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MoneyMatters

February 2010

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Pre-Budget Report

The announcements

Economy

Borrowing This year Government borrowing will rise to £178 billion, up from an earlier forecast of £175 billion, and to £176 billion next year. It will then halve over the following four years to £82 billion by 2014-15.

Inflation Consumer price index inflation is forecast to rise from 1.5 per cent to about 3 per cent next year. The Chancellor says the Bank of England expects inflation to be at 1.5 per cent by the end of the year, 0.5 per cent below target.

Bank bailout The Chancellor cuts provision for banking losses to £10 billion from £50 billion.

Taxes

Bank bonuses A 50 per cent tax on bonuses above £25,000 is to be introduced immediately and is expected to raise £550 million. No windfall tax will be imposed on banks.

National insurance contributions
Rates are to rise by 0.5 per cent from 2011 but no one earning less than £20,000 will be affected by the changes. This NIC increase will raise £3 billion by 2011-12.

Inheritance tax Frozen at £325,000 until 2011, suspending the planned increase to £350,000.

Income tax The point at which people start paying income tax at 40 per cent will be frozen for one year from April 2012.

Corporation tax A 1p increase in corporation tax for small businesses will be deferred.

Value added tax VAT returned to 17.5 per cent in January, from 15 per cent.

Jobs, education and training

Youth employment A guaranteed place for every 16 and 17-year-old in education or training is to be available in 2010. From January, no one under 24 need be unemployed for longer than six months, down from 12 months, before being guaranteed work or training.

Students The Government is to offer financial support for 10,000 undergraduates from poor backgrounds to take up apprenticeships in industry and the professions.

Over 50s There is to be Government support for people out of work and aged over 50. The minimum number of hours that people over 65 need to work to receive working tax credits will be reduced.

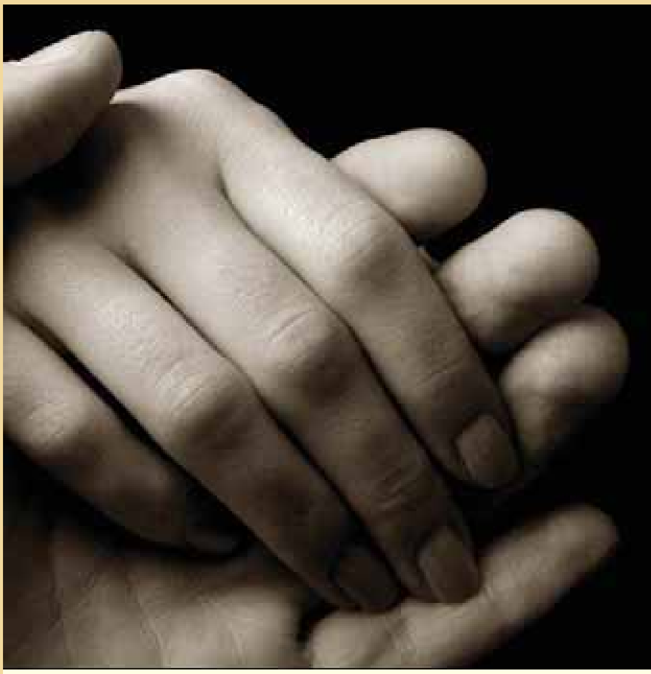
Unemployed Support for mortgage interest payments for the unemployed is to be extended by six months.

Pension and child benefit

The basic State pension will rise by 2.5 per cent by April, a real-terms increase of nearly 4 per cent.

Child and some disability benefits will rise by 1.5 per cent in April.

Levels and bases of, and reliefs from, taxation are subject to change.



Long Term Care

How to financially prepare for the future

Realising that a loved one is no longer capable of living independently can be upsetting, without the added thought of having to sacrifice all their assets to pay for care-home fees, which can on average, rise by around 10 per cent per year.

The average cost of a care-home place is between £25,000 and £35,000 a year, and the average length of stay for those self-funding their care is around four years, significantly higher than the overall average length of two years.

Here are five ways to help you plan for long-term care.

1. Using ISAs

The over-50s received a boost this year when their annual individual savings account (ISA) allowance increased by £3,000. Those who turn 50 before April 6, 2010 may now deposit £10,200 a year tax free. Of this, up to £5,100 may be held in cash. The over-50s have been hit by the Bank Rate of just 0.5 per cent, so taking advantage of the increased tax-free allowance is recommended.

2. Insurance bonds

Insurance bonds are sold by life insurance companies and allow you to invest in a variety of managed funds. They are normally designed to produce long term capital growth, but can also be used to generate an income. Once you have invested in an insurance bond, you may withdraw up to 5 per cent per year, until the initial investment is exhausted, and have tax on this income deferred until the bond is encashed.

3. Care annuities

Immediate-needs annuities provide a guaranteed income for life in exchange for a lump-sum investment, which is forfeited on death. As long as the annuity is paid directly to the care home, it is free of tax. It may be possible to protect the unused fund but this reduces the annuity available.

