



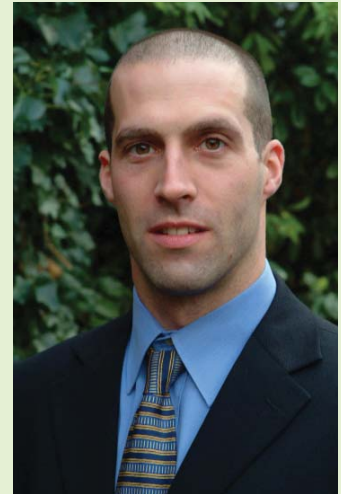
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Winter Forecast

As the downturn enters its next phase, an air of tentative optimism is beginning to develop. However, recovery remains a way off and much useful work can be done during the autumn and winter months to ensure your assets are working as hard as possible.

Taylor Patterson's ongoing determination to keep its clients well-informed and expertly advised is reflected in this four-page special feature.

Wide-ranging insights of four specialist advisers – Jeremy Hunt, Colin Wildman, Edgar Cankalis and Keith Pressler – have been brought together to give a broad perspective of investment opportunities anticipated in the next six months.

Their discussions include the advantages of adjusting SIPP and SSAS arrangements; understanding pensions in terms of tax benefits as well as investment returns; shopping around for the best possible annuity deals; and wealth enhancing options following the new ISA rules introduced on October 6.

SIPP & SSAS CAN CREATE TAX BENEFITS

The tax man is taking a more flexible approach to SIPP and SSAS pension arrangements that want to buy assets, such as commercial property and shares, already owned by the scheme member personally or by the business.

With careful financial and tax planning, the member or the business may be able to sell these assets to their SIPP or SSAS arrangement, thereby releasing cash from their pension fund.

Under old regulations, before April 6 2006 (Pension A Day), HMRC banned such purchases from scheme members, their relatives and other connected parties such as partnerships where the member was a partner.

"This meant businesses structured as sole traders or partnerships could not sell their premises to the pension fund," explained Jeremy Hunt, SIPP and SSAS account manager at Taylor Patterson.

"Such a facility was available, however, to Limited Trading Companies, and the welcome A Day changes removed the distinction, creating an opportunity for individuals, sole traders and partners to sell existing property to their pension funds."

When a connected party sells property or shares to their pension fund, this may trigger a capital gains tax (CGT) charge and it may be tempting to sell undervalued property or shares to the pension fund in order to reduce any CGT liability.

Jeremy continued: "To comply with HMRC rules it's essential that the pension fund trustees obtain an independent professional valuation of market value to support the price paid.

"Given that current market levels are lower compared to last year in some sectors, there may be opportunities to sell property or shares to the pension fund at a lower market value than might have been the case in the not-too-distant past, with a corresponding reduction in CGT. Furthermore, when the pension

fund trustees decide to sell the property or shares in the future, the sale will be free from CGT under current rules."

However, Jeremy points out that the decision to sell existing assets to the pension fund should not be based on tax grounds alone and emphasises the importance of seeking financial advice on the wider implications of such a transaction.

"For example, where business owners sell their operating premises to their pension fund, this normally ring fences the property and protects it from creditors, should the business face future trading difficulties. In addition, where the pension fund does not have sufficient cash to buy the business premises, it may be possible for the business to pay a tax relievable pension contribution to top up the fund so it then has the resources to buy the premises," added Jeremy.

LEARNING TO LOVE YOUR PENSION



I ♥ MY PENSION

It has never been more important to appreciate the substantial tax saving benefits delivered by your pension – as they contribute significantly towards the return on pension investment.

It is often said in the present economic situation that pensions involve too much risk, or offer relatively low returns, but Colin Wildman, employee benefits adviser at Taylor Patterson, believes other factors should be considered.

“It’s important to understand that most pension plans offer a wide range of investment options which will perform differently,” said Colin.

“In most cases it’s a matter of personal choice as to where pension contributions are invested, allowing you to choose a strategy to match your personal level of investment risk tolerance.”

