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*Capital Gains Tax generated £2.3bn for the Government in 2004/2005, not that far behind the £2.9bn generated by Inheritance Tax.*

## Ways to minimise Capital Gains Tax

Taxes are unavoidable, from paying Stamp Duty when we buy a house, to paying Income Tax when we work. Capital Gains Tax (CGT) generated £2.3bn for the Government in 2004/2005, not that far behind the £2.9bn generated by Inheritance Tax. If you sell an asset for more than you bought it for, you make a chargeable gain. CGT is then payable upon any net gain, this being the amount of chargeable gain realised during a tax year after deducting total allowable losses realised in the same year.

- a) CGT is payable by individuals, personal representatives and Trustees and
- b) Individuals have an annual exemption, currently £8,500.

So if your net gain isn't more than your annual exemption, you don't need to be worried about CGT. A married couple

with a portfolio of £200,000 can make net gains of £17,000 CGT-free. That is a return of 8.5% pa. Even at £400,000, it is still accounts for a 4.25% pa return, which is more than you would be earning on cash net of Savings Rate tax.

When a simple application of the annual exemption isn't sufficient, some reliefs and exemptions can be considered to try and mitigate a potential CGT liability.

**Allowable Losses** – If the total allowable losses are greater than the total chargeable gains, excess losses can be carried forward to the future. This may be of interest to clients still nursing losses on their TMT investments, where there is little prospect of them recovering the original purchase price.

It may be appropriate to consider offsetting their



losses against any gains on equity investments made in the past couple of years. Their loss making investments then become somewhat more useful than just being a minus figure on a portfolio.

**Chattels** – The sale proceeds are exempt if they are less than £6,000. Thereafter, a marginal rate of CGT is applied, equivalent to 5/3rds of the difference between the sale proceeds and £6,000.

Gains made upon wasting assets, those with a predictable life of 50 years or less, *Continued on page 2*

## Legal issues for 2006 for employers- Know your rights



This year has some major changes in employment law planned. There are key changes for which businesses need to prepare for.

**Age Discrimination** - It will, for the first time in England, be unlawful to discriminate against employees and job applicants on basis of age. This will have a dramatic effect on almost all aspects of an organisation's employment policies, including

retirement, dismissal, pay and benefits, training, redundancy, pensions and retirement.

In Ireland, age discrimination law has been in place for several years. Almost one-fifth of Ireland's discrimination claims involve allegations of ageism.

The impact of in England should therefore not be underestimated. The law, which will come into force in October 2006, will protect both young

and old workers.

Under the proposed new law there will be a ban on unjustified age discrimination in recruitment, employment and vocational training. There will also be a default retirement age of 65. Employers will have to justify why they want any employees to retire earlier.

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Employers will also have a new

## Ways to minimise Capital Gains Tax (cont.)

are exempt.

**Inter-spousal transfer** – The transfer of assets between married, co-habiting spouses does not create a liability to CGT.

When the husband or wife then disposes of the asset, the Qualifying Holding Period for Taper Relief uses the date it was transferred. The bonus year rule also applies.

**Charities** - Giving an asset to a registered charity do not give rise to a CGT liability.

**Reinvestment Relief** – This is available on all chargeable gains if reinvested into shares of a qualifying Enterprise Investment Scheme (EIS), within one year before or three years after the date of disposal which gave rise to the gain.

**Indexation Allowance** – This ran from March 1982 until April 1998. The allowance is designed to reflect the rise in the cost of the asset, on a month-by-month basis, to keep pace with inflation. Indexation runs from the month of acquisition to April 1998. Assets acquired on or after 1<sup>st</sup> April 1998 do not qualify for indexation allowance.

**Pros**

- Provides a degree of tax

alleviation, which increases with time.

- Applies to areas other than purely the acquisition value, including costs incurred in acquiring the asset and expenditure on enhancing the value of the asset.

**Cons**

- Indexation increases the base cost of the asset, and so is not effective if the base cost is zero.
- The inflation measure used was RPI and many assets rose in value by much more than RPI over the same period.
- It cannot increase a loss or turn a gain into a loss.