Care homes often prioritise people with immediate-needs annuities because of the guarantee that fees will be paid.

The poorer your health is, the better the rate you can expect to be paid. If you are very ill and are unlikely to live for more than a few years, a lump sum of £80,000 to £90,000 could buy an annuity income of approximately £25,000 to £30,000 per year.

4. Trusts

A loan trust can be used to fund long-term care, with the added benefit of reducing inheritance tax on your estate. Initial investment remains in the clients estate but any growth is outside of their estate from the outset and belongs to the beneficiary.

The individual may not benefit from the trust by law but they can have the loan repaid, typically at 5 per cent per year, which can then be used to pay for care fees. The trustees can invest the capital with the aim that it grows in value outside the individual's estate.

5. Equity release

Most elderly people have significant equity in their homes or on going into residential care. Equity-release schemes are loans against the value of your home, with interest deferred until the property is sold, normally on death.

Most lifetime mortgage schemes will allow you to borrow between 20 per cent and 45 per cent of the property's value. This means your property doesn't need to be sold to raise funds for care-home fees, and can still benefit if the housing market gains value.

This is a lifetime mortgage scheme. To understand the features and risks, ask for a personalised illustration.

Levels and bases of, and reliefs from, taxation are subject to change

ISA deadline approaching

There are new overall annual investment limits from £7,200 a year to £10,200 a year to take effect as of 6 April 2010 for all ISA Investors; anyone over the age of 50 saw this rule change implemented as of 6 October last year.

£5,100 of this total can now be invested into a cash ISA or, you can invest the entire total in equities, or divide equally your overall allowance into the two types.

You can also transfer previous years' cash ISA savings into equities without affecting your yearly limit.

Why have an ISA?

ISAs are tax efficient and flexible. The tax advantages mean that any income or capital gains you earn on your savings is entirely yours and does not have to be declared on your tax return.

Types

There are two types of ISA; cash ISA's and a stocks and shares ISA. Savers can invest their money in two ways: Cash, by way of special bank and building society accounts and Stocks and Shares by way of Unit trusts, OEICS and Investment Trusts.

Can I Save?

If you pay tax at the basic rate, usually outside an ISA, you would pay 20 per cent tax (2009-10) on your savings interest.

If you pay tax at the higher rate, usually outside an ISA, you would pay tax at 40 per cent on your savings interest.

If you pay the 'saving rate' of tax for savings, usually outside an ISA, you would pay tax at 10 per cent on your savings interest.

If you're a basic rate taxpayer, inside or outside an ISA, you pay tax at 10 per cent on any income from dividends; this is taken as a 'tax credit' before you receive the dividend.

If you're a higher rate taxpayer you would normally pay tax on dividend income at 32.5 per cent; in an ISA you won't receive the 10 per cent dividend tax credit element of this, but you will save by not having to pay anything in addition.

If you make gains of more than £10,100 from the sale of shares and certain other assets in the tax year 2009-10, you would normally have to pay CGT. However, you do not have to pay any CGT on gains from an ISA.

Benefits of a cash ISA

Everyone has the need for savings in a cash account which has easy access. Also the interest rates paid on ISAs are typically higher than the average savings account. You can withdraw money at any time as many are instant access accounts.

Stocks and Shares ISA

Stocks and shares ISAs are often recommended as a way of boosting retirement savings in a tax efficient manner, and can be used later to generate a tax-free income to supplement a pension.

Is it worthwhile holding a shares ISA?

There is no immediate tax advantage for basic-rate taxpayers, but higher- rate taxpayers benefit because they avoid the extra tax payable on dividends received outside ISAs. Basic-rate taxpayers still gain a tax advantage if they invest in corporate bond funds because the 20 per cent tax on the interest can be reclaimed. They also benefit from having no Capital Gains Tax to pay should the value of their investments rise.

Shop around

Interest rates on cash ISAs can vary considerably so it is worth shopping around. If you want a stocks and shares ISA, these can differ far more than cash ISA's, so it is worth seeking advice especially if you are not sure what type of stocks and shares ISA you require.

Transfer out of a poor ISA

If you have a cash ISA that is now paying a poor rate of interest, or a stocks and shares ISA that has not been performing well, you can transfer your money without any loss of tax concessions, providing the transfer is arranged by the new fund manager.

Don't miss out

With the higher allowances soon coming into force, it is vital you make full use of your tax-free savings allowance each and every year and gain as much from your savings as possible.

Levels and bases of, and reliefs from, taxation are subject to change.

The value of your investment and the income from it can go down as well as up and you may not get back a significant proportion of your investment. Past performance is not an indication of future performance. Please contact us for further information or if you are in any doubt as to the suitability of an investment.

Essential rules of investing

Improve your chance of a celebration

Investing your own money can be a head ache, it can also be complicated and potentially dangerous. Just one slip in the dicey world of stocks and shares can prove very costly. So here we offer a survival guide on how to profit in the investment maze.