Investing effectively is the key to any form of saving, including pensions. A pension is simply a tax efficient vehicle for different kinds of investment – if the investments perform well, then so will your pension.

“Of course, the flipside is that if the investments perform badly this will have a negative impact on your pension,” explained Colin.

“Our approach is to recommend an investment strategy that takes into account factors such as the client’s retirement objectives, their attitude to investment risk, the need to diversify risk across different classes of investment and investment sectors and the length of the investment term.”

Another key aspect of pension benefits is that an immediate return on investment can be generated from the tax-relief available on pension contributions. For example, an investor paying £80 into a Personal Pension will receive tax relief of £20 immediately, increasing the total investment to £100. This means £100 is paid in to the pension plan at a cost of £80, which represents a 25 per cent increase in the value of the investor’s payment.

A higher rate taxpayer can apply for additional tax relief on pension contributions via self-assessment or the tax office. In the example above, a high earner is potentially eligible for an additional £20 in tax relief, giving total tax relief of £40. In this way, £100 is paid in to the pension at a net cost of £60, which represents a 66.67 per cent increase in the value of the payment.

“In addition to the tax relief on contributions, pension fund investments grow largely free of tax, while a tax-free lump-sum option is available at retirement, and employer payments into pension plans are not treated as a taxable benefit in kind,” added Colin.

“It’s also worth considering that benefits available from pensions on early death are generally arranged outside the investor’s estate and are therefore free of inheritance tax.”

TAKING ADVANTAGE OF ANNUITIES

You wouldn't refuse a pay increase when you're working ... so why do so when you're retiring?

Everyone has the right to take their pension fund at retirement and shop around for the best annuity deal. This is known as the 'Open Market Option' and can significantly increase your retirement income.

Despite this, 60 per cent of those eligible for an annuity do not use their Open Market Option – perhaps because they mistakenly believe they must buy their annuity from the company they saved with for their pension. As a result, they could be allowing significantly better deals to pass them by.

"According to a 2007 Mintel Report, over one million people are due to retire each year. A quarter of these are eligible to buy an annuity, so up to 150,000 people are missing out on a higher income ... for the rest of their lives," explained Edgar Cankalis, financial planning adviser at Taylor Patterson.

"My strong advice is to make sure you aren't one of these people – exercise your Open Market Option and shop around for the best annuity deal.

"If you are healthy, you might be able to increase your income by as much as 21 per cent*. On the other hand, if you're one of the estimated 40 per cent of people who qualify for an 'enhanced annuity', you could improve your lifetime income by up to 41 per cent*."

Put simply, an enhanced annuity pays a higher rate of income than a standard annuity to people with medical and/or lifestyle conditions because their life expectancy is shorter. Moderate cases could qualify for an enhancement of typically 33 per cent. The most serious or 'impaired' cases, with significantly lower life expectancy may get up to 60 per cent more income for life.

Over 1,500 medical conditions qualify on their own or in combination. These range from relatively mild ailments such as angina and asthma to serious life-threatening illnesses.

"An annuity provides a secure way of converting money built-up in your pension fund into a guaranteed regular income during your retirement for as long as you live," added Edgar.

"You normally only get one chance to make the right decision on your annuity and this can make a significant difference to both your income and long-term security. I earnestly recommend that you discuss annuity and the other retirement options with a professional adviser before reaching a final decision."

