

# Is it time to spring-clean your portfolio?

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Steadier results through a combination of strategies



**NEW PENSION  
RULE CHANGES**  
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# Financial planning is our business.

We're passionate about making sure your finances are in good shape.

Our range of personal financial planning services is extensive, covering areas from pensions to inheritance matters and tax-efficient investments.

Contact us to discuss your current situation, and we'll provide you with a complete financial wealth check.



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# Welcome

Welcome to the latest issue of our magazine, in which we present the key financial planning topics that will help you make more of your money.

As life expectancy rates in the UK continue to rise, the coalition Government estimates that nearly one in five people will live to see their 100th birthday. Radical legislation will be required in an attempt to ensure pension savings are sufficient for these retirees, which in turn will help reduce the burden on the state. As people are also increasingly taking a more flexible approach to retirement, often winding down rather than retiring on a specific fixed date, on page 16 we explain the new rules and consider whether you are likely to be affected.

All investments carry a degree of risk but some are more risky than others. Once you have established a solid foundation of savings for the short term, you may look to investments to provide more growth potential over a longer period, typically five years or more. On page 08, we discuss why no one investment strategy will suit everyone and look at how to divide up your investment portfolio into different types of investments that change over time.

Do you want to grow your capital, increase your income or both? Your answer will determine the type of investments you select and, in addition, you need to be aware of the concept of 'total return'. This is the measurement of performance - the actual rate of return of an investment or a pool of investments over a given evaluation period. Total return includes interest, capital gains, dividends and distributions realised over a given period of time. Read the full article on page 15.

A full list of all the articles featured in this edition appears on page 03.

Content of the articles featured in this publication is for your general information and use only and is not intended to address your particular requirements. They should not be relied upon in their entirety and shall not be deemed to be, or constitute, advice. Although endeavours have been made to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough examination of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions taken in respect of any articles. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts. Levels and bases of and reliefs from taxation are subject to change and their value depends on the individual circumstances of the investor. The value of your investments can go down as well as up and you may get back less than you invested.



# Absolute return funds

Steadier results through a combination of strategies

*In the current investment climate, absolute return funds could offer the ordinary investor access to a range of more sophisticated investment techniques previously only available to the very wealthy.*

These products, which have only become generally available in more recent years, aim to provide a positive return annually regardless of what is happening in the stock market. However, this is not to say they can't fall in value. Fund managers stress that investors should not expect the funds to make money for them month in, month out, but over the medium term – five years – they should produce positive returns.

## INVEST IN A WIDE RANGE OF ASSETS

Absolute return funds achieve their steadier results through a combination of strategies. One strategy is to invest in a wide range of assets, including not only shares, bonds and cash but also the likes of property and hedge funds. Another is to use derivatives, which are specialised products that allow investors to bet on the future price movement of an asset. Crucially, this allows investors to make money when an asset is falling, as well as rising, in price. To make money in a falling market, absolute return managers can make use of sophisticated investment tools such as 'shorting' and 'credit default swaps'.

Used properly, these tools aim to allow absolute return funds to do better than straightforward equity or bond funds when markets are falling. However, they are likely to lag behind their more conventional rivals when markets are rising.

## PRESERVE WEALTH, IN GOOD TIMES AND IN BAD

Absolute return funds have a broad appeal and a place in many investors' portfolios because they aim to do what a lot of investors want, which is to make money and preserve wealth, in good times and in bad.

For the more adventurous investor, absolute return funds could be used as the foundation of a portfolio while buying more aggressive funds alongside. Alternatively, for more cautious investors they could provide a foundation for a more conventional portfolio. However, it is vital that investors choose carefully and obtain professional advice before entering this market.

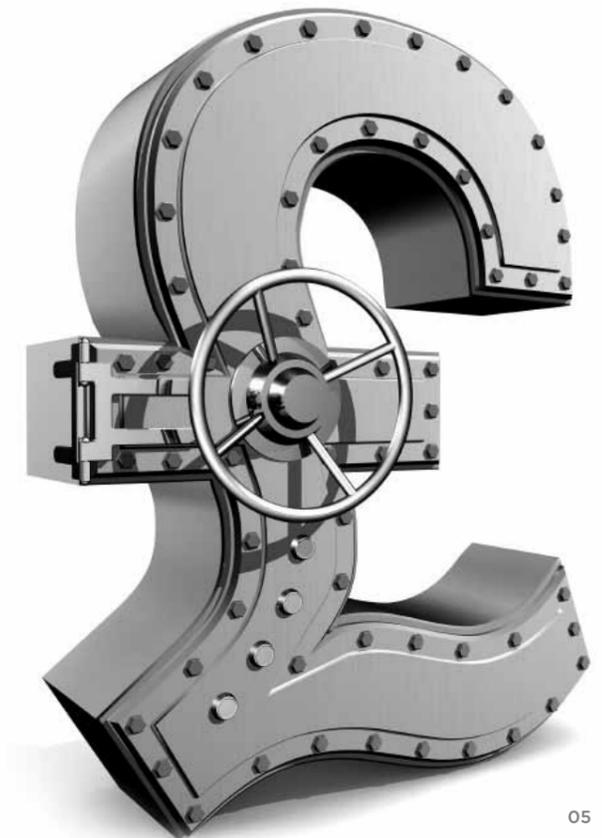
## BUILDING A BALANCED PORTFOLIO

Absolute return funds do not rely heavily on a rising market for their success, rather the skill of the manager. They are therefore a true diversifier and could also be an important tool for building a balanced portfolio that grows over the medium to long term.

“ Absolute return funds achieve their steadier results through a combination of strategies. One strategy is to invest in a wide range of assets, including not only shares, bonds and cash but also the likes of property and hedge funds. ”

Unlike hedge funds, absolute return funds are fully regulated by the Financial Services Authority and investments in them are covered by the Financial Services Compensation Scheme, providing they are based in the UK.

Investors in absolute return funds are principally liable to Capital Gains Tax (CGT), which is charged when you sell an investment and realise 'gains' (profits) above a certain level. Current CGT rates are 18 per cent or 28 per cent for basic and higher rate tax payers respectively. In addition, every investor can also realise £10,600 of profits in the current 2011/12 tax year without having to pay CGT. ■



## PENSION REFORMS

### Radical changes announced to the public sector

Labour peer Lord Hutton has recommended to ministers that public sector workers should no longer have final salary pensions. Instead they should have schemes linked to average earnings, while paying more and working longer.

From 2015, most of the six million state employees will be expected to retire at the state pension age, which is due to rise to 66 by 2020. Armed Forces personnel, firemen and police officers, who can currently retire in their 50s or even younger, would have to wait until they reach 60 to receive a pension.

Lord Hutton was asked to draw up plans for the future of public sector pensions, which have become increasingly unaffordable as life expectancy rises. This would mean the end of final salary schemes, which have largely disappeared in the private sector. However, rather than replacing them with the defined benefit schemes common in the wider pensions industry, he has recommended that the relatively liberal career average earnings system be adopted.

Lord Hutton says that, while the special status of these workers should be respected, it is no longer acceptable for pensions to be paid in early middle age. In future, the uniformed services should not be able to retire before their 60th birthday. He also says that it should be possible to introduce the new pension ages by the end of the current Parliament, in 2015.



## Estate planning

### Tax saving incentives for substantial charitable legacies

*If you have an estate currently worth more than £325,000, you should plan early and act decisively if you are to avoid burdening your heirs with a future Inheritance Tax (IHT) liability.*

During Budget 2011 measures were announced to encourage charitable giving that will be of interest to both the voluntary sector and those who donate to charity. The reduction from 40 per cent to 36 per cent in the rate of IHT will become applicable from 6 April 2012 where 10 per cent or more of a deceased's net estate is left to charity.

The current £325,000 nil rate IHT band is frozen until April 2015 and will be indexed against the Consumer Prices Index measure of inflation.

The move to boost philanthropy, known as '10 for 10', will cost the Treasury about £170m a year by 2015/16 but it is estimated the measure could result in more than £350m worth of additional legacies in the first four years of the scheme.

The Chancellor, Mr Osborne told the Commons: 'If you leave 10 per cent or more of your estate to charity, then the Government will take 10 per cent off your

IHT rate. Let's be clear: no beneficiaries will be better off, just the charities to the tune of £300m. I want to make giving 10 per cent of your legacy to charity the new norm in our country.'

People with estates larger than £325,000 should arrange their affairs carefully to avoid paying more IHT than they need to. It's never too early to think about this subject. There is a plethora of things people can do to reduce a liability and ensure they leave the maximum amount to their family and not the taxman. ■

THIS IS A VERY COMPLICATED AREA OF FINANCIAL PLANNING AND OBTAINING PROFESSIONAL ADVICE IS ESSENTIAL TO PRESERVE YOUR WEALTH FOR FUTURE GENERATIONS. FOR INFORMATION ABOUT HOW WE COULD HELP YOU, PLEASE CONTACT US TO DISCUSS YOUR REQUIREMENTS.

