NLP Financial Management



# NLPFM news

**News and views from NLP Financial Management**

# Don't regret lost opportunities

With the tax year drawing to a close, it is important to consider optimising the tax efficient investment opportunities that are still available. This is especially the case whilst the highest rate of tax remains at 50%.

- **Pension Contributions** – individuals can catch up on "missed" contributions from previous tax years. A maximum contribution of up to £200,000 can be made (£250,000 in certain circumstances) where individuals have not had contributions made for their benefit in each of the last 3 tax years as well as in the current tax year. This is based on a £50,000 annual allowance. This is a time sensitive, "use it or lose it" situation.
- **ISAs** – the annual limit of £10,680 applies to an ISA so, between them, a couple could invest £21,360 in this tax year and enjoy growth, largely free of income and capital gains tax. The introduction of Junior ISAs now enables £3,600 to be allocated to similar vehicles for children up to age 18.
- **CGT Exemption** – utilising the capital gains tax allowance of up to £10,600 to enable a potential CGT saving of around £5,900 for married couples remains a valuable financial planning tool.
- **Annual Gift Exemption** – individuals can gift up to £3,000 in each tax year. Such gifts are immediately exempt from inheritance tax as opposed to the usual proviso of living for 7 years for the exemption to apply. This exemption can also be carried forward for one year so a couple could potentially gift up to £12,000 and save themselves £4,800 in inheritance tax.
- **Venture Capital Trusts (VCTs)** – these schemes offer income tax relief at 30% for investments up to £200,000 with dividends payable from such schemes being exempt from tax.
- **Enterprise Investment Schemes (EISs)** – these schemes now offer income tax relief at 30% on investments as well as the ability to defer capital gains tax. However, clients should be aware that both VCTs and EISs are higher risk and specific advice must be taken on appropriate schemes as they apply to individual investors.
- **Charity Donations** – whilst the 50% tax rate remains in place, donors should consider making charitable contributions sooner rather than later, as 50% tax relief is available on gift aid charity donations made in the current tax year.

Please note that VCTs and EISs are higher risk investments and not suitable for everyone.

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## Inside this Issue

# Having your cake and eating it

A recurring issue when putting inheritance tax plans into place is the understandable reluctance of many clients to lose autonomy and transfer control of assets to children or grandchildren, despite the potential reduction of inheritance tax. This concern can be addressed through judicious use of trusts. This article looks at two particular trusts promoted by insurance companies which have proved popular with investors.

The Loan Trust is created when an individual makes an interest-free, repayable on demand loan to trustees. This is normally effected through investing in a single premium onshore or offshore investment bond with withdrawals then taken over time to repay the loan. Typically, investors will take withdrawals of 5% per annum from the bond as their "income". Such withdrawals enable income tax to be deferred. Whilst the outstanding loan remains in the Settlor's estate, it will reduce each year and provided that the withdrawals are spent, then their value is removed from the estate. The key inheritance tax (IHT) benefit is that any investment growth on the bond is held for the trust's beneficiaries and is outside the Settlor's estate from day one.

The simplicity of this arrangement can have great appeal although some may perceive the drawback as being no immediate saving of inheritance tax with future savings dependant on growth achieved within the bond.

A possibly more appealing solution is the use of the Discounted Gift Trust where the trust is structured to provide an immediate reduction in the value of your estate for inheritance tax purposes. The amount of this reduction is known as the Notional Grantee's Fund and is the estimated present value of the "income" or withdrawals you have elected to be paid to you. The balance of your investment is known as the Notional Residuary Fund and your gift for inheritance tax calculation purposes is only the value of the residuary fund at the outset. This enables there to be an immediate discount on the gift and effectively a saving of inheritance tax from day one.

For example, a women aged 69 who invests £250,000 into the bond and arranges withdrawals of 5% per annum would have an estimated Grantee's Fund of around £132,000 and a Residuary Fund of around £118,000. Therefore, the Grantee's Fund of £132,000 will immediately be considered outside the estate, providing a potential IHT saving of £52,800. The Residuary Fund will also fall outside the estate after 7 years.

As the above two examples ably demonstrate, the use of trusts with insurance bonds can be an effective way of mitigating an inheritance tax liability and indeed, finding the right recipe often means you can have your cake and eat it!

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## Tax efficient life assurance

Traditional Death-in-Service schemes come with at least one principal disadvantage; they fall under pension legislation. Thus when benefits are paid upon claim, the proceeds form part of that individual's Lifetime Allowance. This can have serious tax implications for high earners or those with reasonably significant pension provision.

Fortunately there is a very useful alternative which has arisen out of existing, but much underutilised legislation in the Income Tax (Earnings and Pensions) Act 2003.

Setting up a Relevant Life policy is simple and ideal for smaller firms that do not have sufficient employees to merit a group life scheme or for larger companies with high earning employees or directors. Provided the arrangement meets certain criteria, a Relevant Life policy has a number of very interesting advantages.

