CHURCH'S UPDATE

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Don't miss the self assessment deadline

ANNUITY FLEXIBILITY

A radical shake up of pension rules

Retiring at 65

The new rules explained

Take advantage of your ISA allowance

Widen your options

CAPITAL GAINS TAX

And YOU

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Retiring at 65

The new rules explained

The Government has announced it intends to scrap a rule where people can be forced to retire at the age of 65.

The ruling, which will come into effect from October 2011 will inevitably mean more people will now work for longer, it should also mean employees are not forced out of their jobs before they feel ready for retirement.

This is seen as good news for the 68 per cent of over 55s who want to work past the current standard retirement age and better news for the 5 per cent who believe that they will be forced out of their jobs when they reach the official retirement age. A further advantage is, in order to be entitled to the full state pension, you have to have worked for a set number of years therefore scrapping the default retirement age is likely to mean that more people gain all of their entitled years and so draw a slightly larger state pension when they do eventually retire.

The thinking is, if you are working for longer then you will have more time to build up your pension, from your own contributions and from employer contributions if you are in a company scheme. This will produce a larger pension pot from which to draw an income, or buy an annuity. As a result, your eventual pension income will be higher.

Under the new scheme people will still be able to retire at 65 and have a state pension, but beware the age at which the state pension is payable is due to rise to age 67 by 2036 and to age 68 by 2046.

Employers are concerned this rule will block jobs for young people as older people remain longer in the workforce. By increasing the retirement age, the government is trying to solve a problem it has with pensions, but may also increase the number of young people looking for work.

The European Commission has lobbied European Governments to uplift their retirement ages, as the current system cannot sustain an ever ageing population. Life expectancy has risen to much higher levels than when the state pension age was previously set. However, sustainability of the standard of living when in work or as a pensioner is in need of adjustments as life expectancy increases.

Levels and bases of, and reliefs from, taxation dependent on individual circumstances are subject to change

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Annuity flexibility

A radical shake up of pension rules

As from next April, under what is a radical shake up of pension rules, savers will no longer be required to buy an annuity and will have more flexibility in the way they can take an income from their pension funds.

Many may still choose to buy an annuity for the guaranteed level of annual income it provides, but others may prefer to defer or avoid buying an annuity. The current rules are to be scrapped, and replaced with two new options for drawing cash direct from a pension fund, from April 2011. Option 1 "Capped" drawdown, which allows limited annual withdrawals from age 55, for the whole of retirement.

Option 2 "Flexible" drawdown, which allows unlimited amounts to be withdrawn from a pension fund, provided the investor has enough other income to meet a Minimum Income Requirement (MIR), thus not exhausting their pension fund and falling back on the state for support.

MIR levels are now subject to consultation, but some believe it will be so high that flexible drawdown will only be available to the wealthiest 1 per cent of pension savers.

However, because income to meet the MIR can come from a variety of sources, flexible drawdown could be available to more people than first thought.

Any pension income that is effectively guaranteed and grows in line with limited price indexation should qualify such as basic state pension, second-tier pension or an escalating annuity.

It has been suggested that if the MIR is set at £10,000 a year, then it would put flexible drawdown within reach of many. Individuals could increase their chances of qualifying for flexible drawdown by buying an enhanced annuity, which is offered to those in poorer health. An enhanced rate annuity is one that pays out a higher rate than standard based on the fact that your life expectancy may be slightly lower than that of others. This information can be based on things like, whether you smoke, take regular medication, or if you have been hospitalised with a medical condition before.

Death before retirement and before age 75
Death benefits under a personal pension plan or stakeholder scheme, are normally paid as a lump sum. Death payments usually consist of the return of the pension fund that has been accumulated together with any life assurance. If the amount exceeds the Lifetime Allowance of £1.8 million in tax year 2010/11, the excess is taxed at 55 per cent.

