

Chairman's View



Another issue of our annual newsletter allows me again to thank all of our clients and those with whom we have professional relationships. I am proud to say we have just started our 20th year in business! Although we are pleased with our commercial success, we are even more excited about adding value with the services we provide and making a difference for those to whom we have promised results.

There have been a myriad of changes since our last communication within the Group. Firstly, we have moved offices to a building which gives us far better accommodation for our teams to sit together and communicate. Secondly, we have developed the FT SIPP - our own bespoke product which allows us to better manage and grow pensions, while keeping the costs extremely competitive. Thirdly, we have achieved Chartered Financial

Planner status within our financial services and pensions departments. Finally, we have added a legal team to our offering to better manage property and other legal work, keeping costs to our clients as low as possible as the need for "double handling" of files is negated. An article on our legal offering is below.

Although I did not want to mention the R word (recession), we do still have to confront this and look at how we position you and your affairs exactly right to catch the updraft when it comes. Many of the wealthiest individuals we deal with say they made their money in the last recession, and so it should not be viewed wholly negatively, although I know for some of you it will not feel that way right now. Please continue to talk to us and discuss ideas as we often find that we have a way of adding to your proposition.

Finally thank you for all those who responded to our sample market research questionnaires, and as always thank you for engaging us as your advisers.

**Chairman,
Bruce Friday**

Exchange-traded funds (ETFs): The core of your investments?

The financial services' industry is being completely overhauled (quite rightly so in our view - wheat from the chaff maybe?). That's why we have decided to look for alternative methods of investment, and exchange-traded funds, although they have been around for a while, may be the 'new' product that forms the base of everyday investors' portfolios- they're low cost, easily accessible, and different geographies, sectors, or asset classes can be invested into with one simple fund.

To provide some background, ETFs are investment funds listed on a stock exchange. They provide investors with returns linked to a particular benchmark, such as an equity index (e.g. the FTSE 100). They are backed by a pool of assets which are expected to track the benchmark as closely as possible. They can have one of two structures, either holding physical assets contained in the benchmark (for example, holding the actual stocks within the FTSE 100), or they can use derivatives (financial instruments that derive their value from an underlying asset), such as futures, forwards, options and swaps to simulate the returns from physically holding the assets.

The latter are known as 'synthetic' ETFs, and at this stage we don't quite trust them; mainly due to their added counterparty and liquidity risks- but this view may change as more information becomes available.

We do however like the look of physically backed ETFs (the first structure mentioned above). They offer a number of favourable properties while providing the security of investing in a fund that directly owns the underlying assets.

Overall, they are similar to traditional mutual funds, such as Unit Trust and OEICs, in that both provide broad exposure to an underlying benchmark. However, there are a number of key differences and benefits:

- Investors can trade ETF shares intraday on a stock exchange, whereas transactions in managed funds occur, at most, once a day
- An ETF tends to have lower management fees and brokerage costs because it will not generally buy or sell its underlying assets to create the shares

- The previous point also means they have tax advantages, because a managed fund may have to sell its holdings to meet investors selling their units (potentially creating a taxable capital gain which is passed on to the other investors)
- Finally, ETFs do not attract stamp duty – another substantial cost benefit

Consequently, the fundamental appeal of ETFs in our view is three-fold:

- 1.** They provide a simple, low-cost way of achieving a diversified portfolio (the basis of good portfolio management)
- 2.** They have the capacity for intraday trading (therefore providing increased flexibility and reaction time to pertinent news)
- 3.** They offer investors the ability to invest in a range of asset classes which may otherwise be inaccessible or prohibitively expensive (a prime example being commodities)

We are currently looking at them as an investment vehicle to use in the near future, but we will not be suggesting them until we are entirely sure they're as good as they look on the surface. Whether they are the answer to retail investors' prayers is yet to be seen, but we will certainly be keeping an eye on them.

Should you have any ETF related questions, please contact James Priday on 01392 671675 or email on james.priday@ftconsultants.co.uk - he would be happy to explain them further.



