



FINANCIAL

Planning & Strategy Guide 2012/13

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Financial Planning & Strategy Guide 2012/13



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This comprehensive guide provides important information for your financial planning in the short and long term.

Proper tax and financial planning can reduce or defer the tax you pay, freeing up more of your cash for investment, business or personal purposes. This is particularly poignant as our sluggish economy continues to impact on our finances.

We believe that planning is the starting point for developing your wealth and building financial security so that you are as prepared as possible when market and/or financial reverses occur.

This guide outlines our thoughts and basic strategies that you might discuss with us for the current tax year. There is no substitute for personal advice – we are committed to helping you plan and save.



WE CAN HELP.

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In most sections, you will find a range of the areas where we can advise.

To schedule a planning meeting or to review a specific area of tax and financial planning, please contact us now.

Important notices

The way in which tax charges (or tax relief, as appropriate) are applied depends upon individual circumstances and may be subject to change in the future.

FSA regulation applies to certain regulated activities, products and services, but does not necessarily apply to all tax planning activities and services.

This document is solely for information purposes and nothing in this document is intended to constitute advice or a recommendation. You should not make any investment decisions based upon its content. The value of investments can fall as well as rise and you may not get back the full amount you originally invested.

Whilst considerable care has been taken to ensure that the information contained within this document is accurate and up-to-date, no warranty is given as to the accuracy or completeness of any information. E & OE.

TAX ALLOWANCES AND EXEMPTIONS

Let's start by looking at the tax allowances and exemptions that are available. Each member of your family is taxed as an individual and is entitled to his or her own allowances and exemptions.

Income	Earnings, etc	Savings	UK Dividends
First £8,105	Tax-free ¹	Tax-free	10%
Next £2,710	20%	10%/20% ²	10%
Next £31,660	20%	20%	10%
Next £115,630 ³	40%	40%	32.50%
Above £150,000	50%	50%	42.50%

Capital gains

First £10,600	Tax-free
	10% when entrepreneurs' relief is claimed
Remainder	18% when chargeable income and gain are below £34,370
	28% when chargeable income and gain are above £34,370

Allowances and rate bands are allocated first to your earned income (which includes pensions), then to your savings income, then to any UK dividend income. If your non-savings income exceeds £2,710, the savings rate of 10 per cent does not apply.

The additional rate of 50 per cent reduces to 45 per cent from April 2013.

¹ This allowance is progressively withdrawn at a rate of £1 for every £2 of income in excess of £100,000. There is no personal allowance where income exceeds £116,210.

² The first £2,710 of savings income is taxed at 10 per cent provided taxable non-savings income does not exceed £2,710.

³ Where income exceeds £100,000 the personal allowance is withdrawn and so up to an additional £8,105 can be at 40%. In this instance, you should ignore the £8,105 income line in calculating your cumulative position on the table.

CASE STUDY

Make the most of your allowances

Paul – a single person with a gross income of £55,000 (made up of £30,000 earnings, £4,000 of interest, grossed-up UK dividends of £10,000 and capital gains of £11,000 assuming no other reliefs, etc) would have a tax liability of £6,634.13 as shown.

	Earnings £	Interest £	UK Divs £	Gains £
Income	30,000	4,000	10,000	11,000
Personal Allowance	8,105			
CGT exempt				10,600
Taxable	21,895	4,000	10,000	400
Tax at 20% on	21,895	4,000		
10% on			8,475	
32.5% on			1,525	
28%				400
Total Tax Liability				
£6,634.13	£4,379.00	£800.00	£1,343.13	£112.00

FOR THOSE 65 AND OVER

The personal allowance for those aged 65 to 74 at 5 April 2013 is higher, and increases again for those aged 75 or over (see table). Both higher allowances are scaled back if income exceeds £25,400, but in any event the minimum personal allowance is £8,105 unless income exceeds £100,000.

From April 2013, no new claims for these allowances will be possible. Existing claimants will have the value of these age-related allowances frozen at their current cash values.

Married couple's allowance at 10 per cent is available to married taxpayers and those in a civil partnership when the elder partner or spouse was born before 6 April 1935.

Personal allowance

Age at 5 April 2013	
65 – 74	£10,500
75	£10,660

Maximum married couple's allowance worth

Elder spouse born before 6 April 1935	£770.50
Minimum	£296.00

The married couple's allowance may be scaled back if the husband's income (or, for marriages and civil partnerships, if the income of the spouse or partner with the most income) exceeds £25,400. The allowance is subject to a minimum value of £296.

PENSIONS AND ISAs

Pension contributions

Maximum annual tax-efficient gross contributions to age	74
Individuals	£3,600 or 100% of net relevant earnings to £50,000
Employers	£50,000 less employee contributions
Minimum age for taking benefits	55
Lifetime allowance charge	
Lump sum paid	55%
Monies retained	25%
On cumulative benefits exceeding	£1,500,000*
Maximum tax-free lump sum	25%

* Subject to transitional protection for excess amount

ISAs

Overall investment limit	£11,280
Including cash maximum	£5,640
Junior ISA overall annual limit	£3,600



PLANNING FOR LIFE



Throughout life, from childhood to retirement, circumstances and priorities change. At every stage it is important to make well-informed decisions to ensure that you and your family are following the best strategies for achieving your goals.



