25th Anniversary 1982 - 2007

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The MUNRO PARTNERSHIP Ltd.

PENSION SPECIALISTS AND INDEPENDENT FINANCIAL ADVISERS

• ESTABLISHED 1982 •

MOVING FORWARD

with The Munro Partnership Limited

In this edition we will be providing you an update on Company Matters and introducing you to our two new consultants John Russell & Carol Sneddon.

In our last edition we indicated that we will be taking a more in depth look at inheritance tax. Taxation affects us all so we constantly thrive to be more tax efficient. Taxation is important; however, you must take into account the management of your overall finances and not allow tax to be the single driving motivation. The aim must be to create strategies which may reduce taxation, but also allow you to enjoy and enhance your quality of life.

In this issue we will address various tax matters highlighting the recent changes announced by the Government pre budget statement in November 2007.

We hope you enjoy this edition of Moving Forward.

New Consultants

We are delighted to announce that our consultancy team has been further enhanced by the recruitment of John Russell and the appointment of Carol Sneddon.

John is a well known figure in the Lanarkshire area having been in business there for over 30 years. He has a wealth of experience working in financial services and is a very welcome addition to our Hamilton team.

Carol Sneddon (pictured left with a survival suit on) moves into the consultancy team from our service department. Carol has a first class honours degree in financial services and has added advanced qualifications in financial planning to this. She has been working in financial services for 7 years. The company is pursuing a development programme which is based on blending experience and knowledge with youth and talent

New Premises

We moved into new premises at 50 Orchard Street, Hamilton on the 3rd March. To visit us here, continue past the entrance to the car park of our old premises to the end of the street.

Survival Training

The company has been involved in the oil industry for 20 years. Part of our commitment to providing service and information to clients offshore requires a number of our consultancy team travelling offshore onto oil installations. Carol Sneddon and Kelly Anderson spent three days in January going through the safety induction and training to allow them the exciting opportunity of dealing with offshore workforces. **Stephen Munro, the Managing Director,** renewed his offshore training certificate and joins David Hughes in providing personal service to offshore clients.

Market Commentary

We are all aware that different asset classes and industry sectors are liable to turn against you from time to time. Despite equities long term potential, those of us who lived through meltdown of the technology stocks know about short-term loss on their portfolio balance sheet and forget their reasons for investing. Sadly, this is the worst thing you can do and that is why planning at the outset of any investment is so worthwhile.

If you know why you are investing and understand fully what risks are involved, market turndowns should never create panic. Indeed, if you are far-sighted and have a degree of nerve, there can even be an opportunity. Such downturns can be wide-ranging and discriminative; meaning the share prices of high-quality companies can suffer alongside lower-quality peers. This gives investors the opportunity to add to their portfolio at bargain prices. However, for most, the best strategy is simply to protect your portfolio whilst the market settles down. Nothing in a portfolio is more valuable than the time you spend achieving balance, diversification and cementing that long-term objective.

Investors make many mistakes but the most common is to blindly follow the herd. When markets are high, investors scramble to invest, thinking they will miss out, and when markets are falling, they sell out. The technology boom convinced many ordinary investors to part with their savings and sadly, many are left even today with only a fraction of what they invested. The best way to make money is to buy low and sell high.

Our view is to create as much real balance as possible on a year to year basis. At an annual review matters such as your portfolio performance, present and future circumstances, and existing cash holdings are discussed. It is often forgotten but you should consider taking profit from your investments to supplement cash for the short to medium term. Key factors of any client portfolio are the ongoing service and management they receive from their advisers which should be more proactive than reactive.

The Youth of your Retirement

The deferment of taking pension benefits may be attractive for various reasons. Before doing so, it is worth considering the following points:

1) Annuity Purchase may not be the only option available and may not be the most appropriate for your circumstances. Income Drawdown can be attractive for select individuals and may create better balance

2) How long does it take to replace the deferred income, if you postpone your income? (It may take years). Is it worth deferring your State Pension by one year and effectively having more income at a later age? You may be better simply saving the income and using this later

3) Being in control of your finances and having a strategy that deals with change. Unnecessarily deferring taking good income that is available maybe a mistake for a number of people.

4) Time and Health are the biggest assets in life. After these, it may be about getting organised financially.

Inheritance Tax Planning

There may be a number of ways of mitigating the effects of Inheritance Tax. To do this effectively, it is important to make conscious decisions. It may be worth looking at the 3 following areas or possible steps.

1) While you are in charge and in control

2) When control may be in someone else's hands

3) No control, just management instructions.

Let's now look at these individually.

In Charge and In Control

While you are in charge and in control you can make use of the many allowances available to you. You have an annual gift allowance of £3000 per year. Certain gifts for weddings, from parent's, grand parents and even friends are all exempt.

Other useful tools including loan trusts and discounted gift schemes in deed there are many options available, some more complex than others. You must be aware that life is for living and you must always leave enough available to retain your standard of living.

While you are in control you should also ensure that all legal matters are tidied up. It is prudent to have a Will in place as well as a Power of Attorney. This is a conversation you can have with your Legal Representative but it is imperative that these actions are taken while you are in control as they can prove to be costly and problematic if the action is not taken at this time.

Possible Loss of Control

Short or long term disability can be a serious issue for you and perhaps your family. Creating a Power of Attorney (POA) can alleviate a significant amount of problems for you at the time you are incapacitated. This POA may also need a management document to assist your selected individuals to deal with a range of matters.

