not be an option for the majority. ■

THE SOONER YOU START PLANNING, THE SMALLER A POTENTIAL FUTURE IHT BILL IS LIKELY TO BE. WITH THE CORRECT ADVICE AND PLANNING, YOU COULD CONSIDERABLY REDUCE THIS BURDEN FOR YOUR FAMILY. TO DISCUSS YOUR OPTIONS, CALL US FOR MORE HELP AND ADVICE.

Levels and bases of and reliefs from taxation are subject to change and their value depends on the individual circumstances of the investor.

£325,000

IHT currently payable at 40% on any amount over this figure.



Investing for income

Compounding of returns for the long term

If you are an income seeker, frozen interest rates at historic lows mean real losses for many savers in bank and building society deposits which fail to match inflation.

The most popular forms of income investment are bonds (which are also known as 'fixed interest' investments) and cash, both of which pay a regular, consistent rate of interest either annually, twice a year or four times a year. You can also obtain an income from shares in the form of dividends, and many equity funds are set up solely with the aim of generating a stable income. Importantly equity income funds often aim to achieve not only stability, but an increasing income in the long term.

Income stocks are most usually found in solid industries with established companies that generate good cash flow. They have little need to reinvest their profits to help grow the business or fund research and development of new products and are therefore able to pay sizeable dividends back to their investors. Examples of traditional income-generating companies would include

utilities such as oil and gas, telephone companies, banks and insurance companies.

You should remember that these investments do not include the same security of capital which is afforded with a deposit account.

INVESTING FOR INCOME IS THE ULTIMATE GOAL FOR MANY, BUT KNOWING THE RIGHT PATH TO TAKE TO ACHIEVE THIS CAN BE COMPLEX, AND IT CAN BE VERY HARD TO HAVE THE CONFIDENCE TO MAKE BIG DECISIONS ABOUT YOUR PERSONAL ASSETS WITHOUT A SECOND OPINION. TO FIND OUT HOW WE COULD HELP YOU, PLEASE CONTACT US.

10

Income-generating ideas.

40%

The number of UK companies that account for UK dividend payouts.

10 INCOME INVESTING TIPS

1. Sustainable long-term dividend growth –

Investing in businesses when the growth potential is not reflected in the valuation of their shares not only reduces the risk of losing money, it increases the upside opportunity.

2. Inflation matters – Always bear in mind the detrimental effect of inflation. Corporate and Government bonds offer higher yields than cash but returns can be eroded by inflation. Investment in property or equities provides a vehicle to help achieve an income that rises to keep pace with inflation.

3. Consider international diversification – A small number of UK companies account for some 40 per cent of UK dividend payouts. This compares with over 100 companies in the US, for example, that provide the opportunity to increase the longevity of dividend growth.

4. Patience is a virtue – Investing for income is all about the compounding of returns for the long term. As a general rule, those businesses best placed to offer this demonstrate consistent returns on invested capital and visible earnings streams.

5. Reliability is the key – Select sectors of the equity market that do not depend on strong economic growth to deliver attractive returns to investors.

6. High and growing free cash flow – Look for companies with money left over after all capital expenditure, as this is the stream out of which rising dividends are paid. The larger the free cash flow relative to the dividend payout the better.

7. Dividend growth – In the short term, share prices are buffeted by all sorts of influences, but over longer time periods fundamentals have the opportunity to shine through. Dividend growth is the key determinant of long-term share price movements – the rest is sentiment.

8. Cautious approach – Profits and dividends of utility companies are at the whim of the regulator. Be cautious of companies that pay a high dividend because they have gone ex-growth – such a position is not usually sustainable indefinitely.

9. Investment diversification – The first rule of investment is often said to be 'spread risk'. Diminishing risk is particularly important for income-seekers who cannot afford to lose capital.

10. Tax-efficiency – Increase your net income by using an ISA (Individual Savings Account). ISA income is free of taxation, thereby potentially improving the amount of income you actually receive. ISAs are also free from capital gains tax, allowing you to switch funds or cash in without a tax charge. ■

FINANCIAL INTELLIGENCE

Retirement income consumed by the basic costs of living

Investors buying a level annuity with a pension fund of £80,000 will spend their entire monthly income on basic living costs within seven years of retirement, according to new statistics.

