

MoneyMatters

March/April 2010

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Behave Like
Billionaire Buffett
Follow in his footsteps

The 2009/10
ISA curtain call
The deadline draws closer

End of tax year *“check list”*



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Create your NEST egg now! The Government's pension plans

Personal Accounts, the Government's plan to get every employee saving for retirement and ward off the pension crisis, have been re-branded as National Employment Savings Trust (NEST).

This plan requires all employers to offer their staff a workplace pension plan abiding by the new guidelines.

Minister of State for Pension Reform, Angela Eagle, said: 'This Government's radical reforms to the pensions system will ensure millions of workers on low and moderate incomes are able to save for their retirement in a workplace pension with a new guaranteed minimum contribution from their employer'.

The new system will be phased in from 2011, but full auto-enrolment will not be fully up and running until 2017. The 'NEST' is set to play a major role in transforming pension planning and attitudes to saving. Workers aged between 22 and state retirement age, earning at least £5,035, will be entered into the scheme, unless they already have a matching or better

work pension, however they can choose to opt out should they wish.

Under this scheme, employees will contribute a minimum of 4 per cent of their salary and their employers a minimum of 3 per cent, alongside 1 per cent from the Government in tax relief, making an overall total of 8 per cent contribution.

Annual contributions into the new scheme will be capped at £3,600 and will be increased in line with earnings in general. The key message is don't delay. Enrolment into the NEST should gradually become available from 2011, but won't be fully operational until 2017; however, every year of delay means a lower eventual pension.

A 25-year-old aiming to retire at age 65 would see their pension reduced by approximately one third if they were to delay saving until reaching age 30.

As an example, someone earning £25,000 a year and paying the default contribution rates would see their projected pension drop in real terms by around £2,000 per year.

The default contribution rates are better than nothing, but would still be considered insufficient to build a good pension unless you start very young. Therefore, to ensure a better return, contributing as much as you can afford to do so, may be something to consider.

Levels and bases of, and reliefs from, taxation are subject to change

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Retirement Planning

House prices seem to be recovering, but should you rely on your property as your pension?

Many in the UK are planning on using their homes as a bank to see them through old age despite property prices falling since their highs of 2007, and it's not just the young, many of the middle aged are putting their faith in property. It is estimated that over 1 million over-50s plan to cash in their homes to help fund their retirement, this is despite losing thousands from the value of their properties over the past two years.

Confidence is returning as Nationwide's figures show; in November, house prices showed to have risen by 0.5 per cent; the hope is that this trend will continue. The apparent revival of the market has rekindled the debate over whether to rely on your home to fund retirement, instead of the more conventional pension plans.

Despite two recessions in the last 30 years, property prices continue to rise. Interest rates are currently at historic lows, meaning now may be an ideal time, for those with a medium or long-term view, to purchase property for retirement.

Using property to fund your retirement is very flexible; you can sell the property when you choose to, and any money you raise can then be spent however you like, whereas a pension usually must be used to provide an income, whether by annuity, unsecured pension or an Alternatively Secured Pension (ASP).

The flip side is that property prices are unpredictable and anyone unfortunate enough to retire when the market is in recession could find it impossible to sell, or risk having inadequate funds or a poor return.

If you do plan to use your property to fund your retirement, one of the simplest methods is to sell up and trade down to a smaller home. Many homeowners plan to keep upgrading their homes until retirement in order to downsize and take any profit free of tax or maximise the amount achievable by equity release. This could mean a bigger mortgage in the meantime, but could be a price worth paying.

If you prefer to remain in your current home, you can take out an equity release plan. There are two main types of equity release: home reversion schemes and lifetime mortgages. With the former, you sell a percentage of the property in exchange for either a lump sum or income. If you still own equity any falls or increases in the value are shared with the home-reversion company. Taking out a lifetime mortgage is the most widespread equity-release option. It allows you to secure a loan against the value of the house, with interest repaid along with the loan from the final sale of the property. Anything left goes to your beneficiaries. One of the most popular types of lifetime mortgage is the drawdown, which provides you with cash in stages, as and when you need it, instead of in a lump sum, thus keeping interest to a minimum.