# You've protected your most valuable assets.

## But how financially secure are your dependents?

Timely decisions on how jointly owned assets are held, the mitigation of inheritance tax, the preparation of a will and the creation of trusts, can all help ensure your dependents are financially secure.

Contact us to discuss how to safeguard your dependents, wealth and assets, don't leave it until it's too late.

# Is it time to spring-clean your portfolio?



Picking the right combination of assets will depend on your risk profile

*All investments, including cash deposits, carry a degree of risk but some are more risky than others. Once you have established a solid foundation of savings for the short term, you may look to investments to provide more growth potential over a longer period, typically five years or more. There is no one investment strategy that suits everyone and your decisions on how to divide up your investment portfolio into different types of investment will change over time.*

If appropriate to your particular situation, the start of the new 2011/12 tax year is a good time to reconsider your attitude towards risk for return and give some thought to whether the structure of your portfolio is still in line with your investment aims and objectives or whether your investment attitude has changed. Also, in the current economic climate, with interest rates so low and the prospects of future rising inflation, you could be losing out by keeping your money in a savings account because inflation is beating the return on interest rates and, therefore, the real spending power of your money is less.

## THE IMPORTANCE OF DIVERSIFICATION

You should consider the weighting and balance of the constituents of

your portfolio. Above all, there is the importance of diversification, both geographically and between sectors, even between asset classes and the weightings you wish to keep in each part of your portfolio. Not having all your eggs in one basket means that if one part of your portfolio underperforms, this could be compensated for elsewhere.

When you choose to invest, your money can be spread across five main types of asset:

- Cash
- Gilts (Government bonds)
- Corporate bonds
- Equities (stocks and shares)
- Property

You should remember that different types of investments may receive different

tax treatment, which could affect your choice. These asset classes have different risk characteristics and whilst these implicit risks cannot be avoided, they can be mitigated as part of the overall investment portfolio by diversifying.

Saving your money in a range of assets helps reduce your exposure should one of your investments suffer a downturn. For many investors the creation of a 'balanced' portfolio means spreading investments across a range of products to minimise risk exposure.

Given some forward planning, you could decide on the amount of risk with which you're most comfortable. By spreading your investments over a wide range of asset classes and different sectors, it is possible to mitigate the risk that your portfolio becomes overly reliant on the performance of

“ Saving your money in a range of assets helps reduce your exposure should one of your investments suffer a downturn. For many investors the creation of a 'balanced' portfolio means spreading investments across a range of products to minimise risk exposure. ”

one particular asset. Key to diversification is selecting assets that behave in different ways.

## A 'SAFETY NET' BY DIVERSIFYING

Some assets are said to be 'negatively correlated' - for instance, bonds and property often behave in a contrary way to equities by offering lower, but less volatile returns. This provides a 'safety net' by diversifying many of the risks associated with reliance upon one particular asset. It is also important to diversify across different 'styles' of investing, such as growth or value investing, as well as across different sizes of companies, and different sectors and geographic regions.

Growth stocks are held because investors believe their value is likely to grow significantly over the long term, whereas value shares are held because they are regarded as being cheaper than the intrinsic worth of the companies in which they represent a stake. By mixing styles that can outperform or under-perform under different economic conditions, the overall risk rating of the investment portfolio is reduced. Selecting the right combination of these depends on your risk profile, so it is essential to seek professional advice to ensure that your investment portfolio is commensurate with your attitude to investment risk.

## DID YOU KNOW?

Since April 1962 to February 2010, shares have beaten cash:

- in 92.3 per cent of all 10-year periods
- in 100 per cent of all 15-year periods
- in 100 per cent of all 20-year periods

*Source: The Office for National Statistics and M&G data, February 2010*

The important thing to remember about investments is that, even if your investment goes down, you will only actually make a loss if you cash it in at that time. You should be prepared to take some risk and you may see some falls in the value of your investments.

There is also the issue surrounding currency risk. Currencies - for example sterling, euros, dollars and yen - move in relation to one another. If you are putting your money into investments in another country, then their value will move up and down in line with currency changes as well as the normal share-price movements.

Another consideration is the risk of inflation. Inflation means that you will need more money in the future to buy the same things as now. When investing, therefore, beating inflation is an important goal. ■

## SPRING-CLEANING YOUR PORTFOLIO

When reassessing your financial plans, it's important to consider the five steps below before you do anything with your money.

- 1) What are your financial goals?
- 2) What's your time frame?
- 3) What is your attitude to risk?
- 4) How much can you afford to invest?
- 5) Have you obtained professional financial advice?

TO DISCUSS HOW WE COULD HELP YOU REASSESS YOUR ATTITUDE TOWARDS RISK, GET AN OVERVIEW OF SOME OF THE ALTERNATIVE TYPES OF INVESTMENTS THAT ARE AVAILABLE AND HELP YOU MAKE INFORMED DECISIONS ABOUT HOW, WHEN AND WHERE TO INVEST FOR THE FUTURE, PLEASE CONTACT US.

*The value of investments and the income from them can go down as well as up and you may not get back your original investment. Past performance is not an indication of future performance. Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts.*

# Taxing times

## How the taxman treats investments

*Different investments are subject to different tax treatment. The following is based on our understanding, as at 6 April 2011, of current taxation, legislation and HM Revenue & Customs (HMRC) practice, all of which are subject to change without notice. The impact of taxation (and any tax relief) depends on individual circumstances.*

### UNNECESSARY TAX ON SAVINGS

If you or your partner is a non-taxpayer, make sure you are not paying unnecessary tax on bank and savings accounts. Avoid the automatic 20 per cent tax deduction on interest by completing form R85 from your bank or product provider or reclaim it using form R40 from HMRC.

### INDIVIDUAL SAVINGS ACCOUNTS (ISAS)

You pay no personal Income Tax or Capital Gains Tax (CGT) on any growth in an ISA, or when you withdraw your money. You can save up to £10,680 per person in an ISA in the 2011/12 tax year. If you invest in a Stocks and Shares ISA, any dividends you receive are paid net, with a 10 per cent tax credit. The tax credit cannot be reclaimed by anyone including non taxpayers. There is no further tax liability. The impact of taxation (and any tax reliefs) depends on your individual circumstances.

### NATIONAL SAVINGS & INVESTMENTS (NS&I)

You can shelter money in a tax-efficient way within this Government-backed savings institution. During Budget 2011 it was announced that NS&I is to relaunch index-linked savings certificates. Returns will be tax-free and the maximum that can be saved is £15,000 per individual per investment.

### UNIT TRUSTS AND OPEN-ENDED INVESTMENT COMPANIES (OEICS)

With a Unit Trust or OEIC your money is pooled with other investors' money and can be invested in a range of sectors and assets such as stocks and shares, bonds or property. **Dividend income from OEICS and unit trusts invested in shares:** if your fund is invested in shares, then any dividend income that is paid to you (or accumulated within the fund if it is reinvested) carries a 10 per cent tax credit.

If you are a basic rate or non taxpayer, there is no further income tax liability.

Higher rate taxpayers have a total liability of 32.5 per cent on dividend income and the tax credit reduces this to 22.5 per cent, while additional rate taxpayers have a total liability of 42.5 per cent reduced to 32.5 per cent after tax credit is applied.

**Interest from fixed interest funds:** any interest paid out from fixed interest funds (these are funds that invest, for example, in corporate bonds and gilts, or cash) is treated differently to income from funds invested in shares. Income is paid net of 20 per cent tax. Non taxpayers can re-claim this amount, basic rate taxpayers have no further liability; higher rate taxpayers pay an additional 20 per cent, additional rate taxpayers pay 30 per cent (whether distributed or re-invested).

**Capital Gains Tax (CGT):** no CGT is paid on the growth in your money from the investments held within the fund, but when you sell, you may have to pay CGT. You have a personal CGT allowance that can help limit any potential tax liability.

**Accumulated income:** this is interest or dividend payments that are not taken but instead reinvested into your fund. Even though they are reinvested, they still count as income and are subject to the same tax rules as for dividend income and interest.

### ONSHORE INVESTMENT BONDS

Investment bonds have a different tax treatment from many other investments. This can lead to some valuable tax planning opportunities for individuals. There is no personal liability to CGT or basic rate Income Tax on proceeds from your bonds. This is because the fund itself is subject to tax, equivalent to basic rate tax.

