PORTAL

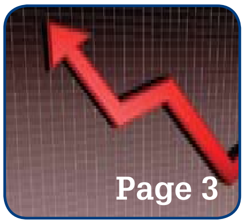
Private Client Edition | Spring 2011

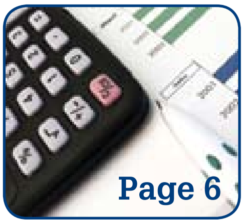
CARTLIDGE MORLAND

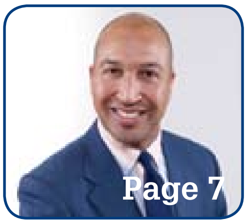
End of Tax Year
Act now – especially for pension contributions

Beware Inflation
Inflation proofing investment strategies

Tax Efficient Savings
Maximise returns through a Maximum Investment Plan







Inside this issue

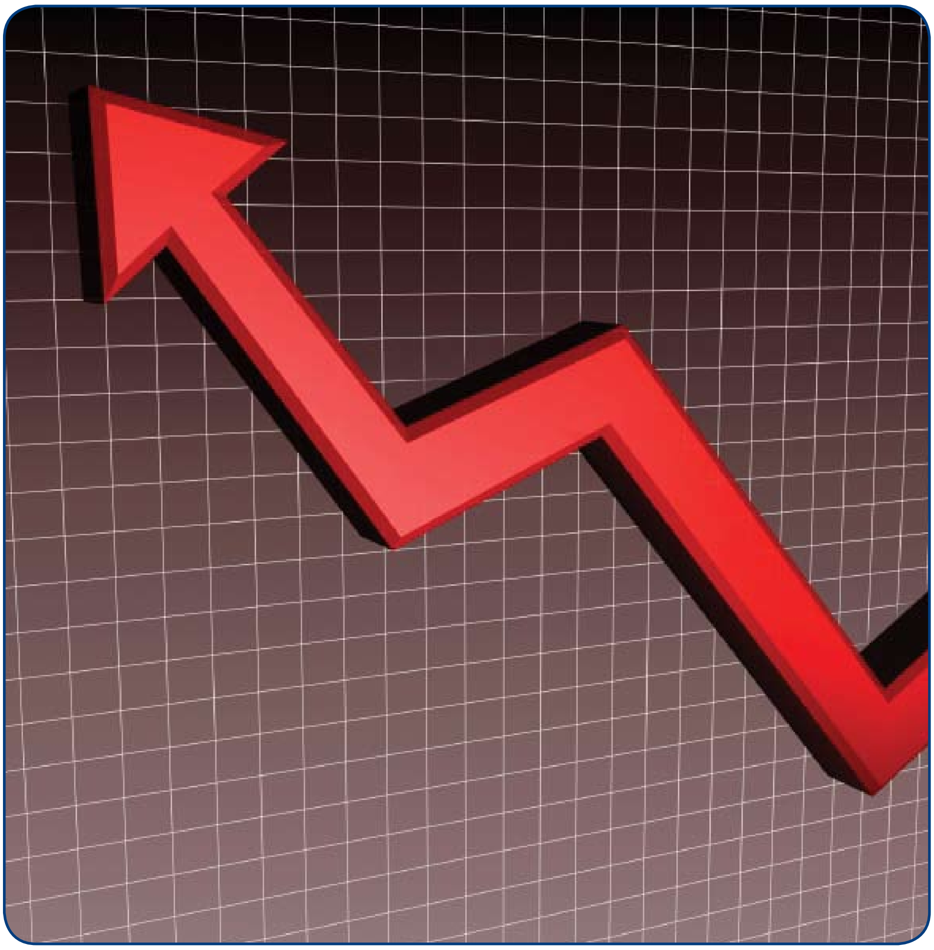
Welcome to our 'new look' Portal

We hope that you enjoy reading our 'new look' Portal. We have listened to your feedback and have changed the format so that we bring the key points of topical issues to your attention in a more accessible format. Our consultancy team is happy to give more detailed information tailored to your circumstances.

