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THE ELECTRONIC PERSONAL FINANCE MAGAZINE

Financial Foundations

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MAXIMISE YOUR RETURNS

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TAX WEALTH CHECK

START PLANNING TO MAXIMISE YOUR RETURNS

ISA RETURNS OF THE YEAR

Don't forget to take full advantage of your Individual Savings Account (ISA) allowance before the end of this financial year. Individuals can save up to £7,000 in an ISA during this financial year and not pay tax on the income received from the investment. This figure is set to increase to £7,200 during the financial year 2008/09. A financial year runs from 6 April until 5 April the following year. An ISA can be made up of an investment in cash, or longer term investments like stocks and shares or insurance. In this current financial year you can either invest in one Maxi ISA, which can include all of these types of investments, or you can have two Mini ISAs, one for cash and one for stocks and shares, which can both include insurance. You cannot invest in both a Mini ISA and a Maxi ISA in the same tax year.

TAKE IT TO THE MAX

Taking your pension contributions to the maximum will enable you to build up a sum of money in a tax-efficient way for use later in life. Up to age 75, you get tax relief on contributions of up to 100 per cent of your earnings each year, subject to an upper 'annual allowance' £225,000 for the 2007/08 tax year. Savings above the annual allowance are subject to a tax charge. You can currently take benefits between the ages of 50 (55 from 6 April 2010) and 75. When this option to take benefits becomes available, you do not have to be in retirement to make use of them. You can also take up to 25 per cent of your fund as a tax-free cash lump sum.

TAX BREAKS

If you are a parent or grandparent consider using the full tax breaks of the child trust fund (CTF). All children born on or after September 1, 2002, receive a £250 voucher to start off their fund or £500 for those in lower income families with a further £250 or £500 when they reach the age of seven. This can also be increased by up to £1,200 each year by parents and other friends

and family. The money grows free of income tax and capital gains tax (CGT) and is locked away until the child reaches 18. Money given by grandparents will escape inheritance tax (IHT), provided the donor survives for seven years after making the gift.

IT'S GOOD TO GIVE

If one spouse pays a higher rate of tax than the other, then the couple could pay less tax by putting savings and investments into the name of the lower earner or at least into joint names. This enables both spouses to use the current annual £5,225 basic allowance or more for those aged 65 and over and to both use the annual £9,200 individual exemption from CGT.

PAYING TOO MUCH TAX

Those with more than one source of income, more than one job and multiple pensions are most at risk of paying too much tax. This also applies to pensioners as well as those in work. H M Revenue & Customs now assume that individuals are claiming their personal tax allowance elsewhere so a pensioner with more than one pension may not be receiving any tax allowance at all, let alone the higher allowances for those aged over 75.

CLAIMING BACK TAX

Even "non" taxpayers and low earners can make tax savings. Non-taxpayers can ask to receive interest gross (without tax deducted) by filling in form IR 85 available from banks and building societies. Those who have been paying tax unnecessarily can also claim back tax deducted from their savings over the past five years.

TAX-EFFICIENT DONATIONS

Making donations in cash is rarely the best way to help a good cause. Give through a tax-efficient scheme such as a deed of covenant, Gift Aid or payroll giving and the charity can then reclaim basic rate tax relief. Good causes benefit more by receiving donations in this tax-efficient way. Higher-rate taxpayers also receive

an added benefit as they can claim the higher rate relief for themselves.

DON'T MISS THE DEADLINE

Some 9m taxpayers are required to fill in a self-assessment tax return each year by the deadline of January 31 after the end of the tax year, on April 5, to which the return relates. It is estimated that in the region of 450,000 individuals miss the deadline or fail to pay their tax on time. Penalties start at £100 for missing the deadline and rise to up to £3,000 for failing to keep adequate records.

IT'S A MATTER OF TRUST

Ensure that the proceeds of life insurance payments go directly to your heirs rather than forming part of your estate. Life insurers have standard forms that can be completed which is one way to reduce a potential IHT liability. Otherwise the proceeds could be taxed at 40 per cent, if the estate in the current tax year is worth more than £300,000 per person, or £600,000 for married couples and members of civil partnerships.

GOING FOR GROWTH

The proposed new 18 per cent CGT rate to be introduced on April 6 this year will make growth investments far more attractive than those that pay income. Assets that can generate mainly capital growth, instead of income, include some unit and investment trusts, shares and property. The other advantage of opting for growth is that relatively few people make any use of the current annual £9,200 CGT allowance. Stocks and shares moved into an ISA fall outside of the scope of CGT and will not reduce the annual exemption.

IF YOU WOULD LIKE FURTHER INFORMATION ON WAYS TO PAY LESS TAX, PLEASE CONTACT US.

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

ISA CLINIC

DON'T LOSE YOUR 2007/08 ISA ALLOWANCE

With the arrival of the New Year comes the countdown to the Individual Savings Account (ISA) deadline on 5 April. If you haven't already used your 2007/08 ISA allowance, now is the time to talk to us and consider your options. Alternatively, if you are new to ISAs, here's an overview.

ISAs are tax-free savings accounts that do not have to be declared for income or capital gains tax purposes to HM Revenue & Customs (HMRC). Individuals can save up to £7,000 in this financial year, increasing to £7,200 for the tax year 2008/09. A financial year runs from 6 April until 5 April the following year.

DIFFERENT TYPES OF ISAS

There are currently two types of ISA, a Maxi ISA and Mini ISA. An individual can only subscribe or contribute to either one Maxi ISA or up to two Mini ISAs (one for each component), each tax year. Money cannot be invested in both a Mini and Maxi ISA in the same financial year. From 6 April 2008 the Mini and Maxi distinction will be removed. After this date an individual will be able to subscribe to either a cash ISA (maximum £3,600), a stocks and shares ISA or both.

CASH COMPONENT

This component allows individuals to invest in building society deposits, UK and European authorised bank deposits, cash unit trusts or national savings. Individuals as young as 16 years are permitted to open either a Mini cash ISA or the cash component of a Maxi ISA.

STOCKS AND SHARES COMPONENT

This component allows individuals to invest in collective shares, for example, unit trusts, investment unit trusts, shares listed on a

recognised stock exchange, bonds and gilts and life assurance.

MINI ISA

There are two types of Mini ISA – a cash ISA, and a stocks and shares ISA. You could open each ISA with a different ISA manager. The amount you can invest in each tax year (6 April to 5 April) is fixed. You can currently invest up to:

**£3,000 in a cash ISA, and
£4,000 in a stocks and shares ISA**

You cannot invest in more than one Mini cash ISA, or more than one Mini stocks and shares ISA in the same tax year.

MAXI ISA

A Maxi ISA can include both cash and stocks and shares. However, whichever way your investment is split, it counts as one Maxi ISA. So you can only open one Maxi ISA in each tax year. The total amount you can invest is £7,000 in the current tax year. You can invest up to £3,000 of this in the cash element.

WHO CAN OPEN AN ACCOUNT?

To open an ISA, you must be 18 years old or over, with this exception, individuals as young as 16 years are permitted to open either a Mini cash ISA or the cash component of a Maxi ISA. Individuals must be UK residents for tax purposes. People working abroad or spouses and registered civil partners of individuals working abroad, for

example civil servants or armed forces who are paid by the British government, are also entitled to open an ISA. ISAs cannot be held as joint accounts or on behalf of other individuals.

TAX BENEFITS OF ISAS

- No tax is paid on the income you receive from your ISA savings and investments
- No tax is paid on capital gains arising from your investments
- You do not have to tell HMRC about income and capital gains from ISA savings and investments.

TRANSFERRING AN ISA

You can transfer your ISA to another ISA manager. The type of ISA must be the same. For example, you cannot move funds from a cash ISA with one manager to a stocks and shares ISA with another. Your ISA must be transferred directly between your existing ISA manager and the new one. You cannot arrange a transfer yourself by closing the first ISA and paying the money to another ISA manager.

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

IF YOU WOULD LIKE TO DISCUSS YOUR ISA OPTIONS BEFORE THE END OF THE TAX YEAR, PLEASE CONTACT US FOR FURTHER INFORMATION.

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INHERITANCE TAX

NOT JUST A CONCERN FOR THE SERIOUSLY WEALTHY

According to Halifax, nearly 100,000 UK residential properties are now worth over £1m and nearly 2m people remain liable to inheritance tax (IHT). In the current tax year if your property is valued in excess of the combined £600,000 nil rate band for married couples and registered civil partnerships, or if you intend to use your nil rate band allowances on other assets, it is advisable to make provision to protect the value of your property against a future IHT bill.