You can withdraw up to 5 per cent each year of the amount you have paid into your bond without paying any immediate tax on it. This allowance is cumulative, so any unused part of this 5 per cent limit can be carried forward to future years (although the total cannot be

“ If you or your partner is a non-taxpayer, make sure you are not paying unnecessary tax on bank and savings accounts. Avoid the automatic 20 per cent tax deduction on interest by completing form R85 from your bank or product provider or reclaim it using form R40 from HM Revenue & Customs. ”

greater than 100 per cent of the amount paid in). If you are a higher or additional rate taxpayer now but know that you will become a basic rate taxpayer later (perhaps when you retire, for example), then you might consider deferring any withdrawal from the bond (in excess of the accumulated 5 per cent allowances) until that time. Whether you pay tax will depend on factors such as how much gain is realised over the 5 per cent allowance (or on full encashment) and how much other income you have in the year of encashment (the gain plus other income could take you into the higher rate tax bracket). Those with age-related allowances could lose some or all of this allowance if the gain on a bond added to other income takes them over £24,000 in the 2011/12 tax year, which equates to a marginal rate of tax on 'the age allowance trap' element of their income chargeable at 30 per cent.

If you do defer withdrawal, you will not usually need to pay tax on any gains. However, this will depend on your individual circumstances at that time and, as such, you should seek professional financial and tax advice regarding this complex area.

The taxation of life assurance investment bonds held by UK corporate investors

changed from 1 April 2008. The bonds fall under different legislation and corporate investors are no longer able to withdraw 5 per cent of their investment each year and defer the tax on this until the bond ends.

### OFFSHORE INVESTMENT BONDS

Offshore investment bonds are similar to onshore investment bonds (above) but there is one main difference. With an onshore bond, tax is payable on gains made by the underlying investment, whereas with an offshore bond no income or CGT is payable on the underlying investment. However, there may be an element of withholding tax that cannot be recovered.

The lack of tax on the underlying investment means that potentially it can grow faster than one that is taxed. Tax may, however, become payable on a chargeable event (usually on encashment or partial encashment) at a basic, higher or additional rate tax as appropriate. Remember that the value of your fund can fluctuate and you may not get back your original investment.

### UK SHARES

If you own shares directly in a company you may be liable to tax.

Any income (dividends) you receive from your shares carries a 10 per cent tax credit. Higher rate taxpayers have a total liability of 32.5 per cent on dividend income and the tax credit reduces this to 22.5 per cent, while 50 per cent additional rate taxpayers have a total liability of 42.5 per cent reduced to 32.5 per cent after tax credit is applied.

When you sell shares, you may be liable to CGT on any gains you might make. Current CGT rates are 18 per cent or 28 per cent for basic and higher rate tax payers respectively. You have an annual allowance and special rules apply to calculating your gains or losses. ■

WE ARE COMMITTED TO MEETING THE NEEDS OF OUR CLIENTS AND HELPING THEM BUILD WEALTH IN THE MOST TAX-EFFICIENT WAY. THERE ARE MANY DIFFERENT WAYS TO GROW YOUR WEALTH. OUR SKILL IS IN HELPING YOU TO UNDERSTAND THE CHOICES AND THEN HELPING YOU MAKE THE INVESTMENT DECISIONS THAT ARE RIGHT FOR YOU. FOR MORE INFORMATION, PLEASE CONTACT US TO DISCUSS YOUR REQUIREMENTS.

# Get your pension planning back on track

## Are you financially prepared for retirement?

If you are a 50-something, are you financially prepared for retirement? It is estimated that one third of people in this age group have no retirement savings at all. However, the plans you make in the final approach to retirement can have the most significant impact on the size of your eventual pension.

For those in their 50s, pension planning has always been particularly important, but today's 50-somethings face a series of challenges that no other generation has had to deal with. This age group has benefited from huge improvements in health and longevity; men retiring at 65 can now expect to live into their early 80s, while women of the same age can expect to celebrate their 85th birthday.

Many people currently in their 50s have also seen their pensions and savings squeezed from all sides, with company pension schemes being cut back while the value of the state pension has fallen. Ignoring the problem completely is likely to make it significantly worse.

Planning for retirement is one of the biggest financial challenges people face, and the one you can least afford to get wrong. If you are in your 50s and find yourself in this position, there are steps you can take to improve your pension prospects.

### WE CAN HELP YOU GET YOUR PENSION PLANNING BACK ON TRACK

#### COUNTDOWN TO RETIREMENT – 10 YEARS REMAINING

Before you can draw up financial plans for the future, you need a clear view of your current position. Do you know what you are worth? As a starting point, people should establish what their likely state pension entitlement would be. This can be done by completing a form BR19, available at [www.direct.gov.uk](http://www.direct.gov.uk). You should also contact the pension trustees of your

current and previous employers, who will be able to provide pension forecasts, as will the companies managing any private pension plans.

You then need to consider how much income you'll need in retirement. It's important to be realistic – you may spend less if you are not commuting to work, for example – but don't forget to factor in holidays, travel and any debts you may still have.

If you are currently on target to receiving less than you'd ideally like, it is essential that you obtain professional advice about how you can make up any shortfall. With ten years or less to retirement, you need to maximise your savings during this period and not only into pensions but utilising other appropriate investments. You will need to consider whether options such as retiring later or working part-time beyond your retirement date may be a more realistic way of meeting your retirement goals.

It is not only how much you save but where it is invested that can make a difference. We can assist you to carry out an audit of existing pension plans and help you look at where they are invested, how they have performed and what charges are levied on them. It may even be appropriate to consolidate existing pension plans or take steps to protect capital values – there are a number of guaranteed products that could help you achieve this.

As part of this review we can also look at the diversification of your assets, as this can help protect against sudden market movements. With a ten-year time frame, investors need to weigh up the risks of equity investments against safer cash-based products.

Generally, the nearer you are to drawing your pension, the less investment risk you should take. But over this period it is reasonable to include equities within a mixed portfolio, particularly given the very low returns currently available on

cash. Bonds, gilts and some structured products may also provide a halfway house between cash and equities.

#### COUNTDOWN TO RETIREMENT – 5 YEARS REMAINING

During this period we can help you review your retirement goals. It's also important to obtain up-to-date pension forecasts. Is retiring at the age you planned still realistic and achievable?

As you approach the final five years, you'll need to consider moving any stock market-based investments into safer options such as cash, bonds or gilts. If there is a sudden market correction now, you may have insufficient time to make good any losses.

If you have any lost pensions and need help contacting the provider, the Pension Tracing Service (0845) 600 2537 may be able to help. The tracing service will use this database, to search for your scheme and may be able to provide you with current contact details. The information can be used to contact the pension provider and find out if you have any pension entitlement.

Potentially you now have just 60 paydays remaining until you retire. So it's essential that you save what you can during this period, taking advantage of pensions and tax-efficient investments. Remember, this money will have to produce enough income for you to live off for potentially more than 20 years.

If you have maximised your pension contributions, it is also possible to contribute into a partner's pension plan. So don't forget to consider a spouse's pension. If you are a higher earner in a final salary scheme, you should ensure that any additional pension savings don't breach the 'lifetime allowance' as this could generate a tax bill. The lifetime allowance will be reduced from £1.8m to £1.5m from April 2012. Also, if you still have outstanding debts, such as a mortgage or credit cards, you should use any surplus money to reduce them.

Deciding how to take your pension benefits is one of the most important financial decisions you're ever likely to make. It's important not to leave it until the last minute to decide what you will do with your pension fund. You need to obtain professional advice and consider your options properly; simply buying the annuity offered by your pension provider could significantly reduce your income in retirement and there is no second chance to make a better decision.

You also have other retirement alternatives available and the freedom to choose when and how you take your pension, with the previous compulsory annuity age of 75 withdrawn. Under the new annuity purchase rules, you are given more flexibility about how you choose to use your retirement savings. You can still convert funds to an annuity if you wish, but you also have more

“ It is estimated that one third of people in their 50s have no retirement savings at all. ”

options such as a drawdown pension and continued pension investment.

#### COUNTDOWN TO RETIREMENT – 6 MONTHS REMAINING

You will need to contact your pension providers to find out how your pension will eventually be paid and to ascertain the value. If you decide to defer your retirement you will have to inform your pension providers.

If you decide to purchase an annuity you should seek professional advice to ensure that you get the best rate. If you smoke or have certain health problems, even minor ones, inform the annuity provider as you may obtain a better rate.

By deferring taking your state pension, you could qualify for a bigger pension. If you opt to do this you'll need to contact the Pensions Service. If you work beyond your retirement age you do not have to make National Insurance contributions. Any additional money earned could be saved in a pension plan. ■

CHOOSING HOW TO TAKE YOUR PENSION BENEFITS IS ONE OF THE MOST IMPORTANT DECISIONS YOU'LL MAKE, SO IT'S VITAL YOU HAVE ALL THE FACTS. TO FIND OUT MORE ABOUT HOW WE CAN HELP YOU, PLEASE CONTACT US.

# Isn't it time you had a financial review?

We'll make sure you get the right advice for your individual needs.

We provide professional financial advice covering most areas of financial planning, including, tax-efficient savings, investment advice, retirement planning, estate & inheritance tax planning, life protection, critical illness cover and income protection.

