

eSmartmoney

Orchid Financial Services Ltd



MARCH / APRIL 2008

Individual Savings Accounts...

consider your options before
the fast approaching deadline

Longer life expectancy

how much will you need when you retire?

Trust in your future

getting ready for changes that
govern certain types of trusts

Capital gains tax

simplification leads to a major reform

ALSO INSIDE THIS ISSUE

Fitter finances...

getting your money in shape

Let's get ethical...

following a responsible agenda

Time for a PEP talk?

Changes from April will mean
money can now be combined



Orchid Financial Services Ltd
Thorney Lakes, English Drove,
Thorney, Peterborough.

Tel: 0844 414 0730
Fax: 01733 271 192

Email: info@orchidfinancialservices.com
Web: orchidfinancialservices.com

Orchid Financial Services Ltd is an appointed representative of Unwin Financial Services Ltd which is directly authorised and regulated by the Financial Services Authority.
Company number 5509898, Incorporated In England & Wales Registered Office - Thorney Lakes English Drove Peterborough PE6 0TJ



want to explore your personal finance options?

Tell us what you need?

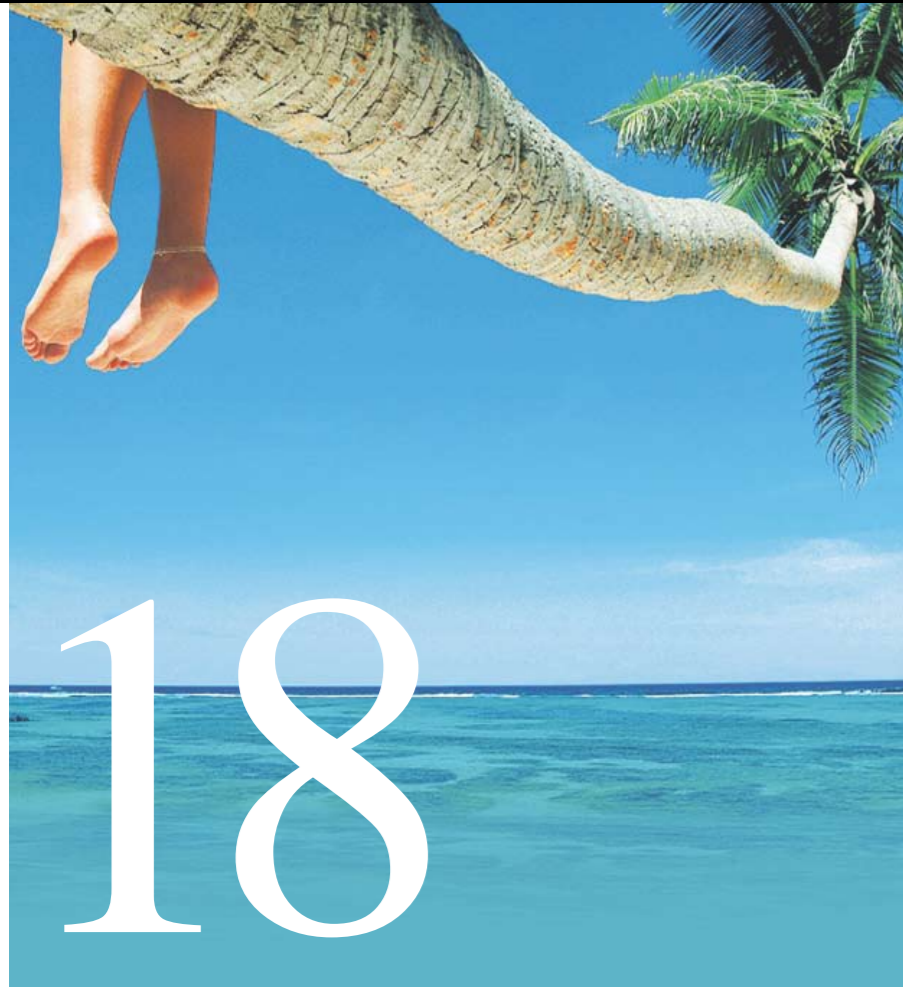
[Click here](#) 



- 05 Let's get ethical... following a responsible agenda
- 06 Fitter finances... the four point plan to getting your money in shape
- 08 Capital gains tax... simplification leads to a major reform
- 09 Individual Savings Accounts... consider your options before the fast approaching deadline
- 10 Diversification... spreading risk across different asset classes
- 11 News in brief... new parents to receive money advice packs
- 12 Trust in your future... getting ready for changes that govern certain types of trusts
- 13 News in brief... more higher rate taxpayers in the UK than ever before
- 14 The demise of the final salary pensions... new measures could speed up further closures

- 15 Buy-to-let landlords... Revenue targets non tax paying investors
- 15 Wealth tip... aiming for higher returns
- 16 The great contenders... pensions and ISAs square up to each other
- 18 Longer life expectancy... how much will you need when you retire?
- 19 Time for a PEP talk? Changes from April will mean money can now be combined
- 19 ISA tips... did you know?
- 20 Self-select ISAs... managing your own investment strategy
- 21 Leading the way... UK savers start earlier than their European counterparts
- 21 The must have today culture... a ticking time bomb for the future





- 21 News in brief...
tax take delivers a massive £56.5bn
- 22 Protecting your
business assets...
how much would it cost to
replace your key staff?
- 24 All change for
retirement tax reliefs...
don't miss the deadline
- 24 The changing
landscape of employee
benefit packages...
a greater control of retirement funds
and assets could become normal
- 25 Beat the end of
tax year deadline...
do you have any unused tax breaks?
- 25 Share schemes...
investors set for tax increases
- 26 A logical approach
to inheritance tax
planning...
protecting what is rightfully yours

- 28 Retiring women
could be
disadvantaged
under tax changes
- 29 A greener approach
to investing
- 30 Where there's a
Will there's a way...
getting started

The articles featured in this digital magazine are for your general information and use only and are not intended to address your particular requirements. They should not be relied upon in their entirety. Although endeavours have been made to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough examination of their particular situation.

Let's get ethical

FOLLOWING A RESPONSIBLE AGENDA

An ethical fund is an investment vehicle that will only invest in companies with a social, moral or environmentally responsible agenda. Each fund has its own set of criteria and rules about the types of companies in which it will and won't invest.

Socially responsible investment (SRI) funds are slightly broader in their investment approach than ethical funds. An SRI fund might only invest in a company if they were animal testing for life-saving medicines, compared to an ethical fund that might never invest in a company that practices animal testing.

These two funds are both measured in shades of green. A "light green" fund uses more relaxed investment criteria when selecting stocks than a "dark green" fund, which has more rigid ethical or environmental requirements. Both ethical and SRI funds will "screen" or vet companies before investing in them.

Ethical funds will exclude companies that invest in "unethical" activities, such as making or selling arms or tobacco, this is known as negative

selection. They only invest in areas that fulfill the particular investment company's own ethical requirements for the fund. An SRI fund will select companies that it thinks "do good", as well as those that might not instantly stand out as 100 per cent ethical, with the aim of promoting change from within. The fund combines both negative and positive criteria when creating its portfolio.

A climate change fund will invest in companies that are developing environmental solutions, such as building wind farms or solar power companies. Although the environment might play a part in the screening process for ethical and SRI funds, strictly speaking a climate change fund is a separate entity.

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

“ A climate change fund will invest in companies that are developing environmental solutions, such as building wind farms or solar power companies. ”

You shouldn't have to give up performance by choosing to be ethical. If you would like further information, please contact us.

Need more information?

Please email or contact us with your enquiry.

If you would like us to email a copy of our electronic magazine to someone you know, please email us with their details and we'll send them a copy.





Fitter finances

THE FOUR POINT PLAN TO GETTING YOUR MONEY IN SHAPE

A credit crunch, turbulent stockmarkets, house price deflation and various murmurings from the financial sector about a challenging year ahead, is testament enough for many to look at ways to baton down the hatches. So what areas should you consider?

