



DON'T BUY BRITISH

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You will be surprised to hear how our tax system often **penalises UK nationals** living overseas who receive income from the UK.

Are you thinking of retiring abroad in due course? Perhaps emigrating to warmer climes? If so, you may be surprised to learn that the UK taxman could well have one final trick up his sleeve. A sort of parting shot, just when you were least expecting it.

Perversely he is only able to extract this extra pound of flesh from those who remain patriotic to the mother country. Let me explain.

Example

You have lived and worked in Britain all your life. You are now in your mid-50s and you have had enough. You decide to retire and emigrate to sunnier shores. The lifestyle in your new dream location is relaxed and you have an ample income to support it – a UK pension of £37,500, arising from a pension scheme invested by Tom Coull from our Carnoustie office, plus £12,500 in dividends from your UK stock exchange portfolio.

How would this be treated for UK tax purposes? The answer seems straightforward.

1. We will look at your dividend income first. The UK tax liability on investment income for non residents is limited to tax deducted at source including tax

credits so no tax to pay here.

2. The pension is easy too because as a UK citizen you are entitled to your personal allowance of £4,895 for 2005/06. It may be that the tax code which is applied to your pension has been set accordingly so you pay tax on the pension through the PAYE system because of your personal allowance only a minimum amount is taxed at your higher rate.

Imagine the shock then when you suddenly find yourself having to pay an extra (nearly) £2,000 of higher rate tax to the Inland Revenue. What is going on here???

THE TAXMAN'S STING IN THE TAIL

As already indicated, your extra tax liability comes about because you have remained patriotic to the UK or to be more accurate because your money is invested in the UK stock exchange. Here is the rule that catches you. *Although you are entitled to the personal allowance, you are required to set it first against your UK investment income even although this income is not taxable!*

A strange way to run the tax system you might think.

Accordingly, as your investment income exceeds £4,895 your tax allowance is fully absorbed against this (non-taxable) income leaving nothing to set against your pension and,

as a result, there is additional higher rate tax to pay on your pension, namely £4,895 at 40% equals £1,958. Sounds crazy and unfair but there it is.

This additional tax liability will continue to rise year on year unless you do something about it.

But what can you do? The answer is obvious. The way to thwart the taxman is to switch your investment portfolio. Invest your money anywhere in the world other than in the UK. If, as a result, your only UK income is a personal or occupational pension then that is what your personal allowance must be set against.

Investment consideration must of course come into play. It is not particularly astute to save £1,958 in tax if your investment performance suffers by more than that amount by going overseas. But, all things being equal, the quirk in the UK tax law which I have highlighted in this article does seem to say to many non-residents:-

"Don't invest your money here. We don't want it. You would be better off investing in an overseas exchange."

Ignore this advice and you will suffer an annual tax penalty.

What a peculiar way to reward the patriotic!

Article by Roger Dunnett
Contact him on 01382 224221 or email rdunnett@walkerdunnett.co.uk



WHAT IS CRITICAL ILLNESS COVER?

Critical Illness policies pay out a tax free lump sum on the diagnosis of any of a wide range of illnesses.

Plans can either be basic, which will cover the core critical illnesses of cancer, heart attack or stroke, or comprehensive which could include many more illnesses, such as permanent disability, loss of limbs or paralysis.

All insurers are required to offer the three core illnesses.

Further to this they can also

offer many of the non-core illnesses (for which the industry has set minimum definitions). Most insurers offer cover for between 20 and 30 illnesses.

With dozens of products on the market, ensuring that you get the most suitable policy is important. In other words it should not simply be down to the most competitively priced quote, rather it is better to get the policy which provides the correct cover for you.

When completing the application forms it is most

important to include all appropriate information about your medical history, including pre-existing conditions.

Quite often critical illness cover is included (at a cost) in a life policy but it can of course be set up purely to provide the requested cover.

At no cost to you, we will be happy to obtain a no obligation quote for critical illness cover and please call Tom Coull in our Carnoustie office to arrange this.

“As from 1 January 2006 local tax offices will no longer handle tax and NI payments made in person. HM Revenue & Customs say this is due to alternative methods of payment which are safer and faster.”

CHARITABLE DONATIONS VIA PAYROLL

With around 70% of the general public donating regularly and raising over £7 billion annually, coupled with their generosity in response to tsunami appeals, it is clear that people across the UK want to give. Almost 500 companies have signed up to Payroll Giving since new employer incentives were introduced last year. This gives employers with fewer than 500 employees an opportunity to help their employees get tax relief and therefore increase the value of their donation and

to earn a cash payment of up to £500 at the same time.