**To discuss your options, please contact us.**

## How focused is your portfolio?

Investing for growth, income or both

Do you want to grow your capital, increase your income or both? Your answer will determine the type of investments you select and, in addition, you need to be aware of the concept of 'total return'. This is the measurement of performance - the actual rate of return of an investment or a pool of investments over a given evaluation period. Total return includes interest, capital gains, dividends and distributions realised over a given period of time.

### INCOME AND CAPITAL APPRECIATION

Total return accounts for two categories of return: income and capital appreciation. Income includes interest paid by fixed-income investments, distributions or dividends. Capital appreciation represents the change in the market price of an asset. Total return looks to combine income with capital growth to achieve the best overall return.

Whether you choose an income or a growth fund will typically depend on your circumstances and objectives - in other words, your investment time frame, your attitude towards investment risk and what you need the investment to provide for you.

### A REGULAR STREAM OF INCOME

If you need a regular stream of income, focusing your portfolio on assets that will help you achieve this, such as cash and bonds, will provide a fixed income. If you have a longer investment time period or you do not need an immediate income, you could consider a larger allocation to growth-focused investments.

It is possible to buy an income fund and a growth fund to capitalise on the advantages that come with each type of investment strategy. Some investment houses manage both income and growth funds, which provide a little of each style in the same fund; however, there is usually less choice available.

Whatever your preference, if you hold a variety of investments, both growth and income, you should be better prepared for

future economic ups and downs. As your financial situation changes over time, you may need to make the necessary adjustments to your investment portfolio and switch from growth assets to income.

### INVESTMENT TIMELINE

Broadly speaking, younger people are saving for the long term and don't necessarily need their investments to produce a current income but will be looking to guard against inflation. Under these circumstances growth funds may be more appropriate.

For middle-aged investors, growth funds are still generally the right option, but the amount invested is likely to be larger as a result of higher income and savings accumulated over previous years. With a secure capital base behind them, middle-aged investors may also consider putting part of their savings into some higher risk investments, such as more specialised pooled funds.

When investors start to approach retirement, their priorities change. Having built up a capital sum, they usually need to start switching towards funds that provide an income once they stop work. Although share-based investment funds tend to do well over the long term, they can swing sharply in value over the short term. So people of retirement age should perhaps consider switching into more defensive, income funds at this point. ■

WE UNDERSTAND THAT CHOOSING INVESTMENTS CAN BE DIFFICULT, SO WHETHER YOU'RE A FIRST-TIME INVESTOR OR AN EXPERIENCED ONE, WE CAN HELP YOU TO EXPLORE YOUR OPTIONS AND TAILOR YOUR PORTFOLIO. THIS COULD BE AS SIMPLE AS ENSURING YOU GET THE BEST RATES FOR SHORT-TERM CASH MANAGEMENT, OR A MORE COMPLEX UNDERTAKING TO CREATE AN INVESTMENT PORTFOLIO TO GROW YOUR WEALTH FOR THE LONG TERM. PLEASE CONTACT US FOR MORE INFORMATION.

## GENDER-BASED INSURANCE RATES

EU rules against sex discrimination

The European Court of Justice has ruled that gender-based insurance rates are unlawful in a move that could lead to a shake-up in the annuity market. This major ruling takes effect from 21 December 2012 and will fundamentally reshape the retirement landscape, leading to the likely equalisation of annuity rates for men and women. This ruling means it will be imperative that every investor shops around with their pension fund at retirement; if they don't they risk ending up with a homogenised standard-issue annuity which is almost certain to be a poor deal for them.

Following this announcement, it would be natural to assume that rates may drift towards the middle of where male and female rates currently stand. However, to begin with, insurers might be very conservative about the annuity rates they offer and we could see rates for men cut to where female rates are without much, if any, rise in rates for women.

The ruling may also encourage insurers to build more personalised pricing systems, leading to annuity income becoming more related to you and your individual lifestyle. To some extent this process is already under way with the expansion of enhanced annuities offering a higher income if you have health problems or are a smoker.

# Take a more flexible approach to retirement

## How the new rule changes could affect your future planning

*As life expectancy rates in the UK continue to rise, the coalition Government estimates that nearly one in five people will live to see their 100th birthday. Radical legislation will attempt to ensure pension savings are sufficient for these retirees, which in turn will help reduce the burden on the state.*

People are also increasingly taking a more flexible approach to retirement, often winding down rather than retiring on a specific fixed date. The new rules allow for that flexibility, enabling you to secure income from part of your pension while keeping the rest invested, for instance. If you are under 75 you are likely to be affected. Even people with some years to go until retirement have something to think about.

While the new rules make these retirement options possible, not all pension providers will necessarily offer all the options. Very few providers already have a drawdown option for traditional personal pension plans. Fewer still are expected to offer flexible drawdown. So these rule changes mean that now is an appropriate time to discuss your pension arrangements with us. On the right, we have provided a summary of the retirement rule changes.

### NEW RETIREMENT RULE CHANGES FROM 6 APRIL 2011

- The maximum pension contribution limit is reduced to £50,000 from £255,000 annually. The balance of a notional £50,000 annual allowance from the previous three tax years can be carried forward, allowing for potential catch up in 2011/12.
- The previous types of income-drawing arrangement have been abolished and replaced by the simple term 'drawdown pension', of which there are two types - capped and flexible.
- To qualify for flexible drawdown, you must have a secure income stream already in payment of £20,000 per year or more.
- Under capped drawdown, the maximum annual income is based on a Government Actuary Department (GAD) calculation of 100 per cent of the relevant annuity, instead of the previous 120 per cent.

- Your GAD maximum will be reviewed every three years up to age 75 and annually thereafter.
- Drawdown is available from age 55 (or earlier for those with a protected pension age) with no upper age restriction.
- If you die after starting to draw an income from your pension, any remaining pension fund will be taxed at 55 per cent, regardless of your age.
- Until age 75, there will be no tax charge on death for undrawn funds and a lump sum can be paid to your beneficiaries. After age 75, undrawn funds will be taxed at 55 per cent on death, but ring-fenced from the rest of your estate.
- Defined benefits will be valued using a flat factor of 16.
- The Lifetime Allowance will be reduced from £1.8m to £1.5m from April 2012.
- Tax charges are applicable on funds in excess of the Lifetime Allowance.

WITH THE INTRODUCTION OF THE NEW PENSION RULES, THERE'S NO BETTER TIME TO REVIEW YOUR EXISTING ARRANGEMENTS. THIS IS A COMPLEX SUBJECT AND RECEIVING PROFESSIONAL ADVICE ABOUT THESE CHANGES AND HOW TO COPE WITH THE NEW MINIMUM INCOME REQUIREMENT IS ESSENTIAL TO ENSURE YOU MAXIMISE YOUR RETIREMENT INCOME. TO DISCUSS YOUR PARTICULAR REQUIREMENTS, PLEASE CONTACT US FOR FURTHER INFORMATION.

# Retirement Options

## Your questions answered

	Conventional Lifetime Annuity	Drawdown	Flexible Drawdown
<b>Can I get tax-free cash?</b>	Yes, up to 25 per cent of your pension fund	Yes, up to 25 per cent of your pension fund	Yes, up to 25 per cent of your pension fund
<b>I'm over 55, how do I qualify?</b>	Anybody with a private pension can buy an annuity	Anybody with a private pension can go into drawdown, but not all pension providers offer the option	Anybody with a minimum secure pension income of at least £20,000 a year can go into flexible drawdown but not all pension providers offer this option
<b>How much income will I get?</b>	It depends on the size of your pension pot and the annuity rate (you can shop around to secure the best rate)	As little or as much as you want, within a yearly maximum limit	As little or as much as you want up to 100 per cent of your pension, provided you qualify
<b>How much tax will I pay?</b>	Your income is taxed at source under PAYE (Pay As You Earn)	Your income is taxed at source under PAYE (Pay As You Earn)	Regular payments and cash withdrawals are taxed as income at source under PAYE (Pay As You Earn)
<b>What happens to my pension?</b>	You exchange your fund for a secure income from an insurance provider	Your pension (or part of it) stays invested	Your pension (or part of it) stays invested
<b>What are the risks?</b>	None. Your income is secure and it never runs out	As at least part of your pension is invested, its value could go up as well as down. In the worst case scenario, the value of your pension could be completely eroded. You might live longer than you expect	Any part of your pension that remains invested could go up as well as down in value. In the worst case scenario, the value of your pension could be completely eroded. You might live longer than you expect
<b>What investment choice do I have?</b>	No investment choice needed	As much or as little as your pension provider allows	As much or as little as your pension provider allows
<b>What happens if I die after I take it out?</b>	There is nothing payable unless you have selected a joint life annuity, an annuity guaranteed for a term, or value protection	The rest of your funds can be used to provide an income for a dependant or can be passed on to a beneficiary as a lump sum, subject to a 55 per cent tax charge	The rest of your funds can be used to provide an income for a dependant or can be passed on to a beneficiary as a lump sum, subject to a 55 per cent tax charge

To discuss your options at retirement please contact us for further information.

