

HEADlines

July, 2009 3rd Edition

the route
City wealth club

If diversity is the key to a balanced portfolio - are you making the most of the investment opportunities in the market?

THE ROUTE - ALTERNATIVE INVESTMENTS

2008 was an exhilarating year for The Route – City wealth club, we updated, up lifted and re-branded, however, 2009 is looking to be even more exciting. The Route team, after reviewing feedback gathered by the Scorpio Partnership from interviews held with you, our members - our most important consultants - have come back with this creative new initiative.

You told The Route that you had an appetite for short term, 'non core' investments which, whilst carrying a higher level of risk, also offered the potential for a significantly higher return than conventional assets. In order to meet your desire for this type of investment, The Route is proud to present our latest venture ... The Route – Alternative Investments.

The Alternative Investment platform has been created to enable you to take advantage of the vast array of investment areas available, in conjunction with achieving your life goals. In today's uncertain economic climate The Route has realised that access to

this level of diversity is imperative – the key to creating a well balanced portfolio.

So, after all our researching, we would now like to share the results with you. The Route has created a myriad of investment options, targeted at producing returns of between 15-30% per annum and covering a range of areas including (but not limited to) film production loans, fixed term property bridging, short term company development loans and longer term equity investments. To ensure the diversity and liquidity you crave, these investments have terms that range from a few months to approximately three years - depending on the project.

An example of one of our initial investments, made in January 2008, is *The Laundry Warrior*, a film produced by Barrie Osborne who, incidentally, produced *The Lord of the Rings: The Return of the King* with Peter Jackson. This was a USD5m bridging loan

with a return of 4.5% per month interest for 8 weeks (annualised return of over 50%). Included were 1% of the net profits from the film – due for release later this year, we recommend watching it! The capital and interest was paid back by the end of the eighth week.

For a different example; a Route Member financed a residential property investment which completed in April 2008. This required an emergency bridging loan of £200k, for 5 months, at an interest rate of 6.25% per month, secured against the residential property. The return was received earlier than the initially projected loan period, with the total interest paid being £53k.

The risk categorisation for these investments is absolute, with finance often being provided on an unsecured basis. However, as with all opportunities The Route offers its Members, we seek to mitigate the level of risk by conducting extensive due diligence on each project. Our aim is to look after our Members' money wisely whilst still creating a 'blend' of investments which will expand your portfolio.

Our numerous pilot projects have met with considerable success and we are very excited about the Alternative Investment platform – and hope you will be too!

To take advantage of these bespoke opportunities please contact your Relationship Manger, who will be happy to provide you with all the information you require before you take advantage of our Alternative Investments.

Richard Roberts
Sales Director





Viewpoint

Director
Mark Worrall
Reflects on the ever
changing status of The City

The last year has been memorable in many ways, but possibly not in the ways we would like to remember it. We have seen the City rocked with change and uncertainty, interest rates plummet, Parliament caught up in scandal and the Labour Government teetering on the edge of collapse. All in all a year for the history books.

Out of the ashes rises the phoenix – or so we, at The Route – City wealth club, believe. With so much transformation occurring you will be happy to know we have not just been sitting back and watching from the sidelines. We have viewed our changing economy as an opportunity, a chance to seek out new and improved ways in which we can better serve our Members.

With that in mind, this quarter's Headlines Newsletter focuses on our latest creation; The Route – Alternative Investment platform. This is a thrilling new venture that we are all really excited about!

As we know that many of you are too busy to review, in full, the amendments brought about in the April 22nd Budget Report, Simon Pimblett has provided a condensed review of what the significant implications will be, to you. In line with this, Jonathan Brownlow has given an update on the latest pension changes that Messrs. Brown and Darling have concocted.

And finally, a quick update on The Route and our evolved Life Goals section of your Report – helping you understand where you are going and how you are going to get there.

Don't forget that we are here to help with all your financial planning requirements. If you would like to have a review, or refer a friend who may benefit from our expertise, we are only a phone call away.

Until the next quarter,

Mark

THE BUDGET ROUND-UP

In the aftermath of the Budget, there has been understandable confusion over what tax changes have taken place and what changes are due to take place. Now that the dust is beginning to settle, it seems an appropriate time to try to provide some clarity.

