

## In this issue:

- ◆ ISA Changes for April 2008
- ◆ CGT & Pension Changes
- ◆ Bonds v Collectives & CGT Changes
- ◆ Nursing Homes Fees

RT Financial Planners LLP is an  
Appointed Representative of  
Sesame Limited.



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*  
T: 01285 886115



Pictured above and below are two of our advisers, Cirencester-based Jackie Greenwood and Winchcombe-based Dylan Jenkins, both of whom passed their CII AF5 examinations in December. A highly-technical paper that centres on Personal Financial Planning, AF5 forms part of the Advanced Diploma in Financial Planning. Already Diploma holders, Jackie and Dylan are working towards personal Chartered Status and plan to take further advanced examinations in 2008 towards this end. We take this opportunity to congratulate them both.



If you would like us to feature a particular item in a future Newsletter, let us know by e-mailing or writing to Geoff Pollock. If you have missed a previous edition, you can find them on our website: [www.rtfp.co.uk/newsletters.htm](http://www.rtfp.co.uk/newsletters.htm)

## ISA Changes for April 2008

The rules for ISAs are changing in April 2008:

- The annual limit will increase from £7,000 to £7,200 (£600 per month)
- The Cash element will increase from £3,000 to £3,600
- There will be no Maxi/Mini distinction
- You will be able to transfer Cash ISAs in whole or in part to Stocks & Shares ISAs

In addition:

- PEPs will become ISAs, but cash held in PEPs will be subject to 20% tax on growth (as is the case with ISAs). You should hear directly from your PEP provider on this point, but if you are not contacted, or you do not understand what you are sent, please contact me.
- Child Trust Funds – On their maturity from 2020 onwards, the capital can be retained within an ISA.

As before:

- Transfers can be easily arranged with simple forms.
- Stocks & Shares and Cash ISAs can have the same, or different, providers.

### **SPECIAL OFFER FOR OUR NEWSLETTER READERS!**

If you transfer all, or part, of your existing Cash ISA to a Stocks & Shares ISA we will reduce by half our 3% initial commission.

This will provide an extra allocation of 1.5% into your plan from Day One.

Our special offer will close at the end of April 2008.

**Talk to your RTFP adviser now!**

## Capital Gains Tax Change

Following the Chancellor of the Exchequer's recent review of Capital Gains Tax, you will know that the CGT on the selling of small businesses will now be less punitive than the pre-Budget Statement had indicated. There will now be a concession to assist smaller entrepreneurs and gains of up to £1,000,000 will now be restricted to a tax rate of 10%, instead of the 18% originally proposed. This will come as good news for many people! If you are one of them it may be worthwhile looking now at the options available for funding your retirement. Call your adviser to arrange a meeting.

## Income Tax Change from April 2008

Don't forget the basic rate of income tax will reduce from 22% to 20% with effect from April 2008. This is more good news, although basic-rate taxpayers should bear in mind that the tax relief to their pension contributions will reduce by a similar amount.

Call us now to discuss your pension planning.

# Bonds v Collectives – and Proposed Changes in CGT

The proposed changes put forward in respect of Capital Gains Tax in the pre-Budget statement of October 2007 have not, at the time of writing, been ratified. However, it is the view of Norwich Union at least that the proposals were not intended to affect life assurance products and NU, along with other industry bodies, has been engaged in constructive and positive dialogue with the Treasury. In the meantime, do investment bonds offer good value? Here are some of the reasons supporting our view that, depending on your personal circumstances, an onshore or offshore bond may be the right investment vehicle for you:

- 5% tax deferred withdrawals
- ‘Top slicing’ of gains – if you are on the cusp of paying higher-rate tax then a bond can keep you wholly, or partially out of the higher-rate tax band by using ‘Top Slicing’ relief (back to the last chargeable event for onshore bonds and back to policy inception for offshore bonds).
- Bonds do not produce an income, so there are no complicated personal and trustee tax returns to make each year.
- Switching between funds isn’t taxable, so the timing of investment decisions is not constrained by tax considerations.
- No liability for higher-rate taxpayers on income arising within the funds until the bond is encashed.
- Bonds are left out of account when means testing long-term care costs (subject to the usual rules regarding deprivation of assets).
- You can use policy segmentation to realise gains over a number of years and assign segments to individuals in a lower tax bracket – a non-working spouse for example.

