INSIGHT

ISSUE 15

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WELCOME

Happy New Year, and welcome to our latest issue of *Insight* from Armstrong Watson. Inside this issue, we feature articles covering a number of different topics to help you successfully grow and protect your wealth.

Boris Johnson's gamble to call a general election as a means to unlock the deadlock in the House of Commons was a success. December's election delivered a strong majority for the Conservatives, ensuring sufficient support for the Prime Minister's Brexit departure deal to be approved by parliament and, therefore, the UK is set to leave the EU on 31 January 2020. With voting intentions largely influenced by Brexit policy rather than by traditional party alliances, the outcome of the election had been highly uncertain, although a small Conservative majority or a Labour-led minority government had seemed like the most likely options. While investment markets were historically anti-Brexit, a mood of acceptance developed in the months leading up to the election, and the relative certainty that the Conservative victory gave was welcomed by investors overall, and we look at this further on page 08.

It might seem a long way off, but the later you leave it, the less chance you have of achieving the retirement you want. The Retirement Living Standards, based on independent research by Loughborough University, have been developed to help us to picture what kind of lifestyle we could have in retirement. It shows what retirement could look like at three different levels – Minimum, Moderate and Comfortable – and what goods and services would cost for each level. Turn to page 06 to find out more.

Like most things in life, if it 'sounds too be good to be true', it probably is. However, the attraction of high interest rates on cash deposits is often enough to catch out unwary savers. With interest rates at all-time lows, headline rates of up to 9% look very attractive, especially if advertised with no risk. Read the full article on page 10.

The full list of the articles featured in this issue appears opposite, and we hope you enjoy this Winter issue of our magazine. If you would prefer to download a digital copy or subscribe to new issues electronically, please visit https://www.armstrongwatson.co.uk/.

Paul Dickson
Chief Executive and Managing Partner

LOOKING AHEAD

How much will you need to retire?

IT MIGHT SEEM A LONG WAY OFF, BUT THE LATER YOU LEAVE IT, THE LESS CHANCE YOU HAVE OF ACHIEVING THE RETIREMENT YOU WANT.

The Retirement Living Standards, based on independent research by Loughborough University, have been developed to help us to picture what kind of lifestyle we could have in retirement. It shows what retirement could look like at three different levels – Minimum, Moderate and Comfortable – and what goods and services would cost for each level. This can be found at www.retirementlivingstandards.org.uk.

LIFESTYLES AND OPPORTUNITIES

The research is eye-opening! A single person will need about £10,200 a year to achieve the minimum living standard, £20,200 a year for moderate, and £33,000 a year for comfortable lifestyle. For couples, it is £15,700, £29,100 and £47,500 respectively.

A 'minimum' lifestyle covers all your needs, with some left over for fun and social occasions. You could holiday in the UK, eat out about once a month and do some affordable leisure activities about twice a week.

A 'moderate' lifestyle provides more financial security and more flexibility. You could have one foreign holiday a year and eat out a few times a month. You'd have the opportunity to do more of the things you want to do.

Around half of employees are projected to have an income between minimum and moderate

A 'comfortable' lifestyle allows you to be more spontaneous with your money. You could have a subscription to a streaming service, regular beauty treatments and two foreign holidays a year.

About one in six employees are projected to have an income between moderate and comfortable

The report included a list of goods, services and activities to illustrate what money is actually being spent on in retirement. Real people were included to help pull this together. They included:

- House – bills (including gas, electricity, water, telephone and mobile, decorating, maintenance and furniture)
- Food & Drink – eating out budget, groceries, and beer and wine
- Leisure & Holidays – TV license and subscriptions, internet and holidays including passport and spending money
- Clothing & Personal – clothing and footwear, cosmetics, toothbrush, toothpaste, shaving supplies, hair styling, beauty treatments, suitcases, umbrellas, dentist, opticians, podiatry, and minor first aid

Also included were charitable donations and gifts to others.

