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Salary exchange

The changes to National Insurance Contributions (NICs) announced in the 2008 pre-Budget Report and brought forward in last month's Budget, make this area of tax-planning the most important issue to address for employees and Directors alike.

The rationale of the Government is simple – to reduce costs as the State Second Pension (S2P) is unfunded and we are all living longer. To try and address this problem the Government is increasing NICs and placing a fixed cap, the Upper Accrual Point (UAP), on the amount of income taken into account to calculate the state pension an individual accrues, resulting in higher earners paying more to receive less.

Originally the UAP was to be introduced in 2012 but this was brought forward to 2009/2010. Consequently non-contracted out NICs are set to increase from tax year 2011/2012 by 0.5% across the board.

It is possible to reduce the NIC liability by using "salary exchange" to fund pension contributions. This is an arrangement between employer and employee where the employee agrees to give up part of their future earnings (either salary or contractual bonus) in return for a non-cash benefit. The employer has to agree to pay this amount into a personal, stakeholder or occupational pension.

The lower salary cost means both the employer and employee pay less NICs. Depending on the employee's earnings, a sacrifice of £5,000 could produce a total NIC saving of between £690 and £1,190, which could ultimately be used to boost the pension contribution.

Unfortunately following the Budget, salary sacrifice is likely to be beneficial only for those earning less than £150,000. However, this means there are still a substantial number of clients who could benefit from this planning opportunity.

In conjunction with a number of pension providers we have a range of calculators and software to highlight the tax-saving opportunities available to clients wishing to explore salary exchange over the coming months.



Hints & Tips

- Given the recent drop in property prices, it is worthwhile remembering that you can change the value of property up to 4 years after the date of death for inheritance tax purposes.
- With the restriction on higher rate tax relief for high earners announced in the recent Budget, Oval are able to advise on other tax relieved investments such as Venture Capital Trusts (VCT) and Enterprise Investment Schemes (EIS), which could be alternatives for your client's tax planning requirements.
- Does the restriction of 5% tax deferred withdrawals on offshore bonds put your clients off utilising these tax efficient investments? If so, then please contact us to discuss solutions including access to a product that has a unique design allowing significantly higher withdrawals.

The perfect investment?

If you gave a client a blank piece of paper, what would they want from an investment? Perhaps a high level of income, or the prospect of benefitting from a recovery in the markets, combined with limited capital risk? Structured investments can meet these needs and not surprisingly, with recent market volatility there has been a huge increase in the popularity of such products with sales of nearly £9 billion in 2008.



These investments are not without risk, generally being backed by complex instruments, provided by a number of financial institutions. However, we thoroughly investigate the security of any underlying counterparties to minimise the risks to our clients and have worked with a number of high street banks to create bespoke offerings to take advantage of market opportunities.

Aside from the investment benefits, these are often tax efficient investments. Many are available via an Individual Savings Account (ISA), allowing clients to take advantage of the increased allowance of £10,200, available for all from the next tax year and the over 50s from this October. Others are structured so that the returns are subject to capital gains tax and as the personal exemption is often unused, the returns can be tax free in the hands of the investor. In short, a valuable addition to many clients' portfolios providing a defined risk to complement an existing portfolio.

Saving tax for UK smaller companies

You may be aware of the changes made to Loan Relationship Rules last year, but did you know that this may once again make insurance bonds an attractive investment option for your smaller corporate clients?

While you may previously have steered clear of recommending investment bonds to your clients due to the implication of double taxation, changes in the 2008 Finance Act will have removed this problem for some of your smaller corporate clients. In future, the investment performance of these clients' bonds will not be taken into account in the annual accounting, allowing any corporation tax liability to be deferred until the bond is finally surrendered.

This is likely to appeal to those clients using the 'Historic Cost' accounting method. These are defined for this purpose as companies who do not exceed at least two of the following criteria: aggregate turnover of £6.5 million net; aggregate balance sheet total is £3.26 million net; aggregate number of employees is 50 or fewer.

However, a word of warning, these changes signal bad news for those clients using the 'Fair Value' accounting basis. These companies will no longer be able to defer their tax liability on an investment bond until a gain arises and will be assessed to corporation tax on a yearly basis on any increase in the value of the bond during the accounting year.



Credit insurance

Credit Insurance against bad debts is presently a much sought after product. Trade credit insurers are working hard to support their clients now that trading is difficult. Claims from insolvencies continue to soar.

Oval Credit's specialists have issued a communication to all credit insurance clients giving an overview of the current situation and explaining how to work together to best manage withdrawals or reductions in cover, which are on the increase.

Alarming, 40% of all new policy enquiries are declined to quote as credit insurers become selective due to the high demand and risk climate. The support of a specialist trade credit broker such as Oval Credit in times like these is essential.