POINT 1

Although there is continued pressure on the Bank of England to take action by reducing interest rates that would result in lower borrowing costs for many mortgage-holders, the credit crunch has made it more difficult for the remortgaging process.

If you currently have an expensive non competitive mortgage deal with no redemption penalties, you could save a considerable sum of money by remortgaging to a more competitive home loan deal. This is an option that should be investigated sooner rather than later, as you could end up paying thousands of pounds more than you really need to.

Currently, if you find yourself in a situation where you have to cut your monthly payments, you could consider extending your mortgage term. Your existing lender may allow you to do this, with some permitting extensions on terms of up to 40 years. This really should be a last resort and professional advice should always be taken first before you proceed with this option.

Alternatively if you have a repayment mortgage you could consider moving to an interest only loan. This would effectively mean that you only pay the interest off the loan and not the capital. The onus is then on you to arrange a repayment vehicle that would repay the loan amount at the end of the term. This is one option to consider if you need to increase your cash-flow in the short term. It's important to remember that if you take this course of action you should move back to a repayment basis as soon as your finances permit.

POINT 2

If you are concerned that stockmarkets may continue to remain turbulent for the foreseeable future and want to reduce the exposure and risk of your pension fund to equities, what should you consider doing?

One possibility could be to switch out of your existing scheme's equity fund into its bond fund. Alternatively, if you are in the run up to retirement you may wish to consider reducing your risk exposure by completely moving your

money into your scheme's cash fund. This should then be continually reassessed on a regular basis to make sure that your fund choices are consistent with your risk reward profile.

A pension should always be viewed as a long-term investment. Historically exposure to equities has shown that, over the longer term, they have consistently out performed cash. It's important to remember that if you are a long way from retirement, you could be considerably disadvantaged by not having the appropriate allocation of your pension invested in equities.

“ If you currently have an expensive non competitive mortgage deal with no redemption penalties, you could save a considerable sum of money by remortgaging to a more competitive home loan deal. ”

POINT 3

Stockmarket investors may wish to consider moving some of their money into more cautious investments, such as cash or bonds. However, the key thing to remember is not to panic and in some instances to do nothing as history has shown that this is usually the best course of action in such situations. If you have entered a market at its peak and then exit at the bottom, tempting as it might be to withdraw money when markets drop sharply, this crystallises your losses.

POINT 4

You may consider that depositing your cash in a savings account is a safer option. Institutions

affected by the credit crunch may decide to maintain higher savings rates in an attempt to attract more depositors' cash and increase reserves.

It's worth remembering that if a bank collapses, the maximum that the Government will currently guarantee to savers is £35,000, so spreading your money across a number of different institutions is a safer approach take. Following the run on Northern Rock this quickly led to the Chancellor publishing a consultation paper on the depositor protection regime. Within weeks he had also issued a 100 per cent guarantee on the first £35,000 of savers' deposits in the event of a bank collapse. This replaced a regime which previously offered 100 per cent protection on only the first £2,000, followed by 90 per cent on the subsequent £33,000.

The government-backed National Savings & Investments also offers a range of savings products, but has recently reduced rates on some of its most popular offerings.

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

Need more information?

Please email or contact us with your enquiry.

If you would like us to email a copy of our electronic magazine to someone you know, please email us with their details and we'll send them a copy.

Capital gains tax

SIMPLIFICATION LEADS TO A MAJOR REFORM

Since the end of last year there has been much media talk and press coverage about the changes announced by the Chancellor in his first Pre-Budget Report. But for many of us what really are capital gains tax (CGT) and how could these changes announced potentially affect us?

We each all receive an annual CGT allowance and any profits within it are tax-free. In this current 2007/08 tax year the allowance stands at £9,200. CGT is a tax paid on any profits you make from selling an asset such as stocks and shares, a property (although your main home is exempt), antiques, or even a business.

Any profits over that amount are added to your income and taxed at the relevant rate. In the current tax year, depending on how much you earn your profits will either be taxed at 10 per cent, 20 per cent, or 40 per cent. There are ways to reduce your tax bill by offsetting any losses you make from selling assets against any gains and, currently in this tax year, you can benefit from taper relief.

At last years Pre-Budget Report the Chancellor announced a major reform of the CGT regime. As part of this change the tax-free annual exempt amount will remain, but taper relief and the indexation allowance will be withdrawn from 6 April this year.

All assets will from April be subject to a charge of 18 per cent regardless of the length of time you had

owned them. The change was designed to increase taxes paid by private equity firms and, according to the Government, deliver a more sustainable, simplified and internationally competitive system.

The changes are good news for private landlords, the real winners, as they will be better off under the new flat-rate scheme. However, for many small business owners, an 18 per cent flat rate could mean paying almost twice as much tax when they sell up. In addition employees who are members of their company's save as you earn scheme also face a tax increase if their profits are bigger than their annual CGT allowance.

The government is sticking with its plans to scrap taper relief and introduce the flat rate, so buy-to-let investors will still benefit from lower taxes, while investors who are members of save as you earn schemes could still end up paying more. However, for small business owners there is a new entrepreneurs' relief.

This will allow them, and any employees or company directors who hold at least 5 per cent of a company's shares, to pay just 10 per

cent on their first £1million of capital gains. Individuals will be able to claim relief on gains from a number of investments, but only up to £1million of profits over their lifetime, not for each sale. On gains above £1million profits will be taxed at 18 per cent.

THE RELIEF WILL BE AVAILABLE IN RESPECT OF:

Gains made on the disposal of all or part of a business, or gains made on disposals of assets following the cessation of a business by certain individuals who were involved in running the business.

In addition, the relief will also apply to gains on disposals of shares (and securities) in a trading company (or the holding company of a trading group) provided that the individual making the disposal: has been an officer or employee of the company, or of a company in the same group of companies, and owns at least 5 per cent of the ordinary share capital of the company and that holding enables the individual to exercise at least 5 per cent of the voting rights in that company.

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

Individual Savings Accounts

CONSIDER YOUR OPTIONS BEFORE THE FAST APPROACHING DEADLINE

If you are thinking about taking out an Individual Savings Account (ISA) or using up any unused allowance, time is running out if you want to meet the 5 April 2008 deadline.

With the equity markets going through a period of turbulence if you are concerned about allocating your full ISA allowance to equities, there are other strategies you may wish to consider. One is to split your ISA allowance between cash and equities, investing up to £3,000 in a cash ISA account and up to £4,000 in a stocks and shares plan.

From this April, the overall ISA allowance increases to £7,200, with a maximum £3,600 allowed in cash. ISA rules will also be simplified from April, removing the distinction between mini ISAs and maxi ISAs and bringing personal equity plans (PEPs) under the ISA umbrella. The biggest change is that cash ISA savers will for the first time be allowed to switch accumulated cash ISA savings into stocks and shares, although you cannot switch equity investments to cash.

“From this April, the overall ISA allowance increases to £7,200, with a maximum £3,600 allowed in cash.”

If you are a first-time equity ISA investor you may wish to consider choosing a defensive equity income fund. If your risk reward profile is higher and you don't know which assets to invest in a multi-asset fund could provide you with a diverse range of investments that includes property and commodities, shares and gold.

Capital-protected products offer another route to peace of mind when stock markets are turbulent, although there is less to gain if shares start to move ahead. Managed funds, particularly emerging markets, commodities and cash funds are also another consideration.

Alternatively, regular savings, rather than investing a single lump sum, is another method to investing a consistent amount at regular intervals. You can gradually drip-feed into the market regardless of the price on any given day. This is known as pound cost averaging and can help smooth out the effect of market turbulence. Nobody can tell for sure whether an annual lump sum will perform better than regular investments, but you can be sure regular investments will give you a lower risk profile.

