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Autumn 2010

Tax Efficient Investments

As we enter a high tax, low growth investment environment, it is more important than ever to minimise tax on investments. The old adage of not allowing the tax tail to wag the investment dog should still apply but we should focus on the after tax return.

Those earning more than £100,000 now start to lose their personal allowance on income tax and for those earning more than £150,000 the income tax rate is now 50%.

With pension contributions expected to be restricted from next April and ISA allowances relatively modest for high earners, it is important to consider the range of tax efficient investments.

Venture Capital Trusts (VCT) and Enterprise Investment Schemes (EIS) fall into this category.

A quick recap:

VCTs offer 30% income tax relief provided shares are held for at least 5 years. All profits are free of capital gains tax and all distributions are tax free.

EISs offer 20% income tax relief provided investment is held for 3 years. Capital gains can be deferred and there is the potential for inheritance tax relief after 2 years.

With bank lending restricted, VCT fund raisers are finding a greater choice of investment opportunities and, as the economy arguably recovers, investment in well managed smaller companies could well be rewarded.

Menzies Wealth Management can advise you on the most suitable investments for you, taking into account risk profile, timescale and objectives.

Please remember there are a number of risks associated with VCT and EIS solutions. Not only is there investment risk because investment into smaller, less regulated companies is involved but also because the legislation affecting these products can change.

For further information and a free, no obligation meeting please contact us at atricker@menzieswm.co.uk or call us on 01784 497100

All change (again!)

In recent years we have had to get used to constant change in the area of pensions. At the start of the last decade we saw the introduction of stakeholder pensions with the target market of getting the young generation and low paid commencing pension provision. What unfolded was increased funding from high net worth individuals and very little increase from the target areas.

In 2006 we saw the biggest changes in pension rules for several generations with A Day replacing 8 sets of rules with 1, the introduction of an annual and lifetime allowances and increased investment flexibility.

As a result of the credit crunch, the last government was forced to restrict tax relief for 'high earners' in 2009/10 and 2010/11. Broadly, those earning more than £150,000 in any of the current or previous two tax years is restricted to a gross contribution of between £20,000 and £30,000.

The Coalition Government has announced that the annual allowance for 2011/12 and beyond will be £50,000, a significant reduction on the current £255,000. However, higher rate tax relief is set to continue which is a positive message. The Lifetime Allowance is also set to reduce from £1.8 million to £1.5 million. In a further interesting move, there is also the potential to carry forward any unused relief up to three years.

Overall this is a positive move and in our opinion confirms that pensions remain on the agenda for higher rate taxpayers. It does present some planning opportunities ahead of April 2011:

- High earners should make use of their restricted allowance in 2010/11
- Those that are not restricted can potentially invest up to 100% of their income before 5th April
- Individuals earning more than £100,000 who will lose their personal allowance may be able to make a pension contribution and partially or fully reinstate their personal allowance, thus achieving an effective rate of tax relief in excess of 40%.

Menzies Wealth Management will be pleased to advise you in this complex area of advice. For further information please email cellis@menzieswm.co.uk or call on 01784 497100

Deeds of Variation: did you know?

What is it?

A deed of variation enables beneficiaries of a deceased's estate to redirect inherited assets in favour of another individual or into trust. The key benefit of this is to make an immediate inheritance tax (IHT) saving.

To be successful, this planning must be carried out within two years from the date of death by the person who has inherited the asset(s) and the property must have been included in the deceased's estate at the date of death.

In situations where the beneficiary may not want or need the inheritance they may wish to utilise a deed of variation instead of choosing to make a gift of the inheritance. The benefit of this is that they are not deemed to have made a potentially exempt transfer or chargeable lifetime transfer for IHT purposes.

What are the legal requirements?

These are set down in the Inheritance Tax Act 1984.

Five conditions are required to be met:

- The variation must be in writing
- It must be made by the person or persons who would have benefited from the original gift
- It must be made within 2 years of the death
- The document must contain a statement that section 142 of IHT Tax Act 1984 is to apply is intended to apply
- All the beneficiaries must agree to the change

For IHT purposes, the variation is treated as though it had been made by the deceased person and not by the person entering into the variation.

The key benefits

- The possibility of achieving an immediate reduction in the taxable value of the original beneficiary's estate, without any requirement to survive for any particular period had a gift been made
- There is no requirement to vary the entire inheritance
- It is possible to keep the variation very simple and redirect the asset(s) to another individual

It is important to seek professional advice in this matter and Menzies Wealth Management will be pleased to assist. For further information please email ajohnstone@menzieswm.co.uk or call on 0207 3875868

Protecting your financial strategy – Covering the angles

When we create bespoke financial planning strategies for our clients, we always highlight the implications that a serious illness or death would have. It is all very well having a strategy to deliver a meaningful retirement income in 15 or 20 years time but what would happen if the main breadwinner was forced by illness to dramatically alter their savings strategy?

More often than not we will all have sufficient life assurance cover in place to clear our outstanding mortgage in the event of death but what would happen to retirement provision for the widow/er, or if the breadwinner suffered a heart attack or an illness that forced a complete career change?

It is a fact that we, in the western world, are all living longer. According to research more than half of babies born today will live beyond 100. This could mean that we spend a greater proportion of our time in retirement than actually accumulating funds for retirement. When factoring in the cost of long term care, it is ever more apparent that we not only commit to an effective savings strategy but also consider the implications of not being able to maintain it.

Menzies Wealth Management regularly advises clients on comprehensive financial planning strategies which will incorporate regular reviews to ensure they remain on track. Please contact us for a free, no obligation 'wealth check' at advice@menzieswm.co.uk or call 01784 497100

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