Yours financially

Spring 2001

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Welcome to the Spring issue of 'Yours Financially'

This is an important time of the year for tax and investments. The Chancellor's Budget 2001 appears to have brought us few tax changes (sees our insert) although we are still looking through the fine print. There is also an end of tax year arising on 5th April 2001 and many deadlines for action (see our Tax & Investments Key Events Calendar).

The new tax year brings Stakeholder Pensions, a fourth UK Pension Regime. We have a most complex legislative system of saving for retirement for which clients need simple clear advice. In many respects this advice cost is prohibitive and reliance will need to be placed on regulatory decision trees.

Inside you will find an article on mortgages. We restrict our advice on mortgages to home equity release for the elderly and commercial/rented property for reasons of hassle and fee cost. We can recommend a third party broker in case of need.

We recommend all clients to read David Norton's article on 21st Century Estate Planning. Are you a Builder, Boomer OR Buster?

We are here to help with your tax and financial advice and are only a phone call away.

With best wishes.

Brian Keates

As your goals and financial situation are likely to change over time, so do your needs to review your investments.

ISAs

When Is It A Good Time To Invest?

It's always a good time to start investing. And particularly now - before the end of the current tax year on 5 April 2001 - if you want to take full advantage of the tax allowances offered by Individual Savings Accounts (ISAs).

ISAs were introduced in April 1999, and because of their tax efficiency the total investment limit was set at £7,000 for the first tax year, and scheduled to reduce to £5,000 from 6 April 2000. However, the Chancellor subsequently decided to extend the £7,000 limit for a further 5 years and also lowered the age at which cash ISAs may be bought from 18 to 16.

> Keep more of your valuable savings for yourself

The £7,000 investment limit is made up by; £3,000 into stocks and shares, up to £3,000 into cash deposits, and up to £1,000 into life insurance products. Alternatively, you could put the whole amount into stocks and shares.

A 10% tax credit is paid on dividends from UK equities which the ISA plan manager can reclaim each year until 2004.

You can save in either one maxi ISA or up to three mini ISAs, but you cannot have both a maxi ISA and mini ISA at the same time. A maxi ISA is run by a single manager and allows a saver to invest up to £7,000 tax efficiently. You can either invest the whole sum in stocks and shares, or split it three ways to include the cash (maximum £3,000) and life insurance (maximum £1,000) products.

The alternative is to pick a series of mini ISAs which may be run by different managers but only to the maximum investment limits of £3,000 into stocks and shares, £3,000 into cash and £1,000 into life insurance products.

The good news is that you can invest up to £7,000 in an ISA by acting before the tax year-end of 5 April, and then invest up to a further £7,000 in the new tax year from 6 April 2001 - thereby maximising your full investment allowances during this calendar year.

Please remember, however, that ISAs are not for the short term; they should be considered for investments of five years or more, and the value of any investment can fluctuate.

Keep more of your valuable savings for yourself and out of the reach of the Taxman! Contact us today, without obligation, for some help and advice in maximising your savings.

Stakeholder Pensions

A Stake In Your Future

The much-heralded Stakeholder Pension officially comes into being from April 2001. However, after all the media activity over the past couple of years, including the Government's current advertising campaign, it is worrying to note that most people are not aware of the Stakeholder message.

In a study conducted by the DSS (January 2001) a staggering 71% of the 1,700 adults surveyed had never heard of Stakeholder Pensions! Therefore, many people could miss out on a good opportunity to save tax *efficiently* for their own retirement - which may make a considerable difference to them in the years to come.

In 1961 there were four working people to support each pensioner. By 2040, there will be only two!* So the money the Government spends on pensions is likely to be spread more thinly. And the State pension is not exactly generous at today's levels.

In fact the State pension, as a percentage of average earnings, has reduced significantly over the past 20 years or so to its present level of 17%. By 2020, it will have dropped to just 10% of average earnings!

(Source: Governments Actuary's Dept - based on National Average Earnings rising higher than prices at 1.5% a year. June 1998).

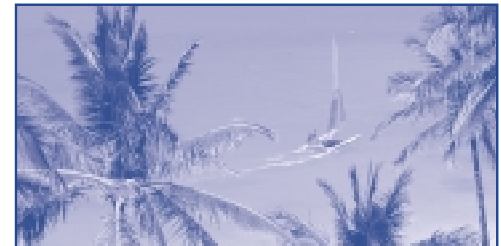
The Government designed Stakeholder Pensions to encourage more people to save for their retirement, and as such have forced product providers to make them simple, good value and easy to set up. Good news at last for the consumer.