In this edition, we have provided a reminder on actions required before the end of the tax year. Please remember that new pension legislation is leading to significant changes in funding your pension. We have also included investment ideas for other tax efficient savings following the reduction in the tax allowable pension contribution limit in the next tax year. We also believe that inflation could prove problematic this year so we have included details of investment strategies which may help protect against the capital and income erosion. The mortgage market has seen an increase in competition of late which could be good if you are looking to remortgage. We also meet Cartlidge Morland Partner, Julien Nurse, townie turned country boy in Our People.

Beware Inflation

Back in October 2008 when interest rates started falling rapidly, we constructed various income portfolios which have proved popular with clients seeking to optimise income.



The portfolios are designed to achieve varying income levels with differing risk profiles. Currently the High Income Portfolio is producing a yield of around 5.66% (net of charges, gross of tax 25/02/11). It invests in a mixture of fixed interest and property funds.

Anyone relying on investment income needs to be aware of the dangers of inflation. The main measure of inflation used in the UK is the Consumer Price Index (CPI). The index measures the movement in the price of a basket of goods and services for the purpose of household consumption. The Bank of England measures whether it is achieving its target level of inflation of 2% pa against CPI. The current CPI stands at 4% (January 2011).

Investors should consider the returns they are achieving against the CPI. For example, a 90 Day Notice Cash Account is typically yielding around 2.5% pa. The gap between the CPI and interest earned is 1.5%. Therefore the 'income' earned is not keeping pace with inflation so its purchasing power is reducing. There is a negative real rate of return. In addition, the capital value of the original investment remains the same. Conversely, the yield on our High Income Portfolio is producing a real rate of return of 1.66% pa with the potential for the capital value to rise over the longer term. (Please be aware that the capital value could also fall.)

To insulate against inflation, investors need to hold assets which will increase in value as inflation rises. These so called 'real' assets include equities, property and index linked bonds. Investments such as fixed interest and cash will suffer because inflation erodes their capital value. As well as our High Income Portfolio, we have an Equity Income Portfolio which invests in funds that aim to produce an income in excess of that produced by the FTSE All Share index. The current yield is 5.34% (net of charges, gross of tax 25/02/11). These funds mainly invest in the shares of large UK companies which have paid historically good dividends and are more than likely to continue to do so in the future. As well as producing an income, the underlying shares provide inflation protection.

Contact us for more information about income portfolios or to discuss protecting against inflation.

"To insulate against inflation, investors need to hold assets which will increase in value as inflation rises."

End of Tax Year Planning – Use Your A

PENSION PLANNING

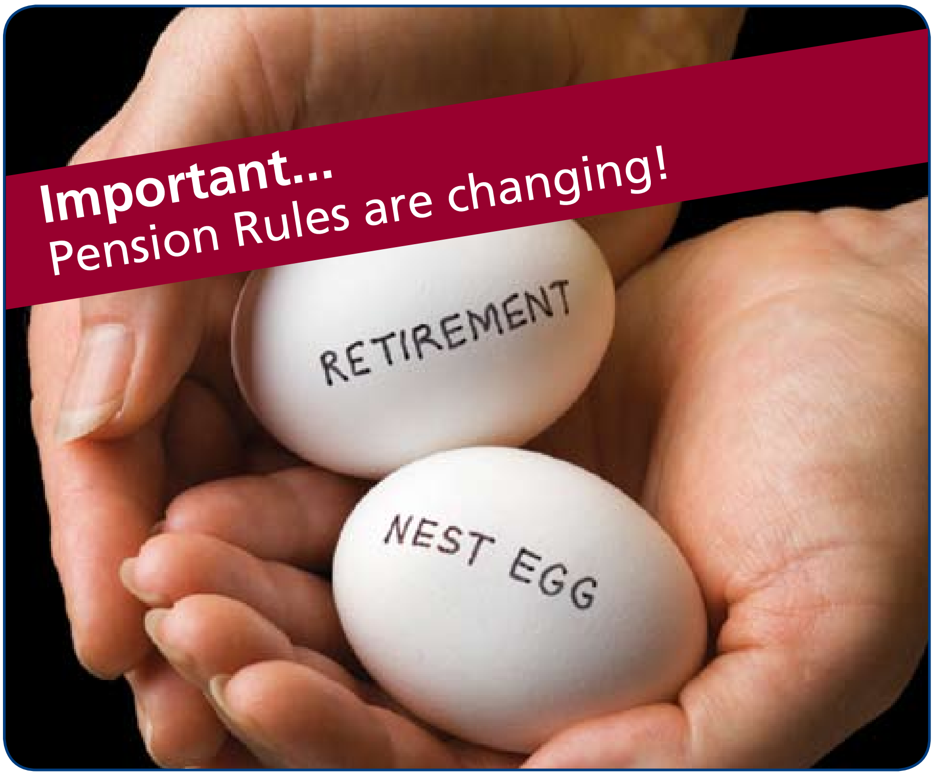
Tax Relief
Basic rate taxpayers are entitled to 20% tax relief on pension contributions. So if you make a £1000 contribution from net income, HM Revenue and Customs will repay tax of £250.