Pensions changes

Annual Contribution Allowance has changed from £255,000 to £50,000 from 6 April 2011

- the ability to carry forward unused annual allowances has been introduced if you have contributed less than £50,000 and been a member of a registered pension scheme in each of the past 3 years.
 - personal contributions must be within 100% of earnings, whilst employer contributions should be reasonable for a person's position in the company.
- The annual allowance is the maximum pension savings an individual can make each year that benefit from tax relief, and includes not only personal contributions but also that of anyone else, for example employers. From 2011/12 anyone exceeding the annual allowance will pay a tax charge at their marginal rate (40% or 50%) on the amount over the available allowance.*

Lifetime Allowance is changing from £1.8m to £1.5m from 6 April 2012

Drawing from a Pension

- the requirement to take benefits before age 75 has ended
- the Pension Commencement Lump Sum remains at 25% of the value of the fund, and the remaining fund can either:
 - buy an annuity which will pay out a regular income, or
 - be drawn as income each year (currently known as Income Drawdown)*

**the amount that can be taken as income annually is determined by applying the appropriate rates provided by the Government Actuary Department (GAD). Currently 90% of the calculated figure if under 75 [known as an 'Alternatively Secured Pension'] and 120% if taken over 75 [known as an 'Unsecured Pension']*
*If the current 'Income Drawdown' is utilised, there are potential changes to how this happens which may affect the level of income you are allowed to take each year. The possible new arrangement is called 'Capped Drawdown', or if you satisfy certain criteria, 'Flexible Drawdown'.***

- *Capped Drawdown: 100% of the figure calculated by applying the appropriate GAD rate can be taken as income whether over or under age 75*
- *Flexible Drawdown: no restriction on the amount of income that can be taken provided you have a secured pension (i.e. an annuity or final salary pension) of at least £20,000 per annum*

Lump Sum Death Benefits

- Under 75: if you haven't taken any benefits, the rules have not changed and therefore the lump sum death benefit remains to be paid tax free if taken within 2 years
- Age 75 plus: if you haven't taken any benefits, there is a 55% tax charge on the whole fund
- Income Drawdown: if the fund is in Drawdown, lump sum death benefits are taxed at 55% (whether over or under age 75)

If you would like to know more or if you have any questions regarding your current pension and the options available to you please contact us

Tax . . . it's just like Cricket



It appears that as cricket has evolved over the last few years with the '20:20' game, the UK tax system has done exactly the same thing, albeit with the '20:20:20' game:

- 20% basic rate of income tax
- 20% standard rate of VAT
- 20% small companies rate for corporation tax

This is an extraordinary shift from just a generation ago when the basic rate of VAT was 8% and the basic rate of income tax was 33%.

At a meeting at HM Revenue & Customs (HMRC) head quarters last year, the Senior VAT Collection Director unwittingly explained this shift from direct to indirect taxation to us by mentioning the current collection statistic was that VAT cost 1p of every £1 collected to administer, while personal and corporation tax was costing around 20p of every £1 collected. This is a shocking statistic, and in the current economic climate certainly explains why 750,000 people have been taken out of the tax net by the raising of the personal allowance and why HMRC have felt it economically viable to cut staff.

We have certainly seen increased activity around VAT compliance and HMRC have demonstrated extremely robust automatic systems to check returns against the business sector listed on the registration certificate. These are generally aspect enquiries from the comfort of an inspector's desk, again a

cost saving measure, but they are certainly in-depth and accurate. With the new penalty regime now firmly in place, and the oft feared automatic surcharge liability regime, VAT certainly appears to be the tax tool of choice going forward.

So, what are we doing about this to protect clients? Firstly, we last year upgraded and fixed the premium costs (for 3 years) of our tax investigation policy for clients so that we could offer some protection from the fees incurred in us engaging with HMRC to close an enquiry. Secondly, we have opened dialogue with local inspectors so that before an enquiry is even raised, a simple conversation is had to explain what could have happened. Finally, we have implemented increased system checks when final accounts are prepared to ensure no accounting software errors have arisen which leave disparity between figures declared on returns and those submitted in final accounts.

