

SOVEREIGN FINANCE

Independent Financial Advisers

Established 1981

11A FOREST VIEW ROAD

EAST GRINSTEAD

WEST SUSSEX

RH19 4AW

Tel: (01342) 313302

Fax: (01342) 315435

Email: mail@sovereignfinance.org

Website: www.sovereignfinance.org

THE SOVEREIGN NEWSLETTER

BUDGET – STEADY AS SHE GOES

The Chancellor's last Budget this side of the General Election was cautious. First-Time Buyers will benefit, as they will have no Stamp Duty to pay on purchases of up to £250,000. This is likely to boost the Property Market in the same way that the temporary reduction in Stamp Duty did up until the end of last year. The bad news is for those who buy a property for £1 million or more. Their Stamp Duty goes up from 4% to 5%!

Generally the Chancellor left personal allowances and tax limits just as they were in 2009/2010 - except for higher earners. The personal allowance remains at £6,475 and the Basic Rate Allowance also remains the same. He confirmed what he had announced in the Pre-Budget as regards the 50% rate of tax for those earning £150,000 or more and the pension restrictions on those earning £130,000 or more. Those earning over £100,000 will lose part or all of their Personal Allowance.

The Inheritance Tax Threshold of £325,000 was unchanged and in fact, he announced that he was freezing it at that level for 4 years. We already knew about the increased ISA allowance of £10,200 in 2010/11, but he also announced that the ISA allowance in future years would be increased by the rate of inflation. The Chancellor left the Capital Gains Tax at 18% and the Annual Exemption at £10,100. With the General Election due to take place by May, we will need to wait and see how long these Budget measures survive.

RETIREMENT MENU

Minimum age – 55.

Cash please – you can have a maximum of 25% of value of pension funds (the rules are different for a Final Salary Scheme, which is based on salary and years of service). So, if your pension funds are worth £20,000 you can get £5,000 as tax-free cash. If they are worth £100,000, you can have £25,000 tax-free.

All as cash please (Trivial Pension) – If you are aged 60 or older and the total value of all your pensions is less than £18,000, you can take it all as cash. 25% is tax-free and the balance is taxed as if it were income earned in that year.

Income Please

Option 1 – Take a guaranteed income for life (Annuity).

Option 2 – Receive a higher guaranteed income for life due to adverse medical conditions or medical history (Enhanced Annuity).

Option 3 – Draw an income from your pension fund itself (Drawdown). The maximum you can take is based on your age and the value of the pension fund. Usually this maximum works out at about 20% more than you would get from a guaranteed annuity.

Option 4 – Take a fixed income for a period of time and have a guaranteed amount left at the end so you can then review your options (Temporary Annuity).

Option 5 – Take no income but take a guaranteed growth for a specific period of time and then review your options (Temporary Annuity).

State Pension Please

If you have at least 30 qualifying years, you will receive the full State Pension – currently £95.25 per week. Note: This is an improvement, as previously quite a few more qualifying years were required to get the maximum pension.

Home Owner?

If you are over 55 years old and have only a small or no mortgage on your property you will have the option to use one of the many Equity Release schemes to unlock between 25% and 40% of the property value.

'Side Dishes'

You may have other sources of income to help in retirement. This might be investment income, or rental income from an investment property or from renting out one or more rooms in your home (Rent-a-Room scheme allows you to earn £4,250 tax-free). You may also have part-time work or you may be eligible for some State Benefits.

More on Annuities

When you are dealing with pensions, it is important that you understand the concept of an annuity. An annuity refers to the income you are paid from your pension – as opposed to the Tax-Free Cash. You buy an annuity like any other commodity. There is an open market where you can seek out the best deal. The older you are, the more you will get for your money. This is simple to understand. If you are aged 55 and want an annuity, the pension providers will look at the statistics and see that you are probably going to live another 30 years or more. If you come to the provider with the same amount of money and you are 65, you will get a higher income because they can see that statistically they are only likely to have to pay it out for 20 years. So £50,000 would buy a man aged 55 an income of £2960 per annum, and a man age 65 £3400 per annum. Once you purchase the annuity, you cannot change it in the future. If this does not suit your circumstances, investigate the other pension options available.

There are a few bells and whistles to know about when considering annuities.

First, you can opt to have an income that would still be paid to your spouse if you go before they do. Secondly, you can opt to have an income that starts lower, but increases each year to counter the effects of inflation. And thirdly, if you are in poor health or have a difficult medical history, you should look at Enhanced Annuities. Basically these give people with medical problems more for their money – on the basis that they are not going to live as long as someone their age who is in good health.

NOT HAPPY WITH YOUR MENU CHOICES?

GET INTO THE KITCHEN!

If you are not happy with your Menu choices then you need to review your retirement planning. One key part of this is boosting your pensions. Here are some options:

1. Use "Salary Sacrifice". This is a formal procedure whereby you agree to give up a certain amount of your salary in exchange for the company making a payment into your pension fund. This saves you tax and National Insurance, and the company saves on its National Insurance so is often happy to make a somewhat larger contribution into your pension.
2. Take out profit from your company by getting the company to pay a significant amount into your pension fund.
3. Pay what you can into your pension. Something is better than nothing for most people. Remember that you get a 25% guaranteed profit immediately. Your £1.00 of contribution has 25p added to it by the Government. And if you are a higher rate taxpayer you end up with a 50% profit – all without taking any risk with an investment. No other investment or savings plan gives you that risk-free return. If you do not wish to take risks with investing the money in your pension fund, you can keep it invested in Cash Funds.

Some important data on pensions

The maximum you are allowed to have in pensions is £1,800,000 – admittedly not something that most of us have to worry about! If you are employed or a company director, the maximum your company can put into your pension in the current year is £255,000.

Contracting out of SERPS (now the State Second Pension Scheme) will stop on 6 April 2012 for everyone. You then automatically go back into the State Second Pension Scheme. You do not have an option.

If you have earned over £130,000 in either of the last two years, you are now restricted as to how much you can pay into a pension and get tax relief. It is now £20,000 per annum. And if you earn over £100,000 in the 2010/2011 you will lose some or all of your personal tax allowance. If you earn over £150,000, you will pay 50% tax on the amount over £150,000. Maybe living abroad is not such a bad idea!

At age 75 your pension options change. For most people it will then make sense to use their pension fund to buy an annuity if they have not done so already.

We also include a mention here on the important subject of trusts. Tax on the income within certain trusts is rising by 25% from 6 April 2010. Act now.

REMORTGAGES – ACT NOW!

People are buying and selling properties but not in great numbers. This means the mortgage lenders have to make their products more competitive to bring in the business they need. Over the last month or two we have seen a general small improvement in interest rates. If you are on your lender's standard variable rate - about 4% to 4.5% for most lenders, you should look for something better. The first approach should be to your existing lender to see what they can offer you. Then you should come to us and we can see if there is something better available in the marketplace. There can be significant monthly savings achieved just by getting a better deal.

We are often asked whether people should stay with attractive Tracker Rates or move into a fixed rate. For those paying a tracker mortgage rate of 2.5% or below, our view is that they are better off staying with it for now. For those who are looking for a new deal, then a 3 or 4 year fixed rate may well turn out to be a good investment. Interest rates will move back upwards in the coming years.

WHAT DO OUR CLIENTS SAY?

“Very helpful service.” T.V.

“Very efficient.” J.S.

“Top class service, care, and attention to detail.” J.G.

“Very helpful, prompt and patient.” V.L.

Yours sincerely

Tom Shuster and Trevor Tupholme