



**BLACKTOWER FINANCIAL
MANAGEMENT LIMITED**
WEALTH MANAGEMENT ADVISERS
CHARTERED FINANCIAL PLANNERS



It's time to review your tax planning and investments

It won't be too long before we start thinking about longer, warmer days and getting out into our gardens once again. And with spring comes your last opportunity of the financial tax year to contribute to your ISA. Make sure you don't wait until the last minute!

This year it's more important than normal to start the process early. The Chancellor has made several announcements that will have a significant impact on many people. You'll find full details inside but here are the most significant:

- An additional income tax band of 50% for anyone earning more than £150,000.
- Phasing out of the personal allowance for earnings above £100,000.
- Restriction of higher rate relief for pension contributions if your relevant income has been above £130,000 in the last two tax years or in the current tax year.
- Increase in the ISA limit to £10,200 for the current tax year if you were born before 6 April 1960



How will the change affect you?

With so many changes to the tax regime and economic outlook it's essential to take professional advice. We can help to ensure your wealth is working for you as tax efficiently as possible, which may involve other investment strategies. We can check too that you're investing in the correct asset mix for your particular circumstances and attitude to investment risk.

Invest or be cautious?

The UK shares market has bounced back from its low point of a year ago. Other markets around the world have also recovered to a considerable extent. So with cash deposits generally providing relatively low returns, is this the moment to invest more funds in the stock market? Or is it a time to be cautious?

The answer is probably a bit of both. But now, more than ever, it's important to go back to basics and consider why you are investing and how much risk you can afford to take. To achieve better than average growth you may need to venture into new investment markets that aren't constrained by the vast amounts of government debt in the established equity markets.

If you currently hold a substantial proportion of your investments in cash maybe it's time to consider alternatives. We can show you a range of low risk investments that will provide potentially higher returns than cash. They also reduce the risk of inflation eroding the true value of your cash deposits in the current low interest environment.

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The Pre-Budget Report: what the latest tax changes mean for you



The PBR was a balancing act, which introduced additional taxes and spending cuts ...

Mr Darling's third Pre-Budget Report (PBR) was directed at two main audiences. The first was the electorate, which will be considering the Government's fate within the next few months. The second audience consisted of the global investment markets, which, post-Dubai, have become increasingly concerned about countries with large budget deficits.

The PBR was a balancing act, which introduced additional taxes and spending cuts (to please the markets), but – bankers aside – the impact of these deficit-reducing measures was largely deferred until after 2010 (in order to appease voters).

The Chancellor's more important announcements were:

■ **National insurance contributions (NIC)** In 2008, Mr Darling announced a 0.5% increase in all the main rates of NIC from 2011/12 and a rise in the NIC starting point to match the personal allowance threshold (£6,475 in 2010/11).

In December's PBR the Chancellor added *another* 0.5%, so that from April 2011, all NIC rates will rise by 1%. Thus the employers' rate becomes 13.8%, with the main employees' rate 12% on earnings between £5,715 and £43,875 (in 2010/11 terms).

However, the Chancellor also raised the NIC annual starting threshold to £570 above the personal allowance in 2011/12, to avoid the higher rates reducing net income for anyone earning under £20,000 a year.

■ **Restriction of higher rate relief for pension contributions**

The complex anti-forestalling rules introduced in April 2009 to limit higher rate tax relief on pension contributions have now been tightened. If your 'relevant income' for the current or either of the two preceding tax years is at least £130,000 and your total 2009/10 pension contributions from all sources exceed £20,000, you are now potentially within the scope of the special annual allowance charge. The income limit was £150,000, but the PBR cut it to match the ceiling for new rules due to be introduced from 6 April 2011.

A consultation paper on the 2011 rules was published alongside the PBR, and the proposals in it were tougher than had been expected. Because of the involved nature of the changes, if you

may be affected it is important that you take advice before making pension contributions.

■ **Income tax** There were no new changes to the main allowances or tax bands for the coming tax year. However, as previously announced, 2010/11 will see the arrival of a 50% 'additional rate' (at £150,000 of gross income) and the phasing out of the personal allowance above £100,000.

