

Financial
planning.
And a bit
eXtra

To think big, you also have to think small



Our second newsletter has landed and in case you're still wondering 'who on earth are these people?'; allow me to elaborate.

Xentum is a wealth management specialist and I'm the Managing Director. That doesn't mean I sit in my office issuing orders; far from it. Our ethos is one of collaboration and if I wasn't in the thick of it, meeting clients and helping the team find solutions to the varied financial complexities we tackle every day, it wouldn't be worth doing.

That's just one of the ways I believe you have to think small to be big. Even more crucial is limiting the number of clients each of our planners has to just 100, ensuring they have plenty of time to provide a truly personal service.

Each client has an annual review to assess the performance and suitability of their financial arrangements. However, it's important to us that they can call any time to discuss any financial issues.

Thinking small ensures our service is impeccable. Thinking big means we're

growing steadily and are able to answer very diverse requirements. This week, for example, I'm working with a solicitor and an accountant to mitigate an inheritance tax liability, then I'll be having a cuppa with Mrs Johnson while we go over her pension. And I know I'll enjoy both.

Which leads me on to this month's case study; a pension opportunity rejuvenated by the recent budget. We also focus on the current investment outlook. Our newsletter may be small, but it's big on interest.

Dominic Baldwin
Managing Director

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The outlook



Following one of the toughest quarters for equities in recent memory, the UK equity market rallied strongly in April. Despite continuing evidence of a sharp slowdown in the housing market and the broader economy, with recently released data on average house prices showing a sharp deterioration, the market has seen returns of 6.3%.

It's therefore possible that much of the bad news has already been discounted by current prices.

Even the substantial rights issue fund raisings in the banking sector have not been too badly received, as the need to rebuild balance sheets comes as no surprise. ▶





- ▶ The global credit strains also seem to be easing thanks to central bank liquidity injections. Indications that tensions are reducing include a 15% fall in the gold price since the peak in mid April, a sharp fall in volatility indices and falling government bond prices.

Despite current volatility in markets, investment either directly into equities or bonds, or into multi-manager funds makes eminent sense and, over the longer term, is still likely to yield much better returns than a building society account or, even worse, hoarding cash under the mattress.

By Chris Ralph, Partner, Maia Capital.

Case study

Salary sacrifice to save on national insurance

Whenever any changes are made in the Budget that may negatively impact our clients, the first thing we do is look for ways to compensate. The recent changes to National Insurance (NI) mean that many are worse off. Employees were paying 11% NI on their earnings up to the Upper Earnings Limit (UEL) of £670 per week, and 1% on earnings above the UEL. The UEL has now been increased to £770 per week (£40,040 per annum), so they will have to pay NI at the higher rate on more of their earnings. In some instances the change will completely negate the benefit of the 2% reduction in the basic rate of income tax from 22% to 20%.

Salary sacrifice (and bonus sacrifice) can be used by employees to retain the benefit of any reduction in tax but offset the loss from the increase in NI. Salary sacrifice may not be appropriate for all employees. As cash pay is genuinely being sacrificed, other salary-related benefits may be affected by the reduction,

including borrowing for mortgages and some State benefits. Where the employee's earnings before and after the sacrifice exceeds the UEL, the sacrifice is less effective for the employee, as they only save 1% NI instead of 11% for sacrifices below the UEL. However, where appropriate, it can have significant benefits.

Here's how it works:

A salary sacrifice is where an employee gives up the right to receive part of the cash pay due under their contract of employment in return for their employer's agreement to provide them with some form of non-cash benefit, such as a pension contribution. By doing this, the sum is paid free of income tax and NI, which can offset losses made on the remainder of the salary.

Example:

Mrs X earns £30,000 gross per annum and is contractually entitled to a bonus each year, which is based on the profits

of the employing company. Mrs X is informed on 30th June that the bonus will be £10,000 and it will be paid on 31st July. Mrs X has the option of:

1. Receiving the bonus and paying income tax and NI on the sum.
2. Giving up her contractual rights to the bonus in return for the company making a £10,000 employer pension contribution.

Mrs X chooses the second option and returns the completed documentation to the company before 31st July. Mrs X benefits as the pension contribution is paid free of income tax and NI (an income tax saving of £2,000 and a NI saving of £1,100). Her employer will not pay NI on the pension contribution and Mrs X could negotiate for them to add their NI saving to the contribution, which will further enhance the benefits of the bonus sacrifice by £1,280. The three possible outcomes are shown below:

	Receive bonus:	Pension contribution (employer keeps NI saving):	Pension contribution (employer gives up NI saving):
Gross bonus:	£10,000	–	–
Net bonus:	£6,900	–	–
Pension contribution	–	£10,000	£11,280

If her employer agrees, Mrs X could also reduce her regular contributions to the pension scheme and increase her disposable income.