august2000 Pointers

Investing beyond Pensions... and the case for collectives

Many clients are looking for more flexible ways to invest than in approved pension contracts and consequently we are asked how to invest tax efficiently for long term growth.

Once the limited ISA allowances have been used, attention normally turns to other forms of equity investment. The revised capital gains tax (CGT) regime favours long term holdings because taper relief reduces potential CGT from 40% to 24% for higher rate taxpayers and from 22% to 13.2% for basic taxpayers.

Profits can often be taken after retirement when it may be possible to arrange for a year or two without significant "earned income" income in order to benefit from a 13.2% tax rate.

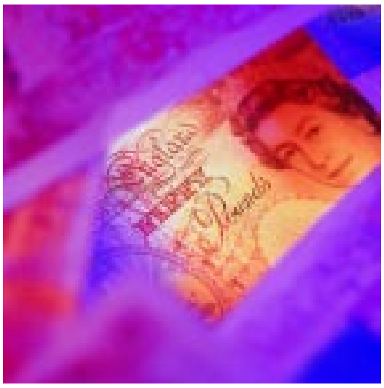
Direct equity investment has drawbacks with early sales of securities likely to reduce any taper relief available and new purchases starting the ten year CGT taper relief clock ticking again.

Managers of collective investment schemes may pursue active investment strategies on behalf of their clients without regard to the taxation consequences of their actions. This is possible because capital gains tax does not arise when profits are taken within investment trust companies, unit trusts or open ended investment companies. The result is active management within the portfolio and minimal personal tax liabilities, provided that the units or shares are held for at least 10 years.

Profits can often be taken after retirement when it may be possible to arrange for a year or two without significant "earned income" income in order to benefit from a 13.2% tax rate. Alternatively securities might be transferred to a spouse before profits are taken if he/she is a lower rate taxpayer. Of course, great care must be exercised in the timing of taking pension benefits so as not to frustrate a tax planning exercise of this kind.

Our role includes the establishment of appropriate asset allocation taking into account clients' risk profiles and time horizons and then selection of a range of fund managers to implement the recommendation. Ongoing monitoring and reporting help to keep track of the performance and build-up of funds, which can be part of a retirement portfolio or reported on separately if earmarked for other purposes.

For further details please speak to your usual Saunderson House adviser.



Stakeholder update

Under the current proposals, stakeholder pensions will be very similar to personal pensions. A significant difference however allows non-earners (including spouses and children) to contribute up to £3,600 pa and benefit from basic rate tax relief. This year's Finance Bill contains the necessary legislation for implementation from 6 April 2001. From the same date, the "Individual Pension Account" is being introduced to allow saving for retirement in a unit or investment trust environment.

Reviewing your life cover

Life assurance premium rates have decreased significantly since the large increases of twelve years ago when the impact of Aids on mortality rates was of greater concern than it is today. If you have taken out life cover in recent years, it may be possible to reduce the cost significantly.

Bankruptcy

The Welfare and Pensions Reform Act includes provisions that where a petition for bankruptcy is presented after 29 May 2000, then, whatever the form of pension, the pension arrangement does not form part of the bankrupt's estate and is broadly safe from creditors.

Equitable - for sale

The unanimous House of Lords decision represents a defeat for the Equitable management and it's stance on Guaranteed Annuity Rates. Equitable is now trying to stem the outflow of funds pending a sale. Independent advice is the wise course of action for all policyholders.

Autumn seminars at Ironmongers Hall

Saunderson House is planning lunchtime seminars on Thursday 26 October and Friday 10 November for partners in professional firms covering the options available for their pension funds including the transfer of funds to a Self Invested Personal Pension, Income Drawdown and annuity purchase.

Independent advice

Figures published by the Association of British Insurers suggest that well over half of the funds flowing into collective investments and life and pension contracts do so under the guidance of independent advice. Our own assessment is that two thirds of partners in the large professional firms have an independent financial adviser.

Head office: Saunderson House Ltd, 1 Long Lane, London, EC1A 9HA. Regulated by the PIA.
Tel: 020 7315 6500 Fax: 020 7315 6550 Email: shl@saunderson-house.co.uk

Regional office: Saunderson House Ltd, Prospect House, 32 Sovereign Street. Leeds, LS1 4BJ.
Tel: 0113 399 0399 Fax: 0113 399 0390 Email: shl@saunderson-house.co.uk

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This note is for general guidance only and represents our current understanding of law and Inland Revenue practice as at August 2000. We cannot assume legal liability for any errors or omissions and detailed advice should be taken before entering into any transaction. The value of investments can go down as well as up and you may not get back the full amount you invested. Levels and bases of, and reliefs from, taxation are those currently applying but are subject to change and their value depends on the individual circumstances of the investor.