Standard Life researchers have warned that many people could see their retirement income consumed by the basic costs of living as the effect of inflation eats into the money they set aside for retirement.

The FTSE 100 company's retirement team has warned that investors should seek professional financial advice or risk losing out from inflation, restricting living standards in the future.

'The cost of living is rising fast for most people in the UK but this can be particularly acute for pensioners.'

'The cost of living is rising fast for most people in the UK but this can be particularly acute for pensioners.'

Spending habits of pensioners are driven by commodities such as food and fuel bills and these inflation rates are much higher than the overall UK inflation rate. So it is crucial to consider how to protect your buying power in retirement from inflation over a long period of time, which could be 30 years or more.

The reality is that if pensioner inflation remains at around 6 per cent a year, people with a fixed income could lose almost half of their spending power within a ten-year period.

THERE ARE MANY OPTIONS TO CONSIDER AT RETIREMENT THAT COULD MINIMISE THE IMPACT OF INFLATION ON YOUR INCOME – SEEKING PROFESSIONAL FINANCIAL ADVICE IS VITAL. FOR MORE INFORMATION ABOUT HOW WE COULD HELP YOU, PLEASE CONTACT US TO DISCUSS YOUR REQUIREMENTS.

Retirement options

Revolutionising the way pension benefits are taken

Your pension is one of your most valuable assets but is it working as hard as it should be? The new retirement rules will revolutionise the way pension benefits are taken, making retirement more flexible.

DID YOU KNOW?

1. AGE 75 RULE ABOLISHED

There is no longer a requirement to take pension benefits by a certain age. Historically, individuals have had to set up an annuity or move into Alternatively Secured Pension (ASP) by the age of 75.

2. RETIREES CAN USE INCOME DRAWDOWN INDEFINITELY

Investors can now use income drawdown or take no income at all for as long as they want. However, tax charges on any lump sum death payments will prevent this option being used to avoid Inheritance Tax. ASP, which had a number of restrictions and limited death benefits, has been scrapped.

3. FLEXIBLE DRAWDOWN INTRODUCED

This is a new drawdown option that allows some investors to take as much income as they want from their fund in retirement. It is available to people over the age of 55 who can prove they already have a secure pension income of £20,000 a year when they first go into Flexible Drawdown. The secure income can be made up of state pension or from a pension scheme and does not need to be inflation proofed. Investment income does not count. It is not possible to make any further pension contributions to any pension scheme either in the year you move into Flexible Drawdown or any year thereafter.

4. CURRENT DRAWDOWN (NOW TO BE KNOWN AS CAPPED DRAWDOWN)

The maximum income that can be taken each year is subject to a cap that is broadly equivalent to the income available from a single life, level annuity. This is a slight reduction on the previous maximum allowed (120 per cent of annuity income). The income limits are age and sex specific, even after age 75. The maximum amount will be reviewed every three years (previously every five years). Reviews that take place after age 75 will be carried out annually. There is no minimum income, even after age 75.

5. CHANGES TO DEATH BENEFITS AND TAX CHARGES

If the pension member dies while the pension fund is in either form of drawdown, or after the age of 75, all the remaining fund can be used to provide an income for a spouse or dependant. Alternatively, it can be passed on to a beneficiary of their choice as a lump sum, subject to a 55 per cent tax charge (or nil charge if paid to a charity). The previous tax charges were up to 82 per cent on lump sums paid after age 75.

6. RULES FOR THOSE ALREADY IN DRAWDOWN

Individuals who are already in drawdown will not be immediately subject to the new requirements; however, transitional rules apply. They will apply until the next review date when the income limits and review periods change.

7. 25 PER CENT TAX-FREE CASH

The ability for most people to take up to a quarter of the pension fund as tax-free cash is still available when the individual sets up an annuity or goes into income drawdown, even if they take no income.