The starting point for higher rate tax in 2012/13 will be frozen at the 2011/12 level, although personal allowances will increase in line with inflation.

■ **Basic state pension** The basic state pension will rise by 2.5% in April 2010 to £97.65 a week for a single person and £156.15 a week for married couples and civil partners. Pension Credit payments will increase by 2%.

■ **Inheritance tax** The nil rate band was frozen at £325,000, even though an increase to £350,000 had been previously announced.

■ **Offshore accounts** There will be a new requirement to notify HM Revenue & Customs when opening a bank account in 'certain countries'. This will have its own penalty regime, raising the potential maximum combined penalty on offshore tax avoidance to 200% of the unpaid tax.

■ **Bank payroll tax** A 'temporary' tax on bonuses of certain employees of banks, banking groups and building societies will be payable by their employers. It will be at a rate of 50% on the excess over £25,000 of any bonus paid between 9 December 2009 and 5 April 2010 (although this period may be extended).

Unsurprisingly, there is a wide range of anti-avoidance provisions, for example, to prevent payment deferral to 6 April or the substitution of short-term loans for bonuses.

The Financial Services Authority does not regulate tax advice.



How confident are you feeling at the moment? Nationwide Building Society's consumer confidence index, based on a survey of 1,000 people conducted between 21 December 2009 and 17 January this year, reveals that the 'expectations index' is up at 107 points (Reuters, 3 February 2010). The 0.1% growth in the British economy over the last three months of 2009 seems to have been enough to lift confidence about the way employment figures, household incomes and the economy generally are going to fare over the next six months. However, with an election, changes to state pensions and at least one Budget due in the next few months, this is no time to be complacent about your financial future.

Tax planning before 5 April is more important than ever

The end of the 2009/10 tax year on 5 April marks the end of an era. The new tax year sees the arrival of a 50% additional rate income tax band and the phasing out of personal allowances if your total income is over £100,000. These changes make the latest round of year-end tax planning more important than usual. Among the factors to consider are:

Use your ISA allowance Your ISA contribution limit in 2009/10 is £10,200 if you were born before 6 April 1960 or £7,200 otherwise. While these are hardly generous ceilings, maximising your ISA is generally a wise move:

- Dividend income is free of UK personal tax and income from fixed-interest securities is free of all UK tax in a stocks & shares ISA.
- Deposit interest is UK tax-free within a cash ISA, although at current interest rates this is not a large tax saving.
- ISAs are free of capital gains tax (CGT).
- There is nothing to report on your tax return.

Although there is no capital gains or income tax on the underlying fund, dividends are received with a 10% tax credit and this cannot be reclaimed by the ISA manager.

By using your ISA allowance each year, you can create a substantial tax-privileged fund over the long term. For example, if you had contributed the maximum since ISAs were launched in April 1999, by now you would have invested at least £77,400. The value of your investment can go down as well as up and you may not get back the full amount you invested.

Don't waste your CGT annual exemption Stock markets around the world have rallied strongly since the end of March 2009. As a result, you may have capital gains that you could realise. Up to £10,100 of gains (not the total proceeds of sale) are exempt from CGT each tax year. However, the exemption cannot be carried forward, so you use it or you lose it. The rate of CGT is at present 18%, but some commentators believe there is a threat it will be increased from this current low in the next Budget.

Pension contributions The value of higher rate relief on pension contributions suddenly became clear when last year's Budget introduced 'anti-forestalling' measures. These could now affect you if your income in this tax year or either of the two previous tax years, is £130,000 or more. Whether or not you are caught by the restrictions, you should review topping up your pension arrangements before this year's Budget – it might contain yet another unwelcome pension surprise.

Inheritance tax (IHT) Your annual IHT exemptions offer a simple way to reduce the impact of this tax. Usually the £3,000 annual exemption is the most valuable, although this may not be the case if you have substantial surplus income. The £3,000 exemption can be carried forward, but only to the next tax year (2010/11) and then can only be used once the 2010/11 exemption has been exhausted. If you and your partner have not made any gifts since 6 April 2008, you could now jointly give away £12,000 free of IHT in 2009/10.