ACHIEVING WHAT YOU WANT

The basic State Pension is £8,767 per year. There are less and less people who will benefit from generous final salary (defined benefit) schemes, and more and more of the UK population are having to rely on saving into a personal pension (defined contribution) scheme where the pension you will receive is dependent on how much you save and the investment return. As the State Pension is less than the minimum lifestyle discussed earlier, then saving for the retirement you want is crucial, and the earlier you start, the more chances you have of achieving the lifestyle you want. ■

At Armstrong Watson Financial Planning & Wealth Management, we work with you to build your retirement plans and regularly review these so you know if you will remain on track. We can use cashflow forecasting to allow you to understand your plan more easily so you can make informed decisions.

Tracy Horky
Financial Planning Consultant, Penrith

CYBER–SAVVY SHOPPING

How to protect yourself from scams

FAKE WEBSITES AND PHONEY BRANDING CAN TRICK EVEN THE SAVVIEST SHOPPER, BUT, FORTUNATELY, YOU DON'T NEED TO BE A TECH EXPERT TO SPOT THEM. FOLLOW OUR TIPS BELOW, AND HOPEFULLY YOU CAN HELP PROTECT YOURSELF FROM THE MAJORITY OF THESE SCAMS.

1. INSTALL THE LATEST SOFTWARE AND APP UPDATES

Yes, it can be annoying to wait a few minutes whilst the updates load, but they normally contain really important security updates that can protect you against identity theft. Even better, turn on automatic updates so your device will update itself.

2. USE STRONG PASSWORDS

Securing your important accounts with a good password can help deter against attacks. By having a strong password for your email – one that you don't re-use anywhere else – this will ensure that a cyber-criminal who successfully hacks your email won't also be able to log into your bank account.

3. TURN ON TWO-FACTOR AUTHENTICATION (2FA)

To secure any online account even further, you can turn on an extra layer of protection called two-factor authentication (2FA) – often used by banks – for example, by sending a security code to your mobile phone.

4. USE A PASSWORD MANAGER

Having separate passwords is all well and good, but how do you remember them all? Use a password manager. This could just be the one built into your internet browser, or often into your device.

5. STAY ALERT

Be cautious that some of the emails or texts you receive about amazing offers may contain links to fake websites. Whilst not all links are bad, it's good practice to check by typing the shop's website address manually into the address bar of your browser or to find the website through your search engine (for example, Google).

6. DON'T GIVE AWAY TOO MUCH AWAY

You should never have to give out your mother's maiden name or the name of your primary school to buy something. Only ever fill in the mandatory details of forms (usually marked with an asterisk) when buying online.

7. SAFER ONLINE PAYMENT METHODS

Using a credit card is generally regarded as one of the safest way to pay online, as the money doesn't come straight out of your bank account. Section 75 of the Consumer Credit Act also means credit card companies are liable if you don't receive the goods and services paid for if the payment is between £100 and £30,000.

8. TRUST YOUR INSTINCT AND ACT FAST

Sometimes, things can still go wrong, no matter how much care you take, and it's important to take action immediately. Report the details to Action Fraud and contact your bank for advice.

9. AFTER-SALES CARE

After buying, you should remain on your guard and notify your bank immediately if something looks suspicious. ■

Whilst cybercrime can be a worry for individuals, it is also an ever-increasing problem for businesses, and being prepared is essential. If you're concerned that your business may be susceptible to a cyberattack, please get in touch with barry.maxey@armstrongwatson.co.uk or call me on 07469850632

Barry Maxey
Client Technology Director

RETIREMENT PLANNING

Reaching the big 50 can be a financial wake-up call

YOUR 50S ARE A CRUNCH TIME WHEN SAVING FOR YOUR RETIREMENT. IF YOU'VE ALREADY SET A RETIREMENT SAVINGS TARGET BUT HAVE BEEN NEGLECTING IT, THE REALITY IS THAT NOW YOU CAN'T AFFORD TO DELAY YOUR PLANNING ANY FURTHER – AND IT'S TIME FOR A CAREFUL REVIEW.

