

Is it really a time for change or just back to basics??



Hello from me...

The last time I wrote anything for our client newsletter things were very different from the world we live in today. For many people 2008 was a painful year.

However, looking forward to the rest of this year and beyond there are, if careful, opportunities for investors to make money in the medium to long term. I am not so sure we have the seen the bottom of the market yet and so far this year we are still receiving shocking news about the financial/banking system.

There has never been a more important time to be talking to our clients and reviewing their financial plan/investment portfolios. As I said in the last newsletter, its all about keeping your cool and as long as your asset allocation is commiserate to your risk profile, nothing has changed. There is no benefit in crystallising losses unless there is:
The serious need to raise cash or an

opportunity to use any current losses against any potential large future gains, such as a company sale. Losses can be carried forward indefinitely.

Jupiter Investment Management Chief Executive, Edward Bonham Carter has warned in Investment Week (Feb 2nd 2009) that:

"Markets are likely to be schizophrenic this year, swinging between periods of pessimism and optimism. However, much of the bad news is already priced into shares. While indices may go lower, investors are, in my view, starting to be paid for taking the risk of investing in equities on a three to five year horizon."

There is currently the high profile conundrum where in spite of cuts to official interest rates, banks are either unwilling or unable to pass on the full rate. Major concern will now be that the actions of central banks and the flooding of the financial system with liquidity will eventually cause a resurgence of inflation.

I believe that much of the current ongoing negative news-flow has been factored into the markets and that in still holding or buying equities now will benefit from a "bear market rally". Missing out on the "rally" can be very costly, in terms of lost return and it is not possible to actually predict when that will be, so its best to remain invested.

Very Ironic...

Having watched Mary Poppins over the festive period with my 4 year old and I had to snigger at comments made by Mr Dawes (snr):

"..But if you invest your tuppence wisely in the bank, safe and sound, soon that tuppence safely invested in the bank will compound.

And you'll achieve that sense of conquest as your affluence expands.....while stands the banks of England, England stands, when fall the banks of England, England falls!!!"

Well it just nearly has!!! There is no mention of Toxic Assets here.

Richard Watson
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Retiring in 2009

Top Tips for retiring in 2009

1. Review your portfolio allocations and your accepted level of risk.

If all of your investments are in growth assets, you may want to re-balance the portfolio and re-direct some of your contributions to cash or defensive investments. This could be a handy way to enable you to call on those funds when you retire rather than drawing down on growth assets.

2. Consider drawing from cash, not your growth assets, to provide income over the next 2-3 years.

When you do retire, stick to drawing funds from your cash or income-producing assets such as bonds, as opposed to selling your growth assets at low prices. Keep the shares and sell them when the market is stronger

3. Use “pound cost averaging” savings plan - invest monthly into ISAs, not as a lump sum.

Rather than trying to time the market,

buying small amounts of shares or units over a period of time can enable you to average out the cost- reducing the risk of buying at the worst time.

4. Take advantage of falling interest rates.

Reducing interest rates mean that your home loan repayments may reduce as a result of less interest payable, however by keeping the same repayments (where possible) you will be paying more capital off your loan at a quicker rate.

5. Don't forget about any government entitlements

If your income and/or savings are low enough you may be entitled to pension credit. Check by completing necessary forms from www.direct.gov or completing the online assessments.

6. Talk to a professional financial planner about your financial situation before you make any changes. To take advantage of above mentioned tips it is important that you seek advice.

The key to successful financial planning is to develop a plan, maintain it and avoid emotional decision-making. With sound financial advice, solid goals and clear objectives you can combat market volatility - patient investors who maintain their course will benefit in the long run.

Increased state pension

In order to qualify for a full state pension it is necessary to have paid NI contributions for at least 39 years (reducing to 30 years retirement after 2010). However, those with a shorter contribution record are able to buy extra years.

The cost of extra years is currently £421.40 but with effect from April 2009 it will increase to £626.60 - a rise of 48.7%! So there is much to be said for acting before the increase takes place.

Those who are uncertain as to their contribution record can obtain a forecast from the pension service, part of the Department of Work and Pensions.

News in Brief:

W&TM Wealth Management Wrap Service

Given the pace of change in today's financial marketplace, there are more investment opportunities than ever before. With so many choices it's of vital importance that you right systems in place to look after you and your financial future.

We're responding to our clients' changing financial needs and are proud to introduce you to our new Wealth Management Wrap Service, a single view of your investment portfolio which offers an innovative approach to financial planning and advice.

What does Wrap do for you?

Our Wealth Management Wrap Service is designed to make your money work harder, look after your needs better and make life easier for you by:

- Maximising the tax efficiency of your portfolio.
- Securing a better deal for you by accessing discounted rates for annual management charges on a range of investment funds.
- Helping you to achieve your investment potential, and ensuring you're in the best position to maintain it on an ongoing basis.

Helping you to manage change effectively. Providing answers, when you need them, to the questions you most want to ask - how much is it worth? What do I need to do next?

Within this service, we have access to a whole range of "Tax Wrappers" - Stocks and Shares ISAs, Cash ISAs, Unit Trusts, Direct share purchase, Onshore Bonds, Offshore Bonds and Self Investment Personal Pensions (SIPPs).