Childhood

It is never too early to begin planning for a child's financial future. Parents, grandparents, and other relatives can assist in the early years by providing funds for the child's education and future. This may, for example be through direct gifts or by making payments into a Junior ISA.

Children should be educated in handling money responsibly. Budgeting can start with knowing that if you spend your pocket money on one sweet, you cannot spend it on another, and when you have spent it all there is no more money left until next week.



The teenage years

The teenage years are an important time to learn the ins and outs of budgeting, and financial planning, as children begin to earn money for the first time and save to buy things such as sports, hi-fi and other technology equipment. It is during the latter teen years that managing finances independently will start if living away from home and attending university. Managing a budget, bank account and loans becomes part of everyday life for university students.



Young adulthood

With university education complete and, hopefully a job secured, now is the time to develop a plan that allows financial reality to be accommodated, including student debt repayment which is automatically deducted from salary or payable through self assessment. These are also the years when it is time to make provisions for the purchase of a car and to plan for the acquisition of a home. While it is probably way down the list of any financial priority it is also the time to start investing for retirement, even though retirement is a long way off and the initial investment may be modest. A small sum put away now for retirement has much longer to grow.

- Q.** How much should be invested for my pension?
- A.** It is important to seek advice, but five per cent of gross income is normally considered an absolute minimum.



Settling down

You may now be looking to move from renting to buying your first home. You need to save for the deposit and furnishings, and you will need to budget

for the mortgage repayments and other household expenses (e.g. insurance, council tax, repairs and utility bills that are an inevitable part of home ownership).

This is often the most difficult financial period. Finances are tight, as the mortgage repayments account for a large proportion of disposable income. It is important to prepare detailed budgets, which should always include an amount for unexpected or one-off expenditure.



New parents

The imminent arrival of your first child, with the extra responsibilities and perhaps the need for more space, should trigger a re-evaluation of your personal financial strategies. One financial survey estimates that it now costs more than £218,000 to bring up a child to the age of 21.

The arrival of a child can mean moving from two incomes funding two people to one income funding three. Alternatively, it can mean funding childminding so that both parents can work. Although employers may provide a workplace nursery or childcare vouchers, these never cover the full cost of childminding.



Middle age

As the children approach higher education you may wish to see to what extent you can help meet a share of the education and living costs. Although the maturity of savings plans which were begun when the children were born can help at this time, you might also need to consider making extra provision as many students now leave higher education with debts in excess of £25,000, and within a few years this sum may be more than £40,000. Do you wish to assist your children in this area? Are you able to?

By now you may have reached your earnings peak, and as the children leave home and begin work you should review your strategies to ensure you are on target for a comfortable retirement. What are your realistic objectives? You might, for example, want to consider moving to a smaller house, acquiring a second home, or increasing your retirement funding.

Alternatively, you may find yourself in financial difficulty. If so, remember there is always a way forward. The first step is always to acknowledge the situation. The second is to quantify the amounts involved. This may not be easy, but only when this is done can you design a path toward loosening debt's grip and advancing your investment plans.



Nearing retirement

If retirement beckons in the next fifteen years you will need to consider carefully and evaluate your income requirement and the extent to which your investments are going to deliver the return you require. You may also wish to help your children, and you may still have to pay for a wedding. Investments, property and annuity rates are probably all lower than what you might have expected before the financial problems that surfaced in 2008.

As you approach retirement, you need to review and update your plans at least annually to satisfy yourself that your accumulated capital is at less risk and to ensure that your income in retirement will meet your needs – and provide a little extra for the realisation of some of those long planned dreams.

Many people start retirement in debt. Do all you can to repay debt before retirement day.

At this point in life, it is worthwhile checking your state pension entitlement. You should also keep up to date with the value of any private pension funds.



In retirement

After 40 or more years at work it is time to take a well-earned rest, but you still cannot take your eye off of your financial planning if you want to enjoy a long and comfortable retirement. This may also be the time to set some money aside for your children or grandchildren.

However, balanced against these desires may be the need to finance long term care for one or both spouses, and the potential impact of this on your financial security.



Charitable donations

Throughout your life you may wish to give money to charity. There are a number of ways in which it is possible to gift cash or assets to charity tax-efficiently. For example, under Gift Aid you can give a charity £100 at a net cost to yourself of as little as £50. Charitable donations can also be included in your Will, and again they will attract tax relief. If you leave 10 per cent or more of your net estate to charity your rate of IHT reduces from 40 per cent to 36 per cent.

Please speak to us for more information on making tax-efficient gifts to charity.



PLANNING FOR YOU AND YOUR FAMILY

No matter what your age, personal or financial status, you will have dreams, and expectations. The impact of the flat economy and the threat of further volatility necessitate a review in order to evaluate the current state of your medium and long term planning. What, if any, adjustments are required? We can advise and help you adjust your plans so that you can make your goals a reality. It may seem like a daunting task, but there are plans you can make and steps you can take which will start you on the road to realising your goals.

WHAT ARE YOUR PLANNING OBJECTIVES?

Key financial planning goals include•

- Making the most of your tax-free allowances
- Keeping your marginal tax rates as low as possible
- Maintaining a spread between your income and capital.