Are you on track to retire when you want to? Do you have enough in your pension pot to retire comfortably? A comfortable lifestyle means different things to different people. If you're in your 50s, it's important to make retirement planning a priority if you haven't done so already. At this age, retirement is no longer a distant concept, and time is short if your plans aren't on track.

WILL YOU HAVE ENOUGH MONEY FOR RETIREMENT?

One of the advantages you have in your 50s is that you are no longer relying on very long-term projections to determine if you have enough for retirement. The decision to retire will also depend on how financially independent you are, how healthy you are, and even perhaps whether you have hobbies or goals you'll want to pursue.

Now is the time to think about your retirement income goals and the steps that you need to take to achieve your goals. One of the most important things to do in your 50s is to work out how much money you'll need to retire comfortably.

There are many variables to consider, including the age that you plan to retire, your life expectancy, your income requirements in retirement, your expected investment returns, inflation, tax rates, and whether you qualify for the State Pension.

Given the number of variables, this part of the retirement planning process is not always straightforward.

DO YOU KNOW THE ANSWER TO THESE QUESTIONS?

Q: When do I want to retire?
Q: How much income do I want in retirement?
Q: Do I have previous personal or company pension plans that need reviewing?
Q: Can I work part-time and take some of my pension?
Q: How much will my State Pension be?
Q: Where is my pension money invested, and is it growing?
Q: Can I retire early?

PROVIDING YOU WITH MORE CLARITY

Nowadays, it's common for many people to have accumulated an array of different pension agreements throughout their working life. By the time you have been working for a decade or two, you may have accumulated multiple pension plans on your career journey.

If appropriate, it may be worth considering a pension consolidation at this stage of your retirement planning process. This could provide you with more clarity in relation to your overall pension savings and make it easier to plan for your retirement. You may also benefit from lower costs.

But not all pension types can or should be transferred. It's important that you know and compare the features and benefits of the different pension agreements you are thinking of transferring. It is a complex decision to work out whether you would be better or worse off combining your pensions.

ALTERNATIVE WAY TO GROW YOUR PENSION SAVINGS

In your 50s, one alternative way to grow your pension savings is to save money regularly into a Self-Invested Personal Pension (SIPP) account. This is a government-approved retirement account that enables you to hold a wide range of investments and shelters capital gains and income from HM Revenue & Customs (HMRC).

SIPP contributions receive tax relief. Basic-rate taxpayers benefit from 20% tax relief, meaning an £800 contribution is topped up to £1,000 by the Government, while higher-rate taxpayers and additional-rate taxpayers can claim an extra 20% and 25% tax relief respectively through their tax returns. Please note that the tax relief claimed from your tax return won't be automatically added to your SIPP.

There is a limit to how much tax relief you are entitled to. It is currently applicable to contributions up to £40,000 or 100% of your earnings – whichever is lower. Another special feature is the three-year carry-forward rule. This rule allows you to carry the last three tax years' annual allowance into the current tax year.

This is a useful feature for people who were unable to use up their annual allowances in the past but have the ability to do so for the current tax year. You must use this year's allowance before using the carry forward rule.

There is also the option to invest within a Stocks & Shares ISA. Like the SIPP, this type of account allows you to hold a wide range of investments, and all capital gains and income are sheltered from HMRC. Each individual can contribute £20,000 per year into a Stocks & Shares ISA.

GOOD TIME TO REVIEW YOUR ASSET ALLOCATION

Your 50s is also a good time to review your asset allocation. You'll want to ensure that your asset allocation matches your risk profile now that you are getting closer to retirement. As you move closer to retirement, and if appropriate to your situation, it may be sensible to begin reducing your exposure to higher-risk assets such as equities.