Payroll Giving is one of the easiest and most flexible methods of giving to charity as it is taken straight from their gross salary. It also gives them tax relief of up to 40% on their donations.

As an employee donations scheme Payroll Giving is a low cost initiative enabling employers to provide support to charities as well as their local community and beyond.

This is hugely beneficial to charities as it promotes a regular source of income.

Payroll Giving is a real benefit to offer your employees. It is set up quickly and easily and will make a big difference. So if you haven't yet set up your scheme—**what are you waiting for?**

There has never been a better time for giving!

Please do not hesitate to contact Avril Craig on 01382 224221 for more information.



“2006 will see legislation that will outlaw age discrimination in employment and vocational training. It will cover private sectors and include every member of your workforce, young and old. Employers will no longer recruit, train, promote or retire people on the basis of age, unless it can be objectively justified.”

DUNFERMLINE BUILDING SOCIETY

Currently, the Dunfermline Mini Cash ISA is paying 4.35% on investments of £3,000 and allows instant and penalty free access to the funds at all times. This compares well with other providers where restrictions, etc. can apply.

Further, there is now available a new Base Rate Tracker (Issue 7) which tracks the Bank of England Base Rate and is guaranteed to pay the Base Rate, currently 4.5% (plus

0.4% until 31st January 2006) until 31st October, 2007. The rate on the account will alter after any changes to the Base Rate on the first day of the following month.

This investment therefore: Is guaranteed to match the Bank of England Base Rate until 31st October, 2007.

You can invest between £100 and £1,000,000.

Withdrawals or closure are

permitted during the term on 30 days' notice or alternatively on a loss of 30 days interest on the amount withdrawn.

Interest is calculated daily and paid monthly on the final day of the month into the Bank or Building Society account as nominated by you.

These two items may very well appeal to you and if so please contact:

Tom Coull in our Carnoustie office on 01241 855688 or email tcoull@walkerdunnitt.co.uk



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The property market appears to be in a state of flux at the moment and there may well be a downward spiral about to commence. Whichever way you look at it, it seems that prices may have peaked. This brings us to the point of this article.

Here's a sad tale but true. It was heard in the Courts a little while back. It concerns the sale of a valuable property following the death of the owner at a time when prices were falling.

The outcome for the taxpayer in question was an unhappy one. Nonetheless the decision the Court case did throw up was a very important planning point. So there's a brighter side for the rest of us. The Court ruling graphically points out a strategy which for some will enable large tax savings to be secured in times of falling property markets.

Property Sold After Death

Here's what the tax battle with the Revenue was all about:-

The owner of some valuable farmland died and before it could be sold by his Executors its value had fallen substantially. It was worth over £400,000 at the time of his death and Inheritance Tax (IHT) became payable on that figure. A little under three

years later, a contract for sale was entered into and the sale price market value at time was set at £300,000. The Executors sought to have the deceased's IHT bill recalculated by substituting the lower figure from the original £400,000 plus. Did they succeed?

On the face of it you might think they would. As many clients will know, there is a very helpful IHT rule to the effect that:- if within three years of death (four years in certain circumstances) land is sold for less than the confirmation value then the earlier IHT liability can be reduced by means of substituting the lower sale proceeds.

That would seem to fit the above scenario to a T and indeed it did until fate took a hand.

The Problem

You can never be certain of a property deal until it is signed, sealed and delivered. And completed! In the event, the Executors sale of the farmland fell through. Accordingly, IHT had to be paid based on the higher confirmation value with no reduction to reflect the lower sale value.

The Executors were indeed unlucky that they lost not only the original sale but also a substantial reduction in the tax bill. But was it just bad luck? If they had

been shrewd enough they could have rescued the tax saving.

The Solution

With hindsight it is clear they should have done so. As they were getting perilously close to the three year period they should have prepared a contingency plan. In the absence of a completion of the sale to the intended purchaser perhaps the land could have been sold to an "in-house" buyer such as a company set up for the purpose. In that case, the sale would crystallise in time and the reduction in the IHT bill would be secured.

Conclusion

In the hurly burly of conducting many property deals there are normally 101 things to think about. If you are an Executor and property prices are falling, you must extend that list to 102 points. If you are seeking to get a reduction in the IHT bill and the end of the three year period is looming, you must get a safety net in place. Hopefully, you will not need it and which case the precaution will have cost you next to nothing.