8. ANNUITIES

Annuities themselves have not been changed; however, it is now possible to buy an annuity at any age after 55. An annuity will still be the option of choice for most retiring investors because, unlike drawdown, it provides a secure income for life. Annuities are to be used to secure the minimum income requirement of £20,000 to allow investors to then use the rest of their pension to go into Flexible Drawdown. ■

A drawdown pension, using income withdrawal or using short term annuities, is complex and is not suitable for everyone. It is riskier than an annuity as the income received is not guaranteed and will vary depending on the value and performance of underlying assets.

Bear in mind that a pension is a long-term investment. Your eventual income will depend on the size of fund at retirement, future interest rates, and tax legislation.

25%

The maximum amount you can take tax-free from a pension fund.

55

The age the new drawdown option is available to people.

Flexible Drawdown

Removing the cap on the income you can take

After years of saving into your pension fund, you've now decided you want to retire and are overwhelmed by the retirement options available. We can work with you to choose the right strategy in order for you to enjoy your retirement years.

If appropriate to your particular situation, one option you may wish to consider is Flexible Drawdown. Perhaps the most radical aspect of the new income drawdown rules that were introduced from 6 April 2011 is that, under Flexible Drawdown, there is no limit on the amount of income that you can draw each year.

The usual tax-free lump sum is allowed but any other withdrawals taken by you are taxed as income in the tax year they are paid. If you become a non-UK resident while in Flexible Drawdown, any income drawn when non-resident will be subject to UK tax if you return to the UK within five tax years of taking it.

As the name suggests, this option is much more flexible than income drawdown. Qualifying for this option removes the cap on the income you can take.

You can draw as much income as you like when you like. However, Flexible Drawdown will not be available to everyone and there are certain criteria that must be met before you can choose it.

GIVING THOSE WITH VERY LARGE FUNDS MORE FLEXIBILITY

- Those over the age of 55 who can show that they have secured pension income in excess of £20,000 per annum will be able to drawdown an unlimited amount from their pension funds each year, but this will be treated as income for tax purposes.
- The income included for satisfying the new Minimum Income Requirement (MIR) includes the basic state pension, additional state pension, level annuity income and scheme pensions. Please note income from purchased life annuities and drawdown arrangements do not count.
- The lump sum required to purchase an annuity that will satisfy the MIR,

assuming the full state pension is payable, will be about £200,000. This means that this option is available only to a small number of wealthy individuals.

FOR INFORMATION ABOUT THIS AND THE OTHER SERVICES WE OFFER, PLEASE CONTACT US TO DISCUSS YOUR REQUIREMENTS.

A drawdown pension, using income withdrawal or short-term annuities, is complex and is not suitable for everyone. It is riskier than an annuity as the income received is not guaranteed and will vary depending on the value and performance of underlying assets.

£20,000

The minimum amount of secured pension income to be able to drawdown an unlimited amount each year.

6 APRIL 2011

New income drawdown rules introduced.

SAVING FOR OLD AGE

UK savers face retirement savings gap

The Chartered Insurance Institute (CII) has looked at the cost of living post-work and found that average incomes achieved by retirees are insufficient. UK savers face a retirement savings gap of £9 trillion due to increasing levels of debt, the cost of long-term care and insufficient pension savings.

The CII has used existing data produced by the Organisation for Economic Co-operation and Development (OECD) to calculate the shortfall in savings needed to cover the cost of living in old age. It shows that, on average, pensioners achieve only 30 per cent of their pre-retirement salary as income during retirement, significantly less than the 70 per cent the OECD believes is necessary to live adequately.

This assumption does not factor in the cost of long-term care and paying back of debt, so the CII has tried to show the difference between what people are actually saving and what they need to save to live comfortably and cover these additional costs.

In the latest annual Scottish Widows UK pension report only 51 per cent of British workers are saving adequately for old age. This seventh annual Scottish Widows pension report, based on interviews with 5,200 adults, shows there is 'widespread and ingrained inertia' across the country.

Commenting, Pensions Minister Steve Webb said: 'The next generation will face a different world with increasing life expectancy, the decline in final salary schemes and lower annuity rates. They are going to have to take greater responsibility for saving for their retirement.'

