

# News & Views



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## Use your tax breaks

Benjamin Franklin's view that nothing is certain except death and taxes has yet to be disproved. However, using the tax allowances granted by the Government can help mitigate the tax side.

At the basic level, there is a personal income tax allowance, an annual exemption from capital gains tax plus numerous tax credits dependent on your circumstances. Schemes like Gift Aid offer tax relief on donations to charity and there is also an Inheritance Tax (IHT) threshold below which nothing is due. Alongside, there are tax efficient investment products, such as Individual Savings Accounts and pensions, which provide relief from both income and capital gains tax (CGT) to differing extents. In addition, some individual assets are specifically exempt from CGT - your home, your car, certain personal jewellery, antiques and UK Government bonds (gilts).

In terms of IHT, for the 2008/09 tax year, the threshold is £312,000 (£624,000 for married couples and civil partners) and the value of your estate above this is liable to tax. This can leave beneficiaries having to sell family heirlooms to pay the tax bill. However, there are exemptions available from this tax as well, and a little bit of planning can help you access the range of annual exemptions and allowances in advance. This can help you reduce the liability as far as is practical - or provide the means with which your beneficiaries can pay it without having to sell items of sentimental value.

## Be among the first

People often leave their ISA decisions until the last minute, driven by the 5 April deadline. However, this year, you could make a 'new tax year resolution' and instead be one of the first to make a decision. Your allowance for 2008/09 is £7,200, which can be spread across cash and stocks and shares or all placed in stocks and shares. And getting in early could mean you benefit more than waiting - particularly for cash ISAs, which earn more interest the longer they are invested. If you prefer stocks and shares but are worried about the ups and downs of the market, perhaps you could try drip-feeding your investment over the year by using a regular savings plan.

Welcome to the latest edition of News & Views.

If you would like to discuss any of the issues raised in this newsletter, please do not hesitate to give us a call.

Initial meetings are conducted at our expense and are free of obligation.

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## The benefit of advice

The mortgage market is highly competitive and lenders constantly bring out new deals. They are required to provide Key Facts and illustrations, but many can only provide information – they cannot give advice on whether their loan or another provider's is best for you. In the UK, residential mortgage advice is regulated by the Financial Services Authority. Advisers use their research skills and sourcing systems to keep up to date with details of all the latest mortgage products so they can find the best rates and deals - and explain which one will best suit your requirements. So, if you want someone to do the hard work, then see an expert.

## Options for savers

UK interest rates have tumbled in recent months, from 5% in September 2008 to 1.0% by the beginning of February 2009. This might spell good news for beleaguered borrowers, but it has been greeted with dismay by savers who have witnessed plummeting rates on their bank and building society accounts. According to a survey conducted by Moneyfacts early in January, almost 40% of savings accounts already paid interest of 1% or less. With many savers relying on their interest payments to supplement their income, they are now looking for alternative strategies that will improve their position.

A cash ISA (Individual Savings Account) is one alternative to the traditional deposit account. Rates on cash ISAs are not necessarily much higher than normal deposit accounts, but ISAs do at least pay interest free of tax. Cash is widely perceived as low-risk; however, it offers little protection against inflation in the long term. Although cash has undeniable short-term attractions when stock markets are falling, it is impossible to tell when the markets will start to recover.

In an environment in which interest rates have reached unprecedented lows, bonds might offer an opportunity to generate a stable and relatively high income stream with less volatility than the equity market – and, having fallen heavily last year, bonds are considered to be well priced. Government bonds (gilts) are issued and underwritten by the UK government; this guarantee makes them very low risk but they offer a lower return than corporate bonds. Corporate bonds are issued by individual companies; they tend to carry a higher level of risk than government bonds, but as some compensation, offer a higher return. Note, however, that changes in interest rates and inflation affect bond prices and their yields - and corporate bonds are also influenced by company and sector-specific news.

As share prices have fallen, dividend yields have soared, increasing the attractions of equity income funds. Firms that pay high dividends tend to be established companies with stable businesses and strong balance sheets. Dividends have to be paid out of profits, so immature companies, which are still in the early stages of growth, are less likely to pay dividends. Admittedly, in the current climate, some companies are cutting or cancelling their dividends as they attempt to protect their profits from the economic downturn. Nevertheless, a successful equity income strategy allows investors to benefit from a relatively high yield whilst also giving their capital the opportunity to grow over the long term.



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