Bulletin

Summer 2012

MONTPELLIER

ASSET MANAGEMENT

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Welcome to Montpellier's Summer Newsletter

What a great summer we all have to look forward to, by the time you will have read this newsletter, England will have won the European Championships and Greece along with the rest of Europe will no longer be dominating the front pages, well we can all dream I suppose! We have seen a significant amount of turbulence in the investment markets since our last Newsletter, at the time of writing the future of Greece and the Euro remains uncertain. This is likely to mean that we could be facing some interesting times ahead.

- Montpellier are delighted to welcome to the team Spencer McPherson who joins us from a leading investment company. Spencer has specialist knowledge in the areas of inheritance tax, trusts, estate planning, tax mitigation and has vast experience dealing with both onshore and offshore clients. Spencer is a former law graduate who began his career working in The City for a leading Syndicate within Lloyds of London, after which he then moved to a FTSE 250 Wealth Management Company where he focused on Private Client tax strategies,before joining a FTSE 100 Investment Company to assist with advice led financial planning. Everyone at Montpellier is looking forward to working with Spencer who brings with him a wealth of experience to our firm.
- We are currently reviewing many of our clients financial planning needs in relation to inheritance tax and retirement. We are finding that many clients have taken a less than active role historically in these areas but are now keen to address these issues, primarily to ensure that their assets are passed as tax efficiently and complication free (as far as possible) on death to their beneficiaries.
- Finally we are very excited to announce the launch of our newly updated website www.montpellierasset.com, which coincides with a campaign in Cotswold Style Magazine over the summer months where we will be discussing various useful areas of private client advice, such as methods to mitigate inheritance tax and how to plan effectively for retirement and also to invest tax efficiently.
- If you would like to know how any of these issues affect you then please get in touch.

We hope you enjoy reading our Summer Newsletter and we look forward to speaking with you soon.

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Budget changes and reversals roll out

The final shape of the 2012 Budget was still being settled months after George Osborne made his statement in March.

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The Budget provoked a wave of protests from those affected, some of which have proved effective: pasty-eating, caravan-loving philanthropists can feel mightily relieved. In truth, a good many of the Budget provisions had already been announced earlier or leaked. But there were some surprises, nevertheless.

Income tax The major news was the reduction in the additional rate of tax to 45% (37.5% for dividends) from 2013/14. The cut will also apply to trusts, which normally pay tax at the top rate. If you are currently a 50% taxpayer, then you should already be considering how you can push income into next tax year, while maximising tax reliefs in 2012/13.

More significant in terms of the number of people affected was the announcement of an £1,100 increase to £9,205 in the personal allowance in 2013/14, accompanied by a £2,125 reduction in the size of the basic rate band. The Chancellor also revealed a 'major simplification' of age allowances, which actually means they'll be phased out over the next few years.

Child benefit Ahead of the Budget, there were many rumours about how the Chancellor would 'soften' his 2010 proposal to remove child benefit from higher rate taxpayers. The eventual solution was to introduce a 'high income child benefit charge' from 7 January 2013, at a starting point of £50,000 of income.

This income tax charge is equal to 1% of the child benefit paid to a family for each £100 of income over £50,000 received by the person with the highest income. If your (or your partner's) income is £60,000 or more, the tax charge will equal the child benefit.

Fortunately, the definition of 'income' used does offer some opportunities for planning.

Company cars The company car has become a taxation target in recent years, and the 2012 Budget was no exception. The Chancellor announced tax increases for three tax years, starting in 2014/15 – next year's increases have already been decided. There was one small piece of good news, if your company car is a diesel: the supplement charged on diesel cars is to be abolished from April 2016.

Pensions The rumours on pension tax relief were all wrong: the Chancellor did not limit relief to basic rate, nor did he cut the annual allowance. At least, not this year…

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Did you know that company car owners with diesels will benefit from the removal of the 3% supplement from 2016? But, other company cars in all bands will go up by 1% in April 2014 with a further 2% increase in both 2015 and 2016. Drivers of small cars will be most affected, with electric cars or hybrid owners feeling the change most of all. Those with company cars that emit less than 75g/km of CO_2 currently don't have to pay any tax. In three years' time they will be hit with a tax on 13% of the value, rising to 15% the following year. Diesels could prove increasingly popular for those making their next company car selection.

