Intelligent financial planning

IQ Insight

IQ Financial Advice

August 2013

Welcome

We are pleased to present the first issue of , our new quarterly newsletter. This publication is aimed to provide you with topical articles that we feel may be of interest. We welcome all feedback, both good and bad, along with suggestions over subjects you would like to see in future issues.

We have moved!

From 1st July 2013 we have relocated our office from Sleaford to Lincoln.

Moving to Sparkhouse on the University of Lincoln site puts our business back in the heart of Lincolnshire and gives us a central location with the added benefit of client parking.

As our clients come from all over Lincolnshire we retain our satellite office in Spilsby, near Skegness, whilst having access to further offices around the county if our clients require.

YEAR TO DATE PERFORMANCE
05/08/2013

FTSE 100	12.61%
FTSE All Share	16.56%
Dow Jones Industrial	19.49%
S&P 500	19.88%
Nikkei 225	37.16%
Hang Seng	-1.92%
1-Yr Gilt Yield	0.37%
5-Yr Gilt Yield	1.35%
20-Yr Gilt Yield	3.24%

financial advice

Inside This Issue

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What is a trust?

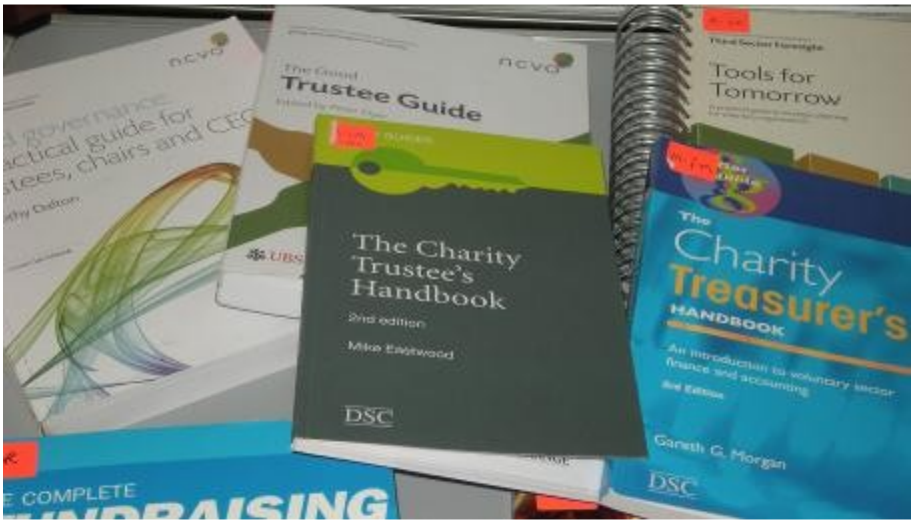
Trusts have traditionally been seen as the way the super-rich shelter their assets from the taxman - as illustrated by the saying: 'For those willing to stump up for crafty accountants, trusts will simply melt away a tax liability'.

However, the reality is far less exciting. Trusts are certainly a useful tax planning tool, but many of the loopholes have been closed and they are not a panacea for all tax liabilities. That said, they are also not just for the very rich. Anyone whose home or other assets pushes them above the inheritance tax threshold could benefit from using trusts for tax planning or for the controlled passing over of assets to beneficiaries.

So what is a trust? In its simplest form, a trust is a legal obligation binding an individual or a company (the trustee) to deal with certain assets for the benefit of one or more beneficiaries. Individual beneficiaries may benefit from the trust in different ways – for example, one may receive the income and another the capital. However, the trustees are the legal owners of those assets and the trust agreement will set out how they should look after the assets and for what purpose.

Trusts can be a useful tool in tax planning, particularly for inheritance tax. For example, they can be a way to ensure that nil rate bands are used when passing money to children. Often, however, they are simply used for succession planning – to ensure everyone receives the right amount of money at the right time.

Assets within a trust can include cash, land or buildings, investments or assets such as equities and collective investments or even individual items such as paintings or antiques. There are a number of different types of trust, each with their own rules and tax treatments - the five main types being bare trusts; interest in possession trusts; accumulation and maintenance trusts, discretionary trusts; and mixed trusts - and the way in which income generated by the assets is dealt with in each type will generate a different tax charge. Each will also offer different rules for the rights of beneficiaries and for the role of the trustees, the details of which will be decided on by the settlor (the creator of the trust) and set out in the trust deed.