Tax isn’t the only factor to consider when selecting the right investment product and the bullet-pointed features should also be taken into account. However, the impact of the proposed

changes on different types of investors can be summarised as:

- Nil and 10% taxpayers would be worse off in collective investments under the proposed new regime, where they would be subject to an 18% rate on any CGT over their annual allowance (currently £9,200 in 2007/08).
- Basic-rate taxpayers will be slightly better off when holding direct investments for less than 5 years where there is little taper relief to allow for. If you hold an investment for longer than 5 years taper relief would reduce your effective rate of tax down to a minimum of 12% (for investments held over 10 years). You would be worse off under the proposed new rules, where a flat rate of 18% would apply.
- The issues for higher-rate taxpayers are more complicated and depend on whether one is looking for capital growth or income. With a collective investment some of the return comes from capital gains and some will come in the form of dividends, or interest. A higher-rate taxpayer would continue to be taxed on income on an ongoing basis – there are no changes proposed to the taxation of income. If an investment is to be made up of medium to high-yielding funds (eg fixed interest funds) then it would make sense to consider investment bonds. If growth is the requirement and an investment were made up of lower-yielding assets then, from a tax perspective, collective investments might be the better option. Under the proposed regime, higher-rate taxpayers would now pay 18% on any capital gain above the annual allowance, where previously they would have paid a minimum of 24% (for investments held for 10 years or longer).

You may find this confusing – and in the current climate of uncertainty it is absolutely essential that extra care is taken when considering any investment as a higher-rate taxpayer, particularly if one is investing for growth.

The tax situation may change in the future. The value of investments may go down as well as up.

**Contact your RT adviser, who will be able to assess your needs and make recommendations that fit your requirements.**

## Nursing Home Fees and Personal Injury Trusts

When assessing the funding for nursing or residential care, any money or assets held within a trust which represents a payment received by the client as a result of an injury - including compensation or an accident insurance policy claim - will be a Disregarded Capital Asset. Furthermore the income from such trusts may be disregarded. If you have had a payment as a result of a personal injury, we would recommend you obtain advice on whether or not to set up a personal injury trust. *Here is an example of how putting compensation or injury money into a trust could make a significant difference:*

Following an accident, a married man we will call Mr A receives a payment of £200,000 due to the personal injury he suffered. Soon after the accident it is discovered that Mr A needs full-time residential care. The only asset Mr and Mrs A have apart from this recent payout is savings totalling around £10,000. Mr and Mrs A have only a modest income. If the payment of £200,000 was put into his bank account then it would count as part of his assets and take him instantly above the upper capital limit (£21,500 at the time of writing) and Mr A would be entirely responsible for the funding of his care fees.

**But:** if instead of putting the money straight into the bank account it was instead placed into a trust, then the payout of £200,000 would be treated as ‘Disregarded Capital Asset’ and would not be included in the means test. The only capital to be means-tested would be Mr A’s savings of £10,000 – well below the lower-rate capital limit (which was £13,000 at the time of writing).

Mr A can place his £200,000 injury payment into any kind of trust. However, if the Trustees make capital payments to Mr A from the trust these will accrue as a capital asset belonging to him and if his capital increased to more than the lower-rate capital limit of £13,000 then his funding could be affected.)

**It is essential to note that a new regulation has put a 52-week deadline on the setting up of Personal Injury Trusts following receipt of the money. If you have had a personal injury payout in the last twelve months, it is important to take advice sooner rather than later.**