# National Savings & Investments

## Reintroduction of index-linked savings certificates pegged to the retail prices index

National Savings & Investments (NS&I) is to relaunch index-linked savings certificates pegged to the retail prices index (RPI). NS&I withdrew the certificates last July after they became over subscribed. Currently they are only open to clients who have certificates that are maturing.

Returns will continue to be linked to RPI and tax-free. The maximum that can be saved is £15,000 per individual per investment. Typically certificates pay a specified rate plus RPI. Certificates will be on sale at a later date.

The Chancellor, George Osborne has agreed a £2bn target for new funds to be raised by the Government bank, which will pave the way for the reintroduction of bonds paying out interest based on the retail prices index.

In a statement, NS&I said: "NS&I's target for net financing for 2011/12 is £2bn in a range of £0bn to £4bn. This positive net financing target will allow NS&I to plan the reintroduction of savings certificates for general sale in due course. Currently only savers with maturing investments in savings certificates can continue to rollover their investments for a further term.

"Subject to market conditions, NS&I expect to be bringing savings certificates back on general sale in 2011/12. NS&I can also confirm that a new issue of index-linked savings certificates will retain index-linking against the RPI". ■

“ National Savings & Investments (NS&I) is to relaunch index-linked savings certificates pegged to the retail prices index (RPI). NS&I withdrew the certificates last July after they became over subscribed. Currently they are only open to clients who have certificates that are maturing. ”

### NEWS IN BRIEF

#### JUNIOR INDIVIDUAL SAVINGS ACCOUNT

##### Savings for children in Britain

A new tax-efficient children's savings account, known as the Junior Individual Savings Account (ISA), is available from 1 November 2011. The decision to introduce the Junior ISA was unveiled last October following the announcement that Child Trust Funds (CTFs) would cease for babies born after 2010. Parents can either save in a Cash ISA or invest in a Stocks and Shares ISA.

Parents, family and friends can contribute up to £3,000 a year. Any child resident in the UK who isn't eligible for a Child Trust Fund:

- Children born on or after 3 January 2011
- Under 18's born before September 2002

However, unlike CTFs, there will be no Government contributions to the Junior ISA.

## State pension age

### Helping Britain live within her means

Employees could see their retirement pushed back at least 12 months every two years after the Chancellor, George Osborne announced plans during his second Budget speech to link the pension age to rising longevity. The Chancellor announced a mechanism to raise the state retirement age automatically in line with life expectancy. The pension age is already due to increase to 66 by 2020.

Mr Osborne said it would no longer be "affordable" to provide an adequate state pension when most people could retire at the relatively young age of 65 or earlier. In future, he said, regular, independent reviews should establish longevity rates, which would then be used to decide the state pension age.

Retirement for public sector employees is due to be linked to the state pension age by the end of the current Parliament. Longevity is rising at a rate of seven months every year, meaning that, under the proposal, employees in their twenties, thirties and forties could find

themselves working beyond their 75th or even 80th birthday.

A number of other European countries, including Sweden, Norway and Germany, have introduced some link between the state retirement age and life expectancy. Mr Osborne said that adopting a similar link would "help Britain live within her means". He said he wanted pensions which were fair to workers and "fair to the taxpayers who have to fund them".

Large pension funds increased their longevity expectations for the fourth year running last year, saying they expected future pensioners to live an extra seven months. Men who are currently 65 should expect to live until they are 87 years and five months, while women will survive to nearly 90 on average.

At the current rate, by 2066, around half a million people a year will be celebrating their 100th birthday, compared with about 10,000 now. ■

# Budget 2011 at a glance

The key announcements from the Chancellor's second Budget speech

## ECONOMY

The independent Office for Budget Responsibility (OBR) forecasts growth of 1.7 per cent (down from 2.1 per cent) for 2011, 2.5 per cent next year, 2.9 per cent in 2013, 2.9 per cent in 2014 and 2.8 per cent in 2015 (this compares to OECD forecast of 1.5 per cent for 2011 and 2.0 per cent for 2012).

The OBR forecasts inflation to remain between 4 per cent and 5 per cent for most of this year, dropping to 2.5 per cent next year and 2 per cent in two years' time.

## BORROWING

Borrowing for this year to be £146bn – below the Government target. Borrowing will fall to £122bn next year, then £101bn in 2012/13, £70bn in 2013/14, £46bn in 2014/15 and £29bn in 2015/16.

Public sector net borrowing will decline from its peak of 11.1 per cent of GDP in 2009/10 to 1.5 per cent of GDP in 2015/16; the cyclically-adjusted or “structural” current deficit will be eliminated by 2014/15, with a projected surplus of 0.4 per cent of GDP in that year, rising to 0.8 per cent of GDP in 2015/16.

Public sector net debt will peak at 70.9 per cent of GDP in 2013/14,

before declining to 70.5 per cent of GDP in 2014/15 and 69.1 per cent of GDP in 2015/16.

## FUEL DUTY

New fair fuel stabiliser to be introduced, funded by increasing the supplementary charge on North Sea oil and gas production which increased from 20 per cent to 32 per cent from 24 March.

Fuel duty cut by 1p a litre from 6pm on 23 March.

Fuel duty escalator that adds 1p to fuel duty on top of inflation each year to be cancelled for the rest of this Parliament.

## TAXATION

Personal tax allowance to rise from £7,475 to more than £8,105 in April 2012.

43 tax reliefs abolished to simplify the system.

Merging of National Insurance Contributions and Income Tax.

Rate relief holiday for small businesses extended to October 2012.

Tax avoidance loopholes to be closed, raising £1bn.

Charge on non-domiciled taxpayers to increase from £30,000 for those here for seven years to £50,000 for those in the country for 12 years.

Council tax frozen or reduced this year in every English council.

## HOUSING

Reviews launched of the revenue raised by the 50 per cent tax rate and the taxation of very high-value property.

£250m to help first-time buyers purchase newly-built homes.

Support for Mortgage Interest scheme extended to January 2013.

## ENTERPRISE

Corporation Tax cut by 2 per cent from 6 April 2011 - rather than 1 per cent as previously announced - and will fall by 1 per cent in each of the next three years to reach 23 per cent. Bank Levy rate to be adjusted next year to offset the effect of Corporation Tax reduction on banks.

£350m worth of regulation on businesses removed. Relief for entrepreneur tax doubled to £10m.

Entrepreneurs' relief scheme doubled to £10m from 6th April 2011.

Small business rate relief holiday extended by one year to October 2012.

21 new enterprise zones to be funded, including in Manchester, Birmingham and London. Ten others to be named in the summer.

Help for manufacturing to include new export credits, a technology and innovation centre and nine new university centres.

Investment of £100m in new science facilities in Cambridge, Norwich, Harwell and Daresbury, funded from the Bank Levy.

All planning bodies to prioritise growth. Default answer to development will be “yes”.

Income Tax relief on Enterprise Investment Scheme's increased from 20 per cent to 30 per cent.

Small companies' Research and Development tax credit increased to 200 per cent from 6 April and 225 per cent in 2012.

New funding to double the number of university technical colleges from 12 to at least 24.

Number of places on a new work experience scheme to increase to 100,000 over two years, rather than 20,000 as previously announced.

Funding for 40,000 new apprenticeships for young unemployed.

## PENSIONS

State Pension Age to rise to 66 by 2020.

Government to seek automatic mechanism for future increases in state pension age, based on regular reviews of longevity.

New single-tier pension, worth £140 a week, set just above means-tested pension credit of £137.35. This will not apply to current pensioners.

## CHILDREN

New tax-efficient children's savings account, known as the Junior Individual Savings Account (ISA).

## ENVIRONMENT

Green Deal to reduce energy bills from next year.

New “Green Investment Bank”, will have access to £3bn of funds and starts operating in 2012.

The UK to become the first country in the world to introduce a carbon price floor for the power sector.

Public money will cut unusually high water bills in South West England.

Climate Change Levy discount on electricity for those signing up to climate change agreements will rise from 65 per cent to 80 per cent from April 2013.

Plans to switch air passenger duty (APD) from passengers to planes have been dropped. This year's APD rise is postponed for a year, and the Government will seek to impose the tax on private jets.

## GIVING

Gift aid administration to be simplified, especially for small donations.

10 per cent Inheritance Tax discount for charitable donations.

## INFRASTRUCTURE

Investment of £200m in regional railways.

Central funding of £100m to help councils repair potholes.



# Budget 2011

Who can expect to be 'better' off following George Osborne's Budget speech?