Remember that all tax planning must•

- Save tax overall. Do not, for example, save stamp duty land tax at three per cent only to pay more capital gains tax at 28 per cent
- Not cost more than the tax you will save
- Be flexible enough to cope if tax law changes, and
- Not impose conditions or restrictions that you find unacceptable.

Create opportunities to save tax

We can help you to create opportunities to reduce your marginal tax rates by careful identification of appropriate strategies.

Situation	Possible strategy	Possible result
Income from assets taxed at 40%	Transfer to spouse if he/she pays tax at lower rates Transfer into joint names	Tax @ 40% reduced to 20% or less Half of income taxed at 20% or less
Proposed sale will give sizeable capital gain	Transfer to spouse if he/she can use his/her annual CGT exemption or Transfer to spouse if he/she has unused CGT losses Transfer into joint names Defer sale of 50% until after the end of the tax year	Further £10,600 (maximum) of gain tax-free Cover part or all of gain with losses Double exemptions and deferring some tax by 12 months
One spouse rich in assets – wish to make gifts within CGT and IHT limits	Transfer to the other spouse, who can then make gifts in parallel	Double exemptions



WE CAN HELP.

- Understanding your tax allowances and rates
- Making the most of tax-free opportunities
- Keeping tax rates as low as possible across the family
- Using savings, capital and the Junior ISA to give your children a better start in life
- Arranging a Will
- Making a living Will and giving someone you trust a lasting power of attorney over your affairs
- Insuring your life and obtaining disability and critical illness insurance
- Saving for income and investing for capital growth

Gifts must be outright to be effective for tax, and must not comprise a right only to income.

Transfers on or within seven years of death to a spouse domiciled outside the UK are exempt from IHT only to the extent of £55,000.

PLANNING STRATEGIES

A debt free start for your children

For younger children, ongoing payments into a Junior ISA may create the opportunity for parents, grandparents and other family members to build a fund to help offset university expenses and minimise debt at the start of your child's working life.

Remember that all children have their own personal allowances meaning that their income up to £8,105 escapes tax this year provided the capital does not originate from parental gifts. If income arising on parental gifts exceeds £100, the parent is taxed on it unless the child has reached 18, or is married. Thus parental gifts in excess of, roughly, £3,000 in total should perhaps be invested in something which produces tax-free income, or which accumulate income, or in a Junior or Cash ISA. The £100 limit on income does not apply to income on gifts into a National Savings Children's Bonus Bond.

Income from capital gifted by grandparents or other relatives is taxed as the child's, as will income distributions from a trust funded by such capital.

Marriage breakdown

Tax relief worth up to £296 this year is given on maintenance paid to a former spouse under orders or enforceable agreements, so long as at least one of the former parties to the marriage was born before 6 April 1935. Otherwise, maintenance payments do not qualify for tax relief. Maintenance payments received under orders or agreements are not taxable.

The special CGT/IHT treatment for transfers between spouses applies throughout the tax year in which separation occurs. Transfers in subsequent years are dealt with under the rules for disposals between connected persons, with the disposal treated as a sale at market value until the date of decree absolute, after which former spouses are no longer regarded as connected.

There are, therefore, arguments for and against making transfers as quickly as possible after separation, or for delaying them until after the decree absolute. Contact us if you are not sure which course to take.

In particular, the potential tax burden on the disposal of the former marital home as a result of separation and divorce can be significant, and may be something about which you need specific advice.

Writing a Will

How would your spouse and children manage if you died or were incapacitated tomorrow?

Beyond taking the obvious step of ensuring you have adequate insurance cover, with life assurance written into trust for your spouse or children to ensure quick access to funds, you need to make a Will. Despite repeated campaigns, it is believed that three-quarters of adults still do not have an up-to-date Will. If you die without a Will, the law determines who receives your estate.

We would also strongly recommend that you-

- **Make a living Will** – so you can make clear your wishes

in the event that, for example, you are pronounced clinically dead following an accident, and

- **Execute a lasting power of attorney** – so that if, whether as a result of an accident or illness, you become incapable of managing your affairs, you can be reassured that responsibility will pass to someone you choose and trust.

Of course all this also applies for your spouse, and to those who are in civil partnerships. You should also consider the possibility that both parents may be simultaneously killed or incapacitated.

Tips to consider when writing a Will

- A Will should be reviewed regularly. Beneficiaries may die; new beneficiaries may have been born. Your wishes and values may have changed.
- Remember that marriage usually revokes any Will you have made. Divorce usually excludes your former partner as a beneficiary. These are occasions when you may wish to consider updating your Will.
- On a practical note, tell your spouse, your parents, and your business partners where your Will and any related documents are kept – it is still up to you whether or not you tell them what the documents contain, but if you are passing responsibility for managing your affairs on to others, it would be advisable to talk matters through with them now.
- It is also advisable to tell your family members whenever you change your Will. Should you tell them what assets you have and how they can be located?



BUILDING YOUR WEALTH

Making your wealth grow and being able to retire when and how you want is one of most people's important financial objectives, but achieving this goal takes planning and perseverance.

Making sure the pieces fit

Putting your financial affairs in order against the current financial difficulties is a bit like completing a jigsaw, where the main pieces are savings, investment, protection, and taxation. If you get it right, the picture can be very attractive, but get it wrong and the picture can look very muddled. The problem is that life does not come with a picture on the lid.