You need to pay close attention to your asset allocation and consider de-risking your portfolio. With retirement just around the corner, you don't want to be overexposed to the stock market, as there is less time to recover from a major stock market correction.

If retirement beckons in the short to medium term, you may look to build a sustainable portfolio with perhaps an emphasis on greater income and reduced volatility and risk. However, moving away from an exposure to growth assets entirely or too early can be very expensive, so it's essential you obtain professional financial advice before taking any action.

Unless your situation is unusual, some retention of these growth assets is going to be required during a retirement that could last more than 30 years. It's important to balance the need for liquidity and an exposure to growth assets.

REVIEW YOUR RETIREMENT PLANNING ON A REGULAR BASIS

Finally, in your 50s, it's important to review your retirement planning on a regular basis. As with any other aspect of your personal finances, it's essential to conduct regular reviews of your pension arrangements to ensure that they fit best with your current situation.

A regular review will ensure healthy progression towards retirement by checking that you are firmly on track with your retirement goals. This is the time to adjust your plan to fit any evolving needs and desires for your post-retirement years. We all change as people over time, and our pension pot needs to reflect our most current reality.

Retirement planning is a continual process, and the more often you review your progress, the more prepared you'll be for retirement and the more in control you'll feel. At a minimum, aim to review your retirement planning at least once annually to ensure that you're on track to achieving your retirement goals. ■

WE'RE WITH YOU EVERY STEP OF THE WAY

Are you already saving into your pension or just getting started? Whatever stage you're at, we'll give you a clear idea of how much you'll need to afford the lifestyle you want after you retire. To find out more or to discuss your requirements, please contact us.

Amanda Heys
Financial Planning Consultant, Kendal

GOT BREXIT DONE?

Future relationship yet to be decided

BORIS JOHNSON'S GAMBLE TO CALL A GENERAL ELECTION AS A MEANS TO UNLOCK THE DEADLOCK IN THE HOUSE OF COMMONS WAS A SUCCESS. DECEMBER'S ELECTION DELIVERED A STRONG MAJORITY FOR THE CONSERVATIVES, ENSURING SUFFICIENT SUPPORT FOR THE PRIME MINISTER'S BREXIT DEPARTURE DEAL TO BE APPROVED BY PARLIAMENT AND, THEREFORE, THE UK IS SET TO LEAVE THE EU ON 31 JANUARY 2020.

BREAKING WITH TRADITION

With voting intentions largely influenced by Brexit policy rather than by traditional party alliances, the outcome of the election had been highly uncertain, although a small Conservative majority or a Labour-led minority government had seemed like the most likely options.

CERTAINTY AND PRUDENCE

While investment markets were historically anti-Brexit, a mood of acceptance developed in the months leading up to the election, and the relative certainty that the Conservative victory gave was welcomed by investors overall. Despite misgivings over Brexit, markets held a greater fear over Labour's policies of nationalisation and high government spending and the large level of borrowing this would have required. As such, with these possibilities ruled out, UK assets jumped in popularity immediately following the result.

FAR FROM DONE

Yet, while Mr Johnson will surely claim to have 'got Brexit done', the truth remains that the future relationship between the UK and EU is yet to be decided. Both a 'no-deal' departure at the end of 2020 and a comprehensive free trade deal remain possible. Consequently, UK financial markets are likely to remain volatile.

A SYMPTOM AND A CAUSE

Pound sterling has generally risen when momentum has moved towards an orderly departure from the EU, while it has fallen when the prospects of a harder-Brexit have risen, given concerns that this would be damaging to the British economy. With this, British stocks often face contrasting factors: a soft-Brexit is expected to boost corporate confidence, yet the likely simultaneous jump in the pound would reduce the value of international earnings, therefore creating a headwind for share prices. This trend is most apparent in the internationally focused FTSE 100. Smaller companies, on the other hand, tend to be less affected by the currency moves, given their more domestic focus and hence have been boosted when certainty towards an orderly Brexit has developed.

