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Financial Health

MONTHLY UPDATE DECEMBER 2009

The economic curse of Christmas

If you were to read the press and listen to the media economics editors you would think that spending is what brings us out of recession. With the UK recession possibly coming to an end you would, quite rightly, think that the increased spending that Christmas brings will help push the economy just that little bit further towards ending the recession this quarter. This probably will be the case. However, economics, which is really a mathematical form of macro psychology, is a little more complicated than that.

Whenever you buy something, you weigh up if the item you intend buying provides sufficient value to warrant the price. At the same time, the seller determines that the price you pay is sufficient to cover their costs and produce sufficient profit. This is the perfect win-win scenario. Of course, sometimes it doesn't always seem like this when you've come out of the shop and seen the bill, but the theoretical idea is still sound.

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Polestar is a trading style of Positive Solutions a large (community of 1,700 advisers), truly Independent, Financial Advice company, supporting it's advisors clients across the UK. To be truly independent means we look at the whole market working on your behalf. We are not limited to a small number of product providers and you decide how you pay for our services either by direct fee or product commission or both.

When we buy Christmas presents, we find that we are in a totally different position. This is because the price that you pay for such an item has no relationship to the value that it produces for you, because it is not you who is receiving the value, but the person to whom you are giving the gift. Therefore, the price that you pay is not linked to the value that the purchase generates to the world.

Economically, this means that value is being lost in the world, and that economies become ineffective.

What can we conclude from this? Well, the first conclusion is that sellers benefit from Christmas, which I think we all knew. However, the more important point is that Christmas gives economies a temporary push forward, but that this push is like someone from the shore pushing a rowing boat forward. The push is useful, but without anyone in the boat ready to row, it's a bit pointless.

From an economic point of view, it will probably mean that the Christmas push will help the recession come to an end. However, will any recovery be strong enough to continue after that push?

Time is up!

November 30th was the final date for those people with offshore assets to declare them to the Revenue and avoid prosecution. The NDO (New Disclosure Opportunity) was a result of the new anti-tax avoidance legislation introduced recently. In particular, it relates to those people who are 'hiding' assets offshore in an attempt to avoid paying tax.

In the UK, if you are UK domiciled (this means that the UK is your home, and/or your father was born here), then you are liable for UK tax on assets held anywhere in the world. To try to avoid paying tax, some people who are UK domiciled hid money in so-called tax havens, such as the Virgin Islands or Luxemburg. In these tax havens, no tax was payable and there was no reporting back to sovereign states, and so people avoided paying tax, albeit illegally.

Following a landmark agreement, most so-called tax havens have agreed to report holdings of assets to the sovereign states, allowing them to collect any unpaid tax. The objective of the NDO was to make the Revenue's job easier, and to allow people to come clean and start afresh.

It is important to understand that this does not affect those people with legal offshore accounts. Those of you who have declared accounts, usually in locations such as the Isle of Man or Jersey, are not affected as the NDO impacts only on non-declared accounts.

Business owners beware

We recently completed work for a new client who owns a successful business together with his brothers. The client was concerned about what would happen to his shares in the business in the event of his death, and how his wife would be affected.

In his Will he simply left the shares in the business to his wife. Then there was the different issue of what would happen if his brother died and he ended up in business with his brother's wife? The client considered this to be a fate worse than death, but from this came the issue of what would his brother's wife do?

How you deal with a business on death is very important in two ways:

1. **Who will end up running the company and who will benefit**
2. **What happens regarding the tax**

As the above example shows, leaving the shares to the spouse might let the spouse have some form of income from the company, but what then would be their involvement? The issue then arises, how are things affected by tax?

The client's conclusion was that he wanted his shares to pass to his brother, and his brother to pay an agreed amount to the surviving spouse. Very sensible, I can hear you say. This way the spouse gets the money, and the brother gets an independent company. The problem with this, however, is an obvious one: where does the brother get the money from? This is an easily answered question, as a simple life insurance can provide the required cash. The bigger issue is the tax.

As you have probably already worked out, the taxation system in the UK is mad. If you were to design a tax system, you really would not design it like it is now. The tax system has evolved and become a strange hybrid of different political and economic views, to the point where it probably costs as much to run as it collects. This situation with the family is one that demonstrates the madness of the system, because if the brother writes an agreement that sets out that one brother must buy the surviving spouse's shares on the other brother's death, a non-taxed arrangement becomes taxable!

The solution to this was to write a rather clever agreement whereby the surviving partner has the rights to buy the shares, but not the obligation. This small change in the legal document immediately frees it from the world of taxation, and the money can flow to the family rather than to the taxman.

KeyData in default

The Financial Services Compensation Scheme (FSCS) has declared the investment firm 'KeyData Investment Services' to be in default. As a result, the FSCS will start considering claims in respect of the following products:

- Secure Income Bonds 1, 2, 3 and 4
- Secure Income Plan 1 - 12
- Defined Income Plan 1 - 8, 12 and 14

If you hold any of these investments, presumably sold to you by another adviser, then you can now make application for compensation via the FSCS website.

Confused about tax? You're not alone

Research released last month by Fidelity shows that 33m people in the UK are confused about taxation. And yet, fewer than 1 in 10 seek or, more importantly, take advice. The survey also showed that fewer than 15% of people are making use of their tax allowances.