With a little planning you can be sure that you will not be "unlucky".

To discuss this in more detail please contact Margaret Morrison at our Dundee Office on 01382 224221 or email her at mmorrison@walkerduddett.co.uk



"Company car and truck drivers will be banned from smoking in their vehicles under the new anti-smoking legislation which comes into effect on March 26, 2006. Drivers can smoke whilst alone but not if he has passengers. If a car or cab is used by more than one driver then it must be kept smoke-free. Responsibility falls to the employers and managers to ensure premises and staff meet the requirements of the law."

MAJOR CHANGES TO PENSION RULES FROM APRIL

New pension rules come into force from 6 April 2006 under the banner of 'Pension Simplification' or 'A-Day'. These rules will completely change the pensions landscape, bringing both opportunities and challenges. To help identify whether you need to consider taking action before April we have detailed below 10 questions for you to answer.

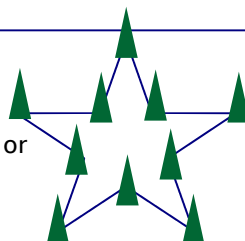
As your advisers, we recommend that you consider these questions now.

	Yes	No
Q1 Do you have little, or no, pension funding in place yet?	<input type="checkbox"/>	<input type="checkbox"/>
Q2 Would you like to pay more money into your pension before April?	<input type="checkbox"/>	<input type="checkbox"/>
Q3 Do you plan to retire before age 55?	<input type="checkbox"/>	<input type="checkbox"/>
Q4 Would you like to control your pension income in retirement?	<input type="checkbox"/>	<input type="checkbox"/>
Q5 Would you like to maximize your tax-free lump sum at retirement?	<input type="checkbox"/>	<input type="checkbox"/>
Q6 Does your pension plan also need to protect your loved ones?	<input type="checkbox"/>	<input type="checkbox"/>
Q7 Are you interested in using your pension fund to buy property or shares?	<input type="checkbox"/>	<input type="checkbox"/>
Q8 Do you have pensions from previous employments or under old personal pension plans?	<input type="checkbox"/>	<input type="checkbox"/>
Q9 Are you thinking about retiring before April?	<input type="checkbox"/>	<input type="checkbox"/>
Q10 Are your total pension funds from all sources worth over £1m?	<input type="checkbox"/>	<input type="checkbox"/>

If you have ticked 'Yes' to any of these questions and want to discuss your plans and what you can, or should, do before April, please call Tom Coull on 01241 855688.

DID YOU SOLVE IT?

A Gardener had 10 trees. He had to arrange them into 5 rows with 4 trees in each row without cutting or splitting. The arrangement would therefore look like this.



MEET THE TEAM



Jemma O'Neill joined Walker Dunnett & Co in March 2002 as an Office Junior. She was quickly promoted to an Accounts Assistant in Roger's team. She is now an invaluable member of Pamela and Alison's team helping with everything from book-keeping to company accounts preparation.

Jemma lives with her mum and dog Skye in Arbroath where she has lived all her life. In her spare time she enjoys reading, socializing and loves to travel.

!! STOP PRESS!!

PRE-BUDGET REPORT—BROWN BACKTRACKS ON A-DAY RESIDENTIAL PROPERTY

The Chancellor has announced some technical changes to the Pensions tax simplification in the pre-Budget report.

"From A-Day, the Government will remove the tax advantages for investing in residential property or certain other assets such as fine wines, classic cars, art and antiques from registered pension schemes which are self-directed. This will prevent people benefiting from tax relief in relation to contributions made into self-directed pension schemes for the purpose of funding purchases of holidays or second homes and other prohibited assets for their families or personal use".

The Technical Note goes on to state that the changes will apply to all registered pension arrangements where the pension scheme member can direct which investments the scheme makes. This will include those currently categorised as Self Invested Personal Pension schemes (SIPP's) and Small Self-Administered Schemes (SSAS's) as well as a number of other schemes. Certain products offering "indirect investment" in prohibited assets will not be subject to the new rules. This will cover self-directed pension schemes to invest in genuine diverse commercial vehicles that hold residential property – an example quoted being the proposed capitals real estate investment trust.

More details can be found at www.hmrc.gov.uk

Otherwise, please feel free to speak to either Tom Coull at our Carnoustie office or Dick Walker at our Dundee Office.



Tom Coull



Dick Walker