Another option is to open a cash ISA plan initially and then buy shares or funds when market confidence returns, or drip-feed purchases over time. A self-select ISA, where you can pick any share or fund you want, consistent with the rules of ISA investing, is one way of achieving this. Although the cash will receive interest while you wait, it will be subject to tax at 20 per cent, as if it were held in a non-ISA savings account.

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



If you would like to discuss your ISA options don't delay, please contact us.

Need more information?

Please email or contact us with your enquiry.

If you would like us to email a copy of our electronic magazine to someone you know, please email us with their details and we'll send them a copy.

Diversification

SPREADING RISK ACROSS DIFFERENT ASSET CLASSES

Stockmarkets have historically provided investors with the best longer-term returns, although in a time of turbulent markets it can be prudent to allocate some of your investment portfolio to other types of assets such as bonds, property and commodities. Each of these have a very low correlation with equities, so when shares fall in value, there is the opportunity to have some investments continuing to grow.

Getting the right mix of assets in your portfolio can be more important than picking the very best individual funds or stocks. This is because when a portfolio's weighting drifts too far away from their starting point, you can rebalance the portfolio by using the additional returns from other assets. By taking the profits from one asset class, and putting them into the asset class that has dropped, you can use this strategy to make a faster recovery.

Non-equity assets are also good if you want to try and improve the returns you might receive in a cash savings account, but are unwilling to take on the risk of the equity markets.

Bonds are used by companies and Governments as a means of borrowing from investors. In return, investors receive a regular income, before getting back all their original capital at a pre-determined date in the future.

“Non-equity assets are also good if you want to try and improve the returns you might receive in a cash savings account, but are unwilling to take on the risk of the equity markets.”

In reality, however, small private investors do not have any direct dealings with companies or Governments when it comes to investing in bonds. One way to get access to this market is by investing in a bond fund, where a professional manager will buy a portfolio of bonds on your behalf, and trade them with a view to generating you the best possible return.

In the corporate world, there are two types of bonds, investment grade and high yield (also known as junk). Investment grade bonds are those issued by larger companies with strong credit ratings, who are very unlikely to default on their repayments. As a result, they tend to pay a relatively low return. Junk bonds are those issued by companies with poorer credit ratings, and pay a much higher yield due to the higher level of risk that investors are taking on.

Governments are also very unlikely to default, hence their bonds will pay relatively lower rates of interest, with yields typically dependent on money market rates, and the rate of inflation.

Commercial property historically has also proved to have very little correlation with equity markets. Until recently, it wasn't possible to put commercial property investments into an Individual Savings Account (ISA), but changes in the rules have now increased the possibilities. This can be a useful diversification tool to consider as part of the inclusion in a portfolio.

Want to review your current situation? If so, please contact us.

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

ISAs

TAX-EFFICIENT WRAPPERS - A QUICK GUIDE

An Individual Savings Account (ISA) is a tax-efficient wrapper in which investments such as cash, shares and stock market funds can be held to avoid capital gains tax and to reduce income tax.

There are two types of ISA – a mini and a maxi, although this will change for the next tax year.

For the 2007/8 tax year a maxi ISA has a limit of £7,000 for any one tax-year and in it you must hold shares or funds, although you can add other investments such as cash. Alternatively, you can open two mini ISAs – a cash mini ISA, which has a £3,000 limit, and a stocks and shares mini ISA, which has a limit of £4,000. Importantly, you cannot take out a mini ISA and a maxi ISA in the same tax year.

The interest you earn from a cash mini ISA is free of income tax, while you do not pay any capital gains tax on stocks and shares ISAs.

ALL CHANGE FROM THE 2008/9 TAX YEAR

There will be no maxi or mini ISA.

The annual ISA investment allowance will be raised to £7,200 (up to £3,600 of that allowance can be saved in cash with one provider).

The remainder of the £7,200 can be invested in stocks and shares with either the same or a different provider.

ISA savers will be able to invest in two separate ISAs each tax year (a cash ISA and a stocks and shares ISA).

Mini cash ISAs, TESSA only ISAs (TOISAs) and the cash component of a maxi ISA will automatically become cash ISAs.

ISA savers will be able to transfer money saved in their cash ISA to their stocks and shares ISA. Up until 1999, PEP investors were able to reclaim a 20 per cent tax credit on dividends. When ISAs replaced PEPs, the Government cut this concession to 10 per cent and in 2004 the concession was scrapped altogether.

Although the dividend tax credit has disappeared for equity ISAs, higher rate taxpayers can still benefit from income tax savings. Higher rate taxpayers have a tax liability and, under current rules, pay tax of 32.5 per cent on any gross dividend paid. This cuts each net dividend of £100 to just £75. However, for dividends within an ISA higher rate taxpayers are treated as basic rate taxpayers and get a net dividend payment of £100 - £25 more than they would if their investments were held outside an ISA wrapper.

The scrapping of the dividend tax credit does not affect corporate bond ISAs. Income generated by gilts and corporate bonds is not classified as a dividend and is not subject to the same tax restrictions. This means people holding a corporate bond ISA will still benefit from the full 20 per cent tax credit.

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

If you would like further information about your ISA options, please contact us.

Savings

NEW PARENTS TO RECEIVE MONEY ADVICE PACKS

The Financial Services Authority (FSA) the UK's financial watchdog, have announced that they will give new parents money advice packs. The packs will contain advice on budgeting, benefits and the cost of childcare, and will be distributed by midwives to mothers in the early stages of pregnancy.

The Parent's Guide to Money (PGM) also addresses topics such as maternity leave and how to save through child trust funds. The scheme is to be taken nationwide this summer. Initially, the pilot pack was distributed to around 1,500 prospective parents via employers, children's centres and directly to pregnant women.

It included a CD-Rom to help people work out how their income and spending will change after their baby has been born, and whether they will gain or lose financially by returning to work.

An FSA report on the trials said the PGM was well received by all and considered to be a new and helpful means of providing those about to embark on starting a family with all the important financial information they would need. The findings suggest that the PGM has a positive impact on understanding financial matters and encouraging prospective parents to take positive action to prepare themselves financially.

The guide has been designed to give people tools to work out a budget. It also gives them information on benefits they may be able to claim and where they can get more information about that.

The latest figures from Revenue & Customs show that 21% per cent of child trust vouchers expire because parents fail to invest them within 12 months. And, even once the child trust fund is opened, 60 per cent of funds do not see any further activity.



Trust in your future

GETTING READY FOR CHANGES THAT GOVERN CERTAIN TYPES OF TRUSTS

From 6 April this year there are important changes to the tax rules governing certain types of trust. If you are running a trust created before 22 March 2006 it is important that you do not miss out on this opportunity. The background to the transition period formed a part of the biggest change to the inheritance tax (IHT) rules in a generation, in the 2006 Budget.

To allow a period for certain existing trusts to adapt to the new environment, a two-year transition period was introduced during which trustees could amend certain aspects of a trust before new rules applied. If you are a trustee of a trust which might be affected by these changes, do not miss out on this last chance to make changes before April 5.

The first trust affected is known as "interest in possession", which means a trust where certain beneficiaries have a right to income. Sometimes the income beneficiary is known as the life tenant. In financial services, these are called "flexible trusts."

The consideration here is whether to change the beneficiary currently entitled to income. If this change is done before April 5, the change will be implemented under the old rules and the trust does not fall into the new regime. The new post 6 April regime would involve a potential IHT charge of up to 6 per cent every 10 years and a proportionate charge of up to that figure when capital is paid out to a beneficiary.

You might want to change an income beneficiary where, for example, that beneficiary becomes financially secure and no longer requires access to the trust fund. That beneficiary might want to reduce their estate with one eye on a potential IHT bill, since in this type of trust the underlying trust value was aggregated with the beneficiary's estate for IHT purposes.