Professional advisers over the years have fought an ongoing battle of wits with HM Revenue & Customs in an attempt to keep high value principal residences out of the reach of IHT. So what steps could you take to plan for this eventuality?

INSURING AGAINST A FUTURE TAX BILL

A joint whole-of-life, second death policy written in an appropriate trust for your heirs, could pay out a sum assured equal to an expected IHT liability when the second spouse dies. Premiums are normally paid monthly or yearly for as long as you live. The trust structure also means that beneficiaries could obtain the proceeds on day one, rather than having to wait for up to six months for probate.

LIFETIME MORTGAGE OR EQUITY-RELEASE SCHEMES

Another option if appropriate to your situation is to consider using a whole-of-life policy as a tax planning tool, in conjunction with a lifetime mortgage or equity-release scheme secured on the property.

You are allowed to borrow up to 30 per cent of the value of the property under equity

release, depending on your age, which can be used to fund life assurance. The interest on the loan rolls up, and is repayable, together with the capital when you die, reducing your estate and the IHT bill. The life assurance proceeds are paid outside of the estate and could mean that your heirs end up with substantially more than with no scheme in place.

A drawdown arrangement, in which the equity release provider allows you to access the money a little at a time to fund monthly premiums, may assist to limit the impact of rolled up interest.

UTILISING CAPITAL

Another option could be to use the capital from the property to invest in Alternative Investment Portfolio IHT portfolios, whereby assets drop out of the estate in just two years. Alternatively there are discounted gift plans, in which the value of the asset may be discounted from day one. A third possibility is to use the capital to buy an annuity so that the income funds a whole-of-life policy. There are even family debt schemes created to avoid IHT on the family house.

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

“ You are allowed to borrow up to 30 per cent of the value of the property under equity release, depending on your age, which can be used to fund life assurance. ”

TO CONSIDER THE OPTIONS AVAILABLE TO YOU FOR THE PROVISION OF IHT PLANNING, PLEASE CONTACT US FOR FURTHER INFORMATION.



PAYING FOR CARE

CLAIM WHAT IS RIGHTFULLY YOURS

CLAIM ATTENDANCE ALLOWANCE

This is a non-means tested, non-taxable benefit paid weekly at the lower rate of £43.15 if you need care by day or night or at a higher rate of £64.50 if you need care by day and night.

COUNCIL TAX EXEMPTION

If your property is left empty while you move into care, you could receive a full exemption from council tax until it is sold.

FEES ASSISTANCE

The local authority should disregard the value of your property for the first 12 weeks of residential care and assist you with your fees if your other capital is below £21,500 in England and Northern Ireland and you meet the other assessment criteria of their local authority. Limits are different for Wales (£22,000) and Scotland (£20,750).

SECURING STATE ASSISTANCE

For people paying for care from a joint account, you may wish to consider splitting the account into separate single accounts to benefit from state assistance as early as possible.

CARE FUNDING

Guaranteeing a payment of care with a care fee or immediate care annuity is a lump sum paid to an insurance company, which promises to meet certain set payments for the rest of the policyholder's life.

NHS CONTRIBUTION

Claim an NHS contribution towards nursing home fees, even if you are only staying for a short respite period.

CLAIMING YOUR ENTITLEMENT

If you are on the highest band of NHS contribution, make sure you are not entitled to full NHS funding. The NHS has to pay for your care if the need for care primarily results from a health need.



CAPITAL GAINS TAX

CHANGES DELAYED UNTIL APRIL

Alistair Darling, the chancellor delivered another blow to businesses and shareholder groups by announcing that concessions to ameliorate the impact of changes to the capital gains tax (CGT) regime would be delayed until April this year.

The chancellor had promised an announcement before the end of last year on the results of consultation over the abolition of taper relief on CGT, but was forced to admit the postponement, citing the "wide range" of representations, some "quite complex."

The Treasury said the chancellor intended to press ahead with the reform in April this year, leaving only weeks for any late changes to be digested. The chancellor announced a flat rate 18 per cent CGT in the Pre-Budget Report on October 9 last year, removing taper relief that could be as low as 10 per cent, but quickly accepted modifications would need to be made.

Mr Darling last year assured the CBI employers' at the organisation's conference that he was listening to the vociferous business protests against his Pre-Budget Report decision to implement a single 18 per cent rate of CGT.

The shareholder lobby group IFS ProShare

said the changes planned for April would force an extra 13 per cent tax on shares worth more than £9,200, when they are currently only subject to a 5 per cent tax.

The proposed changes would replace the current system where the tax rate on the sale of business assets is reduced the longer it is held, falling to 10 per cent after two years. Employers warned of a further backlash if the final concessions were not significantly broader than the option, already announced but not officially confirmed, of a £100,000 tax relief for people who sell businesses and retire.

Business owners have warned the continued threat of an 80 per cent tax increase from the 10 per cent rate after two years to 18 per cent was distorting the market.

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PROFITING FROM YOUR PENSION

WHAT DOES YOUR EMPLOYER OFFER YOU?

Continuous talk in the media about pensions and in particular over the past few years about the demise of the final salary scheme has been a regular occurrence. But what are the schemes typically offered by employers? There are two main types of pension scheme: defined benefit (such as final salary schemes) and defined contribution, also known as money purchase schemes.

The defined benefit scheme has been the vanguard of pensions throughout the past number of decades. They promise the member a set annual income in retirement, based on the number of years' service and the salary when the employee left the company. This amount will typically also rise in line with inflation.

The employer bears the risk of long life expectancy and investment performance. As a result, many employers have closed defined benefit schemes to new members (and in some cases to existing members too), and replaced them with defined contribution schemes which transfer all these risks to the employee. This is only an issue for employees of companies and charities. Public sector workers are still entitled to final salary pensions.

A defined contribution scheme takes contributions from the employer and employee and invests them over the long term to build up a sum of money to fund the employee's retirement.

The employer's contribution is normally higher than the employee's, and both are calculated as a percentage of salary. Schemes which replaced defined benefit pensions tend to be more generous. A fairly generous scheme

may offer a 10 per cent employer contribution with a 5 per cent employee contribution. Some employers also offer higher contributions for older employees, but new rules against age discrimination could put a stop to this.

Scheme members can sometimes choose from a menu of funds. These are typically actively and passively managed equity funds, commercial property funds and bond funds. As you near retirement, it is standard practice to reduce your exposure to riskier investments such as equities and shift into safer assets such as bonds or cash. Some defined contribution schemes may only have one investment choice, a "balanced managed" fund which spreads investments across a range of asset classes. Alternatively some schemes also offer a default asset allocation, which usually starts with most or all of the money invested in equities, and transfers money into bonds as the member gets older.

Extra contributions can also usually be made through additional voluntary contributions (AVCs) that allow the member to invest in the same way as their main contributions or the choice to select from other funds available.

The government grants tax relief on the member's contributions at their highest rate of income tax. So if they are subject to the top rate of income tax of 40 per cent, they will only sacrifice £60 of their take-home pay for every £100 put into their pension fund. The fund will have to pay some tax on dividends from equity investments, but will not be subject to capital gains tax. Once the member starts receiving their pension it will be subject to income tax. In addition a tax-free lump sum of 25 per cent can also be taken.

If the member has more than one pension scheme it is possible to keep them separately if they wish. But if appropriate, it may be more beneficial to consolidate all of their defined contribution pension savings into the scheme with the lowest charges.

Alternatively there is the option, also if appropriate, to arrange a self-invested personal pension (SIPP), enabling them to invest in a much wider range of assets than those on offer through most defined contribution schemes. However, not many employers will allow members to invest their pension contribution outside the official company scheme. But, following the changes to the rules in April 2006, there is nothing to stop a member putting any money accrued in AVCs into a SIPP once they have received professional advice to determine if is the appropriate course of action.

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



TRUST IN YOUR FUTURE

TAX EFFICIENT VEHICLES

Even though the government has simplified the situation on inheritance tax (IHT) for married couples and registered civil partnerships who own more valuable houses, are there still merits in setting up trusts? The choice of trusts isn't simple any more. Wealthy parents may also wish to consider giving executors as much flexibility as possible in their Wills as to which trusts should be created, as the situation is changing so fast that it is impossible to predict what trust, if any, will be most suitable in the future.

The need to make provision for an IHT strategy centres round those with assets below or hovering near the IHT threshold. If you are cohabiting, then marriage or a registered civil partnership still has the potential to save a considerable sum of money in tax. It is still a very effective way to ensure that you do not have to pay IHT when the first of you dies.