**Taper Relief** – designed to promote long-term ownership of assets, this took over from Indexation Allowance. It operates on a sliding scale, where the taxable proportion of a gain reduces over time. It is assessed on the period of ownership (Qualifying Holding Period); this begins with the later of the date of acquisition or 6<sup>th</sup> April 1998 and ends with the date of disposal. It is measured in whole years (a continuous period of 12 months, and not a whole tax year) and is calculated upon the net gain after any Indexation Allowance.

A bonus year is also available, to those who acquired a Non-Business Asset prior to 17<sup>th</sup> March 1998. If so, then you can add one to the number of whole years in the Qualifying Holding Period.

Taper relief operates at two different rates, one for Business Assets and the other for Non-Business Assets. Since its introduction, the rate of relief for Business Assets has been enhanced so that now the maximum rate of taper relief applies just after two whole years of ownership. (See tables).

**Pros**

- Rewards longevity of ownership
- Business Assets qualify for higher rates of Taper Relief much quicker.
- Reduces the amount of gain, regardless of base cost.

**Cons**

- You have to wait 10 years to benefit the most on Non-Business Assets.

The definition of Business Assets offers further tax-planning opportunities, as it includes:

- An asset, other than shares, that is used in a business. The owner of the asset does not have to be involved with the business.

- Shares held in an unlisted trading company, which includes companies listed on Aim.

*Business Asset*

Number of whole years	% gain chargeable
<1	100
1	50
>2	25

*Non-Business Asset*

Number of whole years	% gain chargeable
<1	100
1	100
2	100
3	95
4	90
5	85
6	80
7	75
8	70
9	65
>10	60

## Legal issues for 2006 for employers- Know your rights (cont.)

duty to consider an employee's request to continue working beyond retirement. The upper age limit for unfair dismissal and redundancy rights will be removed, giving older workers



the same rights to claim unfair dismissal or receive redundancy payment as younger workers, unless they are genuinely retiring. Employers will also be required to inform employees in writing, and at least six months in advance, of their intended retirement date, to allow people to plan for their retirement.

**TUPE** - This law concerns the transfer of undertakings (TUPE). The new TUPE regulations were meant to be in force by 1

October 2005 but have now been delayed until April 2006.

Changes include more comprehensive coverage of contracting out, outsourcing and similar exercises involving business services. There are also requirements that old employees and associated rights and liabilities. There is also clarification of what happens when terms and conditions of staff are changed where the reason relates to the transfer. Both old

and new employers will also be jointly and severally liable for any failure to consult and inform with employees with significant financial penalties for non-compliance.

**And finally**, in October 2006, the national minimum wage is again set to increase, with the adult rate rising to £5.35 from £5.05, and the youth rate rising to £4.45 from £4.25.

## UK All Companies sector - What is it?

The Investment Management Association's (IMA's) definition of the UK All Companies sector is: 'Funds which invest at least 80% of their assets in the UK equities which have a primary objective of achieving capital growth.' Understandably, with such a loose definition the sector contains a huge and varied range of products targeted at different types of needs and risk profiles.

To help us discuss the different types of funds in the sector, we have loosely categorised them into sub-sectors. These are some generic definitions and you should remember that a fund may fall into one or more of the following categories,

e.g. an ethical fund that is benchmarked against the FTSE 100.

### 1. Tracker funds

These funds aim to track the performance of an index, be that the FTSE All Share, the

FTSE 100 or the FTSE 250. In order to track that index, they will use one of a number of purely quantitative methods to achieve this, e.g.: full replication or stratification sampling (where a representative selection is used to mimic index performance).

### 2. Funds targeted against a benchmark

Funds in the UK All Companies

sector can be targeted against one of a number of different benchmarks - FTSE All Share, FTSE 100, FTSE Mid 250 or some combination of the three. This benchmarking can directly affect the investment decisions the Manager makes. For example, a FTSE 100 targeted fund may exclude small cap companies, whilst a FTSE 250 Fund may exclude large cap. This leads to bias towards a particular part of the market - which would remove such a fund from being considered a core holding.