*Figures based on male, aged 70, fund size of £24,000. Exchange, 27 November 2008



ISA CHANGES BRING OPPORTUNITIES

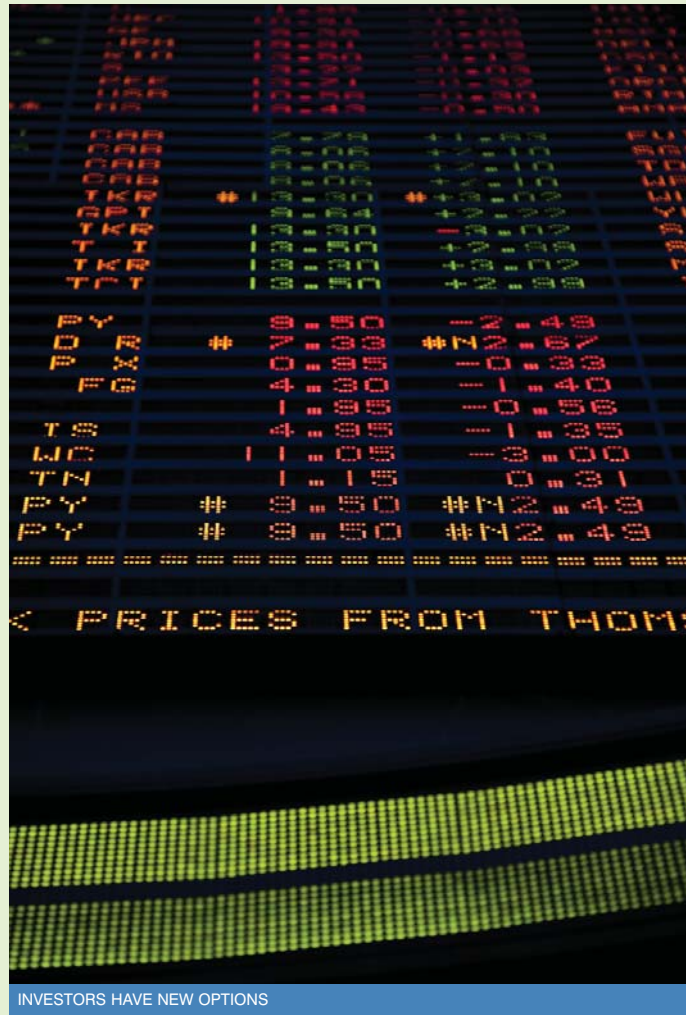
Significant changes to the size and structure of ISA allowances have opened up a number of wealth-enhancing options for investors.

Currently, individuals can save up to £7,200 annually with an ISA and not pay UK tax on any gains or income received from the investment. Up to £3,600 of the allowance can be saved in cash and the balance invested in stocks and shares. Alternatively, the whole allowance can be invested in stocks and shares.

In the last budget, the chancellor announced that the annual allowance available for investment into a stocks and shares ISA will rise from £7,200 to £10,200, with the cash element increasing from £3,600 to £5,100.

“This increased allowance became available from October 6 2009, for people aged 50 or over in the 2009/2010 tax year, and will be available to all investors for the 2010/2011 tax year,” explained Keith Pressler, wealth management adviser at Taylor Patterson.

“In view of the low levels of interest currently being paid on cash deposits, particularly accounts which have been held for several years, investors can take advantage of the potential



for higher returns from stockmarket investments. You can transfer money saved in a cash ISA to a stocks and shares ISA, which also include lower risk

investments such as fixed-interest or absolute return funds as well as equities. However, you can't transfer money the other way.”

The new rules mean some or all of the money saved in previous tax years can be moved from a cash ISA to a stocks and shares ISA without affecting the annual ISA investment allowance. Savers are also able to transfer money saved in the current tax year. Such transfers must be the whole amount saved in the tax year in that cash ISA, up to the day of the transfer.

“There are a number of ways in which the annual ISA allowance can be utilised,” continued Keith. “Firstly, a cash investment can be made up to the ISA limits.

A second and relatively new concept is a transfer of existing investment funds into the ISA. The transaction is effectively a sale and reinvestment and will therefore crystallise either a gain or a loss, which will take advantage of capital gains tax planning.

“Furthermore, these funds will then be held in a tax-efficient environment during the anticipated market recovery in the next few years and will be sheltered from any further capital gains tax, or income tax.”

All transfers are subject to the terms and conditions of your ISA providers.

NEXT STEP...

For further information or advice on any of the issues covered in this feature contact one of our specialists today on 01772 555073