Death after retirement but before age 75
What can be paid on death and how it is taxed, depends on what has happened to the pension fund at retirement. Whether secured income, capital protected or unsecured income, any lump sum payment on death is generally taxed at 35 per cent.

Death after retirement and after age 75
The new proposals mean that at age 77, any remaining fund must be used to buy an annuity or put into a new type of pension called an Alternatively Secured Pension (ASP), but GAD (Government Actuary Department) rates still show age 75 from April 2011. On death, only dependents pensions can be paid. If there are no dependents, any residual funds can be refunded to the scheme, the employer or paid to a charity.

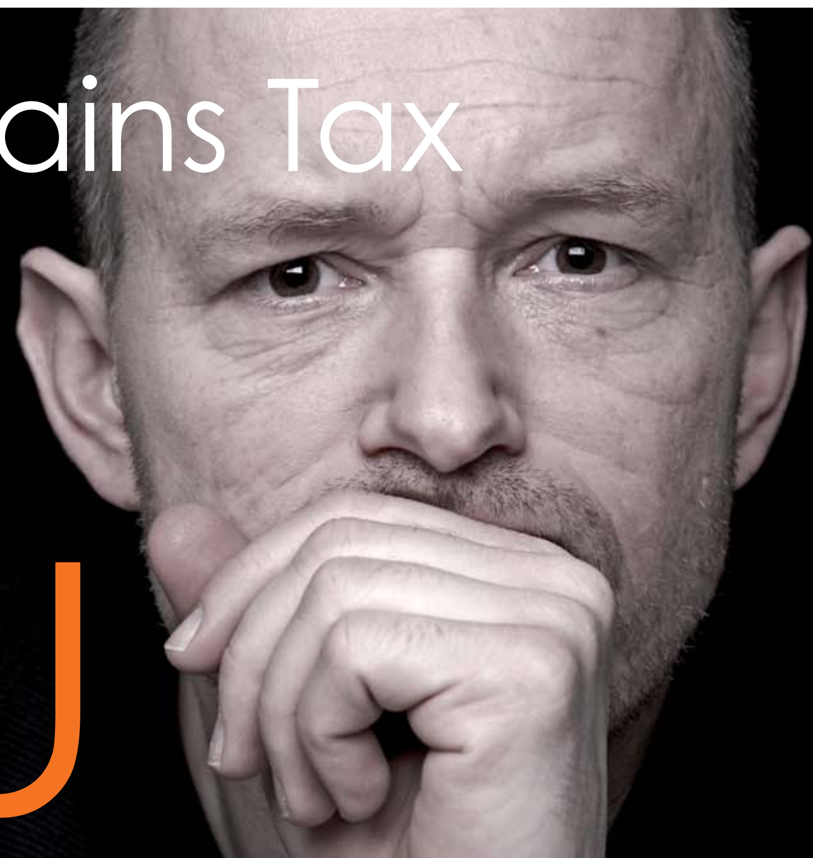
Under the new proposals, any unused funds remaining at death will be taxed at a proposed "recovery rate" of 55 per cent, if the individual is over 75 years old. There will be no tax levied on those who die before age 75, if they have not touched or accessed their pensions savings pot. In order to keep the new proposals as simple as possible the Government intends that the "recovery charge" should generally apply to all death benefits.

The new rules and their details are still subject to consultation, and not due to be introduced until next April, investors approaching 75 should seek advice from their professional financial adviser before they make any further decisions and until they know what these changes mean for their pension investments.

Levels and bases of, and reliefs from, taxation dependent on individual circumstances are subject to change.

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

Capital Gains Tax and YOU



Capital Gains Tax (CGT) is levied when you sell something for a profit. Shares, land, buildings, part of a business, paintings, antiques or jewellery are commodities that will usually result in a CGT liability. However, you may also have to pay CGT if you just give something away or receive compensation or prize money. If the asset has increased in value since you bought it, you have made a capital gain, it does not matter if you gave it away and receive no money for it.

