

# Overview

Spring 2008



## Will your pension be enough? The right advice is now more important than ever

Stopping work; realising long held dreams; reaping the benefit of the monies you have paid into your pension scheme. This should be what you have to look forward to as you approach retirement. And yet, with so much adverse press around the whole issue of pensions, you could be forgiven for having doubts about whether you will ultimately get to realise your plans and feel financially secure.

With the decisions you make when faced with your retirement ultimately influencing what you, and potentially your spouse, will have to spend in the future, it is essential to ensure that your retirement funds, and any other assets you have accumulated in

life, work for you as hard as possible.

To that end, there are really two pressing questions that you need to consider: when and how do you get the money accumulated in the fund so that it works in the most efficient and appropriate way for your personal circumstances; and what happens to the fund should you die?

Clearly the answer for each person will differ depending on personal circumstance, and to ensure you make a fully informed choice for your financial future you should seek professional advice. However, there are some facts and issues it is worth being aware of.

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# Will your pension be enough? continued...

## Tax free and taxable benefit

You may already know that normally the maximum amount of tax free money you can draw from your pension fund as a lump sum is 25% of the fund's value, but you may not be aware of what happens to the rest of your pension pot.

The lifetime allowance for any pension fund, in 2008/09, is £1.65 million and this includes any existing pensions that are already paying out, with each £1 benefit paid treated as if it is worth £25 of your pension fund.

If the value of your fund exceeds the £1.65 million limit, you will be required to pay tax unless you apply for and obtain primary or enhanced protection. Getting this protection in place before the deadline of April 2009 could save you considerable sums of money, therefore, it is best to get advice quickly to see if you can benefit.

## Annuity or income withdrawal

The benefits from your pension can be paid as an annuity – an income paid in a series of regular payments – or as a regular income withdrawal. Which choice is right for you will depend on your personal circumstances, needs, and long-term objectives, and it is essential to get advice based on detailed discussions with your financial adviser.

However, it is worth knowing that it is not necessary to purchase an annuity when you reach the normal retirement date under your pension plan. It may be best for you to keep your pension invested – the only proviso being that if you wish to take any tax-free cash lump sums, you must do this prior to your 75th birthday.

Another consideration before choosing the annuity route is whether any penalties are applied by your pension provider, such as penalties for transferring the plan, and whether your existing pension provider offers guaranteed annuity rates at any particular date. Some pension companies offer guaranteed annuity rates where the rates to be applied were agreed when the plan commenced, and these rates are often considerably higher than they are today. In addition, there may be restrictions on how they will pay the pension, for example, without any spouse's pension or only if the paperwork is all received by a particular date, so it pays to know what you have already committed to.

## Shopping around pays dividends

If after you have considered your options you decide that the annuity route is right for you, then you have to choose whether to take the annuity offered by your existing provider or to see whether a higher rate could be achieved by moving elsewhere.

Certainly, if you suffer from one or more serious or life-threatening illnesses, such as cancer, cardiac conditions and organ transplants, or if you are a smoker, there are specialist annuity providers that provide enhanced rates of benefit. Just Retirement, a company specialising in this area of the market, says that "shopping around for a different pension annuity provider can increase your retirement income by up to 40%".

In addition, consideration should be given to whether your annuity should be purchased solely for your life, or to continue to pay an income should a spouse survive you. Your personal circumstances may mean that you would like a single life annuity, but would like it guaranteed to pay out for a period of five or ten years, whether you survive that term or not.