NOTHING IS AGREED UNTIL EVERYTHING IS AGREED

Mr Johnson is a politician who is keen to be seen as decisive and seeks to move the national conversation on from Brexit. While he may have missed his October 2019 departure deadline, he appears determined to meet the December 2020 deadline for exiting the transition period. In which way we will exit this mechanism is yet to be seen. The British Government is brashly confident a deal can be struck by the year end, while European negotiators are sceptical. A negotiated exit remains the most likely course in our view, but expect there to be plenty of brinkmanship and volatility along the way. ■

> **“POUND STERLING HAS GENERALLY RISEN WHEN MOMENTUM HAS MOVED TOWARDS AN ORDERLY DEPARTURE FROM THE EU, WHILE IT HAS FALLEN WHEN THE PROSPECTS OF A HARDER-BREXIT HAVE RISEN, GIVEN CONCERNS THAT THIS WOULD BE DAMAGING TO THE BRITISH ECONOMY.”**

Richard Cole
Fund Manager,
Future Money

HIGH INTEREST RATES

If it's too good to be true, then it probably is!

LIKE MOST THINGS IN LIFE, IF IT 'SOUNDS TOO BE GOOD TO BE TRUE', IT PROBABLY IS. HOWEVER, THE ATTRACTION OF HIGH INTEREST RATES ON CASH DEPOSITS IS OFTEN ENOUGH TO CATCH OUT UNWARY SAVERS. WITH INTEREST RATES AT ALL-TIME LOWS, HEADLINE RATES OF UP TO 9% LOOK VERY ATTRACTIVE, ESPECIALLY IF ADVERTISED WITH NO RISK.

Clients browsing the Internet looking for the best Cash ISA rates may find websites using quirky graphics and the usual industry jargon to advertise ‘fixed rates of return’ up to 9%. This is quite incredible, considering the fact that most Cash ISAs currently pay around 1%. A quick look at Google uncovers other sites offering double-digit returns, others pledging investment opportunities in the ‘alternative market’. More worryingly, these firms claim to be regulated by the City watchdog, The Financial Conduct Authority, or to have the protection of the Financial Services Compensation Scheme.

COMPLETELY UNKNOWN

The Times recently monitored these sites over a fortnight and found that company names coming up in the ‘top rate’ ISA searches were completely unknown, some using postal addresses or deserted shop fronts. The paper went onto report these companies to Google. Whilst these companies’ adverts were taken down, they reappeared soon after. One such site, Club ISA, persistently re-advertised, despite efforts to remove it from Google. Another website, Compareisaonline.com, managed to nestle itself between adverts for Martin Lewis and respected advice sites like Money Saving Expert and a well-known bank.

When contacted by phone and asked about these schemes, the replies were less than clear, with unconvincing answers such as, ‘Our investments are asset backed’ and, ’We ensure the assets of the company far outweigh the liabilities.’

ATTRACTIVE RATES

As an occasional user of Twitter myself, I saw an online advert specifically aimed at Cash ISA investors, offering extremely attractive rates of interest. Disturbingly, when contacted, the ‘adviser’ continually mentioned the advertised rate of interest rate, but with no credible explanation as to how this rate was achieved. He persisted with our conversation even after I informed him of my occupation as a qualified Financial Planning Consultant and reference to the Financial Conduct Authority regulation!

According to statistics by *The Times*, earlier this year, scams such as these on social media had conned savers out of £4.4 million. With neither Internet providers, such as Google, nor the Financial Conduct Authority saying it has the power to take down sites that advertise rates highly unlikely to materialise, it is down to savers and investors to be on their guard.