Stakeholder Pensions will cost less than the previous personal pension plans, with no set-up charges and a maximum charge of just 1% a year for managing the plan. They will offer attractive tax incentives as contributions (to a maximum of £3,600 pa if you are not earning or between 17.5% and 40% of earnings depending on age) will be eligible for tax relief, as will the investment returns on the fund.

Stakeholder Pensions will be flexible, so payments can be stopped and started if required without penalty, and contributions will be allowed during periods of unemployment and the years spent raising a family - (see also our article on Protection page 3).

For further details regarding Stakeholder Pensions, and how they may be of benefit to you, please contact us on the number above without any obligation.

**Source: DSS consultation document 1997*



Enjoy your retirement

Tax-Exempt Savings

Use The Taxman's Money To Build A Nest-egg For Your Children

Here's a simple way to invest in your children's future - courtesy of the Government!

By diverting just some of your monthly children's allowance into a children's tax-exempt savings plan, you can build up a sizeable lump sum - all at no cost to yourself.

Give your children a head start

The child benefit payable, from April 2000, for the first child is £15 per week which amounts to £780 per year, and for all subsequent offspring the benefit payable is £10 per week ie another £520 per year.

Tax-exempt savings plans from friendly societies are so tax efficient the Government actually limits the amount you can put in to £25 per month or £270 per year. Therefore, you would only need to divert part of the monthly benefit payment, for each child, to take advantage of the maximum investment levels currently allowed.

Many friendly society plans also start from lower investment levels such as £10, £15 or £20 per month. But even with those amounts saved regularly, you can amass a real boost for their later life - perhaps to help with their further education, their first car, their wedding or even a deposit on their first home.

And the earlier you start to save for your children, the longer the investment has to grow and the bigger the potential payout will be.

One other important point is that these savings plans also include the added benefit of valuable, automatic life assurance protection albeit at a relatively low level.

Friendly society plans can be attractive long-term investments because your money grows in a tax-exempt fund and the returns on maturity are paid out tax-free too. However, you should remember that the value of any investment can fluctuate.

Friendly societies are also run for the benefit of their policyholders and there are no shareholders to take a share of the profits. Theoretically, this leaves more of the money in the organisation to be invested for the policyholders.

Remember, it's so easy to put aside some of your monthly children's allowance - and give your children the head start in life they deserve. Contact us today and we will be happy to advise on all the options available to you. There's no obligation, but there is the chance to benefit your children.

Mortgages

Securing a good deal

Spring is traditionally the time of year when many people start to house-hunt again. This, and the fact that lenders are starting to drop their rates in response to the recent cut in the Bank of England base rate, means that the housing market may potentially become buoyant again.

With many of the leading lenders vying for customers now may be a good time to secure an attractive mortgage deal, before house prices start to climb again from the anticipated increased demand.

But where do you begin?

The Office for National Statistics (May 2000) highlighted a trend for an increase in flexible mortgages. Flexible mortgages can include daily interest calculations, overpayments, underpayments and even payment holidays, within certain parameters, making them attractive to many different types of customer, as they are able to adapt to suit their particular lifestyle. And, because of the daily interest calculation and overpayment features, flexible mortgages also appeal to those who want to pay-off their mortgages early.

However, there are still many borrowers taking out; fixed-rate, capped, discount, cashback and tracker mortgages, or even a combination of these such as a fixed-rate with cashback. The options appear endless and with a whole array of individual schemes to choose from, the actual task of selecting the best for your particular needs can seem overwhelming.

With a mortgage being arguably your biggest ever purchase - choosing the wrong one could cost you thousands of pounds in extra interest, expensive insurance or penalty fees. Unless you are a mortgage expert you could get caught out.

We can help you select the best deal. Whether you are looking for a mortgage to move house, or a remortgage for your existing property, our specialist knowledge could help save you a lot of money, and help avoid the normal headaches associated with taking out a mortgage.

Contact us on the number overleaf and see if we can source the most suitable deal for you. And we'll also explain why our recommendation is a good scheme for you. Written quotations are available on request. Loans are secured on your property. A life policy or other insurance my be required. Subject to status.

YOUR HOME IS AT RISK IF YOU DO NOT KEEP UP REPAYMENTS ON A MORTGAGE OR OTHER LOAN SECURED ON IT.

Protection

Protection for the family

Most people need financial protection, and some need it more than others.