2013/14 limits for ISAs

For the 2013/14 tax year, investors are able to save up to £11,520 in an ISA, which represents a rise of 2.1% over the previous year.

The maximum ISAs contribution may be invested entirely in a stocks and shares ISA or up to half the amount – £5, 760 – can be saved in a cash-only ISA.

Investors who choose to put less than that amount in their cash ISA may put the balance of their allowance in a stocks and shares ISA.

Do not forget one of the golden rules of ISA investing – if you do not use it, you lose it.

Discretionary trusts: Keeping control

A discretionary trust allows the trustees to use the income of the trust at their 'discretion', making them useful for dealing with errant heirs.

The trust deed may contain provisions for certain beneficiaries, but the trustees usually decide how much is paid to who, how often and what conditions might be imposed. The trustees may be allowed to accumulate income or the deed may force them to distribute all income. The trustees are liable to tax on income received, with dividends chargeable at a slightly lower rate.

Beneficiaries are liable for income tax in the usual way but receive a tax credit for tax paid by trustees. They are not taxed on capital distributions.

Don't get caught by 'pension liberation'

Despite tentative signs of economic recovery, times remain hard for many people. The cost of living continues to rise faster than wages and unemployment remains high. For those struggling to finance their day-to-day living, the idea of 'pension liberation' might sound attractive – but there are serious long-term risks.

Pension liberation involves the transfer of an individual's pension savings to a scheme allowing them to gain access to the funds in their pension pot before the key age of 55. However, an "unauthorised payment" from a pension scheme is likely to incur tax charges of more than 50% of the total value of the pension pot . Although there are certain rare situations , such as a terminal illness, that might permit a scheme member to access their funds early, dipping into your pension pot before the age of 55 will almost certainly land you with a substantial tax bill.

The Information Commissioner's Office (ICO) has reported a "dramatic" rise in unsolicited approaches to pension scheme members, encouraging them to withdraw a proportion of their savings before the age of 55. The ICO estimates up to £400m has been released from legitimate UK pension schemes into schemes that range from high -risk to non-existent. Some members have had to absorb unexpected and substantial administration fees and taxes while others have had to face the fact their savings have been taken by fraudsters.

It is important to differentiate between pension liberation fraud and 'pension unlocking' – a legitimate move that allows a pension scheme member, aged 55 or over, to release up to 25% of their pension savings as a tax-free lump sum. Nevertheless, pension unlocking should still only be considered in the most exceptional circumstances, as it is likely to lead to a lower level of income in retirement.

The ICO reports that "spam" text messages relating to pension liberation have more than tripled during the past six months. Meanwhile, the Pensions Advisory Service has warned that pension liberation fraud is on the rise in the UK, and police investigations into pension liberation schemes have stepped up. Although the Pensions Regulator provides information for pension scheme trustees, there is still no law empowering trustees to prevent the transfer of a member's pension savings into a liberation scheme. You can never be too particular about something as important as your pension savings so always take professional and unbiased advice from an expert.

The most common investment mistakes

"To err is human" said Alexander Pope - but in investment, to err is expensive. What you can do, however, is look at the mistakes of others and try to avoid the most obvious pitfalls.

Investors can make many mistakes but one of the most common is to follow the herd. When markets are high, they can scramble to invest, thinking they might miss out. Then, when markets are falling, they often sell out. The most recent example of both issues was the 'dot.com' boom. This first persuaded millions of investors to part with their savings thinking they were missing out on a chance to make 'easy' money. Unsurprisingly, the bubble then burst and many scrambled to get out without a thought about what might happen next.

The lesson is not to get carried away in the moment - either to invest or to sell. Stories of large falls in markets can make investors nervous - but this is the nature of equity investment and selling on a short-term dip simply crystallises a loss - and can also mean missing out on both the eventual return to normality and the longer-term benefits. Markets will always go down as well as up - so if you are scared by such volatility, take advice. Perhaps equities are not for you.

