

Kassius Financial Planners

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Ignoring Estate Planning Advice

When writing a will, you're helping to ensure that on your death, your assets will be dealt with as you would wish. It can also mean that your loved ones are not faced with the mess of dealing with your financial affairs. Ignoring this advice can have negative affects.

Since we first met 10 years ago, we had been advising one of our clients to write and put into place a will. He kept putting it off, and saying that he would get around to doing it soon. When he was diagnosed with Coronary Heart disease, we again told him that it was essential that he write a will. Sadly, six months later, he suffered a

heart attack and died without having completed one. His wife informed us that he had started writing one, however a will that is not signed and witnessed properly is not valid, and this was a waste of effort.



He ran a successful business and had a family with teenage children. The laws of intestacy are straightforward and in the case of our client, his widow inherited the per-

sonal chattels, the first £125,000 of other assets and then a life interest in half of the residue. The children inherited the other half of the estate, initially in trust. At the age of 18, each child will inherit his or her share absolutely.

However, putting potentially large amounts of cash in the hands of teenagers is less than appealing for most families.

For reasons he kept confidential, our client had almost everything, including the house in his own name. Now his widow must unfortunately

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Pension Term Assurance (PTA)

Since Pensions 'A' day, April 6th 2006, we have seen many providers re-launching a PTA proposition as the new legislation now makes it much easier to arrange this type of life cover and enjoy tax relief benefits. Pre April 6th there were restrictions to setting up PTA, primarily contributions into a personal pension plan were required to be allowed to arrange PTA. This has all now changed with 'A' day and this requirement has been lifted.

Very simply, PTA is a level term assurance contract with the added advantage of being wrapped within pension rules and this can provide significant premium savings.

PTA provides a fixed amount of life cover set up for a fixed

term, or until a specified retirement age such as 60, 65 or 70. It must provide a death benefit only and cannot include critical illness cover and cannot be written on a joint life basis. It is ideal for basic family protection to provide a lump sum benefit in the event of the major breadwinner dying to replace lost income to a family. It is also ideal to protect an interest only mortgage when someone does not want to consider including critical illness cover.

The benefit PTA has is it written as a pension contract and like all pension contracts it attracts tax relief at the highest rate of tax the policyholder pays. For example, with a monthly premium of £50.00 a higher rate taxpayer can claim 40% in tax

relief. It works very simply, the insurance company will claim basic rate tax relief immediately, so a £50 premium nets down to £39 from a policyholders bank account with a further £9 each month being claimed through the policyholders tax coding.

Family protection in the form of simple life cover is often ignored by many, who see it as unnecessary and an additional cost but like car or contents insurance becomes invaluable in the event of a claim. Making the cost of this important foundation of financial planning even lower will no doubt encourage more to ensure they hold adequate cover.

NB: PTA is not suitable in all situations. Individual guidance should be sought.

Ignoring Estate Planning Advice (cont.)

face the task of winding up his business and dealing with his financial affairs.

Her finances are going to be limited largely to a life interest in half of the financial assets, and understandably, she is uneasy about her children having absolute entitlement to a pretty substantial amount of money when they reach 18.

The children cannot effect variations to the will until they have both reached 18, and we just hope they are still getting along well with their mother at that time. They can then discuss whether or not the trust can be wound up on terms that suit everyone.

There may be situations in which there could be conflict between the widow and her children. For example, if she remarries or the children develop relationships with other people who are demanding where cash is concerned. Children these days are more up to speed on their rights.

Thankfully, our client took our advice on making nominations or trust arrangements for his life insurance policies. If he hadn't, it would have added two unpleasant effects that can occur with anyone who ignore this advice.

The first effect being that it can add to the cash in the estate which is to be divided between wife and children,

thereby worsening the inheritance tax problem.

This whole situation then would compound because, when the widow would have needed some cash to deal with her husband's business, she wouldn't have access to it, as business accounts would have been frozen.

The practical benefit of putting death benefits in trust or nominating a beneficiary should not be overlooked. Nominating a beneficiary enables the cash proceeds to be paid direct to the beneficiary without having to wait for probate to be granted. Often the case is that there will be no inheritance tax benefit if everything is being left to a surviv-

ing spouse but access to cash when it is needed is very important.

For the people trying to wind up someone's estate, and trying to carry on with their lives after a death of a loved one, a large amount of trouble can pile up if there is no will and life policies were not put in trust.

Remember that an out-of-date will can be more damaging than no will at all. Also, appreciate the potentially disastrous consequences of ignoring estate planning advice. So remember to take the advice and to make sure you have a will.