1) Remember that if it looks too good to be true - it probably is.
2) A key point is always buy low; sell high.
3) Don't always chase performance. If you like a stock or fund, buy on the dips.
4) Allow your profits to roll up and don't be in too much of a hurry to kiss goodbye to your best-performing investments.
5) Cut your losses before they become excessive.
6) Never get too attached to a share or a fund.
7) Don't speculate, invest. In general, think long-term.
8) Review your portfolio regularly. You need to check that your portfolio is well balanced.
9) Reinvest your dividends. The power of compounding your reinvested share or fund dividends makes a big difference to your overall return.
10) Don't put all your eggs in one basket. Many stock portfolios have been lost this way.
11) Although it makes sense to hold shares for the long term you don't necessarily want to hold them forever. Timing is important.
12) Make sure you spend as much time thinking about selling shares as you do about buying them. Many investors neglect this vital discipline.
13) Make good use of tax-privileged investment vehicles such as pensions and Individual Savings Accounts (ISAs).
14) Invest in what you know and understand.
15) Always ask 'what if' questions. In the late 1990s many investors bought supposedly 'low risk' savings products linked to the performance of the stock market. Few asked what would happen if the stock market fell off a cliff, as it did from 2000 onwards, slashing the value of the so-called 'precipice bonds'.
16) Make tough decisions. If you bought a stock for 250p and it's now languishing at 50p, don't hold on to it indefinitely in the belief that it's bound to recover to 250p - it may never do so!
17) Don't be afraid to go against the flow. Some of the most successful investors are those that chose for themselves.
18) Don't be influenced by special offers such as the discounts sometimes advertised by fund groups for purchasing funds within a specific time. It is better to buy the right fund than get the wrong fund cheap.
19) Ignore stock market tips, many are given after the event.
20) Beware; don't get too carried away by investment euphoria, whether for stocks and shares or bricks and mortar, nothing goes up for ever.

Levels and bases of, and reliefs from, taxation are subject to change.

Are you ready?

For the 2012 Pension Reform

Pensions Reform is a package of state and private pension changes to be introduced in 2012 that will completely change the pension industry in the UK....

Employers will have new responsibilities to contribute to their employee's pension plans, and this will have a big impact on all businesses.

The overall aim of the government's pension reform is to get more people saving more for retirement, whether through good existing schemes or through a new 'personal accounts*' pension scheme. The personal accounts delivery authority (PADA) is currently designing the personal accounts scheme to help low to medium earning employees save for their retirement if they don't have access to a good quality employer-sponsored pension.

All employers in the UK other than single-person companies, whether they have one member of staff or thousands, will need to take action to comply with their new responsibilities under the pensions reform.

** it may be called something other than personal accounts by 2012 but presently the government haven't decided for certain.*

Key Points

The Pensions Act 2008 sets out the new pension responsibilities for employers from 2012 and sets out the establishment of the new personal accounts scheme, which is effectively a national pension scheme.

- Employers will have to automatically enrol all their eligible workers who are aged between 22 and state pension age, earning between £5,035* and £33,500* (*in 2006 terms) and not already members of a quality scheme into either an existing 'qualifying' workplace scheme or the new personal accounts scheme.
- Employees can opt out of the pension scheme if they want to. But if they choose to stay, the employer will have to pay a pension contribution of at least 3 per cent of the jobholder's 'qualifying earnings' into either the qualifying scheme or the personal accounts scheme.
- Employees will also have to contribute at least 5 per cent of qualifying earnings. These contributions will probably be phased in over a 3 year period.
- Qualifying earnings is defined as a basic gross earnings plus any bonus, commission, overtime, shift allowances and statutory payments such as statutory sick pay and statutory maternity pay.
- Employers who offer a 'qualifying scheme' won't have to contribute to the personal accounts scheme, but their contribution should at least match the minimum level.

What do employers need to know?

We have listed what you should be thinking about if you already have an existing scheme in place:

- Will your existing scheme meet all the qualifying and automatic enrolment criteria?
- If not, what changes will you need to make? For example, will contributions increase?
- Can you use the existing scheme, the personal account scheme or both? Which is easier?
- How much will the new responsibilities cost?
- Do you want to phase in contributions?
- Should you consider starting a pension campaign to increase pension scheme take up?

You don't currently have a pension scheme for your employees:

- Which is best: set up a private pension with a pension provider or use the new personal account scheme?
- Do you have recruitment plans beyond 2012? If so, have you thought about amortized extra pension contribution costs?
- Are you prepared to pay more than the minimum employer contribution rate of 3 per cent of qualifying earnings?
- Have you worked out how much overall this will cost?
- Do you want to phase in contributions now or wait until 2012?

Levels and bases of, and reliefs from, taxation are subject to change.

This article is based on our current understanding of the proposals for Personal Accounts, and there is no guarantee that the legislation will go through in this form

2010 Protection Review

Do you have the necessary coverage?

