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WK FINANCIAL MANAGEMENT NEWS



Welcome to the first edition of the WK Financial Management newsletter. We hope that you will find this regular publication interesting and relevant. We aim to provide you with information and comment on topical issues which may affect you, your family, or your business. If you have any queries arising from the articles please speak to your Wilkins Kennedy contact, or to one of our financial advisers. Contact details are given on the back page:



Nigel Thomas, Managing Director of WK Financial Management Ltd

WK Financial Management Ltd is Wilkins Kennedy's financial services arm. WK Financial Management Ltd is an independent firm of financial advisers with no ties to any insurance or investment company. Now 14 strong, they comprise experts in areas ranging from protection, investments and pensions to highly specialist areas such as pension transfer, phased retirement, offshore investment taxation and estate preservation. They work with clients of all the WK offices. Their approach is based around structuring an overall financial strategy to meet a client's particular short and long term objectives, rather than providing a standardised service.

IN THIS ISSUE:

Complementing pension savings with offshore bonds

Find out how using an offshore bond as part of your overall pension strategy can help to reduce your tax liability.

On track for retirement goals?

Review your pension provision in order to be able to meet your aspirations.

Will trust planning

Recent sensational press comment has shed doubt on a commonly used Inheritance Tax mitigation tool.

COMPLEMENTING PENSION SAVINGS WITH OFFSHORE BONDS

It is now over a year since “A-Day” saw a radical change in pension regulations. One innovation was the Lifetime Allowance, setting a limit on the amount you were able to save to provide pension benefits. For the current tax year, this stands at £1.6million. If your total pension savings are more, you will face a tax bill on the excess. If you have already used up your Lifetime Allowance, or you are likely to in the future, then you may find the use of an offshore bond in your retirement planning helps to reduce your potential tax liability.



Offshore bonds are useful tools for flexible retirement saving, as the funds grow virtually tax-free. In addition, dependent upon the type of charging structure used, you can have access to your money whenever you need it. In addition, they can also complement your retirement planning, or be used to make your retirement income more tax efficient in one of the following ways:

- If you wish to take advantage of tax relief available through a pension, then subject to you having pensionable income, you can encash your bond, and use the proceeds to make a contribution to your pension fund. If you make the encashment, and pay the pension contribution in the same year, then you could, depending on the size of the pension contribution, change your tax status, and therefore avoid paying higher rate tax on the bond gain.
- If used in conjunction with a “Pension Fund Withdrawal” policy, an offshore bond enables you to change the way you receive your income to save you tax. A “Pension Fund Withdrawal” policy allows you control over the level of income you take. For example, if the maximum pension available renders you a higher rate tax payer then the income can be reduced to deem

you a basic rate taxpayer, and then supplemented by making withdrawals of 5% per annum (of the original investment amount) from your offshore bond, with no further tax to pay at that point. If you also have ISAs then you can draw an income from them as well. By using this strategy, you can reduce your overall tax bill, as you will only be liable to pay tax on the income being taken from your pension fund.

Finally, if you are considering retiring abroad, then the flexibility of an offshore bond means that you can take the proceeds of the bond before you leave the UK, or in your chosen location, if the local tax rules are more favourable.

The suitability of this type of strategy will depend upon your own personal circumstances and plans. If you would like any further information on offshore bonds and pension planning, or would like us to carry out a review of your arrangements then please contact us and we will be happy to help. In certain circumstances, and when set up in the right way, a retirement strategy utilising both pension planning and offshore bonds may provide the opportunity to maximise your income, whilst saving you tax. It also offers the flexibility to adjust your plans should your circumstances change.

ON TRACK FOR RETIREMENT GOALS?

The average weekly state pension is just £67.84. Means tested benefits could top this up to £114.05, but compared to your current income this may be a drop in the ocean. WK Financial Management can help get you take charge of your retirement planning with our Pension Review service. We will take a comprehensive look at what provision you have, what benefits it may provide, and consider how it fits with where you want to be.

AGING POPULATION

Improved healthcare and living standards, coupled with a falling birth rate, mean that the existing workforce is becoming less able to support the older population than in the past. People are becoming more reliant on personal provision than state support to see them through their retirement years. National Insurance contributions that you are paying now are being paid out as benefits to those who have already reached state retirement age. Can you rely on there being enough money in the country's coffers when you retire?

PLANNING PROCESS

It is vital to develop a plan. Our specialists can advise you on the issues you will need to think about throughout your working life and beyond, such as when you should start saving for a pension, and how much you should be saving.

You should also consider that any contributions you make into a personal pension scheme (either a private one, or an employer-sponsored one) will attract tax relief at your highest rate. For a basic rate tax payer this means that £100 gross contribution



will cost £78.00. However, for a higher rate tax payer, the same contribution will cost £60, after allowing for higher rate tax relief, which is equivalent to an immediate return of 66% at outset. When you come to take benefits, you will also be able to take 25% of the accumulated fund as Tax Free Cash.

For business owners, pensions can also be very useful corporate tax planning tools. For instance, you can fully offset pension contributions against the company profits and in some circumstances can reduce the rate of corporation tax payable.