NB: The state does not include a safety net in these circumstances in the form

One third of homes are above IHT level

Inheritance tax and the tax position of your estate when you die is not just a concern for the wealthy. Little more than a standard family home, particularly in South East England, can be enough to push many estates into the watchful eye of the taxman.

Many families are finding the last decade's housing market boom is giving them a bit of a headache. Despite the Chancellor's increment to the inheritance tax threshold of £285,000 for the current tax year, there is a massive 40% tax charge liable to be put on any non-exempt transfers that exceed the threshold.

According to figures from the



Halifax, the current average price of a detached property in the UK is £270,107 - only 5% below the current inheritance tax threshold.

Nearly 31% of detached homes are above the IHT level, and in London this is even higher. Nearly a half of all those with semi-detached properties in the capital are at risk of paying inheritance tax. This will only increase as house prices in the capital are estimated to rise by 8% or more during this year.

Savings and investments are also factored into the inheritance tax equations. Equity markets appear to be on the move upwards. Though no one is going to get rich holding cash with interest rates below 5%, there was a 20% gain from the FTSE 100 in 2005 as well as in many other parts of Europe. The same is expected again this year, which serves to boost household assets.

Gordon Brown estimated in his last budget that he would take in £3.4bn in the 2005/06 tax year in inheritance tax revenue. This is higher than the £3bn expected from capital gains tax and it also matches the tax take expected from beer and cider duties.

In 2004, 30,000 estates paid an average of £83,000 in death duties. The beneficiaries of an estate of £400,000 will have to fork out £50,000 in tax before the assets are released.

Norwich Union found that more than 60% UK consumers aged over 50 have not sought advice about inheritance tax planning. The Government has proved eager to maintain hold on the nation's estates. Families have been denied loopholes that once allowed them to escape or minimise the tax bills.

Most significant was the introduction of pre-owned assets tax last year. This affected a parent who had gifted (transferred their home into the name of their child) but continued to live in it.

One of the most effective ways to reduce inheritance and capital gains tax are Aim-listed shares. However, investors should be prepared to take the higher risk that is associated with these.

They have been told by the Government that income tax must be paid on the benefit of living in the home, and so advisers are left to unravel complex arrangements. Other items such as art are also affected by the rule change.

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The increasing difficulties of getting a home loan

It is becoming clearer that certain categories of borrower could find it increasingly difficult to attain a sufficient home loan. Those who are most at risk are the self-employed and others who require self-certification mortgages, buy-to-let borrowers and first-time buyers.

Any self-employed person will legitimately reduce the amount of tax they pay. This may be by making large pension contributions, and so their net income is dramatically reduced, but may negatively affect the maximum amount they can borrow. The other areas are people whose earnings are erratic. Some months they earn a lot of money, other months they don't earn so much money.

Even innocent mistakes such as not paying your credit card on time can preclude you from obtaining some lenders' best rates.

Case Study: Robert Truman, aged 33, a single self-employed orchestral musician. His earnings can be high, but fluctuate greatly. He was offered the opportunity to pur-

chase his flat under right to buy rules. Truman needed an £160,000 mortgage which was 100% of the discounted right to buy price. The open market valuation was £230,000.

Before visiting us, he had approached a nationally advertised company. They told him that it was difficult to arrange due to him being self-employed and it was a right to buy purchase of a flat.

They offered him a rate of over 7% with I-group and proposed charging him a fee of £2,500. We were able to arrange a mortgage with a high street lender at 4.54%, fixed to November 2007, and charged a fee of £550. The monthly saving was around £330 which allowed him to take out an income protection policy-essential given his occupation and self-employment.

We are concerned that consumers will suffer. Buy-to-let lenders are looking over at the FSA guidelines on affordability and increasing the rental cover to 120% of monthly repayments, added to an income

of at least £25,000. On the record lenders are expressing their worries about the letting market, and off the record, they admit they are becoming more strict because they were told to do so by the FSA.

An investigation into self-cert mortgages, where homebuyers were apparently overstretching themselves, found that arrears and defaults were better than in the mortgage

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market as a whole. Also, buy-to-let is the same where to date, arrears and defaults have been no worse than standard owner-occupier loans.

As the number of lenders moving from the basic multiple of income basis for evaluating maximum borrowing, to affordability is increasing, the FSA guidelines in this area will hit harder.



The client's personal circumstances, repayment track record, a responsible attitude to borrowing, or their willingness to sacrifice luxuries in return for the opportunity to own their own home, are brushed aside, or completely ignored in a formulaic approach to lending.

Few lenders for example, during their assessment processes ask whether an applicant either is, or has been paying school fees.

All research shows that even when homebuyers are financially stretched, they do not cut back on paying the mortgage and they find the money somewhere in order to pay it.

