e-NEWS

WELCOME TO OUR FIRST e-NEWSLETTER OF THE YEAR. WE WILL BE USING THIS AS A WAY OF KEEPING OUR CLIENTS AND PROFESSIONAL CONNECTIONS INFORMED ON TOPICAL NEWS AND VIEWS IN THE FINANCIAL SERVICES MARKET. WE WOULD WELCOME YOUR INPUT AND COMMENTS AND PLEASE DO LET US KNOW WHAT YOU WANT TO READ ABOUT.

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WITH THE TAX YEAR END APPROACHING HERE ARE SOME OF THE MAIN ISSUES YOU MAY WANT TO CONSIDER:

INDIVIDUAL SAVINGS ACCOUNTS (ISAs)

ISAs remain free of personal tax and a flexible and tax efficient way of accumulating capital and/or drawing a tax-free income. Maxi ISA allowances remain at £7,000 each tax year and investment needs to take place before 5 April otherwise the allowance is lost for the current tax year (2005/06).

The FTSE 100 index rose by about 16% during the 2005 calendar year whilst the FTSE 250 index was up by about 26%. Those invested in equity ISAs during last year therefore benefited from large tax-free gains.

CONSOLIDATION OF PERSONAL EQUITY PLANS (PEPs) AND ISAs

Many have built up large values in old PEP and ISA funds over the years. If so they should be considering a move to consolidating these and having the funds looked after by an investment manager. This can provide peace of mind that someone is actively looking after what can be a sizeable asset.

PENSIONS

6 April 2006 (‘A-Day’) will see the introduction of the much publicised new pension legislation which, for the first time, will be introduced retrospectively and to a greater or lesser extent, will affect everyone with a pension plan. Some examples of the implications of the new rules are shown below and overleaf:

End of ‘Carry Forward’ and ‘Carry Back’ under Retirement Annuity Contracts

For those with retirement annuity contracts, 5 April 2005 will be the last chance to use carry forward and the last chance to pay a contribution to be carried back.

Carry forward

Currently, if less than the maximum contribution has been paid to a retirement annuity contract in the past, it is possible to carry forward this unused relief into any of the following six years. However, before any carry forward contribution can be paid, the maximum possible contribution for the current tax year must be paid first. In addition, the total contribution paid must not exceed the total net relevant earnings in the current tax year.

Carry back

The carry back facility under retirement annuity contracts means that the election to carry back a contribution does not need to be made at the time the contribution is paid. Instead, the member has until 31 January following the end of the tax year in which the contribution was paid to make the carry back election.

So, although the A-Day changes remove the carry back facility, any pension contribution paid to a retirement annuity by 5 April 2006, can still be treated as carried back to the 2004/2005 tax year, provided the election is made by 31 January 2007.

It is important to note that if contributions have been paid to a personal pension in any tax year, the overall contribution for that tax year will be limited by the maximum contribution that can be paid to the personal pension.

It is also possible to use carry forward and carry back together.

End of ‘Basis Years’

Currently a contribution to a personal pension can be based on the earnings in the current tax year or any one of the previous five tax years. This means that a contribution paid today could be more than current earnings (especially when someone has retired). At A-Day the basis year rules will disappear and it will only be possible to obtain tax relief on personal contributions of £3,600 or current earnings, whichever is the higher.

Tax-Free Cash

Those individuals who are entitled to a tax-free cash sum greater than 25% of the fund value need to be aware that after 5 April 2006, they are likely to be limited in what they can do with their pension funds without it affecting the tax-free cash calculation.

Maximum Funding

Those individuals who own their business are currently able to take advantage of high levels of pension funding (and tax-relief) by funding for past company service. This facility will no longer be available after 5 April 2006.

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Commercial property purchase
The facility to buy a commercial property via a Self-Invested Personal Pension (SIPP) currently exists, but the rules are quite restrictive. This is because the rules do not allow a SIPP to purchase from or sell to persons connected to the member.

The definition of connection is quite broad because it covers 'the member's wife or husband, a relative or the wife or husband of a relative of the member or of the member's wife or husband'.

The breadth of this definition has meant that clients have been concerned about the lack of liquidity in commercial property, given the restriction on who they can sell the property to. This is important not only when the member comes to take benefits but also for unforeseen circumstances such as divorce, ill-health or the death of the member.

Post A-Day regulations will introduce more flexibility by removing the restrictions around connected persons. This means that people connected to the scheme member will be able to buy assets from, or sell assets to, the scheme.

The new rules also simplify the borrowing that qualifies as authorised compared to the current SIPP requirements. The maximum that will be permitted for any pension scheme is 50% of the net assets of that scheme. However, this level will broadly mean less available borrowing than the current SIPP limits allow.

Protection against the new 'Lifetime Allowance' tax charge
After 6 April 2006 a limit will be set on the size of the pension fund than can be amassed (initially £1.5m), without incurring a significant tax charge. However, if pension funds already exceed this figure, or are likely to exceed the Lifetime Allowance in the future, then they can be protected. In some cases it may be worth making the maximum additional contribution this year under current rules in order to protect the largest fund size possible.

Protection of the funds can be one of two bases, 'Primary' and 'Enhanced' (in some circumstances it may be worth applying for both), each have their own pros and cons and as such we would recommend anyone with substantial pension assets seek advice. Although there is 3 years from 'A-Day' to register for protection, **to be eligible for Enhanced protection, all pension contributions/benefit accruals must cease by 5 April 2006.**

There will be a factor for valuing pensions in payment at 6 April 2006 of £25 per £1 per annum pension. Those receiving pension by way of 'income drawdown', will have this 25:1 factor applied to the maximum allowable pension, rather than the actual pension being drawn.

Please contact us if you require further information on any matters covered in this document.

[Link to Investment Outlook & Review]

Past performance is not a guide to future performance.

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