## The importance of specialist advice

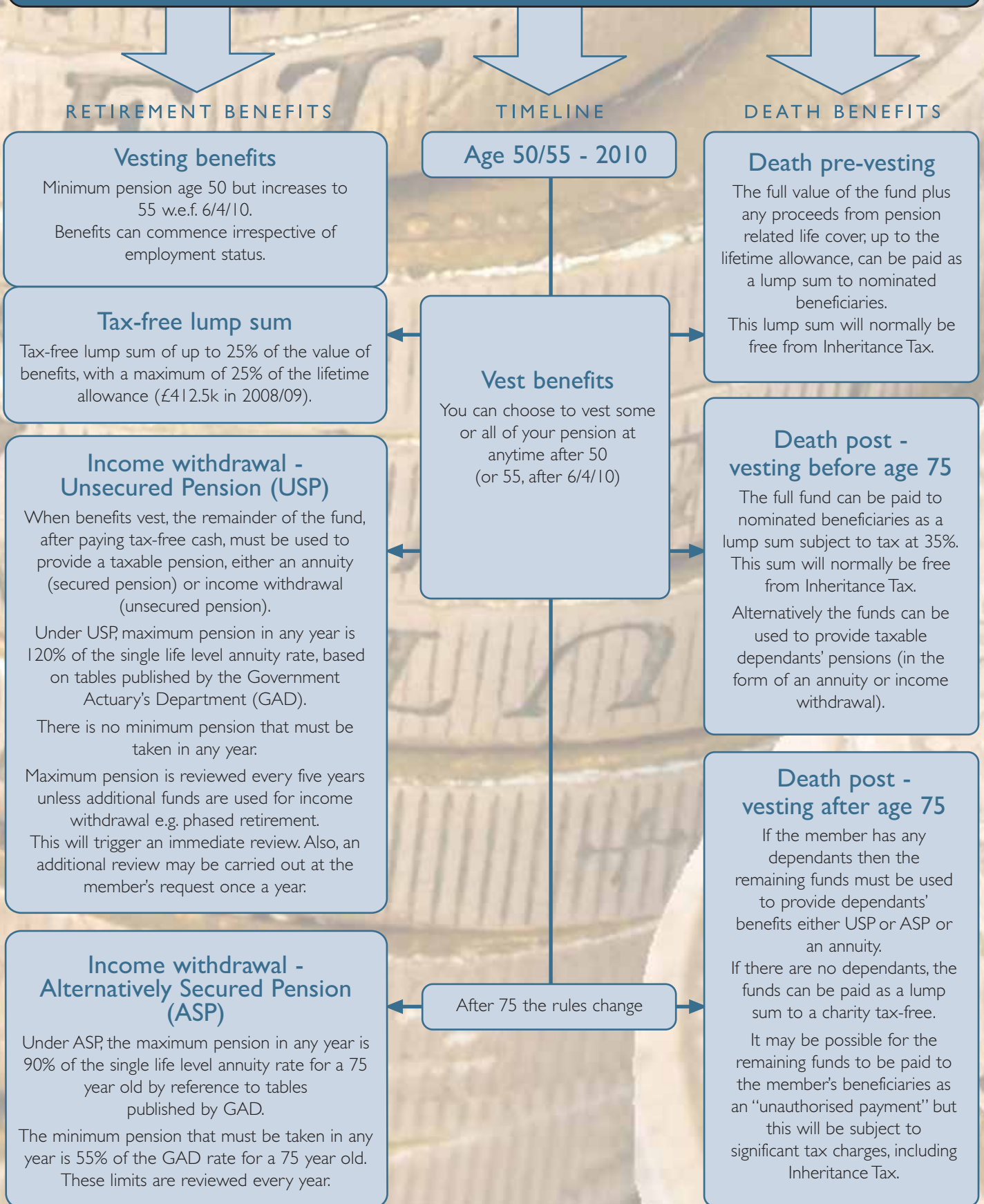
Whatever your personal situation, making sure you make the right choices for your financial future can often be a complex and daunting prospect and it is all too simple to go along with what your own pension provider offers. However, at Tee Financial, our specialist pension advisers ensure that they discuss with you your personal circumstances, issues and needs. Using our advanced technology, we consider all the main providers on the market, and only then will we make recommendations about what actions you should take. In this way, you can be confident that the final solution placed before you is what is best for you, and your financial future.

**For a no obligation discussion with one of our financial advice team, or to find out more about our services, call**

**Sandy Nash or  
Roger Spearing  
on  
01279 658304**



# Your pension fund built up throughout working life up to age 50 or 55 (after 6/4/10)





## Revenue sees sense over directors' pensions

A more commonsense approach to the allowable level of employers' pension contributions has been taken by Her Majesty's Revenue & Customs (HMRC), following criticism that current rulings are arbitrary and little more than a 'postcode lottery'.

A recently added page on the HMRC website now concedes that "where the controlling director is also the person whose work generates the company's income, then the level of the remuneration package is a commercial decision, and it is unlikely that there will be a non-business purpose for the level of the remuneration".

Whilst the word 'unlikely' introduces an element of doubt, it seems that HMRC is adopting a more reasonable stance on this issue, recognising that where the owner employee is the main business getter, it is his business how he chooses to reward himself, whether by pension contribution, bonus or dividend.

Of course, if the company's profitability is not linked directly to the controlling director's personal efforts, then the Revenue will look closely to see if the remuneration package paid to a 'connected employee' is comparable to that of unconnected employees performing similar duties, and that the level of remuneration paid is commercial and commensurate with the duties undertaken.