At the start of the 2010-11 tax year CGT was taxable at 18 per cent above £10,100, but changes were made in the emergency budget on 22 June. The rate of CGT remains at 18 per cent for basic-rate taxpayers, but as from midnight on June 23, 2010, the rate increased to 28 per cent for higher-rate taxpayers with the £10,100 tax-free allowance still in place for the tax year 2010-11.

Exemptions

You do not have to pay CGT if you are selling or passing on personal belongings that are worth less than £6,000, or if you give assets to a registered charity.

Private possessions like a car or your main home are CGT exempt when you sell them, or when you receive money from ISAs, Premium Bonds, betting, lottery or pools winnings, or personal injury compensation.

How to avoid CGT

Transfer your assets to your spouse or civil partner. Providing you are legally married and living together there is no CGT to pay but be aware this transfers the legal ownership and CGT will have to be paid if and when the assets are sold.

You could also reinvest your gains under the Enterprise Investment Scheme, but there are qualifying conditions to be met.

Reduce the amount of CGT payable on an asset by offsetting a loss. If you make a loss when disposing of one asset that would attract CGT, you may be able to deduct this loss from gains that you have made on other assets.

The changes

The Government abolished taper relief in April 2008 and introduced the flat rate of 18 per cent. Owners of small businesses protested against the changes, which effectively increase the amount of tax that they have to pay because they are now no longer able to receive taper relief. The then Chancellor announced a partial u-turn when he unveiled plans for entrepreneurs' relief. Business owners with a stake of more than 5 per cent in the company they work for will pay only 10 per cent tax on gains up to £1 million, later raised to £2 million.

The amount of lifetime gains that can be taxed at the lower rate of 10 per cent under entrepreneurs' relief has been extended from £2 million to £5 million.

Inheriting

You do not have to pay CGT if you inherit something. However, if you later sell or give away the asset, you will have to pay CGT. As an example, if a relative leaves you £5,000 of shares, you do not have to pay any CGT, but if you sell them later for £8,000, you may have to pay CGT on the gain of £3,000.

Levels and bases of, and reliefs from, taxation dependent on individual circumstances are subject to change

Make your child a millionaire

New born pensions attract tax breaks

Parents could make their new born child a millionaire by adulthood if they start a pension pot when they are born. By contributing just £88 per month to a child self invested pension plan (SIPP), personal pension or stakeholder pension until the age of 18, the fund could easily reach £1 million by the time they reach 65 according to Alliance Trust, but here are many providers and investment strategies available, all offering different levels of risk, so it is best to speak with your professional financial adviser before considering such a plan. Parents should consider pensions a route to provide financial stability especially since Child Trust Funds have been scrapped. Financial planning for children is a high priority for parents who wish to ensure their children's financial future.

How does it work?

You can invest a maximum of £2,880 into a personal pension for a child every year. The Government will then add £720 in tax relief, raising the value to £3,600.

This equates to 25 per cent growth on your money on day one. The investments grow free from income and capital gains tax and even better, the £2,880 yearly contribution falls below the £3,000 annual gift limit for inheritance tax (IHT). This removes the money from your estate for tax purposes even if you die before the normal seven-year threshold, which could save your heirs 40 per cent in tax.

This would take the effective cost of the £3,600 pension investment down to £1,728 a year, or a total of £31,104 over 18 years. Therefore, setting up a pension for a child is one of the most efficient financial gifts you can make.

Why start early?

Another added benefit is that money invested in a pension is only available at retirement, leaving no opportunity to waste or fritter it away beforehand. While anyone can pay into a pension for a child, the plan has to be arranged by their parent or legal guardian, also making them responsible for it until the child reaches 18.

When the child reaches 18, do they need to take over payments?

