

## Welcome to the first edition of *Be more informed*

We will be focusing on bringing you news on the latest topical subjects that may require your attention and a conversation with your Financial Adviser. We hope you enjoy this first edition's topics and find the information of use. If you would like to discuss these topics in more depth please feel free to contact us on **0845 450 9442** or email us at **clientservices@cavanagh.co.uk** where we can put you in touch with your Financial Adviser.

## High earners under attack

If you are in the position of having a high level of income each year, were you aware that in the words of **Alistair Darling** you are an 'anomaly'?

In his recent Budget speech he said he wanted to correct 'the **anomaly** which sees a tiny proportion at the top taking a large slice of the help we give...'

And he then went on to say, 'I believe that it is fair that those who have gained the most should contribute more.'

The upshot of this, as you may have guessed, is tax changes.

From the start of next tax year high earners are targeted with:

- A new income tax rate of 50% (42.5% on dividends)

- Personal allowances being gradually reduced to zero – resulting in a 60% effective tax rate for some
- Tax relief on pension contributions being curtailed and then reduced to 20% from 6/4/2011

Little wonder that, as *the Guardian* reports, wealthy business people are quitting Britain to escape the new 50% tax rate.

The majority who will still remain in the UK will have to now take into account other tax planning solutions that they may not have contemplated before.

...it is fair that those who have gained the most should contribute more.

## Save for your retirement

The **2009 Budget** reduced the tax relief on pension savings for high earners and it is not so obvious nowadays as to which is the most tax-efficient way to save for your retirement.

In some cases, if you use a pension plan the rate of tax relief you receive during your working life can be **less** than the rate of tax applied to your retirement income!

For others, full tax relief on every penny you pay and tax-free growth in a pension plan make it the best choice.

It is never too early to start; as *the Times* has pointed out: 'If you don't start making provision for your retirement, you might not have enough money to live on when you are in your sixties or older.'

Deciding whether to boost your pension contributions whilst you have the opportunity is a key decision. It remains the most tax-efficient way of saving for most higher rate tax payers at present.

Other investment options can be considered as well and are always worth considering.

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## Become tax effective

If you fall into one of the categories below, you can take steps to reduce your burden of taxation

- **Married couples and civil partners** – if one of you is a higher rate taxpayer, why not rearrange your investments to utilise the available basic rate tax band?
- **Pensioners** – You are probably aware that you qualify for a higher personal allowance because of your age... but this is taken away again if your income exceeds a certain limit. We can check if this happens to you and if so, what you can do to get it back again.
- **Business owners** – check the timing of bonuses or dividends to minimise tax bills. New first year allowances mean that your pension funds can generate additional tax savings.
- **Investment bond policyholders** – if you are planning to cash in or take large sums out of your bond in the next couple of years, let us ensure you do this in the most tax-effective way

It is not just these people who can benefit from advice. Suggestions for reducing your tax bill are available for all tax payers.

## Make provision for education

A survey by a friendly society shows that the cost of raising a child is up 38% over the last five years and that education is one of the biggest expenditures, costing parents £50,240 per child.

The best schools and universities cost even more of course, and if you are putting money aside make sure it is invested in the most tax-effective manner.

Devising a solution for funding children's education is even more critical today and planning as early as possible is essential.

...education is... costing parents £50,240 per child

## Make the most of tax-efficient savings

With the Press Association reporting that 'A rise in interest rates from their historic low level is a long way off', it is more important than ever to make sure your savings are as tax efficient as they can be.

Savers need to ensure that they can keep as much of their interest sheltered from tax.

This year's budget saw the introduction of increased ISA contribution limits; the over 50's will be able to invest more from 6 October 2009 with the new limits being extended out to all ISA investors from 6 April 2010 onwards.

You are able to build up a substantial tax-free fund over the years, so an annual readjustment of your investment portfolio into an ISA will benefit you.

But ISAs are just one of several tax-efficient investments that are available.

Savers can seek other tax-efficient investment plans which may also offer attractive tax planning opportunities.

If you would like to discuss these topics in more depth please feel free to contact us on **0845 450 9442** or email us at **clientservices@cavanagh.co.uk** where we can put you in touch with your Financial Adviser.

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