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A Budget to remember

Alistair Darling's 2009 Budget was never going to be a straightforward affair. With much of the world in the grip of recession and the UK's businesses and general public looking to the government for help, he had many people to please and limited scope to throw a lifebelt...



Cover story

He predicted a slow return to growth late this year, and that the economy would recover to a growth rate of 3.5% in 2011.

The result was a range of eye-catching Budget announcements, not all of them expected. Least widely predicted was the 50% new top rate of tax for earners with an income of more than £150,000 a year. Higher earners will also see the pension tax relief they receive restricted.

The introduction of a scrapping scheme for cars that are more than 10 years old was less of a surprise, although the details of the scheme have still to be clarified. But for the UK's businesses, there was less headline-grabbing news.

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In a small victory for savers, annual ISA allowances will be increased for the over 50's from 6th October this year, and for everyone else from April 2010. The new cash ISA allowance will be £5,100 (up from £3,600) and the allowance for cash and shares ISA's will rise to £10,200.

The Budget contained mixed fortunes for property owners. The stamp duty holiday for properties worth up to £175,000 was extended, but there was bad news for second home owners who let out their properties as a way of gaining extra income. From April 2010, landlords owning holiday properties will no longer be able to write off trading losses from their second homes against tax. A second home counts as a holiday property if it is furnished, let for at least 140 days a year and run as a commercial business.

There were also signs that the government plans to continue its crackdown on the offshore investment market, as Mr Darling announced that holders of offshore accounts would be given until March 2010 to voluntarily disclose unpaid tax.

The Budget changes will require careful reassessment of investment and savings strategy, and inheritance tax planning. Please contact us for more details on how the changes might affect you.

Tax efficient business funding

Choosing the right type of pension scheme could prove invaluable to business owners looking to help their company through these troubled times. Although Self-Invested Personal Pensions have stolen the pensions limelight in recent years, the use of a Small Self Administered Scheme (SSAS) may be worth considering.

Business owners whose banks are unwilling to lend, or are demanding unreasonable rates or personal guarantees, could consider borrowing from their pension scheme by transferring existing funds into a SSAS. Up to 50% of the SSAS assets can be loaned back to the sponsoring employer. The members of a SSAS act as trustees and have some control over such lending terms. At least 1% over bank base rate should be charged for a period of no more than 5 years, and secured against company assets. The trustees will need to consider whether a loan to the employer is a sound investment scheme.

Company pension contributions to a SSAS can reduce profits subject to corporation tax, or create/increase a trading loss which, under the temporarily extended carry-back rules, can be offset against the previous 3 years of corporation tax paid. With both these measures the company's contribution does not give rise to either employer or employee National Insurance Contributions.

Another possible way for businesses to raise finance, which also applies to the self-employed who own their own business premises, is to enter a sale and lease-back arrangement using a pension scheme. The property would become an investment within the scheme and the scheme would benefit from the tax-free rent paid by the business.

This option may be particularly useful to family businesses; the property can be passed to younger generations as they gradually build up their pension funds in the scheme, while the older generation's pensions are paid directly from the scheme.

The flexibility offered by pension schemes can provide a range of options to help small businesses survive the credit crunch.

For further information on this topic please contact your usual Blacktower adviser.

Protecting directors' loans and personal guarantees

In the current economic climate, it is common for shareholding directors of small businesses to use their personal assets to either make a loan to the business or offer a personal guarantee to an external lender.

At a time when securing bank funding is becoming increasingly difficult, this is sometimes the only option available to company owners. However, what happens if the lender becomes seriously ill? or, worse still, dies?

If the business has cash resources available then the loan may be repaid or the personal guarantee will not be required. If the company is less fortunate, the loan may not be repaid or the personal guarantee may be called upon, creating personal loss and distress.

One way of circumventing this danger is for the company to set up a life assurance policy for the value of the loan or a guarantee on the life of the lender(s)/ guarantor(s). The policy will name the lender or guarantor as the life assured, which means a lump sum will be made available to pay off the loan or negate the need for the guarantee upon death.

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The policy can be arranged to pay a sum assured on death or in the event of a critical illness. Care must be taken to ensure that payment from the policy is used for this purpose and not claimed by other creditors. In practice, the full extent of a company's actual and potential liabilities should be looked at before selecting the right level of cover.

It is unlikely that there will be tax relief on the premiums due to the lender's proprietary interest, but payment of the sum assured should not be subject to tax either. Such policies tend to be quite inexpensive because they are only needed for a short, fixed-term period. However, the peace of mind they can bring may be invaluable.