If you are married or in a registered civil partnership and have already made provision for tax planning in the form of setting up nil-rate band trusts in your Wills, you may be left wondering how the changes announced to the IHT system could affect you. The main thing to remember is the importance of obtaining professional advice to assess your particular situation before any action is taken.

For couples with assets likely to appreciate at a faster rate than the nil-rate band or with assets which qualify for relief from IHT, such as business assets or agricultural property a discretionary trust is likely to be the preferred option.

Since the nil-rate band is now expected to be increased in relation to average house-price rises, couples who have assets increasing at a faster rate may be better off setting up trusts. If a Will establishes a discretionary nil-rate band trust, then the executors can choose not to set up that trust if they think it is better for the survivor to inherit outright. They have two years in which to decide and if they eventually decide against a trust the survivor's estate would attract two nil-rate bands.

Depending on your situation people who use trusts should probably have more than just their home in the way of assets. Putting part of

the family home into a nil-rate band trust is not a guaranteed way to reduce the IHT bill and HM Revenue & Customs could decide to challenge such arrangements. Instead, these nil-rate band trusts, if used, should be for assets such as shares and other property investments.

Wealthy married couples and registered civil partnerships could also create lifetime versions of nil-rate band trusts by putting in assets equal in value to the prevailing IHT allowance (currently £300,000) every seven years.

Lifetime nil-rate band trusts are much less often made by single people, as the main reason to do this would be to stop a child getting the assets straight away. But if this is not an issue, it may be more beneficial for single people to make outright gifts rather than using a trust as they are not, like couples, trying also to provide for a surviving partner.

IF YOU WOULD LIKE TO REVIEW YOUR CURRENT SITUATION, PLEASE CONTACT US FOR FURTHER INFORMATION.

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

PROPOSED NEW RULES COULD LEAD TO TAXING TIMES AHEAD

FAMILY BUSINESSES TO FACE HIGHER TAX BILLS

Thousands of family businesses could face higher tax bills under proposed new rules that overturn a famous defeat for the government in the courts. Husband and wife businesses, along with all other arrangements between family members in companies and partnerships, would be caught by the change.

The rules, drafted by HM Revenue & Customs (HMRC), aim to overturn a defeat in the House of Lords that allowed a husband-and-wife team to take an income from their business in a form that minimised their tax payments.

The new rules may also extend beyond husband-and-wife businesses to include all small businesses where the relationship was "not arm's-length". Under the proposed legislation businesses will have to provide detailed evidence of how they pay themselves or face fines. This could mean that two people living together, a brother and sister or a father and son in business together would be caught by the new rules.

Business partners caught by the rules may need to justify to HMRC how they are paid. If they are both directors of the family firm, which is common, they would need to document how much time they each spend managing the business and detail how much capital they contributed and in what form.

A spokesman for HMRC said the agency wanted to consult on the rules to make sure

the legislation was workable. He added: "The government believes that income shifting, the process whereby an individual gains a tax advantage by artificially shifting part of their income to another person who is subject to a lower rate of tax, is unfair. The majority of individuals [all employees and most business-owners] cannot shift their income."

The new rules follow the case of Geoff and Diana Jones and their IT business Arctic Systems. In the summer they won a four-year court battle against HMRC that also benefited an estimated 30,000 husband-and-wife-owned companies, using dividends as income to minimise their tax bills.

NEED MORE INFORMATION? PLEASE EMAIL OR CONTACT US WITH YOUR ENQUIRY.

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



“The government believes that income shifting, the process whereby an individual gains a tax advantage by artificially shifting part of their income to another person who is subject to a lower rate of tax, is unfair.”

GOVERNMENT'S HIP SCHEME EXTENDED

COMPULSORY PACK NOW ROLLED OUT FOR ALL PROPERTIES

If you are selling a property of any size in England and Wales you will now have to provide prospective buyers with a home information pack (HIP), although a new-build property can still be sold without a HIP until April 6 of this year. The government's HIP scheme is now being extended to one- and two-bedroom properties. The HIPs, which contain information about a property including an energy efficiency assessment, searches and title deeds, were previously compulsory on larger properties. Provided and paid for by sellers, a HIP may typically cost an average of £350.

The scheme is designed to speed up the selling process and reduce the number of transactions that fall through by giving potential buyers information about a property upfront. However, until June 1 this year sellers will still be able to market a property before the HIP has been compiled.

Originally the government had planned to make HIPs compulsory on all properties from June last year. Instead, the packs have been rolled out in phases, first to homes last year with four bedrooms or more in August, then to three-bedroom properties in September last year.

The Association of Home Information Pack Providers (AHIPP) have said that the full roll-out of the packs in their current form should be the "starting point and not the final destination." They are calling for information such as a home condition report to be added to the packs, so they contain everything needed by a seller to exchange on a property.

Plans to include a home condition report in the HIP were dropped after opposition from lenders who said they would still require their own survey before offering a mortgage on a property.

AHIPP have made it clear that for HIPs to fully inform potential buyers about properties they are viewing it is vital that the home condition report is made a mandatory part of the pack, and that many of the searches which provide information on flooding, ground movement and contamination are included.



HOME IS WHERE THE 'TAX BILL' IS!

YOUR DOMICILE DETERMINES THE TAX REGIME

An individual's domicile can be equated with their home for tax purposes, as opposed to the concept of where an individual resides at any given moment. As such, it is fundamental to how tax is paid. Everybody has to have a domicile.

You can change your domicile, but it can be difficult to persuade HM Revenue & Customs (HMRC) that you have. If you want to move abroad for tax purposes you need to show you have shifted all aspects of your life offshore.

If you are non-UK domiciled, you can live in the UK and not pay tax on your overseas income and capital gains. This is called the "remittance basis of taxation" and enables you to fund your lifestyle without a UK tax liability. If you're domiciled and resident in the UK, everything you own worldwide is subject to UK tax.

HMRC'S form, DOM1, has the relevant questions to help establish if you are unsure of your particular position. It's worth remembering that any individual with an overseas father may find themselves non-UK domiciled, even though they have never lived outside the UK. Similarly, you could live in the UK for a considerable time as an overseas national (perhaps more than 50 years) and still be non-UK domiciled.

If you are non-UK domiciled the government has proposed changes to these rules. These include an annual charge of £30,000 to benefit from non-UK domiciled status once you have lived in the UK for seven years. If you are non-UK domiciled, you should take professional advice and consider taking steps now to secure your profits before 6 April 2008. From this date, the rules are likely to be tightened and many of the

existing advantages may disappear.

If you are British and want to retire abroad, inheritance tax (IHT) may be a major concern for you. To avoid an IHT liability you must change your domicile status. You will have to persuade HMRC that you have left the UK permanently. For the first three years of your departure, you will still be subject to IHT even if you have shed your domicile status. You could consider using a life assurance policy written in an appropriate trust to cover any potential tax bill levied in this three-year period.

A tax bill that becomes due will depend on where you reside. But residence is an annual test, while domicile looks at your longer-term intentions. You will be resident in the UK if you spend six months a year in the UK or 90 days a year on average. If you are non domiciled in the UK, you can still be resident here and avoid tax on offshore profits. If you are UK domiciled, shedding residence is a key way to escape tax, although this could require you to go abroad for at least five years.

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

**NEED MORE INFORMATION?
PLEASE EMAIL OR CONTACT US
WITH YOUR ENQUIRY.**

THE HOME INFORMATION PACK PROPOSITION

YOUR QUESTIONS ANSWERED

Q: WHAT IS A HOME INFORMATION PACK (HIP)?

A: A HIP is a collection of information about a property prepared by the owners for prospective buyers. The five compulsory documents are, the HIP index, which explains what is in the pack, the energy performance certificate (EPC), which rates the property's energy efficiency and gives it an environmental impact rating, the sale statement, which explains who owns what, a standard searches document, which should cover all the relevant searches carried out by the local authority, including water, drainage and nearby planning proposals, and evidence of title documents, which prove that the seller owns the property.

If the property is owned on a leasehold or commonhold basis, copies of the lease and other relevant documents should also be included.

Q: IS A HOMEBUYER'S REPORT INCLUDED?

A: There is no homebuyer's report or survey in the HIP. Buyers are still advised to get a survey done themselves, however, and any mortgage company will also carry out its own valuation survey, for which the buyer will pay. Sellers can include a home condition report as an optional item, along with a legal summary, a contents form and other location-specific forms such as a risk-of-flooding or ground stability survey.

When HIPs were first unveiled it was suggested that a survey, or home condition report, would be the most important part of the pack, but heavy lobbying from organisations such as the National Association of Estate Agents forced the government to remove it.