Higher rate taxpayers are entitled to tax relief at their highest marginal rate of up to 50% subject to the annual allowance. Please remember the annual allowance is reducing from tax year 2011/12.

Annual Allowance
- The annual allowance for the current 2010/11 tax year is £255000.
- A special annual allowance for high earning individuals, with annual taxable earnings in excess of £130000, known as anti-forestalling regulations, will no longer apply after 5 April 2011.
- The reduced annual allowance of £50000 will apply from April 2011 and although this allowance may be subject to future indexation increases, this will not be until after 2015/16.
- Full tax relief at an individual's highest marginal rate (up to 50%) on pension contributions within the reduced annual allowance.

Carry Forward
The reduction in the annual allowance to £50000 will undoubtedly cause issues for individuals who will find that they inadvertently breach this limit.

- From the 2011/12 tax year, the Government has introduced a three-year carry forward rule which may allow contributions larger than the annual allowance without incurring a tax charge.
- Any unused annual allowance from the three previous tax years can be carried forward to the current tax year.
- The carry forward limit for 2008/09, 2009/10 and 2010/11 will be £50000.
- The current year's annual allowance must be used up before any unused annual allowance can be carried forward from a previous year.



- Unused annual allowance carried forward is taken from the 'oldest' carry forward year first but if contributions in any one of the carry forward years is greater than £5000, they may cancel out some or all of another year's unused annual allowance.
- The individual must have been a member of a registered pension scheme during the tax year they are carrying forward from and there must have been some pension 'input' during the year.
- Personal contributions that are fully tax relievable will still be limited to 100% of earnings in the tax year, although restrictions may apply to 'high earners'.
- Further clarification is required from the Government as to whether high earners, caught by anti-forestalling regulations can use carry forward in 2011/12 to obtain further tax relievable contributions for the two previous tax years in which they were restricted by the special annual allowance.

Lifetime Allowance
This is the overall limit applied to an individual's pension funding from registered pension schemes that benefit from tax relief.

- The lifetime allowance will be reduced from £1.8m to £1.5m from the 2012/13 tax year.
- Anyone with existing primary or enhanced protection applying from 'A' Day (6 April 2006) will continue to be unaffected by the reduction in the lifetime allowance.
- A new type of protection known as Fixed Protection will be introduced for individuals who expect their benefits to be greater than the new lifetime allowance. This must be applied for via HMRC before 6 April 2012.
- There may be some transitional protection for those with pension values already above the reduced allowance or who were planning their retirement benefits based on the existing lifetime allowance but further details are awaited.

Stakeholder Pensions
Stakeholder Pensions are available for those working and not working as well as for children. The maximum contribution is £3600 gross, so you pay £2880 and HM Revenue and Customs will repay tax of £720.

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CAPITAL GAINS TAX

The capital gains tax exemption for tax year 2010/11 is £10100. If you have sold assets and made losses, these losses can be offset again gains made in past or carried forward to future years. For gains on or before 22 June 2010, Capital Gains Tax is charged at a flat rate of 18 per cent.

