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The information in this Newsletter is to be viewed as general information and does not constitute advice. It is based on our understanding of the current legislation and market conditions, all of which are subject to change. If specific, individual advice is required, you should contact your IFA.

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Once again the end of the tax year is fast approaching and this year there is less time than usual to maximise any end of year planning opportunities. No, the end of the tax year hasn't been altered, but this year it falls across the Easter weekend, so the last working day of the tax year is Thursday 1st April. There are of course a number of allowances that need to be used before the end of year deadline.

One of the most useful allowances is your ISA allowance. We covered this in an earlier Newsletter, however, to remind you there was an increase in the ISA allowance this year for everyone aged 50 or over during the current tax year. The total ISA limit for over 50's has increased to £10,200. If you are under age 50 on the 5th April this year, your allowance remains at £7,200 until next year when the higher allowance will apply to everyone. Investments held within an ISA wrapper grow in a very tax efficient manner, with no tax charged on interest or gains made on the investments.

You must use this allowance before the end of the tax year or it is lost, as it cannot be used retrospectively. You are entitled to use the whole allowance in an Investment ISA, which was formerly called a Stocks and Shares ISA. The title Investment ISA is more accurate as the investment does not have to hold shares. It can also be used to invest in other lower risk assets such as Gilts, Corporate Bonds and Property Funds, so it can be ideal for the vast majority of investors, irrespective of they type of investment risk they are comfortable with.

If you do not use your full Investment ISA allowance you can use any residual amount for up to half of your full allowance to put in a Cash ISA. Although not likely to show you very attractive returns in the current economic climate, we would recommend using this in preference to wasting one of your valuable tax breaks.

Another tax break that not only offers you very tax efficient growth, but also tax relief on your contributions at your highest marginal rate is a pension contribution. You can invest up to 100% of your earnings and receive tax relief on the contribution and for anyone not earning you can still have the tax relief on contributions up to £3,600 in a tax year. It is the tax relief on the contribution that makes this such an attractive investment for many people. What this means is that for every £1,000 you invest an additional £250 is added to the investment by the Revenue. If you are a higher rate taxpayer you can also claim an additional £250 tax relief on this contribution.

New regulations are in place for higher earners, which means that anyone with income over £130,000 this year, or the last two tax years, effectively have the tax relief limited. The definition of earnings for this is very wide so this requires specialist advice at the earliest opportunity.

ISA and Pension Contributions are the most commonly known and used allowances but there are others that should not be overlooked and can offer invaluable tax planning opportunities. One tax allowance that is often not used is your Capital Gains Tax allowance – and used effectively it can offer individual investors a tax free income of up to £10,100 per year. Gains on investments can be encashed without any tax liability for up to this amount – and the money can either be reinvested if not required or perhaps even used to fund your annual ISAs. This is something that may or may not be appropriate but once again cannot be used retrospectively so should not be overlooked in your end of year planning.

Another tax allowance that is less commonly known about is the Venture Capital Trust (VCT) allowance, which gives relief from both Income and Capital Gains Tax. Investing in newly issued shares of VCTs gives Income Tax relief of 30% of the amount invested of up to £200,000 in a tax year. The shares need to be held for at least 5 years to ensure the relief is not lost. There is also an exemption from income tax on dividends from ordinary shares in VCTs.

In addition to these reliefs for Income Tax, You may also not have to pay Capital Gains Tax on any gain you make when you dispose of your VCT shares.

You can get the CGT relief and dividend relief for both newly issued shares and second-hand shares acquired, for example, through the Stock Exchange. But income tax relief is only available if you subscribe to newly issued shares

This is an area that is definitely a higher risk investment and is not suitable for everyone – and just because there are valuable tax reliefs available it may not be suitable for all investors. You should seek expert advice on this investment and carefully consider the consequences and timescales required prior to investing.

In light of the bank holiday at the tax year end we strongly recommend you speak to your adviser early this month to make sure you don't miss out.