In search of income

With interest rates at historic lows and with a number of high profile companies cutting dividends, the impact upon those reliant on their savings and investments to provide an income has been severe.

This has also affected those relying on pensions, either as annuities or drawdown income.

In the current environment cash - and given the oversupply - gilts are unlikely to be particularly attractive. However, there are investments that can satisfy the income seeker.

In recent months, credit spreads have widened considerably amid fears that companies will default on interest payments.

The increased yield on corporate debt over gilts is referred to as the credit spread and is effectively the premium an investor is being paid for the additional risk of corporate over government debt. In recent months credit spreads have widened considerably amid fears that companies will default on interest payments.

Undoubtedly this is a risk, but with good quality investment grade bonds currently yielding over 6% investors are being well rewarded for this risk.

Dividends paid from Venture Capital Trusts (VCTs) are tax free but profits are not normally returned by way of dividend until the trust is well established. By buying a portfolio of established VCTs, upfront income tax relief is foregone but the discount to Net Asset Value is often greater than the 30% tax relief. Dividend yields of around 6% are common, which represents an equivalent gross return of 10% to a higher rate tax payer.

VCTs do carry a higher degree of risk to capital but selecting a spread of established VCTs reduces this risk.

Simple tax planning can also help income returns. Using ISA allowances at the start of the year rather than the end or holding income producing assets in the name of a lower tax paying spouse can have a significant cumulative benefit.

Taking "income" by way of capital withdrawals can also make sense particularly if annual CGT allowances can be utilised or losses crystallised.

For more information please contact us.



New initiatives for business owners

We are experiencing some extremely challenging times in respect of the economy and the financial impact it has upon our personal and business lives.

As a result, we have found many of our clients are reconsidering their financial objectives and seeking to put revised plans in place.

To assist our clients, specifically those with owner-managed businesses and those looking to sell their business, we have launched two initiatives which combine tax and financial planning advice, under the umbrella of a financial **Healthcheck** and pre-sale financial **Review**.

Those who own and work in a business often find that time pressures result in important matters being neglected. Whilst some matters may be described as "good practice", others can be so crucial that the hard work put into running your business may be negated by exposed risk.

We are ideally placed to give business owners a detailed, holistic financial **Healthcheck** and would recommend checks are conducted on a regular basis.

Areas considered include:

- **Financial issues**
Retirement, estate planning, portfolio management, business & property finance, lifestyle planning & risk management
- **Tax Issues**
Remuneration & reward strategies, income tax & capital gains tax planning, residence & domicile issues, exit planning
- **Legal issues**
Wills, trusts, share & partnership agreements, powers of attorney, asset ownership & protection

We also offer a 5-stage pre-sale financial **Review** for business owners who are considering selling their business. The **Review** offers an assessment of the present position and intended post-sale position. It considers the owner's lifestyle requirements and provides detailed cashflow projections. It also helps to tie up a number of housekeeping issues.

Both the **Healthcheck** and pre-sale financial **Review** can provide a fresh perspective – it may be the best investment you make!



Wills and intestacy

Many people believe that their estates will pass automatically to their immediate family without complication and so assume there is no need for a Will.

Jointly owned assets usually pass automatically to the surviving holder. However, where a Will has not been made, or if an existing Will fails to dispose of the full extent of your assets, the intestacy rules will apply to determine what will happen to your estate and to whom it will pass.

By executing a Will, you can take account of your individual circumstances and provide certainty that your estate will pass to the beneficiaries you choose in a tax-efficient manner.

Under the intestacy rules, if you are married or in a registered civil partnership, the first person entitled to your estate, is your spouse/registered civil partner, but he or she will not necessarily inherit the whole of your estate.

The amount your spouse/registered civil partner inherits depends upon how much is in your estate and which of your blood relatives survive you.

It is important to remember that the intestacy rules may not cater for your particular circumstances in the way that you would wish, for example:

- You are legally married or in a registered civil partnership and:
 - a) you have children but wish your spouse/civil partner to inherit all of your estate
 - b) you don't wish your spouse/civil partner to inherit
 - c) you have children from a previous relationship and wish to ensure that these children receive something from your estate
- You do not have any living relatives and wish to leave your estate to friends or charity (the Crown may take your estate if you die without a Will and have no living relatives)
- You have dependant relatives (children under 18/elderly relatives/disabled relatives) who have special needs and you want to make provision for them and/or appoint guardians for minors
- You have a valuable estate liable to inheritance tax and wish to make arrangements for tax planning

It is essential to seek professional advice in this area and we would be happy to recommend a suitable solicitor.



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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