We urge all clients, especially those with any property transactions (we may even be able to alleviate the stamp duty land tax too), overseas transactions or substantial capital expenditure, to engage with us before the transaction takes place to firstly ensure the VAT is being properly dealt with, but also for us to potentially inform HMRC in advance that the next return will be materially different from the last for whatever reason. This then notes your HMRC VAT file and ensures that if a flag is generated, the inspector understands the reason for the change and so may not generate the enquiry; which as we all know takes up valuable management time and resource.

Should you have any VAT or Stamp Duty Land Tax questions or concerns, please contact Joe Priday on 01392 671679 or email on joe.priday@ftconsultants.co.uk.

Accounts Software Update

We have just completed our annual software updates and wanted to highlight the following with a view to starting to get what we believe to now be extremely good features integrated into businesses in the near future;

- On-line business banking systems can now seamlessly link with accounts software with automatic bank reconciliation
- Government gateway submissions to pay tax to HM Revenue & Customs can be directed through your software, thereby avoiding print out and re-submission through the notoriously temperamental HMRC website
- Electronic debtor statements with auto-pay features are now available which allow debtors to be emailed with a pay now feature which pays directly into your account and automatically completes your sales ledger
- On-line modules are now far more robust meaning that book-keeping is now performed through an on-line portal which allows us to log-in in order to advise of adjustments and complete year end figures without the need to take back-ups. Some systems also allow us to "ghost" view real-time so as we can advise over the phone while seeing exactly what is going on

The above should in no-way dictate your business, but are now time, cost and error saving features that we view as a significant advantage.

Should you wish to explore the above in more detail, please contact Nick Cross on 01392 671740 or email nick.cross@ftconsultants.co.uk

Tax bite

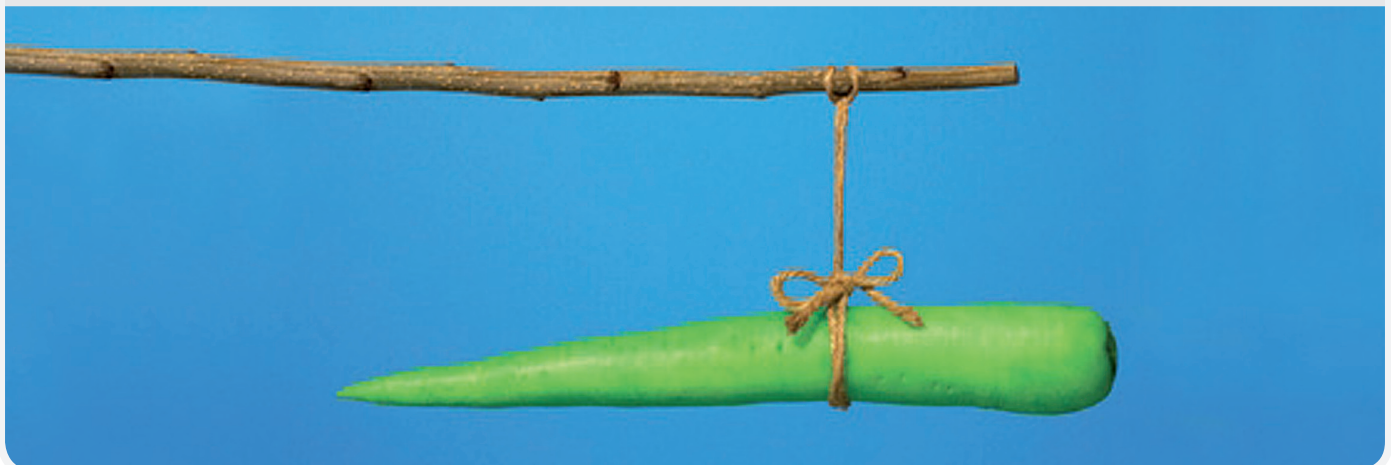
Our personal tax return system for the previous tax year is now already up and running and ready to file returns. Please contact Stephen Mills in order to file your return early (paying in January 2012 of course) and avoid the difficulty in finding those records later on! Remember if you have a liability of less than £2,000 and you are employed via payroll, you can apply to have the tax bill extinguished via adjustment to your next tax coding – a significant cash flow advantage! Stephen can be contacted on 01392 671676 or email stephen.mills@ftconsultants.co.uk

