



WEALTH PERSPECTIVES

Issue 2 | February 2013

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too much tax?

Uncertain Times

Stock market volatility and higher
levels of personal taxation will
continue to prevail

Tax Planning Opportunities

*with pension
contributions*

TOP TIPS FOR
TAX YEAR END
PLANNING

TAYLOR BURKE



CAERUS
Capital Group

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WELCOME TO THE SECOND EDITION OF WEALTH PERSPECTIVES

Welcome to the second issue of our Client magazine, Wealth Perspectives. In the following pages, Industry experts from leading Pension, Investment and Financial Services companies share their views on the issues that affect your finances.

Tax year end is an important time of year to sit down with your Financial Adviser and make sure that you have taken advantage of all the legitimate tax planning opportunities that are available to you. **Keith Carby, Chairman, and CEO of CAERUS Capital Group** explains the difference between a legitimate tax planning scheme and one that will put you on the wrong side of HMRC.

Christopher Aldous, from **Evercore Pan-Asset**, highlights the key events that have shaped the markets in the last six months, and tells us what to watch out for throughout the year.

With the end of the current tax year fast approaching,

Phil Carroll from **Skandia** shares his top tips for tax year – end planning. **Martin Haggart** from **Aegon** looks specifically at the opportunities to reduce your tax bill and increase the value of your pension fund, and **Ingenious** explains the benefits of Enterprise Initiative Schemes and how you can claim up to 50% tax relief. If you are a company director, **Jennifer Gilchrist** from **Bright Grey**, explains how the tax man can help to pay for your life cover.

Tax year end is one of the most important times of year to talk to your Financial Adviser. As you will see throughout the following pages, there are numerous

options available to you to help make sure you are not paying too much tax.

If you wish to discuss your finances or any of the issues raised in this edition of **WEALTH PERSPECTIVES** please do give your Financial Adviser a call.

Best wishes

Colin Burke

Sandra Taylor

Partners: Colin Burke & Sandra Taylor
Taylor Burke Partnership



Colin Burke



Sandra Taylor

THE SENTIMENT



The Sentiment provides an outlook on the different asset classes.

CAERUS has asked Sarasin & Partners LLP, the London-based Specialist Investment Management firm, to provide a view on how it sees each asset class performing over the coming 12 months.



Please note, this information is for indicative purposes only and that forecasts are not a reliable indicator of future results.

ARE YOU PAYING *too much tax?*

More significantly, are you paying more tax than you need to?

The vilification of a number of celebrities and multi-national corporations by politicians and the press in 2012 may well put many people off looking at tax planning for fear of falling foul of HMRC or the media. But surely it is wrong to confuse those seeking aggressively to pay as little as possible with those who, understandably, don't want to pay too much? How then can we tell an acceptable scheme from one that is not? One way is to check if the tax mitigation option under consideration is actually encouraged by the Government. Making the maximum payments into a pension and getting the appropriate relief is not seen as being anti-social, quite the opposite. Are there any others which have the attributes of Government support and social approbation?

In fact, there are several other opportunities to reduce your tax liabilities, reliefs that are available to individuals or businesses. Unlike the aggressive tax planning schemes that exploit loopholes in the UK tax legislation, all of these have been specifically designed with the Chancellor's encouragement so as to incentivise citizens to place their money into areas the Government thinks are beneficial to the economy or to some other aspect of society.

In this issue of Wealth Perspectives, a number of leading financial services companies write about some of these options that are now available. These experts describe options that can be used to reduce your tax bill without upsetting HMRC or risking criticism of any kind.

Two of the lesser known of such options are the Enterprise Initiative Scheme (EIS) and Seed Enterprise Initiative Scheme (SEIS). These can provide up to 50% tax relief on the amount invested, to be used against any income tax liability. Their specific purpose is to help small, early stage companies to raise capital – something that they would otherwise struggle to do – and, therefore, hopefully, to drive economic growth and increase employment.

All the options that your CAERUS Financial Adviser will talk to you about at tax year end are legitimate tax planning opportunities, most of them established or encouraged by the Government. Many of them provide the opportunity to reduce your tax bill significantly. With the clock ticking to tax year end, make sure you contact your Financial Adviser so that you can make sure you don't pay too much tax this year.

CAERUS
Capital Group



Keith Carby
Chairman
& CEO
CAERUS
Capital Group

Christopher Aldous from *Evercore Pan-Asset*

KEY EVENTS IN GLOBAL *Markets* FROM THE LAST SIX MONTHS

The progress of equity markets during a bull phase is often described as “climbing the wall of worry”. The second half of 2012 gave investors much to fret about but many equities ended the year strongly, and bonds also made some good gains.