- What do you do with your current investments?
- How can you gauge the difference between saving and investing?
- What sort of insurance do you need?
- How much should you be salting away for your retirement?
- Are you paying too much tax?

The answers to these questions are different for each person, depending on individual circumstances, but there are certain strategies that make sense in most cases. If you can identify the broad principles that are relevant to your situation, you can use them to improve your financial standing.



WE CAN HELP.

CONTACT US FOR ASSISTANCE WITH:

- Discussing the difference between saving and investing
- The tax consequences of different investments
- How income and gains will be taxed
- Tax sheltered investments
- Saving for your retirement
- Setting and achieving savings goals
- Tax-free investments

Build a framework

What you need is a realistic framework so you can better seize financial opportunities as they arise. To develop this framework for your financial decisions, **follow the five Ds.**

The five Ds

- 1 **Decide where you are today**
- what has been the impact of the financial crisis?
- 2 **Define where you want to be in the future**
- 3 **Discuss your goals and objectives with us**
- 4 **Develop with us a plan to move toward your goals, and**
- 5 **Drive forward to make it happen.**

Setting desirable and realistic goals

This involves balancing head (financially prudent strategies) and heart (emotionally acceptable thresholds). You need to bridge the gap between what you can achieve financially with what you dream of doing.

Try to meet your objectives by setting a number of short, medium and long-term goals and prioritise them within each category.



GOALS

COMMON GOALS INCLUDE THE DESIRE TO:

- ✓ Accumulate a sizeable estate to pass on to your heirs
- ✓ Increase the assets going to your heirs by using various estate planning techniques, perhaps including a lifetime gifts strategy
- ✓ Tie in charitable aims with your own family goals
- ✓ Accumulate enough wealth to buy a business, a holiday home, etc
- ✓ Be able to retire comfortably
- ✓ Have sufficient funds and insurance cover in the event of serious illness or loss
- ✓ Develop an investment plan that may provide a hedge against market fluctuations and inflation
- ✓ Minimise taxes on income and capital.

Making the most of your investments

When determining your financial strategy, it is important to understand the difference between saving and investing. If you save money on deposit with a bank or building society you will earn (a low rate of) interest. If you buy shares or invest in a share-backed plan such as a unit trust or a life assurance policy, you will have the opportunity to earn dividend income and benefit from (potential) capital growth if the shares go up (and stay up) in

value. However, it is important to remember that shares can go down in value as well as up, and dividend income can fluctuate. If you choose the wrong investment you can take more risk than you wanted and could get back less than you put in. The watchword, therefore, must be caution. You will need to consider the most important factors for you in your investment strategy.

PTO for savings and investment options





BUILDING YOUR WEALTH

SAVINGS AND INVESTMENT OPTIONS

National savings

Although the products on offer from National Savings are unlikely to be at the cutting edge, a tax-free return of, say, 2 per cent is equivalent to 3.3 per cent for someone paying higher rate tax (40 per cent) or 4 per cent for someone paying the additional rate tax (50 per cent). Premium bonds may be quoted as offering a low 'interest equivalent' but there is a chance at winning a tax-free million.

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Investment bonds

Those with a lump sum to invest might consider an investment bond. This is a life insurance product and the norm is to draw an annual tax-free sum equal to 5 per cent of the original investment for the life of the bond. On maturity, usually after 20 years, any surplus is taxable, but with a credit for basic rate tax. Higher rate tax might be payable, but 'top slicing' relief might apply.

Bank and building society accounts

Although history records that long-term investment in shares will outperform savings with a bank or building society, you should not overlook (1) the higher degree of certainty over investment return and (2) the (usually) ready access to your funds. Interest is liable to income tax.

Such accounts are often held as emergency funds. An ideal solution is to have instant access to a sum equal to at least three months' income.

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Stocks and shares

Investment in stocks and shares gives, in theory, the best chance of long-term growth. On the other hand, it is often a volatile market, and should perhaps be avoided by the faint-hearted. Investment in unit trusts and investment trusts are designed to spread the risk, and add an element of management, without the expense of broker advice, for the small investor. Capital gains are charged to tax, as are dividends.

Bricks and mortar

Property, whether commercial or residential, is generally considered a long-term investment and buy-to-let investors have returned to the market. The reduction in property values following the boom resulted in a less than buoyant rental market and caused many to rue their investment plan. However, many now see the current state of the market as a buying opportunity, but only the very brave are venturing to acquire property as an investment. 'Buy-to-let' mortgages may generally be available to fund as much as 75 per cent of the cost or property valuation, whichever is the lower. Those investing in property seek a net return from rent which is greater than the interest on the deposit while the risk of the investment is weighed against the prospect of capital growth.

However the market remains uncertain, so advice on such an investment is essential.



ISAs

Those investing in an ISA have the option to invest the full £11,280 in stocks and shares, or up to £5,640 in cash and deposits, with the same or a different fund manager. The Junior ISA investment limit this year remains at £3,600.

