

kassius ltd *Independent Financial Planners*

Commercial Property



greater importance may be given to assets qualifying for IHT reliefs, as planning tools

Business property relief (BPR) is one of the main tax breaks available to business owners. This is an inheritance tax (IHT) relief that could reduce the taxable value of your business property to nil. In the future, greater importance may be given to assets qualifying for IHT reliefs, as planning tools. Therefore, knowledge of BPR is crucial and may help advisors get the edge in the estate planning market.

For a transfer of property to attract BPR:

- It must be attributable to relevant business property around the world,
- Which is not subject to a bidding contract for sale, and
- The ownership conditions must be satisfied, including additional conditions which have to be satisfied for the purpose of applying the relief

to the value of any property gifted in the seven years prior to death, or falling foul of the gift with reservation of benefit anti-avoidance provisions.

Relevant business

For deaths and transfers on or after 6 April 1996, there are six categories of property which can qualify as relevant business property. The first three qualifying for 100% relief are as below:

- A business or interest in a business.
- Unquoted securities e.g. loan stock) in a trading company which gave the transferor control (more than 50% of the voting rights) of the company immediately before the transfer either by themselves or with other such shares or securities.
- Unquoted shares in a trading company.

Unquoted shares and securities include those on the Alternative Investment Market.

The second three, which qualify for 50% relief are as below:

- Quoted shares in a trading company which gave the transferor control of the company immediately before the transfer.
- Land, buildings, machinery or plant used for a business carried on by a company of which the transferor then had control, or by a partnership of which he was then a partner.
- Land, buildings, machinery or plant held in trust which the transferor had an interest in possession, and which was used by the transferor's business.

Borrowers to reclaim mortgage exit fees

The FSA recently instructed lenders that they must remove or cut their mortgage exit fees or justify the level of charges (which has grown dramatically over the last few years). Lenders had until last week to inform the FSA as to what action they would take.

The regulator's main concern was that some customers had been charged higher exit fees than had been stipulated in their original mortgage contracts. The majority of lenders

have said they will compensate customers by paying back the difference between the exit fee quoted in their original mortgage offer and the fee they were actually charged.

The FSA said that, so far, no lender had opted to keep these higher charges. Brokers had expected the FSA's statement to trigger a wide scale reduction of mortgage exit fees. They had hoped that borrowers who agreed to higher exit fees when they took

out their mortgage would also qualify for refunds or be able to negotiate lower fees, but there seems to be little evidence of this proving likely. It also seems unlikely that lenders will scrap their exit fees altogether.

Skipton Building Society has, however, announced that it is cutting its fee from £175 to £125 from 1st April. Alliance & Leicester currently has one of the highest mortgage exit fees of £295.

Inside this issue:

Income Protection for Women	2
Maturing CTFs can roll over into ISAs	2
What factors affect the decision to contract back in?	3
Tax evaders ordered to pay £745,000	4
Kassius bio	4

Income Protection for Women



More and more women are beginning to understand the need to financially support themselves as well as any children they have, with even more women being either the main or sole breadwinner in the household.

Why do women need Income Protection?

- According to Barclays, 20,600 women started a business in the first quarter of 2006 compared to 16,700 for the same period in 2005.

- It is probably not surprising that the fastest growing causes of IP claims are stress and depression, given the juggling act of work, family and running a home that most women achieve on a daily basis.

Women are focusing on their careers and having children later in life when they are higher up the career ladder.

Quite simply, women have to become more financially aware – and more are buying insurance products designed to protect themselves from financial difficulties than ever before. Not all of them are buying the right kind of insurance product.

Accident, sickness, unemployment and mortgage payment protection policies replace income for a limited period, usually just 12 or 24 months. But income protection (IP) can replace income lost as a result of incapacity potentially right

through to retirement. As an average incapacity benefit claim is eight years, then a 24-month payout could leave a client with both long-term health and money worries.

In addition to protecting earnings from full time employment, IP is also available to part-timers, contract workers and the self-employed. It can cover salary and benefits in kind and, for those running their own companies, their dividends. IP can even help towards the replacement cost of a houseperson.