Tax saving strategies for couples

Families can have more opportunities for tax planning than most people realise.

If you make the most of your tax allowances and lower tax rate bands, the result could be more cash for spending or a welcome boost to the value of your savings. The basic principle is that spouses and civil partners are taxed as separate, independent individuals in virtually all respects.

Personal allowance Nearly everyone is entitled to a personal allowance, worth £8,105 in 2012/13, rising to £9,205 next tax year. The first port of call in independent tax planning is to cover both your and your spouse's personal allowances, which this tax year would mean total tax-free income of £16,210.

The personal allowance is phased out at the rate of £1 for each £2 of income above £100,000, an effective tax rate of up to 60% in the band between £100,000 and £116,210. The result is that even if both you and your spouse are higher rate taxpayers, rebalancing income between you could cut your overall tax bill.

Tax bands The 10% tax band for savings income, the recent reductions in the higher rate threshold and the introduction of the additional (50%) tax band all mean that there are tax savings that can be made by rebalancing income between a couple.

Child benefit The new child benefit tax (see 'Budget changes and reversals roll out') is a further incentive to independent tax planning. At the extreme, a couple with £100,000 joint income divided equally between them would not suffer the tax, while if their income split was £60,000/£40,000, the tax would match their child benefit.

The same rules apply for civil partners as for married couples, but if you are not married matters can become more complicated. Transfers of investments could create CGT and inheritance tax liabilities.

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If you prefer a paper tax return, have you remembered that you need to file it now? If you're someone who shuns online, then don't delay – the 31 October paper tax return deadline is not far off and leaving it to the last minute is a dangerous game. Fines start from £100 for late filing, even if no tax is due. After three months, if a return isn't made and tax not paid, there's a £10 a day fine, up to 90 days or £900 in addition to the £100 fixed fine. After six months, £300 or 5% of the outstanding tax, whichever is higher, will be charged. HMRC can also levy penalties of up to 30% for any careless mistakes. Penalties rise to 70% of the tax due for 'deliberate' misstatement, and then to 100% for misstatements that are both deliberate and concealed.

Time to tackle low interest rates?

A recent Confederation of British Industry (CBI) forecast suggested that interest rates in the UK will remain at their record low of 0.5% until the final quarter of 2013.

With interest rates on the better yielding deposit accounts producing a little more than 3%, returns are not enough to cover the eroding impact of inflation at 3.5%. Even before income tax, savings that earn an annual 3% are slowly losing their value at the rate of half a per cent a year.

Of course, cash has its place in pretty much every portfolio. Deposit accounts have the advantage of easy accessibility and knowledge that at least the nominal value of the cash will not go down.

However, there are also many investors who are prepared to consider investments that produce a higher income and possibly also the prospect of growth in their income and the capital from which it is derived. The other main types of investment to consider are:

- **Shares** in, for example, large companies in the UK, US and around the world are generating attractive dividends for investors.
- **UK gilts** and most other securities issued by governments of stable developed countries are yielding very little. But corporate bonds – fixed-interest securities issued by companies – can provide higher incomes. Bonds are generally less volatile than shares, but they can also produce losses as well as gains.
- **Property** is another asset class that can generate a relatively high income. Commercial property investment in offices, shops and other real estate is generally cyclical and this may be a good point in the UK property cycle to consider investing.

There is a choice of tax wrappers through which you can invest in these different asset classes, including ISAs, pensions, mutual funds and onshore and offshore life assurance policies. The right ones for you will depend on your individual circumstances.

Past performance is not a reliable guide to future performance. The value of your investments and the income from them can go down as well as up and you may not get back the value of your investment. If you invest in property there may be a delay in withdrawing your capital, even from a pooled investment.

Final curtain for protected rights pensions

The rules for contracting out of the state second pension (S2P) have changed – and some of the news is good. If you have any 'protected rights' pensions, you may need financial advice.

When personal pensions were first launched in 1988, one of their most important features was that they gave the individual employee the ability to opt out (technically 'contract out') of the second tier of state pensions, then called SERPS. Until then the only way you could opt out was through membership of your employer's occupational scheme – if your employer had a suitable scheme.