The half started badly for equities. Bonds struggled too as the Eurozone lurched from crisis to crisis causing peripheral Eurozone debt yields to shoot up once again. Growth fears re-emerged following signs that China might after all be heading for a ‘hard landing’, vindicating the bears, and it became clear that the Eurozone and the UK had moved into recession. Even US economic numbers looked bleak making it hard to see how equities could recover.

The turning point for markets was the European Central Bank governor’s announcement that he would do “whatever it takes” to protect the Eurozone from collapse. His words were taken at face value, leading to a recovery in Italian and Spanish bond prices and a sharp rally in most equity markets. Just as equities seemed ready to show their mettle once again, a new menace appeared in the form of the ‘Fiscal Cliff’ – a package of measures design to reduce the US budget deficit by increasing taxes and reducing spending, due to come into force on 1st January 2013. Many thought this could tip the US economy back into recession during 2013 and nervous investors sold US equities heavily, taking

the shine off what had been until then one of the best performing equity markets of 2012. We thought a compromise solution would be found, even if it was later rather than sooner. President Obama’s re-election in November had given him considerably more authority to ensure that a deal was done and the US public clearly favoured his proposal of higher taxes for big earners which was bitterly opposed by the Republican party.

In the event, a resolution did not come until after the US market closed on 31st December but equities had already enjoyed a strong December helped by better Chinese growth, a stream of positive US economic data and news that Japan’s new prime minister would open the monetary taps and return the Japanese economy to growth. In the UK, Brazil and elsewhere, monetary easing and other forms of stimulus had become the norm, helping equity markets end the half year on a firm, if hesitant, note. US equities were muted over the second half, ending up only 3% in sterling terms, but up 11% on the year. However, equity markets which had suffered most in 2011 showed strong rebounds in the second half, including Germany (up 21% in sterling terms),

Far East ex Japan (up 13% in sterling terms) and listed Asia property (up 19% in sterling terms).

Looking ahead, 2013 is going to be another year of worry. The Fiscal Cliff negotiations will drag on for some months with all the attendant market uncertainty. A German election will take place in the autumn so we expect a lid to be kept on Eurozone problems until then, but no doubt there will be plenty to frighten investors along the way. Despite this potentially bumpy ride, we are positive about the prospects for equities which should be boosted by easy money policies around the world. We expect the UK to perform well in 2013 as some of the growth measures taken by the Coalition government finally bear fruit. The US will remain the best of the West, helped by the advantages of shale oil and gas. China is on a path of internal growth which will make it less dependent on exports and should help the Asia-Pacific region. Bonds may be more of a problem area in 2013. We are concerned at the sheer scale of global monetary easing and expect it to eventually lead to renewed inflationary pressures which will damage bond valuations.