As we enter into a New Year; a primary time for reflection, it could be considered an ideal opportunity to re-examine your personal finances – especially the protection of your own future, should the unforeseen occur. With many variants of insurances available, it can be difficult to determine the most appropriate for you. Here we consider your options:

1. Critical Illness Insurance:

If you are diagnosed as having one of the specific life-threatening conditions denoted in the policy, critical illness insurance will pay out a tax-free lump sum. There are a number of illnesses and definitions, set out by industry guidelines, which this type of insurance must cover; these include a severe heart attack or stroke and an aggressive form of cancer.

Most policies do however cover many other conditions on top of these. You can also combine critical illness insurance with life insurance, depending on your own requirements; these policies will pay out if you are diagnosed with a critical illness or in the eventuality of your death, whichever the first to occur.

2. Income-Protection Insurance:

If you become ill or suffer a disability leaving you unable to work, income protection insurance is designed to replace part of your lost earnings in order to fill the void. Depending on the policy you choose, income protection insurance will provide you with a monthly payment of 50-60 per cent of your usual earnings, tax-free. This will customarily continue until you either return to work or reach retirement.

Some policies may also offer a "partial" or "rehabilitation" payment if you are able to return to your previous job although in a reduced capacity – i.e. part time, this however will only be for a limited period. A number of chosen policies will also agree to make a "proportionate" payment which tops-up earnings should you return to full-time employment within a lower paid role.

3. Life Insurance:

In the unfortunate event of your premature death, life insurance boosts your dependants ability to cope financially in your absence. Life insurance falls into one of two types; "term assurance" and "whole-of-life" – however there are many variations within these two categories;

a. Term Assurance:

This is the most simple form of life insurance which pays out a lump sum in the event of your death in a specified period of time for a fixed rate premium. Term assurance is usually purchased along with a mortgage, and frequently taken out for the same duration. There are several sub-categories of term assurance:

- *Level Term:* in the event of premature death, this pays out the same sum regardless of when the policy commenced.
- *Decreasing term:* this decreases the potential payout by a fixed amount each year until reaching zero at the end of the term.
- *Increasing term:* this increases the potential payout by a certain amount each year for the duration of the term.
- *Convertible term:* this provides you with the ability to switch to another type of life insurance in the future should you wish to.
- *Family income benefit:* this, instead of paying one lump sum, pays dependants by instalments from the date of death until the end of the agreed policy.

b. Whole-of-Life Insurance:

This is a policy which remains in force your whole life, meaning that whenever you should die, there is a guaranteed payout to your dependants. There are different forms of this insurance; some offer a set payout from the start, whilst others link to investments and the payout is dependent on performance. The terms and conditions of whole-of-life insurance policies vary, so make sure you understand the scope of the cover being offered before making a commitment.

When it comes to insurance it is always worth seeking professional financial advice. An advisor should help you decipher the level of cover you individually require, the duration of the appropriate policy and whether or not to consider a combination of insurance such as waiver of premium.

It is also vital that whenever you apply for any type of insurance, you provide full and accurate information – a failure to disclose "material facts" can result in future claims being declined.

Levels and bases of, and reliefs from, taxation are subject to change.

Make a GREEN house Resolution

Tax breaks for the energy efficient landlord

The Energy Saving Trust (EST) has called on the Government to prevent owners of poorly insulated homes from selling or renting them until energy efficiency improvements are made. The EST, the Government's energy advisory body, added that 5.5 million homes in the lowest two bands for energy performance should be subject to higher council tax bills and additional stamp duty.

Improving energy efficiency of the UK's housing stock has been on the Government's agenda for a number of years, but adopting these radical measures would represent a significant change in its approach, and one that could be costly to landlords.

The EST estimates that 15 per cent of the homes in bands F and G could be made fit for sale by an improvement cost of as much as £10,000, but owners of the remaining 85 per cent face paying as little as £5,000 to bring their property up to scratch.

Landlords need to be convinced of the benefits of some of the Government energy efficiency measures, such as Energy Performance Certificates (EPCs). It became a legal requirement for landlords marketing their property for rent after 1 October 2008 to make an EPC available for prospective tenants, however, landlords are questioning their effectiveness.