Many British families would face a sharp reduction in their standard of living if they were hit by serious illness or death. In fact, nearly half of the adult population ie 47% aged 18+ do not hold any life assurance cover at all that will help secure their financial position in the worst eventuality. *(Source: NOP Financial, November 2000).*

Often, this lack of cover is due to misconceptions about the risks and options available.

Some people believe that their employers will come to their aid if they are unable to work for more than six months. In reality, most employers would support them for only six months.

Others believe the state will provide for them and their family if they are unable to work for six months or more. Again, the reality is that state benefit is currently only £50.90 a week if a person is ill for up to 28 weeks, increasing to £67.50 if out of work for a year.

Furthermore, 2.4 million households, or 10% of the household population, are single parent families† - and it is vital parents provide their children with financial protection. If anything happened to the parent who would provide the finance to bring up the child?

For a single parent tight budgets can make it more difficult to pay for life or critical illness* cover. The good news is that life assurance premium rates have been falling over the past five years, making it more affordable for a single parent to make some provision to insure against their death, or to cope financially if illness or injury stopped them working.

As a basic guideline, the minimum recommended cover is the person's salary multiplied by ten, so someone on £15,000 pa should look to obtain life assurance cover of £150,000.

Term assurance cover of £150,000 which could cover the cost of raising a child, for a non-smoking 30 year old woman over 20 years, would only cost around £10 a month. This must surely be a priority for a single parent, or for any breadwinner of the family.
Source: Rate Tracker - The Research Dept. Jan 2001

However, every person's circumstances are different and that's why it is important to have a full financial review. Contact us today and we can help to determine your specific requirements - peace of mind for you and for your loved ones.

†Source: 'General Household Survey' National Statistics, June 2000

Baseboard

■ The Halifax have set a deadline of 7th April for members and former members, who have not yet claimed £216m of free shares. An advertising campaign will run to persuade the 145,000 people entitled to shares to contact the bank. On average, each could claim approx £1,500 of shares!

Please contact me!

I would like to discuss with you the topics I've ticked. I understand this request is without obligation.

- ISAs ❑
- Stakeholder Pensions ❑
- Tax-exempt Savings ❑
- Mortgages ❑
- Protection ❑

Other (please specify) __________________

Name __________________

Address __________________

Postcode __________________

Telephone __________________

Best time to ring __________________

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Win a £25 Marks & Spencer voucher!

We are happy to offer Marks & Spencer vouchers to the first all correct wordsearch entry, pulled out of the hat on 1 June 2001. Please complete the name and address panel below and send it to this Office with the completed wordsearch by the closing date of 31 May 2001. A photocopy will be accepted if you do not wish to cut up the newsletter. There is no purchase necessary and the name of the winner will be made available to anybody enquiring after 1 June 2001. Prize draw entry terms and conditions are available on request. ***Good Luck!***

E	S	I	M	I	X	A	M	I	S	O	E	M	I	R	P
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D	D	I	N	G	G	O	V	E	R	N	M	E	N	T	T
L	A	P	X	U	B	O	T	N	U	O	C	S	I	D	E
O	A	L	L	O	W	A	N	C	E	S	R	C	P	L	C
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How to play: Simply circle or put a line through each of the 20 words listed below as you find them in the word grid. The words can be found spelt; vertically, horizontally, diagonally, forwards or backwards.

Next - where words cross each other, in the grid, they produce a common letter. Using all the common letters, form a new word that has a connection with financial planning.

ACCOUNT	ADVANTAGE
ALLOWANCES	BONUS
CHILDREN	COVER
DISCOUNT	EFFICIENT
FAMILY	FLEXIBLE
GOVERNMENT	LENDERS
MANAGED	MAXIMISE
MORTGAGE	PRIME
PROTECT	SPECIAL
STAKEHOLDER	SUCCESSFUL

You must include this new word with your completed grid

_ _ _ _ _ _ _

Name __________________

Address __________________

Postcode __________________

Helpline

Please note we are here to help you as much as we can. If you have any financially related questions or problems, simply call us on the number below and we will try our best to help you. Remember there will be no obligation placed on you, and we are genuinely here to help.

01283 740600

Keep this newsletter safe - you never know when you may need it!