Q: ARE HIP'S REQUIRED ON THE SALE OF ALL PROPERTIES?

A: HIP's are now required on all properties except new builds which meet the most recent building regulations, they won't fall under the HIP rules until April 6 this year.

Q: DURING WHAT PART OF THE SALE DOES A HIP NEED TO BE PRODUCED?

A: Originally, the government said packs had to be ready before a property could be put on the market, but it has changed its mind on this twice. The law now states that if you are selling before June 1 2008 you only have to have had a pack commissioned when the house is put on the market. This means people could start looking around a property before the HIP is ready.

Q: WHAT IS THE POSITION WITH SELLING A PROPERTY IN SCOTLAND?

A: Scotland plans to introduce a similar scheme this year, but it will include the property survey and is known as the single survey scheme or purchaser's information pack.

Q: HOW MUCH WILL A HIP COST TO PREPARE?

A: Research published by the government in November 2007 showed on average HIPs were costing between £300 and £350 to prepare. Some

of the costs would have been met by the buyer under the old system; some like the cost of the EPC are new. In general the seller will pay the bill, although the costs of printing and postage for individual packs can be charged to the buyer.

Q: HIP'S REMAIN VALID FOR HOW LONG?

A: In theory until the property sells. If the property comes off the market and goes back on again within 12 months the HIP will still be valid.

Q: IS AN ENERGY PERFORMANCE CERTIFICATE (EPC) COMPULSORY?

A: In the time since the packs were first unveiled a European directive has made it compulsory for all properties selling in the UK after January 2009 to hold an EPC. Rather than wait until 2009, the government has opted to include these in the HIP. The EPC is based on an energy audit. Before you sell your property an inspector will rate how efficient it is. They will look at your boiler, light bulbs, windows and loft and cavity wall insulation. Ratings go from A-G, with A-rated properties the most energy efficient.

**NEED MORE INFORMATION?
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MAKE A NEW YEARS RESOLUTION

PLAN TO GET THE MOST OUT OF YOUR PENSION PROVISION

Commence saving for your retirement as soon as possible as the longer you leave it, the harder it is to catch up on missed time and contributions.

Maximise your pension contributions in order to boost the value of your funds at retirement. Even if you are fairly close to retirement, you could still benefit from the tax efficiency of pension contributions.

Look at your other savings and investments to see how they could help you fund your retirement. Consider rearranging them to make the most of the tax bands and allowances, especially if you are married or partners in a registered civil partnership.

If you have pensions that are invested in equity markets, (such as personal pensions or stakeholder pensions) take professional advice to protect their value against short term falls in the stock markets. Stock markets can move without warning so even if you are three or four years from retirement you should consider reducing your exposure to investment risk.

Make sure you exercise the open market option and shop around for an annuity that will give you maximum retirement income. If you are a smoker or have a poor medical history, you may be entitled to enhanced rates. Not all annuity providers offer them so it's important to take advice from a professional to shop around on your behalf.

Beware that by exercising the open market options or consolidating funds, you do not lose access to potentially valuable guaranteed annuity rates under your existing plans. Many older style contracts, typically 'with profit' plans from the late 1970' incorporated guaranteed

annuity or conversion rates.

Once you have reached your nominated retirement age, you do not have to take the benefits from private pension plans such as personal/stakeholder pensions. You could leave them invested if you do not need the income or the tax free lump sums and they will continue to attract tax advantaged returns. A major advantage of this, if you are in this position, is that undrawn pension funds are generally not included in your estate for inheritance tax purposes. On death the fund is generally returned free of all taxes to your personal representatives as a lump sum.

Remember that your life in retirement could be as long as your working lifetime, if not longer. You need to think about the affects of future inflation on your pension income and how you will cope. In addition you need to make the same assessment of your non-pension investments and savings because inflation will impact upon them too and if they are being used to support your standard of living in retirement they could be eroded faster than you expect.

Your pensions may not just be providing income for you but also potential income for your spouse or partner and dependants in the event of your death after retirement. You may need to consider how to structure your income to make provision for them.

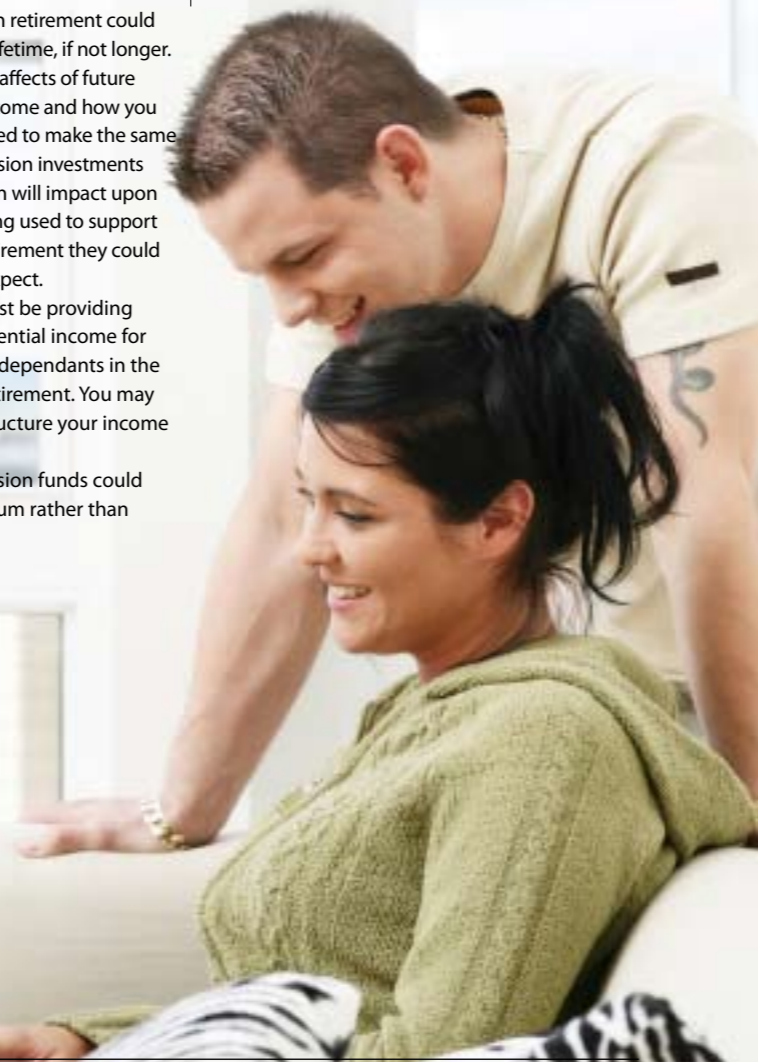
A proportion of your pension funds could be taken as a tax free cash sum rather than

an income. Consider how you can make the best use of that lump sum either by reducing debts and mortgages or investing in the most tax efficient way to supplement your reduced pension income.

Where you have to commute part of your pension for a tax free cash sum, for example within an employer's final salary scheme, check to see whether you can replicate what you are losing in the way of pension by way of other investments before you take that decision.

It's very important to review your affairs on a regular basis so that you keep making the most of the funds that you have available.

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



TO DISCUSS HOW YOU CAN GET THE MOST OUT OF YOUR RETIREMENT PLANNING, PLEASE CONTACT US FOR FURTHER INFORMATION.

CAREFUL PLANNING WELL IN ADVANCE... THE CORNERSTONE OF IHT PLANNING

KEEP IT IN THE FAMILY

TAXING FACTS

There are 2.86m widows and 800,000 widowers in England, Scotland and Wales who could all benefit from increased IHT allowances due to the changes in the rules made by Chancellor Alistair Darling in his October 2007 Pre-Budget statement.

In this current tax year everyone has a £300,000 IHT allowance. Anything you leave over and above that value attracts a 40 per cent IHT bill.