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*Understandably, with such a loose definition the sector contains a huge and varied range of products.....*

## Protection

### Insurance

*"a waste of money"*

*"I don't need it because I am healthy"*

*"my spouse/dependants will be ok"*

The above are common responses when you ask people in the street for their views on insurance. At Kassius we believe passionately in insurance as appropriate cover forms the foundation of all long term financial planning. The quotes above are based mainly on not understanding the product, its value and relevance to one's situation.

With nearly 40 years experience we have many examples

*"a waste of money"*

When starting their mortgage over 5 years ago our clients were stretching their budget to afford their new home and questioned the need to set up appropriate mortgage protection including critical illness, stating the premium could be put to better use on much needed home improvements. Within two years the main breadwinner contacted us stating she wanted to cancel her policy because she could not afford to continue to pay the premium. When asked why she explained she was undergoing medical tests for breast cancer, requiring unpaid time off work, not realising the condition was covered. We immediately processed a claim on our clients behalf as unfortunately the cancer was malignant. The policy paid the sum assured in full and was used to repay all mortgage borrowings in full.

Fortunately the cancer was

diagnosed very early and our client has made a full recovery, returning to work. If long term or permanent absence from work had been the case then our clients need not have worried about making their mortgage repayments.

**"I have no need as I am healthy"**

We were introduced by an existing client to a good friend wanting to set up some family cover. At the first meeting the husband, when asked why no cover had been set up before when his children were much younger (they were both in their mid-teens by this time), stated he hadn't needed it before. Following a medical investigation earlier in the year he now wanted life cover. When questioned to the nature of the investigation he disclosed malignant polyps had been removed from his nose and was extremely

angry to be told no company would now offer cover, storming out of the meeting. Unfortunately for his wife and children the husband passed away within 2 years.

This story has a particularly tragic ending. Our meeting continued with the wife who proceeded with setting up cover for herself, realising some was better nothing. She died within two years of her husbands passing.

**We would dearly love all our clients to have wasted their money over the long term by setting up insurance as this would mean they are alive and healthy, but unfortunately this will never be the case.**



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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 350 practitioners in the country.*

*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.*

*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.*

## UK All Companies sector - What is it? (cont.)

### 3. Special and undervalued situations

Like the wider UK All

Companies sector, there are different types of fund within this subset.

Generally they tend to invest in a range of companies where it is considered that the future prospects are not fully recognised by the market, such as turnarounds, restructurings bankruptcies and employee buyouts. Some of these funds are aggressive with short-term investment horizons, whilst others prefer to take a long term view and work with the company to improve its fortunes.

### 4. Style biased funds

This area of the sector covers those funds that either have a defined bias towards growth or

value. Performance can fluctuate significantly as market sentiment swings between the different styles.

### 5. Focus finds

A relatively new subset of the UK All Companies sector, these funds aim to provide investors with superior returns by holding larger positions in a concentrated portfolio of stocks, typically between 20 and 40. They are normally unconstrained by a benchmark and are therefore free to invest in the managers' best ideas. As such, they can exhibit higher volatility relative to other funds.

### 6. Ethical funds

As the name suggests, these funds focus on investing unitholders' money in an ethical and socially responsible way – for example, by avoiding

military aerospace manufacture or medical companies which may be required to test on animals. There are many different types with many different ethical restrictions. By nature these funds invest in a constrained investment universe.

### 7. Other funds

The sector also contains many other smaller subsections including multi-manager funds, charity funds, funds focused on investing for children as well as institutional products that retail investors are unable to invest in.

Within the UK All Companies Sector it is therefore not appropriate to make comparisons across all funds as you may be

judging an aggressive focus fund against a FTSE All Share tracker, i.e. chalk and cheese. Indeed, some would argue that some funds are so radically different, they should not even be in the same peer group.