IP has several features that ideally fit women's current working lifestyles. Most IP contracts contain a career break option enabling valuable cover to be maintained while taking time off to have children, for example, or to return to further education. The trend towards having children later in life and at a higher point up the career ladder makes it more likely

that women will want to return to the workplace and will need cover to retirement.

A common misconception is that pregnancy could invalidate a claim under an IP policy. Obviously, a claim would not be paid due to pregnancy, as it is not an illness, but a claim could be submitted by the working mum to be for the complications of pregnancy.

Claim stage is when the policy should really deliver on its promise with minimal fuss and delay. A provider with a tried and trusted claims philosophy will have the resource and expertise to be able to look after a claimant in the most appropriate way. This could be by using the telephone or email as the preferred way of contact, by allocating a personal claims assessor of the same gender or by visiting the claimant to understand her problems and concerns.

Maturing CTFs can roll over into ISAs



Although there was no announcement in the Budget, HMRC has confirmed in writing to the ABI that an absolute/bare trust for a minor is **not** a settlement for inheritance tax purposes.

This means that a lifetime gift in trust for a minor absolutely is a potentially exempt transfer (PET) and is not subject to the reporting obligations and potential periodic and exit tax charges which

apply to 'relevant property' trusts.

Advisers and clients can now use absolute trusts and name under 18 (16 in Scotland) year olds as beneficiaries without the previous concern that HMRC would treat such a gift as a Chargeable Lifetime Transfer. This will open up more choice around who is named as a beneficiary under an absolute trust. Of course, it remains the

case that this favourable tax treatment is not without its disadvantages, with the beneficiary having the right to the funds at age 18 and with the trust interest being taken into account on death, divorce or insolvency.

This is a welcome, and sensible, resolution to the recent uncertainty surrounding the treatment of absolute/bare trusts for minors.

What factors affect the decision to contract back in?

With contracting back into the state second pension, the issues are quite complex. It is not possible to be certain of making the right decision as there are many factors which influence the decision in relation to what may happen in the future. Some factors are subjective for example, the political risk, and a large part of the decision will be affected by each individual's view.

There are a number of factors to consider. There is no investment risk with the state second pension. The state will pay you a certain amount for each year that you are in S2P based on your earnings.

You would give up these benefits if you contract out of S2P, and the Department for Work and Pensions would pay a proportion of your National Insurance contributions to a personal pension in your name. This is called the rebate and when it goes into your personal pension it is referred to as protected rights.

The amount received from your protected rights pension fund is determined on how well the fund grows, the plan charges, and the annuity rate when converting your pension fund to pension income on retirement.

Therefore, one of its main risks is that your pension fund will not grow well and provide a pension that is lower than S2P. On the other hand, it may grow well and exceed S2P.

When the Government calculated the NIC rebates, it

worked on the basis of being neutral in the sense that it made certain assumptions about inflation and investment returns and set the rebate level where you would receive exactly the same protected rights pension as the S2P you had given up, if the assumption proved correct.

No one would contract out if it were as simple as this as there isn't much point in taking an investment risk where there is unlikely to be an advantage.

If you contract out of S2P, you will be buying an annuity with your fund when you get to retirement. Therefore the amount of income will depend partly on a number of factors:

- The interest rate the annuity provider can achieve with the money you give it.
- Life expectancy. As the annuity provider would be giving you an income for the rest of your life, it is expected that the annual income will depend on how long it thinks you will live. Therefore, the higher your life expectancy, the lower the pension income.
- Inflation. The annuity you buy with your protected rights pension will need to be linked to inflation, at least in part. That means, the higher the rate of inflation, the lower the annuity rate.

Depending on the future, these factors can work in favour or against you if you contract out of S2P.

One aspect is that of life expectancy. In recent decades, life expectancy has been significantly increasing and is expected to continue to do so. If this continues, annuity rates will fall. We need to think of the potential effect this will have on the decision.

There is also political risk. This is entirely down to the individual's view of what the Government may do in the future and so is the most problematic. Some people are concerned that they may not get S2P when they reach retirement. We cannot answer this, but can provide some background so that you may come to your own decision.