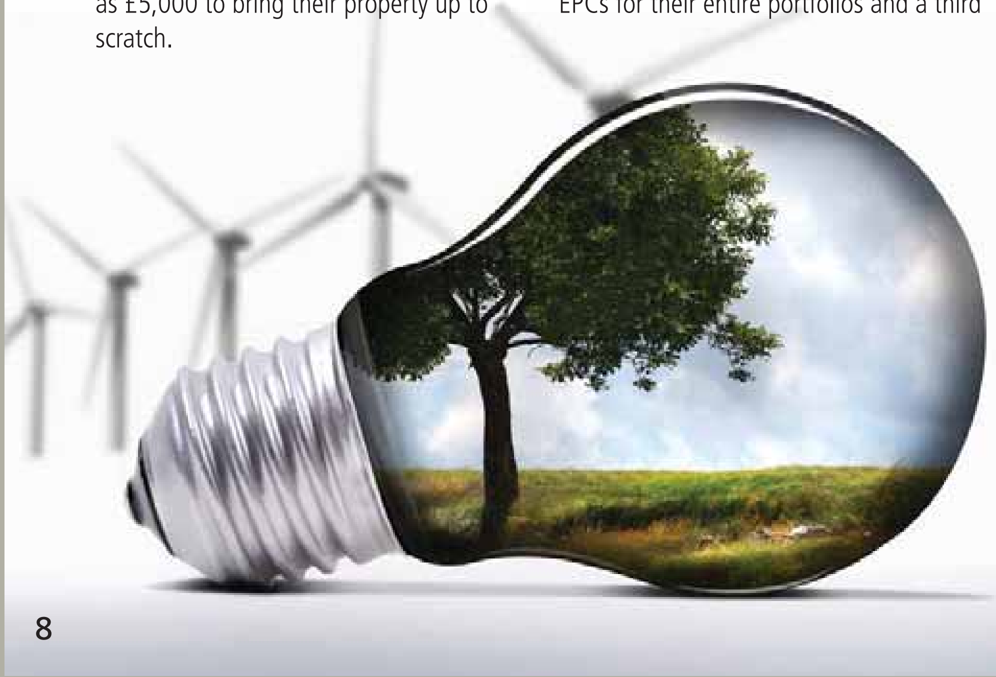
The National Landlords Association (NLA) has said landlords calling its Advice Line are claiming that tenants are ignoring the information contained in EPCs. It seems many landlords are left wondering about the effectiveness of an EPC. What has become apparent is that tenants don't seem to be interested in them, or use them as a deciding factor in choosing a rental property.

Landlords still have to comply with the law. However, it is estimated that only two out of ten landlords have so far obtained EPCs for their entire portfolios and a third have not yet obtained an EPC for any of their properties.

Failure to comply could result in the landlord being unable to market the property and a £200 fine. However, whilst landlords have been slow to obtain EPCs, it doesn't mean they have neglected the energy efficiency of their properties. Around two thirds of landlords have installed double glazing in investment properties they have purchased, while over half (55 per cent) have installed a new boiler. Meanwhile, 40 per cent have installed insulation and two out of ten have lagged pipes.

The good news for landlords is that they can reduce their tax bill if they carry out energy improvement work on a property. The Landlord Energy Saving Allowance (LESA) allows landlords to claim £1,500 against tax each year for property improvements, including insulating lofts, walls and floors, in addition to draught-proofing and hot water insulating.

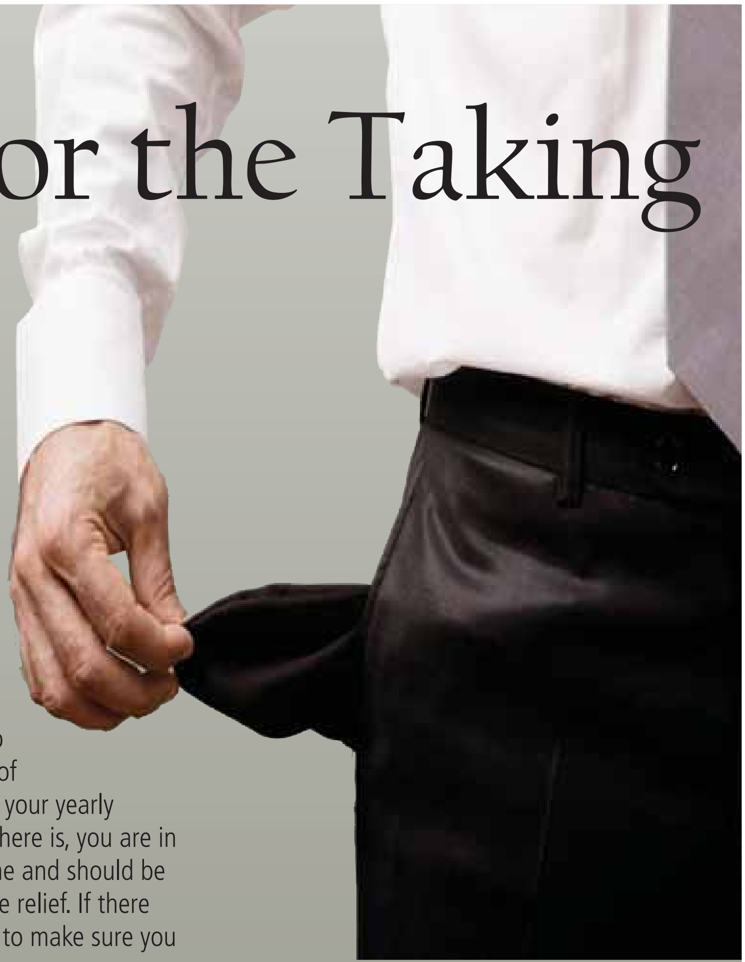
The allowance is available for each property a landlord lets, so this could represent a significant tax saving for landlords with sizable portfolios. There are plans to withdraw the LESA with effect from 2015, to find out more information on the LESA, visit www.direct.gov.uk/en/HomeAndCommunity.