The following rates apply to gains after this date:

- 18% and 28% tax rates for individuals, dependent on the total amount of your taxable income
- 28% for trustees or for personal representatives of someone who has died
- 10% for gains qualifying for Entrepreneur's Relief

INHERITANCE TAX

An annual gift exemption is available of £3000 per donor. Unlimited small gifts of £250 can be made. Making use of these exemptions can reduce the size of your estate.

INDIVIDUAL SAVINGS ACCOUNTS (ISAs)

The maximum that can be invested in an ISA is £10200 for the tax year 2010/11. The maximum investment permitted in a cash ISA is £5100. The remaining balance can be used to fund a Stocks & Shares ISA. The limit for 2011/12 is £10680 with the maximum for a cash ISA being £5340.

VENTURE CAPITAL TRUSTS (VCTs)

The VCT scheme is designed to foster investment in small, high risk trading companies enabling them to develop and grow. Therefore VCTs may only be appropriate investments if you have an adventurous attitude to risk.

The maximum allowable investment in a Venture Capital Trust is £200000 in any one tax year. Income tax relief is available at a rate of 30% if the VCT is held for at least five years.

All dividends and capital gains are tax-free.

ENTERPRISE INVESTMENT SCHEMES (EIS)

The Enterprise Investment Scheme is designed to help smaller higher-risk trading companies to raise finance by offering a range of tax reliefs to investors who purchase new shares in these EIS companies.

The minimum investment is £500 in any one EIS qualifying company per tax year. Income tax relief of 20% up to a maximum investment of £500000 is available.

If the EIS investment is held for at least three years, there are certain tax advantages:

- 20% upfront income tax relief on the amount invested for the current tax year up to a maximum investment of £500000. (Investors in the EIS can also carry back up to £500000 of their investment to tax year 2009/10 for the purposes of income tax relief. This does not affect an individual's current tax year entitlement, thereby enabling a maximum investment of £1m per individual in any tax year).
- The payment of tax on a capital gain can be deferred where the gain is invested in shares of an EIS qualifying company. You can defer gains made up to three years previously or one year in the future (from the point at which the investment into the underlying company is made).
- All capital gains arising from an EIS investment are tax-free.

Investments in an EIS are exempt from Inheritance Tax (IHT), providing the shares have been held for at least two years at date of death.

Loss Relief is available so that the capital loss on an investment can be set against capital gains of that tax year or a later tax year, or against income of that tax year or the preceding tax year.

END OF TAX YEAR CHECK LIST

Pensions

- [ ] Personal Pension Contributions
- [ ] Stakeholder Pension Contributions

Investments

- [ ] Individual Savings Accounts (ISAs)
- [ ] Venture Capital Trusts (VCTs)
- [ ] Enterprise Investment Schemes (EISs)

