

The Catt's Eye View

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When are you going to retire?

In recent years, the people in this country have got used to the normal retirement age being 65 years old. This is when you currently start to receive the State Pension.

Women were previously able to retire at age 60, but the retirement age for men and women has been moving towards equality at age 65 for some years. So that by 2010, women will also retire at age 65.

2010 is quite an important date because up to then, it will be possible to take pension benefits at age 50, but after that time, 55 will become the minimum age.

The reasons for this increase in retirement age are mainly due to the demographics of our society. Due to the wonders of modern science, people are living longer. Also the reduced birth rate means that an average our popula-

tion is gradually getting older. There are now more people claiming pension benefits for longer than there have been in the past.

This drain on our State Pension system is compounded by the fact that there are less people of working age paying into the system.

The effect of this has been projected forward and it is envisaged that over the coming years, the State Pension Age will gradually increase to age 70.

On a selfish note, under the current projections, I will not receive the State Pension until I reach age 68.

In recent times, company pensions have changed shape, as has been widely covered in the press.

The Final Salary schemes that offered decent incomes in retirement have gradually been replaced by money

purchase schemes that are subject to investment risk and timing when buying pension income.

This has all been caused by the costs involved of running pension schemes. As companies grub after increased profits, the cost of pension provision has been cut. The costly regulation of pension schemes has also led to this dilution of pension benefits.



When are you going to retire? You need to start planning as soon as possible.

Inheritance Tax — you too can be a higher rate taxpayer!

Inheritance Tax was originally brought in as a replacement for Capital Transfer Tax.

Inheritance Tax is payable on any estate with assets greater than £300,000 for the tax year 2007/8.

For UK domiciled people, assets can be anywhere in the world.

Due to the growth in property values, more and more people are becoming liable for this tax.

Unlike income tax with the 10% band, basic rate and higher rate bands, Inheritance Tax simply has the Nil

rate band up to £300,000, then 40% tax on any amount above the nil rate band.

40% is the current level of the higher rate of income tax.

So potentially a person could be a lower or basic rate taxpayer all of their lives and then on death, due to the value of their property, they become a higher rate taxpayer.

The way to mitigate Inheritance Tax is to make gifts of assets on a regular basis. Lifetime gifts can be made for £3,000 per year or an unlimited amount of £250 gifts. The gifts need to be made out of the estate in a manner that

does not impoverish the donor.

Any amounts over these figures can be made on the basis of being Potentially Exempt Transfers that are counted as leaving the estate after 7 years.

Couples should consider how they own their property in order to utilise individual personal allowances.

I guess it is a questions of whether you prefer your family and other close relatives or HM Customs & Excise.



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IMPORTANT NOTE

The views expressed in this newsletter represent my understanding of law and Inland Revenue practice as at September 2007.

Levels and bases of, and relief from, taxation are those currently applying. These are subject to change and their value depends on the individual circumstances of the investor.

The value of investments and the income derived from them can go down as well as up and you may not get back the full amount invested. The past is not necessarily a guide to future performance.

If you withdraw from an investment in the early years, you may not get back the full value of your investment because of the charging structure.

Changes in the rates of exchange may have an adverse effect on the value or price of an investment in Sterling terms, if it is denominated in foreign currency.

The Financial Services Authority does not regulate taxation advice.

YOUR HOME MAY BE RE-

Did you hear the one about interest rates, the housing market and the stock market?

It is not often that we get all of these interacting so visibly, but in August 2007, this has happened.

In recent times, we have enjoyed low interest rates and a buoyant housing market with plenty of house price growth.

Over the years the stock market has been gradually increasing in value, with the occasional jolt as the market rids itself of froth and corrects itself.

In August 2007, the US housing market finally acknowledged that the levels of sub-prime lending and more particularly people not paying their mortgages had become a bit of a problem.

Many investments had been bolstered by the sale and purchase of loan books as lenders were able to package their loan books, with backing security of all the properties and sell them to other organi-

sations. This was a good way of reducing risk, freeing up money to be re-lent and provided the buying institution with a regular income stream from secured debt.

This idea worked well enough until the income streams began to diminish as borrowers became unable to keep their payment schedules up to date.

The borrowers' problems were brought about by the American treasury raising interest rates several times over the period of a year.

The UK Government, under the guise of the Bank of England, has also raised interest rates, leading to increased repossessions in this country.

We now have a situation where rates cannot be increased because of the general levels of consumer debt in this country.

These defaults have led to

several financial institutions finding that they had larger exposure to sub-prime debt than they had previously thought.

The fact that no-one has identified how much of this debt is around or where it is now, has led to the recent uncertainty in the stock markets.

Recent reductions in American interest rates have led to greater market stability, but there is more volatility to come until this matter is clarified.

There is nothing that the Stock Markets dislike more than uncertainty.



If your house is your pension, where are you going to live when you retire?

Many people have lost faith in the pension system. This is a sad fact brought about by distrust of financial institutions (justified) and financial advisers (not entirely justified) and the constant interference of the Government in the pension and financial services system.

In an age when property values have constantly increased, to the extent that they have reached possibly untenable values, people

have felt much more confident placing their trust in property.

This has led to people not contributing to pensions or even saving at all. Preference being given to paying higher and higher mortgages for to buy properties.

However, at the point of retirement, how does the house become a pension?

Either move down market and live off the profit. Not very attractive to many people accustomed to living in nice proper-

ties.

Or borrow against the value of the property. The problem with this is that the people may be too young to generate sufficient income.

Or take in lodgers. Probably the least attractive alternative.

It is time to address this issue to enable you to retire when you want to in the manner to which you have become accustomed.

Appointed Representative of Simpsons of Brighton

My first experience of Independent Financial Advice was when a joined Simpsons of Brighton in 1997.

From there I joined Blacktower Financial Management in 1999 and then I started my own firm Tony Catt Independent Financial Adviser in 2000.

Over time, it has become increasingly difficult to operate as a sole practitioner directly affiliated to the Financial Services Authority due to increasing reporting and an ever-changing compliance regime.

The Retail Distribution Review being undertaken by the Financial Services Authority appears to be likely to have quite an effect on smaller firms. In my opinion, it is geared towards the large financial institutions and away from smaller firms. Although, the actual effects are still under consultation and therefore not know, I feel that it is appropriate to take action now.

I have decided that I would be able to operate better under the umbrella of Simpsons of Brighton and I am rejoining the

firm as an Appointed Representative.

I have been sharing the office at Kingsway with Neil Thomas since 2004, so there will be no change in contact details.

Other than slight alterations to stationery, there will be little change to my modus operandum.

In fact, I should be able to concentrate my efforts to helping you.