THE GENERAL ELECTION

No-one can fail to have missed the fact that there is a General Election due this year, and it looks as if the most likely date is the 6th May. This is something that will almost certainly have an impact on stockmarkets but exactly what effect it will have is much more difficult to be precise about. Historically a change in long term Government has given a boost to the stockmarket, but in the event of a change of Government this year, will history repeat itself?

In general a change of Government has been good for shares and moreover shares tend to fare better under Conservative Governments rather than Labour. History shows that markets rose by 74% under the Conservatives in 1951-1964 and 166% in 1979 –1997. This should therefore mean that if there is a change, it should be an even bigger boost to markets – from the change of Government and the change to Conservative, but we are not convinced that this will necessarily be the case this year. Firstly, the result of the election is not a certainty. The possibility of a hung parliament is something that will almost certainly have a negative effect on the markets and also on Sterling.

We remain in very difficult and perhaps unprecedented times and there needs to be dramatic action taken with regard to taxation and public spending cuts to get the British economy back on track. If the Conservatives do win the election, it is very possible that they will only have a slim majority and they may not have the backing to push through the very difficult and tough decisions that undoubtedly need to be taken before the economy can make a full and sustained recovery.

We believe that this leaves a great deal of uncertainty for markets and investors, so given that in the article above we recommend investing before the tax year end, what do we advise in these doubtful times? Well, nothing really has changed from our usual considerations – diversity is the key and it is perhaps more important than ever at the present time. Investing in a range of assets that are not closely correlated to each other will help balance your investments. In other words, having assets that do not usually move in the same direction at the same time. For example, Gilts and shares are not closely correlated – similarly Property funds may now also be an area to consider for long term growth given the heavy falls seen of late – although in this case careful research into the underlying assets of the fund are required as we believe that certain areas will recover ahead of others. Another area we can include for diversity where appropriate is global investments and particularly in uncorrelated markets.

If you remain uncomfortable with the concept of investing at what is undoubtedly an uncertain time, then drip-feeding your money into markets may be the best option to discuss with your adviser. What this means is that your money can be held initially in cash and then gradually invested for you and this will even out the ups and downs of markets and hopefully avoid a lump sum being invested at a peak in the market. Many ISA and Pension contracts offer this facility for investors.

In summary therefore we believe that the uncertain outcome of the election casts doubt over the continued market recovery, but this does not need to deter investors from using their allowances to the full.

Northern Rock

The Government has announced that the unlimited 100% guarantee offered to savers in Northern Rock that was put in place when they took over the failing bank will not apply after the 24th May this year. After this date, the usual limit of £50,000 protection per investor offered to bank and building society savers under the Financial Services Compensation Scheme will apply once again. Savers holding fixed term deposits that mature after this date need not panic and withdraw the money early, as the guarantee will continue to apply to these accounts until the fixed term ends and only after that will these accounts lose their 100% guarantee.

Cash or Investment ISAs?

Although we have covered ISAs in some detail above we thought we would mention them again given the particular relevance at this time of the year. Many people will be wondering whether to invest in Investment or Cash ISAs and in light of the longer term that these are often held and poor interest rates (which we do not expect to increase quickly) we believe more than ever that Investment ISAs may be the better option for most people. This is of course not the case for all investors so do speak to your adviser before making any decisions. Furthermore do you know that you can exit poorly paying Cash ISAs by transferring them to new Cash or Investment ISAs without losing the ISA status?

If you would prefer to receive our Newsletter in e-mail format in future, please let us know. Write, phone or email Valerie Kiertzner (v.kiertzner@rtfp.co.uk) and she will ensure you receive soft copies in future. Similarly, if you know anyone who would be interested in receiving a copy of our Newsletter, do please ask them to get in touch.

We are still sending client questionnaires with policy documents and they have provided extremely helpful and useful feedback, so our thanks go to all those who have spent time completing them. If you would like to complete a questionnaire do please ask your adviser to let you have a copy, they are not restricted to people who have recently completed business.