Bulletin

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Leaders in Wealth Management

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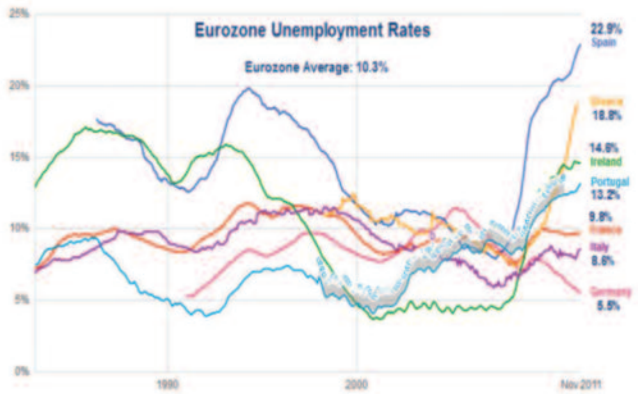
"It was the best of times. It was the worst of times."
A Tale of Two Cities (1859) by Charles Dickens



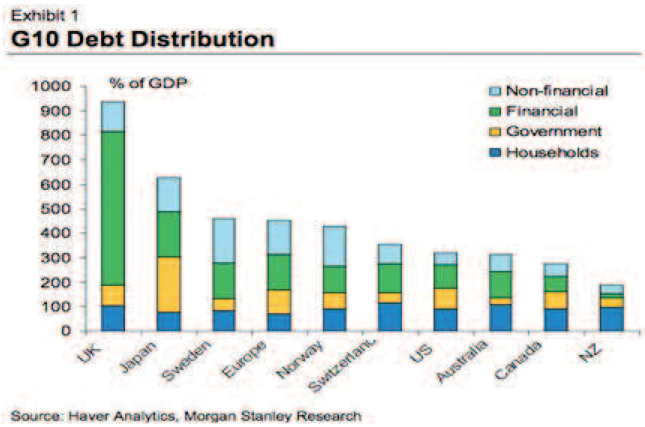
The UK's rate of unemployment is, officially, 8.4% (Jan 2012, ONS) and rising. Did you know they do not include the self employed in that statistic? Anecdotally, we can deduce there are, on top, a few millions of self employed individuals earning not much different to the minimum wage of c £11,000 pa. What about those others who are now part time and wish to be full time? What about those who were high earners and are now low earners? I estimate true unemployment (also called underemployment) at more like 20% of the UK workforce.

After, literally, Trillions of our taxpayer £s, €s, $s (whatever) ploughed into the economy (banks largely) since the start of the collapse of the system in 2008, what have politicians and central banks achieved? Short term stability for themselves and the banking system. Not long term. Instability and wealth destruction for the many.

Can we expect better times ahead? No, we can expect much much worse times ahead.

UK GDP is the same as it was in 2006.
Italy and Portugal haven't had any growth for 10 years.
Greece, Spain and Ireland are also basket cases, as you know.

So, we can probably grow the economy by reducing our debts? How do we do that, with Osborne now borrowing MORE than Labour/Ed Balls wanted to do?



The last time the UK had debt of anything remotely similar (though much lower than now) was after the Napoleonic Wars (200 years ago!). How did we get out of the debt? There were the small matters of Industrialisation and The Empire.

What do we have now that is equally transformative and will get us out of the debts without major economic pain? No, I can't think of anything either.

Who seriously believes we can get out from under without major economic pain or, in general, wealth destruction?

Hugh Hendry, of asset managers Eclectica, said on BBC Newsnight in 2011 "I recommend you panic". Corporal Jones (of Dad's Army) may well have been wrong.

What should you do to secure your finances or help secure those of your friends, family, colleagues or, lawyer private and trustee clients? Call me personally to discuss how we can help.

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The tax year-end approaches

With the prospect of tax cuts increasingly distant, year-end tax planning has become more relevant than ever in cutting your contribution to the Exchequer.


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Chancellor George Osborne's past two Budgets have introduced a wide range of tax changes, some of which have yet to take full effect. These changes mean that the checklist for year-end tax planning in 2011/12 is not the same as in previous years.

The list you need to consider before the Chancellor rises to speak in March includes:

Pensions provision

The start of the new tax year on 6 April will see several important revisions to pension law taking effect, as we explain in 'The pensions revolution continues' below. However, many changes took effect last April and some are now part of year-end planning. For example, the reduced £50,000 annual allowance and the new carry forward rules both apply in 2011/12 and could impact on your year-end pension contributions.

Rumours that the Chancellor would end higher rate (and additional rate) tax relief on pension contributions re-emerged in the run up to the Autumn Statement. Just in case Mr Osborne is unable to resist the £12 billion a year extra income this time around, it would be a wise precaution to make any planned 2011/12 pension contributions before Budget Day (21 March).