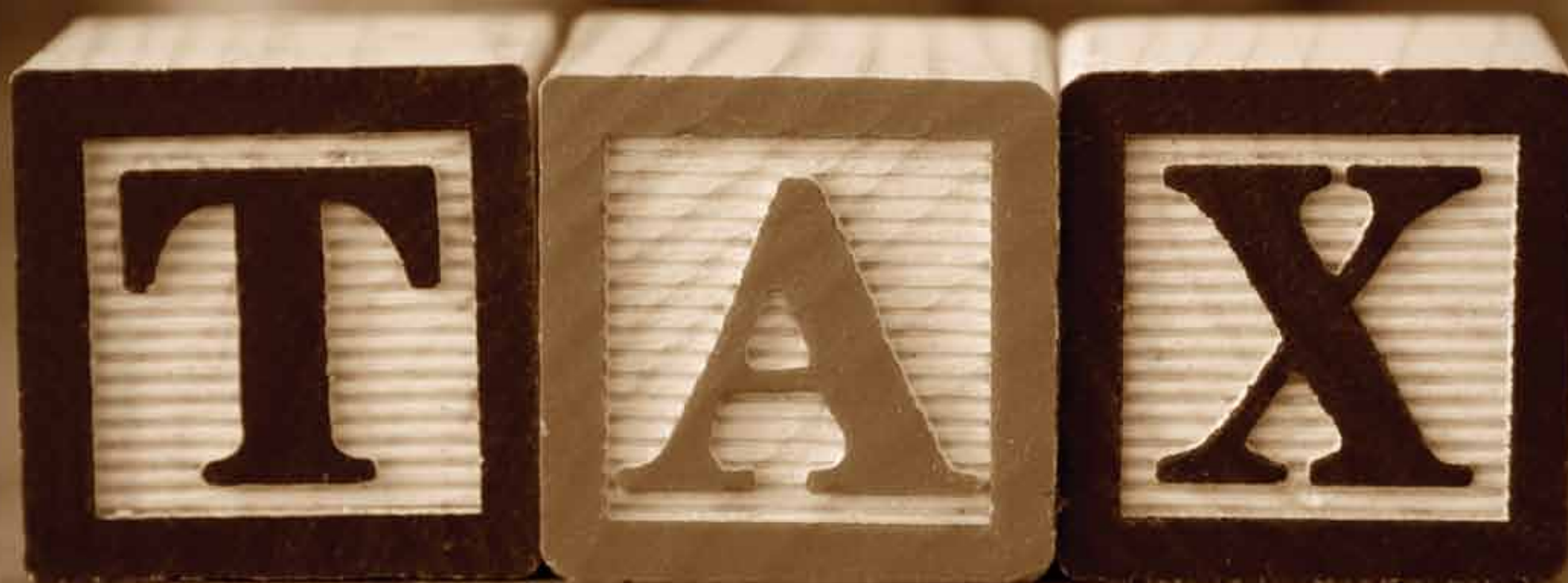


Evercore Pan-Asset



Christopher Aldous
Chief Executive
Evercore Pan-Asset

Top tips for



Year End planning

For many the New Year's Eve hangover may well extend to their post-festivity finances but, as we approach Tax Year End (TYE), opportunity will present itself for those whose New Year's resolution list includes any financial goals. Without careful planning, however, investors will probably still be looking at the same list 12 months from now.

Maximising the available tax allowances effectively will not only help achieve these goals but may also mean for many they will realise these targets quicker.

Top tips for TYE planning in 2013 extend beyond not only using available allowances but also protecting existing ones:

Cash holdings – avoid unnecessary income tax leakage from savings accounts by maximising cash ISA allowances. Ensuring income and interest arises inside an ISA will reduce an individual's net income for the purposes of protecting Child Benefit and Personal Allowance (at the respective £50,000 and £100,000 thresholds).

Equity ISAs – these will also shield dividend payments as well as creating potential growth, free of capital gains tax (CGT). Consolidating existing ISA holdings may well provide cost reductions and provide a clear, simple view of funds, performance and costs.

Child Benefit Tax changes – these came into effect on 7 January and HMRC has written to all individuals in receipt of such benefit to notify them of the changes. For individuals (and their partners) who are in receipt of Child Benefit and have incomes in excess of £50,000, they will be liable for tax. For those with income above £60,000, the new tax charge is equal to 100% of the benefit received. By making a contribution to a registered pension scheme, an individual's income, for the purpose of the child benefit test is reduced, meaning they can build their pension fund and continue to receive some, or all of the child benefit. This could be an ideal solution for those on the cusp of the thresholds mentioned above.

Anyone who has made a gain will naturally want to realise this in the most tax efficient manner possible. **The CGT allowance** is a use it or lose it tax break which can enable a married couple to realise gains of £21,200 before 5 April 2013. Where gains are held disproportionately, a transfer to their spouse or civil partner will not trigger gains and will

enable them to utilise their full CGT allowance (known as "Bed and Spouse"). Realising gains and immediately reinvesting them in the same funds is generally not allowed under the bed and breakfasting rule, but there is no issue if the same fund is repurchased within an ISA (known as "Bed & ISA").

Combining one or more of these strategies alongside future goal planning should help get 2013 off to an excellent start for you.

"Consolidating existing ISA holdings may well provide cost reductions and provide a clear, simple view of funds, performance and costs."

skandia:



Phil Carroll
Financial Planning Manager
Skandia



Following the Chancellor's Autumn Statement, many Industry commentators have suggested the **number of people paying tax at 40% will be greater than ever before**. With the higher rate tax threshold reducing to £41,450 for tax year 2013/14, they could well be right.

Paying a personal contribution to a registered pension scheme can represent effective tax planning at all different salary levels.

Key to the tax planning opportunities is the term 'adjusted net income'. Broadly this is your total taxable income for the tax year less specified deductions, including any charitable donations and any personal contributions you make to a registered pension scheme.

