



Issue 1 2010

In this issue

- SMEs avoid Darling's axe
- Pension reforms 2012
- Employee climate surveys
- Taxing times for trusts
- Risk profiling
- Financial planning for the elderly
- Bypass Trusts
- Seminar – family finances

Financial Planning Matters



SMEs avoid Darling's axe

The Chancellor's pre-budget report was expected to contain bad news for many, particularly bankers awaiting their annual bonus. As it is, it emerged as a broadly neutral package of measures intended to maintain economic recovery.



Cover story

As the Finance Act usually receives Royal Assent in July – which will be after the General Election – it remains to be seen how many of these measures will make their way into UK law.

The report contained some better than expected news for small and medium-sized businesses (SMEs). Chancellor Alistair Darling announced a series of measures intended to provide some much-needed help for SMEs struggling during the recession.

Mr Darling told the House of Commons that he was well aware that smaller companies were finding it difficult to get access to reasonably priced capital as the high street banks struggle to rebuild their balance sheets.

“As recovery gets underway, we need to ensure that SMEs get the credit they need, and we are working with the banks to make sure that happens” he said. He added that more details will be announced shortly about the £500m Capital Growth Fund, partly funded by contributions from the major banks, which will be made available to smaller businesses. The Enterprise Finance Guarantee, which offers Government guarantees on bank loans, has also been extended by 12 months.

The announcement that the planned increase in corporation tax for smaller companies would be deferred for another year, leaving the 2010 rate of 21% unchanged, will be helpful to many small companies, as will the extension of HM Revenue & Customs’ (HMRC) Time to Pay scheme, which is designed to help businesses spread their tax payments more efficiently during difficult economic conditions.

We were also pleased to see the Chancellor propose a relaxation to the rules that allow SMEs to claim an enhanced tax deduction (at 75%) for research and development (R&D) expenditure. The condition that the intellectual property created as a result of the research must vest in the claimant company was removed with effect from December 2009, which will be enormously helpful to SMEs that are licencees but carry out R&D to enhance the value of the intellectual property in their business.

Changes to Pension Reforms 2012

Following the announcement in the pre-Budget report that National Insurance (NI) rates will increase by 0.5% on top of the 0.5% previously announced, there may be a silver lining for employers as the increase in compulsory pension contributions is delayed by a few years.

The 2% employer contribution requirement will now apply from October 2016 and the full rate of 3% will not apply until October 2017

Changes to the plans for workplace pension reforms are intended to increase the level of pension savings in the UK. All employers will be required to provide pension schemes and automatically enrol employees into the scheme. Mandatory levels of both employer and employee contributions will also apply.

Automatic enrolment will start as planned in 2012. However, due to “the changed economic and fiscal circumstances and the cost of the reform to businesses as the economy recovers”, the Department for Work and Pensions (DWP) has reviewed the detail of its original implementation plan.

The original plan was to phase in auto-enrolment and mandatory contribution levels over a period of time, with the aim being to reach employer contributions of 3% of qualifying earnings by October 2016. Within the proposals, larger employers will have automatic enrolment imposed upon them before medium, small and micro-employers.

This has now changed, with employer duties for so-called micro-employers put off until after October 2016; a year later than first planned. This means that the period when all employers will be required to contribute just 1% of qualifying earnings will go on until October 2016. The 2% employer contribution will now apply from October 2016 and the full rate of 3% will not apply until October 2017.

As part of the response to the latest workplace pension reform consultation, DWP is due to announce the detail of the implementation plan in January.

Employee Climate Surveys

As a result of the recession, many organisations are looking for ways to re-engage with their employees in an effort to boost morale – especially following the inevitable redundancies and other workplace changes that may have occurred recently.

Increasingly, SMEs are turning to tools such as employee or organisation climate surveys to re-establish open feedback channels that will directly address employee concerns and business issues.

SMEs are often at an advantage when it comes to climate surveys. Their size means they can design an instrument that provides significantly more qualitative data and not just numbers. In smaller organisations, it may be possible to conduct one-to-one survey interviews where employees score a particular aspect of the organisation and provide some of the thinking, feelings and even emotions behind those numbers.

More importantly, the employee can help come up with solutions to address those areas that he or she may have been fairly critical of to date, with their contributions impacting directly upon the business. For their part, employers need to be committed to the process of the employee survey and prepared to respond to the findings. Admittedly, a degree of courage is required as employers can never be sure what the survey findings will reveal, but when set against the potential benefits, the process can be rewarding.

This article was provided by Murray Meewis of HR Insight, a sister company of Blacktower Financial Advisers, providing HR consultancy services to businesses.

We would be delighted to arrange an introduction, please contact us if we can be of assistance.



Taxing times for trusts



There has been much publicity surrounding the new 50% rate of income tax, which comes into effect in April for those with a taxable income in excess of £150,000. What is less well known is that the new 50% tax rate will apply to all income (over the first £1,000 a year) generated within discretionary trusts. A new rate of 42.5%, applicable to dividend income, has also been introduced.