It could now be more appropriate for the children or grandchildren of that beneficiary to be in the frame. In terms of the IHT planning for the outgoing beneficiary, after seven years the value of the trust interest which they no longer enjoy falls out of their estate. Trustees are therefore likely to be taking into account the relative wealth and needs of different generations.

The outcome in many cases will be that the trustees take no action as there is no current requirement to change the income beneficiaries. The trustees here have the comfort of knowing that the trust will generally continue to operate under the old rules even beyond 6 April 2008, as long as the income beneficiaries do not change.

The second category of trust affected is accumulation and maintenance (A&M) trusts. These trusts are more significantly affected since, unless a specific change is made before 5 April 2008, they will fall under the new rules after that date. Basically, under the new rules, A&M trusts

must pay out capital to beneficiaries at age 18, otherwise they will incur a tax charge.

Many existing A&M trusts provided for capital to be paid out at age 21, 25 or even a higher age, so the trustees of pre 22 March 2006 A&M trusts have to consider whether a change of age is appropriate, necessary or indeed possible.

“A reduction to the age of 18 might not be necessary if the value of the trust assets is below the nil-rate band, meaning no IHT liability would arise.”

A change might not be appropriate if there are significant assets within the trust and the age of 18 seems too young to receive large sums of capital. Here, the trustees might prefer to pay the IHT charge of up to 6 per cent every 10 years for the advantage that the trust assets remain within the trust until the beneficiary is older, giving better asset protection. Alternatively, a concessionary option for A&M trustees could be to opt for an 18-25 trust where a reduced IHT charge of up to 4.2 per cent could apply if an age up to 25 is selected.

A reduction to the age of 18 might not be necessary if the value of the trust assets is below the nil-rate band, meaning no IHT liability would arise. Finally, a change might not be possible if something in the trust deed prevents it.

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

You should always take professional advice before considering to make any changes to your particular situation. If you would like further information, please contact us.

More higher rate taxpayers in the UK than ever before

According to statistics by the accountants UHY Hacker Young, more than 3.7 million UK citizens have a marginal tax rate of 40 per cent, up from 3 million in 2002/03. In the current tax year, the 40 per cent rate applies to earnings above £39,825 a year.

The number of higher-rate taxpayers in Britain has increased by more than 20 per cent over the past five years, due to the Government's failure to raise the income tax thresholds in line with wage inflation.

Although the Government has increased income tax thresholds in line with inflation every year since 1977, wages have increased much quicker in recent years. UHY says that average wages have risen by 20.8 per cent over the past five years, while the higher-rate income tax threshold has increased by just 15.7 per cent.

A Treasury spokesman said the growing number of people paying higher-rate tax was merely a sign of Britain's economic success. "The basis of a fair, progressive income tax system is that as individuals' real income rises, the average tax they pay goes up," the spokesman said. "The increase in the number of higher-rate taxpayers is a sign of economic success and increased national prosperity."

Since 1997, there are 2.6 million more people in employment and over twice the number of people earn over 30, 50 and 100 thousand pounds. At the same time, thanks to tax and benefit reforms introduced by this Government over the last 10 years, this year households will be £1,000 better off in real terms on average.

Need more information?

Please email or contact us with your enquiry.

If you would like us to email a copy of our electronic magazine to someone you know, please email us with their details and we'll send them a copy.

The demise of the final salary pensions

NEW MEASURES COULD SPEED UP FURTHER CLOSURES

Government proposals could mean an acceleration in the already worrying rate at which final salary pension schemes are closing in the UK. The Pensions Regulator's proposed measures, if they come into force as expected, will mean UK companies having to contribute billions of extra pounds into their pension schemes to meet the Government's proposed stricter rules when it comes to estimating how long workers live.

The proposals could push up pension costs by some 6 per cent to 8 per cent for the majority of firms but for some it could be even higher.

“The proposals could push up pension costs by some 6 per cent to 8 per cent for the majority of firms but for some it could be even higher.”

The Pensions Regulator is concerned that firms are making overly optimistic assumptions when it comes to investment returns and that they are ignoring the fact that people are living longer and the extra cost that they will incur as a result.

In 2007 the actuarial regulator cautioned that the most conservative standard used by pension schemes for forecasting life expectancy

was seriously outdated and that schemes are significantly underestimating how long people will live in the future.

The suggested benchmark for those retiring today at 65 assumes that men, who make up the vast majority of those in final salary schemes, will live into their high 80s, about two years longer than the presumption in more than 50 per cent of current UK company schemes.

With final salary schemes, also known as defined benefit plans, employees receive a pension based on their earnings at retirement. Many 'gold-plated' final salary schemes have already been shut down. Last year Aon Consulting concluded that half of employers in the UK with

defined benefit schemes could be closed to future accruals by 2011, trebling the number that have already done so.

Need more information?

Please email or contact us with your enquiry.

If you would like us to email a copy of our electronic magazine to someone you know, please email us with their details and we'll send them a copy.



Buy-to-let landlords

REVENUE TARGETS NON TAX PAYING INVESTORS

HM Revenue & Customs (HMRC) are to target buy-to-let investors who have not paid tax on money made from letting or selling a property in a major crackdown.

HMRC are calling this its Property Campaign and recently sent letters to landlords recently as part of their first stage. The letters demand details on any property investment activity going back six years and request a detailed breakdown of costs such as repairs and professional fees. If landlords fail to reply, HMRC have said in extreme cases they would begin criminal investigations.

Landlords who reply promptly and fully disclose their incomes are less likely to face fines, a spokesman added. Offenders will be forced to repay taxes dating back six years and could face additional fines and penalties equal to 100 per cent of the total tax owed.

It is believed that HMRC officials have cross-referenced data from hundreds of letting agencies against stamp duty returns to compile a database of landlords who may not have paid any or enough tax.

Two groups of landlords have been identified as existing taxpayers with information showing they

have let a property but have not disclosed any income and individuals with no tax record but where the taxman is aware they have let a property.

There are approximately 1 million buy-to-let landlords in the UK, with the numbers increasing in recent years. It is estimated that 340,000 loans and remortgages were granted to buy-to-let landlords in 2007, more than the total amount of loans to first-time buyers.

Need more information?

Please email or contact us with your enquiry.

If you would like us to email a copy of our electronic magazine to someone you know, please email us with their details and we'll send them a copy.

Aiming for higher returns

If you have some time until you retire and it's appropriate for your situation, you could consider increasing your retirement fund by taking a higher risk reward approach with your pension fund or other investments such as ISAs. A typical lower risk portfolio might be split between gilts and fixed interest investments with maybe 50 per cent in a UK equity growth fund.

However, if you want to aim for higher returns, you may wish to consider alternative higher risk options in different countries and across different sectors. This might include holding 35 per cent of a portfolio outside the UK, mixing in exposure to the US, Europe and also the Far East. Future values of investments cannot be predicted, past values are not an indication of future performance.

You should always take professional investment advice before making any decisions and review your position at least annually.

Don't let certain factors impact on your ability to retire early

For many people hoping to retire early, whatever they are saving now it is probably not enough. There are a number of factors almost certainly likely to impact on your ability to retire early. These include inflation, long-term care costs and increasing longevity.

Inflation means that your money will buy you less and less each year, so you may well want a pension where the income increases annually. This option costs more than if your income remains flat, so you need to save more.

Government statistics have shown that those who turned 65 in 2006 are projected to live a further 20.6 years, on average, for males and 23.1 years for females, with life expectancy likely to continue to increase in the future.



The great contenders

PENSIONS AND ISAS SQUARE UP TO EACH OTHER

Pensions still provide the foundation of retirement planning. Not only are they very tax-efficient investments, since the changes to the pension rules introduced in April 2006, it is now possible to build a substantial pension fund of up to £1.6 million without tax penalties. Moreover, because pension funds cannot normally be accessed until the age of 50 (55 from 2010), they impose a useful element of financial discipline on investors. Pensions also buy the security of an income for life no matter how long you live or what the markets do.

