

## AGE ALLOWANCE CHANGES

When the Chancellor removed the 10% starting rate of income tax in his 2007 Budget and reduced the basic rate to 20%, he realised that this would hurt particularly those over the age of 65.

To compensate for the loss of the 10% starting rate, the Chancellor increased the age related income tax personal allowances by considerably more than the rate of inflation. Consequently, those in this age group can now receive more income before they pay tax.

In the tax year 2007/8, the personal allowance for those aged between 65 and 74 was £7,550 and this has been increased by £1,480 to £9,030 in 2008/9. For those aged 75 or over, the figure was £7,690 in 2007/8 and is £9,180 in 2008/9.

When the income of those aged 65 or over exceeds a certain figure, which for 2008/9 has been set at £21,800, the allowance is reduced by £1 for every £2 of the excess. This results in the effective rate of income tax increasing from 20% to 30%. This is what is known as the "age allowance trap".

Clients in this position may wish to consider transferring income-producing investments into an Investment Bond which, being an insurance policy, produces no income but permits capital to be extracted at up to 5% p.a. with no immediate tax consequences and no effect on the age allowance.

## OFFSHORE INCOME

The 2008 Finance Act introduced major tax changes for those who are resident, but not domiciled, in the UK, and who have financial interests outside the UK.

Prior to 6 April 2008, UK-resident non-domiciliaries were only taxed on income and gains received from abroad to the extent that these were remitted to the UK, but since that date they have been subject to UK tax on their worldwide income and gains in excess of £2,000 p.a., whether or not these are remitted to the UK.

There is a special provision for those non-domiciliaries who are UK resident and have been so for seven out of the previous nine years. They have the option each year of paying a standard tax charge of £30,000 in order to retain their right to be taxed only on what they remit to the UK.

The introduction of this new basis of taxation has caused non-domiciliaries to consider more tax-efficient ways of arranging their investments, and the most popular arrangement is to wrap offshore investments in an offshore Investment Bond.

Again, the facility to draw 5% p.a. permits the investor access to funds without having to run the tax gauntlet.

## FINAL SALARY PENSION TRANSFERS

Occupational pension schemes, in which employers promise a pension based on final salary, continue to decline in number as companies strive to reduce their liabilities.

In some cases employers have offered financial inducements to encourage transfers to personal schemes, but employees have often been disappointed at the result of having shouldered the investment risk.

This has prompted some of the larger employers, who are mindful of their reputations, to seek other ways of off-loading responsibility and the arrangement which is beginning to find favour is the bulk buyout, in which responsibility for managing the funds is transferred to a specialist manager or insurance company. This market is predicted to grow to £12bn in the current year.

The magnitude of the funds enables the managers to create a wide range of investment solutions and to manage the longevity risk. Transfers may also be especially advantageous to single members whose values include allowance for dependants, whether or not they are married; those with reduced life expectancy; and those seeking greater flexibility in relation to tax-free cash and phased retirement.



New rules governing the calculation of transfer values will come into force in October 2008 and these are expected to give a further boost to bulk buy-outs.

## THE VALUE OF INDEPENDENCE

The Financial Services Authority, which regulates financial services businesses, has issued a Discussion Paper aimed at classifying advisers in a way which assists consumers to distinguish between those who provide advice, which is independent of the influence of the providers of financial products, from those whose job it is to sell financial products.

Both types of advisers have a responsibility to the client, but in the case of independent advisers there should be no risk of a conflict between the interests of the client and those of the adviser and the linked provider(s).

Some tied advisers, even those who call themselves wealth managers, have been known to make confusing statements when quizzed about their status.

At Clairville York we are of course independent and offer a whole of market service to our clients, with the option of paying us by fees.

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The value of units and the income from them may fall, as well as rise. Investors may not get back the amount originally invested