The change means that any income accumulated within a trust will be subject to 50% tax, regardless of the tax status of either the settler or the beneficiaries, once income has exceeded £1,000.

Beneficiaries will be liable to tax at their marginal rate on any income distributed to them. For interest payments received by the trustees net of basic rate tax, 62.5% of the net payment (i.e. 50% of the gross interest) can be distributed. The beneficiaries will be able to recover the difference between the tax paid by the trustees (50%) and their own tax rate.

For dividends, the trustees must gross up the dividend received by the (10%) tax credit and then pay tax at 42.5%. If income is distributed to a beneficiary, this notional tax credit cannot be reclaimed and the trustees have a further tax liability before distribution. Generally therefore, the trustees will need to deduct 50% tax from the net amount, distributing 50% (instead of 62.5%) to beneficiaries.

Trustees should consider how to minimise taxable income within the trust by selecting suitable “wrappers” for investments.

Investment bonds do not pay any income, which allows income received from the underlying investments to “roll up” within the bond.

This gives trustees control over the timing of tax payments and also makes it possible to alter the investment strategy within the bond without any tax implications. Offshore bonds are particularly appealing for trustees, allowing returns to roll up largely tax free, as well as offering access to a much wider range of investments than their onshore equivalent. Distributions of up to 5% per annum of the original investment can be made with no immediate liability for tax.

If the bond is surrendered by the trustees, ultimately, the gain – after allowing for any previous withdrawals – would be taxable as income at the 50% rate. Alternatively the trustees can assign it (either in full or in part) to a beneficiary, without any immediate tax charge. When the beneficiary surrenders the bond, it would be taxed at their own marginal rate, which could be 20% or even nil, depending upon the size of the gain and the tax circumstances of the beneficiary.

Where capital growth is a priority (or beneficiaries are higher-rate taxpayers), an alternative option would be to invest in a low or non-income yielding collective investment fund, where most, if not all returns would be subject to capital gains tax (CGT) of 18%, less an annual allowance of £5,050 (for 2009/10), on the eventual encashment of the collective fund.

Trustees should consider how to minimise taxable income... by selecting suitable “wrappers” for investment

By now, trustees should be familiar with their statutory duty of care when exercising the expanded investment powers enshrined within the Trustee Act 2000. As well as ensuring that investments are suitable in terms of their risk profile and time horizon, the introduction of the new tax rate on 6 April makes this an appropriate time to review the tax efficiency of the trust’s assets. Independent professional advice has never been more important.

The importance of risk profiling

Accurately assessing one’s tolerance for risk is arguably one of the biggest issues when considering wealth management options. The consequences of not understanding attitudes to investment risk, and the inherent risk within different types of investment, can be severe.

Risk profiling is by definition an ongoing process and a person’s attitude to risk can often change over time

To help assess your attitude to risk we use a risk profiling questionnaire, as well as face-to-face questions, as part of the fact find process in order to take into account a combination of objective and subjective factors.

In addition to our own assessment, we would also like to encourage our clients to spend some time considering their own thoughts and feelings regarding investment risk. Risk profiling is by definition an ongoing process and a person’s attitude to risk can often change over time. This could be influenced by any one of a diverse range of factors, such as: personality, past investment experience, job security, proximity to retirement, asset values, family and health issues.

It is therefore vitally important to ensure that we are kept up to date with any changes in your outlook to investment risk as this allows us to re-assess how your investments are managed within different asset classes.

We are pleased to offer a complementary “risk re-assessment” to Blacktower clients. This includes an evaluation of all your investments including cash, investment properties and externally managed investment portfolios. With these details and the results of your risk profiling we can advise you as to how well these match with your attitude to risk, summarised in a brief written report.

For more details please contact Dan McKissock (dm@bfa-uk.com) or your usual Blacktower Adviser.

Financial Planning for the elderly

The UK's population is ageing. Over 85's increased from 600,000 in 1983 to 1.3 million in 2008. By 2033 that number is expected to double again. (Source: Office for National Statistics, 2009)

In retirement, finances generally rely on unearned income, with inflation being a risk. With rising longevity comes a need for increasingly specialised financial planning, in areas such as capacity, delegated decision-making, long-term care and estate planning.

Most of us hope to live independently to "a good age" and many would like to pass some of our assets on death to our children. However, as we live longer we will likely be doing so with failing health.

15.4 million people currently suffer from a long-term health condition in England (Source: Department of Health, 2009).

The FSA estimates that Personal Care provided at home costs around £13 per hour, so 3 hours help per day would cost around £14,235 per year. 130,000 people go into residential care each year (Source: Partnership Life Assurance Co, 2009). SAGA put the current average nursing home cost at £35,000 per year. The State meets long-term care costs only for the least wealthy, and not necessarily to a comfortable standard.

