

Tax Tip – Balancing Short Term Needs with Long Term Goals

Effective financial planning is about people and lifestyles, rather than 'products'. The aim is to balance your long-term financial goals with your current and future cash needs. Achieving the best results will take into account factors such as your attitude to investment risk, current and future income requirements, your age, your plans to pass on your wealth etc.

Obtaining professional advice from someone who understands your personal and/or business situation, priorities and future plans is essential. Here are a few items that we are currently discussing with clients about how we can help them to effectively manage their wealth in 2010.

Make your savings tax efficient

If you don't want to tie up your savings for the long term but would like to earn a better rate than an instant-access account, ensure you use your annual tax free ISA allowance. If you already have three or six months' ready cash in an instant-access account you may be able to afford to tie up any additional savings for longer. This means looking at fixed rate bonds which can offer a higher rate of interest.

Ensure investments work for you

Investing is not for everybody and it can be complex, as well as risky. But it can also be a successful way to grow your wealth over the long term. Make no mistake; stock market investing is not a get-rich-quick scheme. You should be looking at a five-year investment as a minimum - preferably more and products that are currently tax free, taxed at a lower rate or offer tax reliefs.

Provide for your retirement

With the inability of the state to provide adequate levels of retirement pensions, it is more important than ever to provide for a secure old age. All individuals, including children, can obtain tax relief on personal pension contributions (not retirement annuity premiums) of £3,600 (gross) annually without any reference to earnings. Higher amounts may be paid based on net relevant earnings (NRE).

Individuals can make pension contributions of up to 100% of their NRE in a tax year. Contributions must be paid during the tax year. There is no facility to carry contributions back to the previous tax year.

Directors of family companies should, as an alternative, consider the advantages of setting up a company pension scheme or, alternatively, arranging for the company to make employer pension contributions. If a spouse is employed by the company consider including them in the scheme or arranging for the company to make reasonable contributions on their behalf.

Protect your inheritance

In the last ten years the number of estates paying Inheritance Tax (IHT) has almost doubled in 2007/2008 over £3.8 billion went to the Treasury. If you want to minimise the tax burden for the next generation, there are a few options for you to think about - making a lifetime gift, transferring assets into trusts, taking out a life assurance policy or restructuring your business ownership.

For further advice on information on you can balance short terms needs with long term goals, contact Alan Boby on 01295 250401 or email aboby@ellacotts.co.uk

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