

Stakeholder Pensions – financial planning opportunities

Contribute for third parties – with basic rate tax relief

From 6 April 2001, contributions may be made to a stakeholder pension on behalf of almost anyone aged under 75 – for example, a non-earning spouse, child or grandchild. The maximum contribution in each year for each non-earning beneficiary is £3,600. The contribution is payable net of basic rate tax meaning a net cost of £2,808 for the maximum level of investment. The gross sum is invested in a tax advantaged fund from which benefits are available from age 50 at which stage 25% of the fund may be taken as a tax free lump sum. Contributions of £3,600 per annum for the first 21 years of a child's life will produce a fund of £780,000 on the child's 50th birthday assuming 7% per annum growth and a 1% annual management charge.

Contributions, apart from those for a spouse, will be treated as gifts for the purpose of inheritance tax but will qualify as exempt transfers if (together with any other gifts) they fall within the £3,000 annual exemption or under the normal expenditure out of income exemption.

Contribute When You Are Not Earning – Basis Year Election

The basis year election replaces the carry forward facility for personal pensions for contributions paid after 5th April 2001. Earnings from any fiscal year ended from 5th April 1997 may be selected as the basis on which to pay contributions for the following 5 years. The earnings cap is now applicable to the basis year and not the year in which contributions are paid. Recently retired partners may wish to take advantage of this new facility to pay additional contributions to their personal pensions in the coming years.

Salary or Dividends?

Shareholders in private limited companies may now find it more tax efficient to declare a salary up to the earnings cap once every five years in order to qualify for tax deductible pension contributions in the following five years.

Annuity Purchase Compulsion Attacked On all Sides

In addition to the Private Members Bill mentioned in the Spring 2001 issue of Pointers, Cherie Booth QC has taken up, under European Human Rights legislation, the case of a company director who does not wish to be compelled to purchase an annuity.

The Government has acknowledged that it has not carried out detailed costings to assess the likely tax revenue impact of abolishing the annuity purchase requirement at age 75.

The Trustee Act 2000

This Act, which came into force on 1 February 2001, confers new powers (including wide powers of investment) on trustees and it imposes new statutory duties on trustees including a statutory duty of care. Saunderson House will be pleased to provide investment advice to Trustees and act as the nominated investment adviser.

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This note is for general guidance only and represents our current understanding of law and Inland Revenue practice as at May 2001. We cannot assume legal liability for any errors or omissions and detailed advice should be taken before entering into any transaction. The value of investments and any income from them can go down as well as up and you may not get back the full amount you invested. Levels and bases of, and reliefs from, taxation are those currently applying but are subject to change and their value depends on the individual circumstances of the investor. For income drawdown policies, it should be noted that: high income withdrawals may not be sustainable during the deferral period: taking withdrawals may erode the capital value of the fund, especially if investment returns are poor and a high level of income is being taken - this could result in a lower income when the annuity is eventually purchased; annuity rates may be at a worse level when annuity purchase takes place and a certain investment return is required simply to "keep pace" with an annuity, because a pension withdrawal fund does not receive a benefit from the early death of other pensioners, 'mortality drag', as does an annuity

Equitable Life

A new Board is now in place with the stated aim of more open governance of the Society's affairs. This is to be applauded although the initial evidence of a change is mixed – the market value adjustment was raised to 15% within 48 hours of the London policyholders' meeting on March 14 where we did not hear the subject mentioned.

Our opinion now is that in broad terms the lower risk option for policyholders over age 50 including those with GARs is to withdraw funds from the ELAS with profits fund, provided that the Market Value Adjustment can be avoided.

We stress the importance of taking advice on your individual circumstances.

Friends Provident listing date

Subject to a 75% approval vote by members at an EGM on 6 June and the High Court, Friends Provident has announced a London Stock Exchange listing date of 9 July 2001. Qualifying members are broadly those persons who were members on 4 May 2000 and remain so continuously until 6 June 2001. These dates are important for any policyholders considering taking benefits.

Demutualisation proposals from Scottish Provident and Scottish Life are also now before members for approval. The prospective acquirers are Abbey National and Royal London respectively.

Protection against critical illness

We recommend as a general principle that a critical illness policy is taken out to provide a lump sum to pay off mortgages or other capital liabilities and/or to provide additional protection..

The Saunderson House Portfolio Advisory Service

Clients of Saunderson House now have over £540m in the Portfolio Advisory Service covering both Pension and Non-Pension investments.

Please contact your usual Saunderson House adviser for more details about the articles in Pointers or Mrs Sandra Pearson to arrange an initial meeting with one of our advisers.



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Name:.....

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Telephone (Work):..... Telephone (Home):.....

Please telephone me to provide advice on:

- Unused relief
 - Pension contributions
 - Equitable policies
 - Stakeholder contributions for others
 - Other (please specify).....
- I am interested in investing in a VCT the sum of £

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