

Money Matters

at

ISSUE TWELVE

IFG

FINANCIAL SERVICES

SUMMER 2011

New carry forward rules let you stockpile annual pension allowances

Pension legislation introduced on 6th April has created a buzz around tax relief and opened up an exciting opportunity for many individuals to carry forward unused annual allowances from previous years.

In April 2009, new rules capped the amount higher rate taxpayers could put into their pension if they wanted to receive full tax relief. For the majority of those earning over £130,000, higher rate tax relief was only given on contributions up to a limit of £20,000.

This meant that even though the annual allowance was much greater, many people restricted their contributions to the £20,000 on which the full tax relief was available.

However, as of April 2011, these rules no longer apply and new 'carry forward' legislation means it may be possible to claw back lost ground.

This year the annual allowance was cut from £255,000 to £50,000.

However full tax relief may be available on the £50,000 limit and any unused allowance can be carried forward for up to three years.

The £50,000 limit has also been applied retrospectively and from this year people can look back three years and make up the shortfall on any unused past allowance.

As such, if you only put £20,000 into your pension in the 2008/09, 2009/10 and 2010/11 tax years, you can now carry forward a total of £90,000 – made up from the £30,000 unused allowance for each of these three years.

On top of this you can then use your £50,000 allowance for the 2011/12 tax year, making a total potential contribution of £140,000, on which you may receive full tax relief.

The new rules apply to everyone and so for those whose financial situation changes, it is now possible to use previous annual

allowances to make significant pension contributions while still possibly receiving full tax relief.

Not only will such a move help safeguard your future, but it will also help make the most of your money in light of the relief available.

With pension legislation changing so quickly, those that can make the most of these rules should take advantage of them while they can. If you don't do it now, it might just be too late when you decide to act in the future.

Paul Barber (paul.barber@ifg.co.uk)



New - Question & Answer panel on back page.
If you would like to contribute go to enquiries@ifg.co.uk.

In this issue

Small savings, senior deposits
Junior ISAs replace
Child Trust Funds

Good news for Squirrelers
Taking advantage of the
ISA limit increase

Auto-enrolment
Timing is everything

Junior ISAs will help small savings grow into senior deposits



Children grow up very quickly and making financial provision for them can be difficult. However small regular savings grow into significant deposits and the new Junior ISA is the perfect vehicle to use.

Junior ISAs are a replacement for Child Trust Funds. Unfortunately the Government will no longer make a financial contribution towards an individual's savings, but the money put inside a Junior

ISA does allow any gains to remain tax free.

Until children reach the age of 16, their accounts will be managed by those with parental responsibility for them. Up to £3,000 can be deposited annually across both cash and stocks and shares ISAs.

Set for launch in November, now is the perfect time to start thinking about what to put aside for your children.

Enterprising investors can make the most of generous tax breaks

Changes this April to the Enterprise Investment Scheme now provide higher rates of income tax relief for investors.

Further changes are also due to come into play next year that will double the amount you can invest and increase the range of companies which qualify for the scheme.

The Enterprise Investment Scheme was established in 1994 as a means to help smaller companies raise capital by incentivising investors. It originally enabled investors to take a figure equalling 20% of the initial cost of the shares purchased and set this against their income tax liability for the tax year in which the investment was made.

This has now been raised to 30% and means that if you make the maximum investment of £500,000 in a company, then you can set

£150,000 against your income tax liability for that year.

From next April the maximum investment limit is going to be raised again to £1m, offering the potential to offset a sizeable £300,000 against income tax liabilities.

Holdings within the Enterprise Investment Scheme also fall outside your estate for Inheritance Tax purposes once they have been held for two years. Gains made from shares that are subsequently sold are also free from Capital Gains Tax, and both of these tax breaks add to the attractiveness of scheme.

For those who have had to curtail their pension contributions in light of the reduced annual allowance or who are looking for a tax efficient investment option, the more generous legislation around the Enterprise Investment Scheme

makes it well worth consideration.

In the past these plans have been considered "high risk"; however, a number of institutions now offer qualifying arrangements that would also appeal to more "medium risk" investors.



ISA limits increased from April and are set to increase in line with inflation in the years ahead. This is good news for both savers and investors, but only if they take advantage of the changes.