Not all the products mentioned in this publication are regulated by the Personal Investment Authority. An investment may go down in value as well as up and you may not get back the full amount invested. The past is not necessarily a guide to future performance. Any tax reliefs referred to are those currently applying and their value depends on the current circumstances of the investor. Levels and bases of, and reliefs from, taxation are subject to change. YOUR HOME IS AT RISK IF YOU DO NOT KEEP UP REPAYMENTS ON A MORTGAGE OR OTHER LOAN SECURED ON IT. Written details on request. Mortgage loans are secured on your property. A life policy or other insurance may be required. We regret that if our advice is not sought we cannot accept any responsibility for loss occasioned to any person acting or refraining from acting as a result of any material contained in this publication. All graphics shown are solely for design purposes and should not be construed as having any further meaning.

Yours **financially**

NEWSLETTER

Spring 2001 Supplement

21st Century Estate Planning

This excellent, questioning article was written by respected fellow planner David Norton who kindly has allowed its reproduction in the newsletter. It is important to share the issues of inherited wealth passing down the generations. We all grapple with concerns, solutions, 'what to do for the best'.

As we arrive in the new millennium, many people are starting to take a radically different approach to estate planning. Traditionally, we have left all our money to our spouses, and then equally between our children on the second death. Is this still appropriate?

For ourselves, and our clients, the first question to ask is – what is the money for? First, it is to provide comfort in our old age – particularly in view of longer life expectancy, the worry of outliving your money and the potential cost of long term care. Then it is for leaving to others – children, relatives or charity. Finally, it is for enjoyment in the present.

What inheritances might we pass on? The obvious answer is financial ones – helping our children with necessities such as buying a first house, giving them an income boost when in need, or on special occasions such as getting married. Finally we may leave specific sums or the remainder of our estate to them when we die. But I suggest there are major areas of non-financial inheritance as well – such as passing on our values, our sense of responsibility, and our sense of family. Most importantly providing a good education for our children and grandchildren is important to many of us.

Builders, Boomers & Busters

In America, the three current generations have been termed the builders, the boomers and the busters. The builders are our parents – who mostly did not come from monied backgrounds, but have built wealth and assets through their own efforts, including being the first major generation of house buyers. Many of them saw hard times, but have reached relative prosperity in their retirement.

My generation, born shortly after the Second World War, are the baby boomers. We were born into relatively comfortable, although not rich, families, and have built reasonable asset bases from working hard in an affluent society. In due course, our parents will pass on their assets and houses to us, and as we already have houses, this will generate huge amounts of additional wealth for long term investment.

The busters are our children. Many are concerned that this generation are growing up in a comfortable and affluent lifestyle, and may not have the incentive to use inherited wealth effectively.

Whether this is true remains to be seen.

Is It Good to Inherit?

A key question here is whether it is good for children to inherit large or small amounts of money, and at what age. In America, there has been considerable publicity about the decisions of Bill Gates and Warren Buffet, two of the richest men in the world, to leave the vast majority of their wealth to charity rather than to their children. Nevertheless, the children will be extremely well off by the standards of most of us! Many people wonder if it is good for children to inherit at say age 18, 21, 25, 30 or even 40. The client of one solicitor I spoke to felt that children should not inherit before age 65 as they would not be able to be trusted with it before then!

Does Equal Mean Fair?

And should we leave the money equally between the children? Does equal mean fair, or should we base legacies on need? If one of your children is successful and the other is not, should you favour one or the other, or leave them the same? If one of your children has special needs, or if one spends all of their time looking after you whilst the others live a long way away, is it still appropriate to leave money equally between them all?

A high priority for many is education for grandchildren. With private education typically costing £100,000 per child, plus university costs, the numbers are significant. But should you do the same for all of your grandchildren? What if one son's family want to send the children privately, and the other is happy with the State system? What if one side wants to board, and the other to go to private day schools? Do you give them all the same, or fund them differently?

The Benefits of Giving

This is not a technical article, but clearly any decisions have to take place in the context of proper inheritance tax and Will planning. One key issue is the tax attractions of making charitable gifts, both in lifetime using Gift Aid, and on death. Once we reach the stage, perhaps like Bill Gates, of deciding how much is good for the children, perhaps we should be thinking of leaving the remainder of the estate to our chosen charities.

Charitable giving can be enormously satisfying in one's lifetime and it is sad to confine it simply to a nominal donation on one's Will. Giving away surplus income or capital can enable you to see at first hand the benefits of your gift. Funding a local children's playgroup and watching the children play, or sponsoring a hospital ward to commemorate the name of your mother can be very satisfying. Your name, or that of a loved one, can live on by setting up a named endowment fund in a community foundation, such as the Greater Bristol Foundation.

