

### In this issue:

- ◆ Putting Trust into Life Assurance
- ◆ Putting the Boot into Inheritance Taxation
- ◆ Turbulent Markets - Fundamental Sounds

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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.

*Geoff Pollock, Partner and Senior IFA*

## Putting Trust into Life Assurance

We are always pleased to hear from our Newsletter readers, some of whom contact us with queries about the articles they have read and others because one or more articles have reminded them they need to be in touch about an aspect of their own financial affairs.

However, if you would like us to tackle a particular issue in a future Newsletter, do let us know and we will do our best to address it. Please e-mail [enquiries@rtfp.co.uk](mailto:enquiries@rtfp.co.uk) with your request so it can be passed to the writing team.

We have added the 2007-2008 Tax Rates and Allowances table to our website, which you can access by logging on to [www.rtfp.co.uk](http://www.rtfp.co.uk) – the tax rates are under the Tax Planning tab of Our Services. There is also a useful enquiries page from which you can mail us with any queries while you are browsing. We hope you find our website both interesting and useful.

The financial services industry had its origins in providing life assurance, so that “widows and orphans” need not end up in the poor house. Over the centuries, few of the basics have changed. An essential question to ask when financial planning is: *Do you need life assurance?* Whilst it is true that the concept of life assurance has evolved since those early days, so one can now protect against loss of income, the onset of critical illness and all manner of other ‘nasties’, life assurance payable on the death of the insured is still fundamental to the industry.

Nevertheless, many people today are under insured. Other expenditure takes precedence. The recent floods proved that many people who would have been able to, had failed even to take the simple precaution of ensuring they had house contents insurance. If the recent catastrophe had been a deadly epidemic and not a flood, I wonder if those people would have had life assurance?

Of course, many people do have life assurance - and quite right too. It is a simple and sensible measure to take. *However, is it enough just to take out a life assurance plan?* If a claim is made, the payout will add to the deceased’s estate. This may be excellent for the “widows and orphans”, but it may also be very good news for Her Majesty’s Revenue & Customs (HMRC) because Inheritance Tax - IHT - may become payable as a result.

***Is there a single reason why any life assurance plan should not, very simply, be put into a Trust to benefit the “widows and orphans”, thereby avoiding the increased burden of potential IHT? Answers, please, to [g.pollock@rtfp.co.uk](mailto:g.pollock@rtfp.co.uk)***

## PUTTING THE BOOT INTO INHERITANCE TAXATION

There seems to be a lot of talk about IHT at the moment. It is becoming a ‘hot potato’, as well as an ever-growing revenue stream for HMRC. Is all the fuss warranted, or is it just hot air? I suppose it depends on your point of view, but consider this: **the Revenue could be the biggest beneficiary of your estate!** Let us suppose, as an example, that Mr and Mrs Pumblechook’s estate is worth £800,000 (this includes their jointly-owned family home, valued at £550,000). They have sensibly drawn up a Will leaving, firstly, everything to each other and then to the four little Pumblechooks on the death of the second parent. However, disaster strikes and – as result of eating a delicious, but ultimately fatal pie - Mr and Mrs Pumblechook simultaneously die of food poisoning. Sad to relate, only one nil-rate band (£300,000 in 2007/8) can be used. In this scenario, which does not involve prior IHT planning, the taxable excess is £500,000 and 40% would go to HMRC. **HMRC would receive £200,000, whilst**

### **the grieving Pumblechook children would only receive £150,000 each.**

The key point in the scenario above is the lack of IHT planning. A properly drawn-up Will, using a valid Discretionary Will Trust, would ensure a quite different outcome. In that case, *both* the nil-rate bands could have been used (£300,000 x 2), so the taxable excess would have dropped to £200,000. In which case, HMRC would have received £80,000 and the four Pumblechook children would have received £180,000 each.

**Discretionary Will Trusts** - the first, low-cost step in IHT planning that does not tie your estate up unnecessarily. Future statutes could outlaw DWT - *it may be worth putting one in place while the opportunity exists.* They may be the first step, but there are many other measures to consider. If you are concerned about the possible impact of IHT please contact us to find out how we can help you put your mind at rest.

## Turbulent Markets – Fundamental Sounds

***The markets have been hitting the news of late haven't they?*** I suggest most of us are worse off than we were in June - just a couple of odd months ago. And they have been an odd couple of months. After four or five years of steady stockmarket growth a new phrase has hit the headlines: "Sub Prime". It is not a first-class U Boat of course, but a loan; specifically a mortgage loan. It is a US phrase that is now commonplace but represents what we Brits used to call "adverse credit lending" (although now we, too, seem to have adopted the US jargon - *again!*).

Sub Prime loans are offered by financial institutions to people with a high credit risk. *So what has happened?* US house markets have been very weak and - predictably - there have been defaults. Loans have not been repaid. Keys have been put back through the lenders' front doors (reminiscent of the UK in the early 1990s) and lenders have hit hard times.

However, the problem is not confined to the lenders (unlike - largely - the UK example) as other institutions have invested in those lenders. They, in turn, have felt the chill wind of the US housing market and some of those lenders have roots in Europe and other continents. For example, BNP Paribas find to their chagrin that they have a large exposure to such lenders; then another institution finds they have a significant interest in BNP Paribas and so *they* start to wobble and before you know it various financial institutions start trembling - and this results in the markets dropping, which in turn results in your funds falling in value. Then the media becomes interested and suddenly the whole whirls in a growing maelstrom of uncertainty!

Until, that is, calmer reactions prevail. Media coverage has included phrases such as "**The UK and global economies are fundamentally sound**". Calmer observers will generally agree with that sentiment and whilst it is impossible to predict exactly when the turbulence will lessen (or conversely how rough it may become) the view that "**the UK and global economies are fundamentally sound**" seems to be both measured and sensible and - based on that - the markets will recover.

As independent advisers who can access the whole market, our role is to identify and recommend "**funds that are fundamentally sound**". Funds that, regardless of turbulence, have done well over the longer term. Such funds can be identified by the experience and aptitude of the fund manager, the financial strength of the investment house, the way the fund performs, the policy of the fund, the mix of assets *and most importantly the way the fund suits your attitude to investment risk and your own objectives.*

As advisers - as with our clients - we prefer to see markets on the rise, but never forget the first rule of investment. ***When the markets are high - SELL! When the markets are low - BUY!***

### ***WHO WANTS TO BE A MILLIONAIRE?***

Your grandchild, perhaps? So what does it take?

A investment of £234 per month (net) into a pension for 16 years!

On your grandchild's 16<sup>th</sup> birthday, this fund will be worth £95,000 (assuming a 7% pa growth rate and a 1% annual management charge). **If it is then left alone until your grandchild is 60, this pension fund will be around £1,200,000** (assuming the same growth and charge).

What a gift to give your new grandchild and what a massive fillip to their long-term prospects!

**And what about you?** Well, you are reducing your potential Inheritance Tax liability by £2,808 per annum and that need not impact on your annual £3,000 gift allowance.

**Just one plan can boost your grandchild's wealth whilst also reducing your Inheritance Tax liability.**

**If this idea appeals, please contact RT Financial Planners LLP on 01285 886111.**