- The proceeds will not form part of the employee's lifetime pension allowance, nor will the premiums be counted as part of the employee's annual pension allowance.
- The premiums paid by the employer are usually an allowable expense, subject to the normal "wholly and exclusively rules," thus reducing their Corporation Tax liability.
- Premiums are not normally treated as a 'benefit in kind' on the individual and thus are not a taxable benefit.

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- Provided the benefits are payable through a discretionary trust, they are usually free of inheritance tax because the payment is not part of the employee's estate.
- Generally death-in-service benefits are restricted to 4 x an employee's salary, with multiples above this level being used to provide a dependent's pension. A Relevant Life policy can provide cover up to 20 x salary including P11D benefits. If the employee is a shareholder, any dividends they receive can also be covered.

The policy must meet specific conditions. For example, the policy must only provide for a lump sum death benefit payable before the age of 75 and cannot acquire a surrender value greater than the premiums paid. The benefit must be paid to an individual, a trust or a charity. It cannot be established for the main purpose of tax avoidance.

If you currently have death-in-service cover or are considering implementing it for your employees, please contact us to see if you can take advantage of this opportunity.

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# Be set fair for new pension rules

With effect from 6 April 2012, the overall value of benefits that an individual can ordinarily accrue in pension arrangements over their lifetime will shrink from £1.8M to £1.5M taking us back to the original limit in 2006. The problem is that it costs around £1.8M today to buy what £1.5M bought in 2006, so this is a significant reduction in the purchasing power of a pension fund right now, let alone in the future. A lifetime allowance tax charge will be applied to pension savings above this level.

However in certain circumstances it is possible to retain the current higher limit, but an application must be made to HMRC by 5 April 2012, or the opportunity will be lost. This is known as Fixed Protection.

**"even individuals with far lower real or notional fund values might be best advised to apply, if they have a decade or more to retirement."**

The trade off is that once in force, no further pension accrual is permitted. Effectively, where Fixed Protection is in place, this means no additional contributions can be applied to an individual's contributory pensions. Where an individual is a member of a final salary (defined benefit) scheme, then accrual will be deemed to have occurred if at any time the value of uncrystallised rights has increased by more than the 'relevant percentage'. As a general rule, the 'relevant percentage' for an active member of a defined benefit scheme will be the annual increase in CPI inflation. In a number of cases this will prevent active members of defined benefit schemes from benefitting from Fixed Protection.

Fixed Protection is not necessarily only for individuals who have already accrued significant benefits and are close to or in excess of £1.5M; even individuals with far lower real or notional fund values might be best advised to apply, if they have a decade or more to retirement. Each case will need to be assessed on its merits, but advice must be sought if you are in any way concerned or likely to be affected by the lowering of the Lifetime Allowance ceiling. Indeed it may be prudent, where practical, to make an additional contribution prior to the end of the current tax year to bolster your pension fund, before applying for Fixed Protection.

Please do not leave this assessment to the last minute – speak to your usual NLPFM consultant as soon as possible to discuss your options in detail.

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# How's your business health?
# Don't worry, we have a plan.

Would you like to reward your staff with a **low cost** benefit that has a high perceived value? Perhaps you are looking for a way to boost your employees' **productivity, morale, loyalty and motivation**? Do you need a powerful absence and risk management tool? Or maybe help to control rising healthcare costs?

In today's challenging economic climate, when many employers are looking to reduce costs and budget for the future, for as little as **£1 per week** per member a health cash plan can offer the perfect solution.

### What is a Health Cash Plan?

These plans provide employees with access to particular healthcare services up to a certain level of costs each year. Therefore, employers will often use these plans as a complement to traditional Private Medical Insurance (PMI) Schemes.

> **"because we are independent, you can rest assured that we can help you choose the right plan for your business. We can even tailor make health cash plans to suit your individual business needs."**

Accordingly, senior staff will typically join the main PMI scheme and benefit from a wide range of services whilst more junior staff will join the Health Cash Plan and still be covered for certain treatment. The specific services covered are dental and optical check-ups, physiotherapy, acupuncture, chiropractic treatment and diagnostic consultations. Some plans provide fast access to MRI, CT and PET scanning facilities and can also include a 24 hour counselling and advice line, face to face counselling sessions and Cognitive Behavioural Therapy (CBT) sessions.

## How Get Private Can Help You

As independent specialists in the Private Medical Insurance and Health Cash Plan market, we have access to a range of great value, market leading corporate paid health cash plans. And because we are independent, you can rest assured that we can help you choose the right plan for your business. We can even tailor make health cash plans to suit your individual business needs. Health cash plans are simple to implement and administer, and we will provide you with ongoing support and advice on matters such as administering new starters and leavers, and helping with claims.

We would be delighted to offer you a free, no-obligation consultation and a comprehensive review of your existing healthcare arrangements to ensure you are getting the best value for money.

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