Yes they will, as it is unlikely that contributions made for children will be enough for them to retire on, given that the maximum is currently £3,600 a year including tax relief. A child SIPP, up to their 18th Birthday should be thought of more as a foundation for retirement planning, and one which will hopefully, the child at 18 or older, will build on when they start earning.

Levels and bases of, and reliefs from, taxation dependent on individual circumstances are subject to change.

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

TAX Time

Don’t miss the Self Assessment deadline

The majority of the working population already pay tax through PAYE (pay as you earn) so therefore do not need to complete a tax return. However, if you are one of the many million with more complicated tax affairs, or income from several sources – you may need to complete one.

Completing a self assessment tax return

The first stage is to decide whether you are required to complete and file a tax return. A tax return, or a notice if you file online, will usually be sent to you in April of each year. If you haven’t already received one, but think you may need to file a return, contact your tax office immediately as there are penalty implications for late returns, along with providing wrong or incorrect information.

There are different types of tax returns and different ‘supplementary pages’ you may need to complete depending on your circumstances. It is important to gather all necessary information required to enable you to do this, these may include:

1. The SA100 and SA101 self assessment form, plus any applicable supplementary pages.
2. A P60 and P11D form from employers or pension providers.
3. Details of all extra sources of income; i.e. a property rental or your accounts if self employed.
4. Any interest received.
5. Information on any dividend payments received.
6. Any capital gains/losses within that year.
7. Life insurance policy payments or gift aid contributions.
8. Any pension contributions made or received.

If you are filing a paper tax return, it must be returned to HM Revenue and Customs (HMRC) by 31 October 2010 (or three months from the notice issue date, whichever the later.) If you would prefer to file a tax return online, you have until the 31 January 2011 (or three months from the notice issue date, again, whichever is the later.) Please be aware, by filing a tax return late, you will be charged an automatic penalty, plus interest if any tax is owed.

You must also ensure your return is accurate and all relevant information has been included. Not doing so may cause HMRC to reject your return, which could mean missing the deadline and incurring a penalty charge. A simple mistake people often make is forgetting to sign and date their paper return – do not be one of them.

After completing your tax return, for a period of 22 months from the end of that tax year, or for five years and ten months for those running a business or letting a property, it is a requirement to keep all records relating to that return. Not doing so can result in a maximum penalty of £3,000 for each tax year records have not been kept; it may be advisable to keep a photocopy of your return in case it goes missing in the post and/or for future reference. Therefore, as the deadline dates draw closer, ensuring you are well prepared with all the relevant information, certainly can prove very beneficial.

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

Can I make money *from ethical investing?*

First the banking crisis and then the BP oil spill, gradually, bit by bit, ethical concerns are being highlighted in the investing world.

There is a slow realisation among investors that, whilst Anglo Saxon capitalism is not dead, the growth areas favoured by ethical funds are a big part of the future. Renewable energy is an example, some of the better ethical funds are delivering steady returns by looking towards new technology and sustainable business practices and this means socially responsible investing will grow in popularity as people begin to think, a change is needed.

Defining ethical investing

The line between ethics, “human issues” and green, “environmental issues” has almost become completely entangled in our day-to-day lives, each of us uses an ethical code, but they are very personal. Some people may value renewable energy, but not care so much for animal welfare and so on. Collective funds allow your fund manager to invest your money in a variety of different assets, many unknown and obscure, and this is where ethical funds come in, with more transparency and screening.

How ethical funds work

The first ethical fund was launched by Friends Provident, some 26 years ago, pooling investor’s assets and promising to keep them away from unethical areas like weapons, tobacco, alcohol and oppressive regimes.

Ethical screening means a fund has defined parameters for where it will and will not invest. Fund classification ranges from, light green for some ethical considerations, to dark green for ethically screened companies only.

But will I make some money?

The million-dollar question, the popular myth would have you believe, that you can't keep your ethics and make money. Such prejudice is refuted by those in the industry, ethical investing is no different to any other investment, and it remains about picking the right funds.