## New lease of life for ISAs

The popularity and success of Individual Savings Accounts – taken up by more than 16 million people since their introduction in 1999 – has prompted the Government to extend the projected lifespan of the product beyond 2010 and introduce a number of reforms to simplify and increase the flexibility of the scheme to both providers and savers.

Essentially, the distinction between a Mini and Maxi ISA will be removed, leaving investors with a simple choice between Cash ISAs and Stocks & Shares ISAs. The annual overall allowance will be increased to £7,200 from the 6th April, of which up to £3,600 may be placed in a Cash ISA.

Although balancing amounts must be used, this allows for considerable flexibility. For example, up £7,200 can be placed in a Stocks & Shares ISA, and nil in a Cash ISA. Alternatively, £3,600 could be invested in both accounts, or £2,000 could be invested in a Cash ISA and £5,200 in a Stocks & Shares ISA.

PEPs and TOISAs will also be absorbed into the new ISA regime, bringing them all under a single set of rules. There is also provision for funds held in a Child Trust Fund to be rolled over into an ISA on maturity.





## Cutting your losses on capital gains

Many taxpayers who are selling shares or property may be better off after 5th April 2008, when a new flat rate Capital Gains Tax will be introduced.

Legislation introduced by the Finance Bill 2008 means that Capital Gains Tax will be levied at a flat rate of 18% on the disposal of any chargeable asset on or after 6th April 2008, regardless of the period of ownership.

The change comes alongside the abolition of taper relief, which had been applied since 1988 to reduce the rate of tax depending on the length of time the asset had been held. Indexation allowance, which

effectively reduced the size of gain for assets held prior to March 1998, also ceases to exist.

Following sustained pressure, the Chancellor of the Exchequer announced a new 'entrepreneurs relief' at the end of January. The taxpayer will be able to apply for relief for gains made on the disposal of all or part of a business, or on assets disposed of within three years of cessation of a business.

The introduction of entrepreneurs relief will mean that a special rate of 10% will be charged on gains up to a lifetime maximum of £1 million, and 18% on any gains in excess of £1 million.

## Death and taxes - it's not so bad

It's commonly said that nothing is more inevitable than death and taxes, but thanks to recent changes in Inheritance Tax laws, the burden on bereaved partners of marriages or civil partnerships has now become a whole lot easier.

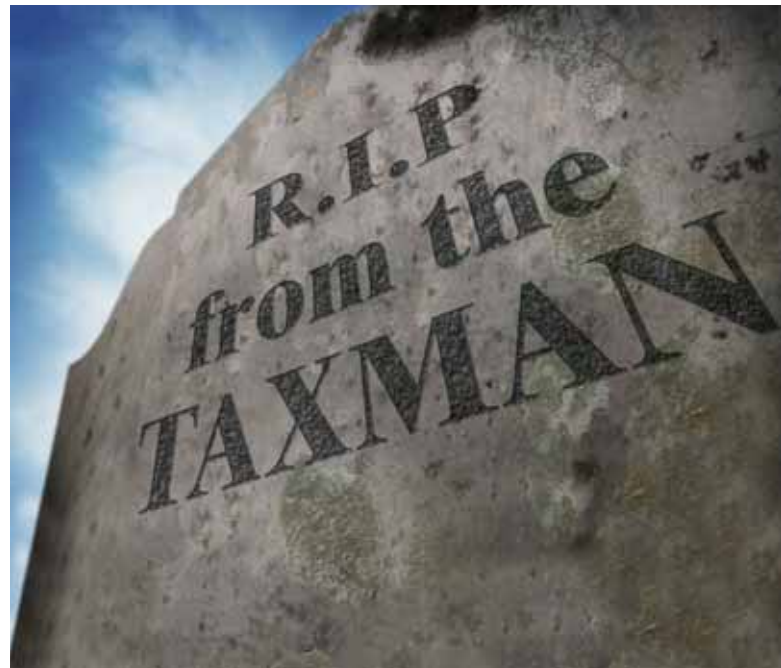
On 9th October 2007 the Chancellor of the Exchequer announced important changes to Inheritance Tax for married couples and civil partners. On death we are each entitled to a tax free allowance (the nil rate tax band) with the balance of our estate charged to Inheritance Tax at the rate of 40% (save for gifts to a spouse, civil partner, or charity which are exempt from Inheritance Tax).

Prior to 9th October 2007, if a spouse or civil partner left his or her entire estate to the surviving spouse or civil partner then this gift would be free of Inheritance Tax but would effectively waste the nil-rate band (currently £300,000) of the first to die, as on the second death the survivor would then own all the joint assets but would only have one nil-rate band to set against them.