Income Tax

For the current tax year (2009/2010) nothing much changes: everyone gets a Personal Allowance (£6,475), and beyond this there are just two tax rates for earnings – 'basic rate' tax at 20%, and 'higher rate' tax at 40%. The treatment of dividend income mirrors that of earnings, albeit taxed on a different schedule at 10% and 32.5% respectively.

Effective from the start of the new tax year (6 April 2010), the following changes take effect:

* A new top rate of tax, 50%, will apply on earnings above £150,000 pa.

* The Personal Allowance will only be awarded in full to those earning under £100,000 pa. For earnings above this level the Personal Allowance is reduced by £1 for every additional £2 earned. Assuming the 'standard' Personal Allowance to be £6,500 next year, entitlement to the Personal Allowance will therefore look as follows:

Annual Income	Personal Allowance
Less than £100,000	Full Entitlement
£100,000 to £113,000	Progressively Diminishing Entitlement
More than £113,000	No Entitlement

Of note is the fact that this '2 for 1 give up' means that those whose earnings do lie between £100,000 and £113,000 end up in a trap where they effectively pay 60% tax on part of their earnings (owing to the fact that for every additional £2 of earnings they not only pay tax at 40% on such earnings but also bring a further £1 of earnings, previously untaxed, back into play at 40%).

* A new top rate of dividend tax at 42.5% will apply where earnings exceed £150,000 pa.

Pensions

Making contributions into pensions is a long-established way of reducing income and there-

by reducing the amount of tax for which an individual is liable – as well as a means of building up valuable retirement benefits, of course.

Historically, tax relief on pensions has been available at the individual's highest marginal rate (i.e. 40% for a higher rate taxpayer). However:

With immediate effect, anyone whose earnings exceed £150,000 will only be entitled to 40% on pension contributions to the extent that those contributions conform to an established regular pattern. Any contributions that are not part of a regular pattern will only attract relief at 20% once total contributions (regular and irregular) exceed £20,000 for the year.

The regular/irregular rule is an interim rule, brought in to prevent wholesale exploitation of the existing reliefs, prior to the permanent introduction of a new rule from 6 April 2011 [NB this is one year later than the introduction of the new rules on income tax]. From that date, the tax relief available to higher-rate taxpayers on pension contributions will look as follows:

Annual Income	Tax Relief on Pension Contributions
Less than £150,000	Full 40% Relief Available
£150,000 to £180,000	Progressively Diminishing Relief
More than £180,000	Flat Rate Relief of 20% Applies on All Contributions

We do not as yet know whether the relief available to those in the £150,000 to £180,000 bracket will reduce in discrete steps or on a continuum, but the upshot for those earning over £180,000 is that from

April 2011, they will:

1. Lose their entitlement to the Personal Allowance
2. Pay a top rate of tax of 50%



3. Have relief on their pension contributions restricted to 20%

The aggregate effect of these measures will mean that, for example, someone earning £500,000 pa and making pension contributions of £50,000 pa, will see the amount of tax that they pay for the year rise by a not-insignificant £47,600.

Capital Gains

If there's any glimmer of hope in all this, it is that (so far) Capital Gains Tax remains unchanged. Therefore the higher earner who loses his Personal Allowance and pays a top rate of income tax of 50% can still enjoy a full annual Capital Gains Tax exemption on (currently) the first £10,100 of realised gains, with CGT payable at just 18% thereafter (or just 10% if Entrepreneurs' Relief can be claimed). For investment strategy this means that investments geared towards growth are far more attractive from a tax point of view than investments geared towards income. A word of caution here though: many feel that the imbalance between Capital Gains Tax and Income Tax cannot be sustained, and that the only reason Capital Gains Tax was not addressed in the last Budget was that the 18% regime had only recently been implemented. The feeling is that, with the need to raise taxes being a pressing one, an increase in the rate of CGT is on the cards just as soon as the Chancellor feels he can escape charges of making a U-Turn.

Offshore Disclosure

Also in the Budget the government announced that a 'New Disclosure Opportunity' would commence in the autumn and run through to spring 2010. Details have yet to be finalised, but the new 'Opportunity' will undoubtedly mirror the Offshore Disclosure Amnesty of 2007, in which, as a result of HMRC having obtained details of all customers of the high street banks with offshore accounts held via those banks' sister operations, taxpayers were invited to 'come clean' settle any outstanding tax due (plus a maximum penalty of 10%), prior to HMRC sifting through the data and discovering any undisclosed liabilities itself (in which case the penalties would range from 30% to 100% - or worse).