Getting Started

You can investigate and dig around for a while and make a list of those funds you like, or you could use an adviser who knows the market place, as each fund has a different ethical stance, many even include the likes of the oil companies and the banking sector, it is no use judging them solely on their past performance.

There are more than 100 funds to choose from, some not so good, picking the right ones requires skill, therefore your financial adviser is well placed to screen funds and help choose the right one for you.

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.

Levels and bases of, and reliefs from, taxation dependent on individual circumstances are subject to change.

Take advantage of your ISA allowance

Widen your options

Many investors are unsure of what to do with their investments in the current volatile climate. When taxes rise you should take advantage of your annual individual savings allowance to shelter as much of your assets as you can from the taxman.

We have suggested here some useful tips on how to maximise your ISA allowance:

Look long term

The advantage of a cash ISA is by making small regular deposits, having compound interest applied over many years, can result in an increasing ISA fund.

The new annual ISA allowance has risen to £10,200 for everyone. You can contribute up to £5,100 in a Cash ISA and invest the balance of your £10,200 allowance in a Stocks & Shares ISA. For example, you could contribute £2,000 in a Cash ISA and invest £8,200 in a Stocks & Shares ISA - your total ISA investment for the tax year must not exceed £10,200.

From 6 April 2011 the ISA limits will increase each year in line with the Retail Price Index (RPI), a measure of inflation. The new annual limits will be rounded to the nearest multiple of £120. If the RPI falls the ISA limits will remain unchanged.

Remember, this ISA allowance is per individual. This means a husband and wife, for example, can put up to £20,400 between them into an ISA each tax year.

Regular reviews

Regularly review the performance of your ISA and the fees being charged and check that the asset allocation continues to meet your requirements. Decide whether to remain with the ISA you have or transfer to a different provider. By transferring ISAs held with different providers into one provider, it can have the advantage of transparency and can make it easier to follow your investments performance.

Look for growth

In the short term, UK economic growth is not expected to rise at a fast rate, therefore smart planning is to invest in companies that are able to grow their sales in tough times.

Returns

With interest rates at record lows, money at the bank generates little return, and the yield from government bonds, with an average of 3.35 per cent for the 10-year gilt, is not so good either. There are many high-quality equities which offer a yield in excess of cash and bonds and if their dividends grow, this may provide protection from inflation over the long term, although there is no guarantee of future performance.

Levels and bases of, and reliefs from, taxation dependent on individual circumstances 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

Writing your Will

It is a sobering thought that around 60 per cent of people in the UK die without ever having made a Will. Failure to make a Will can cause problems and financial worry for your family or your dependents.

On the very basic level, unless you make a Will your money may not go to the people you intend it to go to. Couples who are un-married are especially at risk, as the surviving partner does not automatically have any right to the deceased partner's estate or assets.

Many people believe making a Will is expensive and complex, but it doesn't have to be so.

Here we offer ten points to consider when writing your Will.

1 Should I get professional help?

You can save money by writing your own Will, but if your affairs are complex, or you feel worried of mistakes, you should seek help. Whether this is from a solicitor, Will writer or a bank, you should always check what qualifications the individual assigned has and how much the service will cost.

2 You will need to have witnesses

In England, Wales and Northern Ireland two witnesses of the Will are required whereas in Scotland normally one witness is sufficient. Witnesses should be in the same room when the Will is signed. They should not benefit in any way from the Will.

3 Your executors, are they capable?

If your financial affairs are less complex you may want to avoid the expense of appointing a solicitor or bank as executor. However, be aware that acting as an executor can be a difficult task, so ensure that any individual you were thinking of appointing is happy and capable of taking on the challenging role.

4 What are you worth?

If you own a property, its value is the market price on the day you make your Will less any mortgage owed. If you share ownership with a spouse or partner, it is the market value less your share of any mortgage. You should list all cash deposits, investments, life insurance policies and include valuables such as jewellery, cars, paintings, antiques and other items with a known higher value.