Building a bigger pension

Reintroduction of Carry Forward rules

From 6 April 2011 the annual allowance for pension contributions reduced from £255,000 to £50,000. While this restricts the levels of contributions you can make without attracting an Annual Allowance charge, on the plus side the Government has brought back the Carry Forward rules.

INCREASING PENSION CONTRIBUTIONS

The principle of Carry Forward allows you to increase pension contributions by using unused annual allowances from the previous three tax years. The facility therefore enables contributions in excess of the £50,000 annual allowance still to be possible.

The Carry Forward facility applies on a rolling three-year basis, so for 2011/12 the three previous tax years will be 2008/09, 2009/10 and 2010/11 – with any unused allowances from the earliest year being used up first. So, for example, if you made no contributions to a pension in the 2008/09, 2009/10 and 2010/11 tax years, you could contribute up to £200,000 in the 2011/12 tax year.

Even though tax years 2008/09 to 2010/11 inclusive are before the rule changes, the calculation of contribution allowances is based on the new rules, so:

- the annual allowance is £50,000
- any defined benefit pension plans and cash balance accruals are based on a factor of 16 instead of 10, with some inflation proofing
- in a year when retirement benefits are taken, any pension contributions made will be assessed against the annual allowance

QUALIFYING CONTRIBUTIONS

To qualify, you can Carry Forward any unused annual allowances from a tax year in which you are a member of, or join, a registered pension scheme. You do not need to have a Pension Input Period (PIP) ending in that tax year, or have to contribute to the pension scheme in each tax year. Only unused annual allowances from PIPs ending in the previous three tax years can be carried forward.

£50,000

Annual allowance for pension contributions.

3 YEARS

The number of previous tax years you can increase pension contributions utilising Carry Forward.

ANNUAL ALLOWANCE

The annual allowance that applies to pension contributions is based upon the tax year in which the PIP ends. Each arrangement in a scheme can have its own PIP; however, the scheme may set the PIP dates or the member can nominate them.

Where the PIP dates are not nominated by the client, the PIP runs from the first contribution date to the end of the tax year in which it started – for example, if the first contribution was made on 7 May 2011, then the first PIP runs from 7 May 2011 to 5 April 2012.

Subsequent PIPs will end on the day before the anniversary of the end of the last PIP.

Where it is possible to nominate a different end date for a PIP, you need to notify the scheme administrator in advance. Subsequent PIPs will end on the day before the anniversary of the end of the last PIP.

EXTRA OPPORTUNITIES

Adjusting the PIP dates within the rules can provide extra Carry Forward opportunities.

You could amend the PIP dates provided that:

- the first PIP can end in the same tax year that it started
- the first PIP must end prior to the anniversary of payment and can be in the same tax year that it started
- the second and subsequent PIPs must end in the tax year after the tax year the previous PIP ended
- there can be only one PIP ending in each tax year

IF YOU WISH TO DISCUSS OR HAVE ANY FURTHER QUESTIONS REGARDING CARRY FORWARD AND PENSION CONTRIBUTIONS, PLEASE CONTACT US.

Levels and bases of and relief's from taxation are subject to change and their value depends on the individual circumstances of the investor. A pension is a long term investment. The fund value may fluctuate and can go down as well as up. You may not get back your original investment.



Wealth Matters

Don't lose sight of your investment goals

Planning for your future financial independence relies on selecting the right type of investments and balancing the risks you are comfortable with alongside the potential returns. Every investor is unique and complex, so when it comes to investments, a one-size-fits-all approach just doesn't work – there isn't a single investment strategy that will work for everyone.

Whatever your investment objectives are for the long term, initially it is prudent to set aside short-term savings to meet any future emergencies. This should be held where you can access your money easily. Your investment goals and attitude to risk for return are personal and may change over time, particularly as you near retirement.

LOOKING AHEAD

There are, of course, times in our lives when saving money may be difficult (for example, when studying or bringing up children) but it is important to look ahead. Saving little by little out of your income or investing lump sums when you can all helps. Holding savings for a long time means they can grow in value as well.

There are different types of risk involved with investing, so it's important to find out what they are and think about how much risk you're willing to take. It all depends on your attitude to risk (how much risk you are prepared to take) and what you are trying to achieve with your investments.

