



PROFESSIONAL BRIEFING

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Investment Safety Net

In the 2000 Trustee Act, the 'Standard Investment Criteria' set out clear guidelines for trustees to ensure that investments were relevant to the needs of the trust, the importance of diversification and the need for regular reviews.

This means that trustees may face a dilemma with conventional loan trust arrangements because they have to be able to repay any outstanding loan. This could lead to them favouring investments that are perhaps a little more cautious than they really need to be. In addition, there can be difficulty in balancing the often conflicting objectives of the settlor and the beneficiaries.

Achieve a 'win - win' situation.

When mitigating against inheritance tax by wrapping a bond in a loan trust arrangement and then adding a 'Safety Net', you can

help satisfy the needs of all three parties:

- Trustees are free to invest in potentially higher performing assets without fearing a shortfall in loan repayments.
- Settlers can enjoy a guaranteed income, regardless of market performance.
- Beneficiaries can lock in investment gains up to a maximum of 10% each year until the youngest life assured reaches age 75.

Our Presentation on the 24th April 2008 will explain this in detail but should you require written information please contact the office of Three Counties.

Pension Payments

For all the bad press they get, pensions remain one of the best ways to save for the long term future. For those who do not have a pension, now is the time to start. Stakeholder pensions have low charges and are flexible, even open to children and those who are not earning. £2,880 can be contributed to a scheme for a member of the family and the tax man will boost the payment to £3,600.

For those who have received a pay increase this year, a review of their pension contributions is worthwhile. Adding to a personal pension or company scheme is a great way to boost the retirement pot as all contributions are added to by the tax relief available. Higher rate tax payers have their contribution boosted by the basic rate and claim the difference between that and the current 40% top rate of tax when they file their self-assessment form.

IHT Rule Change

The publication of new IHT regulations which are set to simplify the compliance and reporting involved for many lifetime gifts is to be applauded. The new rules were issued on March 6, 2008 and will take effect on April 6, 2008 with a retrospective start date of April 6, 2007.

Previously, chargeable transfers of over £10,000 had to be reported to HMRC, amounting to 12 pages of compliance irrespective of tax due.

In the aftermath of the 2006 Budget, more types of lifetime gifts qualified as a chargeable transfer instead of a PET, which created additional administrative burdens even when no IHT was due.

Under the new rules, if the gift is of cash or quoted shares, the reporting limit is the IHT threshold. If the gift is another type of asset, then the reporting limit is 80pc of the IHT threshold.

Consolidate your PEPs and ISAs for Greater Control

Many PEP and ISA investors have built up significant portfolios utilising their allowances over the years. Most people who have done this have selected a different investment fund each year and it is inevitable that some of these funds will have done better than others, leaving more exposure than may be comfortable to certain sectors. With two thirds of fund managers moving funds every three years it is also likely that the management of some of these funds may have changed hands, for better or worse.

It is important with investments like these to carry out regular reviews of the entire holdings. This can often be difficult to do as many statements from different fund managers are received at different times, not giving a 'snapshot' of the entire portfolio.

One way to overcome this is to move PEP and ISA funds into a Wrap Account. The benefits of using a Wrap Account are that the whole portfolio of funds are held in one place, switching funds is usually at no cost and funds can easily be moved in and out of cash. Within the Wrap a diverse range of investments can be held.

Triviality Rules

There has been a change in the triviality rules to allow people to take very small benefits from occupational schemes as a lump sum. The new rules will look at schemes in isolation and allow benefits to be paid as a lump sum where the value is below £2,000 (pensions of around £100 per annum). It will be possible to take very small benefits in one occupational scheme as a lump sum under triviality rules while receiving income from another larger income pot.

The lifetime allowance has increased from 06/04/2008 to £1.65million and the annual scheme allowance to £235,000 (previously £225,000). The triviality limit is £16,500 (previously £16,000)

There is a change to Alternatively Secured Pensions in that any nil-rate band that has not been set against the estate may be set against the IHT charges on ASP funds. To bring these provisions into line with those for scheme pensions and annuities, the Finance Bill 2008 will ensure that any remaining nil-rate band may be used only once against the IHT charges arising on ASP funds. This change has effect when a member dies on or after 6 April 2008.

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You should be aware that investment in securities involves risk. The value can fall as well as rise and you may not get back the full amount invested, particularly in the earlier years.

Taxation: All statements relating to taxation are based upon our understanding of the law and HM Revenue & Customs practice in force at the date of this report. There can be no guarantee that the tax position or proposed tax position at the time of investment will endure indefinitely.