You need to consider carefully if equity release is right for you and it is always best to seek advice from your Professional Financial Adviser. With lifetime mortgages and home reversion schemes, there will be arrangement fees as well as legal and valuation bills to contend with. Your property is likely to be

valued quite conservatively by an equity release company and, there will be a significant impact on any inheritance you hope to pass on.

Depending on your age at the time, it may actually be difficult to secure a loan for the amount that you need. Lenders may be willing to lend as much as 60 per cent of the property's market value to a 75-year-old, but only a maximum of 20 per cent to someone aged 60 because they are expected to live longer and generate more interest. Home reversion companies make their money by paying far less for the proportion of your home than it is worth on the market.

The most compelling argument for opting for a pension over property is the tax relief. Pension contributions attract tax relief at the basic rate of 20 per cent. For every £80 put away, £100 goes into your pension pot. Higher-rate taxpayers can claim back a further 20 per cent. As yet another tax incentive, you can take up to a quarter of your pension fund as a tax-free lump sum. In addition, occupational schemes are boosted by employer contributions. So it pays to keep a very balanced view when deciding on how to fund your retirement and generate a suitable income.

Levels and bases of, and reliefs from, taxation are subject to change.

To discuss how you can get the most out of your retirement planning, please contact us for further information.

End of Tax Year “check list”

With the end of the current tax-year approaching millions of Brits still have time to reduce their liability.

The remaining months of the tax year represent a window of opportunity for personal tax reliefs to be used and tax efficient investments to be made.

We outline ways to reduce your tax bill:

USE YOUR PERSONAL ALLOWANCES

Check your tax code

Having the wrong tax code can be costing you; those who are particularly vulnerable include young students, and mothers who work part-time. Many pensioners are also on the wrong tax code as they have not automatically been moved on to the higher personal allowances that kick in at 65 and 75. Savers and investors should also check that HM Revenue & Customs isn't deducting too much tax in respect of interest and dividends. When you receive a coding notice, check it against any accompanying notes.

Inheritance tax (IHT)

Start by giving your cash, every tax year you can 'gift' away £3,000 that will not count towards your total estate and if you do not use the full exemption in one year, you can carry it forward, but for just one year only.

Gifts of up to £250 a person are also exempt from IHT, but you are not permitted to use the two together, if a gift is regular, comes out of your income but does not impact upon your standard of living, any amount can be given away and ignored for IHT.

You cannot use your 'annual exemption' and your 'small gifts exemption' together to give someone £3,250, but you can use your 'annual exemption' with any other exemption, such as the 'wedding/civil partnership ceremony gift exemption'.

For example: If one of your children marries or forms a civil partnership you can give them £5,000 under the wedding/civil partnership gift exemption and £3,000 under the annual exemption - a total of £8,000. (Its not just parents who get a gift exemption on marriage, it can be used by grandparents, great grandparents and other people, but the limits are lower. Check www.hmrc.gov.uk for the current limits).

Income tax

Consider giving a 'gift' to your spouse. You can make use of his or her income tax personal allowance, of £6,475, and basic/lower rate band, £37,400, for 2009/10.

Capital gains tax (CGT)

You could make use of the capital gains tax annual exemption for 2009/10 of £10,100 for each individual, including your children. For example, it may be worth selling shares if they have delivered losses because these can be set against gains made on other assets this year.

The tax on profits from the sale of a buy-to-let could be cancelled out by losses on equities. If loss making disposals are not made until 2010/11, they cannot be carried back against gains in previous years.

Main residence relief; If you own more than one residence, you can elect which one you want to be treated as your principal private residence (PPR) for CGT purposes.

Using your ISA allowance

For the 2009/2010 tax-year you can invest £7,200 in your ISA, up to £3,600 of this can be invested in cash, or if you wish, you can invest the full amount into stocks and shares. If you are over the age of 50, the limits are higher and you can invest £10,200 of which £5,100 can be invested in cash. These higher limits will apply to everybody for the next tax year 2010/11. Savings in ISAs grow free from the taxman's clutches.