Levels and bases of, and reliefs from, taxation are subject to change.

Pension Tax for the Taking

Claim back what's rightfully yours



Under some pension schemes it falls on higher rate taxpayers to claim their tax relief, but many don't realise they are failing to recoup thousands.

Around a quarter of a million higher rate taxpayers are missing out on tax relief of 20 per cent of pension contributions because they think their employer is already claiming it for them.

Employees in final salary schemes or occupational money purchase schemes, which have boards of trustees, receive their higher rate tax relief automatically. But people in group stakeholder schemes or group personal pensions (GPPs) have to claim back their higher rate tax themselves.

It costs someone in an occupational scheme £600 to get £1,000 in their pension scheme. Those in group stakeholder pensions or GPPs on the other hand have to pay in £800 to get a £1,000 credit in their pot, then have to claim back the other £200 from HMRC. Those in group stakeholder pensions and GPPs who are not reclaiming their higher rate relief are paying a third more for the same pension.

The simple way to find out what sort of scheme you are in is to see if there is a board of trustees mentioned on your yearly pension statement. If there is, you are in an occupational scheme and should be getting your higher rate relief. If there isn't, it is down to you to make sure you do.

These pensions are treated differently because of a legal technicality relating to the way the plans are set up. Even with group stakeholder plans and GPPs being offered through the workplace, they are treated by HM Revenue & Customs as individual personal pensions, thereby HMRC requires the individual to file a tax return in person or get their tax code changed as if they were paying into a personal pension they had taken out themselves.

Getting your higher rate tax back is pretty straightforward. You can get the tax back if you complete a tax return. Simply write to your local tax office notifying them of your situation. They will then continue to adjust your tax levy to account for your pension contribution. Remember, if you get a pay rise, and your pension contribution goes up as a result, you need to let them know. Otherwise they will continue to give you relief based on your previous pension contributions.

You can claim up to six years of relief back by making a backdated claim. You are entitled to make a claim going back up to 5 years and 10 months after the end of the year to which the claim relates.

Levels and bases of, and reliefs from, taxation are subject to change.

The rebate: How does it work?

- Simon and Steven both earn £60,000 a year and pay 10 per cent of their salaries into their workplace pension.
- Simon is in an occupational scheme. His £6,000 annual contribution is deducted from his salary before tax is calculated so the net cost to him is only £3,600.
- Steven is in a group-personal pension. He pays in a net contribution of £4,800, which is automatically grossed up to £6,000.
- Steven finds out that he has been missing out on his higher-rate tax relief for eight years. He discovers he is entitled to a tax rebate of £1,200 each year, which is paid outside the pension. This makes his gross contribution each year £3,600.
- He makes a backdated claim to HM Revenue & Customs and is able to claim back for six previous tax years. He recoups a backdated rebate of 6 x £1,200 = £7,200.

No time like the present

Start planning your retirement NOW

In your 20s and 30s

Delaying the start of your pension savings could put a large dent in your retirement fund.

If you start saving £150 per month when you are 25, you could end up with a fund worth £395,000 (assuming annual growth of 7 per cent). But if you leave it another five years, your fund would only be worth £270,000. Source: Telegraph. Nov 2009

Retirement may seem a long way off, but the reality is that if you hope to save a fund large enough to provide you with an income equivalent to two-thirds of your final salary it is a good idea to start saving as early as possible.

Consider an ISA to save while your earnings are lower, and to transfer savings to a pension once you qualify for higher rates of tax relief, when more of your financial commitments are behind you. You can afford to take more risk with your investments at this stage as you have more time to make up any losses on the way. Try to take the emotion out of it. Now is a good time to invest if you think the stock market will be higher in 10 years time than it is now.

Consider using your age as a yardstick. If you are 30, then have 70 per cent of your investments in equities, and the rest in cash or lower-risk fixed-interest investments, such as gilts and bonds.

In your 40s

Your 40s is "the golden decade" when it comes to retirement planning as you are likely to be at the height of your earnings. This is when you should be putting as much as possible into your pension. Your contributions still have time to grow and the expenses of a mortgage plus small children are starting to fall away.

This may mean that you can lock up assets, so consider switching ISA holdings to pensions to benefit from your higher rate of tax relief. Everyone can save up to 100 per cent of their income or £245,000, whichever is lower each year.

In your 50s

Many people will be coming to the end of a mortgage and children are leaving home. Now is the time to get smart with your investment strategy. The final decade before retirement is often the most important from an investment perspective.