Tax Considerations

- [ ] Capital Gains Tax
- [ ] Inheritance Tax

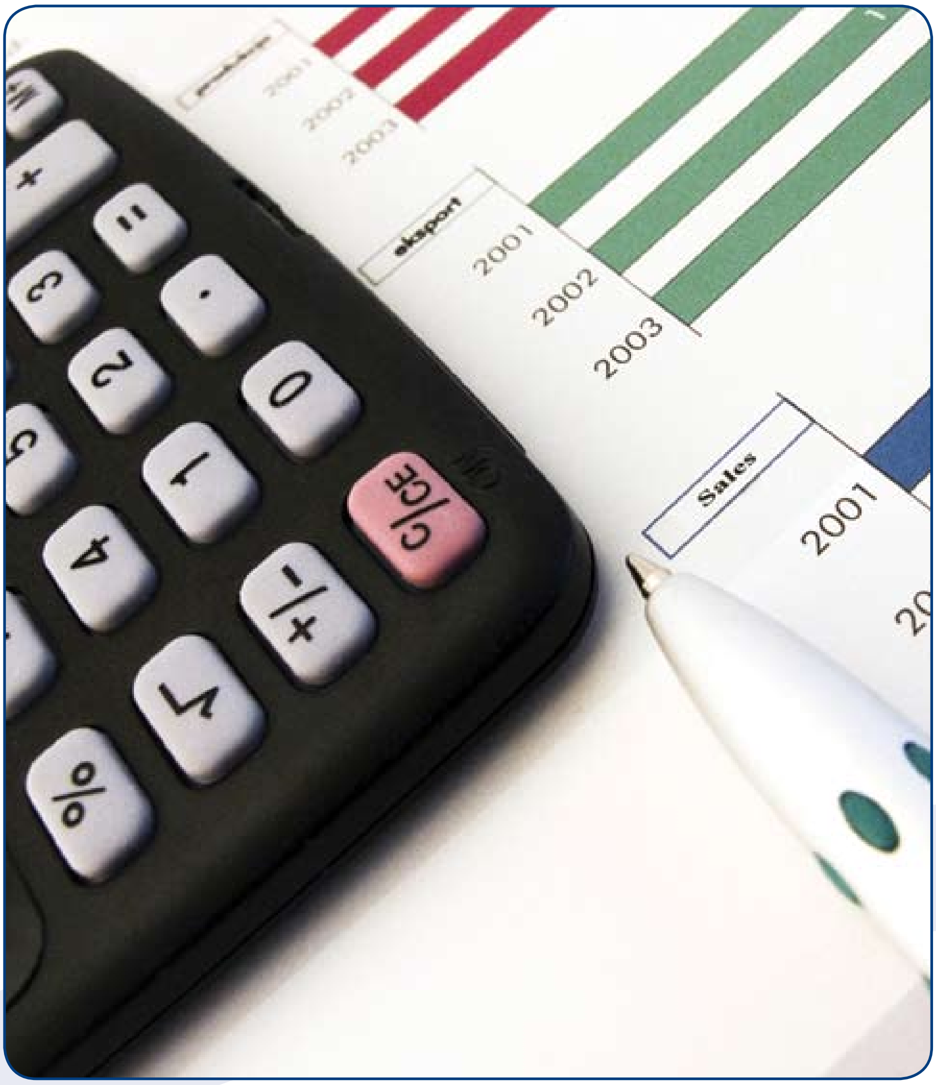
Please contact your Cartlidge Morland consultant if you would like to discuss your end of tax year planning.

Tax Efficient Savings – Maximum Investment Plans

Pension contributions eligible for tax relief are to be capped at £50000 pa. How can investors continue to save tax efficiently?

There are a number of other options. These include using the annual Individual Savings Account (ISA) allowance, venture capital trusts, and enterprise investment schemes.

The attractiveness or otherwise of such investments depend upon an investor's objectives, attitude to risk and tax liabilities.



There is another option to add to the mix. Investors may prefer to save on a regular basis (monthly or annually) into a Maximum Investment Plan (MIP). MIPs have been in existence for a long time but lost their appeal when tax relief on premiums was withdrawn in 1984. MIPs are regular savings life assurance policies which have a minimum term of 10 years. If the policy is funded for at least 7½ years, then the proceeds are not subject to Capital Gains Tax (CGT) or income tax. The MIP is usually divided into a number of smaller policies so that after 10 years there is flexibility in encashing the plan. If the proceeds are not required after ten years the policy can be extended with or without further contributions being made. There is usually a full range of investment funds to choose from.

MIPs could be appropriate for investors who use their ISA and pensions allowance each year, usually have CGT liabilities or are saving for specific purpose such as school fees. Proceeds are free of CGT and income tax after 7½ years of funding.

To discuss whether a MIP may be an appropriate savings vehicle for you please contact your Cartlidge Morland consultant.

"The attractiveness or otherwise of such investments depend upon an investor's objectives, attitude to risk and tax liabilities."

Our People – Julien Nurse

Julien is one of Cartlidge Morland's partners. He joined the firm in 2007.

Julien has worked in financial services since 1984. He founded Select Financial Solutions, of which he was a director, in 1995. The company merged with Cartlidge Morland in 2007.