Pension contributions

Contributions qualifying for tax relief are limited to 100 per cent of an individual's net relevant earnings, subject to an overall limit referred to as 'the annual allowance'. For 2009/10 the annual allowance is £245,000, increasing to £255,000 for 2010/11. Non taxpayers should remember that they have a £3,600 pension allowance which they lose if it is not used and there are now special rules for higher earners.

Levels and bases of, and reliefs from, taxation are subject to change

Rates and allowances - Income Tax

Income Tax allowances table			
Income Tax allowances	2008-09	2009-10	2010-11
Personal Allowance (1)	£6,035	£6,475	£6,475
Income limit for Personal Allowance	Not applicable	Not applicable	£100,000
Personal Allowance for people aged 65-74 (1)(2)	£9,030	£9,490	£9,490
Personal Allowance for people aged 75 and over (1)(2)	£9,180	£9,640	£9,640
Married Couple's Allowance (born before 6th April 1935 but aged under 75) (2)(3)(4)	£6,535	Not applicable	Not applicable
Married Couple's Allowance - aged 75 and over (2)(3)	£6,625	£6,965	£6,965
Income limit for age-related allowances	£21,800	£22,900	£22,900
Minimum amount of Married Couple's Allowance	£2,540	£2,670	£2,670
Blind Person's Allowance	£1,800	£1,890	£1,890

- From the 2010-11 tax year the Personal Allowance reduces where the income is above £100,000 - by £1 for every £2 of income above the £100,000 limit. This reduction applies irrespective of age.
- These allowances reduce where the income is above the income limit - by £1 for every £2 of income above the limit. For the 2008-09 and 2009-10 tax years they will never be less than the basic Personal Allowance or minimum amount of Married Couple's Allowance. However, from the 2010-11 tax year the Personal Allowance for people aged 65 to 74 and 75 and over can be reduced below the basic Personal Allowance where the income is above £100,000.
- Tax relief for the Married Couple's Allowance is given at the rate of 10 per cent.
- In the 2009-10 tax year all Married Couple's Allowance claimants in this category will become 75 at some point during the year and will therefore be entitled to the higher amount of the allowance - for those aged 75 and over.

Income Tax and taxable bands			
	2008-09	2009-10	2010-11
Starting rate for savings: 10%*	£0-£2,320	£0-£2,440	£0-£2,440
Basic rate: 20%	£0-£34,800	£0-£37,400	£0-£37,400
Higher rate: 40%	Over £34,800	Over £37,400	£37,401-£150,000
Additional rate: 50%	Not applicable	Not applicable	Over £150,000

* From 2008-09 there is a 10 per cent starting rate for savings income only. If your non-savings income is above this limit then the 10 per cent starting rate for savings will not apply. The rates available for dividends for the 2008-09 and 2009-10 tax years are the 10 per cent ordinary rate and the 32.5 per cent dividend upper rate. For the 2010-11 tax year, as well as these rates there is a new dividend additional rate of 42.5 per cent.

Rates and allowances - Pension Schemes

Standard Lifetime Allowance	
Tax Year	Amount (£)
2008 - 2009	£1,650,000
2009 - 2010	£1,750,000
2010 - 2011	£1,800,000

Annual Allowance	
Tax Year	Amount (£)
2008 - 2009	£235,000
2009 - 2010	£245,000
2010 - 2011	£255,000

Member Contributions

There is no limit on the amount that an individual can contribute to a registered pension scheme. If you are a UK resident aged under 75 you may receive tax relief on your contributions to a registered pension scheme. Tax relief is limited to relief on contributions up to the higher of 100% of your UK taxable earnings, and £3,600. Any amount of contributions paid over the annual allowance will be liable to the annual allowance charge.