The Government doesn't tend to make changes that have a retrospective effect. So it is unlikely to change the level of S2P that you have earned so far. You could reassess the situation in the future in if the benefit changes. But the Government could potentially change benefits retrospectively. For example, the age at which you can take S2P may be changed to 70. This would be a reduction of benefits as you would miss out on five years' worth of payments.

A protected rights fund is far safer in this respect. It is a pot of money with your name on it and no one can take it away. You would be reliant on anyone else's decisions as it is your money.

There are also differences between S2P and protected rights when it comes to benefits on death:

Death before retirement

Protected rights: If single at the time, the whole fund is paid out as a tax-free lump sum to your nominated beneficiary. If married, the fund is used to pay a spouse's pension.

S2P: if married, your spouse will inherit half of your S2P entitlement.

Death after retirement

Protected rights: If married at retirement, you would have bought an annuity with a 50% spouse's pension.

S2P: If married, your spouse will continue to receive half of your S2P pension.

You are now able to take 25% of your protected rights funds as a tax-free lump sum. This is not expected to be the case with S2P.

Your personal circumstances and views will determine your decision on contracting out of S2P.



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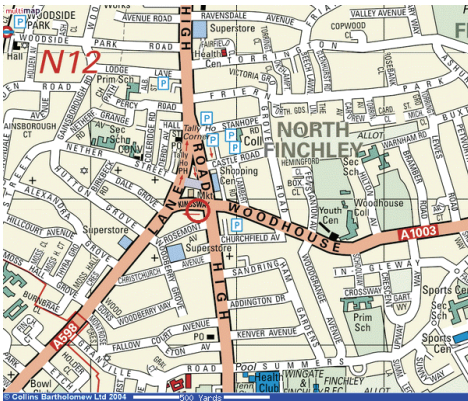
Clarity, focus, value

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*Kassius Financial Planners was incorporated in 2002 by Chirag Shah and Andrew McGovren, who between them have nearly 40 years experience in the Financial Services industry. **We are totally independent, dealing with every provider in the market.** In 2003 Chirag Shah achieved Certified Financial Planner status, the highest and most respected qualification within the UK market, with only 500 practitioners in the country.*

*Our aim is to bring a common sense approach to financial planning, offering **clarity, focus and value**, whether it be advice on residential mortgages, protection and pensions or more complicated investment, inheritance tax and commercial loan issues.*

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Tax evaders ordered to pay £745,000

Two people who pleaded guilty to tax evasion offences have been ordered to pay a total of £745,000, following a confiscation hearing at Chelmsford Crown Court.

Mark and Amanda Youell pleaded guilty at Chelmsford Crown Court to nine counts each of cheating the public purse. Mark Youell also pleaded guilty to a charge of conspiracy. In total the couple stole around £500,000 over a six year period.

A joint investigation between HMRC and other Law Enforcement agencies revealed that the Youells ran two companies, Alfred A Saxon Ltd, which went into liquidation in 2000,

and Logidox Ltd. The fraudsters undertook building work for the general public in the Harlow area. They placed advertisements in numerous trade names including 1st Class, 1st Choice, 1st Call, 1st Advice and Aaron & Knight. The proceeds from the work were banked in various accounts including a number opened using false identities and family members' names. None of the income was declared to HMRC.

*..if in doubt,
declare them.*

The sophisticated fraud funded a lifestyle that included

an executive property on a gated estate and several expensive cars. There were also substantial investments in shares, jewellery and a holiday time-share.

The confiscation hearing concluded on 8th February 2007 and the judge ordered the following amounts to be confiscated:

- £625,000 for unpaid tax liabilities to be paid within the next 28 days or default five years' imprisonment
- £120,000 for prosecution costs to be paid within the next 12 months.

This case, along with many

others, serves to demonstrate the seriousness with which HMRC views tax evasion and that the penalties can be severe. Queries are sometimes received at Kassius relating to different types of income and gains and whether they need to be declared to the Revenue and the answer is invariably the same – if in doubt, declare them.