THE QUESTIONS YOU NEED TO ASK

- How much can you afford to invest?
- How long can you afford to be without the money you've invested (most investment products should be held for at least five years)?
- What do you want your investment to provide – capital growth (your original investment to increase), income or both?
- How much risk and what sort of risk are you prepared to take?
- Do you want to share costs and risks with other investors (by using a pooled investment, for example)?

If you decide to invest using pooled investments, consider which type would be most suitable for you. The main differences between pooled investments are the way they pay tax and the risks they involve (especially investment trusts and with-profit funds).

What are the tax benefit implications, what tax will you pay and can you reduce it?

FUTURE PLANNING

You may be looking for an investment to provide money for a specific purpose in the future. Alternatively, you might want an investment to provide extra income. So having decided that you are in a position to invest, the next thing to consider is: 'What am I investing for?' Your answer will help you to choose the most suitable type of investment for you. If you have a particular goal, you will need to think about how much you can afford and how long it might take you to achieve your goal.

You may have a lump sum to invest that you would like to see grow or from which you wish to draw an income. Equally, you may decide to invest in instalments (for example, on a monthly basis) with a view to building up a lump sum.

INVESTMENT GOALS

Your investment goals should determine your investment plan, and the time question 'How long have I got before I need to spend the money?' is crucial.

Generally, the longer it is before you need your money, the greater the amount of risk you are able to take in the expectation of greater reward. The value of shares goes up and down in the short term and this can be

very difficult to predict, but long term they can be expected to deliver better returns. The same is true to a lesser extent of bonds.

Broadly speaking, you can invest in shares for the long term, fixed interest securities for the medium term and cash for the short term.

MIX OF ASSETS

As the length of time you have shortens, you can change your total risk by adjusting the 'asset mix' of your investments – for example, by gradually moving from share investments into bonds and cash. It is often possible to choose an option to 'lifestyle' your investments, which means that your mix of assets is risk-adjusted to reflect your age and the time you have before you want to spend your money.

Income can be in the form of interest or share dividends. If you take and spend this income, your investments will grow more slowly than if you let it build up by reinvesting it. By not taking income you will earn interest on interest and the reinvested dividends should increase the size of your investment, which may then generate further growth. This is called 'compounding'. ■

NO MATTER WHAT YOUR INVESTMENT GOALS ARE AND HOW MUCH YOU WISH TO INVEST, WE CAN WORK WITH YOU TO DEVELOP THE BEST PORTFOLIOS FOR YOU. TO DISCUSS YOUR PARTICULAR REQUIREMENTS, PLEASE CONTACT US FOR FURTHER INFORMATION.

The value of your investment can go down as well as up and you may not get back the full amount invested.

Green Money

Socially responsible investing

If you are an investor concerned about global warming and other environmental issues, how can you save and invest ethically? Ethical investments cover a multitude of different strategies, with the terms 'ethical investment' and 'socially responsible investment' (SRI) often being used interchangeably to mean an approach to selecting investments whereby the usual investment criteria are overlaid with an additional set of ethical or socially responsible criteria.

The Ethical Investment Research Service (EIRIS) defines an ethical fund as 'any fund which decides that shares are acceptable, or not, according to positive or negative ethical criteria (including environmental criteria).'

NEGATIVE SCREENING

Funds that use negative screening, known as 'dark green' funds, exclude companies that are involved in activities that the fund manager regards as unethical. Each fund group has a slightly different definition of what is unethical but this typically includes gambling, tobacco, alcohol and arms manufacture. It could also cover pollution of the environment, bank lending to corrupt regimes and testing of products on animals.

POSITIVE SCREENING

Positive screening funds use positive criteria to select suitable companies. Funds that take this approach look for companies that are doing positive good, such as those engaged in recycling, alternative energy sources or water purification. So an ethical fund of this type might buy shares in a maker of wind turbines or solar panels.

ENGAGEMENT FUNDS

Engagement funds take a stake in companies and then use that stake as a lever to press for changes in the way the company operates. This could mean persuading oil and mining companies to take greater care over the environmental impact of their operations or pressing companies to offer better treatment of their workers.

