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The information in this Newsletter is to be viewed as general information and does not constitute advice. It is based on our understanding of the current legislation and market conditions, all of which are subject to change. If specific, individual advice is required, we urge you to contact your IFA.



IFA Dylan Jenkins is seen here handing a cheque for £600 to the CEO of FAB (the Feline Advisory Bureau). A client for some time, FAB has been so happy with Dylan's work they have named RTFP as one of only four organisations they recommend to members. Dylan guarantees to remit part of any commission earned through the site back to FAB – we think he is the Cat's Whiskers



Welcome to the fifth issue of our quarterly Newsletter. We have had some very positive feedback and are always happy to hear from clients, especially if there is any particular subject you feel would be of particular interest, or would like to have covered in depth. If you would like to know more about anything in this edition, or you would like to discuss your own matters in detail, then please do not hesitate to contact me on 01285 886111.

Geoff Pollock, Partner and Senior IFA

INHERITANCE TAX & FINANCE ACT 2006

This has long been an area where IFAs have offered advice. In recent times it has become a hot media subject and a political one too. The media has realised it is of great concern to its public and the politicians have realised it is not a bad source of income (or not, depending upon their political viewpoint).

Any person's estate is subject to IHT. Tax is levied on estates valued in excess of the nil rate band (NRB) - currently £285,000 (2006/07 tax year). Halifax has been quoted as suggesting that had IHT thresholds risen in line with house prices over the last ten year the nil rate band would currently be £430,000.

Financial planning to mitigate IHT liabilities was always a complex matter and the Finance Act 2006 (specifically *Schedule 20*), has made it that much more so.

Two trusts often favoured were *Interest In Possession* (IIP) and *Accumulation & Maintenance* (A&M) trusts as these qualified as PETs (potentially exempt transfers); thus capital could be exempt from the Settlor's estate after seven years. This is no longer the case for new IIP and A&M trusts or for those trusts in force prior to 22nd March 2006 that have been or will be amended.

This may affect many people including those who have previously initiated **Discounted Gift Trusts** (DGTs) or have a '**second death whole of life**' insurance policy (2DWoL) in trust to a beneficiary. If the terms of these trusts are changed in any way (e.g. the beneficiary is altered) then their use in IHT planning is lost.

But if the ground has changed, the players are still on the pitch. For instance both DGTs and 2DWoL are valid means to plan for IHT. **Gift trusts** are still in the team too. **Bare trusts** (one of possibly two trusts used for DGTs) are trusts where the gift is absolute without any varying of beneficiary. Once set up the terms cannot be altered but the gift is outside of the estate for IHT purposes after seven years. In other words a Bare trust is still a PET. On death any debt is repaid prior to IHT being calculated. So if you have a mortgage of any type, for example, that is valued at £300,000, the mortgage needs to be repaid to the lender before any inheritance tax calculation is undertaken! The mortgage not only can release money to be used to reduce IHT, the debt itself may reduce the IHT liability too via DGTs, etc.

However perhaps the most important aspect of these changes is how tax can be applied not only on death but when they are initiated and whilst they are in force.

All IHT planning must take into account of all the tax implications. A simple example. When placing money in trust, if the capital is less than the NRB (and no other gifts in trust have been made within seven years) there is no tax to pay on its instigation. If the gift results in the NRB being breached, the excess is liable to an immediate tax (presently 20%) due to the gift being defined as chargeable lifetime transfer.

There is an IHT option that does not require Trusts and is therefore untouched by the Finance Act 2006.

Business Property Relief allows you to invest in specific AIM (alternative investment market) stocks (invariably property) so that after two years your investment is outside the estate for IHT purposes. From an estate planner's viewpoint It is a simple way to invest (e.g. £20,000 upwards) with the potential of making a return but all of the original capital and any growth is out of reach of IHT *after just 24 months*.