To compliment your pension planning you should also consider making use of your annual tax-efficient Individual Savings Account (ISA) allowance, currently £7,000, which will increase to £7,200 in April this year. The best balance between utilising the two for individual investors will depend on different factors, such as age, tax status before and after retirement, and whether you own other income-producing investments, such as property.

It's worth remembering that the key to a prosperous retirement is the quality and performance of the investments in them, not just the tax efficiency of the wrapper. Pensions and ISAs are both tax wrappers, and money held within them receives exactly the same treatment. There is no income or capital gains tax liability, except for a 10 per cent non-reclaimable tax credit on dividends. The key difference between them is in the tax treatment of what goes into and comes out of the fund.

ISA contributions are made out of taxed income, but all withdrawals are free of tax. In contrast, the money paid into your pension gets full tax relief, but the retirement income you eventually receive will be taxed at your then marginal rate.

Although the final pension payout is reduced by tax, there are several important considerations that help to ease the impact of tax on pension income.

With a pension you can take up to 25 per cent as a tax-free lump sum. However, the remainder is typically used to buy an annuity, which will provide a secure but taxable income for the rest of your life.

Most investors receive lower incomes, and therefore pay less tax, in retirement than they do during their working lives, so there is a tax gradient that works on pension investors' behalf. Many taxpayers who were in the higher-rate bracket during their working life therefore find themselves paying only basic-rate tax on retirement.

Pensioners also receive a more generous tax-free allowance each year, known as the age-related personal allowance. In the current tax year it amounts to £7,550 for over 65s and £7,690 for over 75s. The Government has promised to increase it to a maximum of £10,000 over the next four years, so couples will receive up to £20,000 of tax-free income in retirement.

“Pensions are an ideal asset for anyone who might die before retirement, because not only do they pay out in full but the lump sum is normally free of inheritance tax.”

There are other factors to bear in mind that strengthen the argument for making use of your ISA allowance every year alongside pension contributions.

Although pensions work extremely tax-efficiently for long-term saving, the money in them cannot be touched until the age of 50 at the earliest. That is a valuable safeguard for your retirement income, but it means you need other sources for emergencies or interim expenses. If you required money before retirement, you could cash in some or your entire ISA portfolio without tax penalties.

The relative advantages of ISAs and pensions in this respect depend on whether you die before

retirement or after. ISA assets become part of the investor's estate on death and may be subject to inheritance tax, but they can be freely left to family or friends.

Pensions are an ideal asset for anyone who might die before retirement, because not only do they pay out in full but the lump sum is normally free of inheritance tax. However, it is a different story after retirement. If you opt for an alternatively secured pension, where you continue to draw an income from the pension fund, rather than buying an annuity with it, then unless it continues paying out to your spouse or dependent children, it will be subject to cumulative tax totalling 82 per cent on your death.

The age-related personal allowance is an increasingly generous tax break for pensioners on lower retirement incomes. But it is capped by an upper income limit (currently £20,900 per person). Once your total retirement income exceeds that level, the higher personal allowance begins to be clawed back at the rate of £1 for every £2 above the threshold until it is back in line with the standard allowance of £5,225.

Income from ISAs is not declared to HM Revenue & Customs, so by building an income-paying ISA portfolio, you may be able to keep income from pensions and other taxable sources below the threshold.

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

If you would like more information about how pension planning and ISAs can compliment your portfolio, please contact us.

Need more information?

Please email or contact us with your enquiry.

If you would like us to email a copy of our electronic magazine to someone you know, please email us with their details and we'll send them a copy.

Longer life expectancy

HOW MUCH WILL YOU NEED WHEN YOU RETIRE?

Recently the Pensions Regulator expressed concerns that employers running final salary or defined benefit pension schemes have underestimated life expectancy by two years.

In addition the watchdog responsible for setting the parameters by which company money purchase or defined contribution group personal pension schemes are valued is beginning a major review of the calculations and assumptions providers must use when setting premiums and sending out annual valuation statements.

The expectation is that the Board of Actuarial Standards, responsible for this guidance, will, like the Pensions Regulator, demand more conservative assumptions to allow for our ever-increasing life expectancy.

Changes to assumptions will potentially throw into disarray government plans for a pension for all via the new Personal Accounts. Working out how much we each need to save for retirement is not an easy task, given there are at least eight indices measuring our life expectancy. However, one thing everybody agrees on is that we are living longer.

PENSION TIPS

Consider salary sacrifice arrangements, which can reduce employer's national insurance

contributions, which he may be prepared to use to boost your pension.

“When setting up your pension, arrange for contributions to increase annually. Consider setting them up to increase on the day you get your annual salary raise.”

Make sure that your pension provides some degree of index linking. Decades of inflation during retirement could substantially reduce the purchasing power of your income.

Keep an eye on your state pension, and if necessary fill gaps in your National Insurance

contributions. Unless you are retiring in the next couple of years, it is not possible to get a state pensions statement from the Department of Work and Pensions.

When setting up your pension, arrange for contributions to increase annually. Consider setting them up to increase on the day you get your annual salary raise.

If you are in a company or group money purchase scheme, ask member representatives to approach your employer about increasing his contribution as well as your own

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

Need more information?

Please email or contact us with your enquiry.

If you would like us to email a copy of our electronic magazine to someone you know, please email us with their details and we'll send them a copy.



Time for a PEP talk?

CHANGES FROM APRIL WILL MEAN MONEY CAN NOW BE COMBINED

Personal equity plans (PEPs) which celebrated their 21st birthday this January will not be around for much longer. Latest figures from HM Revenue & Customs show that more than £79 billion is still invested in PEPs, but from April this year they will be merged into ISAs and the tax-exempt scheme introduced to encourage wider share ownership will cease to exist.

The aim is to make savings simpler for investors to understand and more straightforward for providers to administer. Although PEP rules have been aligned with ISA rules since 2001, investment managers have still had to keep them separate for administration purposes. Now they will be able to combine the money.

Most PEP investors will not notice any difference, apart from the disappearance of the name. Currently if investors hold shares in the same company in both their PEP and ISA and want to sell them, this is likely to be treated as two separate deals, so they could be charged twice. From this April they will have only one account, so it would be one deal and they should be charged less.

PEP investors will not have to do anything. Their managers will be responsible for the changeover. If the manager has separate nominee accounts for PEP and ISA holdings, this could mean that holdings will be reregistered into the ISA nominee account. Therefore, it is probably a good idea to check your statements before and after April to make sure nothing has gone astray.

“Although PEP rules have been aligned with ISA rules since 2001, investment managers have still had to keep them separate for administration purposes.”

The change from PEPs to ISAs will make no difference to the way your PEP investments are taxed. The tax treatment of PEPs was brought into line with ISAs when the latter were launched in 1999. Transferring your PEP money to a new investment manager will not affect your tax breaks either, provided that you do not cash in your investment first.

ISA tips

DID YOU KNOW?

It's worth remembering that before you invest in an equities ISA, make sure you have enough money in cash for emergencies and everyday needs. If you don't, you could be forced to encash your longer-term investments when share prices are low rather than retain the freedom to choose the best moment.

Consider your financial needs. Do you need an income now? Can you wait for capital growth? Or would you benefit from a mixture of both? Older people, for example, tend to have a greater need for investment income.

First-time equity investors should start with a collective fund, probably a unit trust with a medium to low-risk profile. After that, higher more risk investments in smaller companies or specialist trusts could be considered.

Over what timescale are you prepared to invest, 5, 10, 15, 20 or more years? This again is largely, though not exclusively, age-linked. If it is less than five years, stock market investments will not be appropriate.

SPREAD YOUR MONEY ACROSS A RANGE OF ASSETS.