Although most income accruing in an ISA does so tax-free, the tax credit on UK dividend income cannot be recovered. All investments held in ISAs are free of CGT but not IHT. There is no minimum investment period for funds invested in ISAs – withdrawals can be made at any time without loss of tax relief. However, some plan managers offer incentives, such as better rates of interest, in return for a commitment to restrictions such as a 90-day notice period for withdrawals.

Other tax-break investments

Investments under the Enterprise Investment Scheme (EIS) and investments in Venture Capital Trusts (VCTs) are generally higher-risk investments. However, tax breaks aimed at encouraging new risk capital mean that EIS and VCT investments may have a place in your investment strategy.

Venture Capital Trusts

With similar restrictions on the type of company into which funds can be invested, VCTs now allow 30 per cent income tax relief on investments of up to £200,000 each tax year but there is no CGT deferral for investments in VCTs. Gains and dividends on VCT shares are tax exempt provided the minimum holding periods are met.

Talk to us to ensure that you understand the advantages and risks of tax-break investments.

The Enterprise Investment Scheme

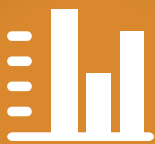
Subject to various conditions, such investments attract income tax relief. The available relief is 30 per cent this tax year on £1 million per annum. Contributions may be carried back by one tax year provided the maximum amount for which relief is sought is not exceeded.

More importantly, they will attract unlimited CGT ‘deferral relief’ on the investment of chargeable gains, delaying tax which would otherwise be payable on disposals. In addition, although increases in the value of shares acquired under the EIS up to the £1 million limit are not chargeable to CGT (as long as the shares are held for the required period), relief against chargeable gains or income is available for losses. The gross value of the company you buy shares in must not exceed £16 million after the investment and there are restrictions to ensure that investment is targeted at new risk capital.



WE CAN HELP.

Talk to us to ensure that you understand the advantages and risks of tax-break investments



PLANNING FOR RETIREMENT

For many, retirement plans were devastated by the fall of the stock market in the first decade of the new millennium, reduction in property values and the fall in interest and annuity rates. So, what chance is there now of a 'comfortable retirement'?

Will the state pension suffice?

Even if it is not currently top of your agenda, being able to retire when and how you would like, is sooner or later likely to be one of your most important financial objectives. You could spend a third of your life in retirement. Will you find those years the golden times we all dream of, or a constant struggle to pay the bills?

The state pension is worth about £5,500 at current rates, assuming you have a full national insurance record. For those reaching state retirement age from 6 April 2012, this requires 30 years' contributions. If you have not yet retired, we can help you check your record and see if any gaps can be filled. A review of your state pension entitlement will also indicate what you may expect to receive as state second pension, SERPS and graduated pension.

The state pension age (SPA) is also changing and it is far from clear that we have the final definitive position. Currently:

- Men born before 6 December 1953 retain their SPA of 65
- Women born before 6 April 1950 retain their SPA of 60
- Women born on or after 6 April 1950 but before 6 December 1953 will have an SPA between 60 and 65
- Men and women born on or after 6 December 1953 but before 6 October 1954 will have an SPA between 65 and 66
- Men and women born on or after 6 October 1954 but before 6 April 1968 will have an SPA of 66
- SPA is to increase to 67 for all by 2026
- It is planned that SPA will rise to 68 and beyond.

According to Government estimates, the gap between how much people are saving and how much they need to save to ensure a comfortable retirement is more than £60 billion. It believes that 13 million people – nearly half the working population – are not saving enough for their retirement.



WE CAN HELP.

- Realising your expectations after the reduction in the value of your assets
- Working out how much you need to save to create a retirement pot capable of securing the comfortable retirement you deserve
- Tax-advantaged saving for your pension
- Saving in parallel to provide more readily accessible funds
- Saving in company and personal pension schemes
- Investing in a SIPP – for more control over where your savings are invested
- Investing in stakeholder pensions for yourself and other family members
- Using your business to help fund your retirement
- Freeing capital now tied up in your home to help fund your retirement

LIFETIME SAVING LIMITS

The rules place an overall lifetime limit on tax-advantaged pension funds of £1.5 million from 6 April 2012. There is a tax charge for value in excess of the limit and for excess contributions in a year over the annual limit, which is now £50,000 (or higher if there is unused allowance in the previous three years).

	Tax year 2012/13
Annual amount (input amount)	£50,000*
Tax charge on excess	40%
Lifetime allowance	£1.5 million
Tax charge (excess paid as annuity)	25% on excess value, then up to 40% on annuity
Tax charge (paid as lump sum)	55% on excess value

* This amount may increase if there are unused allowances from the previous three years.

If you contribute more than £50,000 this year to your pension, you may be able to benefit from unused relief in the preceding three years. We can check this for you.

PLANNING STRATEGY

As well as your age, your retirement planning strategy will be determined by a number of factors:

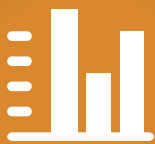
- Is there a company pension scheme?
- Are you self-employed?
- How old are you?
- How much can you invest for retirement?
- How much state pension will you receive?