Key points for consideration include:

- Security of Income and inflation
- Simplification of financial arrangements
- Estate planning, gifting & taxation
- Health & Mental Capacity
- Long Term Care and its funding

At Blacktower we offer specialist advice for the elderly, including an independent review of Inheritance Tax and Long Term Care considerations, in association with a review of your overall circumstances.

Please contact us for further details or to arrange an appointment with one of our advisers.



The why & how of bypass trusts

Bypass trusts can be used to hold lump sum death benefits – payable from a pension scheme (personal or occupational), insured death-in-service benefits or individual life assurance policies – for the benefit of your family, while substantially reducing the charge to IHT.

In the absence of a bypass trust, the lump sum death benefits from a pension scheme would normally be paid directly to the spouse/civil partner or other beneficiaries, increasing the value of their estate. Any lump sum death benefits would be paid tax free before retirement or subject to a special scheme death benefit charge of 35% after retirement. Lump sum payments are generally free of IHT as they do not form part of the member's estate. No such lump sum payments can be made from pension schemes after the age of 75.

IHT is payable on an individual's estate on death at a rate of 40% on any amount exceeding the nil-rate band available at the date of death (currently £325,000 for the tax year 2009/10) once any other exemptions, reliefs and the unused nil-rate band transferred from the estate of a deceased spouse/civil partner have been taken into account.

The term "estate" has a broad definition but does not include the value of death benefits that may be payable from a pension plan unless these are payable to personal representatives or could be made subject to a binding nomination. While an individual's pension death benefit may not be taxable on death, if the benefit is paid directly to a spouse/civil partner the funds will become liable to IHT, at which point the charge to IHT could be significant.

The bypass trust can help minimise the 40% charge to tax while enabling the surviving spouse/civil partner (or other family members/beneficiaries) to benefit under the trust.

The trust itself is discretionary in nature and beneficiaries will usually include the surviving spouse/civil partner and children (although it can be extended to include other beneficiaries if required). The assets of the trust will not be aggregated with the spouse/civil partner's estate and will not be taxed on their death, but they are able to benefit from income and capital distributions or from a loan from the trustees at the trustees' discretion.



The advantage of taking a loan from the trust rather than receiving an outright distribution is that the value of the loan will not be added to the beneficiary's estate for IHT purposes (so long as it is repayable to the trustees). As a result, beneficiaries have the use and enjoyment of the trust property without having the burden of the property forming part of their estate for IHT purposes.

The trust is a very flexible tool for estate planning purposes and trustees have control over the ultimate distribution of pension death benefits, a death-in-service benefit or an individual life assurance policy, as the case may be. The trust can be established when an individual takes out or becomes entitled to a pension plan, death-in-service benefit or life assurance policy, but it may be created at any time after that during a person's lifetime.

The trust is taxed on a periodic basis, but is created so that there is no IHT charge as long as the member is alive. On the tenth anniversary of the property first being included in the trust and, afterwards, at ten-year intervals, IHT will apply at a maximum rate of 6% (and will be less any applicable portion of the nil-rate band). On the winding up of the trust or on capital distribution, the 6% tax charge is pro-rated over the period since the last ten-year anniversary.

There are many other tax implications of establishing a trust and each trust must be tailored to suit individual needs.

Separate trusts should be created for each plan or policy (which should be executed on different days to enable each trust to have its own nil-rate band and to avoid multiple ten-year anniversaries on a single trust arising from settlement of multiple benefits).

News roundup

Seminar – Family Finances

In these troubled times, preserving the financial well being of your family is far from easy.

Our upcoming seminar will be covering a number of financial and tax planning issues particularly relevant to families, including:

- Assisting with children's and grandchildren's financial goals
- Gifting tax efficiently
- Mitigating the impact of Inheritance Tax
- Use of trusts & other effective structures

Speakers:

Chris Bruce – Managing Director, Blacktower Financial Advisers Limited

David Kingham – Head of Private Client Department, Morrisons Solicitors

Date: 10th February 2010

Time: 4.30pm registration for 5pm start, ends 6.15pm followed by canapés and refreshments

Venue: Denbies Wine Estate, London Road Dorking.

To register: email bfa@bfa-uk.com quoting "family finances"



Pre-Budget report hits pension contributions again

Following the Finance Act 2009, individuals whose taxable income exceeded £150,000 per annum and who were making pension contributions of over £200,000 in the tax year were subject to a special tax charge.

In the pre-Budget report this income threshold was lowered to £130,000 per annum. This will have an adverse impact upon many people's financial planning and specialist advice should be sought

Introducing Andy Stowers

Blacktower is pleased to introduce Andy Stowers, our new Financial Planning Adviser who will be based in Romford, with support from our St Albans team.

Andy has been an IFA for 23 years, mainly working for large national firms, and is a Certified Financial Planner.

He is already making contact with clients and other professionals in his area.

Contact Us:

For further information or assistance regarding any of the topics covered in this newsletter please speak to your usual Blacktower adviser or contact us at one of our offices

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