

Issue 1 2009

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# Financial Planning Matters



# Welcome!

Welcome to our new Blacktower Financial Planning Matters newsletter.

Blacktower has undergone some changes in appearance recently, launching a new style corporate brochure and website:

[www.bfa-uk.com](http://www.bfa-uk.com)

As many of you can no doubt identify with, we are experiencing some very difficult times. In this environment reappraising your financial planning requirements has never been more important.

This newsletter will now be coming to you quarterly via email, highlighting key issues. Please let us know if your email address changes or if you know of others who would like to receive our newsletter.



## SIPPs developments since A-Day

When “pensions simplification” was introduced on 6<sup>th</sup> April 2006 (known as A-Day), the rules governing UK pensions were radically overhauled. The new rules have generally been beneficial for pension planning, especially Self Invested Personal Pension Schemes (SIPPs) which have seen a rise in popularity since A-Day.

It is now generally possible to make much higher contributions to schemes, particularly with the use of “input periods” allowing two years’ contribution allowance to be made.

SIPPs became regulated under the FSA in April 2007, and the inclusion of “protected rights” amounts was permitted from October 2008, which greatly increased the potential to make self-investments. Protected rights will no longer be distinguished from other pension benefits from 2012 onwards, when the applying restrictions will be lifted.

A popular method of releasing capital is to use a SIPP to buy commercial property, which is owned either personally or as part of a business. This has only been possible since A-Day. It may also be possible to overcome the new borrowing restrictions applied at A-Day with careful planning.

There has been much criticism of the potential 82% tax charge to remaining funds on death after age 75 for those who choose to enter Alternative Secure Pensions (ASP) rather than commit to an annuity. We understand that there may soon be a legal challenge to this tax charge under age discrimination legislation.

There has been significant development with Scheme Pensions, which allow the income to be set by actuaries who can consider personal circumstances and life expectancy. Income is paid directly from the investment funds and there are no restrictions on the income available after 75, although death benefits are still restricted.

Retirement benefits are restricted, by tax penalties, to the Lifetime Allowance (currently £1.65m) but individuals in danger of breaching this allowance may be able to apply for protection. However, this protection must be applied for before April 2009, so it is essential to act quickly and seek advice on this matter. The Pre-Budget report announced that the Lifetime Allowance and Annual Allowance for contributions will be frozen from 2011-2015. Also, the proposed increases in income tax and National Insurance Contributions will make salary sacrifice arrangements even more beneficial.

## Tax planning opportunities of Enterprise Investment Schemes

Enterprise Investment Scheme (EIS) legislation was introduced in 1994 to encourage investment into smaller companies and now offers investors the following tax reliefs:

- Income tax relief – 20% income tax relief on investments of up to £500,000 a year provided the shares are held for at least 3 years.
- Capital gains tax (CGT) deferral – unlimited gains made in the preceding 3 years can be deferred by reinvesting the gain (before taper but after reliefs) into an EIS
- Business property relief (BPR) – an EIS is a trading company and as a result BPR is available after 2 years. This means the shares are not liable to inheritance tax (IHT) on death.

Investment into smaller companies carries risk but in recent months we have seen the emergence of a range of “protected” EIS. Returns are not guaranteed but investment is either focused on companies with tangible assets on their balance sheets or those where business risk can be insured.

The ability to defer CGT liability provides a useful opportunity for those who crystallised personal gains before the introduction of the new 18% flat rate of CGT.

As an example; Mr Smith bought an investment property in 2003 for £200,000 and sold it in 2007 for £300,000. Ignoring any available annual allowances, a gain of £100,000 is realised. After taper relief an effective CGT rate of 36% applies, giving Mr Smith a net profit of £64,000. If the £100,000 gain is now reinvested into an EIS, Mr Smith could claim income tax relief of 20% (£20,000) and CGT deferral (amounting to £36,000 tax reclaimed).