Bring forward income If you are likely to become a 50% taxpayer or find your personal allowance reduced, it could make sense to bring forward income into the current tax year. For example, you could close and re-open deposit accounts to crystallise interest that would otherwise be payable after 5 April. If you are a company owner, you could pay yourself an early dividend or bring forward a bonus payment. You would pay the tax sooner, but at a lower rate.

The value of tax reliefs depends on your individual circumstances and tax laws can change. The Financial Services Authority does not regulate tax advice.



Big changes to the state pension kick in

Important changes to state pensions begin in April this year. They mark the culmination of a reform process that started in the mid-1990s and was reworked following the Pensions Commission reports of the mid-2000s.

The main changes starting to take effect from 6 April 2010 are:

State pension age (SPA) The SPA for women will start to rise from 60 to 65, bringing it into line with the current male SPA. The transition to 65 is spread over ten years to April 2020. Its net effect is that if you are a woman born after 5 April 1960, you will start to receive your state pension later than age 60.

This equalisation exercise is only the first stage of SPA increases. Between April 2024 and April 2026, another year will be added to the SPA generally and the process will be repeated in 2034/36 and 2044/46, by which time the SPA will be 68.

Although the main impact of the SPA change between 2010 and 2020 is on women, it will also affect men. Some benefits that are generally thought of as payable from age 60 are in fact payable from women's SPA, for example the £250 winter fuel payment and Pension Credit. As a result their minimum eligibility age will start rising from April. The Pre-Budget Report announced an extension of this SPA entitlement approach to concessionary travel and free prescriptions.

Basic state pension From 6 April 2010, you will need only 30 'qualifying years' of national insurance contributions (NICs) (or appropriate credits) to be entitled to a full basic state pension. At present the requirement is 44 years for a man or 39 years for a woman. April 2010 will also see the end of the rule which denies you *any* basic state pension if you do not have a contribution record covering at least 25% of the period for a full pension entitlement: each qualifying year will give you 1/30th of the full pension.

The adult dependency increase (ADI) to the basic state pension (worth up to £57.05 a week in 2009/10), which is generally paid to a husband if he has a financially dependent wife under the SPA, will be scrapped from 6 April 2010. However, any ADI in payment



before that date can continue until April 2020 or until the wife reaches the SPA, if earlier.

State second pension (S2P) The structure of the S2P started to change last year, when the upper level of earnings on which the pension accrues was frozen at £770 a week (£40,040 a year). This freeze is due to continue until S2P eventually becomes a flat rate pension scheme in 2031/32.

From April 2010 the amount of S2P which you accrue each tax year will be reduced if you earn more than £31,800 (in 2009/10 terms). There will be a corresponding reduction in the amount of personal pension contracting out rebates.

The changes to state pension provision are of most benefit to low earners and people with patchy contribution records. Higher earners are effectively meeting the costs of the improvements through a reduction in S2P benefits (or contracting out rebates) and increases in NICs.

These reforms do not mean that you can dispense with private pension provision, unless your goal for retirement is to live on the breadline. The Government has recognised the pension shortfall and is introducing a quasi-compulsory employee pension plan, the National Employment Savings Trust, or NEST (previously known as Personal Accounts), the first stage of which is due to start in October 2012.



Did you know that while large bonuses for bankers have been grabbing the headlines, another, distinctly less exciting, annual bonus ritual has been taking place? Life companies have been declaring with profits bonus rates. Many of the companies involved are either no longer open to new business or write very little new with profits business. In both cases the incentive to compete is absent, something which can show through in the bonus rates declared. If you have with profits policies which are producing disappointing returns, why not ask us to review them? You can then decide whether it is worth waiting for next year's bonus declaration.

Inflation: how you can protect investments

The inflationary threat to the value of savings is always lurking in the background. The rate of inflation has swung up and down massively in recent times, so how should inflation protection be incorporated into your savings?

Up, down, up again ...