DO YOU FALL INTO ONE OF THESE CATEGORIES?

- Earnings of more than £42,475 - The tax free personal allowance for 2012/13 is £8,105 with basic rate tax at 20% applying to the next £34,370 of taxable income. Assuming no benefits in kind or unpaid taxes, tax at 40% is payable on income above £42,475. If you have a total income of say £46,475, you'll pay tax at 40% on £4,000 (£1,600). Instead, if you make a personal contribution to a registered pension scheme of £3,200 net of basic rate tax (to a scheme operating tax relief at source), you'll be able to claim back an additional £800 via self-assessment and you will avoid paying any higher rate tax.
- Aged over 65 and earning more than £25,400 - If you are aged over 65, you benefit from an additional age-related tax free personal allowance. For 2012/13 the allowance is withdrawn gradually as 'adjusted net income' exceeds £25,400 and lost completely if income reaches £30,190. The payment of a personal contribution (up to the greater of £3,600 and 100% of your earnings) to a registered pension scheme will reduce your 'adjusted net income' and the reduction may mean that part or all of your tax free age-related allowance is retained.

- Taxable income in excess of £100,000 – If your taxable income is greater than £100,000, you will see your tax free personal allowance withdrawn by £1 for every £2 of 'adjusted net income' above £100,000 and lost completely if your income reaches £116,210. If your income reaches £116,210, the payment of a pension contribution of £12,960 net of tax at basic rate to a scheme operating relief at source, will reduce your 'adjusted net income' to £100,000, retaining your full tax-free personal allowance and giving an effective rate of tax relief on the pension contribution at 60%.

- Taxable income in excess of £150,000 - If your taxable income is greater than £150,000 you will pay tax at 50% in the 2012/13 tax year (falling to 45% for 2013/14) on income above £150,000. The payment of a personal contribution to a registered pension scheme within the annual allowance (plus any unused allowance carried forward from the previous three years) will increase the income threshold beyond which the 50% tax rate applies. As an alternative to personal contributions, if you are employed you may wish to consider the use of salary and/or bonus exchange to reduce your income to the appropriate levels, above, to achieve similar results, with your employer paying the exchanged amount as an employer pension contribution, prospectively adding part or all of its National Insurance saving to boost your pension savings even further.

"The payment of pension contributions can help you reduce the amounts of higher rate (or additional rate) tax you pay."

The payment of pension contributions can help you reduce the amounts of higher rate (or additional rate) tax you pay, retain your entitlements to existing tax allowances and benefits and also boost the value of your pension savings. With the tax year end fast approaching, make sure you speak to your financial adviser as soon as possible.



AEGON

Martin Haggart
Technical Development
Manager (Pensions)
AEGON

ENTERPRISE INVESTMENT SCHEMES - ACHIEVING INVESTMENT RETURNS IN

Uncertain Times

As we enter 2013 it seems that the current environment of low growth, stock market volatility and higher levels of personal taxation will continue to prevail. An Enterprise Investment Scheme (EIS) or Seed Enterprise Investment Scheme (SEIS) may offer an innovative means of accessing real investment returns for some investors, along with the benefit of a number of generous tax reliefs.

The EIS is a Government sponsored initiative, introduced in 1994, to encourage investment into small independent trading companies and continues to be a major source of finance and support to qualifying companies.

The SEIS is a new Government sponsored initiative designed to help small, early stage companies to raise capital by offering up to 50% tax relief to investors. SEIS offers investors the opportunity to help reinvigorate Britain's economy and to play a vital role in building a new generation of entrepreneurial businesses.

These businesses could grow to create jobs and capital value, whilst delivering enhanced returns to their investors. The UK Government is committed to supporting the growth of ambitious and commercial start-up companies, and has incentivised investment in this area by introducing a range of tax reliefs that are even more attractive than the generous benefits of investing into EIS.

INGENIOUS



EIS and SEIS invest in small companies; they are by their nature, high-risk investments. To encourage investors to participate in these schemes, where there is a real risk of losing money, the government provides a number of tax reliefs as an incentive.

INCOME TAX RELIEF

Probably the most well-known of the tax incentives for making a qualifying investment into an EIS is the investor's ability to claim 30 % income tax relief. Quite simply this means that provided the investor pays sufficient income tax, an investment of £100,000 should qualify for relief of £30,000. In addition, any growth is also tax free since any gains realised are not subject to capital gains tax. SEIS schemes provide 50% income tax relief.