## FIRST-TIME BUYERS

First time buyers are to receive aid from the Government to the value of £250m. Under a scheme called Firstbuy Direct, 10,000 individuals will be helped to get on the housing ladder, filling the gap in the market left by Labour's Homebuy Direct initiative, which ended last year.

The new scheme will help individuals buy new build properties, which should also support the construction industry. First-time buyers will need to raise only 5 per cent of the deposit themselves. The Government will provide 10 per cent and the remaining 10 per cent will come from the house-builder.

The Government aid, structured as a loan, will be available to households earning less than £60,000. The loans would be interest free for five years, with borrowers paying 1.75 per cent interest the year after and then 1 per cent above inflation.

## LOW AND MIDDLE-INCOME EARNERS

The personal allowance, the amount that people can earn free of tax, is to rise by £630 to £8,105 – on top of the £1,000 increase announced in the Emergency Budget last summer.

The move is expected to benefit 25 million people and take 250,000 out of Income Tax altogether. Unlike the previous increase, effective April this year, it will benefit those paying higher rate 40 per cent tax as well as those on lower incomes. But those earning more than £115,000 will not benefit from the increase.

## TRAVELLERS

The Chancellor offered travellers a small financial incentive by freezing air passenger duty.

## INVESTORS

The level of Income Tax relief for Enterprise Investment Schemes (EISs) increased from 20 per cent to 30 per cent from 6th April 2011.

The Government will also increase the size of a company that can qualify as an EIS and raise the limit that can be invested in a firm by 400 per cent.



# Budget 2011

Who can expect to be 'worse' off following George Osborne's Budget?

## SAVERS

There were few measures announced to help prudent savers, struggling to protect their money against low interest rates and rising inflation. The Chancellor indicated that inflation, as measured by the Consumer Price Index, is likely to remain between 4 per cent and 5 per cent for the rest of 2011.

## PENSIONERS

Pensioners will not benefit at all from the changes announced to the personal allowance increase, as they already receive a higher personal allowance and this has not been increased. Currently those aged between 65 - 74 don't pay tax until earnings exceed £9,490, rising to £9,640 for those aged 75 and over.

## HIGHER EARNERS

Mr Osborne announced that the 50p tax rate is temporary and a review will take place to see how much is raised each year from this. Those earning over £150,000 look set to continue paying this top rate of tax for the

foreseeable future. In addition those in this tax bracket won't benefit from the biggest tax giveaway – the raising of the personal allowance, both this year, and next. This is because the personal allowance starts to be withdrawn once earnings top £100,000 and disappears altogether when income reaches £115,000 a year.

The Chancellor announced a crackdown on tax loopholes which also includes avoidance of stamp duty on the most expensive properties.

In addition, there will be a tightening of the Capital Gains Tax rules, and the practice which sees some highly paid employees offered interest-free loans from their companies in exchange for taxable earnings.

## TAXPAYERS

In future tax thresholds will continue to increase with inflation each year, but this will be linked to the lower Consumer Price Index rather than the Retail Price Index.

This means these tax thresholds will increase at a lower rate.

## PUBLIC SECTOR WORKERS

The Chancellor indicated that public sector workers can expect to pay an average of 3 per cent more a year for their pensions in future. Later retirement dates and a switch to a career average scheme, are likely to be worth less for many people. This is on top of the additional 1 per cent National Insurance Contributions all employees pay from 6 April this year.

## THOSE WITH LARGE ESTATES

As expected Mr Osborne announced there will be a review of the Inheritance Tax laws, unexpectedly though, rather than clamping down on wealthier estates that can effectively avoid death duties through trusts and careful tax planning.

## SMOKERS AND DRINKERS

Tobacco prices up 2 per cent above inflation and 5p to added to a pint of beer.

# A Budget for business

## The highlights at a glance

### CORPORATION TAX RATES

The main rate of Corporation Tax reduced from 28 per cent to 26 per cent from 1 April 2011, with a subsequent reduction in each of the following three years so that the rate from 1st April 2014 will be 23 per cent. This represents an additional 1 per cent reduction in the proposed Corporation Tax rates announced in the emergency Budget in June 2010.

With effect from 1 April 2011 the small companies' rate reduced to 20 per cent.

### CAPITAL ALLOWANCES

From 1 April 2011 a short-life asset election can now be made where an asset is likely to be sold or scrapped within eight years of its acquisition. This could be beneficial for assets that depreciate faster than the rate of capital allowances. Where the asset is sold or scrapped within the eight year period, capital allowances equal to the net cost of the asset are given to the business during the period of ownership of the asset. This is an extension of the current short-life asset election where the asset must be sold or scrapped within four years to obtain the accelerated relief.

In summer 2011 the list of assets qualifying for 100 per cent capital allowances under the Enhanced Capital Allowances Scheme for Energy Saving Technologies will be updated. This will simplify the qualifying criteria for some assets and include a new addition for energy efficient hand dryers.

### VAT

The VAT registration threshold increased to £73,000 and the deregistration threshold to £71,000.

### RESEARCH AND DEVELOPMENT (R&D) TAX RELIEF

The Chancellor announced that, subject to EU state aid approval, the tax deduction for qualifying expenditure on research and development by SMEs will be increased. The current rate of 175 per cent of the expenditure increased to 200 per cent from 1 April 2011 followed by a further increase to 225 per cent from 1 April 2012.

### Subject to consultation the following changes will be introduced in 2012:

- The requirement to incur a minimum of £10,000 per annum of qualifying R&D expenditure will be removed.
- The rule limiting the repayable R&D credit under the SME scheme to the amount of Income Tax and National Insurance paid by the company will be abolished.
- Changes to the rules for R&D relief on work done by subcontractors under the large company scheme.

### ANTI-AVOIDANCE

The Government continues to introduce new measures to counteract anti-avoidance and close the tax gap. Details of HM Revenue & Custom's (HMRC) new anti-avoidance strategy have been published together with a number of proposals for strengthening tax legislation. In addition, specific measures are being introduced to close known loopholes.

### ENTREPRENEURS' RELIEF

The enhancement of entrepreneurs' relief, which reduces the rate of Capital Gains Tax paid by taxpayers on qualifying disposals to 10 per cent (from a maximum rate of 28 per cent) for certain disposals of business assets or shareholdings, is significant: the increase in the lifetime allowance from £5m to £10m from 6 April 2011 means the relief will then be worth £1.8m compared to £900k.

### OTHER MATTERS

#### A number of other measures have been announced:

- HMRC will continue to provide advice and time to pay to businesses experiencing temporary financial difficulty.
- The small business rate relief holiday will be extended for one year from 1 October 2011.
- Business rate discounts of up to 100 per cent for five years will be given to businesses located in 21 new Enterprise Zones.

“ From 1 April 2011 a short-life asset election can now be made where an asset is likely to be sold or scrapped within eight years of its acquisition. ”

# What the numbers mean to you

## Post Budget 2011 taxation and allowance data

### Income tax

Bands	2011/12	2010/11
The first: <b>£0-£35,000 (£0-£37,400)</b>	<b>20%</b>	(20%)
<b>£35,001-£150,000 (£37,401-£150,000)</b>	<b>40%</b>	(40%)
Over: <b>£150,000 (£150,000)</b>	<b>50%</b>	(50%)

Dividends are taxed at 10% (10%), 32.5% (32.5%) or 42.5% (42.5% as the top slice of total income).

Other savings income, primarily bank and building society interest, is taxed at 10 per cent up to £2,560 (£2,440). This 10 per cent rate is not available if taxable non-savings income exceeds £2,560 (£2,440).

There are special rules for trusts, and also for individuals with income assessable on the remittance basis.

### Personal allowances

	2011/12	2010/11
Personal	<b>£7,475</b>	(£6,475)
Income limit for personal allowance (a) (b)	<b>£100,000</b>	(£100,000)
Age allowance (age at end of tax year) (b):		
Personal: age 65-74	<b>£9,940</b>	(£9,490)
Personal: age 75 or over	<b>£10,090</b>	(£9,640)
Married couple's (c)	<b>£7,295</b>	(£6,965)
Income limit for age allowances	<b>£24,000</b>	(£22,900)
Blind person's allowance	<b>£1,980</b>	(£1,890)

(a) The personal allowance is reduced by £1 for each £2 by which income exceeds £100,000, irrespective of age.

(b) Age-related allowances first reduce by £1 for each £2 by which income exceeds the income limit, reducing to a minimum of the personal allowance. Such allowances can be reduced further under (a).

(c) Relief is limited to 10 per cent, and extends to certain civil partnerships. At least one spouse/partner must have been born before 6 April 1935. The allowance is reduced where income exceeds the income limit, subject to an absolute minimum of **£2,800 (£2,670)**. In certain circumstances couples may determine how the allowance may best be used.

### Working and child tax credits

The **working tax credit** is aimed at those on modest incomes. The **child tax credit** can benefit where family income is up to **£41,329 (£58,170)**. Credits can also be paid for eligible childcare costs.