Inheritance Tax thresholds

Inheritance Tax thresholds		
From	To	Threshold/nil rate band
6 April 2009		£325,000

The Inheritance Tax threshold (or 'nil rate band') is the amount up to which an estate will have no Inheritance Tax to pay. If the estate - including any assets held in trust and gifts made within seven years of death - is more than the threshold, Inheritance Tax will be due at 40 per cent on the amount over the nil rate band.

*All figures contained within this article, correct as of January 2010 Source: www.hmrc.gov.uk

The 2009/10 ISA curtain call



The deadline draws closer

It's a scary thought, but we are once again approaching the end of the tax year, and with it the deadline to use up this year's ISA allowance. A lot has changed over the past 12 months, interest rates have been slashed, the stock market has plummeted and some of the providers offering best-buy accounts have bitten the dust. It's little wonder many of us are still trying to decide what to do with this year's cash.

Perhaps you haven't yet decided between a cash account or an investment ISA, but whatever the reason for the delay, we have experts on hand to help you choose. Here we help guide you through the possible options:

Types of ISA

There are two types of ISA; cash ISAs, through a bank or building society, or investment ISAs, through unit trusts, investment trusts or OEICs. During the 2009/10 tax-year you can invest £7,200 in your ISA, up to £3,600 of this can be invested in cash, or if you wish, you can invest the full amount into stocks and shares. If you are over the age of 50, the limits are higher and you can invest £10,200 of which £5,100 can be invested in cash. In 2010/11 tax year, these higher limits will apply to everybody.

ISA limitations

- For cash ISAs, you can presently invest up to £3,600, but this can only be invested with one fund manager.
- For investment ISAs, you can presently invest up to £7,200, but again, this can only be invested with one fund manager.
- Should you wish to invest in both types of ISA, the separate limits for each still apply, but you cannot invest more than £7,200 in total.
- Should you wish to invest in both types, they do not have to be with the same fund manager or provider.

Why choose an ISA?

Anyone over the age of sixteen can open a cash ISA with as little as £1.00. Many are instant access, meaning savings can be withdrawn at any time. They are often a good choice for short-term savers and interest rate paid is usually higher than the average savings account.

Investment ISAs, because of their tax-free benefits, are often beneficial for those looking to enhance retirement savings. They can also be a good option to later generate a tax-free income in addition to a pension.

Transferring between ISA's

- You cannot transfer an investment ISA into a cash ISA. However, you can transfer between investments ISA managers.
- You can either transfer a cash ISA into another cash ISA with a new manager, or into an investments ISA.
- You do not affect your annual ISA allowance should you transfer money saved in previous tax years, providing the transfer is arranged by the new ISA manager.

ISAs are freely available but returns can vary greatly, especially with investment ISAs. Also, as of April 6 this year, all ISA investors will see a rule change enforced which will boost their current £7,200 a year limit to £10,200, therefore, to make certain all of your individual needs are met now and in future, it is always worth seeking professional advice to ensure you make as much from your money as possible.

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Your Future Financial plan

Principles that could shape your investing

10 key themes which could decide whether 2010 is good, average or bad for savers and investors.

1. 'Quantitative easing' and other stimulative measures

The strong stock market gains of 2009 were boosted by 'easy money', such as borrowing in dollars and buying 'risk assets' such as commodities and emerging market equities. But have they aided economic growth and what could happen if the flow is turned off and the policy reversed?

2. Interest rates are set to stay low despite rising inflation

The UK's Consumer Prices index is expected to rise at an annual rate of 3 per cent, meaning savers will see little or no real return on their deposits.

3. Some fixed-interest bonds may be attractive

Bond funds, particularly strategic bond funds and those which can invest in bonds issued in currencies other than sterling, are priced to offer a fair trade-off between the risk of companies going bust and the historically high yields that reward investors for taking that risk.

4. Some fixed-interest bonds could be a minefield

Government bonds, particularly conventional UK gilts, can be very complex, so a full understanding is essential. Should bond markets begin to question the UK Government's ability to service the spiralling public debt, or believe that

inflationary pressures will not be contained, bond yields should rise significantly. This could, however, present an opportunity for new investors to lock in high yields. Historically low annuity rates should also rise.