The above is a very simple outline of some of the changes and options available. Any plans for this should be considered extremely carefully and professional advice sought as often the seemingly straight forward plan can come awry, but more often than not that only is apparent *after* someone dies.

INVESTMENT RETURNS

It is six years since the 'tech wreck' (as I heard a 'dragon' recently refer to the technology stock collapse), five years since the WTC attack and since then the world has rarely been predictable. The same can be said of the markets. In recent times 'fragile' may be an appropriate description, as interest rates start to rise and other economic indicators increasingly turn the global markets opaque to read.

At this point (though at a time when the FTSE 100 seeks to breach the 6000 figure once more) it may be interesting to look at how UK registered investment funds have performed by way of the sector's average annualised rates of return over 1, 5 and 10 years.

Sector	1 Year Returns	5 Year AGR	10 Year AGR
UK Equity (Growth)	19.5%	4.1%	7.2%
UK Equity (Income)	18.0%	6.7%	9.6%
Europe (ex UK)	24.8%	4.7%	8.3%
North America	4.8%	(5.6%)	4.1%
Japan	25.4%	(0.3%)	(1.2%)
Asia (ex Japan)	20.6%	8.9%	2.5%
Emerging Markets	30.2%	13.0%	4.4%

(source: Standard & Poors 01.07.2006)

These figures show the average returns so some funds in each sector have performed far better than these figures indicate and others conversely have done far worse. They also indicate the UK and Europe have not been bad areas to invest in over the last decade no matter the ups and downs. An average return of over 9% per annum over ten years is far better than a bank deposit account has provided even though during that time the markets fell by over 40%. On the other hand home is not always best as the emerging markets show, with average returns in excess of their more developed neighbours over 1 and 5 years; and over 10 years too barring the UK and Europe.

The figures also indicate there is no guarantee of any return as Japan so succinctly shows but with a return of over 25% in the last twelve months perhaps those heralds, proclaiming Japan's deeply entrenched woes (*that started in the very early 1990's*) are now being put well behind them, do have something to crow about.

Equities are the major asset class for most investors but they are by no means the only one. To have a balanced portfolio is a sensible approach. One asset not so concerned with daily stockmarket movements is Property. This sector's average returns?

Sector	1 Year Returns	5 Year AGR	10 Year AGR
UK Property Share & Real Estate	18.8%	13.1%	13.7%

(source: Standard & Poor 01.07.2006)

Past performance is not a guide to future performance

Life Assurance on The Cheap? A Good News Story!

With recent changes in legislation, life assurance with tax relief is now in vogue. Instead of paying the full 100% premium for your life assurance why not pay 78% or, if you are a higher rate tax payer, just 60%, instead?

Life assurance with tax relief is becoming increasingly popular with RT clients, who realise they may be paying more than necessary and are happy for the government to subsidise their protection.

It is provided by pension term assurance but is available to absolutely anyone whether they are in work or not.

The overall cost may be more than the traditional level term assurance but even if that might be so if after tax relief the cost to you is less **you can reduce your current outgoings.**

Contact your RT IFA on 01285 886111 and see if you can reduce your current outgoings too!

Funding for Education

The need to fund university fees has led to a great debate about how these costs can be met. There is NO debate. The simple answer is cash - sufficient cash. If it is not available one must invest over time and hope for a good return.

The most sensible way is via ISAs, with their tax treatment and flexibility. Planning requires parameters such as how much and when? Once known, and assuming a realistic growth rate we can work out the strategy.

For example: in 10 years' time, a 3-year course requires £4,000 pa, (£12,000 in total). Assuming inflation at 3% pa, that figure will be c. £16,616. £100 pcm in an ISA may provide £5,380 in Year 10, £5,580 in Year 11 and £5,880 in Year 12 or £16,840 in total (assuming a 7% pa growth rate source: Invesco Perpetual - High Income fund: 01.09.06).

How much is too much? £100 per month?

If you want to help your children or grandchildren with their further education – ACT NOW – the future is too late to start thinking about their future!