LEVEL OF RISK

If you have cash-based investments and are interested in providing improved returns, this will inevitably involve some level of risk. However, by speaking to a qualified, regulated independent financial adviser, they will understand your long-term objectives, assess your risk profile (including your tolerance around losses), and provide you with an appropriate investment solution. We take the time to explain things so you have a very clear understanding and will, if you wish us to do so, regularly review these investments to ensure they continue to meet with your objectives and risk profile. ■

“ACCORDING TO STATISTICS BY THE TIMES, EARLIER THIS YEAR, SCAMS SUCH AS THESE ON SOCIAL MEDIA HAD CONNED SAVERS OUT OF £4.4 MILLION.”

James Pickles
Financial Planning Consultant, Hexham

CLIENT FOCUS

Best-selling author Nicholas Searle

Nicholas Searle, credit John Rice, the Society of Authors

IT'S SOMEWHAT FITTING THAT NICHOLAS SEARLE, AUTHOR OF BESTSELLING NOVEL AND RECENT CINEMATIC RELEASE *THE GOOD LIAR* WRITES UNDER HIS OWN ALIAS. BUT, WHILST THE MAIN CHARACTER, OCTOGENARIAN CONMAN ROY COURTNAY (PLAYED BY SIR IAN MCKELLEN), USES A FALSE IDENTITY TO DUPE LONELY WEALTHY WIDOWS, NICHOLAS HAS MUCH MORE VALIANT REASONS FOR KEEPING HIS REAL NAME UNDER WRAPS.

Before his decision to take up novel writing, Nicholas had a long, successful career working for the Government in 'security', and he moots the skills he acquired in the psychology of negotiation as vital during the experience which led to the inspiration for *The Good Liar*.

'The inspiration for *The Good Liar* came from a distant relative of mine of whom I am very fond, who found herself in a relationship with an unscrupulous man who was not completely like Roy from the book, but then again not wholly dissimilar. Completely selfish, with a series of lies, he wheedled his way into her life and her home and was sponging off her, making her life a misery.

'At her request, I played a small part in persuading him to go away again. The whole incident brought home the vulnerability of all of us to convincing liars – my relative was far from a gullible person – and increasingly so as we get older. While this man made no obvious attempt to defraud my relative of her savings (he just relied on her to provide his every daily need), it did make me very conscious of the risks we all run with scammers and fraudsters.'

Character Roy Courtnay is much more ruthless in his actions and intentions to vulnerable Betty (played by Helen Mirren in the film), and despite his later years, he is preoccupied by self-interest, with little regard for the feelings of his victims.

So, after spending many years working on national security – and latterly in a similar role for the New Zealand Government – how did this lead to a new vocation in novel writing?

'I had a wonderful career in government service, but since childhood had always hankered after trying my hand at writing – just to see if I could do it. We returned to the UK from New Zealand in 2011 and decided to come back home to Yorkshire. I retired, and in 2014 decided to do a six-month online novel-writing course with Curtis Brown Creative. This was great fun; I learnt a lot, and more to the point I found the novel that would later become *The Good Liar* coming into being as the course went on. I completed the first draft of the book in September that year and the rest, as they say, is history.'

Though he does the occasional interview and photographs have been published, Nicholas' former employers were keen to encourage him to use a pseudonym to protect both his interests and theirs, and

The Good Liar *UK Film Premiere, credit Warner Bros.*

this fits with his own private nature too. 'Most of my neighbours don't know I'm a writer,' he admits. 'I'm a private person.'

Since the publication of *The Good Liar* in 2016, Nicholas has penned two more books, this time relating much more closely to his previous career, focusing on the loosely termed 'recruitment' of British moles: *A Traitor in the Family* (2017) and *A Fatal Game* (2019).

The Good Liar is due for release on DVD in February 2020, and all Nicholas Searle's novels are available to purchase from all good book shops. ■

STARTING A NEW CAREER

Nicholas' new career posed various challenges, not least in organising the business aspects correctly. He came to Armstrong Watson, where Sally Jones became his accountancy adviser. Nicholas says, 'Sally's expertise, guidance and her friendly approach were invaluable in managing the bureaucracy and the sometimes complex business dimensions of my new adventure.'