ISAs

Your 2011/12 ISA contribution limit is £10,680, rising to £11,280 from 6 April 2012. Maximising your ISA investment will usually make sense because:

- Dividends and income from fixed-interest securities held within a stocks and shares ISA are free of personal UK tax, although you cannot reclaim dividend tax credits.
- Interest earned on deposits in a cash ISA are also UK tax-free. However, the returns on offer reflect the fact that the base rate shows very few signs of moving above 0.5%.
- Gains made within ISAs are free of capital gains tax (CGT).

Inheritance tax (IHT)

The £325,000 IHT nil rate band is frozen until April 2015, making it all the more important to use your annual IHT exemptions. The main £3,000 annual exemption can be carried forward, but only to next tax year (2012/13), and then can only be claimed once the 2012/13 exemption has itself been used up.

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Services Authority does not regulate some forms of inheritance tax planning.

Did you know that from April this year new rules will apply to furnished holiday lets (FHL)? To qualify, the property will need to be available for commercial letting as holiday accommodation for at least 210 days during the tax year and must be commercially let as holiday accommodation for 105 days. Currently the limits are 140 days and 70 days, although even the latter seems long for a UK 'summer'. The property cannot be let for periods of longer-term occupation exceeding 155 days. Since 2009/10, the FHL rules have applied beyond the UK to countries in the EEA.

The pensions revolution continues

The world of pensions continues to change rapidly, with more changes from April and further announcements from the Government.

Contracting out If you are currently contracted out of the state second pension (S2P) via a personal pension or a money purchase occupational scheme, your contracting out will end automatically on 5 April 2012. The funds built up in your private pension arrangement will remain, but from 6 April you will start to accrue S2P.

National insurance contributions (NICs) If you are contracted out via your employer's occupational scheme, then your (and your employer's) NICs bill is set to rise from April. For final salary schemes, the contracting out NICs rebate falls from 1.6% to 1.4%. For money purchase schemes, the rebate disappears completely because contracting out will have ended.

Lifetime allowance The standard lifetime allowance, which normally sets the maximum tax-efficient value of pension benefits, will fall from £1.8 million to £1.5 million. If you have existing primary or enhanced protection, the reduction will have little, if any effect. However, if you have no protection, then you may need to consider the option of claiming fixed protection, which was introduced last year.

Broadly speaking, fixed protection allows you to keep the £1.8 million lifetime allowance, but only if no further contributions are made to your pension arrangements and you accrue no more benefits. You must claim fixed protection by 5 April 2012, so if this protection might be relevant to you, please contact us as soon as possible.

State pension age (SPA) The timetable for SPA increases has been changed. The move to 66 has been put back by six months, but the rise to 67 will now be introduced eight years earlier than previously planned, between April 2026 and April 2028.

Auto-enrolment The start date for auto-enrolment into pension arrangements for small employers is to be put back by 13 months, to May 2015.

For more information and advice on these changes, please contact us.

The value of tax reliefs depends on your individual circumstances. Levels, bases and reliefs from taxation are subject to change.

Are you making the most of the tax-free personal allowance, which rises by £630 to £8,105 in 2012/13? Many couples waste all or part of the allowance because income is concentrated in one partner's hands. There has been talk that the allowance will be made at least partially transferable, but government finances rule out such an expensive reform any time soon. In the meantime, why not ask us to review whether you can improve the use of your allowances? The value of tax reliefs depends on your individual circumstances. Levels, bases and reliefs from taxation are subject to change. The Financial Services Authority does not regulate tax advice.

Investing for growth

The notion that economic growth is good and lack of growth is bad is one of the few things politicians seem to agree on. But for investors, the emphasis on growth can be misleading.

For example, China remains the strongest 'growth story' among major economies, with gross domestic product (GDP) growth in 2011 estimated by the World Bank at 9.1%. Yet over this period the Chinese stock market was down 16%. In contrast, the US, with average GDP growth over the same period of 1.7%, saw its stock market rise by 8%.

So the reality is that national GDP figures tell you very little about the opportunities and prospects for business. Given that economic forecasting is notoriously unreliable, investment managers prefer to focus on business conditions in general and the specific experience of individual companies. That has led some managers to launch investment funds focusing on what they see as growth areas regardless of the GDP numbers. Examples include:

- **Natural resources:** increasing demand from emerging markets is likely to mean steady growth in revenues and profits for mining and energy companies.
- **Infrastructure:** the huge need for new facilities in emerging markets, and renewal of those in the developed world means project managers, planners, builders and engineers can all expect increasing orders.
- **Agriculture and timber:** rising population numbers are driving a need to improve production and productivity.
- **Healthcare:** fast-increasing basic needs in emerging markets, plus ageing populations in developed nations, mean big growth in demand for medicines and medical services.

Meanwhile, another group of investment managers continues to emphasise 'value'. Rather than high growth, what they look for are companies with strong finances, steady businesses and good dividend payments to shareholders. Most such companies are well-established and big – they include oil, pharmaceuticals, supermarkets and utilities.

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'Equity income' funds often invest primarily in businesses like these, which may not be entirely recession-proof, but are strong enough to survive and to gain market share from businesses that don't endure. In investment terms there are always some good opportunities available, regardless of the general economic climate.