5 Departure Planning

It is a rather grim subject to tackle, but it is advisable to let your family and friends know how you wish your departure from this world to be handled. You should also put aside some money from your estate for funeral expenses.

6 Understand inheritance tax

In the current tax year inheritance tax (IHT) is payable when your estate is worth more than £325,000. Any amount above this will be taxed at 40 per cent. Married couples and civil partners are allowed to pass their assets to each other tax free and the surviving partner can use both inheritance tax allowances, effectively doubling the threshold to £650,000.

7 Bequests and asset division

Wills are normally made up of cash assets, bequests and the residue. You can leave cash to relatives, friends, named individuals or charities. You can also bequeath your possessions, including property, to whoever you wish. What is left after all bequests and gifts is the residue, which can be left to one person or divided up between several people.

8 Children and Trusts

When you have children aged under 18 you should state who you wish to be their guardians should both parents die, and where the money to look after them will be held.

If children inherit money or property it is held in Trust until they are 18 or until they marry if earlier and as stated according to the Trust.

9 Get it right

Wills must be made in writing, typed or handwritten. Make a draft copy first, to avoid making corrections to the final version. If you do have to make corrections, make sure they are done in front of your witnesses and that you and they initial the alterations, it is also worth dating the entry.

You must sign the Will in the presence of your witnesses, who should then also add their signatures. Do not forget to date the will and to destroy any previous copies to avoid confusion.

10 Keep the will in a safe place

A solicitor is the safest option, but you may wish to keep it at home. Whichever option you choose, ensure your executors know where it is stored.

Levels and bases of, and reliefs from, taxation dependent on individual circumstances are subject to change. Will writing is not regulated by the Financial Services Authority

Protected for the unexpected

Consider Critical Illness Cover

Around half of the population have no form of financial protection should they die or become critically ill, according to research conducted by insurer Aviva, April 2010. A debilitating illness can take years to recover from, and your company may readily allow you sick leave, but after it can be restricted to pay just a small percentage of your salary. After so many weeks without a full source of income, savings can quickly diminish.

Although most homebuyers take out life cover to ensure loved ones are provided for in the event of their death, few people realise the financial implications of surviving, but in serious ill health.

Critical illness cover typically provides an individual with a lump-sum payment or monthly income if they survive for at least 14 days after being diagnosed with an illness that meets the policy's criteria. These can include a heart attack, cancer, Alzheimer's, multiple sclerosis, organ transplants, or a stroke amongst others.

Cover cannot be purchased for a pre-known illness before the start of the policy and the younger and healthier you are, the lower your monthly premium. Premiums can be guaranteed or reviewable, monthly payments are fixed for the term of the policy or can change on an annual basis. Customers can choose which type is best for them depending on their needs; reviewable rates are initially cheaper, with rates being reviewed every five years, when they could increase. Guaranteed rates ensure the same premiums are paid throughout the life of the policy.

Some life insurance policies may pay out if you are diagnosed with a terminal illness, but not if it is in the final year of the term. If you are self-employed or run your own business, critical illness cover will protect your family should you become ill, and also your business.

When buying critical illness cover, ensure that the policy matches your needs, as some insurers will automatically include children's critical illness cover to your plan, while others will have an option to include a spouse. You may want to include overseas cover should you spend time abroad or you plan to retire abroad.

Be aware, when applying for Critical Illness Cover, it is important to provide full disclosure about any existing medical conditions, as non-disclosure can lead to a claim being rejected by the insurer, but this will only happen when the insurer can prove it was a deliberate act. It is not worth risking such a problem so taking the appropriate advice when buying Critical Illness Cover is essential.

Levels and bases of, and reliefs from, taxation dependent on individual circumstances are subject to change

The Stock & Bond DECISION

Choosing a basic stock & bond mix is an important first step in portfolio design and can have a profound impact on your wealth.