Although raised in London, Julien has now moved to the Surrey Hills with Becky and their children, Jake and Isaac. He is enjoying his new surroundings, as running and bicycling are less stressful in the rolling countryside but more strenuous. That said, once a Londoner always a Londoner! Julien still loves to spend time in his home town, rediscovering childhood haunts with his sons in tow.

Julien loves all sports and used to play semi-professional and senior amateur football. He still enjoys an odd game now and again but only for fun. Serious football time is spent watching his beloved Arsenal at the Emirates Stadium where he has a season ticket.

Travel has formed a big part of Julien's life. Adventures have included cycling through the Andes and living in the Amazon with indigenous Indians. His recent travels have been child-centric but he is looking forward to the day when the boys will join the family exploration team.

Julien's other hobby is collecting watches – specifically International Watch Company time pieces. Needless to say Julien is a very punctual person.

Baby News

Congratulations to Ady and Joanne Bourton on the birth of their son, Ben.

Baby News

Congratulations to Ed and Kate Overend on the birth of their son, Joshua.

Remortgage – Nothing to Lose, Much to Gain

It would be an understatement to say that the UK mortgage market has been through a turbulent period.

Lack of liquidity in credit markets has resulted in lenders completely re-assessing their appetite to lend and restricting mortgage availability to many sectors of the public – most notably first time buyers and the self-employed.

For many months, profit margins have been a much higher priority than business expansion and consequently lenders have focussed their attention on mortgages relating to new property purchase rather than remortgages. The lack of competition in the remortgage sector has resulted in an estimated 700,000 borrowers repaying their mortgage at the standard variable rate – a huge benefit for a few but at huge cost to many. Standard variable rates are set at the sole discretion of the lender, and not directly linked to the wholesale cost of money. Recent analysis of 99 UK lenders illustrates the injustice of the standard variable rate: the cheapest being 2% and the most expensive 7.69%. A staggering 88 of the 99 lenders reviewed are charging 3.5% or more, which is 3% (or more) over the current Bank of England Base Rate!

For those borrowers who have had little option but to accept their lender's variable rate there is finally some good news. Over recent weeks, competition has, at last, returned to the remortgage market. Lenders are now creating products expressly designed to 'steal' your mortgage from another lender by offering beneficial terms. Interest rates have fallen and fees have been reduced, with some lenders offering a completely free mortgage transfer service. This, together with the lowest fixed rates for many years, makes restructuring mortgage borrowing a very attractive proposition.

Following months of lacklustre product, finally it is the right time to review your mortgage. With our expert help, you can be sure that you will benefit from the most competitive deals available.

Important Information & Notes

1. The views and suggestions in this document are based on Cartlidge Morland's research which is obtained from a variety of sources. Whilst these sources are believed to be reliable, the information obtained cannot be guaranteed to be accurate and may be condensed or incomplete. The funds, investments and products described are not suitable for everyone and advice should be sought from your consultant who will provide a recommendation having considered all relevant circumstances. Past performance is not a guide to the future. The value of investments and income arising may go down as well as up.
2. In the case of income funds, the income is not fixed – it can go up and down.
3. The level and bases of, and reliefs from taxation may change. The value of tax reliefs depend upon our current understanding of individual circumstances. Statements relating to taxation are based upon current taxation laws and practices which are subject to change. If in doubt, tax advice should be sought.
4. Cartlidge Morland is a Licensed Credit Broker.
5. Cartlidge Morland is a firm of Independent Financial Advisers which is authorised and regulated by the Financial Services Authority.
6. Your home may be re-possessed if you do not keep up repayments on your mortgage. An administration fee of £295 may be charged. There may also be a fee for mortgage advice. The precise amount of any fee will depend on your own circumstance, but typically this would be 0.25% of the amount borrowed. For a typical mortgage of £100,000 our fee would be £250. Should you wish to be advised on a 'fee-only' basis and have any income from the lender refunded to you, our standard fee is 0.6% in these circumstances, therefore for a typical mortgage of £100,000 our fee would be £600.

Would you prefer to receive Portal by email in future? Please email **portal@cartlidgemorland.co.uk** to request this service.

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