If the EIS shares are sold after 3 years, the gain would be taxable at 18% which results in a CGT saving of £18,000.

This example assumes that the EIS investment returns the original capital invested, but even if the EIS shares are sold at a 20% loss, the £80,000 return would be taxed at 18%, giving a net return of £65,600.

Rather than paying the CGT on sale, Mr Smith would have the option of rolling the gain into a new EIS and claiming a further 20% income tax relief in the process. If the EIS shares are held at death their value would be exempt from IHT and the deferred CGT liability would be eradicated.

## Protecting businesses and their owners from illness and death

Many business owners still overlook the financial issues that would arise as a result of the ill-health or even death of an important member of staff. Those with arrangements in place in the past can often find them to be out of date or inadequate – just at the time when they are most needed.

When considering business preservation the emphasis is often on the business only. This leads to the provision of so-called “keyman” cover, to provide an injection of capital to offset the death or serious illness of a key staff member.



Keyman cover is important, but it does not consider the financial implications on the deceased’s family and the remaining shareholders. The deceased’s share of the business normally passes to their estate on death, but their dependants may have no real interest or experience in the business and may wish to sell these shares quickly.

Subject to the shareholder/partnership agreement, the remaining shareholders may need access to sufficient capital quickly to secure ongoing control of the business, without which they may be forced to either borrow or find an outside buyer. A suitable life assurance policy can enable the existing shareholders to purchase shares from the deceased’s dependants.

The business can continue without disruption and the deceased’s dependants receive a welcome cash benefit. Guidance is needed to understand the exposed risk and the most tax-effective solutions. Each business has different circumstances to address from both a financial planning and legal standpoint.

## Interest rates at an all time low



## Despite the credit crunch, now might be a good time to review your mortgage

Interest rates are at an all time low and are widely anticipated to fall further in the months ahead. For those with a mortgage this is welcome news, at a time when there's little else to cheer about.

As the Bank of England Base Rate has fallen lenders have increased the margin they charge to new customers on tracker style mortgages and they seem reluctant to pass on further reductions to existing customers paying the Standard Variable Rate.

By comparison, fixed rates are looking more attractive and are now available at below the average mortgage rates of the last 20 years.

Indeed, the depth of recent rate cuts should act as a spur to review your current mortgage, especially if you have a fixed rate. It just may be worth breaking your current deal.

Some commentators are already predicting that interest rates will start to rise steadily towards the end of 2009 as the government taps the lending markets to fund its burgeoning borrowing requirements. For many, therefore, this may be a once in a lifetime chance to lock in the cost of borrowing at a very low level.

But it's not just about getting the cheapest rate. We stress to clients the importance of considering their wider current financial position and objectives. Think about the availability of any cash savings, repayment of other debts or plans to move or extend your home. Consider too the suitability of an offset mortgage, and perhaps the need to fund school fees or other large commitments.

Assistance may be available for those wanting help to support their businesses by raising money on their homes, rather than providing personal guarantees to the banks for business debt.

Perhaps the worst affected group of property owners are those with Buy to Let mortgages. The appetite from lenders is virtually non-existent and investors need to consider carefully their options. For those looking to buy investment property at some point in the future when the perceived 'bottom of the market' has arrived, mortgage advice will be crucial.

Thought should also be given to reviewing any insurance policies you have in connection with your mortgage. All too often people have inappropriate or expensive cover or simply don't have adequate provision. This is especially true of unemployment cover.

Increasingly banks are cherry picking the market, giving loans only to those customers with the best "credit ratings".

To enhance your credit score you should ensure that you are registered on the electoral role, close dormant credit accounts, make regular payments on credit and store cards on time and do not exceed authorised spending limits. Before applying for credit, check your score with a listed credit agency.

Finally, think carefully before securing other debts against your home.