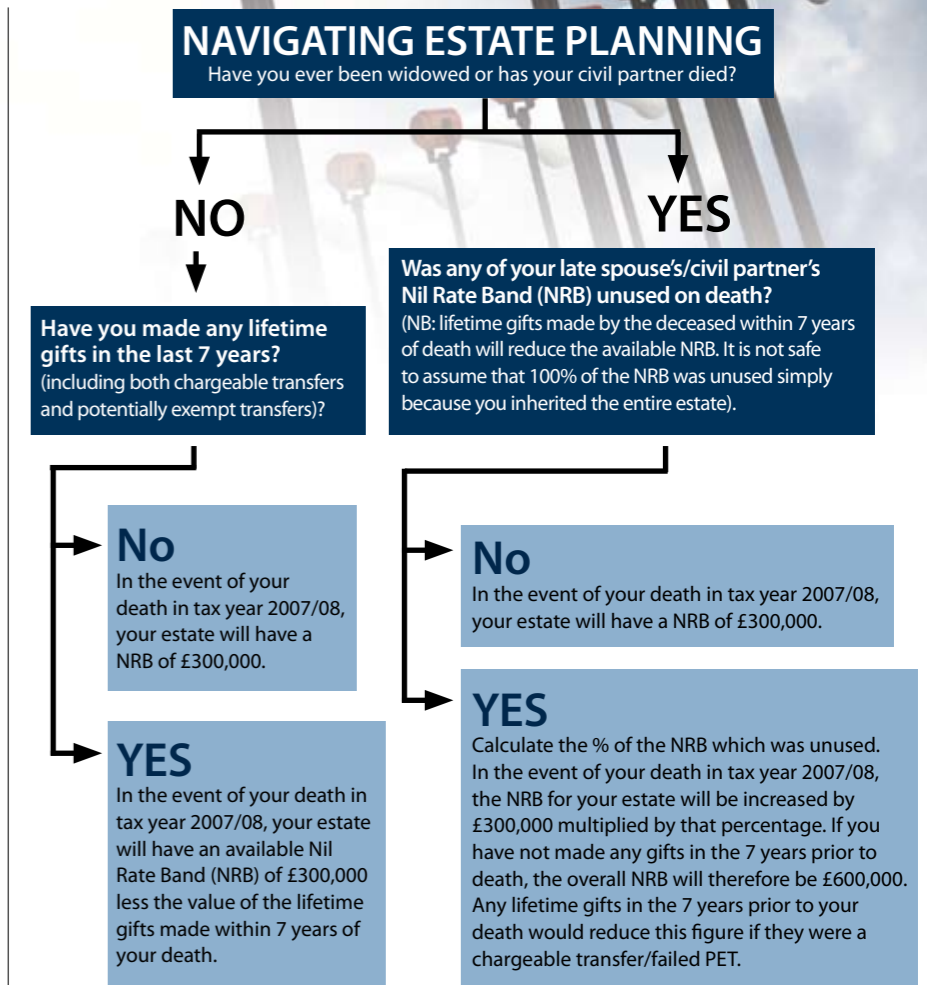
In the past husbands and wives or more recently civil registered partnerships have been able to inherit all their partner's assets without being liable to IHT. However, when the second partner died, the tax was liable on everything above the allowance or nil rate band, as it is known.

The changes mean that in addition to the free transfer, any unused allowances on the first death now also pass to the other partner. So if the first partner dies and leaves everything to the other one, there will currently be a double allowance (£600,000) at the time of the second death.

The rule change retrospectively permits all widows and widowers to claim no matter when their partner died. The calculation is based on the percentage of the allowance used at the time of the first death and is applied to the allowance at the time of the second death.

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Lifetime gifts which are exempt from IHT can be ignored for the purpose of this flowchart. For example, gifts to spouse, civil partner, charity, small gift of £250, gift from surplus income. This list is not exhaustive.

PEOPLE DON'T PLAN TO FAIL, BUT THEY DO FAIL TO PLAN

DON'T FALL FOUL OF THE RULES

Regardless of your age inheritance tax (IHT) is a great example of a tax where bills could be significantly reduced if you plan ahead. See if you are taking full advantage of the options available to you!



30 TO 40 SOMETHING'S

If you are married or in a civil registered partnership, assets pass to each other on death IHT free and since the last Pre-Budget Report you can also now inherit each other's nil-rate tax allowance (£300,000 each for the tax year 2007/08).

Writing a Will is also one of the key parts of starting to plan for IHT. This gives your executors considerable flexibility to try and reduce even further any tax that may become due when you die. In particular if you are married, by setting up trusts for your children.

Life insurance can be used to assist your heirs to pay an IHT bill with the proceeds paid IHT-free if written in an appropriate trust. Many insurers do not offer this facility unless you ask.

By using lifetime nil-rate band trusts, a couple could potentially put over £1.8m outside the IHT net over a period of 21 years. You could put a sum equal to your IHT allowance into a trust every seven years and, provided you live seven more years, there should be no IHT payable on it. Professional advice should always be taken first to discover whether this option is appropriate for your particular situation.

Ensure pension plans are written in trust as death benefits on policies not written in trust could potentially be taxable.

Take tax advice early as decisions about how you build up investments could have major repercussions later on and may trigger avoidable capital gains tax bills if you later decide to give away assets.

50 TO 60 SOMETHING'S

In this age bracket it is crucial to review your Will and tax plans every year if your circumstances alter, regulations change or you become substantially wealthier.

You could consider helping your children purchase a property. A family where, for instance, both parents and all the children each have a property in their own name should, in

most circumstances, pay considerably less tax than one in which the parents own all of them.

Business property relief is available for family businesses, potentially reducing the IHT bill to nil on these assets. But the law is complex, and changing, so once again professional advice should be taken.

If your investment risk for reward attitude is high, then making investments in Alternative Investment Market (AIM) stocks and other similar vehicles may offer IHT relief. Always take professional advice first to assess your situation.

70 TO 80 SOMETHING'S

Review your Will and tax plans as you did in your fifties and sixties and consider making regular gifts from income and using your gift allowances. Such gifts are free of IHT. It is important that you keep records to help your executors, as HM Revenue & Customs have become more suspicious about whether such gifts meet the criteria.

Make other gifts that fall outside of the IHT net if you live seven years after making them. As transfers between spouses and civil registered partners are tax-free, it is often better to transfer an asset to the younger, healthier partner who is more likely to live longer and who can then give it away.

Leave your affairs in order with lists of assets and account numbers as well as notes proving entitlement to relief's such as business property or gift relief. IHT is payable six months after you die so it makes sense to leave your affairs in a tidy state to make the process less stressful for your heirs.

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FINANCIAL WELL-BEING

THE INVESTMENT BASICS

If you are considering investing in equities, you first need to ensure that you have sufficient money in cash for any 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 pick 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 may have a greater need for investment income rather than capital growth.

Ask yourself over what timescale are you prepared to invest - five, 10, 15, 20 or more years?

Depending on your attitude towards risk for reward, first-time equity investors may wish to consider a collective fund, such as a unit trust with a medium to low-risk profile, rather than immediate exposure to higher risk funds such as smaller companies or specialist trusts.

Spread your money between several fund management groups.

Treat performance rankings 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.

Take professional advice to select what is appropriate for your aims and objectives. There are approximately over 2,000 funds, all of which have different aims and objectives. Some will be aggressively managed, investing in a smaller concentration of stocks. Others will aim for more of a spread. The more specialist funds may be prone to big performance swings, a winner one year, a loser the next.

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NEW PENALTIES COULD BRING A STING IN THE TAIL

TAKE STEPS TO SHELTER TAX FREE CASH OR INCOME

Individuals who have been prudent over the years and saved rigorously will not be pleased to hear that they may become subjected to new taxes of up to 82 per cent. However, by taking steps to shelter tax free cash or income from what are now regarded as surplus pension funds, there are ways to avoid falling foul of the new penalties.

For those people with sufficient income from sources other than their pension funds, it doesn't mean they should leave their pension funds untouched until they die. The problem arises because of a change to the rules governing annuities. In April 2006, Gordon Brown, the then Chancellor, introduced changes to pension legislation known as "A Day."

The rules allowed those who had reached 75 and had not bought an annuity with their pension fund to opt for an Alternative Secured Pension (ASP). Although ASPs were originally introduced in response to requests from the Plymouth Brethren, who had religious objections to annuities, it soon became clear that ASPs would appeal to a much wider group.

The appeal of the ASP to wealthier investors is that they would be able to withdraw income from their pension without being forced to buy an annuity at aged 75. Then the Treasury made an about-turn, saying that ASPs were never intended as a means for wealthy people to pass on tax-advantaged savings to dependants and imposed a tax and penalty charge of up to 82 per cent on residual funds.

However, this would only apply where estates exceed the nil-rate band for inheritance tax (IHT) of currently £300,000 with the effective limit for married couples and members of civil registered partnerships being £600,000 because of the automatic transfer of spouses' allowances.

Those most likely to be tempted to transfer their funds into an ASP are pensioners who have opted for drawdown (also known as an unsecured pension) as an alternative to more traditional annuity planning. Drawdown allows an individual aged between 50 and 75 to defer the purchase of a pension from an insurance company.