Initially, the government made personal pension contracting out an attractive option by providing incentive payments and a substantial flat rate contribution, regardless of age. However, over time the incentives disappeared and the contribution became age related, less generous and eventually capped. By the time SERPS was replaced by the subtly different S2P in April 2002, in most cases the advantages of contracting out through a personal pension were marginal, at best.

Ten years on from the start of S2P, the option of using a personal pension to contract out of S2P has been withdrawn. If you were contracted out by either in the tax year 2011/12, then from 6 April 2012 you will have automatically become a member of S2P. If you contracted out through a personal pension, you will not notice any difference in your national insurance contributions as a result, but no further contracted out payments will be made to your personal pension, other than those due in respect of 2011/12.

The funds built up by the contracted out payments – from whatever source – remain invested in your pension arrangement, but they are no longer subject to special treatment as 'protected rights'. This is mostly good news.

For example, it was not possible to draw a 25% lump sum from protected rights, but as protected rights have now disappeared, so has the restriction. Similarly, the requirement to provide for dependant's pensions is no more.

What the changes mean to your retirement benefits is difficult to say, not least because the Budget confirmed that a new single-tier state pension, replacing the basic state pensions and S2P, is to be introduced 'early in the next Parliament'.

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A pension is a long-term investment, and the fund value may go down as well as up. Your eventual income may depend on the size of the fund at retirement, future interest rates and tax legislation.

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ISAs are not just for tax year ends

Now that 5 April has passed, ISA publicity has faded from the press. Yet now is the time to invest.

One of the most reliable signs of early spring is the blossoming of ISA ads and supplements in the weekend press. However, by mid-April a financial frost removes virtually any trace of ISAs for another year. It makes little sense, as theoretically the optimum time to invest in ISAs is at the *start* of the tax year.

The earlier you invest, the longer there is to benefit from the tax advantages of an ISA. Even if you cannot make the new maximum £11,280 investment now in full, there is still a sound financial logic to an early start with some contribution.

The value of your investment and the income from it can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.

Investing should be regarded as a long-term commitment and should fit in with your overall attitude to risk and financial circumstances. The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Services Authority does not regulate tax advice.

Wake-up call for your dormant accounts

Money from bank customers' dormant accounts has now been transferred to the Government's Big Society Bank, but account holders can still get it back if they can prove ownership.

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The bank's money, £400 million of which comes from dormant bank accounts that have been left unused for at least 15 years, will be lent to social enterprises and charities but remains the property of the customer. Since 2009, the government has been able to take control of money left untouched for 15 years. However, while the definition of 'dormant account' varies from bank to bank, most declare untouched accounts 'dormant' after either a year or three to five years.

If you remember a bank account that you have not used for 15 years or more, you should contact the bank to check what has happened to it and gather any documentary evidence that the money is yours. Banks have been trying to trace owners of dormant accounts since the Big Society Bank was announced in early 2011, but if you have forgotten about an account, the bank might not have your current address.

If you are unsure where you held an account, there is a free central tracing scheme spanning banks, building societies and NS&I, including instances where the bank or building society has closed or merged.

You can download a claim form at www.mylostaccount.org.uk and you should receive a response within three months. You will still have to prove ownership before the bank reactivates any account found.

IHT changes set to boost charity donations

New rules are being introduced in the Finance Bill – expected to pass into an Act in July – which will mean the rate of inheritance tax (IHT) that heirs must pay can be reduced if more than 10% of an estate is left to charity.

The change took effect from 6 April when the Government introduced new IHT legislation. Gifts to charity are already exempt from IHT, but the new rules mean the rate of IHT on the rest of the estate can fall from 40% to 36%.

The tax break has been welcomed by charities, who believe the move could help shore up dwindling finances and act as an incentive. So, this could be a reason to consider changing a will – but the rules are complex and advice should be taken on what the options are and drafting the will correctly.

In a nutshell, however, the 10% 'test' now applies based on the total value of the net estate for IHT purposes, after deducting any available nil rate band (currently £325,000), any spouse exemption and reliefs, such as agricultural property relief and business property relief.

The purpose of the change is not meant to benefit any beneficiaries and they may receive less if a will is changed in favour of a charity. However, it is about mitigating tax payable, and will be good news for those who take their social responsibilities seriously.

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