Now on the second death, the personal representatives have up to two years in which to make a claim to HMRC to transfer the unused proportion of the nil-rate tax band on the first death to the estate of the second spouse or civil partner to die.

To make the claim, the personal representatives will be required to submit additional documents to HMRC including the marriage/civil partnership certificate and a copy of the death certificate, will and grant of probate relating to the first death. It may therefore be sensible to ensure that all these papers are readily available well in advance of being needed.

Prior to 9th October 2007, in order not to waste the nil-rate band of the first to die, many married couples and civil partners created wills which made provision on the first death for assets up to the value of the nil-rate band either to be paid directly to children, or more commonly to pass into a discretionary trust, of which the surviving spouse or civil partner would be one of the discretionary beneficiaries.



If you have made such a will then you may wish to contact us to arrange a review. As far as the discretionary nil-rate band trust is concerned this would normally include power to pay all the assets over to the surviving spouse or civil partner on the first death. Provided this is done within two years of the first death, then for all Inheritance Tax purposes the transfer will be treated as a direct gift to the surviving spouse and thus fall within the ambit of the budget changes.

It is advisable to regularly review your will, but there is no urgency to change it if it includes a discretionary nil-rate band trust, and in some circumstances there may still be advantages in retaining the trust. Besides the tax advantages, many trusts are designed to ring-fence assets for the protection of the next generation, and in that case more simple alternative trust structures may be preferred to the discretionary trust.

If you think that your will may need reviewing, or you would like to discuss any of the issues raised in this article, please contact either:

**Cathy Izzard**  
at Stanley Tee LLPs Bishop's Stortford office  
on 01279 713352 or

**Stephen Hynard**  
at Stanley Tee LLPs Saffron Walden office  
on 01799 582761



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## A rare gift from the revenue



It's not often that tax avoidance is given official sanction, but a Discounted Gift Trust is that rare thing: a Revenue approved scheme that serves as an effective Inheritance Tax shelter.

Like all gift trusts it reduces a potential Inheritance Tax liability by giving away assets, yet allows the donor to retain income arising from those assets in order to support their standard of living.

Because the donors retain the right to an income stream, they have not 'given' the full amount of any funds transferred, and this results in the 'discount' of the title, which results in an immediate Inheritance Tax saving.

Provided the donors survive the next seven years, the whole gift falls outside their estate, even though they continue to receive income.

As mentioned, it is not a scheme exploiting tax loopholes – it is HMRC approved and well tried and tested.

The table below sets out a possible example of how the scheme could work.

DONORS	BENEFICIARIES FUND HELD IN TRUST	CHILDREN
Mr and Mrs Williams place £100,000 into an investment bond held in a Discounted Gift Trust.	£100,000	
Mr and Mrs Williams retain the right to an income stream of say £5,000 p.a.	£5,000	
Because of the right to receive income, the 'gift' into the trust is less than £50,000, so Inheritance Tax on £50,000 is saved IMMEDIATELY.		
After seven years, the trust fund is entirely outside the Williams' estates and Inheritance Tax on the fund has been saved.		
On the subsequent death of both Mr and Mrs Williams, whatever the fund has grown to, minus the annual income taken, now belongs to their beneficiaries free of Inheritance Tax.	£100,000 plus growth minus income	£133,000

### Tee Financial plc

Rutland House, 47 Dane Street  
Bishop's Stortford  
Hertfordshire CM23 3BT  
Tel: 01279 658304  
Fax: 01279 757672

e-mail: [cliveh@stanleytee.co.uk](mailto:cliveh@stanleytee.co.uk)  
[www.teefinancial.com](http://www.teefinancial.com)

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### Stanley Tee LLP

High Street, Bishop's Stortford  
Hertfordshire CM23 2LU  
Tel: 01279 755200  
Fax: 01279 758400

42 High Street, Great Dunmow  
Essex CM6 1AH  
Tel: 01371 872166  
Fax: 01371 875747

Star House, 38 Rayne Road  
Braintree, Essex CM7 2QP  
Tel: 01376 552277  
Fax: 01376 551919

### Tee Collaborative

4 Newmarket Road, Cambridge  
CB5 8DT  
Tel: 01223 327512  
Fax: 01799 525249

### Tee Stonehams

68 High Street, Saffron Walden  
Essex CB10 1AD  
Tel: 01799 527299  
Fax: 01799 525249

e-mail: [law@stanleytee.co.uk](mailto:law@stanleytee.co.uk)  
[www.stanleytee.co.uk](http://www.stanleytee.co.uk)

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