Portfolio theory explains the value of making a deliberate, strategic decision about the proportion of stocks versus bonds to hold in a portfolio. This decision has roots in the "separation theorem," which was proposed by Nobel laureate James Tobin in the late 1950s. The separation theorem proposes that all investors face two important decisions:

(1) deciding how much risk to take, and (2) forming a portfolio of "risky" assets (equities) and "less risky" assets (fixed income) to achieve this risk exposure.

The Rationale

The theorem proposes that all investors who are willing to take stock risk should begin with a diversified market portfolio. Each investor then can then reduce total risk in the portfolio by adding fixed income to the mix. The greater the bond allocation relative to stocks, the less risky the portfolio and the lower the total expected return; the greater the stock allocation relative to bonds, the higher the portfolio's expected return and risk.

Investors who want to take even more risk than the market can increase exposure by tilting the stock portfolio toward asset groups that offer higher expected returns for higher risk.

The Church's Investment Philosophy proposes the use of model portfolios, where a riskier portfolio holds 100% stocks, and the least volatile portfolio holds 100% bonds. You can then compare the average annualised return and volatility (standard deviation) of each model portfolio for different periods, such as one, three, five, ten, and twenty years. Volatility is one of several risk measures investors may want to consider. With this in mind, the analysis should feature average returns, as well as best and worst-case returns for the various periods.

While this technique relies on historical performance that may not repeat in the future, and does not consider various investment costs, it may help you think about the risk-return tradeoff and visualize the range of potential outcomes based on the aggressiveness of your strategy.

Refining Your Stock Allocation

After establishing the basic stock & bond mix, you can then refine the stock allocation, which is where the best opportunities to refine the risk-return tradeoff are found. Investors who are comfortable with higher level equity risk can increase or "tilt" their allocation toward riskier asset classes, that have a history of offering average returns above the market. Research published by Eugene Fama and Kenneth French found that small cap stocks have had higher average returns than large cap stocks, and value stocks have had higher average returns than growth stocks. By holding a larger portion of small cap and value stocks in a portfolio, an investor increases the potential to earn higher returns for the additional risk taken.

The final step in refining the stock component is to diversify globally. By holding an array of equity asset classes across domestic and international markets, investors can reduce the impact of underperformance in a single market or region of the world. Although the markets may experience varying levels of return correlation, this diversification can further reduce volatility in a portfolio, which translates into higher compounded returns over time.

Fixed Income Strategies

Research shows that two risk factors —maturity and credit quality— account for most of the average return differences in diversified bond portfolios. Long-term bonds and lower-quality corporate bonds typically offer higher average yields to compensate investors for taking more risk. But keep in mind that these premiums are considerably lower than the market, size, and value premiums documented in the equity world.

Investors generally hold fixed income to either :

(1) reduce overall portfolio volatility, or
(2) generate a reliable income stream.

These objectives typically lead to different investment decisions. The first approach, volatility reduction, is an application of separation theorem (i.e. hold equities for higher return and use fixed income to temper portfolio volatility). Rather than increasing risk to maximize yield, these investors want to hold fixed income securities that are lower risk. Certain fixed income asset groups are better suited for this strategy.

With this in mind, some long-term investors may seek to earn higher expected returns by shifting risk to the equity side of their portfolio. With an eye to minimize maturity and credit risk, they hold short-term, high-quality debt instruments that have historically offered lower yields with much lower volatility.

Whether investing for total long-term return or for income, a portfolio should be diversified across issues and global markets to avoid uncompensated risk from specific issuers and to capture differences in yield curves around the world.

Life insurance

Are you adequately covered

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.

- ☐ Financial wealth check
- ☐ Tax efficient investments
- ☐ Pensions
- ☐ Tax planning
- ☐ Critical Illness cover
- ☐ Protection
- ☐ Off-shore investments
- ☐ Healthcare
- ☐ Director and employee benefit schemes

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