This research backs up our own anecdotal evidence that suggests that everyone is paying too much tax. From our records, we have never come across a new client whose tax we could not reduce.

If you or a close friend need a tax review, please contact us directly.

New ISA Limits

From 6 October 2009, the ISA subscription limit will increase to £10,200 for anyone eligible to invest in an ISA who was born on or before 5 April 1960 (that is, who will be aged 50 or over during the current tax year). Up to £5,100 of the new ISA allowance can be saved in a cash ISA with one provider. The remainder of the £10,200 can be invested in a stocks and shares ISA with either the same or another provider. Alternatively, the full £10,200 can be invested in a stocks and shares ISA with one provider.

These higher limits will apply to all eligible ISA investors with effect from 6 April 2010.

Example 1

An individual is aged 65. He has not opened an ISA in tax year 2009-10. From 6 October 2009 his ISA allowance will be £10,200. Up to £5,100 of his allowance can be saved in a cash ISA with one provider. The remainder of the £10,200 can be invested in a stocks and shares ISA with either the same or another provider. Alternatively, the full £10,200 can be invested in a stocks and shares ISA with one provider.

Example 2

An individual is aged 70. She has opened a cash ISA in 2009-10 in which she has subscribed £3,600. From 6 October 2009 she will have an ISA allowance of £10,200. She could save up to another £6,600 in ISAs. This could be up to £1,500 in the same cash ISA, or up to £6600 in a stocks and shares ISA with either the same or another provider, or a combination of both.

Example 3

An individual's fiftieth birthday falls on 15 March 2010. He has opened up a stocks and shares ISA in 2009-10 in which he has subscribed £7,200. From 6 October 2009 he could save up to another £3,000 in ISAs. This could be up to £3,000 in the same stocks and shares ISA, or up to £3,000 in a cash ISA with either the same or another provider, or a combination of both.

Best Savings Selection

To get the best from your deposit based savings you often need to move the money around. Use these rates to help you with your arrangements.

Top Three No Notice Accounts

Name	Contact	£1 Gross %	£500 Gross %	£1,000 Gross %
West Bromwich BS	Via branch	n/a	n/a	2.85
West Bromwich BS	0845 3300622	n/a	n/a	2.80
S'boro Investment Dir	0845 4584522	n/a	n/a	2.76

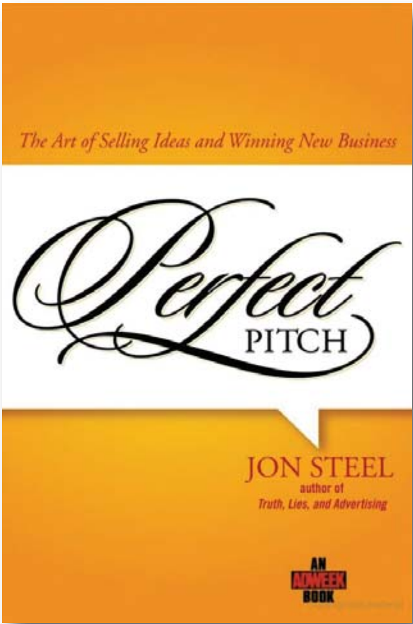
Top Three Monthly Interest Accounts

Name	Contact	£1 Gross %	£500 Gross %	£1,000 Gross %
Chelsea BS	0800 1951514	3.06	n/a	n/a
West Bromwich BS	0845 3300622	n/a	n/a	2.76
Skipton BS	0845 7171777	n/a	2.66	n/a

Top Three Cash ISA's

Name	Contact	£1 Gross %	£500 Gross %	£3,600 Gross %
Chesham BS	08000 186214		3.25 Introductory offer for 6 mths	
Newcastle BS	0845 6050022		3.00 Introductory offer for 6 mths	
Buckinghamshire BS	01494 879500		2.84	

Please check with the terms and conditions before opening any account. If in doubt consult with your financial adviser directly as the above are for information only.



Perfect Pitch

The Art of Selling Ideas and Winning New Business

by Jon Steel (ISBN 0471789763)

The book explains the marketing and PR business and how to sell in those businesses. However, although this is all very interesting, it is not the reason for the recommendation. The best part of the whole book is the final chapter, where Steel breaks down and analyses the UK presentation and submission for the 2012 Olympics. For those of you who remember, the UK was effectively in fifth place 12 months before the final presentation, and yet ended up winning by just four votes from the Olympic committee. The explanation of this turnaround is fascinating, and shows the importance both of strategy and of having just a few people, rather than large committees, making the decisions.

Ian Russell CERT DIP

Ian is the owner and principal of Polestar, a trading style of Positive Solutions.

Ian has over 10 years experience in financial services and is qualified to an advanced level in taxation and trusts (G10) and Pensions (AF3).

He works principally with private clients addressing their concerns around inheritance tax, investment (for growth or income) and retirement planning. Ian also completes a significant amount of Continued Professional Development each year, attending various seminars and conferences, on his client's behalf, so that they are always kept abreast of latest developments.

"We are proud to be a small, focused firm, because this means that we provide higher levels of personal care and attention to detail. This is why many of our clients, who previously dealt with Banks and larger advisory firms, have come to us. Our clients want to be treated as individuals, not numbers, to have a closer working relationship and to have someone they trust be available to them at all times."