They take an income from the fund and leave the rest invested, but still need to buy an annuity or transfer into an ASP when they reach age 75. Drawdown and ASPs tend to be more suitable for people with larger pension funds (before taking any tax-free cash), or with other sources of retirement income, who may be willing to take a higher degree of risk with their retirement income.

There is a way to shelter your pension fund from the tax, but you need to plan ahead using specialist tax-efficient vehicles.

Although escaping the full 82 per cent tax on any residual ASP funds may not always be possible, there are the means of making sure that the majority of any 'surplus' pension funds find their way to beneficiaries and not to the Treasury.

Pensioners who buy an ASP could withdraw tax-free cash and give it to a trust to minimise any IHT charges. If they survive for seven years after the gift, then the whole of this fund should fall outside the IHT net. They then can take a maximum pension which, being surplus to their living requirements, can be gifted each year (with immediate exemption from IHT) into a "gifts from income" flexible trust, again for IHT mitigation. As gifts are made 'out of income', there is no maximum to the sums you can pass on and you do not have to wait seven years for it to become exempt. It is important to bear in mind that, unless you set up a trust, you will lose control of any money you give away.

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2008/09 TAX YEAR

THE NUMBERS REVEALED

- The personal allowance paid to everyone up to 65 rises by £210 from £5,225 to £5,435
- The allowance for people aged 65 to 74 rises by £1,480 from £7,550 to £9,030. This above-inflation increase is compensation for the withdrawal of the 10 per cent starter tax rate from this April
- The allowance for those over 75 also increases by more than inflation for the same reason by £1,490 from £7,690 to £9,180
- The earnings level where the higher allowances paid to older people starts to be withdrawn rises by £900 from £20,900 to £21,800
- Married couples where at least one person was born before 6 April 1935 see their allowances rise by £250 from £6,285 to £6,535, with marginally more when one partner is at least 75. This is paid at 10 per cent, with better-off older couples receiving a 10 per cent allowance on £2,540, £100 more, so they are £10 a year wealthier
- The very highly paid will be able to invest £235,000 in pension plans in 2008/09, a £10,000 increase
- National Insurance starts this year at £105 a week (£5,460 a year), up £5 a week. Salary earners pay 11 per cent up to £770 a week (£40,040 a year), £100 a week more than last year. This reflects planned income tax changes and should leave, according to the government, people no worse off. Beyond that, employed people pay 1 per cent
- The self-employed will pay National Insurance at 8 per cent of profits between £5,435 and £40,040 in 2008/09, with the 1 per cent surcharge after that. They also have to pay a £2.30 a week 'stamp', a 10p a week increase
- The basic state pension rises by £3.40 from £87.30 to £90.70 a week for a single person and increases by £5.45 from £139.60 to £145.05 for a couple. The pension credit, the means-tested minimum income level for retired people on state benefits, rises by £5 from £119.05 to £124.05 for a single person and by £7.65 from £181.70 to £189.35 for a couple

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LESS TAXING TIMES AHEAD!

SAFEGUARDING AN INHERITANCE...YOUR QUESTIONS ANSWERED

Q: After hearing the announcements made in the Pre-Budget Report relating to inheritance tax (IHT), I would like to know if I can still leave everything to my spouse without paying this tax?

A: The Chancellor has not changed the so-called 'spousal exemption', which means that assets passed between spouses or civil partners are free of IHT regardless of their worth. The change relates to the amount of money a couple can leave to their heirs, in most cases their children.

Q: Prior to the Pre-Budget Report, I thought that both my wife and I had a £300,000 allowance and were able to leave up to £600,000 between us without incurring inheritance tax?

A: This is correct but the reality was that many people never took advantage of this, particularly in regards to the inheritance of the family home, as this involved changing the ownership of the home, drafting new Wills and setting up a trust. The changes announced in the Pre-Budget Report mean that far more couples could

utilise their joint inheritance tax exemption, and it should be far simpler for families to ensure that more of their assets go to their heirs, rather than ending up in the hands of HM Revenue & Customs.

Q: Who can take advantage of this new 'couple's allowance'?

A: It is estimated that this change could benefit some 12 million married couples and those in civil partnerships, plus a further three million widows and widowers. For the first time they will be able to transfer their individual allowance, so when the first spouse dies, their share of the home and any other assets could be transferred to the surviving spouse. But on the death of the second spouse inheritance tax will be paid only if assets exceed £600,000 in the current tax year.

Q: So how much less tax will people have to pay?

A: Assuming you have avoided paying IHT on the full £300,000 (in other words your estate is worth at least £600,000), this means that your children could have avoided a tax bill of £120,000.

Q: I have lived with my partner for 39 years, but have not married. Will we also be able to benefit from the announced changes relating to inheritance tax?

A: No. This change is for married couples and civil partnerships only. Single people and those who co-habit will not benefit. However, as you both have an individual allowance of £300,000, you will collectively be able to pass on £600,000 nil rate tax to children or other heirs. The crucial difference is that you cannot leave assets of more than £300,000 to each other without being subject to inheritance tax. And, of course, if assets are transferred between you on the death of the first partner this will 'mop up' any inheritance tax allowance.

Q: My spouse died before these changes were announced. Will I still be able to benefit?

A: The government has back-dated tax legislation and, for once, this will be beneficial to taxpayers. Anyone whose spouse has already died, regardless of how long ago this was, should be able to utilise the full 'couple's allowance'. But note that if your wife or husband did leave significant gifts elsewhere, for example to children, grandchildren or into a trust, these will be deducted from their £300,000 allowance. But any unused allowance will be added to your own exemption when distributing your estate to heirs.

Q: I already have a trust in place in order to make the most of both mine and my husband's IHT allowances. How is this affected?

A: The chances are that this is a nil-rate band discretionary trust. These are fairly straightforward to set up and are usually included in your Wills. If both you and your spouse are still alive, the trust hasn't been created yet – there will be a codicil in your Will that will set up the trust on the death of the first spouse. Following the Pre-Budget Report changes announced, it would be a good time to review your Will and estate planning.

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

PUTTING IN PLACE AN IHT STRATEGY CAN BE A VERY COMPLEX ISSUE AND YOU SHOULD ALWAYS RECEIVE PROFESSIONAL LEGAL AND FINANCIAL ADVICE BEFORE PROCEEDING.

TAX-SAVING STRATEGIES

KEEP WHAT IS RIGHTFULLY YOURS!

Using a combination of insurance bonds and charitable gifts could mean that you avoid higher-rate tax on your investments. Insurance bonds may benefit higher-rate taxpayers because of the way they are taxed. Investors are permitted to withdraw 5 per cent a year of the original capital for 20 years without incurring a tax charge.

In an onshore bond the insurer pays 20 per cent before returns are paid out, so basic-rate taxpayers have nothing further to pay. Offshore bonds are taxed only when the individual sells. So to reduce a potential tax bill it makes sense to ensure that you are a basic-rate taxpayer in the year that you sell your bond, which is where gifts to charity come in.

A contribution to a personal pension also raises the higher-rate threshold.

TAX IN RETIREMENT

At retirement you are allowed to take up to 25 per cent of your pension fund as tax-free cash. But if you invest that in a standard savings account or fund, you may pay tax on any income it produces. If you put the money in an offshore bond, you could withdraw 5 per cent a year without paying tax.

The investments also grow tax-free until there is what is known as a 'chargeable event', when you encash the bond and bring the funds back into the UK or take out more than 5 per cent a year.

WEALTH PROTECTION

Another way to protect your wealth in retirement is to consider taking your tax-free cash in instalments to provide an income, rather than drawing your pension which would be taxable. If you retire with a fund of £400,000

you are entitled to take up to £100,000 as tax-free cash. Rather than taking this all in one go, you could take smaller tax-free amounts, for example, £20,000 for five years.

TAKE AN ALTERNATIVE APPROACH

If you buy wine, antiques or vintage cars, any gains made are often tax-free. If an asset has a predicted life of less than 50 years it is classed as a wasting asset and the profit you make on the sale is exempt from capital gains tax (CGT). This takes the sale of certain antiques, such as long case clocks and vintage or collectable cars, outside the scope of CGT altogether. Wine is sometimes, but not always, classed as a wasting asset. If HM Revenue & Customs (HMRC) decide it will improve in quality and value after 50 years, the exemption may not apply. You also lose the exemption if HMRC regards you as a trader running a business.

FAMILY MAINTENANCE

Most people are aware that giving away assets during your lifetime is a legitimate way to reduce any potential death duty, but you have to wait seven years before most large gifts are exempt. Payments made for the maintenance of family members, though, are immediately inheritance tax (IHT) free. In that way, you

reduce a bill even if you have left it too late to do other planning. The exemption covers payments to spouses or civil partners, dependent children, including those at university, or a dependent relative, including the elderly needing care.