CAPITAL GAINS TAX RELIEF

Where a client has realised a capital gain on a disposal made within the past three years or is due to realise a gain within the next 12 months, by investing an amount equal to the gain into an EIS or SEIS qualifying investment, the gain can be deferred. This means any tax already paid can be reclaimed. Should the EIS shares be disposed of, or the underlying companies liquidated, any deferred gain would become chargeable once again.

INHERITANCE TAX RELIEF

Unless an investor plans for the transfer of their wealth to the next generation, significant inheritance tax (IHT) can fall due. However, it is possible to take steps to mitigate a potential IHT liability. Once EIS qualifying shares have been held for a minimum of two years, they should qualify for business property relief, meaning that they would fall outside of the investor's estate for the purposes of calculating IHT.

In order to claim the various reliefs associated with an EIS or SEIS investment, the investor must be in possession of the relevant certificate issued by HMRC. These certificates can be applied for by the EIS or SEIS Company once it has been trading for four months. Prior to raising investment, the EIS or SEIS Company can also gain advance assurance from HMRC that the business they intend to carry out will qualify under EIS/SEIS rules, and, therefore that the shares to be issued to investors will be eligible for EIS or SEIS relief as appropriate. Once the EIS/SEIS certificate has been issued and passed on to the investor, a claim can then be made, through completing a self-assessment tax return, by making a standalone claim to HMRC or by having the

investor's PAYE code adjusted. However, to obtain and retain both the initial EIS/SEIS income tax credit and the tax exemption for any capital gains on an investment, the shares must be held for at least three years, and so prospective investors need to be able to tie up funds for at least that period of time. Tax rules, levels and regulations are subject to change and the availability of tax reliefs will depend upon individual circumstances.

While there are undoubtedly some very attractive incentives for EIS and SEIS investment, EIS and SEIS tend to be risky investments due to the fact that the majority are in single assets in the form of a small business. This obviously concentrates the risk, meaning that there is a significant chance of loss of investment capital if the business becomes bankrupt. If, however, an investor makes an investment into an EIS Fund which invests in a number of underlying companies, he/she is able to gain exposure to multiple EIS companies in one investment, significantly spreading risk.

The effect of realising a loss on an investment may be partially offset by both the initial income tax credit (30%) and the ability to use any net loss against current income. A 50% taxpayer could benefit from further tax relief equal to 35% of their original investment if that investment proved worthless, meaning that the maximum exposure would be 35% of the gross investment.

For example, if you invested £100,000 and the full amount was lost, the net cost of £70,000 (investment less 30% income tax relief) can be offset against income. For a 50% taxpayer, this would equate to additional relief of £35,000 (£70,000 x 50%) meaning that just £35,000 could be lost – in other words a maximum loss of 35% of the amount invested.

With recent changes to pension legislation, many high earners now find that they have reached the maximum funding level for their pension contributions and are seeking complementary investment opportunities with alternative tax benefits. In this scenario, an EIS or SEIS investment may deliver the tax efficiency and the opportunity for growth that the investor is looking for.

EIS and SEIS invested in unquoted securities which may have more risks than quoted securities or shares. EIS and SEIS companies will not be publicly quoted or traded, the ability to get accurate information about how much they are worth, and realise the investment after the three year holding period may prove difficult. This scheme may invest in private companies and restrictions may apply to the transfer of these private company securities.

RELEVANT LIFE POLICIES – *let the taxman help pay for your life cover*

Are you a company director? Do you have life insurance in place to protect your family?
If so you could be paying an unnecessary tax penalty.

If you pay for this cover from your own bank account you will be paying from post-tax income, and if you are paying from the business account you will probably be taxed on the payment as if it were income.

Larger companies can avoid this by introducing 'group death in service cover'. This is a highly tax-efficient way of providing life insurance, but is not generally available for smaller companies.

However, recent changes in legislation have allowed small companies to benefit from this arrangement by taking out 'relevant life policies'. These can be written on an individual basis so are available to all companies no matter how small.

HOW DO THEY WORK?

How they work is really quite simple. The employer offers death in service benefits to the employee (and that can include shareholding directors). The employer takes out a life policy on the employee and writes this under trust for the benefit of the employee's family.

The taxation position is also beneficial. The premiums paid by the employer are not taxed as a benefit in kind on the employee. S247 of the Finance Act 2004 removed the charge that applied to the old, unapproved schemes, resulting in a more tax efficient position.