Treat performance rankings of collective funds with care. If a fund has gone up considerably in one year, ask yourself whether it is likely to achieve anything like that in the next. Future values of investments cannot be predicted, past values are not an indication of future performance.

Review your investments regularly. It is vital to keep track of performance and make sure that your portfolio is on course to achieve your financial goals and objectives.

Need more information?

Please email or contact us with your enquiry.

If you would like us to email a copy of our electronic magazine to someone you know, please email us with their details and we'll send them a copy.

Self-select ISAs

MANAGING YOUR OWN INVESTMENT STRATEGY

A self-select individual savings account lets you choose between funds and individual shares, allowing you the flexibility to manage your own unique investment strategy.

There are a wide range of options on offer so make sure you pick an ISA that suits your needs. There are basic fund ISAs, ISAs to suit long-term investors and ISAs to suit frequent traders.

If you have existing ISAs and old personal equity plans, it may make sense to switch them to a self-select ISA. This consolidation would allow you to rebalance your holdings and consider your overall asset allocation, as well as potentially cutting costs.

You could use a full self-select ISA to hold individual shares and investment trusts, as well as open-ended funds.

Shares listed on recognised international stockmarkets are eligible, as well as shares listed on the London Stock Exchange, but shares which are only traded on the Alternative Investment Market cannot be held.

Exchange-traded funds (ETF) can also be held in self-select ISAs. ETFs are tradeable low-cost tracker funds, which are exempt from stamp duty.

Individual bonds and gilts (UK government bonds) can also be held in self-select ISAs. There is a tax advantage to holding bonds in an ISA (individually or through funds), as interest is paid out gross, whereas equity dividends are paid net of 10 per cent basic rate tax, which cannot be reclaimed in an ISA.

“To be suitable candidates for an ISA, bonds need to be investment-grade and have more than five years to reach their maturity at the time of purchase.”

To be suitable candidates for an ISA, bonds need to be investment-grade and have more than five years to reach their maturity at the time of purchase.

It is worth checking the rate of interest a self-select ISA provider pays on cash. You can switch your ISA into cash for a while, thus avoiding volatile markets, although you are not allowed to hold cash indefinitely and interest received suffers a 20 per cent penalty tax.

Shares gained through save as you earn schemes can be transferred into ISAs, protecting them from capital gains tax.

You have up to 90 days to shelter them in an ISA so it could make sense to delay the exercise of options until near the end of the tax year in order to make use of two years' ISA allowances (this would be four years, of course, if you have a spouse or civil partner).

For more information about how ISAs can form part of your investment strategy, please contact us.

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

Need more information?

Please email or contact us with your enquiry.

If you would like us to email a copy of our electronic magazine to someone you know, please email us with their details and we'll send them a copy.

Leading the way

UK SAVERS START EARLIER THAN THEIR EUROPEAN COUNTERPARTS

Nearly three-quarters of British workers have some form of pension provision, with the average person starting to save towards retirement at 28, according to research by insurer AXA. The survey found that Britons currently begin to save into a pension around six years earlier than those who are currently retired did, and five years sooner than the international average.

“A reduction to the age of 18 might not be necessary if the value of the trust assets is below the nil-rate band, meaning no IHT liability would arise.”

But it added that among the one in three people who had not yet started to make retirement provisions, the average person claimed they would put off saving until they were 47.

Britons begin saving earlier than many of their European counterparts, with people in France and Spain not starting until they are an average of 35, while those in Hungary put it off until they are 38.

The research found that there are several life triggers that influenced working Britons to begin saving into a pension, the most common of which was having a good company pension scheme to join, cited by 68 per cent, while 45 per cent said getting married or having a serious relationship had also prompted them to save.

Overall 71 per cent of working Britons said they were making some form of retirement provision, compared with an international average of 54 per cent.

Among those who are saving 61 per cent were doing so through their company pension scheme, while 45 per cent have a personal pension, the same proportion invested money in equities and bonds and 34 per cent had put money into property.

Need more information?

Please email or contact us with your enquiry.

If you would like us to email a copy of our electronic magazine to someone you know, please email us with their details and we'll send them a copy.

The must have today culture

A TICKING TIME BOMB FOR THE FUTURE

The Department for Work and Pensions (DWP) sampled the financial expectations of 18 to 34 year-olds, and predictably discovered that they want to retire with foreign holidays, satellite TV and gym membership “as standard”. Without saving much, naturally.

More than half of Britain's under 34s are not saving at all, burdened as they are with student loans, rents, mortgages, and raising a family. That has been the case for many years, but it is significant the Government has chosen to highlight the problem.

The department concludes that the under 34s are in danger of becoming the “big dreams, small assets” generation. If they don't change, they will certainly be a problem for whoever is in Downing Street around 2050. Mike O'Brien, the pensions minister, said that pensions are a young person's issue and they should remember how compound interest enhances early saving.

Tax take delivers a massive £56.5bn

Taxpayers paid a record £56.5bn to the Governments coffers this January. Income tax alone reached £25.8bn, up 15 per cent from last year and also the most since records began in 1984. The rest is made up of corporation tax, National Insurance contributions and VAT.

Self-assessment tax returns flooded in before the deadline at the end of the month making January a positive month for revenue. According to the Institute for Fiscal Studies, the Chancellor is now back on track to meet his full-year target for a £38bn budget deficit.



Protecting your business assets

HOW MUCH WOULD IT COST TO REPLACE YOUR KEY STAFF?

If you run a business, whether a limited company or a partnership, or if you employ key staff crucial to its future success or survival, a premature death, disability or illness can have a serious impact. As for any other valuable asset, it makes sense to be insured against such a loss. If you, or any other important member of your business, were no longer able to contribute towards its success, what impact could this have? Consider these different situations.

The death or permanent disablement of a shareholding director could have a serious impact both on the future of your business and on your family. These are the main areas you should consider.

SHAREHOLDING DIRECTORS OF A PRIVATE LIMITED COMPANY

Majority shareholders The majority shareholders in a company may have important voting rights that directly affect the running of the company. In the event of a majority shareholder's death, these rights would normally pass to the deceased's dependants. This could affect the company in two ways:

The dependants now have the right to a say in the running of the company. But do they have the necessary skill and experience? And will they share the ambitions and objectives that the surviving shareholders have for the business?

The dependants might prefer to receive the value of the shares in cash. But who will buy them? Unless the other shareholders have sufficient liquid capital reserves, they may be sold to an outside – possibly hostile – third party, perhaps even a direct competitor.

Minority shareholders Generally, it is the voting rights attached to a shareholding in a private limited company that gives them their market

value. Minority shareholdings may not have significant rights and so the shareholder's dependants may inherit shares that are virtually worthless. The only likely buyers of such a holding would be the surviving directors, but they may be under no obligation to do so.

“ It is not easy to place a value on a person or to estimate the likely business losses incurred by their absence. Without the contribution generated by your key person, your business could face major difficulties. ”

KEY STAFF

The continued success of your business may be dependent on the special contribution made by a small number of 'key' men and women. Your fellow directors will be regarded as key

people. The death or disability of any of them could threaten the profitability of your business. Indeed, its very survival could be at stake.

ASSET VALUE

It is not easy to place a value on a person or to estimate the likely business losses incurred by their absence. Without the contribution generated by your key person, your business could face major difficulties. Even if they have a deputy, how long would it take for this person to become fully trained and effective?

FINANCIAL BURDEN

The premature death of a key person is likely to cause an immediate requirement for cash, so life assurance should be a top priority. However, it is not just the death of a key person that can create serious financial burdens for your business. Today, many serious illnesses, such as a heart attack, stroke and cancer, no longer necessarily result in death but may need lengthy periods of convalescence.

To discuss how you can make provision to safeguard your business from the disruption likely to be caused by such events, please contact us for further information.

If you would like us to email a copy of our electronic magazine to someone you know, please email us with their details and we'll send them a copy.



