

Issue3 2009

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Tax Planning Opportunities

The introduction of the 50% income tax rate from 6 April 2010, and the immediate restrictions on higher rate tax relief for pension contributions are causing a number of our clients to reassess the structuring of their personal finances, including how they extract income from their businesses.



50%



There are a number of simple strategies that all clients should consider, such as revisiting the relative efficiencies of salary versus dividend payments and what, if anything, can still be contributed tax efficiently to pension schemes.

There is also an exercise to be done in considering whether individuals should be bringing forward income into the current tax year (eg by declaring dividends early) rather than allowing it to fall into the following tax year and be taxed at higher rates.

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We are happy to help prepare example calculations to show the tax implications of taking income in this year rather than next, should this be of interest.

Beyond the simple strategies, there are more complicated approaches which can involve the full restructuring of a business and the use of trusts and other vehicles.

These will not be appropriate for every business or individual and care and advice should be taken.

Salary sacrifice and your pension

When an employee makes a pension contribution from his/her net salary, there is no National Insurance Contributions (NIC) saving. In contrast, when an employer makes a contribution to a pension scheme, no NICs are payable. Therefore, implementing a salary sacrifice scheme is an attractive way of making both employer and employee NICs savings. This can be structured in a way that leaves the cost to the employer and the employee's net disposable pay unchanged, while increasing the pension scheme funding by up to 30% (see table below).

In this year's Budget, the Chancellor announced that, from April 2011, higher-rate tax relief on pension contributions for individuals earning more than £150,000 will be restricted. Anti-avoidance measures were introduced with effect from 22 April 2009 to prevent the new restriction being circumvented. This includes using salary sacrifice arrangements to reduce income below £150,000 so, in the context of registered pension schemes, the above planning only works for individuals with income below £150,000. For individuals with income in excess of £150,000, the salary sacrifice approach is still possible, but only using unregistered pension schemes.

	Pre-salary sacrifice (£)	Post-salary sacrifice (£)
Company position		
Gross annual salary	20,000	18,262
Employers NI cost	1,828	1,606
Employers pension cost	0	1,960
Total costs of employment	21,828	21,828

	Pre-salary sacrifice (£)	Post-salary sacrifice (£)
Employee position		
Gross annual salary	20,000	18,252
Tax and employees NI	-4,276	-3,738
Employees pension contribution	-1,200	0
Total net salary	14,524	14,524

	Pre-salary sacrifice (£)	Post-salary sacrifice (£)
Pension scheme position		
Contribution received	1,200	1,960
Income tax rebate	300	0
Total received by pension fund	1,500	1,960

Financial healthcheck for individuals

As a result of the current economic uncertainty, many individuals are keen to reappraise and consider how best to plan for their future. However, it is quite common to have tax, legal and financial advisers who do not know one another, which means the advice a client receives is not co-ordinated and there so no comprehensive structure to how financial objectives on the whole can be met.

To combat this and help ensure you're your personal financial, tax and legal affairs are suitable and up to date we have launched our "financial healthcheck"

Benefits for you: The financial healthcheck is carried out by experienced financial planners who can work with your tax and legal advisers.

What is involved: The healthcheck involves gathering sufficient information with regard to

- You and your family
- Your assets and liabilities
- Your income and expenditure
- Your retirement plans
- Your tax position
- Your legal documentation
- Your objectives

It operates in a similar way to a medical healthcheck – evaluating whether you are in good shape to ensure a healthy future.

Once this information is provided, we will arrange a meeting to understand fully your overall position. The healthcheck will then be completed and sent to you as a bespoke report within two weeks. The report will summarise your circumstances and objectives, flag up areas that we believe require immediate attention as well as those areas which require more in-depth analysis.

In this respect it operates in a very similar way to a medical healthcheck – evaluating whether you are in good shape and bringing to your attention areas that require specialist treatment to ensure a healthy future.

The value of employee benefits

Establishing and maintaining pay and benefits policies which are attractive, fair and affordable can be a major headache for employers.

Getting it right now will allow better cost control for the employer and can lead to higher levels of motivation and engagement with staff.