A year ago, investors could be forgiven for feeling a sense of panic over inflation. The UK's key measure of price increases, the Consumer Price Index (CPI), had struck an annual 5.2%, the fastest pace of price increases for more than 15 years. Since then, though, it has eased and had moderated to just 1.5% in October 2009. What's going on? Has inflation slipped out of the Bank of England's (BoE) control?

The Office for National Statistics, which compiles the UK's economic data, has all the answers, but essentially there was a surge in fuel, food and other commodity prices in 2008 which has now moderated. Indeed, 1.5% is a low rate for the UK on a historic basis. The BoE targets 2% as an ideal rate for the nation's economy.

Where now?

Setting 2008 aside, the BoE has an excellent record of keeping inflation in check. Since being given independence from government interference in 1997, it has been very successful at keeping CPI close to 2%.

In the most recent bulletin on the state of UK price stability, the BoE's 4 November 2009 Inflation Report, the central bank said that while there are some downward pressures on prices, these will ebb as the economy picks up, leaving 2% as its anticipated medium-term rate. Assuming a rate of 2% is a good place for savers to start, though even the BoE admits that the extent to which inflation will deviate from 2% is 'highly uncertain'.

But what does that 2% mean?

Inflation measures how much prices are rising, but from an investor's point of view, it's far more important to consider what that means for your savings. Essentially, the presence of inflation means the same amount of money can buy less each year – unless you are making annual returns that are higher than inflation, you are effectively losing money.

Even once you are getting a return that is greater than inflation, rising prices are still eroding the value of your returns. Simply put, if your investments are making 5% a year, but inflation is 2%, you are making 'real' returns of only 3% a year. Over the long term, that makes a huge difference to the buying power of your nest egg.

Inflation-linked returns?

There are plenty of savings products available that are linked to inflation, such as the government's index-linked bonds. Traditional assets such as stocks do, on average, yield substantially more than inflation when their long-term returns are considered. While recent volatility has meant returns in the past decade have been below average, typically stock returns are at their best in the years



following a substantial pullback. That data indicates that now could be a good time to get into stocks to beat inflation in the years ahead.

Don't panic, but keep a watch on inflation

Inflation is a constant drain on the value of your savings. Whenever you make forecasts of how much money your investments can make, it's important to incorporate an inflation adjustment into the numbers. Don't panic though – on a long-term horizon, traditional investments such as stocks have shown that they can offer returns that more than compensate for higher prices.

Income protection: for when the going gets tough

Corus in Teeside, Flyglobespan in Edinburgh and Lloyds Bank in Brighton may be unrelated businesses in different parts of the UK but they have one thing in common: all are making job cuts.

The most recent Government statistics show that total unemployment in the UK increased by 21,000 to 2.49 million, the highest level since early 1995. The UK's unemployment rate has now reached a 13-year high of 7.9%.

Some people will bounce back but others won't be so lucky. There are 1.31 million people who have been unemployed for up to six months, and worryingly those who were unemployed for more than 12 months increased by 49,000 over the quarter to reach 620,000, the highest figure since the three months to November 1997.

Unemployment is a grave concern for most people, but the adverse publicity about payment protection insurance (PPI) could lead some consumers to think that the cover is poor value and not worth having. Income protection insurance may be an alternative, although in the current economic climate adding unemployment cover might be a good idea. Depending on the policy, this can pay up to retirement age.

Surprisingly, there is low take up (based on December 2008 research, Scottish Provident calculates that just 9% of people have income protection insurance), but this may be in part due to low awareness and perceived complexity.

The website Which? has claimed that this product is a 'potentially much better alternative to PPI' for individuals (3 February 2010). For employers, group income protection helps ensure that staff not only receive claims payments, but could benefit from 'back to work



support', by increasing the chances that employees will return when able to.

Providers have been more innovative in recent years, launching products which offer greater flexibility and at lower rates for restricted terms. There is always a risk of sustaining an injury or contracting an illness that means having to stop work – and job security can never be guaranteed. It's time to take cover.

Child Trust Fund to end?