You can estimate your post-retirement living expenses at roughly 60-80 per cent of your current living expenses. Studies have shown that, comparing people aged 45-54 and those aged 65 or more, the average reduction in expenses is:

Personal care, heat and light and food	35%
Housing and furnishings	39%
Entertainment	50%
Clothing	56%
Insurance	85%
Education	88%

PTO for pension options





PLANNING FOR RETIREMENT

PENSION OPTIONS

Company pensions

There are two kinds of company pension scheme, into which you and your employer may make contributions. A final salary scheme pays a retirement income related to the amount you are earning when you stop work, while a money purchase scheme instead reflects the amount invested and the underlying investment fund performance. In both cases, you will have access to tax-free cash as well as to the actual pension.

Most company pensions are now almost entirely based on 'money purchase' arrangements, under which no guarantee of the eventual pension available is made.

Those already in company pension schemes should be aware that the rate at which contributions can be made by the member is now limited to the greater of £3,600 and total UK net relevant earnings, subject to scheme rules. Where your employer contributes on your behalf there is no earnings related limit, and only the annual limit applies.

Private pensions

If you are not in a company scheme, you should make your own arrangements, since relying on the state pension is already unrealistic, and will become more so with each passing year.

Personal pensions

Investment in personal pensions is limited to the greater of £3,600 and the amount of your UK relevant earnings, but subject to the £50,000 annual allowance and any unused allowance from the previous three years in all years except the year in which you retire.

You will normally have selected one fund, or a spread of funds, for your pension savings. Would a switch give you more security or the scope for more growth?

Premiums on personal pension policies and stakeholder pensions are payable net of basic rate tax relief at source, with any appropriate higher or additional rate relief usually being claimed via the PAYE code or self assessment tax return.

SIPPs

In response to poor performances from pension fund managers, some retirement savers have switched their pension savings into Self Invested Personal Pension schemes (SIPPs) – a form of personal pension plan which gives the investor much more influence over how the funds are invested.

Stakeholder pensions

Stakeholder pension premiums are subject to a minimum £20 investment and a one and a half per cent ceiling on charges for the first ten years and then one per cent thereafter. Premiums of up to £3,600 before tax relief (£2,880 net) can be paid each year, regardless of earnings. Additional premiums are subject to the same rules as for personal pension policies.

Stakeholder premiums can be paid on behalf of another person – for example, by a grandparent for an infant grandchild, and are an excellent way of starting your children on a pension's savings habit.

Your home as a source of finance?

Although they might not be suitable for everyone, there are at least two ways to use your home to boost your retirement finances. First is down-sizing – selling your current home and buying something cheaper to release value now tied up in your property for other purposes. Second, if you wish to continue living in the same property, equity release might be something to consider. There is more than one form of equity release. Equity release will not suit all homeowners, and you need to discuss all of the implications with us and your other financial advisers.

CASE STUDY

Make the most of personal pensions

Phillip will earn £55,000 in 2012/13. He will invest £12,500 into his personal pension policy. He has no other income and claims only the standard personal allowance.

Phillip will write out a cheque to his pension provider for the premium, net of basic rate tax relief, of £10,000. Phillip is also entitled to higher rate tax relief on the gross premium, amounting to £2,500. As Phillip is an employee, we can ask HM Revenue & Customs to give the relief through Phillip's PAYE code. Otherwise, we would claim relief in Phillip's 2013 Tax Return.

Thus the net cost to Phillip of a £12,500 contribution to his pension policy is just £7,500.

Start now

Although it's never too late to plan for your retirement, the earlier you start, the more chance you will have to accumulate the funds you will need.

In the current climate, whether you choose to focus on pension savings, alternative savings products, or a combination of both, your savings will need time to grow.

To create a retirement fund of about £225,000 over 25 years, you would have to save about £7,000 every year, assuming approximately 2 per cent growth. Saved in an ISA, the cost over 25 years would be £175,000, compared with £105,000 if you obtained 40 per cent tax relief on your pension policy premiums. On the other hand, at retirement, the pension policy would provide a tax-free lump sum and an income (or they can be drawn before retirement, subject to plan rules), while the funds in the ISA would be available to draw, free of tax, immediately. Partly influenced by poor returns from pension policies and adverse publicity regarding pension companies coupled with lower annuity rates, many people are now spreading their savings between company or personal pension schemes and other forms of investment.



WE CAN HELP.

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Contact us if you would like further help or advice on this subjects.



ESTATE PLANNING

Estate planning should start early in life. If your estate is large it could be subject to inheritance tax, but even if it is small, planning and a well drafted Will can ensure that your assets will go to your chosen beneficiaries.

Do you need a Will?

Yes. Anyone who owns property – a home, a car, investments, business interests, retirement savings, collectibles, personal belongings, etc – needs a Will. A Will allows you to direct by and to whom your property will be distributed after your death. If you have no Will, your property will normally be distributed according to the intestacy laws. Assumptions about how these rules work is a very common mistake.

The more you have, the less you should leave to chance when it comes to creating an estate plan that minimises taxes. We can help you to ensure that, through planned lifetime gifts and a tax efficient Will, more of your wealth will pass to the people you love.

Making your estate plan

Start by answering the following questions:

Who? Who do you want to benefit from your wealth? What do you need to provide for your spouse? Should your children share equally in your estate – does one or more have special needs? Do you wish to include grandchildren? Would you like to give to charity?

What? Should your business pass only to those children who have become involved in the business, and should you compensate the others with assets of comparable value? Consider the implications and complications of multiple ownership.