### Pension contributions

2011/12	2010/11
Lifetime allowance (a)	<b>£1,800,000</b> (£1,800,000)
Equivalent to defined benefit pension	<b>£90,000</b> (£90,000)
Maximum contribution annual allowance	<b>£50,000 (b)</b> (£255,000 (c))
Tax on excess	<b>Marginal rate</b> (40 per cent)
Normal minimum pension age	<b>55</b> (55)

(a) The lifetime allowance reduces to £1,500,000 on 6 April 2012. Special rules can apply to individuals with larger benefits at 5 April 2006, and for those with benefits over £1,500,000 on 5 April 2012. Excess over the lifetime allowance may be subject to a 25 per cent charge plus income tax on balances drawn, or 55 per cent for lump sum benefits.

(b) Unused allowances from the previous three years (by reference to a limit of £50,000) may be carried forward, potentially increasing the current year's allowance in 2011/12 and subsequent tax years.

(c) For 2010/11 anyone with income higher than £130,000 may have had tax relief on pension contributions restricted to the basic rate.

### Company cars – annual benefits

The annual benefit is a percentage of list price, with the percentage dependent on the level of CO2 emissions. The minimum benefit is **5%** for emissions of **75g/km** or less. For emissions of over **75 and up to 120g/km**, the rate is **10%** and for emissions of **over 120 and up to 125g/km** the rate is **15%** and increases by **1%** for each additional full 5g/km up to a maximum charge of **35%** for emissions of **225g/km** or more. Emission levels are rounded down to the nearest multiple of five. List price includes certain accessories, but is reduced for capital contributions of up to **£5,000**.

There is a diesel supplement of **3 per cent** for all bands, subject to a maximum charge of **35 per cent**.

Reduced percentages apply for cars running on alternative fuels, e.g. hybrid, LPG. For vans, the taxable benefit for significant private use is **£3,000 (£3,000)**.

For five years until 5 April 2015 the benefit charge for electric cars and vans is nil.

**Fuel:** if fuel is provided for private use in a car, the car benefit percentage is applied to **£18,800 (£18,000)**.

The benefit for fuel provided for a van with significant private use is **£550 (£500)**.

### National insurance contributions (NIC)

Class 1 employees:	Contracted in	Contracted out
<b>Weekly earnings</b>		
Up to <b>£102 (£97)</b>	Nil (nil)	Nil (nil)
<b>£102.01-£139 (£97.01-£110)</b>	Nil (nil) Rebate	1.6 per cent (1.6%)
<b>£139.01-£770 (£110.01-£770)</b>	n/a 10.4%	(9.4%)
<b>£770.01-£817 (£770.01-£844)</b>	n/a 12%	(11%)
<b>£139.01-£817 (£110.01-£844)</b>	12%	(11%) n/a
Over <b>£817 (over £844)</b>	<b>2% (1%)</b>	<b>2% (1%)</b>

Class 1 employers:	Contracted in	Contracted out
<b>Weekly earnings</b>		
Up to <b>£102 (£97)</b>	Nil (nil)	Nil (nil)
<b>£102.01-£136 (£97.01-£110)</b>	Nil (nil)	Rebate <b>3.7%</b> (3.7%) Rebate <b>1.4%</b> (1.4%)
<b>£136.01-£770 (£110.01-£770)</b>	n/a	<b>10.1%</b> (9.1%) <b>12.4%</b> (11.4%)
<b>£770.01-£817 (£770.01-£844)</b>	n/a	<b>13.8%</b> (12.8%) <b>13.8%</b> (12.8 per cent)
<b>£136.01-£817 (£110.01-£844)</b>	<b>13.8%</b> (12.8%)	n/a
Over <b>£817 (over £844)</b>	<b>13.8%</b>	%

### Other:

**Class 1A** (employers only): **13.8%** (12.8%) based on the amounts of taxable benefits.

**Class 1B** (employers only): **13.8%** (12.8%) in respect of amounts in a pay as you earn (PAYE) settlement agreement and the income tax thereon.

**Class 2** (flat rate for self-employed): **£2.50 (£2.40)** per week.

**Class 3** (voluntary): £12.60 (£12.05) per week.

**Class 4** (self-employed): 9 per cent (8 per cent) of profits between **£7,225 (£5,715)** and **£42,475 (£43,875)** per annum and 2 per cent (1 per cent) on profits above **£42,475 (£43,875)**.

### Bank levy

Annual tax on certain short-term chargeable liabilities and long-term chargeable equity and liabilities of most UK based banks.

	Short-term liabilities	Long-term equity and liabilities
January and February 2011	0.05%	0.025%
March and April 2011	0.1%	0.05%
From 1 May 2011	0.075%	0.0375%

### Insurance premium tax

Standard rate (from 4 January 2011)	<b>6%</b>
Higher rate (from 4 January 2011)	<b>20%</b>

### Capital gains tax

	2011/12	From 6 April 2010 (18%)	From 23 June 2010 (18%)
For standard rate taxpayers	<b>18%</b>		
For trustees and higher/additional rate taxpayers	<b>28%</b>	(18%)	(28%)
Annual exempt amount – individuals	<b>£10,600</b>	(£10,100)	(£10,100)
Annual exempt amount – trusts	<b>£5,300</b>	(£5,050)	(£5,050)
Entrepreneurs' relief lifetime limit	<b>£10,000,000</b>	(£2,000,000)	(£5,000,000)
Entrepreneurs' rate	<b>10%</b>	(10%)	(10%)

### Inheritance tax

Nil rate band: up to **£325,000 (£325,000) – 0%** (0%); over **£325,000 (£325,000) – 40%** (40%).

Reduced charge on lifetime gifts within seven years of death applies.

A surviving spouse or civil partner may claim the unused proportion of an earlier deceased spouse's or civil partner's nil rate band up to the current nil rate band.

### Tax-efficient investments

	2011/12	2010/11
<b>ISA investment limits</b>	<b>£10,680</b>	(£10,200)
<b>Cash ISA maximum investment</b>	<b>£5,340</b>	(£5,100)

**Venture capital trusts (VCTs):** income tax relief at up to **30%** on investment up to **£200,000**.

**Enterprise investment scheme (EIS):** income tax relief at up to **30%** on qualifying share subscription between **£500** and **£500,000**.

### Corporation tax

Financial year (from 1 April)	2011	2010
	£ %	£ %
<b>Small profits rate</b>	<b>0-300,000 20</b>	(0-300,000 21)
<b>Marginal rate</b>	<b>300,001-1,500,000 27.5</b>	(300,001-1,500,000 29.75)
<b>Main rate (a)</b>	<b>Over 1,500,000 26</b>	(Over 1,500,000 28)

(a) The standard rate will further decrease by 1% in each year until 2014/15 when the standard rate will be 23%.

### Capital allowances

Expenditure on:	2011/12	2010/11
	%	%
Plant and machinery: (a) (b)	<b>20</b>	(20)
Motor cars on or after April 2009 – CO2 emissions < 110g/km	<b>100</b>	(100)
110g/km-160g/km (a)	<b>20</b>	(20)
> 160g/km (a)	<b>10</b>	(10)
Motor cars pre April 2009 (a) (c)	<b>20</b>	(20)
New and unused zero emission goods vehicles	100	(100)
Industrial/agricultural buildings and works/hotels (d)	Nil	(1)
Long life assets/integral features in buildings (a) (e)	10	(10)
Patent rights and know how (a) (f)	25	(25)
Mines, oil wells, mineral rights (a) (g)	25	(25)
Research and development	100	(100)
Energy-saving and water efficient plant and machinery	100	(100)
Renovation of business premises (deprived areas)	100	(100)

There is a 100% annual investment allowance on the first £100,000 (£100,000), per group of companies or related entities, of capital expenditure on plant and machinery including long life assets and integral features, but excluding cars. This allowance will reduce to £25,000 from April 2012.

(a) These allowances are given on a reducing balance basis.

(b) These allowances reduce to 18% from April 2012.

(c) Subject to a maximum allowance of £3,000 p.a. per vehicle.

(d) Allowances abolished from April 2011.

(e) These allowances reduce to 8% from April 2012.

(f) For expenditure from April 2002 accounting write downs (and not capital allowances) are allowable deductions for tax.

(g) Acquisition of mineral deposits and rights qualify for 10% p.a.