For the employer the premiums will normally be allowable as a business expense because they are part of the remuneration package for the employee. Therefore the premiums should be treated as being 'wholly and exclusively' for trade and can be deducted in calculating the taxable profits of the business. Including the arrangement in the employee's contract will help to support this. The premiums are also not subject to employer's national insurance meaning an even greater saving can be made.

This arrangement is only available for employees and not sole traders, equity partners or members of a limited liability partnership.

HOW ARE BENEFITS TAXED?

Benefits are normally paid tax free through the trust. The only potential tax charge is a periodic and/or exit charge from the trust if the employee has died, the amount of cover is more than the current nil rate band for inheritance tax (£325,000 for 2012/13) and the money has not been paid out of the trust to the beneficiaries before the next 10th anniversary of when the trust was created. But this can be avoided by setting up multiple policies and trusts on separate days, as each trust will then have its own nil rate band.

WHAT BENEFITS CAN BE PROVIDED?

RLPs can only provide life cover and must be paid as a lump sum. The legislation does not

allow any other type of protection to be included. Cover can be level, increasing or decreasing. The term of the policy can be fixed or renewable. But cover cannot run beyond the age of 75.

The only other restriction to be aware of is that the main purpose of the policy must not be tax avoidance. The plan needs to be set up for genuine protection of dependents, so it should not be used for any other purpose or beneficiary. If you are replacing existing cover you should also try to avoid an exact like for like 'swap' of cover, as HM Revenue and Customs could say the only reason for taking out the RLP plan is the tax saving.

If you would like more information on whether a relevant life policy is suitable for you, contact your adviser today.

**"The premiums paid
by the employer
are not taxed as a
benefit in kind on
the employee."**



bright grey®

Protection. We make it personal



Jennifer Gilchrist
Senior Product Development Manager
Bright Grey & Scottish Provident

LEADING *Indicators*

United Kingdom Stock Markets	3 months	6 months	1 year
FTSE 100 ¹	2.00%	7.61%	9.97%
FTSE 250 ¹	4.84%	14.72%	26.11%
FTSE All Share ¹	2.47%	8.70%	12.30%

Source: Financial Express Analytics 1 January 2013

American Stock Markets	3 months	6 months	1 year
NASDAQ 100 ¹	-4.77%	1.73%	16.82%
S&P 500 ¹	-0.65%	5.95%	16.00%

Source: Financial Express Analytics 1 October 2012

European Stock Markets	3 months	6 months	1 year
CAC 40 ¹	7.53%	14.71%	13.94%
DAX ¹	4.20%	17.92%	29.11%
DJ Euro Stoxx ¹	5.83%	19.99%	19.00%

Source: Financial Express Analytics 1 January 2013

Other Stock Markets	3 months	6 months	1 year
Hang Seng ¹	8.72%	16.54%	22.91%
MSCI Emerging Markets ¹	5.17%	11.79%	17.45%
Nikkei ¹	18.17%	15.42%	22.94%

Source: Financial Express Analytics 1 January 2013

Gilts	3 months	6 months	1 year
FTSE British Government 10 – 15 years ¹	-0.32%	1.45%	5.44%

Source: Financial Express Analytics 1 January 2013

Property	3 months	6 months	1 year
Halifax Property Index ¹	0.89%	-0.76%	0.62%
IPD UK All Property ¹	0.26%	0.86%	2.09%

Source: Financial Express Analytics 1 January 2013

Savings	3 months	6 months	1 year
ING Direct Savings Gross ¹	0.08%	0.21%	0.46%
Moneyfacts Instant Access ^{1,2}	0.22%	0.46%	0.90%
Moneyfacts 90 days notice ^{1,3}	0.30%	0.62%	1.25%

Source: Financial Express Analytics 1 January 2013

Inflation	
UK Consumer Price Index	2.70%
UK Retail Price Index	3.00%

Source: ONS 18 September 2012

Interest Rates	
Bank of England	0.50%

Source: Bank of England 1 January 2013

Notes

1 Gross return Bid-Bid, annualised (ending 1st January 2013)

2 Moneyfacts Average of instant access accounts, £10,000 invested, total return, gross.

3 Moneyfacts Average of 90 day notice accounts, £10,000 invested, total return, gross.

TAYLOR BURKE
PARTNERSHIP



We are always delighted to hear from you, to contact us please phone or email:

Call us on: 0845 603 3288 **Send us an email to:** info@taylorburke.co.uk

Address: Whelan House, 30 Marlborough Road, St Albans, AL1 3XQ

www.taylorburke.co.uk

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