5. Inflation could bring rewards

Many investors who value wealth preservation more than wealth creation are taking big positions in inflation-linked bonds, particularly US Treasury Inflation Protected Securities (TIPS), because they fear an inflationary position. However, the plus side, particularly for the Government, is that inflation will shrink the real value of the UK's debt.

6. Golden days

Optimistic predictions are that gold could reach \$2,000 per ounce in 2010, although it might be a rough ride. The US dollar is likely to be volatile in 2010 and can affect the price of gold; however, it is still likely to be seen as a store of value away from volatility.

7. Reduced supply of dividends

Most UK quoted banks, a mainstay of dividend income in the past, are ring fenced, so the UK stock market is relying on very few large companies to supply the majority of the UK's total dividend pool. Investors

seeking rising equity income could consider spreading their nets to Europe and Asia.

8. Small companies

Under-discovered smaller companies should not be ruled out. Over time, if you are patient, these could produce a good return.

9. Emerging markets

Historically, if China says it will grow by 8 per cent then that is what will happen, particularly when it has spent about \$600 billion on infrastructure projects to ensure that it does. Nevertheless, our economic destiny increasingly depends on economic fortunes in Asia and the southern hemisphere. Research conducted by Goldman Sachs suggests since 2007, Brazil, Russia, India and China have increased their share of global economic growth to nearly 50 per cent. These markets should be more prominent in allocations to overseas equities and bonds.

10. Diversity makes sense

In past years of volatility it is hard to predict how asset classes will do, some years they do well and others they fail. You cannot hope to predict which of the various outcomes from the financial crisis will favour which particular asset class. That means it makes sense to have your investing fingers in several pies.

Levels and bases of, and reliefs from, taxation are subject to change.



Reviewing your finances

Your 2010 tidy-up

As the economy continues to bite, follow our guide to help resolve your finances this year.

Maximise your savings

From 6 April 2010, the amount of money you can put into a cash ISA increases from £3,600 to £5,100 so ensure you make full use of this increased tax-free allowance.

When your ISA is topped up to the maximum, you will need to be choosy about a home for the rest of your cash. Interest rates are still down at 0.5 per cent, and in November 2009 inflation rose to 1.9 per cent.

This means that a basic-rate taxpayer will need to secure a gross rate of at least 2.38 per cent on their savings to earn interest in "real" terms, but, as an ISA doesn't charge tax on interest earned, therefore, savers will only need to seek a rate of 1.9 per cent.

Invest in a child trust fund

Parents of children born on or after 1 September 2002 all receive a £250 voucher from the Government to kick off the Child Trust Fund, a special savings account in which family and friends can put in up to £1,200 tax-free per year until the child is 18.

Update or make a Will

It is believed that a staggering percentage of adults in the UK do not have an up-to-date Will. Getting your last wishes down in an official contract should be the top of your financial resolutions, especially if you have dependants. Knowing your dependants or beneficiaries will be cared and provided for should be a priority.

Start a pension

If you haven't yet started a pension, now is the time. A rough rule of thumb, according to the Pensions Advisory Service, is that you should pay in half your age as a percentage of your salary per year to afford a reasonable retirement.

Stakeholder pensions, because of their simplicity, are a good place to begin. You don't need to part with a fortune either, as little as £20 per month is usually allowable.

Get life insurance

If you have dependants, getting appropriate life cover should be high on your financial priority list. If you already have life insurance, it is worth checking to see if you can get a cheaper equivalent deal as the difference between the cheapest and most expensive deals can often be significant, you may be able to obtain a new policy cheaper, especially if you have given up smoking more than 12 months ago.

Switch to a cheaper mortgage deal

If your mortgage is coming to an end soon, take time to research the market and seek a new agreement; consider switching to a new deal, at a better rate, should one be available. While you may be exposed to fluctuations in the interest you pay, there is growing consensus among experts that interest rates should remain low for some time.