From April this year, you can contribute a maximum of £10,680 into an ISA. As with previous years, this total limit can be split between cash savings and investments. Of the total allowance, up to £5,340 can be deposited into

a savings account while the full allowance can be used for investments.

Many clients are unable to find thousands of pounds at the end of the tax year to use up their ISA allowance. However if you break it down into monthly payments, it only means finding £890 each month to use up the full entitlement.

Making monthly payments is a great habit to get into and when

Squirreling money away monthly will help make the most of swollen ISA allowances



the money is invested it also has the advantage of creating something called pound cost averaging.

As equity prices fluctuate, buying a set amount each month helps to smooth out the average price that you have paid for your holdings over the course of each year. Over the long term this averaging helps to smooth the returns you make and avoid the peaks and troughs associated with one-off investments.

The returns on one-off investments are seriously affected by the timing of the purchase and even for investors who are ready to move in and out of the market at a moment's notice, getting the timing perfect is very difficult.

However if you save regularly, not only will you relieve yourself of having to make the right timing call, but you'll also find it a lot easier to invest your full allowance and enjoy the huge tax benefits that this brings.



Don't let auto-enrolment sneak up on you

In just over a year, the first tranche of employers will have gone through auto-enrolment and signed up qualifying employees for a compliant pension.

The first ones are for the very biggest companies in October 2012 and gradually the legislation will apply throughout the commercial sector until it has rounded up all of the smaller firms by 2016.

Between October 2012 and September 2016, pension contributions made must total a minimum of 2% of qualifying earnings with at least 1% coming from the employer.

Between October 2016 and September 2017, that jumps to 5% of qualifying earnings, with at least 2% coming from the employer.

From October 2017, total contributions must then be at least 8% of qualifying earnings with 3% coming from the employer.

Are you a company owner? Do you contribute towards a pension scheme for your employees? Is it a qualifying scheme under the new legislation?

Only by answering these questions in good time can employers prevent the need to make last minute decisions that are unlikely to be in the best interests of either themselves or their employees.

Q&A

How can I reward employees with a better remuneration and benefit package without breaking the bank?

Everybody is after something for nothing in these cash strapped times. The great news for businesses is that by rearranging how they remunerate staff it is possible to boost significantly their overall package without having to pay them a penny more. Indeed the irony is that businesses can actually do this by paying their employees less. The process, called salary sacrifice, is tried and tested and is already used extensively by many larger firms, although smaller businesses have not been so quick to adopt it. Essentially an employee takes a cut in their salary. They also stop making their own pension contributions. The employer makes savings on the salary paid to the employee and on the smaller National Insurance contributions made on the lower salary amount. These savings are then used to finance the employee's pension. It is possible for salary sacrifice to increase the contributions being made to a lower tax rate payer's pension by up to 34% without either party losing out financially.

For example, someone earning £40,000 p.a.

- Net pension contribution of £2,400 (£3,000 gross)
- Reduce salary to £36,470 can lead to 34% increase in pension contribution with net salary remaining the same.

Income tax saving	£ 105
Employee NIC saving	£ 424
Employer NIC saving	£ 487

Additional sum available for pension £1,016

- Gross pension contribution by employer of £4,016, a 34% increase with net salary remaining unchanged and no additional cost to employer.



Money Matters

Your comments are very welcome. Please address them to:
Karen Clifford, IFG Financial Services, Trinity House, Anderson Road,
Swavesey, Cambridgeshire, CB24 4UQ

enquiries@ifg.co.uk or firstname.surname@ifg.co.uk to email our consultants

London Tel: 0845 034 6678 Fax: 0845 034 6679

Nigel Stratton

Direct: 020 7553 4928

James Davison

Direct: 020 7553 4927

Peter Miller

Direct: 020 7216 4668

Cambridge Tel: 01954 233 555 Fax: 01954 233 500

Rob Barron

Direct: 01954 233 537

Derek Parker

Direct: 01954 233 514

David Triggs

Direct: 01954 233 506

Bury St Edmunds Tel: 01284 717 200 Fax: 01284 717 201

Alex Gordon

Direct: 01284 717 205

Cy Joyner

Direct: 01284 717 200

Manchester Tel: 0845 873 5721 Fax: 0845 873 5723

Paul Barber

Direct: 0161 212 1818

Mike Smith

Direct: 0161 234 8902

Russell Vidler

Direct: 0161 212 1816

James Wetherall

Direct: 0161 212 1817