

Retirement Planning

This newsletter is to help you and your retirement planning.

2009/10

Ensuring a successful retirement

Many people spend time thinking about what retirement might look like financially, and this is particularly important now, especially given the current state of the economy and interest rates. Pension funds have been depleted by higher tax charges, reduced capital values, diminished rates of return and increased longevity. It is important to look at how much you need to save to secure your desired income and how your saving can be optimised for tax purposes.



Time to review

The applicable laws and tax regime change over time, as do economic circumstances and market-based solutions. Retirement plans should be reviewed periodically to check their adequacy. Some of the contemporary strategies for retirement planning are considered overleaf.

Entrepreneurs' relief

This provides a reduction in capital gains tax on the disposal of an interest in a business or business asset(s) up to a maximum of £80,000 relief.

Advantageously for some, it has no minimum age requirement, and the business need only meet the qualifying conditions for one year. It replaced indexation allowance and taper relief, and has a maximum lifetime allowance for gains of £1 million. If your retirement will coincide with the disposal of business assets and your planning has not yet taken into account the tax impact, please discuss this relief and your tax planning with us.

Taking into account the recession, no one's retirement planning looks the same as it did last year.

Ensuring a successful retirement

Pensions

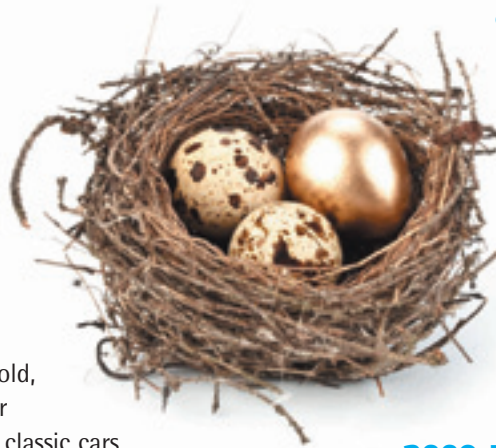
Salary sacrifice

Salary sacrifice has been much in the press these last two years, but this remains a tax-efficient way of providing for your future. This approach saves both the employer and employee money through reducing national insurance contributions. This can save the employee income tax too. Even so, taking a reduction in take-home salary now in exchange for a longer-term benefit is not everyone's first choice and should only be used in conjunction with proper financial planning.

Self-Invested Personal Pensions (SIPPS)

SIPPS allow the freedom to select the allocation of your pension fund investments. This pension vehicle is regarded as attractive to many as a result of this investment flexibility.

Subject to approval by the SIPP provider, SIPP investors can choose what assets are bought, leased and sold, and when those assets are acquired or disposed (although certain items, like classic cars and residential property are inadvisable because they are subject to heavy tax penalties). The investor may also enjoy ownership of the assets via an individual trust, so long as the provider or administrator is listed as a co-trustee. Potentially, SIPPS can even borrow 50% of the net



value of the pension fund to invest in further assets. We are happy to discuss this option with you.

The capping of the lifetime allowance

The Pre-Budget Report announced that the lifetime allowance will be capped at £1.8 million from 2010. For 2009/10 the lifetime allowance is £1,750,000. This not only affects individuals of high net worth, but also anyone with smaller pensions who could withdraw them in one tax-free sum (or 'trivial commutation') if they are under 1% of the lifetime allowance.

Retirement investing alternatives?

For those who want an alternative to pensions, or not rely on them entirely, the alternatives are almost unlimited. Common savings and investment vehicles include ISAs, equities, bonds, insurance policies, property portfolios and fine art or other valuables. However innovative or unusual your retirement planning, it should stand the 'reality and adequacy test'.

2009 Budget

The announcement in the Budget on 22 April that tax relief for high earners would be restricted clearly impacts on planning for affected individuals. Please ask for specific advice if this applies to you.



Top-slice relief and the Investment Bond

Investment bonds remain much underused in retirement planning, despite having been around since the early 1970s. Some see them as complex, but they offer unique opportunities to aspiring retirees.

Because they are offered by life assurance companies, the investment bond is considered a life policy and is not subject to capital gains tax, instead, a tax liability arises on a chargeable event, such as the death of the owner or maturity. You can take a 5% tax-free withdrawal every year, and excepting the events just mentioned, this can be carried forward for up to 20 years.

A higher-rate taxpayer would pay 20% of the total gain (or 20% on withdrawals above 5%) with no further tax liability. With foresight, a higher-rate taxpayer could enjoy 5% tax-free withdrawals while working, and then on retirement, if in a lower tax bracket, use top-slicing relief to withdraw large sums without incurring higher rate tax.

Further, a policyholder in the higher tax bracket can transfer ownership of the bond to a lower tax-paying spouse. Because this transfer is made by deed of assignment, it is not a chargeable event. Sound advice is key to long-term Investment Bond planning.



If you would like us to evaluate your retirement planning please contact us.