Finally, investors often believe they can time markets yet experts agree this is a near-impossibility. Investment should never be gone into lightly. Be clear about your objectives, your timelines and the risks - and make sure your portfolio is run accordingly.

Did you know.....

As a business we love to use technology to help streamline our processes and in turn reduce the costs to you, our client.

What many of you may not know is that incorporated within the ongoing service we provide is a website specific to you which can provide details of all of your existing financial arrangements, including up to date valuations and performance.

This allows us both to view all of your arrangements with all of the different companies in one place, saving you time and hassle. We are also able in some circumstances to provide you with access to your bank accounts, giving you complete clarity over your situation at any time.

Each client website is protected by internet encryption as used by your banks meaning you do not have to worry over the safety of the service.

You can also use your client site to store important documents such as passports, driving licenses, wills and insurance documents. As these are stored online you can then access them anywhere you have an internet connection. What's more, with apps for both Apple and Android devices, viewing them on your smartphone is even easier.

One of the main aims of IQ is to help our clients fully engage with their finances and we believe that having a summary of your situation at your fingertips 24/7 is one step along the way to achieving that.

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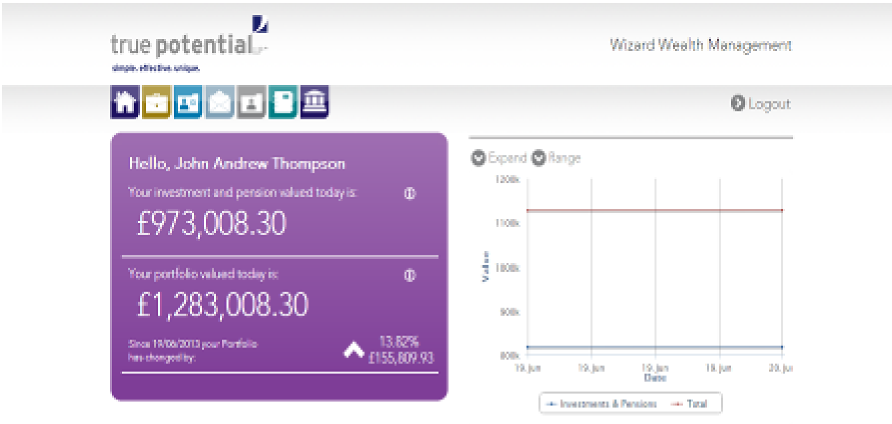

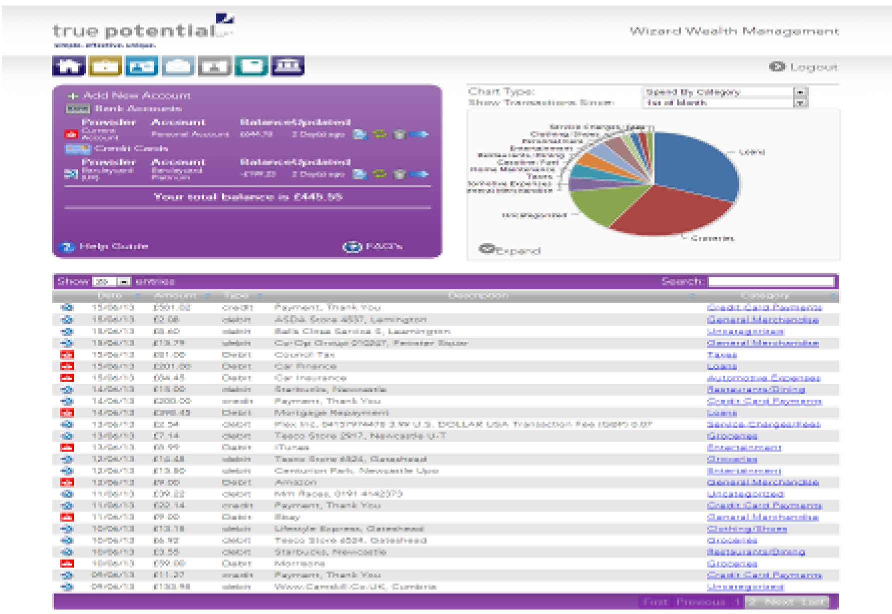

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