You could consider building even greater levels of diversification into your retirement funds, with around half of your money in non-equity assets. These could be cash deposits, bonds, or other fixed-interest securities such as Government gilts.

In your 60s

Start reducing risk more significantly in your 60s. You will need to decide whether you need to secure a fixed income, or if you can withstand any investment volatility after you have retired.

If you need certainty now, you may wish to buy an annuity with your pension savings, although you do have the option to take 25 per cent of your pension fund as a tax-free lump sum.

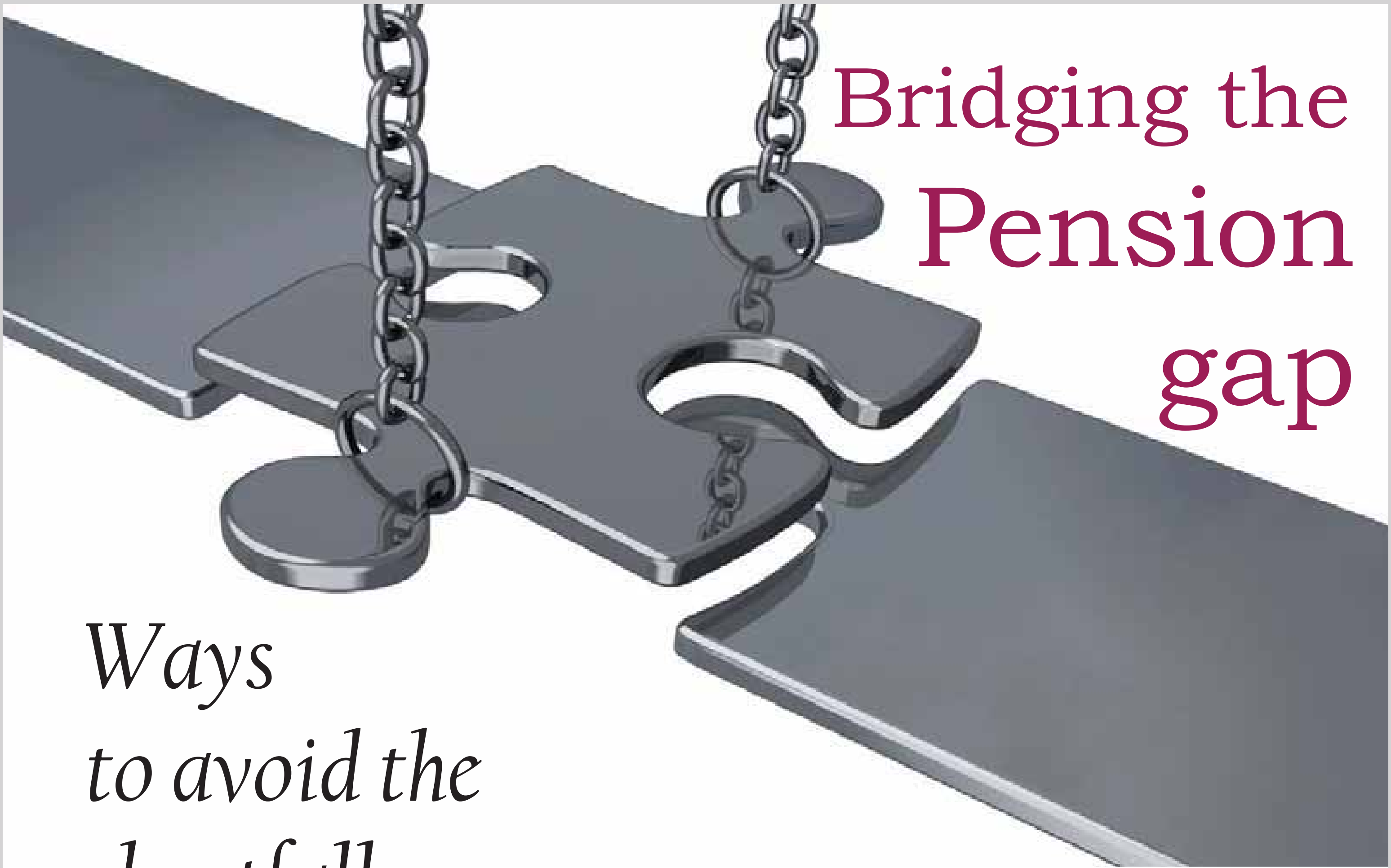
If you are put off by low annuity rates, one option is to use a drawdown facility. You leave your pension invested, but receive an income from the fund. However, you must be absolutely certain that you are happy with the additional risk and costs of such plans.

In your 70s

Most people commonly use their pension savings to buy an annuity by the age of 75. Under current legislation your pension fund must be used to provide an income by age 75. Most people commonly use their pension savings to buy an annuity, but there is now the alternative secured pension to consider. You can choose to inflation-proof your annuity, or buy a guarantee so that it continues to pay out for at least five years. You might want an income to continue for your spouse after your death.