Many people ask themselves a fundamental question about their lives – what difference did I make? This is an area where you can make a profound difference.

Expectations

What are your children's expectations of their inheritance? Do they expect something; should they; and do you agree with their conclusions? Even in America, where they talk about these things more easily, a survey showed that 75% of parents had not discussed their testamentary plans with their children.

Some children may see their potential inheritance as part of their retirement income, and therefore not be motivated to save themselves towards this. The danger is when the boomers retire, but their parents are still alive. Then the worry for the boomers is that their prized inheritance is going to be lost to long term care costs.

Conflicts

This is one of many family conflicts that can arise. What if we are concerned about our profligate child -–the daughter aged 22 who spends all her money? Is there any guarantee that she will be better when she is older?

Divorce, second marriages, and all sorts of unmarried relationships whether stable or unstable, cause further conflict. If we remarry, do we leave all our money to the children of our first marriage, or split it between the two? If so, in what proportion?

And who is our client? If Oliver comes to see us on behalf of his 75 year old mother as to how she should leave her estate, how easy is it to determine the hidden agendas behind Oliver's questions on his mother's behalf?

Die Broke?

An alternative philosophy is to "die broke", as outlined in an American book of that name. This is summed up as saying that the last cheque you write should be to the undertaker, and it should bounce.

Dying broke means living well. It means spending on education and good experiences like travel – though not necessarily on riotous entertainment. It includes the concept not of retiring but of being financially independent. In principle, you insure your income stream and all risks possible (such as long term care costs) and then either spend your money or use it to make effective lifetime gifts.

Here you might decide on the amount of the desired legacy for your children, and provide or insure for that amount leaving the rest available to you to spend as you wish.

The Holistic View

In this new millennium, I suggest that we look at net worth in a much wider way than we have to date. We should not just consider financial wealth, which is what you possess; we should also think of personal wealth (who you are) and social wealth (how you relate to the world).

There is much more money about than there ever has been in the past. Families are more fragmented than ever, and there is a new generation of inheritors coming through. When they receive the billions that are coming their way, how will they use it?

The opportunity for estate planners to take a developing role here, not just in terms of tax and Will planning but in this much wider field, is immense. As part of the holistic financial planning that we can do for our clients, we should help them to define and achieve their family goals, and they are likely to find this an enormously beneficial service.

Thank you

David Norton

Falling Markets

Volatile markets are here again and the UK Footsie 100 has fallen 22% since December 1999. We have Technology, Media and Telecoms (TMT) to thank for this correction. Interestingly UK Footsie 250 is only down 7.4% over the same period.

Fundamentals remain good for investment in most of the world stock markets. The UK in particular offers good value. It is a stock picking investment manager's dream market.

Clients with an appropriate investment strategy and asset allocation to meet needs, should not panic and ride the equity markets rollercoaster. Please note our Health Warnings elsewhere in this Newsletter.

Personal Equity Plans (PEPs) – What Will the Rule Changes Mean For You?

Personal Equity Plans were introduced by the Conservative government in 1993, as a way of encouraging people to invest in Stocks and Shares by offering special tax exemptions on Stocks and Shares held within them. There were two types of PEP;

1. General PEPs

Generally these were used to hold collective investments (eg Unit Trusts), either individual funds or a combination of them. All investments within them are free from income tax on dividends/interest paid out, and free from Capital Gains Tax on disposal.

The main rules governing General PEPs were as follows;

- A certain proportion of money must be invested in UK/EC Stocks and Shares.
- Only one PEP could be taken out in any tax year.
- A maximum of £6,000 could be invested in any one tax year.
- PEPs could only be held with one provider in any one tax year
- Only UK residents could invest in PEPs
- Those holding PEPs must have been over 18, and they could not be held on behalf of a minor

2. Single Company PEPs

In addition to General PEPs, in any tax year a Single Company PEP could also be taken out. This allowed investors to invest up to £3,000 in the shares of a single company in a single tax year whilst gaining the same tax advantages as mentioned above.

No new PEPs could be taken out after April 1999. Existing PEPs continue to provide a tax advantage investment. In his pre-Budget statement in November 2000, the Chancellor, Gordon Brown, announced changes to the above rules from April 2001, which will bring them more into line with Individual Savings Accounts (ISAs). They are as follows;

1. The geographic restrictions of General PEPs will be removed, allowing greater choice of investment funds.

2. Single Company PEPs will no longer exist as such, but be considered as part of the General PEP. Existing single company shares will still be permissible, however, PEP holders will also be able to sell these holdings and reinvest the proceeds within the PEP in any qualifying collective investment.

