KENNEDY BLACK
WEALTH MANAGEMENT

QUARTERLY PRIVATE CLIENT NEWSLETTER ISSUE 1: FEBRUARY 2010

Welcome to the first ever Kennedy Black Private Client Newsletter.

This Newsletter will be a forum for all the latest issues and developments in the world of personal finance, and we hope you find the content both informative and interesting. In this first issue we focus very heavily on important changes that come in at the start of the new tax year in April. There are a number of areas where action is recommended, so this hopefully gives you enough forewarning to avoid any last minute headaches. In particular, you should pay particular attention if ANY of the following apply:

- **You are aged 50-55**
- **You are likely to earn over £100,000 this year**
- **You earned over £130,000 in any of the past three years**

Do not hesitate to get in touch if you would like further information on how the changes could impact you.

FIVE TOP TIPS FOR PENSION PLANNING PRIOR TO APRIL

1. If you are aged between 50 and 55 and plan to start taking benefits from your pension in the next few years, then you should consider starting now. The statutory minimum retirement age is rising from 50 to 55 on 6th April, but if you crystallise your benefits in advance of that date then you will not fall foul of the change.

2. If you have earned over £130,000 in the past three years, then you may lose higher rate tax relief on all pension contributions from 2011 - making pension arrangements only marginally better than ISAs in terms of tax efficiency. To prevent excessive over funding prior to the Budget change being enforced, the Government has introduced some anti-forestalling measures. This means you may be able to get full tax relief on contributions of up to £20,000, and in case some cases, £30,000, in 2009/10 and again in 2010/11. Whether you're entitled to the higher level or not depends on your previous contribution record. If you fail to take advantage of these allowances (the first one being before this April) then you will lose them.

3. If you earn over £100,000 then from next year you may be able to get an effective rate of tax relief of up to 60% on certain pension contributions. The personal allowance (i.e. the first £6,475 of your income that is tax free) will be scaled back for anyone earning over £100,000 - and removed completely for anyone earning over £112,950. If you earn, for example, £112,950 then a pension contribution of £12,950 will earn an effective rate of tax relief of 60%. Even if you earn in excess of this threshold, you should be thinking about making contributions to reduce your taxable income to under £100,000 (if you earn £120,000, for example, the effective tax relief is still attractive at almost 53%).

4. More generally, a thorough review of your pension arrangements is well advised. Many individuals are sitting on old money purchase schemes from previous employers and these are often not fit for purpose. Cleaning up your pension schemes will not only help with organisation, but there may be cost advantages as well as better flexibility. Pensions have become much more competitive and sophisticated in recent years, so it is definitely worth investigating.

5. Finally, any retirement planning should always start with an assessment of whether you are putting enough aside to provide for your retirement. A recent study by the Prudential indicated that as many as one in five are relying solely on the State Pension, even though a third of people about to retire do not know how much the State will actually provide (at the moment it is less than £5000 per annum for an individual or less than £8000 for a couple).

NEW ISA ALLOWANCES

People often leave any thoughts of Individual Savings Accounts (ISAs) until the last minute, driven by the 5th April deadline. This date focuses the mind on taking advantage of one of the few tax breaks investors get. However, you do need to take some time to consider whether the tax

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benefits are appropriate and how you can use your allowance to meet your objectives most appropriately. For those aged over 50, your allowance for 2009/10 has just been increased to £10,200. For those aged under 50, your allowance remains at £7,200 for 2009/10 but will increase next year to £10,200. The full allowance can be invested either as a single lump sum, a series of smaller amounts or even via regular monthly savings. As the year end - and then tax year-end - are fast approaching, now is the time to start planning where that might go.

New CGT rules

The 2008/09 tax year brought with it a simplified regime for dealing with capital gains. Indexation and taper relief were abolished and in their place came a lower, flat rate of 18%.

For growth investors, there is still an annual allowance - which in 2009/10 has been raised to £10,100. In addition, to help small businesses, there is 'Entrepreneur's Relief', which allows directors, business owners and employees with a 'material stake' (5% or more) to dispose of their business holdings at a rate of just 10% (subject to a total lifetime gain of £1m). All other business and non-business assets, however, are now taxed at 18%. There is no longer any link to your marginal income tax rate so, subject to the effects of the abolition of indexation and taper relief, the majority of higher rate tax payers are probably better off than they were, particularly on non-business assets such as rental properties.

There are some downsides. Basic rate taxpayers who held shares in their employer's company for two years or more under the Save As You Earn scheme (SAYE) were previously only subject to a 5% charge. For higher rate taxpayers, the attraction of investment bonds as a way of writing off gains to income tax and then deferring payment of such to a future date has waned. With the CGT rate now lower than even basic rate tax, alternative products make for a more tax efficient route. However, as with everything, it depends on your situation and the make up of your portfolio as to the best way forward. Speak to an adviser before you take any decisions.

Preparing for inflation

The UK Consumer Price Index saw a 1% jump in the annual rate for December 09, from 1.9% to 2.9%. Despite the longest recession since World War II, talk has already turned to the future - and the worry that inflation could take hold if the fiscal stimuli used to try and prompt recovery stay in place too long.

Inflation has been low for a while now. Back in the late 80s and 90s, monthly inflation figures were much higher - peaking at 8.5% in April 1991. But some will remember the economic slump of the 1970s, which was triggered by double-digit inflation - and may be nervous.

As recently as mid 2008, we saw inflation around 5%, driven by energy costs and higher prices for vegetables, furniture, and cigarettes. House prices and housing costs also impacted. This threat passed as the recession extended and the Bank of England and the Government put a lot of new money into the economy to try and encourage some growth. However, they now need to be careful how this works through or inflation could easily take hold again.

At the moment, there is probably less reason for concern than in the 1970s and early 1980s. The economic outlook is still nervous and lower than expected, GDP figures in Q4 2009, despite confirming an end to the recession for now, could indicate that growth might halt again as consumers consider tightening up on spending after the Christmas spree. Whatever happens next, however, it is a timely reminder to review and inflation-proof your portfolio, just in case.

Investment Rule #1:

"Never buy what you don't understand"

Some investments might sound exciting - and even appear to have delivered. Yet history is littered with simple-sounding ideas that, when tested by the pressures of markets, came crashing down. Think Long Term Capital Management, the now defunct hedge fund that traded in bond spreads. Think split capital trusts, which resulted in millions of pounds of investor compensation. And now, think how investments in bundled sub-prime mortgages have affected the whole economy. If you don't understand something fully, steer clear.

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