When starting a new venture such as Nicholas has, it is important to receive the correct financial support and advice, both for your business and own personal needs. We are delighted to have provided Nicholas with tax, consultancy and accountancy services throughout this.

If you are considering embarking upon a new business venture, please get in touch with our advisory team on 0808 144 5575.

"SO, AFTER SPENDING MANY YEARS WORKING ON NATIONAL SECURITY – AND LATTERLY IN A SIMILAR ROLE FOR THE NEW ZEALAND GOVERNMENT – HOW DID THIS LEAD TO A NEW VOCATION IN NOVEL WRITING?"

At Armstrong Watson we work with clients in a wide range of sectors. In future editions we will focus on a key sector and highlight relevant content.

In this edition we focus on our **Agricultural and Landed Estates Sector.**

INHERITANCE TAX

Are changes on the horizon?

THE NEW GOVERNMENT'S MAIN PRIORITY WILL BE TO RESOLVE THE BREXIT IMPASSE, AND IT MAY BE THOUGHT THAT TAX CHANGES WILL NOT BE IMMEDIATELY FORTHCOMING. HOWEVER, INHERITANCE TAX (IHT) IS ONE TAX WHERE FUNDAMENTAL CHANGES ARE LIKELY.

In November 2018, the then Chancellor of the Exchequer, Philip Hammond, commissioned a report from the Office of Tax Simplification (OTS) on how to simplify IHT from a technical and administrative perspective. The report which came out in summer 2019 made a number of recommendations, including the following:

Seven-year rule – IHT is calculated on assets held at death and on those given away in the previous seven years. The OTS recommends reducing this to five years, which is an administrative saving, but HMRC data shows that in 2015/16 would only have reduced the overall IHT take by £7 million.

Small gift exemption – we currently have an annual limit of £3,000, plus a £5,000 exemption on marriage, and an unlimited gift out of surplus income. It is worth noting that the £3,000 limit has been unchanged since the 1980s, and if it had been index-linked would now be more like £12,000. The OTS recommends that there be a single annual gift exemption each year.

Interaction with Capital Gains Tax (CGT) – it has long been the case that a person inheriting an asset receives an uplift for CGT purposes. This allows inherited assets to be sold shortly afterwards without paying CGT. The OTS recommends that where an asset has received the benefit of Agricultural Property Relief (APR) or Business Property Relief (BPR), it should not also receive the CGT uplift. The OTS also noted that the current system encourages individuals to hold onto business assets until their death.

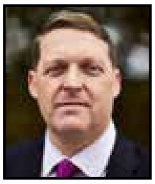
Diversified businesses – currently, if a business is deemed to be 'wholly or mainly' a trading business, then the whole business obtains BPR. The OTS recommended that this test be changed so that, in future, a business must be at least 80% trading to obtain relief. This could adversely affect farming businesses and rural estates which have been

encouraged to diversify their businesses into rental or investment activities.

Unquoted shares – the OTS noted the increase in investments in Alternative Investment Market (AIM) shares, which qualify for 100% BPR after two years. The report stopped short of recommending reform but questioned whether it was consistent with the original intention of BPR.

The new Government may decide to implement some, all or none of the OTS recommendations. The Labour Party has previously said it would be in favour of replacing IHT with a new gift tax. This would result in tax being payable by the recipient of a gift or inheritance, with a suggestion that tax be charged at a person's marginal Income Tax rate once a lifetime allowance of £125,000 is exceeded. This is a more radical change and will take longer to design and implement.

In conclusion, it is unlikely that the current IHT system will survive unscathed for much longer. Individuals need to be ready to react in order to minimise the liability that will arise following their death. ■



Keith Johnston
Tax Director

"THE NEW GOVERNMENT'S MAIN PRIORITY WILL BE TO RESOLVE THE BREXIT IMPASSE, AND IT MAY BE THOUGHT THAT TAX CHANGES WILL NOT BE IMMEDIATELY FORTHCOMING."

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