



## With the Bank of England base rate currently at 0.5% what alternatives are there for the cautious investor?



THE Bank of England base rate hit an historical all time low of 0.5 per cent on March 5, 2009. This has driven bank and building society deposit rates down substantially so that an account offering over 3.5 per cent gross currently looks comparatively very attractive.

One view is that interest rates will remain low for the foreseeable future, another view is that realistically the only way for interest rates from here is up. The big questions are when will they rise and by how much?

Good cases can be made for inflation and deflation in the near future and clearly both of these scenarios would have different effects on interest rates. What can be said with a degree of certainty is that cautious investors are actively looking at the alternatives available to improve the returns on their cash deposits.

With the FTSE 100 Index currently standing at around 4,400, a good argument can be made for investing directly in the stock market, as history would indicate that the stock market should rise from here. However, stock markets can fall as well as rise.

There are investments currently available that can benefit from any rise in the stock market but that do have a capital guarantee. This means that the value of your initial investment is guaranteed not to fall. These types of investments are called "structured products". They are normally taken out for fixed periods of between one and five years, and besides offering a capital guarantee, will also offer potential growth, with capped returns payable, should stock markets meet certain set predefined criteria. For example, if the FTSE 100 Index is higher in five years time than it is now, you could receive your initial investment back plus 50 per cent growth (before tax).

These types of investment can be used by:-

- Individuals
- Companies
- Trusts
- Charities
- Personal injury monies
- Court of protection monies
- Pension schemes

They can be held directly, through Individual Savings Accounts (ISAs), through pension arrangements such as Self Invested Personal Pension Schemes (SIPPS) and Small Self Administered Schemes (SSAS). They are a viable alternative for investors who would like potentially higher returns than cash but who require capital security.

If you would care to discuss any aspect of the above further, please do not hesitate to contact Laurence Kelly on 01772 821021.

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# The taxman is ready...

REFERENCES are starting to be made to the "green shoots of recovery". Thanks to the 2009 Budget, the taxman is ready with an armoury of new tax rules to ensure he collects a large slice of your income as your practice profits start to recover.

## Income tax

From April 6, 2010, the personal allowance will be phased out for those earning more than £100,000. For every £2 of income over £100,000 the personal allowance will be reduced by £1. By the time your income reaches £112,950 you will not have any remaining personal allowance. This is a change to the restrictions initially announced in November's Pre Budget speech. Previously, the allowance was to be phased out in two stages and would only disappear completely at income levels above £146,475.

Those with taxable income over £150,000 will suffer a new penal 50 per cent tax rate on income over £150,000 from April 6, 2010. This is another change to the Pre Budget announcements which would have seen a more modest 45 per cent tax rate introduced, but not until April 2011.

## National insurance

One measure announced last November in the Pre Budget report should not be overlooked. We can expect to see an increase in national insurance costs from April 6, 2011. From this date all national insurance contributions will go up by 0.5 per cent. This means by April 2011 the top tax rate for some high earners will be 51.5 per cent.

## Pension relief

The misery for high earners is compounded by the restriction of higher rate tax relief on pension contributions. For those earning over £150,000 tax relief on any pension contributions will be tapered away to ensure actual tax relief is only 20 per cent. There are detailed anti-forestalling rules to stop you bringing forward annual contributions to secure higher rate tax relief before the new rules kick in.

These anti-forestalling rules could affect you if your income in any of the years 2007/08 to 2009/2010 exceeds £150,000;

**and** your contributions in 2009/10 or 2010/2011 exceed £20,000;

**and** the pension contributions are higher than normal through these years;

**or** you have traditionally paid annual single contributions.

If you are caught by these rules, you may have to pay a special tax charge, therefore it is important to identify if these rules will hit you.

## Pay your PAYE on time

Currently HM Revenue & Customs cannot charge you interest if you pay any of your monthly PAYE and NIC payments late. This will change from April 2010 as a system of interest and penalties for late payment of monthly PAYE and NIC is introduced.



## Tax relief for cars

Businesses claim capital allowances on partners' cars and cars provided for employees. Traditionally, the allowances have been by reference to the cost of the car with a maximum allowance in one year of £3,000. Under the new rules the rate of allowance for cars acquired after April 6, 2009, is determined by the level of CO2 emissions of the car. If the CO2 emissions exceed 160 g/km a 10 per cent annual allowance is given on the cost of the car. Where the CO2 levels are 160 g/km or less, a 20 per cent allowance is given.