### Stamp duties

	2011/12	2010/11
<b>Stamp duty land tax on non-residential land and buildings (a) (b):</b>		
<b>£0-£150,000</b>	<b>0%</b>	(0%)
<b>£150,001-£250,000 (£150,001-£250,000)</b>	<b>1%</b>	(1%)
<b>£250,001-£500,000 (£250,001-£500,000)</b>	<b>3%</b>	(3%)
<b>Over £500,000 (over £500,000)</b>	<b>4%</b>	(4%)

**Stamp duty land tax on residential land and buildings (a) (b) (c):**

<b>£0-£125,000 (£0-£125,000)</b> (d) (e)	0%	(0%)
<b>£125,001-£250,000 (£125,001-£250,000)</b> (d) (e)	1%	(1%)
<b>£250,001-£500,000 (£250,001-£500,000)</b>	3%	(3%)
<b>£500,001-£1,000,000 (over £500,000)</b>	4%	(4%)
<b>Over £1,000,000</b>	5%	(-)

(a) All figures are calculated inclusive of any VAT. Rates apply to the full amount.

(b) On leases, the rate is (broadly) 1 per cent of the discounted rental values under the lease over the £150,000/£125,000 limit.

(c) For new zero carbon homes, including flats, the 0 per cent threshold extends to £500,000 until 30 September 2012; for such properties over £500,000 there is a £15,000 reduction.

(d) For residential property in disadvantaged areas, the 0 per cent threshold extends to £150,000.

(e) The 0% threshold extends to £250,000 for first time buyers only for purchases where the date of completion is between 25 March 2010 and 24 March 2012.

<b>Shares and securities</b>	0.5%	(0.5%)
<b>Stamp duty reserve tax</b>	0.5%/1.5%	(0.5 per cent/1.5%)

### Value added tax

From 4 January 2011	To 3 January 2011
<b>Standard rate</b>	<b>20%</b> (17.5%)
<b>Lower rate</b>	<b>5%</b> (5%)
<b>Zero rate</b>	<b>0%</b> (0%)

Registration threshold (changes from 1 April 2011): taxable supplies at the end of any month exceed £73,000 (£70,000) in the past 12 months, or will at any time exceed £73,000 (£70,000) in the next 30 days. Different thresholds apply for supplies from other EU Member States.

### Air passenger duty

Air passenger duty is a departure tax levied on air travel. Rates per passenger:

	Reduced rate	Standard rate
<b>From 1 November 2010</b>		
Band A (0-2,000 miles from London)	£12	£24
Band B (2,001-4,000 miles from London)	£60	£120
Band C (4,001-6,000 miles from London)	£75	£150
Band D (over 6,000 miles from London)	£85	£170

Flights from airports in the Scottish Highlands and Islands are exempt.

### Climate change levy

**Rates: 0.485p (0.47p) per kWh (electricity), 0.169p (0.164p) per kWh (gas), 1.321p (1.281p) per kg (coal, lignite, coke and semi-coke), 1.083p (1.05p) per kg (liquid petroleum gas).**

Climate change levy is a single stage tax on supplies of various fuels to industrial and commercial consumers.

### Landfill tax

	2011/12	2010/11
<b>Standard rate:</b>	£56/tonne	(£48/tonne)
<b>Lower rate:</b>	£2.50/tonne	(£2.50/tonne)

The lower rate applies to inactive waste.

# Emerging markets

## An important consideration for some investors

Emerging markets have become an important consideration for some investors when balancing their portfolios. Some of these markets have young and growing populations with increasing levels of disposable income which creates the potential to stimulate demand in the economy.

Spreading risk through diversification is also another reason why some investors consider emerging markets to be an important addition to their portfolio. Taking a view that emerging markets will become an increasingly important part of both world stock markets and the global economy is certainly not controversial. At present, emerging markets account for 82 per cent of the world's population and around one-third of global GDP at current exchange rates. This equates to 31 per cent of global market capitalisation and 13 per cent of the MSCI AC World Index.

By 2025, emerging markets are likely to be closer to 50 per cent of global GDP, even on an exchange rate basis, given the pace of growth, and Goldman Sachs estimates the MSCI AC World Index share will rise to 19 per cent by 2020 before reaching 31 per cent by 2030. This compares with a current estimated allocation to emerging market equities by developed market investors of 6 per cent of equities, and as little as 1-2 per cent of overall assets.

### ATTRACTION OF EMERGING MARKETS

An attraction of emerging markets is their potential returns relative to developed counterparts. The capped nominal return on sovereign bonds makes it difficult to see how they can offer a decent real return unless we really are heading for long-term Japan style deflation.

Spreads on corporate bonds are still relatively wide, but in absolute terms are

at 40 year historical lows. Meanwhile, developed market equities don't look particularly cheap on long-term measures. Mean reversion based on long-term earnings growth and PE ratios sees equities still overvalued by as much as 40 per cent, according to Deutsche Bank. While earnings may grow sufficiently to offset this, or PE ratios could rise significantly, the former is unlikely and the latter not a particularly attractive scenario.

The demographics illustrate the difficulty in finding marginal buyers for asset classes such as equities and property, given age trends. Japan offers a cautionary note here, with the peak in the Nikkei and real estate prices coinciding with the peak in savers among the 35-54 year old age group versus the rest of the population. In addition, there is little evidence of emerging market expansion having raised either economic or earnings growth in developed markets. It has, however, been disinflationary, and has allowed the extension of business cycles by increasing levels of debt (the debt-supercycle).

Realistically though, it is likely that we are reaching the limits of growth through boosting asset prices by borrowing more to buy those assets. Quantitative easing may push things further in the short term, but the longer term prospects for developed markets are limited. One potential beneficiary of a structural shift in demand due to emerging markets growth is commodities. This would support greater allocation to commodity supplying emerging markets or possibly developed market countries like Australia, Canada or Norway.

### ACHIEVING GREATER DIVERSIFICATION

Diversification is another reason why one might want to allocate more to emerging markets. Most investors, even if they think they are taking a global approach,

are much less diversified than they believe. Major indices are, in fact, very concentrated. The MSCI AC World Index features 45 countries, but the effective number – a measure of diversification based on the number of countries in an equally weighted index – is only five.

Home country bias means many institutional portfolios are even worse. Allocating a higher proportion of assets to emerging markets is a greater way to achieve diversification. For instance, an investor with equal weighting in the countries that are in the MSCI AC World Index would have a 47 per cent allocation to countries currently classified as emerging markets.

As emerging markets increase their productivity, their real effective exchange rates will appreciate. This is a phenomenon known as the Balassa-Samuelson effect. The theory is that a country with higher productivity in the tradable sector (such as making cars) will have higher wages in that sector than a country with lower productivity. That will bid up wages in the non-tradable sector (such as services) which will see prices rise by more than in the tradable sector where they are kept constant by competition with other countries. The result is a rise in the overall price level relative to competitors, resulting in an appreciation in the real exchange rate.

The theory does not tell us whether this appreciation will come through nominal exchange rate appreciation or relative inflation, which can include stable prices in emerging markets at the same time as deflation in developed markets, or some combination of the two. An investor believing the former to be the case would take a long position in emerging market currencies. However, since it is hard to know which it will be (it largely depends on a country's politically influenced monetary policy choices), emerging market equities could be more of an

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each way bet. This is because they are claims on real assets and should benefit whether there is inflation, or if the nominal exchange rate appreciates against the investor's home market.

It is not so clear cut for fixed income assets in emerging markets (most have a nominally capped return), although some, such as Brazilian long-dated index-linked bonds, can be attractive. Nevertheless, individual stock picking is vital. For the reasons described earlier – equity issuance, economically unrepresentative, low costs of capital – following the herd and investing in a broad emerging stock market index will have no benefit. A skilled stock picker will look for companies which can sustain their earnings growth through internal capital allocation, are representative of the economy, will benefit from the real exchange rate appreciation, and/or have durable competitive advantages in industries with high barriers to entry meaning adequate returns above the cost of capital can be made. It is not necessarily easy to find and adequately analyse such companies, but that is why they are such attractive investments in the first place.

### A GOOD STARTING POINT

Picking specific numbers is always a slightly spurious exercise but a good starting point would be to say you should have more money in emerging markets equities than certain developed markets in order to gain the benefits of diversification and long run real exchange rate appreciation. Investors concerned about short-term volatility would benefit from reducing the overall exposure to equities by cutting back exposure elsewhere, rather than limiting the allocation to emerging markets.

The question of timing is somewhat trickier after the strong run by emerging market equities over recent years.

Emerging market stocks are no longer as cheap as they were relative to developed markets, but neither are they obviously overvalued. On metrics such as PE ratios, they appear at a slight discount and on price to book a slight premium. However, there are some market sectors with extremely high ratings, such as Chinese consumer stocks.

Future returns for emerging markets may be lower than they have been in the past, but they may still be better than

for most developed areas. Establishing a strategic allocation and getting there by buying on dips would be one approach. That said, given how important individual stock picking will become, it may be better allocating more money to unconstrained active, investment strategies with a genuinely global perspective, as these could produce higher levels of exposure to emerging markets. ■

*Emerging markets are generally considered to be higher risk than the main international markets due to the likelihood of greater fluctuations in stock value. The value of investments and the income from them can go down as well as up and you may not get back your original investment. Past performance is not an indication of future performance. Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts.*



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