Levels and bases of, and reliefs from, taxation are subject to change.

To discuss how you can get the most out of your retirement planning, please contact us for further information.



Bridging the Pension gap

Ways to avoid the shortfall

Under Tory plans, from 2016, men will have to wait an extra year for their State pension, with the pension age rising from 65 to 66. The State pension age for women is scheduled to rise in stages from 60 to 65 by 2020, and the present Labour Government plans to increase the pension age for both sexes to 68 by 2046. Such changes emphasise the fact that for many people there will be an ever-increasing gap to fill between actual retirement and State pension age. With the State seemingly unable to provide for retirees, this problem is only set to become more severe with increased life expectancy.

How to avoid the shortfall

Delay retirement and working longer is the obvious answer, but this isn't always viable or popular, so the solution should be that we take retirement provisions firmly into our own hands.

If your employer offers a money-purchase, or final-salary scheme, make sure you opt in, particularly if it has a matched-contribution element in which the employer matches, up to a set level, every pound you pay in. It is important to take an active interest in your retirement plan. If you have personal or company pensions ensure you review the investment performance regularly.

If your employer does not offer a pension scheme, or you're self-employed, arrange one yourself. You receive tax relief on your contributions, increasing the money you put in by an amount equivalent to basic-rate tax or 40 per cent if you're a higher-rate taxpayer.

Take a more hands-on approach by considering a self-invested personal pension (SIPP). SIPPs are essentially flexible, do-it-yourself pensions with a wide range of investment choices, including the more straightforward options such as cash and Government bonds, or more complicated investments such as individual shares, funds and commodities. However, SIPPs are not suited to everyone, so ensure you evaluate your individual requirements.

When you get into your sixties, if you have lots of little pension pots from previous employers, consolidating them may be a good idea as many insurance firms won't offer competitive annuities to people with a pot of less than £10,000. However, another option is to take the pensions as individual lump sums. If those pots total less than 1 per cent of the standard lifetime allowance, currently £1.75m, it can all be taken as cash. So if you end up retiring with a pension pot worth less than £17,500, 25 per cent can be withdrawn tax-free, with 75 per cent liable for income tax.

Individual Savings Accounts (ISAs) play an important role for retirees. Like pensions, ISAs offer generous tax breaks and changes which came into effect on 6 October, allow the over 50s to invest up to £10,200 tax free. For lower age groups that allowance kicks in from the start of the next tax year. Of this, up to half (£5,100) can go into a cash ISA, with the balance available to invest in a stocks and shares ISA.

Ideally you should have a mixed portfolio and build income for your retirement from private pensions, state pensions, employee pensions and investments.

Levels and bases of, and reliefs from, taxation are subject to change.

To discuss how you can get the most out of your pension planning, please contact us for further information.

REPLY HERE FOR MORE INFORMATION

For more information on any subject that we have covered in this issue, or on any other subjects, please tick the appropriate box or boxes, include your personal details and return this section to us.

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Spousal Bypass & Pilot Trusts

Death in service benefit? Don't waste 40 per cent of it.

Many people today have death-in-service benefits through their employment or death benefits via their pension scheme. These benefits are generally given to the surviving spouse or partner, so are not treated as assets of the deceased's estate. But there is a massive potential Inheritance Tax (IHT) problem which can destroy 40 per cent of their value.

Because the benefit is not treated as an asset of the estate, on the first death there is no liability to IHT, but, IHT liability arises on the second death. For example, on the death of the first spouse, the death-in-service pays a lump sum to the survivor. This is outside the estate for tax purposes. Once the benefits of the policy have been paid to the survivor they become an asset of the partners estate.

Subsequently, when the survivor dies, their estate which would include any death-in-service benefit monies, is subject to IHT at 40 per cent on the value of the estate in excess of the IHT threshold.

This tax problem can be avoided by sending the death-in-service benefit or pension death benefit into a special trust. The trust is held outside the survivor's estate, therefore not subject to IHT on the survivor's death.

The survivor can benefit from the trust and receive cash or other benefits. Even more beneficially, the trust can be drafted with power to loan monies to the survivor. As a result the survivor will have the full use of the funds to invest or spend, or live off the income as they wish. Importantly, as a loan has been made from the trust a liability has been created which can be paid out of the survivor's estate on their death thereby further reducing the value of the estate for IHT purposes.

Spousal by-pass trusts are not limited to death in service benefits and pension benefits. They can be used in conjunction with life insurance. Therefore anyone with any type of term life insurance or mortgage protection insurance should consider placing the benefit of the policies into such a trust. The surviving spouse can still be a trustee and hence control how the funds are used.

A multiple spousal by-pass trust.

These trusts are mainly used to receive death in service benefits, however, they can be created to receive assets passed into them by a Will, such as business or agricultural property, and if you have a substantial estate you may wish to consider multiple spousal by-pass trusts simply to increase the availability of the nil rate bands across the trusts.

… a by-pass worth having!

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