For new car leases taken out from April 6, 2009, onwards, a flat rate 15% disallowance of lease rental payments will apply if the

CO2 emissions exceed 160 g/km. No disallowance is required for the so-called greener cars with CO2 emissions of 160 g/km or less. Any cars leased before April 6, 2009, continue on the old rules which required a scaled disallowance for cars with a market value of more than £12,000.

It is worthwhile taking the time to review your private and business cars to ensure you get the most out of the new rules.

## Capital allowances

In an effort to encourage capital expenditure by businesses a special 40 per cent first year allowances for expenditure on plant and equipment will apply from April 6, 2009, to April 5, 2010. This is in addition to the £50,000 annual investment allowance and

the 100 per cent allowance for "green technologies".

## Be prepared

The UK tax regime is about to bite ill-prepared partners very hard, but for those who take specialist tax advice, there are opportunities to mitigate the impact. Now is a good time to look at your business structure and profit extraction strategy and we would be pleased to help you with this.

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# ...Are you?

JULY 31, 2009, is an important date in the tax calendar. It is the deadline for making the second tax payment on account.

Prior to July 31, 2009, there are certain preparations that need to be made. You need to know the amount of tax that is due and which sources of funding you are going to use to make the payment.

If you have been lucky enough to generate sufficient cash reserves, or have been well prepared, you may have set aside sums of money from which to pay the tax bills due. The majority of people will wait until the last minute to draw out the funds from a savings account in the hope of getting the most out of what meagre interest rates are currently on offer.

If, on the other hand, cash is not available, then you must look at additional sources of funding to help finance the tax payment.

HMRC are still accepting payment plans for tax and national insurance. Taxpayers can ring up the helpline (0845 302 1435) and agree a payment plan by direct debit. This must be done before the payment becomes overdue. Interest is then charged by HMRC

on any unpaid tax on a daily basis. But the good news is that the interest rate currently being charged is only 2.5 per cent; a lot less than using most bank overdraft facilities.

The other issue to consider is what your business profits are doing. There is the potential for reducing the July 31 payment on account if business profits are falling compared to last year. Rules for calculating the amount of the payment on account mean that the prior year total tax bill is halved and each half becomes the January and July payment on account. But if you know that profits will be lower then you can calculate a lower payment to be made. A claim has to be put into HMRC in advance of the payment being made. But of course the benefit of this rework is that you are not overstating your cash flow requirement.

The downside of projecting tax payments is that if you err on the side of an underpayment and your tax return, once completed, shows that you should have paid the original higher tax payment on account, then HMRC will charge you interest on the underpaid amounts from the original payment due dates.

If you decide not to claim a reduction in your July 31 payment when it was available to you, HMRC will generate a tax refund/repayment on receipt of your tax return. If you wait to file your tax return until the deadline of January 31, 2010, then this means that any refund will also be delayed, although HMRC will pay you an interest supplement for the benefit of using your tax money when it was not actually due.

The next question to ask yourself may, therefore, be why I have not completed my tax return by now so that I know actual tax liabilities and can take advantage of the cash flow planning opportunities? You may be someone who traditionally deals with the tax return in mid-January each year. But is this the most effective tax planning route to take? Probably not. So if cash flow is tight, make the most of the tax breaks and get your tax affairs up-to-date.

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# Karen's Capers

KAREN has been invited to present at a number of events in recent months, which has taken her on a whistle-stop tour of the North West.

At the end of April Karen presented at two Law Society conferences in Liverpool and Lancaster. She also presented at the Law Society conference in Manchester in June. The conferences focused on managing the modern law firm and Karen was asked to present on profitability and cash control. She discussed what comprises profit and cash and the differences between them, as well as providing advice to the attendees on how to improve their cash flow.

In May Moore and Smalley invited a small number of professional practices to attend a legal services focus group. The event was held at our Preston office and firms from

Lancashire, Cumbria and Greater Manchester came together to discuss some of the current issues affecting the sector. The focus group centred on the Legal Services Act and the discussion proved to be interesting and informative.

Karen was also asked to present the Blackpool Law Society Solicitors Accounts Rules seminar held at Fylde Rugby Club. A number of professional practices teams attended the seminar which featured information on the changes to the Solicitors Accounts Rules, common breaches in the rules and practical advice on how to avoid them.

Karen was also invited back to speak on Radio Lancashire's lunchtime panel discussion reviewing the current news items affecting the region.



## Your specialist team



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