Your pension fund may be one of the largest assets you have, but you need a significant fund to ensure that you can retire with your desired lifestyle. The key is to start saving early, and regularly review your planning in line with your retirement aspirations.



EXAMPLE OF INCOME TO BE EXPECTED FROM A RETIREMENT FUND:

At present market rates, a male aged 65, with a remaining personal pension fund of £100,000 (after taking Tax Free Cash) will receive an annual income of £6,588. (This is based on a joint life annuity with a 50% spouse's pension and with the pension guaranteed so that even in the event of death, it pays out for 5 years from inception).



WILL TRUST PLANNING: IT STILL WORKS

There has been much scaremongering in the press over the use of wills to mitigate Inheritance Tax (IHT). This has arisen from a recent court decision in favour of HMRC's challenge to a commonly used IHT planning process. Although much of the media coverage would indicate otherwise, the impact of this particular ruling will be limited.

The case concerned a Dr and Mrs Phizackerley, who owned a house as "tenants in common" and used her will to set up a Nil Rate Band discretionary trust for her husband and children. This scheme entailed splitting the value of a house between husband and wife, with each partner's share being treated separately to avoid tax. The wife died in 2000, and therefore her half share of the value of the house was passed, under the terms of the trust, to the children of the marriage. The rest of her estate was left to her husband, free from any trusts. As she had no other cash or assets, her executors transferred her half share in the house to her husband. In return he gave an IOU to the executors. When he died in 2002, HMRC contested the amount of IHT paid on his estate.

HMRC argued successfully that the debt owed by Dr Phizackerley to the trustees of the nil rate band trust could not be deducted from his estate for IHT purposes. This was because the purchase of the house was funded entirely by Dr Phizackerley, as the sole earner.

The circumstances under which this ruling could apply are quite specific. It will only affect couples, if the first spouse (or civil partner) has died, and if that spouse has made no financial contribution to the couple's assets. Where the spouse has sufficient cash or assets, apart from the matrimonial home, to fund the nil rate band trust, there is no problem.

If you are concerned that such circumstances could apply to your own arrangements then you may need to take professional advice. If your will is correctly structured, the problems encountered by the Phizackerley family can be eliminated.



Chartered Accountants
& Business Advisers

www.wilkinskennedy.com

LONDON

(Independent Financial Adviser: Carlton Hall, Director – 07802 484938)
Bridge House, London Bridge, London SE1 9QR
Tel: 020 7403 1877 Fax: 020 7403 1605
E-mail: london@wilkinskennedy.com

AMERSHAM

(Independent Financial Adviser: Andy Johnstone – 07946 630722)
Risborough House, 38-40 Sycamore Road, Amersham,
Bucks HP6 5DZ
Tel: 01494 725544 Fax: 01494 431571
E-mail: amersham@wilkinskennedy.com

CAMBRIDGE

(Independent Financial Adviser: Nigel Tyrrell – 07832 236521)
8 Dukes Court, 54-62 Newmarket Road, Cambridge CB5 8DZ
Tel: 01223 301166 Fax: 01223 462054
E-mail: cambridge@wilkinskennedy.com

EGHAM (HEATHROW)

(Independent Financial Adviser: Andy Johnstone – 07946 630722)
Gladstone House, 77-79 High Street, Egham, Surrey TW20 9HY
Tel: 01784 435561 Fax: 01784 430584
E-mail: egham@wilkinskennedy.com

HERTFORD

(Independent Financial Adviser: Nigel Tyrrell – 07832 236521)
Cecil House, 52 St Andrew Street, Hertford, Hertfordshire SG14 1JA
Tel: 01992 550847 Fax: 01992 554515
Email: hertford@wilkinskennedy.com

HORSHAM (CORPORATE FINANCE)

6 Kings Court, Harwood Road, Horsham, West Sussex RH13 5UR
Tel: 01403 216690 Fax: 01403 253672
Email: info@wkcorporatefinance.com

ORPINGTON

(Independent Financial Adviser: Carlton Hall, Director – 07802 484938)
Greytown House, 221-227 High Street, Orpington, Kent BR6 0NZ
Tel: 01689 827505 Fax: 01689 831478
E-mail: orpington@wilkinskennedy.com

READING

(Independent Financial Adviser: Andy Johnstone - 07946 630722)
6c Church Street, Reading, Berkshire RG1 2SB
Tel: 0118 9512131 Fax: 0118 9512161
E-mail: reading@wilkinskennedy.com

SOUTHEND-ON-SEA

(Independent Financial Adviser: Nigel Thomas, Managing Director – 01245 345414)
1 Nelson Street, Southend-on-Sea, Essex SS1 1EG
Tel: 01702 348646 Fax: 01702 330148
E-mail: southend@wilkinskennedy.com

WALTHAM CROSS

(Independent Financial Adviser: Nigel Tyrrell – 07832 236521)
Hugill House, Swanfield Road, Waltham Cross, Herts EN8 7JR
Tel: 01992 629144 Fax: 01992 639961
E-mail: walthamcross@wilkinskennedy.com

FALKLAND ISLANDS

Globe Offices, Philomel Street, Stanley, Falkland Islands
Tel: 00500 22918 Fax: 00500 22918
E-mail: falklands@wilkinskennedy.com



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