Child Trust Funds (CTFs), which finally came into being in April 2004, may not be around for much longer. The Government provides a £250 CTF voucher for each child at birth and a further payment at age seven, with the amounts doubled for low income families. A CTF can be topped up by parents, relations or friends, up to a maximum of £1,200 a year (based on the child's date of birth, not the tax year).

A CTF enjoys similar tax benefits to an ISA: no UK income tax on income and no capital gains tax on profits. Despite these attractions – and the 'free money' aspect – according to the Child Trust Fund

Statistical Report (4 November 2009), CTFs have not been a great success. The latest statistics show that just over a quarter (26%) of parents who received CTF vouchers on their child's birth left HMRC to open their child's CTF by default. The average addition is under £300 a year.

Tight Government finances and public apathy prompted the Institute for Fiscal Studies to suggest in September last year that the CTF should be axed, saving £500 million a year. It could therefore make sense to top up your child's – or grandchild's – CTF now, while you still can.



Did you know that company car benefit scales are changing from April, with the main CO₂ threshold falling by 5g/km to 130g/km for 2010/11? For 2011/12 there will be another 5g/km cut and the £80,000 list price cap will be abolished. Unless you have a low emission car (120g/km or below), the effect of these changes will usually be to increase the taxable value of your car by 1% of its original list price every year. For example, if your company car had a list price of £25,000, the amount on which you will pay income tax will typically rise by £250 in each of the next two tax years.

Insuring your key people

All companies are likely to have some key individuals on their staff whose loss could jeopardise the business. These people, from venerable board members with reputations that acquire new business or visionary IT specialists, are vital to the well being of a company – either in keeping up day-to-day efficiency or in terms of growing the business.

Key personnel insurance (KPI) typically remunerates you if these employees die or suffer from a serious illness. Policies are usually highly tailored, rather than 'off-the-shelf', and can be quite complex. It is therefore vital to take professional advice before purchasing a KPI policy in order to ensure that the cover is both appropriate and adequate.

When considering such a policy, there are some key things to account for:

- **Company size** Smaller companies are quite simply more vulnerable. Moreover, there are fewer employees to pick up the slack.
- **One-person projects or teams** If your company typically has a single person covering a task or project, they will be a more serious loss. Critical knowledge can be lost in terms of technology, processes or relationship management.
- **Tough to train** How do you train staff? 'On the job' training is fine if there is an opportunity to manage the transition, but if a crucial staff member is suddenly absent there is additional

disruption because someone else now has to take over their training duties.

■ Do contracts name individual staff?

Key employees are often involved in finalising contracts, or named on overdraft facilities. Will important deals be invalidated, or cash flow interrupted, by their loss?



What's not covered?

Insurance can only cover so much, and it won't help if an employee chooses not to renew their contract or their personal circumstances make it impossible for them to stay. It also won't cover you if an employee acts in such a way that you have to dismiss them.

No substitute

Insurance is no replacement for good planning, particularly when it comes to succession issues. If you do decide that KPI is right for you, make sure the policy you pick covers major costs, such as reduced short-term profits, recruitment and training, and loss of company value.

Trends in the housing market

This year is set to bring substantial changes to the housing market, which could include the removal of the zero rate stamp duty band and higher interest rates. UK real estate has been floundering, despite government intervention.

Prices remain depressed, and key surveys disagree on whether they are rising again. Rightmove reported a 2.2% drop in prices in December 2009, a sharp contrast to the 1.3% gain reported by Halifax in November 2009 and the 0.5% rise announced by Nationwide. Mortgage approvals, though, give a clearer indication that the tide has turned: according to official Bank of England figures, the number of approved mortgages increased, on a

seasonally adjusted basis, for the 12th successive month in November 2009.

The Government's attempts to revitalise the market included lowering interest rates to a record 0.5% and slicing stamp duty off homes costing below £175,000. This latter measure, introduced in September 2008, expired at the end of 2009.

Low prices, cheap borrowing costs and stamp duty benefits made 2009 a good time to buy as long as you were in a position to purchase the property you wanted. However, some of those buyer's advantages are unlikely to last, so if you are looking to invest now it might be a good idea to lock in your interest rate for as long as possible.



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