Don't miss the deadline

Pension investors are being urged to ignore current stock market uncertainty and take advantage of generous tax reliefs on retirement savings schemes before April 5. The cut in the basic rate of income tax from 22 to 20 per cent this spring means that upfront tax breaks on pension contributions will also be cut back in many cases even for higher-rate taxpayers.

Currently, a £1,000 pension investment is automatically topped up by £282 to reflect basic rate tax relief, with higher rate taxpayers able to claim an additional £231 relief. From 6 April, the reduction in standard-rate income tax means basic upfront relief on a £1,000 pension investment is also restricted to £250, while higher-rate taxpayers are able to claim a further £250.

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

Need more information?

Please email or contact us with your enquiry.

If you would like us to email a copy of our electronic magazine to someone you know, please email us with their details and we'll send them a copy.

The changing landscape of employee benefit packages

A GREATER CONTROL OF RETIREMENT FUNDS AND ASSETS COULD BECOME NORMAL

Self-invested personal pensions (SIPPs) could become a normal part of employee benefit packages in the near future, offering more individuals the chance to take greater control of their retirement fund and invest it in a wide variety of assets.

In January this year GlaxoSmithKline, the pharmaceutical company, offered its employees the chance to take membership of a group SIPP. The Glaxo scheme allows members to take assets accumulated in the company's previous pension schemes, and invest them in a large number of funds.

As there is a movement in pensions towards individual responsibility there could come a time in the future when both SIPPs and personal accounts are the only pension options. Personal pension accounts are part of the Government's initiative to automatically enroll all employees into an employer sponsored pension plan. They are due to launch in 2012.

The accounts would contain a range of default funds and be priced competitively. But a group SIPP would offer the chance for wider investment opportunity and would sit at the opposite end of the spectrum. SIPPs are now well established vehicles for pension savings, with around 300,000 individual SIPP investors.

The tax relief available for money put into pensions will decrease from 6 April this year, so it makes sense to put as much as you can in now.

For companies, group SIPPs offer the chance to provide a pension scheme that covers everyone, from general staff to executives. Individuals can choose with whom they wish their money to be invested and how much. SIPPs also offer companies the chance to offer share schemes that can be invested as part of a pension. Employees would be able to purchase subsidised shares in the company and over time roll this into their SIPP to make the investment tax-efficient.

SIPPs can now be set up with small sums of money and are no longer limited to individuals with large pension pots to invest. For those interested in having more autonomy over their pension investments, they offer a wide variety of options.

One of the arguments used against SIPPs was their inability to contain protected rights funds built up by contracting out of the second state pension. But from this October these will also now be permissible in SIPPs.

The benefit of a SIPP is very clear in the current market climate and as of 6 April this year, the tax relief available for money put into pensions will decrease, so it makes sense to put as much as you can in now.

Beat the end of tax year deadline

DO YOU HAVE ANY UNUSED TAX BREAKS?

As the end of tax year approaches if you still want to take advantage of unused tax breaks you may wish consider Individual Savings Accounts (ISAs) and self-invested personal pensions (SIPPs) to transfer shares and other portfolio holdings into these shelters.

Such switches described as "Bed and ISAs," "Bed and SIPPING" and "In specie" contributions or, simply, share transfers allow investors to save tax without having to commit more cash. "In specie" switches are where investors seamlessly move assets into tax shelters without a formal sale and repurchase and could benefit less liquid holdings.

These transfers protect future income and gains from tax. And, as they are treated as disposals for capital gains tax (CGT) purposes, they are also a way of using up the annual CGT exemption, now £9,200.

Another attraction is that the upfront tax relief on pension contributions means investors can use switches into SIPPs to boost their retirement fund and unlock cash from long-term savings. Each £1,000 of shares transferred into a SIPP is boosted by basic rate tax relief of £282 with higher rate tax-payers able to reclaim another £231 of cash through their tax return.

Moving holdings into tax shelters, confusing though the transfer terminology can be, should

be standard practice for helping make portfolios as tax efficient as possible. With transfers into SIPPs the big advantage is the tax relief boost to an investment you already hold.

"In-specie" transactions could also be a good way of obtaining "double tax relief" on illiquid venture capital trust (VCT) shares.

Investors buying VCT shares at issue benefit from income tax relief, subject to holding them for a qualifying period of three to five years. Once this time is up, shares can be re-registered in SIPPs to gain upfront pension contribution relief as well.

It is also important now to factor the effects of April's CGT changes into their asset transfer decisions. The scrapping of the indexation allowance makes it potentially advantageous to realise gains on long-term holdings before April. Crystallising losses to reduce gains otherwise taxable at present rates of up to 40 per cent rather than at 18 per cent in future may well also make sense.

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



Investors set for tax increases

People who buy shares in the company for which they work could end up paying more tax under changes announced to the capital gains tax (CGT) system.

This could lead to thousands of investors in share ownership schemes being subjected to an 18 per cent tax on profits. The Chancellor removed so-called taper relief and introduced a flat 18 per cent CGT rate in his Pre-Budget report in October last year.

Entrepreneurs selling business assets will still be allowed to pay a reduced 10 per cent rate of CGT on profits below £1 million, a measure that will also apply to individuals selling company shares as long as they have a 5 per cent minimum stake.

Hundreds of thousands of small investors engaged in "save as you earn" and share option schemes will fall into the 18 per cent band for CGT liability from 6 April this year.

Need more information?

Please email or contact us with your enquiry.

If you would like us to email a copy of our electronic magazine to someone you know, please email us with their details and we'll send them a copy.





A logical approach to inheritance tax planning

PROTECTING WHAT IS RIGHTFULLY YOURS

The first place to start is to consider where you want your money to go and why. Many people have reservations about giving away assets too quickly, they trust their children, but not always their children's marriage partners.

A basic calculation will give you an indication about whether or not you have a potential liability to inheritance tax (IHT) in the event of your premature death. This can be done by adding up the value of your savings, investments, property and personal possessions. Do not forget personal equity plans (PEPs) and individual savings accounts (ISAs), though they are tax-free during your lifetime they form part of your estate for IHT. Finally, take off the value of any debts. If the total adds up to more than £600,000 for a married couple or registered civil partnership, or £300,000 for an individual then IHT will apply.

It is essential that you make a Will which makes your wishes concrete and clarifies who should get what. It will also stop any assets being divided under the rules of intestacy, where even spouses are not guaranteed to inherit everything. It can also be the first step to reducing an inheritance tax bill.

Many married couples draft Wills that pay part of their wealth into a trust on death. The surviving spouse can benefit from the legacy, but so can others such as children and grandchildren. The aim is to give the option for both husband and wife to use their full IHT allowance on death.

Don't forget that you cannot be taxed on money that was never yours. So ensure that as much as possible is outside your estate. Write any new life insurance plans under an appropriate trust. Many existing life policies can be transferred into an appropriate trust. If your employer pays a death benefit, complete a nomination form to make sure any money goes directly to the person you choose and not into your estate.

It is also worth thinking about legacies you receive. Someone who benefits from a legacy can divert that gift to another person. You can apply for a 'deed of variation' within two years

of the death of the giver. Also remember that anything you pass on to a spouse is free of inheritance tax. The same concession applies to same-sex couples who register under civil partnership laws.

However, legacies between unmarried couples are not tax free, which is a problem when a couple jointly own their home. This can lead to people having to pay an IHT bill just to continue living in their home.

For many families, their home is typically their biggest asset and potentially their biggest inheritance tax problem. The Government has clamped down on schemes to get around the 'gifts with reservation' rules. These allowed people to give away homes, but still live in them. Now, income tax can be charged for living rent-free in a home you once owned. But there are still ways to reduce IHT. Most couples who own a home together are joint tenants. This means that if one person dies, the other automatically becomes the outright owner of the property.

The alternative is to register as 'tenants in common', each owning half the property absolutely. This means that on death, your share may be left to someone else to keep down the size of your estate.

