



SHAPE UP FOR THE NEW YEAR

Phew! It's been another tumultuous year in the world of finance. Volatile stock markets, austerity measures and an escalating eurozone crisis have ensured that money matters have rarely been away from making the headlines.

Now is not the time to keep your savings, investments and pensions shut away in the drawer

It all means that now is not the time to keep your savings, investments and pensions shut away in the drawer. The landscape has changed significantly and with a New Year dawning it is an opportune time to take stock of your financial goals to make sure they are still on track.

Take your pension plans, for instance.

The statutory lifetime allowance is to be cut from £1.8m to £1.5m in April and although this sounds an awfully big pension pot you might be surprised how many workers could find they are caught out by the limit – the NHS, for example, is alerting consultants and surgeons on what it means.

Indeed, people in their early forties or younger with a pension worth around £200,000 could easily find themselves breaching the limit by the time they come to retire - once investment growth and contributions are taken into account.

It is why anyone with a pension pot which is in that size bracket should review their retirement plans to assess

whether they are in danger of exceeding the new reduced allowance. Any pension fund that exceeds the limit will be hit with a 55 per cent charge when the pension is crystallised.

However, there is a choice and you can keep the higher £1.8m lifetime pension allowance by opting for "fixed protection". But while you can keep the higher £1.8m lifetime allowance there are conditions attached. For example, for workers with defined benefit schemes it means taking the potentially drastic step of leaving it and potentially foregoing an employer's contribution if you want to opt for fixed protection. This is because if you pay into your pension plan after taking fixed protection, that protection is lost.

The decision on whether to take fixed protect is complex so it will pay to get specialist advice, but you don't want to leave it too late. Any pensioners that have delayed buying an annuity and are using drawdown ought to review their arrangements too. Many people using drawdown will be approaching their first review, when their maximum income is recalculated.

These people potentially face a three-way issue. Firstly, gilt yields – and therefore annuity rates and the GAD rates – have fallen sharply since 2006. Secondly, until April 2011 you were allowed to take up to 120 per cent of the GAD rate. Now you can take just 100 per cent. Thirdly, many pension pots will have been hit by the recent weakness in the stock market.

Check whether your portfolio is diversified and is able to withstand sudden shocks

Besides the latest changes to pensions, it makes good sense to review your investment portfolio to ensure that it is on track to deliver its aims. Check whether your portfolio is diversified and is able to withstand sudden shocks – given the euro crisis is currently ongoing, the majority of commentators expect volatility to continue.

Remember that this year's ISA limit is higher than the previous tax year – you can invest up to £10,680 in a stocks and shares ISA in this tax year, or alternatively you can invest up to £5,340 in a cash ISA and the balance in a stocks and shares ISA.

Remember if you don't use your Isa tax allowance, you will lose it. And this goes for the new Junior ISA too, which has a limit of £3,600. The Junior ISA was launched in November and could benefit your children. To qualify children need to have been born on or after 3 January 2011; born before September 2002 and be under 18; or born between these dates and do not qualify for a Child Trust Fund. The Junior ISA is as tax-efficient as an adult ISA, and investments cannot be cashed in before the child is 18. The favourable tax treatment of both ISAs and JISAs may not be maintained in the future and is subject to changes in legislation.

Other tax-efficient alternatives that higher earners might want to consider include venture capital trusts (VCTs) and Enterprise Investment Schemes (EIS). VCTs give 30 per cent tax relief on investment up to £200,000 with gains free of capital gains tax after five years.



On the other hand, EIS investments offer 30 per cent tax relief on investment up to £500,000 with gains free from capital gains tax (CGT) if held for more than three years and inheritance tax relief on underlying investments held for two years. However, investors might also be interested in the new Seed EIS which was announced in the Autumn Statement.

The underlying investments in Venture Capital Trusts and Enterprise Investment Schemes are usually held in very small UK companies. As such, there is a risk that any of these investments may not perform as hoped and in some circumstances may fail completely.

From April 2012, anyone investing up to £100,000 in a new start-up business will be eligible for income tax relief of 50 per cent, plus for 2012 any tax on capital gains invested in such businesses will be waived. Of course, you should never let the tax tail wag the investment dog.

The global economic slowdown and debt crisis will have an influence on your finances in 2012 and long after the Olympic torch has left its Stratford base. This means that it makes sense to ensure that your finances are up to the pace to win through.

COMPLIMENTARY GUIDES

INHERITANCE TAX	WEALTH MANAGEMENT	RETIREMENT PLANNING
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MERCER AND ASSOCIATES
WEALTH MANAGEMENT LTD

Member of the St. James's Place Partnership

4 Chantry Court, Chester. CH1 4QN
Tel: **01244 394203**

Email: info@mercerandassociates.co.uk
www.mercerandassociates.co.uk

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