At Brian Keates Tax and Financial Planning we welcome these changes and feel that, with our help, clients should review their overall PEP holdings. If you feel that this service is of interest to you please contact our office on (01283) 740600.

Ian

Important Changes in Legislation to Personal Pensions and the new Stakeholder Regime

At the 6th April 2001 a fourth Pension regime known as Stakeholder brings in new requirements/regulations. This adds to the current three regimes State, Occupational and Personal and the classes (8) and main categories (20+) of underlying pension contracts available. The UK has the most complex of pensions legislation which makes taking good planning advice essential.

The new Stakeholder regime has also prompted changes to the Personal Pension regime at 6 April 2001. These are :

1. Threshold/Contribution Units

Contributions up to £3,600 gross (£2,808 net) each tax year may be paid without having to have or submit evidence of earnings. A new born baby is eligible, as well as a pensioner.

2. Earnings/Basis Year

If contributions exceed £3,600 gross per tax year then evidence of earnings will be required to support the contributions.

The member may nominate either the current tax year or one of the previous five tax years to be used as the 'Basis Year' for earnings. Once evidence has been supplied it may be used to justify contributions for the 'Basis Year' and the following five years.

If net relevant earnings in subsequent tax years are higher then a new 'Basis Year' may be nominated on production of the appropriate evidence.

The preferred forms of evidence are P60s (and P11Ds where appropriate) for employed members and an Accountant's letter for self-employed.

Although accounts and tax returns are acceptable, past experience has shown that they can sometimes be difficult to interpret and can lead to unnecessary delays and expense.

3. Eligibility

From 6 April it will be the member's responsibility to advise any changes to their circumstances in relation to employment status, residency or membership of an occupational scheme.

4. Residency
The new legislation will allow a member who has moved abroad and no longer has set relevant earnings to contribute up to £3,600 gross per tax year for five additional tax years following the one in which they moved.

5. Concurrency
A member of an Occupational Pension Scheme may now contribute to a stakeholder pension subject to certain conditions. These are that in any one of the last five tax years:
- earnings under £30,000 pa (earnings must include P11D benefits)
- must NOT be, or have been, a controlling director

6. Carry Forward/Carry Back
The changes to the legislation are :-
- ♦ Carry Forward is abolished from 6 April 2001 (except where it is used in conjunction with carry back to tax year 2000/2001).
- ♦ It will only be possible to carry back to the previous tax year from 6 April 2001.
- ♦ Only contributions paid between 6 April and 31 January (inclusive) in a tax year can be carried back.
- ♦ The election must be made either before, or at the same time as, the contribution is made, but not after.

7. Self Employed
For the first time contributions of the self employed will be paid net of basic rate (22%) tax in tax year 2001/2. This tax (irrespective of whether they are earnings) will be reclaimed by the pension provider for both Stakeholder and personal contributions.

8. Retired Annuity Plans (RAPs)
Carry forward continues along with carry back relief.

9. Waiver of Premium & Life Assurance
Both are currently available within personal pensions and may continue. New Personal and Stakeholder contracts will not be allowed to contain waiver (becoming a separate contractual obligation) nor gain tax relief. Tax relief on life assurance can only be offered in conjunction with pension contributions to a maximum of 10% of the pension contribution.

10. AVCs and FSAVCs
Concurrency above offers Occupational pension scheme members obvious advantages if they qualify.
- ability to pay greater contributions than the 15% earnings limit
- ability to receive a 25% tax free cash benefit at retirement.

These changes threaten Occupational AVCs and Free Standing AVCs contracts. Trustees and Pension providers may withdraw contracts to new applicants.

11. Pension Credit and Low Earners
Heard of the Minimum Income Guarantee (MIG). This DSS benefit assists low earners but also brings a disincentive to save for retirement. For at retirement £1 of pension would result in £1 loss of the MIG means tested benefit.

The pension credit expected to be introduced in April 2003 is designed to remove this disincentive. It will be paid direct to the pension provider. For those expected to earn less than £10,000 at retirement, there is currently NO benefit of saving through pensions – await and see if and when the pension credit is introduced.

