

Financial highlights, and a bit extra

Before you grimace and think 'oh no, not another newsletter', let me explain why you should be looking out for Xentum Extra every other month.

The kind of financial goings-on that affect your clients can get quite complex and, dare I say it, a touch boring when you're not a personal finance obsessive like yours truly. So, the aim of Xentum Extra is to follow and absorb relevant news, then give you some edited highlights.

Your bi-monthly missive will be brief, to the point and actually useful, and we'll also include a case study that helps illustrate key subjects as well as

demonstrate what we do best; namely maximise your clients' assets.

As this is the first edition, I'd like to tell you a little more about Xentum. We're a wealth management consultancy specialising in clients with over £1 million of assets.

Our name comes from Centum, Latin for 100, and the Roman numeral X. This embodies our vision to have 10 Financial Planners, each looking after just 100 clients. Our Financial Planners share my belief and passion in what we do; to perform with the level of expertise and professionalism that has



previously been the preserve of legal and accountancy practices. Another aspect that makes us unique is our dedication to fostering collaborative relationships, with clients, with each other, and with other likeminded professionals whose services, expertise and approach complement our own.

In this issue, we focus on the investment market and pensions taxation. I hope you find it useful.

Dominic Baldwin
Managing Director
Xentum

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• The outlook
Latest market commentary from Xentum.

• Using pensions to offset tax
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The outlook

Nervousness with the global financial sector has contributed to one of the worst first quarter performances of the FTSE100 since records began.

The problems started in 2007 with the large divergence between the troubled banking sector and the cash rich resources sectors (Oil and Gas, as well as Basic Materials) which make up over half of the FTSE All-Share. While the financial sector was hit by a continuing credit crisis and ongoing writedowns in bad debts, the resource sectors

outperformed strongly against a backdrop of rising commodity prices. The weakening dollar further fuelled the rise of dollar-based commodity prices, pushing up profits and market values.

This disparity is unsustainable in the longer term and the likely outcome is a general correction in commodity prices. This could ease the current inflationary pressures and enable central banks to ease monetary policy more aggressively, supporting any slowing economic growth. ▶

Clear
guidance
and excellent
support





► Concerns for the UK economy's outlook are likely to lead to a weakening Sterling against most major currencies, especially towards future movements against the dollar, but this may well help revive more export driven FTSE companies which have significant international exposure through overseas investments, sales and profits.

Encouragingly, the current trends are showing signs of reversing and a good indicator is LIBOR rates. The ongoing liquidity crisis forced LIBOR to rise above 6%, however, signs that this rate is falling to more normal levels should boost investor confidence and signal a rally in the markets.

Andrew Morris, Senior Fund Manager,
Rowan Dartington Portfolio Management.

Case study

Using pensions to offset tax

It's fair to say that tax is the bane of our clients' lives; probably yours too. So finding ways to make their assets more tax efficient is particularly satisfying and we put a lot of work into it.

Using pensions contributions is a very effective way of reducing the higher rate tax due on earnings as well as interest, dividends, rental income and chargeable gains from investment bonds. Pension contributions can also reduce tax for the over 65s, although the details are too complex to sum up quickly here.

Here's how it works:

Individuals can pay the higher of £3,600 gross a year or 100% of their annual UK earnings, up to the Annual Allowance of £235,000 (2008/09 tax year), into their pension and receive tax relief on the total amount. Monthly contributions are made in one of three ways:

1. Through an occupational pension scheme, where the company deducts the gross contribution from the monthly wage before it is taxed, so tax is only paid on the lower amount.
2. Through a private scheme operating the relief at source method, where contributions are made net of basic

rate tax (20%, previously 22%) and the pension provider claims the tax relief and adds it to the pot.

3. Through a private scheme where the individual pays contributions gross, then claims tax relief through their PAYE code or tax return.

The majority of our clients are higher rate tax payers and we recommend that, where possible, they pay an additional one-off contribution into a suitable pension to offset some or all of the higher rate tax.

Example:

In the 2008/09 tax year, Mr. X has taxable earnings of £86,000. The threshold for higher rate tax is £36,000, which means that £50,000 of Mr. X's earnings are subject to higher rate tax (£50,000 x 40% = £20,000).

Mr. X has made a £40,000 net contribution (£50,000 gross) to a personal pension. As well as giving him £10,000 tax relief, it extended his basic rate tax band by £50,000. His basic rate tax band is now treated as being £86,000 and he only pays basic rate tax on the earnings previously subject to higher rate tax. This equates to an income tax saving

of £10,000 (£50,000 x 20%) in the 2008/09 tax year.

Whilst the gross pension contribution is £50,000, the cost of the contribution is effectively £30,000:

Gross pension contribution:	£50,000
Tax relief at source:	£10,000
Reduction in income tax:	£10,000
Effective net cost:	£30,000

The success of Mr. X's tax offsetting also relies on the choice of pension. Having thoroughly researched the market, we sourced a very competitively charged personal pension.

By establishing Mr. X's investment risk profile, we then constructed an investment portfolio that suits his attitude to risk and investment objectives. We will continually monitor the pension and have an annual review with Mr. X to ensure that the investment portfolio remains appropriate.

Mr. X is now a very happy man.