Conversely, an unplanned and reactive strategy can lead to inconsistency, low staff morale and an increased risk in the form of higher costs and non-compliance with legislation.

Whether you are a new or more established company, you should take time to consider how best to create and maintain the right package, ensuring that benefits are both cost effective and appreciated by your most valuable asset – your employees.

Given the current economic climate, it is arguably even more important for employers to review the structure of their benefit programmes to ensure that the benefit spend is providing the best value for money.

A proper review process should provide an objective and independent assessment of existing benefits packages covering the following key areas:

- **The suitability of the products currently in place:** Do the current benefit components fit the employee profile? Are they seen as valuable? Are employees engaged in the benefit process? Are their thoughts considered?
- **Administration:** Do your current systems provide the best platform?

Are benefits communicated to employees in a way which fits your company culture and ensures that employees see real value in what is provided?

- **The continued competitiveness of those products:** Do the components provide value for money and offer the best possible terms available in the marketplace?
- **The identification of other benefits which may be of interest:** what other benefits components might be relevant to your organisation/staff requirements?
- **Compliance with current legislation:** Are you up to date with requirements?

Whether you are a new or more established company, you should take time to consider how best to create and maintain the right package

- **The service provided by advisers and the product providers:** Do the current arrangements meet your required standards?



A new bespoke mortgage service

We have identified that many of our clients require a more tailored service when arranging property finance.

High net worth individuals, often with complex financial affairs, require a more considered, personal and discreet service. Our experienced advisers are able to provide this, and can relieve you of the time consuming and frustrating task of finding and comparing all of the available options.

We have detailed knowledge and experience of the specialist mortgage market and in conjunction with financial planners, tax advisers and legal specialists we can offer truly bespoke solutions.

We have, over the years, built excellent relationships with private and overseas banks, as well as specialist underwriters at high street banks and building societies.

In addition to arranging bespoke finance for your principle residence we are happy to provide advice and arrange finance in the following areas:

Second homes and holiday homes

Both in the UK and overseas, as well as residential investment finance for buy to let properties

Lending to limited companies, Trusts or other SPVs

For principal private residences, second homes and buy-to-let investments. Availability based upon documentation and details of structure

Offshore mortgages

Both for foreign nationals and when required to form part of a wider tax planning strategy

Foreign currency mortgages

Switchable currency mortgages are available to those with a detailed understanding of foreign exchange and risk and reward, and single currency loans for those who have substantial income in that currency.

There may be a fee for mortgage advice. The precise amount will depend upon your circumstances and will be agreed with you before we undertake any work. Your home may be repossessed if you do not keep up repayments on your mortgage.

Seminars

We are either holding or participating in a number of seminars over the coming months which should be of interest to a wide range of our clients and professional contacts. No charge is made for attendance.

Retirement Planning for Business Owners

September 2009

- Knowing when and how to retire and exit from your business
- Effective use of pension schemes, given legislative changes
- Investment planning to generate tax efficient income
- Coping with the impact of inflation and longevity
- Creating your desired lifestyle
- Estate planning considerations

Wealth Management for Private Clients & Trustees

September 2009

- How to create the most suitable investment strategy
- What is investment risk?
- What to expect from investment portfolios
- Personal tax planning opportunities
- How to make your assets go further in retirement.

Employee Benefits

September 2009

- What we've done so far to employees in this recession
- How can we rebuild employee morale to ensure they are focused on success?
- How employee benefits can cost effectively help the engagement process
- How tax can be applied creatively to employees in the UK and overseas
- How share schemes can be used to motivate and retain our high flyers

Solicitors & Accountants

October 2009

- Regulation and the future
- Integrating tax, legal and financial services
- What is financial planning?
- Appropriate investment management for individuals, trusts and charities

Nursing Home Proprietors

November 2009

- Are you feeling frustrated with the level of support provided by your bank?
- Are you looking to expand, buy or build a new home?
- Ever wondered what the key drivers are on valuing a home?
- Are you looking to sell your business in the next 5 years?
- Do you wonder whether you are claiming all the tax allowances that you might be eligible for?

If you would like to receive an invitation to any of these seminars please contact Dee Ruan on:

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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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