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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.



Dylan Jenkins, our Winchcombe-based senior adviser, recently gifted £540 of his earnings to FAB, the Feline Advisory Bureau. As a Trusted Partner of FAB (one of only four Trusted Partners on their website) Dylan gifts the organisation some of his earnings on each occasion a FAB member takes out a policy through Dylan/RTFP – he was also recently pictured in a local paper handing over a cheque for £600 to the CEO of FAB, which means he gifted in excess of £1,000 to the organisation in 2006 and hopes to achieve a similar amount this year.



Happy New Year and welcome to RT's first Newsletter of 2007. We hope you enjoy reading the various items.

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

Gordon Brown's Pre-Budget Speech: Thumbs Up or Thumbs Down?

◆ **Pension Term Assurance Being Withdrawn?**

In our last Newsletter (Autumn 2006), we spread what we thought was a little good news in our article on Pension Term Assurance (PTA) and how it might reduce your life assurance costs.

It had not occurred either to us (or indeed to the industry as a whole) that Gordon Brown's Pre-Budget speech on 6th December 2006 would cast doubt on PTAs' very existence. Indeed, as I write, nearly every life assurance company has either withdrawn, or is withdrawing, the product.

Currently, it seems unlikely that the ABI, or Association of British Insurers, will succeed in reversing these proposals. However, if you took our heed and had your Life Insurance with Tax Relief in force by 6th December 2006, or your application was received and recorded by midnight on December 13th 2006, well done! It seems those plans will remain valid, according to the HMRC Clarification Statement, provided the sum assured is no greater than was applied for on or before December 6th 2006.

◆ **An ASP with a Sting!**

Alternatively Secured Pensions, or ASPs, were a recent innovation that was of benefit to those with pension funds who did not want to purchase an annuity after the age of 75. ASPs were additionally seen as a useful way to pass wealth through the generations so as not to attract Inheritance Tax. Her Majesty's Government is now introducing punitive taxation, effectively to kill off the use of ASPs for this purpose and will make purchasing an annuity by the age of 75 far more attractive for the vast majority of people.

◆ **Mini and Maxi ISA Changes**

Many people have told us how confusing they have found the difference between a Mini ISA and a Maxi ISA and which of these is for Cash and which is for Stocks and Shares. Indeed, we sometimes find it difficult to explain the intricacies ourselves!

However, in December, the Chancellor announced changes to ISAs that included the following proposals:

- There will no longer be separate Mini and Maxi ISAs, although the maximum investment in Cash is set to remain at £3,000 per annum.
- The overall limit of £7,000 per annum may include a combination of Cash *and* Stocks and Shares. For example, you could take out an ISA comprising £1,000 in Cash and £6,000 in Stocks and Shares. However, the Chancellor is also proposing the option of having different providers for each element.
- You will also be able to transfer Cash ISAs to Stocks & Shares ISAs. Many people have invested £3,000 per year into Cash ISA and could have £25,000 or more invested in cash, but may now feel they want to invest some of that in Stocks and Shares ISAs. Currently not possible, it may be that from April 2007 this situation changes. Further, these transfers will not affect allowances for 2007/08.**

Discounted Gift Trusts – A Possible Solution to the Ever-Increasing Problem of Inheritance Tax

By
Jackie Greenwood, DipPFS

Many people in retirement find that their capital is invested with the aim of income provision. Naturally, whilst they rely on this income, they tend not to 'spend' the capital. If this is your own position, you may like to know that it is often possible to arrange a plan that can assist with inheritance tax mitigation immediately, without affecting your own standard of living during your lifetime.

Discounted Gift Trusts are not new – they have been in existence for many years - but recently there have been significant changes in legislation. The Chancellor changed the regulations in the April 2006 Budget and whilst all these types of Trusts were withdrawn from the market temporarily, they can still prove a very effective option for mitigating Inheritance Tax; it is simply now the case that some of the regulations that have changed.

In simple terms, a Discounted Gift Trust is an investment into an investment bond, with the bond being written into trust. The investment can be held on or off-shore, (which of these options is the most suitable depending entirely on your own circumstances). As the person(s) setting up the trust, you retain the right to a predetermined, set income for the rest of your life. You cannot access the capital, but you are assured of an income stream. As this is what many people require from their capital, this restriction often causes little or no inconvenience.

Depending on the type of trust used, part of the money invested is deemed to be a Chargeable Lifetime Transfer or a Potentially Exempt Transfer. As long as this portion of the money is below the Nil Rate Inheritance Tax Band there is no immediate tax liability and – in common with many other Inheritance Tax Plans - providing you live for seven years after the gift, this part of your money remains completely outside of your estate for inheritance tax purposes once the seven-year period has passed.

The great benefit is that the other portion of the money may be considered to be outside of your estate straight away, thereby reducing your estate immediately. In other words, the total investment value is discounted for tax purposes (hence the name). Although the investment money has been discussed as being two separate portions, it is nevertheless one amount of money, held in one bond. On death, the full residual value of the bond is available to your beneficiaries.

To give you an example, if a couple (both in good health, the husband aged 65 and the wife aged 62), invest £200,000 in an investment bond within a Discounted Gift Trust and withdraw income of £10,000 per year, around £135,000 of this investment may be deemed to be outside of their estate at outset. In other words, in the event of death soon after the investment, over £54,000 inheritance tax could be saved. After seven years, the entire amount would be outside of their estate – thereby saving £80,000 tax.

It should be pointed out that the amount of the discount, in due course, may need to be agreed with the Capital Taxes Office, which is the department of the Inland Revenue that deals with inheritance tax, so it is not always possible to be definite about it at outset. The reason they can dispute the discount is that it is calculated on average life expectancy and mortality tables. For example, if you arranged a plan and then you died shortly afterwards, the Capital Taxes Office could then say that your life expectancy was not average and the discount should have been less. Any such negotiation would only be likely to happen if you were to die within the first seven years, because as previously explained, after that time all the money would be outside of your estate for inheritance tax purposes anyway.

To reduce this risk, it is both possible and advisable to arrange for the company with which you wish to place the investment bond to underwrite at outset. This means they will take your own health and medical history into account when calculating the discount. This will almost always help in the event of your death within seven years and the discount being disputed, as the company applies the appropriate discount for your own circumstances.

There are different tax treatments for these plans depending on the type of trust that is recommended. For example, you may wish to put in place an Absolute Trust, which will ensure that your nominated beneficiaries have an absolute right to the money at age 18. In our experience, many people prefer a Flexible Trust, which gives you the ability to alter the beneficiaries at any stage. However, whilst this sounds as though it would be preferable, it can involve additional tax reporting. Either type of trust can be very effective and whether they are suitable will depend on many factors. This is a complex area something that you will need to discuss with your adviser.

Feedback

We are receiving regular, positive feedback about the Newsletter, which is very heartening.

If you think we do a good job for you, then you can rest assured we will do the same for your family and friends, so do please recommend us - and if you would like a copy of our new brochure, or extra copy of our Newsletter to pass on to someone whom you think we can help, do please ask.

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