Past performance is not a guide to future performance. The value of your investments can go down as well as up, and you may not get back the original amount invested.

Autumn Statement surprises

The Chancellor's Autumn Statement had a few surprises to set against the gloomy economic forecasts.

The Autumn Statement, together with a raft of draft legislation issued a week later, has revealed a good slice of what will be in the spring Budget. There is still likely to be the odd rabbit-out-of-the-hat, which all Chancellors find difficult to resist, but the broad outline is clear.

Income tax The main personal allowance will rise by £630 to £8,105 in 2012/13. Other allowances, such as the personal age allowance, will rise by about 5.6%.

However, you will not gain the full benefit of the increased personal allowance if you are a higher or additional rate taxpayer, as the basic rate band will shrink by £630 at the same time, leaving the higher rate tax starting point unaltered at £42,475. The £100,000 starting point for phasing out the personal allowance and the £150,000 additional (50%) tax threshold are also unchanged.

National insurance contributions (NICs)
After the 1% increase in all rates in 2011/12, NICs rates will generally be unchanged in 2012/13. The lower thresholds will increase in line with inflation, while the upper thresholds are frozen. However, the changes to contracting out could mean your NICs bill rises in 2012/13 (see 'The pensions revolution continues' on page 2).

Capital gains tax (CGT) In a surprise move, the Chancellor announced that he would be freezing next tax year's annual CGT exemption at £10,600 rather than increasing it in line with the consumer prices index, as he had previously announced.

Tax credits For 2012/13 the child element of the Child Tax Credit (CTC) and disability elements of Working Tax Credit will rise by 5.2%, while all other tax credits will be frozen. However, if you currently receive the family element of CTC, worth a maximum of £545 a year, you may find that it disappears in the new tax year. This stems from a change originally announced in June 2010, bringing down the income threshold at which the credit is phased out from the current £40,000. More recently, there have been reports that the Government is looking at taking CTC away from higher rate taxpayers.

The value of tax reliefs depends on your individual circumstances. Levels, bases and reliefs from taxation are subject to change. The Financial Services Authority does not regulate tax advice.

Protection in changeable conditions

Smaller businesses are under the cosh, with many battling reduced sales and squeezed funding. Although premiums involve outlay, business protection makes more sense than ever.

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For partnerships and shareholders, cover can mean the difference between survival and failure if one of the shareholders or partners dies or becomes critically ill.

If no insurance is in place, remaining partners or shareholders will need to raise funds themselves – and that's not easy in the current climate, when banks are barely lending and liquidating a property may be impossible.

There are numerous options in terms of plans, and shareholders or partners should discuss their succession planning aims. We can help to provide cover in the most tax-effective way. It is also crucial that sums insured and the policy's suitability are reviewed regularly.

There needs to be an accurate valuation of the business and the debt situation needs to be accounted for. Sums insured can change, as can the individuals who need protection – such as when there is a new director or partner – or when one leaves. Indeed, a plan needs to be sufficiently flexible to account for future structure changes.

Keeping a business going can be tough at the best of times, but given the current climate partnership and shareholder protection may be coming into its own. Please talk to us about the options that are right for your business.

Company car tax changes

There is another change to company car taxation due in April.

2012/13 will see the introduction of a new set of company car tax scales originally announced a while ago by the then-Chancellor Alistair Darling. No, that's not an error: the change was revealed as part of the 2009 Pre-Budget Report and legislated for in the following year's Finance Act.

At present, the tax rules are relatively generous for cars with CO_2 emissions of up to 120g/km: the taxable benefit is generally 10% of list price (13% for diesels). Immediately above the 120 g/km level the benefit percentage jumps up to 15% (18% for diesels). From 6 April 2012, this step change will disappear and, at the same time, all thresholds will be moved down by 5g/km. The result will be that if you have a car with emissions of 120g/km or slightly less, your company car tax bill will jump.

For example, the taxable value of a BMW 318d ES, which has emissions of 119g/km and a list price of £25,325, will rise from £3,292 to £4,305.

The same proportionate increase will apply to fuel scale charges, making 'free fuel' generally unattractive for low-emission cars.

Daring to say the B word

It's bonus season again, and bonuses are a contentious subject around the turn of the year.

There is a widespread view that in some areas of the financial world, notably investment banks, bonuses are too high. However, in another financial area – with-profits policies – many people believe that they are too small.

The Financial Services Authority (FSA) has taken an increasing interest in the operation of with-profits funds. Last year the FSA published a consultation paper, 'Protecting with-profits policyholders', after undertaking a 'With-profits regime review'. The paper noted that there had been "deep cuts in annual bonuses, often to zero, and reductions in final pay-outs".

The difficult investment conditions in 2011 mean that this year's bonuses are unlikely to be much different from last year's. However, that does not necessarily mean that any with-profits policies you hold should be abandoned.

Any such decision requires a careful individual policy review and an analysis of the alternatives available. This is not an easy task, because public information on with-profits funds can be hard to interpret.

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Why not ask us to undertake a review and analysis of your policies for you? You can then decide if you want to wait for next year's bonus.