Change to a better current account

If your current account has been a bone of contention for years, use 2010 to do something about it. You don't have to stick with the same bank, there are a range of highly competitive current accounts on the market and the switching process is easy, with most of the major banks now having dedicated switching services to do most of the hard work for you.

Invest long-term money in the stockmarket

2010 could be the perfect time to think long term and consider handing some spare cash to the stock market. Over five years, investors can certainly hope to make a return, especially through some of the emerging markets. It is forecast that the FTSE 100 could end 2010 at 6,000 points, compared with its current average of 5,300.

Claim the benefits you are entitled to

Despite paying tax all our lives, many people don't claim back from the state what they are entitled to. In spring 2009, just 22 per cent of people who were entitled to working tax credit didn't make a claim according to figures from the Citizens Advice Bureau. Pension credits and council tax benefits (soon to be called council tax rebate) are other legitimate benefits often overlooked.

It is always worth seeking professional financial advice when exploring new monetary avenues to seek out the best options to suit your individual needs and requirements.



Protecting your business

Is key person insurance essential?

Latest research conducted by Scottish Widows has found that approximately 80 per cent of small companies, who have key people within their businesses, are not covered for the loss in profit or cost of replacing them. The findings suggest that many sole traders believe they have at least one vital employee whose loss through death, critical illness or serious accident could seriously undermine the survival of the business.

As a key person is often considered the driving force and life blood of a business, without them, businesses could cease to function and can often come to a grinding halt.

The smaller the company the more vulnerable it is to the loss of a key member of staff. Many small businesses have felt the effects of the recession and have become increasingly concerned about cash flow, therefore failing to plan for the unexpected loss of a crucial member of personnel.

Essentially, protection policies such as life insurance and critical illness cover work in the same way for small businesses as they do for those offered to individuals.

Most policies can be tailored to the needs of the company. Critical illness cover can be purchased alone or combined with life insurance and provides protection against an employee being diagnosed with a serious condition. Income protection policies pay out a regular income if the person is unable to work because of illness or injury, which could also provide money to pay for any temporary replacement.

Key person insurance falls under life insurance and is taken out by a company to cover someone who is considered to be vital to the business. More often than not, this is the director or founding partner of the company and perhaps a key project manager, for example.

The cheapest and more basic policies will pay out on death only, while the more comprehensive will have a critical illness element which typically pays out for serious conditions such as cancer and heart attacks.

Calculating the level of cover needed, can be tricky but there are two common ways to work it out. The first is a profit contribution calculation; such as five times

net profit the key person brings into the company, or two times gross profit, and the second, is a multiple of the key person's salary, such as up to 10 times gross. Various factors need to be considered, including the cost of replacing the key person and recouping any lost profits.

“The smaller the company the more vulnerable it is...”

This kind of protection insurance is complex so it is best to get professional financial advice.

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Behave Like Billionaire Buffett

Follow in his footsteps

- “Rule No.1: Never lose money.
- Rule No.2: Never forget rule No.1.”

Warren Buffett is reportedly one of the world's richest men, with an estimated fortune of over \$62bn, according to www.economicshelp.org.

Warren Buffett made his money through identifying companies that he believed were worth more than their market value, investing in them and holding that investment for the long-term, and it certainly seems to have paid off.

Class A shares in his company Berkshire Hathaway were \$15 when he first took over in 1965 – today they are valued at \$109,800 per share.

It sounds simple, but given the volatility of the stock market, it takes a high level of discipline, nerve and conviction in your decisions.

He believes when an investor buys shares in a company they are actually buying that business outright, not just buying a stake. Because of this, he looks for quality management, a durable competitive edge and low capital expenditure.

Value investing

'It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price.'

The basic premise of Buffett's investing style is buying something for less than it is actually worth. However, finding these stocks can prove difficult and it's easy to mistake a company that has seemingly been forgotten, because nobody has spotted its opportunity, with one that is simply a plague. For that reason, Buffett applies some of the measures that are listed below.

Strong profitability

'If a business does well, the stock eventually follows.'