This process may involve making judgements regarding the extent to which such investments are perceived to be acceptable, and about the potential for improving through engagement the ethical performance of the party offering the investment.

GOOD PROSPECTS

Ethical investors will believe that they should not (or need not) sacrifice their life principles in exchange for chasing the best financial returns, with some arguing that in the long term, ethical and SRI funds have good prospects for out-performing the general investment sectors.

Since ethical investment, by definition, reduces the number of shares, securities or funds in which you can invest, it tends to increase the volatility of the portfolio and therefore the risk profile. This can be

mitigated by diversifying between funds, and between different styles of funds and fund managers. Like their non-ethical equivalents, some ethical funds are much higher risk than others. ■

THE PERFORMANCE OF ETHICAL FUNDS COMPARES WELL WITH THOSE THAT HAVE NO ETHICAL SCREENING. THERE IS NO REASON OR EVIDENCE TO SUGGEST THAT INVESTING YOUR MONEY ETHICALLY WILL ADVERSELY AFFECT THE PERFORMANCE OF YOUR INVESTMENTS. TO FIND OUT MORE OR TO DISCUSS YOUR ETHICAL OPTIONS, PLEASE CONTACT US.

The value of your investment can go down as well as up and you may not get back the full amount invested.



Freedom of choice

Taking more control over your pension fund investment decisions

If you would like to have more control over your own pension fund and be able to make investment decisions yourself with the option of our professional help, a Self-Invested Personal Pension (SIPP) could be the retirement planning solution to discuss.

MORE ACCESSIBILITY

A SIPP is a personal pension wrapper that offers individuals greater freedom of choice than conventional personal pensions. However, they are more complex than conventional products and it is essential you seek expert professional advice.

SIPPs allow investors to choose their own investments or appoint an investment manager to look after the portfolio on their behalf.

Individuals have to appoint a trustee to oversee the operation of the SIPP but, having done that, the individual can effectively run the pension fund on his or her own.

A fully fledged SIPP can accommodate a wide range of investments under its umbrella, including shares, bonds, cash, commercial property, hedge funds and private equity.

THOUSANDS OF FUNDS

You can typically choose from thousands of funds run by top managers as well as pick individual shares, bonds, gilts, unit trusts, investment trusts, exchange traded funds, cash and commercial property (but not private property). Also, you have more control over moving your money to another investment institution, rather than being tied if a fund under-performs.

Once invested in your pension, the funds grow free of UK capital gains tax and income tax (tax deducted from dividends cannot be reclaimed).

TAX BENEFITS

There are significant tax benefits. The Government contributes 20 per cent of every

gross contribution you pay – meaning that a £1,000 investment in your SIPP costs you just £800. If you are a higher or additional rate taxpayer, the tax benefits could be even greater. In the above example, higher rate (40 per cent) taxpayers could claim back as much as a further £200 via their tax return. Additional rate (50 per cent) taxpayers could claim back as much as a further £300.

OTHER CONSIDERATIONS

You cannot draw on a SIPP pension before age 55 and you should be mindful of the fact that you'll need to spend time managing your investments. Where investment is made in commercial property, you may also have periods without rental income and, in some cases, the pension fund may need to sell on the property when the market is not at its strongest. Because there may be many transactions moving investments around, the administrative costs are higher than those of a normal pension fund.

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. ■

WE CAN WORK WITH YOU TO DEVELOP A STRATEGY TO HELP YOU BUILD UP THE FUNDS YOU'LL NEED TO ENJOY YOUR RETIREMENT YEARS TO THE FULL. FOR INFORMATION OR TO DISCUSS YOUR REQUIREMENTS, PLEASE CONTACT US.

A pension is a long-term investment. The fund value may fluctuate and can go down as well as up. You may not get back your original investment.

DISCOVER MORE

Taking the right steps to making adequate provision for your future

As your life changes, you'll have different protection requirements. That's where we can help. Your financial planning isn't complete until you assess and address your protection needs. It is important that in committing yourself to any form of protection you take into account the affordability, long term, and therefore the sustainability of the policy.

For many of us, our main concern in life is our family – but could your family support their lifestyle if anything happened to you?