When? Consider the age and maturity of your beneficiaries. Should assets be placed into a trust restricting access to income and/or capital? Or should gifts wait until your death?

Use your exemptions

You should make the best use of IHT exemptions, including:

- ✓ The £3,000 annual gifting exemption
- ✓ Normal expenditure gifts out of after-tax income
- ✓ Gifts in consideration of marriage (up to specified limits)
- ✓ Exemption for gifts you make of up to £250 per annum to any number of persons

If you die within seven years of making substantial lifetime gifts, they will be added back into your estate and may result in a substantial IHT liability for the recipients. You can take out a life assurance policy to cover this tax risk if you wish.

However, you can make substantial gifts out of your taxable estate into certain types of trust, and as a trustee retain control over the assets.

Estimate the inheritance tax on your estate		£
Value of:	Your home (and contents)	
	Your business*	
	Bank/savings account(s)	
	Stocks and shares	
	Insurance policies	
	Car	
	Jewellery	
	Other assets	
Total assets		
Deduct:	Mortgage	
	Loans	
	Other debts	
Total liabilities		
Net value of your assets		
Add: Gifts in last seven years**		
Deduct (assuming no unused spouse exemption)		-325,000
Taxable estate		£
Tax at 40%*** is		£

* If you are not sure what your business is worth, we can help you value it. Most business assets currently qualify for inheritance tax reliefs.

** Chargeable and potentially exempt transfers.

*** The rate reduces to 36% if gifts of 10 per cent or more are made to charity.



WE CAN HELP.

CONTACT US FOR ASSISTANCE WITH.

- Lifetime gifts of assets, including business interests
- Gifts to charity
- Disposition of your assets on death
- Using trusts in lifetime and estate tax planning
- Minimising tax on gifts and inheritances
- Choosing a friend as an executor
- Choosing a professional as an executor
- Inheritance tax reduction planning and life assurance to cover any liabilities
- Naming a guardian for your children
- How your business interests should devolve if you die or become disabled



ESTATE PLANNING

YOUR GIFT STRATEGY

Business assets

Under current rules, there will be no CGT and perhaps little or no IHT to pay if you retain business property until your death. This is fine, as long as you wish to continue to hold your business interests until death, and recognise that the rules may change. The IHT rules that will apply at the date of your death are as yet unknown!

Alternatively, you may wish to hand your business over to the next generation. A gift of business property today will probably qualify for up to 100 per cent IHT relief, and any capital gain can be rolled over to the new owner, so there will be no current CGT liability.

Appreciating assets

Gifts do not have to be in cash. You could save more IHT and/or CGT by giving away assets with the potential for growth in value. Give while the asset has a lower value, and the appreciation then accrues outside your estate.

Gifts out of income

Another way to build up capital outside your own estate and save inheritance tax is to make regular gifts out of income, perhaps by way of premiums on an insurance policy written in trust for your heirs. Regular payments of this type are exempt from IHT.

Use the nil-rate band

Currently most transfers of property between spouses or civil partners are exempt from IHT. This means that when one partner dies leaving some or all of their property to their spouse/civil partner they may not make full use of their own nil-rate band (currently £325,000).

However, it is possible to transfer unused nil-rate band allowances between spouses or civil partners. The rules apply to allow a claim to be made to transfer any unused IHT nil-rate band on a person's death from the estate of their deceased spouse/civil partner where the second death occurs on or after 9 October 2007.

The amount of the nil rate-band potentially available for transfer will be based on the proportion of the nil-rate band unused when the first spouse or civil partner died. If on the first death the chargeable estate is £150,000 and the nil-rate band was £300,000, then 50% of the original nil-rate band is unused. If the nil-rate

band when the surviving spouse dies is £325,000, then that would be increased by 50% to £487,500.

Any claims for transfer of unused nil-rate band amounts can be made by the personal representatives of the estate of the second spouse or civil partner to die when they make an IHT return. The rules apply to all surviving spouse/civil partner estates, including those when the death of the first spouse/civil partner occurred prior to that date.

Before 9 October 2007, many Wills were redrafted to set up trusts to utilise the nil-rate band. If you believe that you have done this, you should contact us so that we can see if this is still appropriate for you. Some of these schemes could now result in paying more inheritance tax.

Although nil-rate band trusts are largely of limited use, they can still be tax-effective to shelter the gain for an asset expected to gain significantly in value, such as a business or a property.



WE CAN HELP.

Contact us if you would like further help or advice on any of these subjects.

DIFFERENT CIRCUMSTANCES

Estate planning for singles

Single people might not have given a thought to estate planning. But you should make a Will to set out your preferred funeral arrangements, how you want your estate to devolve on your death – and who will have responsibility for it.

Your estate might pass to your parents or your siblings under intestacy rules, but would you prefer to leave your wealth to your nieces and nephews – with the bonus of potential IHT savings through ‘generation skipping’.

Estate planning and second marriages

A different set of challenges face parents in their second marriages, with children from former and current marriages.

If both partners are wealthy, you might want to direct more of your own wealth to children of your first marriage. If your partner is not wealthy you might wish to protect him or her by either a direct bequest or a life interest trust (allowing your assets to devolve on the second death according to your wishes). Should younger children receive a bigger share than adult children, already making their own way in the world, and should your partner’s children from the previous marriage benefit equally with your own?