Buffett tends to invest in companies with a proven level of strong profitability, giving more concern and focus to this than what analysts predict will happen in the future. He looks at a number of measures to assess a business's profitability, including return on equity (ROE), return on invested capital (ROIC) and a company's profit margin.

ROE is a measure of the rate at which shareholders are earning income on their shares and Buffett uses this measure to see how well a company is performing compared to other businesses in the same sector. ROE can be calculated by dividing the company's net income by the shareholder's equity. It is thought that Buffett prefers a company that has a ROE in excess of 15 per cent.

Not too much debt

'Should you find yourself in a chronically leaking boat, energy devoted to changing vessels is likely to be more productive than energy devoted to patching leaks.'

A company with a high ROE could be supported by substantial levels of debt, which Buffett is keen to avoid. As a safeguard, he also takes into account the ROIC. This helps take debt out of the equation by adding it back to the shareholder equity before doing the calculation.

Understanding the business

'Risk comes from not knowing what you're doing.'

Buffett only invests in businesses he can understand and analyse, rejecting those that operate in complicated markets or where he is unsure of their operating model. He has ignored the technology sector because he has claimed not to fully understand it.

Strong management

'Pick out associates whose behaviour is better than yours and you'll drift in that direction.'

Buffett places great emphasis on the quality of a company's management. He asks three questions of a company's management team; are they rational, do they admit to mistakes and do they resist the institutional imperative? He takes a dim view of management teams that simply follow the crowd.

The 'Moat'

'Your premium brand had better be delivering something special, or it's not going to get the business.'

Buffett coined the phrase 'moat' to refer to the competitive advantage or unique proposition that gives a business protection against their competitors. Those businesses that have a wider moat will offer more protection to the main core business, which he calls the castle.

Think long term

'Our favourite holding period is forever.'

When Buffett buys a stock, he buys it with the view of holding it for some considerable time, he suggests don't speculate – invest. Don't rush:

'You do things when the opportunities come along. I've had periods in my life when I've had a bundle of ideas come along, and I've had long dry spells. If I get an idea next week, I'll do something. If not, I won't do a damn thing.' Buffett is a master of the waiting game, preferring to sit on his money, than buy into a company just for the sake of it. He understands markets rise and fall and would prefer to wait until he feels a stock is cheap enough to buy.

If you would like to discuss your investment strategy please contact us for further information

Tax reprieve for green VCTs

Benefits for the “clean energy” investor

Some useful information about VCTs:

1. They attract 30 per cent upfront tax relief on investments of up to £200,000 a year. Investments qualify if held for five years or more.
2. The growth is free from tax, as are any dividends received.
3. VCTs invest in unquoted businesses with gross assets of up to £7m.
4. Some VCTs are “planned exit” or “limited life”. They usually aim to wind up after five years and are mainly used for their tax breaks. HM Revenue and Customs are considering a clampdown.
5. A VCT can keep 30 per cent in cash. Of the other 70 per cent, 30 per cent of this must be invested in the firm's shares.

Now, investors are being offered tax breaks for going green with a new range of venture capital trusts (VCT) which invest in renewable and clean energy companies.

VCTs are funds that give investors 30 per cent tax relief on new investments of up to £200,000, in addition to tax-free growth and dividends. They were created to help expand companies, and so become a suitable match for the new clean-technology sector.

The value of green VCTs has tripled over the last two years according to the Tax Efficient Review, an investment advisory firm, and they could become increasingly more popular, due to the changes to the rules on pensions tax relief, which will be reduced from 50 per cent for those on £150,000 to 20 per cent on £180,000 from April. This is prompting investors to supplement their pension savings with vehicles such as VCTs.

The clean-energy industry has just received a boost from the Crown

Estate, which in January awarded a handful of energy companies £100 billion-worth of contracts to build large-scale, offshore wind farms as part of the Government's plan to derive a third of the UK's energy from wind by 2020.

Government subsidies for smaller onshore wind farms, and other forms of green power are likely to be more attractive to VCTs.