12. Contracting Out and the State Second Pension (S2P)
S2P is to replace SERPS (State Earnings Related Pension) in April 2002. The contracting out decision from SERPS and in the future S2P, becomes more complicated. It is based around age, gender and the rebates the DSS pay to the chosen pension provider. The proposals are for rebates to increase from 2002 to 2007 to 5.1% of middle band earnings (2001/2 from £3,744 to £29,900 pa) irrespective of age (max £1,334). This encourages the younger saver to contract out of future S2P. More about S2P in later newsletters.

13. Individual Pension Accounts (IPAs)
We expected IPAs to be available at 6 April 2001 but product providers have suppressed their introduction due to all the above changes. We remain very enthusiastic for IPAs but not so pension providers. An IPA is an investment wrapper alike a PEP or ISA – it is not a new form of pension. It allows greater investment choice of funds. Watch this space.

Equitable Strife
This is an area of great concern to many clients. We have suggested that clients delay taking action, awaiting the outcome of various discussions, and are disappointed to see the number of other advisers rushing into transfers.

The latest developments with Halifax Bank have vindicated this advice. It is worth reiterating that Equitable is closed to new business, it is not insolvent.

Those pension policy holders with guaranteed annuities available are still in the strongest position. Other with profits policy holders would have suffered on immediate transfer penalties (currently 15%).

The new developments mean that we continue to recommend a delay in taking any action until the offers are clearly on the table.

Some plans have guaranteed penalty-free transfer or encashment options at future dates, and early action would be inadvisable.

The main message is to review your overall financial situation including the Equitable policies, so that proper advice on the broader picture may be given.

2001 Budget – Tax Changes

This year, for the first time, 'to simplify the tax system for older taxpayers', the Chancellor committed the Government to raising the age allowances for 2001-02 and 2002-03 in line with inflation. The personal allowance for 2001-02 will be £4,535; the age allowances £5,990 for those aged 65 to 74, and £6,260 for those aged 75 and over. Subject to consultation, pensioners are to be given age allowances rising in excess of inflation from 2003 onwards. Married couple's allowances (for those entitles to them) will be given at 10 per cent of £5,365 (age below 75) or £5,435 (age 75 and over) with an income limit of £17,600, after which the allowance tapers away to a minimum amount of £2,070.

The band applicable to the 10% starting rate of income tax is increased to £1,880 with the higher rate tax threshold increasing to £29,400. The capital gains tax annual exemption amount is increased to £7,500 along with the inheritance tax threshold, which rises to £242,000. The earnings cap for payments into occupational and personal pension schemes is increased to £95,400.

The progressive alignment of income tax and NIC rates brings the starting point for both employees' and the employers' Class 1 contributions to £87 a week in 2001-02. That is also to be the lower profits limit for Class 4 contributors, expressed as an annual figure of £4,535. The Class 1 lower earnings limit, above which an earner becomes entitled to contributory benefits, is to be raised to £72 a week, the level of the basic retirement pension for a single person. The upper earnings limit goes up to £575 a week, as does the upper profits limit for Class 4 contributions (expressed as an annual figure of £29,900). The good news for employers is that the secondary rate of Class 1 contributions comes down 0.3 per cent to 11.9 per cent.

The current system of authorised mileage rates for business journeys in employees' own vehicles is to be replaced with effect from 6 April 2002. A single rate of 40p per mile will apply to all cars and vans. The rate reduces to 25p on each additional mile over 10,000 miles. Separate rates will apply to motorcycles and bicycles of 24p and 20p respectively. Employers will no longer need to report payments of mileage rates up to the statutory rates. An additional 5p per mile tax-free may be paid, at the employer's discretion, for each passenger carried, provided they are fellow employees on the same business trip. For 2001-02 however the fixed profit car scheme rates remain unchanged.

The fuel scale charges for free fuel provided for company cars are to increase for the tax year 2001-02. For cars with an engine size of 1400cc or less, the scale charges will be £1,930 and £2,460 for petrol and diesel engines respectively. For cars with an engine size between 1401cc and 2000cc, the scale charge will be £2,460 for both petrol and diesel engines. For cars with an engine size over 2000cc, the scale charge will be £3,620 for both petrol and diesel engines. The scale rates for petrol will also apply to LPG.

There are also increased turnover limits for VAT registration and deregistration. The measure increases the annual taxable turnover limit, which determines whether a person must be registered for VAT from £52,000 to £54,000. This means that a person will have to apply for registration if:

- at the end of the month, the value of taxable supplies he has made in the past 12 months or less has exceeded £54,000; or
- at any time there are reasonable grounds for believing that the value of taxable supplies he will make in the next 30 days will exceed £54,000.