If you are concerned about your former spouse gaining control of your wealth, consider creating a trust to ensure maximum flexibility in the hands of people you choose.

Estate planning for grandparents

Your children may be grown up and financially secure. If your assets pass to them, you will be adding to their estate, and to the IHT which will be charged on their deaths. Instead, you might consider leaving something to your grandchildren, or reducing your taxable estate by helping them out during their education.

A Will is a powerful planning tool

Through a properly drawn Will you can:

- Protect your family by making provisions to meet their present and future financial needs
- Minimise taxes that might reduce the size of your estate
- Name an experienced executor* who will ensure that your wishes are carried out
- Name a trusted guardian for your children
- Provide for any special needs of specific family members
- Include gifts to charity
- Establish trusts to manage the deferral of the inheritance of any beneficiaries
- Secure the peace of mind of knowing that your family and other heirs will receive according to your express wishes.

Having a Will also means that there is an opportunity for re-writing in the two years after

your death, in the event that any changes are agreed by all concerned to be appropriate.

* Before choosing someone as your executor, give serious thought to how well he or she will be able to handle the duties and responsibilities of the role, and indeed whether or not they will be willing to accept the responsibility. You should consider having a second choice for executor.

Is it time to update your estate plan?

Estate plans can easily become out of date. Check to see if any of these changes have occurred since you last updated your estate plan.

- The birth of a child or grandchild
- The death of your spouse, another beneficiary, your executor or your children’s guardian
- Marriages in the family
- Divorces
- A substantial increase or decrease in the value of your estate
- The formation, purchase or sale of a business
- Retirement
- Changes in tax law.

The rules now applying with regard to the inheritance tax allowance mean that there may be an opportunity to review your Will now that the inheritance tax exemption on first death is no longer ‘lost’.



CHARITABLE GIVING

Gifts to charity can take many forms. Perhaps you are already making regular donations to one or more well known charities, coupled with one-off donations in response to natural disasters or televised appeals. Below are just some of the ways you can increase the value of your gift to your chosen charities through the various forms of tax relief available.

Gift aid

Donations made under Gift Aid are made net of basic rate tax. This means that for every £1 you donate, the charity can recover 25p from HM Revenue & Customs. Furthermore, if you are paying tax at the 40 per cent rate, you can claim further tax relief of 25p. Consequently, at a net cost to you of only 75p, the charity receives £1.25 – or, for a net cost (i.e. after tax relief) to you of £100, your donation is worth nearly £167 to charity. If you are a 50 per cent taxpayer, the additional tax reclaimed is 37.5p making a donation costing £100, net worth £206 to the charity.

A payment made in the current tax year can, subject to certain deadlines, be treated for tax purposes as if it had been made in 2011/12, provided you have not yet submitted your tax return. This may not be important to many people, but if you paid higher rate tax in 2011/12 and do not expect to do so this year, a claim will allow you to obtain relief at last year's, higher rate. The application must be made on an original tax return, not on an amended return.

Payroll giving

You can make regular donations to charity through your payroll, if your employer agrees to operate the scheme.

The scheme operates by deducting your donation from your gross pay equal to the net cost to you of the monthly net donation you want to make – so as an example, if you want to donate £20 per month to a charity, your employer would deduct this and pay it to the scheme managers. This reduces the employee's tax for that month by £4. The employee has made a donation of £20 at a cost of £16. For higher rate and additional rate taxpayers, the saving is greater.

Gifts of assets

Not all donations need to be money. You can make a gift of assets, such as quoted securities or land and buildings, and the gift can score for a double tax relief. Any gain which would accrue on the gift is exempt from capital gains tax, and you are also entitled to income tax relief at up to 50 per cent on the value of your donation.

You may have a shareholding that has lost so much value it is not worth keeping and yet be worth too little to pay for the broker's fees and stamp duty. Such shares may be donated to Share Gift.



A FINAL GIFT TO CHARITABLE CAUSES

Many people opt to include charitable bequests in their Will. There is now a new and lower rate of inheritance tax of 36 per cent when gifts to charity represent 10 per cent or more of the estate.

	Bequest below 10%	Bequest above 10%
Net value of estate before bequest	1,000,000	1,000,000
Deduct: Charitable bequest	0	100,000
Net estate liable to IHT	1,000,000	900,000
Deduct: IHT exemption	325,000	325,000
Liable to IHT	675,000	575,000
Deduct: IHT @ 40%/36%	270,000	207,000
Net estate for distribution	£730,000	£693,000

Thus in the above example, charitable causes benefit by £100,000 while the IHT reduces by £63,000 and the net amount available for distribution is only reduced by £37,000.

If you leave 10 per cent or more of your estate to charity your rate of IHT reduces from 40 per cent to 36 per cent. Is now the right time to prepare or update your Will? Please contact us to discuss the planning options available to you.



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- Choosing a professional as an executor
- Inheritance tax reduction planning and life assurance to cover any liabilities
- Naming a guardian for your children
- How your business interests should devolve if you die or become disabled

If we can help you with any of the information provided in this guide please get in touch.

Call today 0208 3348070
or email info@davenportthomas.co.uk

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