Some investments also receive favourable treatment for IHT purposes, including shares in unquoted businesses, woodlands, farms and farmland. Many shares on the Alternative Investment Market (AIM) stockmarket also qualify for relief.

There are several trusts, aside from Will trusts, that could also assist in estate planning. Depending on the type you choose, it can still be possible to enjoy an income from money paid into trust, even though you are no longer the legal owner of that money. Professional advice is essential for anyone considering setting up trusts.

Another option is to estimate how big a potential IHT bill that your heirs could face would be and arrange insurance to cover part or all of it. Whole-of-life insurance written under trust can provide a lump sum on death that is outside an estate.

On death, the proceeds of the policy can be used to settle the tax bill. The premiums are treated for tax purposes as a gift from regular income. Think of this as building a fund to pay your tax. The advantage is that you retain your wealth through your lifetime and so have the funds if, for example, you need to go into long-term care.

There is also the option to give away money that would reduce your estates value, but will not cut the tax liability immediately. You have to survive for seven years for most gifts to escape the IHT net. However, within that last seven years, HM Revenue & Customs (HMRC) allow gifts of up to £3,000 each tax year. Unlimited gifts up to £250 a person per tax year are exempt, as are payments up to £5,000 for wedding gifts.

The most powerful concession is that regular gifts made from normal income can be exempt from IHT. You must show you have been giving regularly and are not materially reducing your standard of living or running down savings. This concession allows parents or grandparents to help children without fear of inheritance tax problems down the line. However, HMRC will demand details of these gifts when the giver dies.

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

Need more information?

Please email or contact us with your enquiry.

If you would like us to email a copy of our electronic magazine to someone you know, please email us with their details and we'll send them a copy.

Retiring women could be disadvantaged under tax changes

The Government is scrapping the 10p starting rate of income tax, while cutting the basic rate of tax from 22p in the pound to 20p. The changes were announced by Gordon Brown in his last Budget as Chancellor and come into force on 6 April this year.

Women who retire at 60 but don't receive the higher pensioners' tax allowance until they are 65 will be particularly disadvantaged.

A pensioner under 65 on £10,000 a year who is not entitled to other state benefits now pays £783 in income tax. After April they will pay £913, so they'll be £130 per year worse off. Those on £7,000 will be disadvantaged by as much as a 76 per cent increase in their tax bill, paying £313 instead of £177.50 this tax year.

School and university leavers under 25 with annual incomes up to £15,000 will also be worse off under the reforms. Those in work aged 25 and older will receive help through Working Tax Credit.

Pensioners over 65 will be protected from the changes because the Government is increasing the personal allowance, the amount they can receive tax-free, from £7,550 to £9,030.

For over-75s this will rise from £7,690 to £9,180. Those earning more than £15,000 a year will gain enough from the drop in basic rate tax to make up for loss of the 10p band.

Workers earning £35,000 a year will pay £360 less income tax.

Figures from the Office for National Statistics indicate there are 3.6m Britons aged between 60 and 64, and 7.2m households with a total annual income of less than £15,240.

In this current tax year the personal allowance is £5,225 for the under-65s and this is set to increase to £5,435 from April.

Above the personal allowance for the under-65s, the next £2,230 above this amount is taxed at 10 per cent, the starting rate. After that, the basic-rate tax band of 22 per cent applies up to the next £32,370. It is this starting rate of income tax that will be abolished in April this year. However, the 10p tax band will stay for any income you make from interest earned on your savings.

A Treasury spokesman said: 'There are people who will be marginally worse off because of these tax changes. But it needs to be seen in context. We have spent £11bn more in real terms on pensioners this year than when we came to power, and from April the average pensioner household will be £28 better off.'

Need more information?

Please email or contact us with your enquiry.

If you would like us to email a copy of our electronic magazine to someone you know, please email us with their details and we'll send them a copy.

A greener approach to investing

Under recent proposals put forward by the Conservatives people would be able to save thousands of pounds more tax-free if they invest in environmentally friendly companies.

George Osborne, the Shadow Chancellor, is planning a new green individual savings account (GISA), which would allow savers to go above the current £7,000 tax-free limit for a stocks and shares ISA provided that the investment is approved as being green.

The plan is aimed at making millions of savers feel that they are making a personal contribution to tackling climate change while giving companies a massive incentive to curb emissions and adopt greener technologies.

Mr Osborne is looking at increasing the limit to £8,000 or £9,000. Eventually the figure could go to £10,000. The proposals would almost certainly be made in the first Budget of a future Tory government.

The creation of a green qualifying threshold will be designed to encourage companies to implement environmentally friendly policies to attract this additional investment stream. It is envisaged that an independent body would determine whether companies met these requirements, and would be responsible for revising and updating the criteria over time. The working group will also set out proposals regarding the composition and remit of this supervisory body.

The Conservatives are also working with the London Stock Exchange on GEM, a new trading market for green technology companies in London. Mr Osborne wants to make the capital the leader in green finance.

“The creation of a green qualifying threshold will be designed to encourage companies to implement environmentally friendly policies to attract this additional investment stream.”

Need more information?

Please email or contact us with your enquiry.

If you would like us to email a copy of our electronic magazine to someone you know, please email us with their details and we'll send them a copy.



Where there's a Will there's a way

GETTING STARTED

If you have not made a Will, follow our simple guide that gives you information and tips about getting started.

EXECUTORS

Executors are responsible for exercising your estate in accordance with your instructions after you have died. It is a responsible and demanding role, and involves handling large sums of money. And don't forget to check that the people you choose are happy to take on the role.

SUBSTITUTE EXECUTOR

If you are married, you will probably want your spouse to be your executor, but don't appoint them as your sole executor. If you both died together in a plane crash or a car accident, neither of you would have an executor living. Always appoint a default or substitute executor as a fall-back position in case your spouse is unwilling or unable to act.

GUARDIANS

If you are the last living parent and you die leaving children under age 18, a guardian will be appointed by the court if you have not specified who this should be in your Will. If you are unmarried but you and your partner have children, you might not even get guardianship

“ This might sound obvious, but if you are setting up a trust in your Will or if your beneficiaries could be aged under 18 when you die, you will need to appoint trustees. ”

of your children. If an unmarried man dies, his female partner automatically gets guardianship of their children, but if an unmarried woman dies, her male partner does not. You should appoint each other as guardians in your wills to overcome this problem.

TRUSTEES

This might sound obvious, but if you are setting up a trust in your Will or if your beneficiaries could be aged under 18 when you die, you will need to appoint trustees. Trustees will be responsible for managing and investing money,

or looking after property until it passes to the beneficiaries, so make sure they are people with a good grasp of financial matters and that they are still young enough so they don't die before you do.

LEGACIES

If you want to preserve family heirlooms or items of special sentimental value, (for example, a grandfather clock, or a wedding or engagement ring), you should leave these items as a specific legacy to a named beneficiary.

RESIDUAL LEGACY

The 'residue' is what is left over in your estate after you have made any specific legacies. You must specify who this goes to, as if you fail to do so, you will create a partial intestacy in your will. In other words, the small gifts and legacies would pass according to the Will, but the residue would be subject to the laws of intestacy.

SIGN YOUR WILL

It's all very well having your Will drafted, but if you don't sign it in front of two independent witnesses, it will not be valid. A witness cannot be anyone mentioned in the Will or anyone married to anyone mentioned in the Will.

STORE SAFELY

Once your will has been correctly signed and witnessed, have it stored in a proper safe storage facility. This will protect it from fire, flood, damage, or loss. Your executors will be provided with a certificate showing them where your Will is stored and how to get hold of it if you die. Your Will is no good to anyone if it cannot be found after your death.

Need more information?

Please email or contact us with your enquiry.

If you would like us to email a copy of our electronic magazine to someone you know, please email us with their details and we'll send them a copy.