In April, a new system of “feed-in tariffs” will be introduced, under which households and businesses will be able to sell back to the grid the energy they generate, whether that's through wind farms, solar panels, or combined heat and power units. The tariffs apply only to “local-scale” projects that generate up to five megawatts of energy at a typical cost of between £1m to £20m. VCTs can invest only in firms or projects with maximum gross assets of £7m.

Feed-in tariffs provide greater predictability for investors and it is believed there will be a strong demand

as a result, many are now looking to invest in onshore wind, as well as hydro and biomass power projects. VCTs that invest in environmental assets have largely beaten more general schemes, as they normally invest in small to medium-sized onshore renewable energy projects in the UK.

Some new green VCTs back environmental projects that convert household and commercial waste, such as leftover food, into a form of renewable energy which can be used to heat and light homes and even power cars. Usually these funds are attractive because the earnings are backed up by the obligation from local authorities and companies, to reduce the amount of waste they send to landfill. There are some good returns to be made in this market and it's something that is of concern to most people, so a number of managers are gaining interest in environmental VCTs.

However, VCTs should still be viewed as high-risk investments. The difficulty is that many environmental projects only come good over the longer term, whereas newer VCTs tend to wind-down after just five or seven years. An additional difficulty is that investments in a single company are currently capped at £1m, but the nature of most environmental projects means they need significant financial backing.

Therefore, it is always worth weighing up the positives and negatives before making a decision. Gaining professional advice is always beneficial to establish which investment strategy is right for you.

The value of your investment and the income from it can go down as well as up and you may not get back a significant proportion of your investment. Past performance is not an indication of future performance. Please contact us for further information or if you are in any doubt as to the suitability of an investment.

Levels and bases of, and reliefs from, taxation are subject to change.

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Increase your home security

Mortgage Payment Protection Insurance

If your circumstances change meaning you cannot work, or lose your job, it is a good idea to have an insurance policy to cover your mortgage payments so you do not lose your home, however, policies of this type can be limited. Mortgage Payment Protection Insurance (MPPI) is the most common insurance to cover mortgage payments, but is it covered in other policies?

The basics

MPPI is not compulsory, although it can be conditional on some loans, anyone with a mortgage should certainly consider it. For those who may have stretched themselves financially with their mortgage it is even more important to be covered in the event of unforeseen unemployment or a change in circumstances. Good policies may also cover bills relating to your mortgage, such as interest or insurance repayments.

The State benefits for people in this situation are limited and they are means tested, so if you have savings you would be expected to use them first. Also, the wait for payment could be up to nine months.

A good MPPI policy will start to pay one month after you are out of work, either through illness or redundancy. Typically policies pay out for 12

months or 24 months. It is thought that within that period people will have found alternative employment or recovered from an illness.

MPPI will not pay out if you are off work because of a medical condition you knew about, whether diagnosed by a doctor or not, when you took out the insurance, or for a medical condition that persists or returns in the first 12 months of the policy. Also, it will not pay out for pregnancy, unless there are medical complications.

Most policies will not cover for stress or back related injuries, two of the most common reasons for employees being unable to work.

It will not pay out if you lose your job through resignation, take voluntary redundancy, are dismissed for misconduct, or if you cannot work as the result of an illegal activity. If you are made redundant

involuntarily, you will have to be claiming Job Seekers Allowance before receiving a payout from MPPI.

Additionally, MPPI doesn't pay out if you lose your job within the first 60 days of the policy commencing.

Costs, payments and providers

MPPI is often taken out at the same time as a mortgage, and it is often the mortgage lender which will provide you with MPPI. However, it is not compulsory for you to take MPPI from your mortgage provider, or from a company associated with your mortgage provider.

The cheapest of policies can cost as little as £10 per month. However, the cheaper policies usually have a longer 'excess period', perhaps of 90 or 180 days. This is the length of time you need to wait after becoming unemployed before the insurance begins to pay out.

Claiming process

Once you tell your provider that you're out of work and this is verified, your insurance payments should start; this is typically after approximately one month without a salary.

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