BUSINESS PERKS

If you run a business, it escapes IHT once you have owned it for two years, as long as it is 'wholly or mainly' involved in a trade. You could put your investment portfolio into the business and still get the IHT exemption as long as it does not form more than half of the company. This should only be considered if you do not want to sell your business in the future.

TAX-FREE PROFITS

If you sell personal belongings, known as chattels, for less than £6,000 any profit is tax-free and does not reduce your annual CGT allowance (£9,200 this year). Chattels include books, furniture, old coins, clocks, watches, silverware and ceramics. Even cars, lorries and motorcycles are included if they are bought as an investment. The sale of private vehicles is always exempt from CGT.

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EARLY RETIREMENT

SPEEDING UP THE RETIREMENT PROCESS

Retiring successfully in our fifties is the ultimate goal for many of us. But as the saying goes, 'Most people don't plan to fail, but they do fail to plan.' The reality is that many individuals will not achieve this goal unless they take some decisive action.

Households are on track to receive just 76 per cent of their hoped-for retirement income, according to figures from the Fidelity Retirement Expectation Index.

So what are some of the less well publicised strategies that individuals may wish to consider that could enable them to speed up the retirement process?

DOUBLE MONEY

A company bonus payment up to 100 per cent of an individual's earnings (subject to a

maximum of £225,000) could be put straight into a pension. Higher bonus earners could potentially put away more than double the maximum if they were selective about exactly which day they made their payments. The pension rules allow individuals to choose their own 'year end' for pension contributions.

Under 'bonus sacrifice' they could take a quarter of this sum as tax-free cash as soon as they reached the age of 50 (55 from April 2010). In this tax year, there is a current lifetime limit of £1.6m on the total value of a pension fund.

KEEP IT IN THE FAMILY

Anybody earning at least £4,524 in this 2007/08 tax year is treated for state second pension (S2P) purposes as if they earned £13,000, enhancing their state pension at retirement.

A spouse employed in a business, or on a freelance arrangement to assist with work, could be paid at least £4,524 a year. They will then be entitled to an S2P on the basis of earning £13,000, not just £4,524. On retirement, those earning £4,524 throughout their working lives would be entitled to S2P payments of £3,390 a year. You cannot claim S2P benefits until you reach the state retirement age.

A SIGH OF RELIEF

Individuals could build up a bigger fund using a pension than with alternative savings because the government offers tax relief on all contributions – 22p is currently paid for every 78p invested (this will reduce to 20p with effect from 6 April 2008), taking the total contribution to £1. Higher-rate taxpayers may get a further 18p through their tax return. At retirement, a tax-free lump sum of up to 25 per cent can also be taken tax-free.

Individual Savings Accounts (ISAs) are a tax-efficient method of topping up retirement savings. Everyone has an annual ISA allowance of £7,000 in the current tax year, and any income drawn is tax free, unlike pension income, which is taxed.

KEEP YOUR OPTIONS OPEN

The purchase of an annuity from a pension company using a pension fund provides an income for life. It is crucial to take professional advice when looking to purchase an annuity, as it could mean that you receive extra income every year by shopping around for a better annuity rate.

You should be able to exercise this 'open market option' whether you are in a personal pension scheme or some company schemes. Operating an open market option at retirement is now a requirement for UK schemes, although some company scheme members still automatically purchase annuities from their scheme's own provider, which may not be the most financially prudent option.

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BEQUEATHING YOUR PENSION TO FAMILY MEMBERS

TAX-EFFICIENT LOOPHOLE CLOSED



A government loophole that was closed in last year's Pre-Budget Report could mean that many wealthy individuals who had been planning to leave their pensions to their heirs will no longer have this tax-efficient facility open to them.

The announcement affects 'small self-administered schemes' (SSASs) that had allowed individuals to bypass the need to buy an annuity at 75 and bequeath their pension to family members instead. The previous rules had meant this was not subject to inheritance tax (IHT). A special 'self-invested personal pension' (SIPP), called the Family Pension Trust, worked in a similar way and offered the same tax breaks.

The possible repercussions of this announcement to an individual could mean that handing money to their family through this facility may result in a considerable tax charge. The payment could also be subject to IHT if it is above an individual's IHT threshold of £300,000 (tax year 2007/08).

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PROTECTING YOUR FUTURE

IS IT TIME TO GIVE YOUR PROTECTION PORTFOLIO AN OVERHAUL?

The start of a New Year is the perfect time to give your finances an overhaul and in particular to review the protection element of your financial planning strategy. When was the last time you considered and reviewed your critical illness cover, income protection and life insurance requirements?

CRITICAL ILLNESS INSURANCE

Critical illness insurance pays out a tax-free lump sum if you are diagnosed as having one of the specific life-threatening conditions defined in the policy. Some policies will also combine life and critical illness cover together. These pay out if you are diagnosed with a critical illness, or you die, whichever happens first.

The Association of British Insurers (ABI) launched the 'Statement of Best Practice for Critical Illness Cover' to enable people to understand exactly what critical illness cover provides and what they can claim for. The ABI specify a number of illnesses and definitions that must be covered for a policy to be classed as a critical illness policy, however some companies offer additional definitions and illnesses on top of these.

INCOME PROTECTION INSURANCE

Income protection insurance is also known as permanent health insurance. It is designed to replace part of your lost earnings if you are unable to work because of illness or disability. Depending on how much cover you choose to buy, income protection insurance provides a tax-free monthly payment of between 50 and 60 per cent of your usual earnings. The monthly payment typically continues until you go back to work or you reach retirement age.

WHAT IS COVERED

Income protection insurance pays out when you become ill or suffer an accident and, as a result, are left unable to work. For a limited period, some policies also make a 'partial' or 'rehabilitation' payment if you are able to return to your old job but in a reduced capacity, for example, part-time. Some policies also make a 'proportionate' payment which tops up earnings if you go back to work full-time but take a lower-paid job.

LIFE INSURANCE

Life insurance assists your dependants to cope financially in the event of your premature death. When you take out life insurance, you set the

amount you want the policy to pay out in the event of your death – this is called the sum assured. There are two basic types of life insurance: term assurance and whole-of-life cover.

“Critical illness insurance pays out a tax-free lump sum if you are diagnosed as having one of the specific life-threatening conditions defined in the policy.”

TERM ASSURANCE

This is the most straightforward type of cover with no investment element, paying out a lump sum if you die within a specified period. Often term assurance is bought at the same time as a mortgage, and taken out for the same period.

There are several types of term assurance:

Level term assurance – this offers the same payout throughout the life of the policy, so your dependants would get the same amount whether you died on the first day after taking the policy out or the day before it expired. This tends to be bought with an interest-only mortgage, where the debt has to be paid off only on the last day of the mortgage term

Decreasing term assurance – the payout reduces by a fixed amount each year, ending up at zero at the end of the term. Because the level of cover falls during the term, premiums on this type of insurance are lower than on level policies. This cover is often bought with

repayment mortgages, where the debt falls during the mortgage term

Increasing term assurance – the potential payout increases by a small amount each year. This can be a useful way of protecting the initial amount against inflation.

Convertible term assurance – the policyholder has the option of switching in the future to another type of life insurance such as a 'whole of life' or endowment policy without having to submit any further medical evidence

Family income benefit – instead of paying a lump sum, this offers the policyholder's dependants a regular income from the date of death until the end of the policy term

WHOLE-OF-LIFE INSURANCE

This is a policy that lasts throughout your life, so your dependants are guaranteed a payout whenever you die. There are different types of whole of life policy. Some offer a set payout from the outset, others are linked to investments and the payout will depend on performance. Investment-linked policies are unit-linked policies, linked to funds, and with-profits policies offer bonuses.

TO REVIEW YOUR PROTECTION REQUIREMENTS, PLEASE CONTACT US FOR FURTHER INFORMATION. WHEN REVIEWING YOUR PROTECTION PORTFOLIO, IT IS IMPORTANT THAT YOU CHECK THE ADDITIONAL BENEFITS UNDER YOUR EXISTING POLICIES.

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

PENSIONS WEALTH CHECK



YOUR QUESTIONS ANSWERED

Q: Over the past 20 years or so my employment history has varied, ranging between full-time and part-time employment. Am I entitled to a state pension and what is the amount likely to be?

A: A starting point would be to make contact with the Future Pension Centre on 0845 300 0168. You would then be able to determine your current position in relation to receiving a state pension and how much you are likely to receive. Currently, for a full state pension, a man needs to have made 44 years of National Insurance contributions, a woman 39 years. This will change for those due to retire after April 2010, when the requirement will be for 30 years contributions by both men and women to attain a full state pension.