Unusual funds – Medical Property Funds

The Medical Property fund is a fund that invests in properties such as GP's surgeries and has been in existence for 2 years. A portfolio of 72 medical establishments has been built up during that time.

When choosing which properties to buy and what to do with them, it generally comes down to who the GPs using the property are. Fund Investment managers are not so interested in single handed operations, and ideally look for where there are three or four GPs wanting to move to a new location and have a increasing patient list.

They tend to look for old properties to buy and enhance, as well as purchasing some newer buildings, and develop them to provide a number of medical services in the same location.

those coming into the profession, many of whom are indebted from their student years, do not want to take on the costs

New centres are also beginning to include pharmacies inside them, so that patients can see all the different health providers under one

roof.

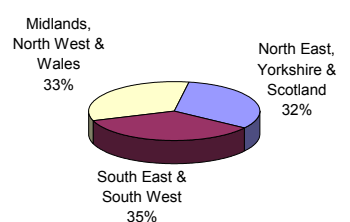
So just how sustainable is this area of investment? Wouldn't investing in only one sector of the property market leave you open to an element of risk? While there is one generation of doctors who own their own surgeries and are looking to retire, another generation of those coming into the profession, many of whom are indebted from their student years, do not want to take on the costs.

GP surgeries are also being encouraged by a Government drive to host a wider range of services, from breast cancer screening to X-rays, and host-

ing opticians and dental facilities. This means that many surgeries would be in need of expansion and renovation.

There is no issue concerning the quality of the tenant with the Government paying the rent. This means the investment is basically as safe as a Government security.

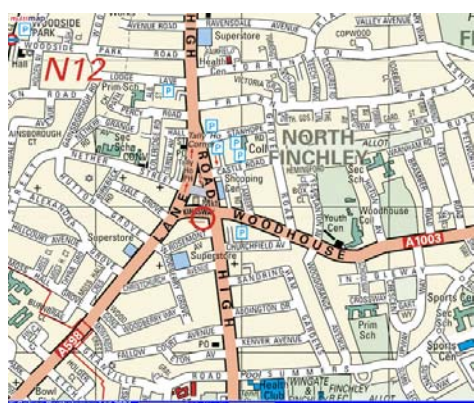
Geographic Asset Allocation



Clarity, Focus, Value

Finchley House
707 High Road
London
N12 0BT

Phone: 0208 445 0246
Fax: 0208 445 0189
Email: advice@kassius.co.uk



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 350 practitioners in the country.

Please note: This bulletin is intended to be used as information only. Whilst we take every care to ensure that the content is accurate, we accept no liability in respect of any errors, inaccuracies and losses which may arise from its use. This bulletin is based on our understanding of current legislation which is subject to change.

*Our aim is to bring a common sense approach to financial planning, offering **clarity, focus and value**, whether it is a simple protection matter, or a more complicated portfolio construction or tax matter.*

One third of homes are above IHT level (cont.)

Gifts, transfers, offshore life insurance policies and complicated trust structures are remaining options. However, most of these remaining ways to limit exposure to inheritance are expensive, take years to apply or worst of all, mean that control of and access to your money are permanently lost.

Fortunately there is an alternative and it exists in the form of the Alternative Investment Market (AIM). The index for smaller companies has grown in status. There are now close to 1,400 companies (compared to just 16 on launch in 1995), with a combined market value of over £50bn.

Under legislation introduced in 1996, exemption from inheritance tax is offered on any money invested in qualifying AIM companies and that

has been held for more than two years at the time of death. Such investments can have a massive impact on an estate's tax bill.

Reaction from investors is that the AIM market is risky and that the companies within an investor's portfolio are small and illiquid. This is the case, however it may not be as risky as people think. The average market cap is over £80m, with a yield on the portfolio of almost 2%.

At any time, investors can have access to their capital, meaning that, if the investor's circumstances change and they want to add or withdraw money from their portfolio, they can, unlike most inheritance tax solutions.

There is a risk of loss of relief on floatation.

Differences in admission criteria between the main market and the AIM main market

MAIN MARKET	AIM MARKET
Minimum 25% shares in public hands.	No minimum shares to be in public hands.
Three-year trading record required.	No trading record requirement.
Prior shareholder approval required for substantial acquisitions and disposals.	No prior shareholder approval for transactions.
Pre-vetting of admission documents by the UKLA.	Admission documents not pre-vetted by Exchange nor by the UKLA in most circumstances. The UKLA will only vet an AIM admission document where it is also a Prospectus under the Prospectus Directive.
Sponsors needed for certain transactions.	Nominated adviser required at all times.
Minimum market	No minimum market