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An expanded service from West Financial Management

We've grown bigger by joining forces with Ernest Bertie Financial Services Limited of Yelverton. Ernest is now operating under the West Financial Management banner, and it means we can now provide a better service to clients of both companies.

Ernest and his assistant Julie Fox will continue to be based in Yelverton. Helen West said: "Joining forces is good news for us all, and we are delighted to be working with Ernest and Julie and we welcome them into our team."

Trusts - your questions answered

The Chancellor's tax changes on trusts set up for widows and orphans have left many people wondering whether they need to rewrite their wills. These are the implications

What is a trust?

A trust allows you to pass money to your heirs while protecting it from tax and keeping some control over how the money is used. The person making the gift can impose restrictions, such as when the money is released and how it can be spent.

Why set one up?

To make sure your heirs get the maximum amount of money free from inheritance tax (IHT). This tax is charged at 40 per cent on all assets in an estate above a nil-rate band, which currently stands at £285,000.

So a £485,000 estate would face inheritance tax on the top £200,000; at 40 per cent this would mean an £80,000 bill!

A couple could avoid this by setting up a nil-rate band trust which would take £285,000 when the first of them dies. The surviving spouse could take an income from that trust but it would not form part of their estate. When the second person dies, the proceeds of the trust are distributed to their beneficiaries (including children) and they avoid IHT.

Are there any other reasons for doing it?

To control how money is spent and when your heirs receive it.

For instance, an accumulation and maintenance (A&M) trust could be used by grandparents to pay school fees for their grandchildren. When the children turn 25, they inherit any remaining capital and, as long as the grandparents have lived for seven years since setting up the trust, there is no IHT to pay.

Parents might set up trusts in their wills to ensure their children are cared for if both parents die. They could stipulate who has control over the money, what it can be used for and when it is paid out. Commonly, it might be held in trust until the offspring are 25.

Another situation involves an interest-in-possession trust. This might allow a widow to draw an income from money in the trust, but the capital goes to the children when she dies. It could be used by someone who has married for a second time and wants his second wife to be financially secure while ensuring the children of his first marriage eventually inherit.

What changed in the Budget?

Some trusts have been hit by a new tax charge. Anything put into an A&M trust over the nil-rate band of £285,000 during your lifetime is subject to a 20 per cent IHT charge. Then there is a further charge of up to 6 per cent on everything over the nil-rate band every 10 years, and another tax charge of up to 6 per cent on everything over the nil-rate band when the trust finally pays out.

These charges can be avoided if the money goes into a bare trust, which means the children have to get it at 18.

Interest-in-possession trusts could be hit by a 40 per cent inheritance tax on everything over the nil-rate band when the money goes in, even if it's for your spouse, plus a further charge of up to 6 per cent every 10 years. This is the first time for more than 30 years that transfers between spouses can be affected. These taxes can be avoided only under very strict

conditions, and trust experts are lobbying hard against these rule changes.

Who will be affected?

The Treasury says just 20,000 people will be affected. But insurers, solicitors and accountants claim many more could be hit. The scenario which might worry most people is that if both parents die, their children will have to inherit when they are 18 rather than the money being locked away until they reach 25.

Can we avoid the new taxes?

You could change the terms of a trust before April 2008 to allow children to inherit when they are 18. Grandparents considering setting up A&M trusts could put off the pain by moving only £285,000 into the trust to avoid the living IHT charge. That would be £570,000 for a couple.

The Personal Finance Society

West Financial Management is a member of a number of professional bodies, including the Personal Finance Society which is the largest professional body for individual financial advisers (and those in related roles) in the UK

Full membership of the Society is only granted to people working in the financial services industry who meet the necessary academic and personal qualifications, and only practising advisers who are authorised by the Financial Services Authority are included in the Society's Find an Adviser website service.

The Society helps members become better qualified by providing a comprehensive programme of events designed to help members acquire and maintain relevant knowledge and skills.

Helen West is the Area Liaison Officer for the Personal Finance Society, with responsibility for the Devon, Cornwall and Exeter branches.

Investments

The biggest single factor that affects all investments is taxation. If we can keep that to a minimum we can potentially increase our investment returns by up to 40%. Wouldn't that be worth doing?

From an investment point of view if you are only to do a couple of things, those things should be to ensure that you use your ISA allowance this year and that you also use your CGT (Capital Gains Tax) allowance. Both of these allowances are "use it or lose it" in their nature. If you do not take action you will lose out. Please call us directly if you need help with either of these two areas.

Helen runs for charity

Helen will be running the Plymouth half marathon on Sunday May 28 and aims to raise £1,000 for St Luke's Hospice.

Helen says: "I think St Luke's Hospice provides an excellent service to the people of Plymouth. Sadly a number of my clients have used the facilities. The Centre is supported only by voluntary funding. How would the money be spent? £50 would provide meals for one patient for one week. £200 would provide nursing care for one day. £350 would provide total care for one day. Therefore my £1,000 would last 2.85 days

You can check in the Plymouth Evening Herald or on the Plymouth half marathon website for my name and the time I took. I hope to complete the run as near to 2 hours as I can manage. I will be training hard 3-4 times per week from now until the event."

If you would like to help me put something back to the community of Plymouth please forward your sponsorship donation, cheque made payable to St Lukes Hospice, Plymouth. Please post your donation to us at West Financial Management, 1 Lockyer Road, Plymouth, PL3 4RL.

Competition winner!

The winner of our client feedback survey for December 2005 is George Tregoning from Crownhill, who has won £25 in theatre tokens. Congratulations George!

We hope you have enjoyed reading our newsletter. If you know of anyone else who may like to read it please do use the forward button at the top to send it on. We welcome your comments and views and please let us know if there is anything you would like us to cover in a future edition.

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The logo for The Personal Finance Society consists of a stylized red figure of a person with arms raised, positioned above the text 'The Personal Finance Society'.
The Personal Finance Society
Mem No. 001061850J

MDRT Member
The MDRT logo is a circular emblem with a blue border containing the letters 'MDRT'. Inside the circle, there is a stylized globe or similar design.
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