Green Carrot

Fancy a tax deductible run around? As electric cars now finally enter the UK market, the tax equation does look rather appealing. The government announced in the pre-budget report in December 2009 that from 06 April 2010, for 5 years, the taxable benefit for electric company cars was to be zero. When you do the tax sums on having to pay for a car out of net personal income compared to gross corporate or sole trade income the tax saving is enormous (remembering that if it is leased, there is also a 50% VAT deduction, and that the corporate use split of servicing and insurance costs would also be an allowable deduction from gross income). Currently there is also a £5,000 government grant to help towards the purchase. Now that is a green tax carrot!

Example: Nissan Leaf £400 +VAT/month lease (higher rate personal taxpayer)

	Corporate leaseholder	Personal leaseholder
Basic annual gross cost	£6000	£6000
Less VAT @ 20% X 1/2	(600)	-
Less corporation tax @20%	(1080)	-
Personal tax grossing up @40% -		£4000
Tax adjusted cost	£4,320	£10,000
Saving	£5,680 (not including servicing or insurance savings)	



Wealth & Pensions Bite

Do you know that you are able to defer your state pension for a year, but then take the WHOLE remaining amount as a lump sum? The trick is that this is taxed at the rate payable when the lump sum is actually drawn down and therefore taxed at the rate payable then, however managing income to create non or low taxable income very much lends itself to this situation.

Accounts bite

In year management information reviews to assess potential corporation tax liabilities and other issues can be valuable and are unlikely to increase your costs as it gives us a headstart on getting the year end accounts together. Remember, a pension contribution is only a qualifying corporation tax deduction when the actual payment is made within the financial year!

Tax bite

Don't forget your P11Ds! The 2010-11 "Benefits & Expenses" forms P11D and employers annual returns have to be filed by 6 July. In recent weeks HMRC have highlighted their view that insufficient forms are being filed and will focus closely on business expenses claims, dividends drawn, and movements on Directors Loan Accounts (for beneficial loan interest) in the future. Speak to us straight away if you think there might be any element of non-business, personal or private expenses claims being paid for by the company that have not yet been reported to HMRC.

Introducing FT Legal Services

FT Legal Services commenced trade in April primarily to "complete the circle" of our services, as well as being a stand alone law firm regulated by the SRA completely in its own right, working to ensure the FT client experience ran through into the law. The practice is initially concentrating on four areas;

1. Property transactional services - with an in-depth appreciation of the intricacies of dealing with pension scheme Trustees as well as more general commercial and residential conveyancing
2. Debt recovery services - in order to offer clients a genuinely cost efficient way of recovering debts owed
3. Employment law services – contractual templates and employer policy packs to ensure up-to-date compliance
4. Wills and trusts - an increasing area which we are asked to service. Should the worst happen, we could be best placed to quickly and efficiently deal with your affairs for your family to ensure the administration process does not become convoluted and distressing for those involved. A price list is enclosed. Please contact Geoff Morrey-Jones on 01392 671671 or on geoff@ftconsultants.co.uk to discuss your requirements.

The firm is a collaboration with Chris and Abe Kallis, long-standing clients and friends who own and operate Chris Kallis Solicitors in Plymouth.

Setting up a new legal practice is certainly a tall undertaking and we are very proud of what we've achieved. We hope we can be of service in the future.

Should you require any further information, please contact Joe Friday on 01392 671679, or email joe.priday@ftconsultants.co.uk or Abe Kallis on abe.kallis@ftlegal.co.uk.