No Control, just management instructions

By setting up your Will you are advising your Executors of where the benefits of your Estate have to be passed. Correct Will planning will also allow for a degree of tax planning making use of the nil rate band of £312,000 you have for this fiscal year. You have no control at this time, however, you do have influence through the planning you have undertaken and the instructions left with Executors.

What are the Inheritance Tax Exemptions

The Government has continued to progressively pursue new tax collection initiatives each year. The Inland Revenue offer excellent information on allowances and exemptions that may reduce the overall tax payable on your estate. The following information is simply for reference the real 'key' to planning is about making conscious decisions and employing strategies that are based on your goals and objectives.

We are happy to discuss your personal priorities and develop a suitable plan based on your present circumstances.

In addition to the £312,000 nil rate band available on each estate, transfers between husband and wife or between civil partners are tax free. As of 9th October 2007, such legally recognised partners can also pass over any unused portion of their own nil rate band so that, in effect, the surviving spouse has up to £624,000. However, this does not apply to cohabiters or 'common-law' spouses.

The majority of other exemptions and allowances come about through distributing some of your wealth prior to death. Assets transferred prior to death are 'potentially exempt transfer' (PETs) for IHT purposes. They are potentially exempt, because, from the day you give them away, the tax due on death is subject to a tapering over 7 years, starting at 100% of liability of the first three years then falling proportionally from 80% over the next four. If you survive the full seven years, your liability in that asset is zero.

However, this taper relief does only apply to amounts in excess of the nil rate band. As there is no tax due on the first £312,000 then no taper relief can apply. Therefore, if you give away anything up to £312,000 and die within those seven years, the full amount of the original gift will be added back in to your estate and tax will be calculated on the total as if you never gave that amount away.

Having said that, if you do survive seven years, then that amount is considered as having left your estate and you therefore get the chance to benefit from the nil rate band allowance a second time.

However, there is an important restriction on PETs called a 'gift with reservation of benefit'. The principle is that if you continue to enjoy the benefit of an asset the transfer is entirely ineffective for inheritance tax purposes. This is in place to stop people simply transferring their homes to their children and continuing to live in them. In order for this to be potentially exempt, a full market rent would have to be paid to the children after transfer.

Gifts of £3,000 or less are allowed annually without being liable for IHT - and if unused, this allowance can be carried forward for one year. There is also a gift exemption applying to 'regular gifts out of income'. These gifts can be as much as you like, but they must form part of a 'pattern of giving' and the Inland Revenue must be satisfied that after the gift has been made, you are left with sufficient income to maintain your standard of living.

You are also allowed gifts on consideration of marriage or civil partnership. The amounts vary according to your relationship to the bride and groom - at the moment, £5,000 is allowed from the parents, £2,500 from the Grandparents and £1,000 by anyone else. Gifts to charities also fall outside inheritance tax.

Planning

To make sure you make full yet practical use of your allowances and exemptions, these are some basic steps you can take. Planning ahead is very important.

1) Step One - The Basics

Making a Will is vital. If you die 'intestate' (without a will) your estate will be divided up according to the rules of intestacy. This is particularly important if you are not married, because you are unlikely to inherit a 'common law' partner's money, or even their share of the house under the rules of intestacy.

At the most basic level, your legal spouse receives £125,000 plus a life interest in half the remainder of the estate, your children will get the balance at 18. if you have no children, £200,000 passes to your spouse and the remainder and your parents or then your siblings. If you have no legal recognised family, it goes straight to the Crown.

2) Step Two - Use your Allowance if appropriate

The allowances available have been outlined about. Considering how you can use these in advance will help you manage the assets and any cash flow associated with a 'pattern of giving'. In addition, if you can start giving away some of your assets as PETs when you are still in robust health and likely to live another 7 years, it will save you worry nearer the time.

3) Step Three - Using Trusts

Trusts have long been seen as an easy way to brush off an inheritance tax liability. If this were the case, it certainly isn't after the 2006 Budget. This closed down many of the tax planning opportunities for investors. Under the new regime, interest in possession (IIP) and accumulation and maintenance (A&M) trusts (until that point the most popular vehicles for IHT planning) became subject to the same IHT treatment as discretionary trusts. Transfers into most IIP and A&M trusts over the donor's nil rate band are now immediately liable to IHT at 20%. These trusts are also liable to periodic charge of up to 6% every 10 years, and an 'exit' charge when funds are taken out of the trust.

However, despite their diminished tax advantages, these trusts are still useful because they allow for the 'regeneration' of the nil rate band every seven years. If a donor has put money into one of these trusts, they will pay tax on anything above the current nil rate band of £312,000. If the donor dies within seven years, taper relief will apply to the balance of the tax payable after three years. If they survive seven years, the donor will have the chance to use their nil rate band again.

4) Step Four - Consider Life Assurance

Life Assurance can be a useful way to accumulate enough money to pay your inheritance tax bill and when placed in trust (and funded from regular income as part of a 'pattern of giving'), is also free from Inheritance Tax - i.e.: you do not create an additional IHT burden because the trust keeps that lump sum payment out of your estate.

This can be particularly useful from a liquidity point of view, as the lump sum will be readily available to your beneficiaries to pay the taxation whilst the estate itself is being unwound.

As can be seen from the content of this article, UK taxation is far from simple to understand. Accordingly it is advisable to consult with those experienced and knowledgeable in the subject, the cost of which is likely to be minimal in relation to the benefit obtained. If you wish to have a discussion or would like more information, please contact Peter Leonard or Robin Dale who will make an appropriate arrangement.

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