Following on from the Budget announcement, in late May HMRC announced that it was to apply for a blanket order that would legally compel every bank with a UK presence to hand over details of customers with offshore accounts. The objective of the blanket order will be to dispense with the need to apply for orders, on a piecemeal basis, for each and every remaining bank, thereby saving HMRC and the Tribunals Service much time and effort.

Further details will become available as the year progresses, but it is worth reiterating that if you are UK Domiciled, your obligation is (and has been for many years) to declare all income and gains to HMRC, whether or not that income or gain arose outside the UK, and whether or not it was ever remitted back to the UK.

Simon Pimblett
Head of Research and Development

END OF THE

The Post Budget Pension Dilemma

Pensions ... AGAIN? We thought exactly the same thing!

Pensions have long been a popular investment structure with their ability to reclaim the full 40% tax paid on your income. However, over the last few years there have been many changes in pension regulations. 2006 saw the introduction of higher contribution limits – which we encouraged our Members to take advantage of – and The Budget announcement in April 2009 has also held a number of surprises. Luckily you have The Route – City wealth club at your fingertips to guide you through the plethora of pension information.

So, what are the new rules and regulations? The illustrious Brown and

Darling team have created a situation where earners of £150,000 plus will now pay 50% tax on those earnings; conversely it is highly likely that you will only be able to reclaim 20% tax relief against these contributions. With this reduced level of relief, the decision to make further contributions has now to be balanced against the possible use of other investments offering similar tax efficiency but greater capital flexibility.

We understand that you are keen to set aside capital for your future and that the tax relief was an added benefit, much improving the attractiveness of the proposition. The market for tax structured investments, offering an alternative to pensions, has developed to accommodate different risk tolerances,

which means a solution, aligned to your particular Life Goals, can be found.

The Route can assist you in creating a portfolio of investment structures that will receive tax relief, at the time of investment, at a comparable level to that offered by pensions. All this whilst still benefiting from income and capital gains tax concessions on the returns generated within the structure. For more information, please contact your Relationship Manager.

Jonathan Brownlow
Financial Advisor

Did You Know...

'Seven Year Rule'

Although many are aware that gifts are subject to a seven year rule for inheritance tax (IHT) purposes, it is frequently believed that the impact of IHT progressively reduces throughout that seven year term.

The reason for this confusion is the existence of the splendidly named 'inter vivos' clause which does indeed progressively taper down the amount liable to IHT, but only on any part of the gift exceeding the individual's IHT Nil Rate Band (currently £325,000) – otherwise the gift is fully liable until seven years have elapsed, at which point it drops out of the equation altogether.

So the lesson is, unless gifting seriously large sums, make sure you live the required seven years, otherwise you really might as well have kept the money yourself!

Simon Pimblett
Head of Research and Development

Cracking It

The cry from our Members, and those in the market for financial advice generally, has often been 'I want more from my relationship than pieces of ad hoc advice'. The Route – City wealth club strives to exceed your expectations. We know that whilst ad hoc advice may lead to initial satisfaction, it in no way looks at the overall picture of what your objectives, ambitions and future aspirations are.

This led to The Route asking the question – 'How can we ensure our Members meet their goals?' We listened and researched, coming up with a financial planning tool that focuses on YOU and YOUR personal life goals. We heard you when you said "I want to retire at 45 or 50 or 63 and a quarter or open up a pro-golf shop in the Caribbean or send my children to university".

It was an enlightening moment when we realised that financial planning should work backwards; let us explain: To meet

your 'Life Goals', we, The Club, have to know what these expectations are; from this point we can look forward and assist you in reaching your objectives, comprehensively and know along the way how you are doing.

That is why we have updated your Membership Report to include the Life Goals page featuring your plans and capital requirements – advising on how best this can be achieved.

Not only do we report on your current arrangements but we also actively provide advice on the most tax efficient way to earn your income, hold your assets and distribute your estate. The Route is continually updating its approach to bring you the most 'up to the minute', investment options, helping you diversify your portfolio.

Richard Admiraal
Director & Relationship Manager

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