## Get writing!

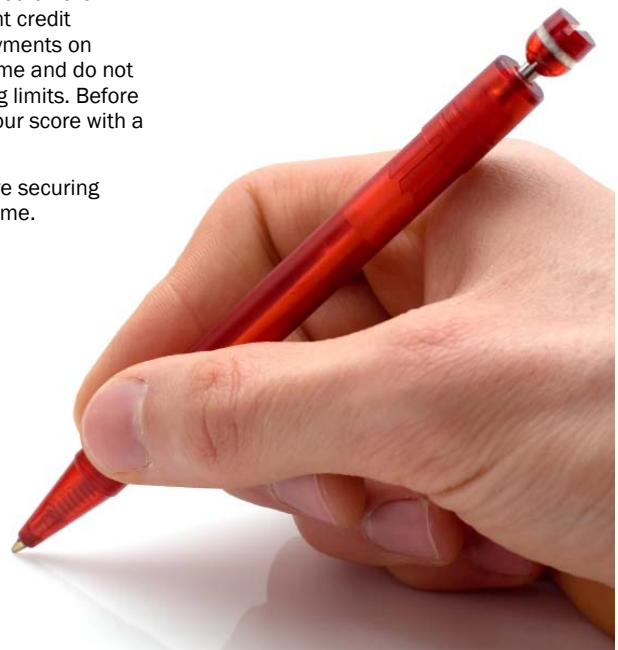
An alarming number of people have not written a Will or have failed to update their existing Will to take account of changing circumstances. An intestate death is an enormous stress on the surviving family with the ultimate beneficiaries decided by law rather than personal choice. Any significant family event – such as a divorce, marriage or the birth of a child – should prompt you to review your Will.

If you're looking for a recommended solicitor, we can help. We have long standing relationships with a number of excellent legal practices.

One such firm; Mondays Solicitors in Cobham, are holding two "Will Weekends" in March with appointments offered between 9am and 12pm on Saturday 14<sup>th</sup> March and 28<sup>th</sup> March, with general enquiries welcome throughout the morning.

Please contact us for further details or to arrange an appointment. If these dates or venues are not convenient, or if you would like a recommendation to another firm, please let us know.

## Any significant family event should prompt you to review your Will





### Use your allowance

The end of the tax year is fast approaching, which means it is time to make sure that you are using your tax allowances as efficiently as possible. Do you have spare cash that would be better off in an ISA? If so, you have until 5<sup>th</sup> April to use your allowance (of £7,200 for a cash and shares ISA or £3,600 for a cash only ISA). If you plan to sell assets this year, it also makes sense to make sure that you use your CGT exemption (of £9,600) efficiently, perhaps by transferring some assets to your spouse.

### IHT won't go away

Even though the reduction in house prices has taken many people below the IHT threshold of £312,000, IHT remains a tax that demands careful planning. Recent changes to the law surrounding IHT means it is possible for a surviving spouse or civil partner to take on any unused portion of the allowance on their partner's death, and there are other structuring opportunities that could help protect your family's future.

### Last minute planning for non-doms

For those non-domiciled individuals living in the UK who wish to remain taxed on a remittance basis on their overseas assets, the beginning of 2009 brings an opportunity.

This is an excellent time to think about your options and take any necessary action to mitigate tax before 5<sup>th</sup> April 2009, the end of the first tax year of the new £30,000 tax charge.

Non-doms can pay the £30,000 charge, or be taxed on worldwide income and gains for the first time, after the tax year end.

However, the current economic climate gives individuals more opportunities to structure their overseas income and assets.

Long term tax-efficient wrappers, such as trusts or investment bonds, can be used to shelter tax without triggering significant tax liabilities in this tax year. By using such wrappers efficiently, you can effectively avoid income and capital gains tax on your overseas assets without the requirement to pay the £30,000 charge.

If you are concerned about the new non-domicile tax rules, or simply want advice please contact us.



### Contact Us:

For further information or assistance regarding any of the topics covered in this newsletter please speak to your usual Blacktower adviser or contact us at one of our offices

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