

# METCALF MOAT UPDATE

YOUR FIRST CALL FOR INDEPENDENT FINANCIAL ADVICE

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**METCALF MOAT**

IFA LIMITED

*'Growing by  
recommendation'*

## “RELEASE ME”

2007 marked the 40<sup>th</sup> anniversary of Engelbert Humperdinck's famous hit!

Engelbert, aka Arnold George Dorsey, was born on the 2<sup>nd</sup> of May 1936. This makes Engelbert or Arnold eligible for most equity release plans currently available.

Not that Engelbert probably needs such a plan, but he exemplifies his generation very well in that he is fit and healthy, still touring the world and still working!

Equity Release is not restricted to those who unfortunately find themselves in financial difficulty. We are seeing a growing number of clients who wish to maintain, or even improve their lifestyle into retirement.

Cruises, new cars, trips to see relatives overseas or even Inheritance Tax planning are all reasons given by clients who wish to access capital in their homes.

Currently the majority of equity release cases written are for home improvements. These are often for essential repairs or alterations to enable continued residence within the home.

Equity Release is

increasingly used for debt consolidation, which is the repayment of outstanding mortgages, credit card debt or loans.

Although Equity Release can cater for all the areas mentioned, it must be approached with care.

There are an increasing number of providers and products to choose from, but it is essential that the alternatives to Equity Release be explored. Downsizing, using existing investments, taking a standard mortgage and many other options exist.

As well as the alternatives, those contemplating taking Equity Release should consider the effect on their entitlement (if any) to means-tested benefits and the effects on their tax position and the possible loss of Age Allowance. They should also think about their life expectancy, long-term health and what may or may not be passed on to their beneficiaries.

We strongly recommend that people considering Equity Release speak with family and friends before proceeding. We also recommend that a Will be written or an existing one be updated.

A combination of under funded pensions, low

annuity rates, demographic issues and pensioner debt along with high levels of equity in the housing stock will make Equity Release an increasingly important way in which retired people fund their retirement.

With more lenders who are household names set to join the market, the products available and their terms and conditions will continue to improve as competition amongst providers drives innovation.

Drawdown, which enables people to withdraw funds as and when they need them, rather than having to take a large lump sum, has made a huge impact on the Equity Release market since its launch. What may be next?

You should think carefully about this before taking the next step, and to ensure that this action is the right one for you, you should ask an adviser at Metcalf Moat IFA to make a recommendation.

Remember too, that more than one plan is now available from the age of 55. So you do not have to wait until you are Arnold's age before considering Equity Release.

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# Inheritance Tax

## Introduction To Inheritance Tax

The present tax is a modification of the old Capital Transfer Tax and was introduced in the Inheritance Tax Act 1984. It is essentially a tax levied on the transfer of assets, and is most commonly paid in respect of an individual's estate on death, but it can also apply to certain lifetime transfers.

## Rates of Tax

On death, tax will be charged at a rate of 40% on all assets, less any available exemptions and reliefs that exceed a de minimus allowance (the nil rate band) of £300,000 (2007/08), per individual.

With regards to certain lifetime transfers, tax is levied at 20% and is charged at the time of the transfer.

## Wealth Tax or Stealth Tax

Inheritance tax is often perceived as a tax that need only concern the very wealthy, however, due to recent house price inflation,, more and more estates have fallen into the inheritance tax net. Studies undertaken by the Scottish Widows estimate that 37% of estates in the UK are valued at more than the 2007/08 inheritance

tax (IHT) threshold of £300,000, and would therefore be subject to a 40% tax bill on death (source: Investment Week article "Rise in IHT threshold offering little help" 17 April 2007).

## How to Reduce Your Inheritance Tax Liability

Adopting an IHT mitigation strategy may ensure as much wealth as possible is distributed in a way that is both tax efficient and consistent with your wishes.

There are a number of simple measures that can be taken which will minimize both the amount and effects of any IHT liability without warranting a closer inspection by HMRC. These include:

- Making full usage of IHT exemptions and reliefs.
- Making a will.
- Maximizing the nil rate band.
- Making lifetime gifts.
- Making sure all beneficiaries have sufficient funds to pay any remaining IHT liability (gift protection).

## Deal with Tomorrows Problems Today

Inheritance tax is currently (and seems certain to continue to be), an increasing problem for more and more families.

As with many things in life, timing is everything and effective IHT planning is no exception. In most instances the words "too soon to worry" do not exist, especially seeing that property prices in London and South East have risen so dramatically in recent years.

As media coverage on the impact of Inheritance Tax increases, a greater number of new and existing clients are approaching us about possible planning advice surrounding Inheritance tax. We are in fact receiving more and more calls directly from younger clients whose parents will pass on their estates, and in doing so pass on a tax bill which, as the rate of inheritance tax is 40%, tends to run into thousands, rather than hundreds of pounds.

If you yourself or perhaps your parents or relatives are concerned about the implications of inheritance tax we would like very much to hear from you.

IHT is sometimes referred to as "the avoidable tax", and with time and careful planning we believe solutions can be put in place to part tackle, and in some cases avoid, an inheritance tax bill altogether.

## The Importance of making a Will - Law of Intestacy

*Any person who dies without executing (making) a valid last will is known as dying **INTESTATE.***

### Scenario 1 - Husband , wife and children.

If so, the spouse receives the first £125,000, BUT only interest from half the remainder and the children share the remaining half.

### Scenario 2 - Husband, wife, no children with parents of either spouse still living.

If so, the spouse receives the first £200,000 BUT only half of the

remaining estate while the other half goes to the parents.

### Scenario 3 - Husband, wife, no children , no parents with brothers and sisters of either spouse still living.

If so, the spouse receives the first £200,000 BUT only half of the remaining estate while the other half goes to the brothers and sisters.

### Scenario 4 - Unmarried partners with children.

Partner receives nothing and estate divided between children.

### Scenario 5 - Unmarried partners, no children with surviving parents.

Partner receives nothing and estate divided between the parents.

*The Laws of Intestacy date from 1925 and hence the figures and the laws may seem out dated, but they are the current rules and so if you want to decide how your estate is divided up and reduce the amount you pay to the taxman please contact us.*