Q: I have been reading in the financial press numerous articles about pension funds that have not been used to purchase annuities and whether they form part of your estate. If I do not use my pension fund to buy an annuity,

will it form part of my estate on my death and can it be inherited by my children?

A: Pension fund money is either 'pre-retirement' money or 'post-retirement' money and has nothing to do with whether you have actually retired or not. It simply relates to whether you have started drawing any benefits out of the pension.

For 'pre-retirement' money, on death your pension fund will normally fall outside your estate, and can pass to your children tax-free, provided that you have completed the necessary nomination form. It is prudent to notify your pension company to whom you would like the money distributed, in order to avoid arguments after your death.

Up to age 75, you also have the option to start drawing a pension using an Unsecured Pension (formerly known as a drawdown plan). If you do this, it means that your pension fund is now 'post-retirement' money, but you still have the option that on death the fund can be paid out to your children, less 35 per cent tax.

Once you get to age 75, though, the government insists that you start drawing your pension by this age. You could still avoid buying an annuity by drawing your pension using an Alternatively Secured Pension (ASP). If you opt for this route, you could arrange for your pension fund to be passed on to your children's pension funds on your death, so they get the money, but only in the form of an addition to their pensions, which they cannot gain access to until age 50 (55 from 2010).

These changes were introduced as part of the government's pension simplification programme introduced to make pensions easier to deal with.

Q: Can you clarify whether I can have a stakeholder plan or similar personal pension at the same time as my occupational pension?

A: Prior to April 2006, it was partially true that a member of an occupational scheme earning more than £30,000 was not able to have a concurrent stakeholder or personal pension plan.

However, this situation has changed substantially and you can now contribute to a personal pension (or stakeholder) or additional voluntary contribution plan at the same time as being a member of an occupational pension scheme.

The contribution levels are what the restrictions now relate to. This is known as the annual allowance, and for this tax year means that you (together with contributions from your employer) can contribute up to £225,000. For defined benefit (final salary) schemes, the calculation is somewhat more complex.

Q: I'm currently a member of a company pension scheme that contributes 10 per cent per annum to the scheme, which is not a final salary pension. There is not a particularly diverse range of funds to choose from and switching funds can be a slow process. Ideally, I would like to have total control over where my money is invested and actively manage the funds myself. What are the options available to me?

A: This is a complex answer as typically within a company pension scheme your wish to have control over your investments is not one that can always easily be achieved. The degree of control you have personally will depend on the following: whether you have an occupational money purchase scheme, where

the trustees of the scheme are responsible for investment choice on behalf of the members; an occupational scheme, where the trustees specify default investment choices but give the members significant choice over their own contributions; or a group personal pension or stakeholder scheme, where the members have considerable investment choice and the employer pays contributions but has no control over investment choice.

Since your employer is ultimately responsible for where they choose to pay their contributions, the question is whether they would be happy to make alternative arrangements for their contribution to your policy in order to cater for your desire to have more control over your investments. They may not wish to do this and would be under no obligation to make separate arrangements for you in this case.

In this instance, you could consider running a self-invested plan concurrently alongside the employer arrangement in order to provide the degree of flexibility you seek in relation to your own contributions. However, we do not know whether the scheme that you refer to benefits from an employer contribution which is conditional on a certain

degree of matching, that is to say a specific level of employee contribution is required to qualify for the employer contribution.

For this reason, it is difficult to be more specific about your options without knowing whether your employer contribution would be at risk. It would not be prudent to forego a significant employer's contribution purely because the investment flexibility you seek cannot be obtained within your employer's scheme.

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BUYING AN ANNUITY

ONE OF THE MOST IMPORTANT PURCHASES YOU WILL EVER MAKE

There are a bewildering range of different annuity types on the market and you only get one chance to make your selection, so it is crucial that you receive professional advice before you buy.



The “annuity rate” expresses the annual income your annuity will provide as a proportion of the lump sum you invest. If the annuity produces a rising income, the quoted rate indicates the income at the start.

The annuity rate that you receive is dramatically affected by whether you wish the amount of income to remain the same or increase each year and whether you wish an income to continue to your spouse or dependents after your death. Rates also vary between companies and change regularly and you won't be able to change your mind once you've bought your annuity, so it is vital to shop around as buying an annuity is one of the most important purchases you will ever make.

The vast majority of pensioners simply opt for a standard or conventional annuity. Here the level of income you get depends on a number of factors, including gender (women receive commensurately less because their average life expectancy is longer); age (the older you are, the more you get because you are expected to die sooner); and prevailing economic conditions.

Increasing life expectancy and low inflation over the past few years have caused annuity rates to fall. Other choices include whether to buy a level annuity, which pays the same income for life or an escalating annuity, which increases by a set percentage each year.

It is possible to buy an annuity that increases each year in line with inflation. Normally they are linked to the retail price index (RPI), but you can

choose how much you want your income to rise annually, for instance by 3 per cent or 5 per cent. In return for this, however, the initial income may be cut by at least a third. How well RPI-linked annuities perform compared with level annuities depends on what happens to inflation.

Enhanced annuities are for people with unhealthy lifestyles, such as smokers, or with health problems, such as asthma or more serious medical conditions such as Alzheimer's, cancer or coronary disease and may be as much as 20 per cent greater than standard annuities. Smokers, for example, might receive 7 to 8 per cent more than they would from a standard annuity. If they are also a diabetic, their booster could rise to 12 per cent, and higher still if they have high cholesterol.

Enhanced annuities, including “impaired life” and “lifestyle” annuities, offer a higher income because life expectancy is expected to be substantially shorter than average and therefore the total paid out by the annuity provider will be less. You do not have to be seriously ill to qualify, but you will still receive more than from a standard annuity. In short, the worse your health, the more you get.

Investment linked annuities offer you the chance to select your own income at outset, on the basis that this may vary in future dependent upon investment returns. They offer the potential to boost the income provided by smaller pension pots but you need to be aware that income levels will fluctuate and possibly reduce as a result of investment conditions. These fall into two camps: with-profits annuities and unit-linked annuities.

With a with-profit annuity you choose an income level, which assumes the addition of bonus rates to maintain it. Whenever a future bonus is added, a calculation is made and if it is higher than assumed at outset, the annuity will increase. On the other hand, if the bonus is less than predicted, the annuity may fall. Some with profit annuities may offer a guaranteed level below which income will not fall.

Unit-linked annuities work in the same way except that the level of income depends on the performance of the funds they are linked to, such as managed funds. This will go up or down depending on the actual investment returns.

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

“Investment linked annuities offer you the chance to select your own income at outset, on the basis that this may vary in future dependent upon investment returns.”

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LIFETIME SAVINGS LIMITS

DO YOU NEED TO REGISTER BY 5 APRIL 2009?

Following 'A' Day on 6 April 2006, new rules now place an overall lifetime limit on tax-advantaged pension funds of £1.6m (2007/08). That limit is to increase each year until 2010, when it will reach £1.8m. There is a tax charge for value in excess of the limit at retirement and for excess contributions in a year over the annual limit, which this year is £225,000. Transitional

arrangements protect those who have already reached the 'lifetime' savings limit at 5 April 2006, but protection needs to be registered by 5 April 2009.

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Tax Year	Annual Amount (input amount)	Tax charge on excess	Lifetime allowance	Tax charge (excess paid as annuity)	Tax charge (excess paid as annuity)
2007/08	£225,000	40%	£1.6 million	25% on excess value,	25% on excess value, then
2008/09	£235,000	40%	£1.65 million	then up to 40% on	up to 40% on annuity
2009/10	£245,000	40%	£1.75 million	annuity	Tax charge (paid as lump
2010/11	£255,000	40%	£1.8 million		sum) 55% on excess value

STATE SECOND PENSION (S2P)

SHOULD YOU OPT BACK IN?



People who are contracted out of the state second pension (S2P) may benefit from opting back in if they are aged 44 years or older to avoid missing out on rebates, according to Legal & General.

The S2P is an earnings-related benefit paid on top of the basic state pension. Anyone can opt out of the S2P by purchasing an 'Appropriate Personal Pension' from their life insurance provider. Both men and women who opt out beyond the age of 44 years will find their rebate may not grow enough before retirement to replace the benefits they might have had if they stayed in the S2P.

If you are aged 44 or over, your rebate is less than the value of the S2P that you are giving up. The older you are when you opt out, the more dramatic the reduction becomes. Professional advice should be taken to consider contracting back.

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