5 REASONS TO PROTECT YOUR FINANCIAL PLAN

- You're diagnosed with a critical illness
- You suffer an accident or illness and are unable to work
- You lose your job
- You want to be treated privately
- You die prematurely

UNDERSTANDING THE PRODUCTS THAT ARE AVAILABLE AND THE SORT OF FINANCIAL ASSISTANCE THEY OFFER IS REASSURINGLY COMFORTING. WE CAN HELP YOU TO MAKE THE RIGHT PROTECTION DECISIONS FOR YOU AND YOUR FAMILY – PLEASE CONTACT US TO DISCUSS YOUR REQUIREMENTS.

Reliable Returns

Alternative complementary asset class

Tax-efficient investments are increasingly being used to complement pensions as part of an overall retirement planning solution. The tax relief provides a reliable return and you are able to access your money after the tax qualification periods, either to reinvest in tax-efficient investments for another round of tax relief, or to invest elsewhere.

Appropriate investors can choose to reinvest the upfront tax relief, either into a Venture Capital Trust (VCT) or Enterprise Investment Scheme (EIS) for further income tax relief or directly into a pension. The net effect is a significant increase to the investor's retirement fund based upon tax relief rather than stock market performance. As with pensions, you can, if appropriate to your particular situation, make investments into VCTs or EISs over many years, providing diversification and access as each investment period is reached.

There are other factors that point to VCT and EIS solutions being useful tools for retirement planning and as part of an overall investment portfolio. Significantly, pension investments are largely subject to income tax as they are drawn down, whereas VCT and EIS solutions are not. Also, while VCT and EIS investments have to be held for a fixed period to qualify for tax relief, after the holding period, you have additional flexibility when compared to pensions.

However, it is crucial not just to consider them in isolation, but as a valid and important part of an overall portfolio. Even compared to Individual Savings Accounts (ISAs) – the mainstay of tax-efficient investing – they offer generous tax reliefs because, not only is growth tax-free, income tax relief is available on investing.

They are often rated higher risk because they invest in smaller unquoted stocks and due to a lack of liquidity – indeed they have to be held for a set period to retain the tax reliefs. Therefore it is vital that they are appropriately weighted within your portfolio.

They also offer an investment solution that is largely uncorrelated to the markets, and therefore a complementary asset class to more traditional pension investments. ■

Information is based on our current understanding of taxation, legislation and regulations. Any levels and bases of, and tax rules and reliefs from taxation are subject to change.

These investments are NOT suitable for everyone as they are higher risk investments.

The investor could lose some or all of their investment. You should seek professional specialist tax and financial advice before taking any course of action.

3 YEARS

Minimum number of years in order to retain the upfront income tax relief for an EIS.

VENTURE CAPITAL TRUST

Investors must retain their VCT shares for five years to retain the up-front income tax relief. Please remember that the tax rules and regulations governing VCTs are subject to change. The tax reliefs available to certain investors in VCTs are dependent on individual circumstances as well as the VCT maintaining HM Revenue & Customs approval. If this approval is withdrawn, a VCT will lose its status and all tax reliefs are likely to be cancelled.

The share price of a VCT may not reflect its net asset value. There is only a limited secondary market for shares in VCTs which may render such shares difficult to sell as they may not be readily marketable. VCTs invest in unquoted and AIM-quoted companies which are therefore smaller and carry a higher level of risk than shares which are listed on the main market of the London Stock Exchange. The shares of VCT investee companies may not be readily marketable. An investment in a VCT should be regarded as a long-term investment.

ENTERPRISE INVESTMENT SCHEME

Investments into an EIS must be retained for a minimum of three years in order to retain the upfront income tax relief. Investments made into EIS qualifying companies, because they are in unquoted companies, are likely to be higher risk than securities listed on the main market of the London Stock Exchange. Investments in shares in unquoted companies are not readily marketable and the timing of any share sales and other such realisation cannot be predicted or controlled. A partial withdrawal of an investment in an approved EIS fund is not permitted. Tax rules and regulations are subject to change, and depend on personal circumstances. Please be aware that investments within an EIS may cease to qualify. In this case, the relief available on that particular investment will be lost.