If at the end of any month, a person's taxable turnover in the past 12 months or less exceeds £54,000 but Customs are satisfied that it will not exceed £52,000 in the next 12 months, he/she will not have to be registered. The taxable turnover limit which determines whether a person may apply for deregistration will be increased from £50,000 to £52,000. The existing conditions for determining entitlement or liability to cancellation remain unchanged. The registration and deregistration limits for acquisitions from other European Community countries will also be increased from £52,000 to £54,000.

A series of measures to support families with children was announced. The value of the children's tax credit (CTC), when it is introduced in April 2001, is increased to £520 a year (£10 a week). From April 2002, the value of the CTC to families in the year of a child's birth will be £1,040 a year (£20 a week). The basic adult credit in the working families' and disabled person's tax credits (WFTC and DPTC) will be increased by £5 a week from June 2001. Families getting income support and Job Seekers Allowance will see an increase of £1.50 in the child premiums from the same date. The limits for eligible costs in the childcare tax credit component of WFTC and DPTC will go up from June 2001 to £135 for families with childcare costs for one child and £200 for those with two or more children (the childcare tax credit is given at a rate of 70% of eligible childcare costs up to those limits).

The £7,000 limit on contributions to ISAs is to remain until at least April 2006. The expected reduction to £5,000 in 2001-02 will not now happen. Various other changes have been announced to this popular savings vehicle following a review. ISAs will be open to 16 and 17 year olds from 6 April 2001, but there is a catch – if income more than £100 a year is raised from funds gifted by a parent to a child, that income is taxable as if it were income of the parent and not of the child, even if some of it arises from an ISA.

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Financial Health Warning

This Newsletter has been written for the general interest of our clients. It is therefore essential to take advice on specific issues. I believe that the facts are correct as at March 2001. We cannot be held responsible if you act on comments herein which prove erroneous, without first seeking our advice.

2001	TAX & INVESTMENT - KEY EVENTS CALENDER	ACTION
FEBRUARY	Inland Revenue issues taxpayer statement, either as a receipt for the payment on account, or as a warning of overdue payment. Interest on overdue or unpaid tax for 1999/00 starts accruing.	
MARCH 7	Spring Budget 2001.	
MARCH 31	Last effective date for settlement of pension contributions to be carried back to 1999/00. Carry-forward rules cease unless linked with carry-back (see 31 Jan. 2002). Last date for investing up to £7,000 in an ISA for 2000/01.	Investors
APRIL 5	Last date of self-assessment year 2000/01.	
APRIL 6	Inland Revenue issues self-assessment tax returns for 2000/01. First date for investing up to £7,000 in an ISA for 2001/02.	All taxpayers
APRIL 19	Employers last date for settlement of PAYE/NIC for the year ended 5 April 2001.	Employers
MAY 19	Deadline for employer's submission of PAYE end of year returns (P35, P14 etc) to the Inland Revenue.	Employers
MAY 31	Deadline for employers to provide 2000/01 P60s to employees.	Employers
JUNE 19	Payment date for Class 1A NIC (12.2%) on car/car fuel benefits for 2000/01.	Employers
JULY 6	Deadline for employers to provide 2000/01 P11D/P9D information to the Inland Revenue and to relevant employees.	Employers
JULY 31	Second (50%) self-assessment payment on account for 2000/01.	Taxpayers
SEPT 30	Deadline for submission of tax returns for 2000/01 re: (a) Inland Revenue calculation of tax payable and (b) Where the taxpayer wants a balancing payment (below £1,000) collected through his or her 2001/02 PAYE code.	All taxpayers All taxpayers
OCTOBER 5	Deadline for notifying Inland Revenue of new sources of income if no tax return has been issued for 2000/01.	All taxpayers
DECEMBER 31	If you have not started on your 2000/01 tax returns yet a £100 filing penalty looms!	All taxpayers

2002

JANUARY 31	Final date for submission of 2000/01 Tax Return and self-calculation of tax payable.	All taxpayers
	Balancing payment (self assessed) due for 2000/01, including tax on new source income/capital gains/higher rate tax.	Taxpayers
	First (50%) self-assessment payment on account due for 2001/02.	TaxpayersLast
	effective date to claim pension contributions paid in 2000/01 for carry-back to tax year 2000/01 & take advantage of carry-forward rules. Carry-forward rules (linked with carry-back) cease forever.	Investors