All of these accounts can be opened for each Wrap account holder with the "flick of a switch" and the same or different risk profiles can be maintained across all the "Tax Wrappers".

Making exempt gift from income update

A new form (HMRC IHT 403) for this was introduced for this in November 2008, to allow solicitors to report the estate of deceased persons.

This reflects a more user-friendly layout and gives more prominence to gifts with reservation of benefit and pre-owned asset tax issues.

It also incorporates income gift reporting, so is more comprehensive. An individual considering this as an option can use this form to record these gifts now as it will help the solicitor involved in the future.

I would suggest it is completed each year and registered either with your executor or with your legal advisers. As always, we are more than happy to help

you or advice you on this matter. The production of life time cash flows, that are monitored and updated frequently will help you decide each year how much income you can "regularly" give away. This has to be regular in nature and cannot be ad hoc. HMRC are looking for a clear record if they are to grant permission of this allowance.

Mortgages - the steady decline....

Borrowers who have been waiting for mortgage rates to fall before locking into a new deal may find this is a good time to act, as rates are unlikely to fall much further.

Borrowers who delay taking a new deal risk missing the best rates as further property price falls could erode the amount of equity in their homes.

Those opting for short term fixed rates at such low levels run the risk of a big surprise if rates are rising when the rate finishes. Tracker deals with the facility to switch into a fixed rate in the future are a good option.



"Sorry Dad - Mum's left it all to me!" - Beware of the Transferable Nil Rate Band!

Shortly before the Pre Budget Report in October 2007, the Tories announced that they would increase the "nil rate band" for inheritance tax to £1 million if they came to power. The Chancellor responded by introducing the right for a married couple to transfer the nil rate band of the first to die to the widow or widower, if it had not been used on the first death.

Inheritance Tax (IHT) is charged on your estate when you die, at a rate of 40%. The first £312,000, however, is charged at 0%. This is the "nil rate band" (NRB), and it increases each tax year, with the new amount announced in the Budget.

Legacies between spouses (and civil partners) are exempt from IHT, so if Mr X dies and leaves everything to his wife, no IHT will be payable, and his NRB will not have been used. Following the announcement in October 2007, when Mrs X dies, she can use not only her own NRB, but she can increase it by 100% to take account of Mr X's unused NRB.

If Mr X had used some but not all of his NRB by leaving a legacy to, say, his brother, then Mrs X could still use whatever percentage of the NRB that Mr X did not use. If his legacy to his brother had used half of the NRB in the year of his death, Mrs X could still add 50% to her NRB when she dies - giving her a NRB of £468,000 for the current year (£312,000 x 150%).

It does not matter when Mr X died - even if this was before October 2007 - Mrs X can have the unused percentage of his NRB. This can lead to some unexpected results. Imagine that Mr X left everything to Mrs X when he died, so that potentially she has a NRB for the current year of £624,000. Mrs X is now Mrs Y, because she has

remarried, and she decides that she would like to leave something to her children from her marriage to Mr X.

Her solicitor suggests she leave a sum equivalent to the NRB to her children, and the rest to her new husband, Mr Y. As Mrs Y reckons her assets are worth about £600,000, this seems fair to her and she agrees. The solicitor drafts a Will for her on these lines and she signs it. It was commonplace to leave a legacy equivalent to the NRB, perhaps to a family trust, and in many cases it is still a good idea even if you are a married couple, but that is beyond the scope of this article.

There are two common wordings used by solicitors drafting a Will for a "NRB legacy":

- "I leave the largest sum that can pass without inheritance tax being payable to..."
- "I leave a sum equivalent to the nil rate band at the time of my death to..."

Mr Y had better hope his wife's solicitor has used the second of these two wordings, because if he used the first, Mr Y will get nothing! Just re-read those wordings - if the first one has been used, the "largest sum that can pass" free of IHT in Mrs Y's case is £624,000, because of the NRB she took over from the late Mr X.

Her estate, you will remember, is only worth £600,000, so her children will get the lot! The transferable NRB is good news for married couples, and for those who have lost their spouses already, but if your Will has a NRB legacy in it, check the wording to make sure it will still have the effect that you expect!

Tax Tips

A new power has been announced

For HMRC to visit a trader's premises and inspect his records and assets used in the trade - this can already be done for VAT purposes, but now it is being extended to direct tax (income tax, corporation tax, and CGT), with effect from April 2009.

Moving to new premises? Make sure you tell HMRC beforehand!

When we move premises, we remember to tell the telephone, gas and electricity companies about it. However, forgetting to tell HMRC could lead to a lot of unnecessary hassle. Legally, a business is required to tell HMRC of a change of address within 30 days.

Have you received a tax repayment from HMRC?

Was it too much? If you receive a larger repayment than you are entitled to, you MUST tell HMRC about it and repay the amount overpaid. Not doing this is an offence under the Theft Act!

Do you have a guilty conscience?

If you have not been declaring some of your income, or have underpaid tax for any other reason, contact HMRC and tell them about it before they catch you - the penalties you pay will be significantly lower if you do this, and in some cases they may be waived entirely.

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