Spotlight on investments

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Investment focus

Welcome to our updated version of 'Spotlight on investments' following recent Spotlight publications on protection.

This edition aims to help you to identify planning opportunities with your clients and the support available from Sterling and Zurich.

One thing that is certain is that increasing taxation means clients will require more advice which gives you an opportunity to add value with your clients.

Hopefully you will already have seen the Emergency Budget publication we produced which highlights some of the changes, their impact and opportunities created.

This will form the basis of the support we will provide through the remainder of 2010 with targeted campaigns aligned to the opportunities the budget has created.

The material will include both customer approach material and additional supporting collateral focusing on the opportunities that exist within an era of higher taxation. This will build on the hugely successful campaigns we've run and continue to run on ISAs, 'Thank you Darling' and 'Shaping your ISA'.

I hope you will find them of benefit. If you require any additional help please feel free to contact me or speak with your dedicated Regional Account Manager.

Kind regards

Mike Slater,
Strategic Distribution Director

Opportunities in an era of higher taxation

With the Emergency Budget now delivered and previous government announcements we know we are all in for an era of higher taxation.

It's ever more critical to be aware of the current tax regime and how you can help your clients with tax efficient investments.

Tony Wickenden from Technical Connections, talked about taking advantage of the **'seriously more stringent tax environment'** at the recent Openwork national road shows.

"Minimising tax through careful investment product wrapper choice can substantially maximise returns"

Tony Wickenden, Technical Connections

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Essential tax and financial planning strategies for 2010

Key tax planning driven activity should be focused on particular client types with communication directed specifically to them. Relevant, timely communication is the most effective kind.

"You are what you know"
Remember, road show attendees receive one month's free subscription to Techlink and an ongoing reduced rate is available for all Openwork advisers.

Tony Wickenden, Technical Connections

We are experiencing and will continue to experience significant tax change. Clients are and will increasingly be interested in ways to reduce tax. Informed advice will be at a premium.

Key client types and adviser opportunities:

Investors:

- Personal financial audit to ensure all tax reducing opportunities exploited
- ISA maximisation
- Ensuring investments owned between couples to minimise tax outflow e.g. jointly owned or low taxpayer owned bonds: assigning bonds to low/no taxpayers pre encashment
- Careful product wrapper selection – especially if we have an increase in CGT. A linkage of CGT to income tax will, generally speaking, increase the tax attraction of bonds

Business owners:

- Challenge SME owners to "diversify" if they are relying on their business as their sole or main means of financial security in retirement
- Carefully consider the feasibility of bringing spouses into partnership or transferring shares to minimise tax on profits and dividends. Professional advice essential

Retirement planners:

- Maximise permissible, fully tax relievable contributions for this year. Remember, this is the last tax year for protected pension input status
- Consider salary sacrifice where appropriate
- Look to pensions alternatives if caught by the special annual allowance charge

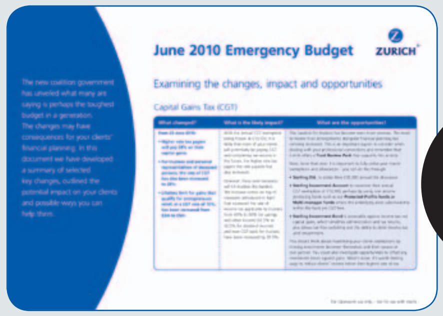
Trustees:

- Most trustees are suffering a 25% increase in tax on income in this tax year. An investment strategy review could be overdue

Non Domiciles:

- Consider carefully the tax deferring benefit of an offshore bond

Emergency Budget sales aid



Don't forget

To see our June 2010 Emergency Budget sales aid or for more detail on the Technical Connections presentation visit **www.sterlingintermediary.co.uk** or contact your dedicated Regional Account Manager on **0500 546 546**

We may record or monitor calls to improve our service

Tax wrappers in an era of higher taxation – Post Emergency Budget 2010

On the 22nd June 2010 we had the first Budget from the new Coalition Government and this is a summary of some of the key changes and opportunities.

Personal allowance

The raising of the personal allowance by £1,000 from 2011/12 (and a longer term aim of increasing it to £10,000) for under 65's, reinforces the need to ensure that clients maximise every allowance, exemption and tax relief. Creating income up to the £7,475 personal allowance is attractive for non tax payers, such as spouses, civil partners, children and grandchildren. However, this increase does not apply to over 65's as the age allowances will remain the same (£9,490 at 65 and £9,640 at 75). If income is over the age allowance threshold, currently frozen at £22,900, then on a 1:2 basis, the age allowance will reduce down to the personal allowance, meaning it will be lost quicker than previously.

Higher rate taxpayers will not benefit from the increased personal allowance as the higher rate tax threshold will be reduced by £2,500 in 2011/12. This means more clients may become higher rate taxpayers and those close to the threshold may pay marginally more tax.

Capital Gains Tax

There was a lot of debate prior to the Emergency Budget about the potential Capital Gains Tax (CGT) changes. The introduction of a new 28% CGT rate for net gains that sit in the higher rate tax band, when added to other income, brings the rate closer to Income Tax levels, but in reality many will be unaffected as the £10,100 annual exemption remains. This is good news for those clients who crystallise their gains each year up to the annual exemption, using a mutual funds wrapper such as the **Sterling Investment Account**.

Assuming that Sterling ISA allowances have been fully utilised from the start of the tax year, to reduce the impact of the higher CGT rates, spouses or civil partners should look at transferring assets between them before encashment to minimise their exposure to the 28% CGT rate, if one of them is a basic rate taxpayer. Clients who currently have losses may wish to crystallise them, as they can be offset at a future date against the higher CGT rate.

For many clients seeking to reduce their exposure to the 28% CGT rate or to avoid losing their age allowance, a strategy of reducing total income may be attractive. The interaction of tax wrappers will need to be considered by all advisers to ensure the right asset is in the right wrapper.

The old saying that 'tax deferred is tax saved' becomes more relevant as tax rates rise.

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Tax deferral

Onshore bonds, such as the **Sterling Investment Bond**, have been a popular solution for many clients because they allow tax deferred income withdrawals without creating an immediate higher rate tax liability. This tax deferral opportunity has proved to be particularly appealing in the current era of higher taxation, as generating tax-free or tax-deferred income or growth, to preserve allowances and minimise tax rates, will be increasingly important moving forward.

The old saying that 'tax deferred is tax saved' becomes more relevant as tax rates rise. Liability to higher rate tax on an onshore bond enables the client to decide when they pay tax or, alternatively can take the benefits when they are in a lower tax bracket (or indeed assign to someone who is).

So in this continuing era of higher taxation the value of advice will be even more important. Embracing a broad approach to tax wrappers may be the most appropriate strategy ensuring that through a combination of well managed advice driven financial planning, clients will be able to maximise returns and continue to minimise their tax liability.

You can find a full copy of Technical Connections presentation at **www.sterlingintermediary.co.uk**