

EXCLUSIVELY FOR CONTRACTORS

Monthly Guide June 2003 Issue 65



Reform of Pensions

Last month we explained the proposals that the Government had published regarding the future of pensions. We explained that the proposals are intended to encourage more people to save for their old age and that the intention was to simplify the whole pensions regime. In principle the general feeling seems to be that it is about time simplification took place although we have read many criticisms of the proposals.

Let us start with an example which shows how the system is intended to operate:-

In 2009 at the age of 60, Bob begins drawing benefits from pension funds worth £1.8m.

Lifetime limit (was £1.4m but increased in accordance with RPI, to say, £1.5m)

Tax charge $33.33\% \times (£1.8m - £1.5m) = £100,000$

Bob's net funds are $£1.8m - £100,000 = £1,700,000$

Bob receives tax-free cash $25\% \times £1.5m = £375,000$

Additional cash ($25\% \times £200,000$) less 40% tax
= £30,000

Total cash received £405,000

**Remaining fund used to provide pension
(£1.7m - £425,000) = £1,275,000**

The above example incorporates the new lifetime limit of £1.4m increased annually by inflation (we have assumed that by 2009 the limit will have increased to £1.5m) and also shows the effect of over funding the scheme. This is harshly treated as you can see.

Some of the criticisms of the proposals are:-

- The initial lifetime limit of £1.4m is too low and the taxation levied on any excess in the fund is too high.
- There is a restriction on the lump sum which can be paid on death in draw-down before the age of 75.

- The requirement of buying annuity at the age of 75 will be lifted but it will not be permitted to pay any lump sum on death in draw-down after the age of 75. If death in draw-down after the age of 75 takes place then the proposal is that the remaining lump sum should be paid to the Provider which we have seen described as 'ludicrous and unsustainable'.

This is the consultation stage of the legislation and clearly there will be changes before the proposals are implemented. We will keep you informed.

IR35 CONTRACTS NOT SO 'FRIENDLY'

A lot has been written over the last two or three years about circumventing the IR35 legislation by drawing up 'IR35 friendly' contracts.

What we have consistently said is that what the Inland Revenue will attempt to find out is the real relationship that a contractor has with the end user. It is no use spending time or money in drafting a contract which looks as though it gets around IR35 but which does not reflect the actual contractual relationship.

Now, there are warnings that to attempt to escape IR35 with what amounts to a fake contract could be a criminal offence which carries with it an unlimited fine and a maximum of seven years in prison.

These days the Inland Revenue do not check every Tax Return and every set of accounts that are submitted.. They rely on the information that they are given by the tax payer falling within industry parameters and will additionally carry out spot checks and occasionally they will also target individual sectors as well.

To get their message across when they uncover fraud they will make an example of that unfortunate person to deter others in the future. The money laundering regulations have already resulted in a Solicitor going to prison for being only a little lax with his paperwork and the chances are that if the Inland Revenue consider that the IR35 legislation is being seriously abused then they will look for a scapegoat and will obtain as much publicity from the case as they possibly can. A custodial sentence is therefore a possibility.

So, this takes us back to the beginning. You must make sure that your contract reflects the commercial reality of your relationship.

THE MORTGAGE JUNGLE

From time to time we comment on the property market (particularly the buy to let sector which scares us stupid) and also the problems that endowment policy holders are experiencing. We do not provide advice to clients about individual products and only comment on market conditions in general terms.

We were however intrigued to read a report about the disgraceful way in which mortgage lenders treat their existing customers. Only a very small minority of lenders will offer their existing customers deals which are as attractive as those that they offer to new borrowers. What you have to do to get a better rate from your existing lender is speak to the department responsible for retaining business and tell them that if you do not get the best rate then you will re-mortgage elsewhere. Of course, there will be a cost to doing this but unless you are trapped in a long term arrangement it will probably be worthwhile. Apparently only Halifax, when pushed hard, will refuse to offer existing customers the cheap deals available to new borrowers.

This kind of behaviour should be of no surprise to anybody. We commented some time ago about the other side of the coin which was the way in which people depositing money with building societies were treated. A case in point is the Abbey National Building Society which obtained new business by giving favourable rates on accounts set up for children but which at a later date changed the terms on which interest was paid to the account without specifically advising the investors.

There are plenty of lessons to be learned from these examples but the principle one is,--- don't trust banks and building societies whether you borrow from them or lend to them!

Parking Tickets

Traffic wardens seem to be more vigilant than ever. Have you ever got the impression that there is one hiding around the corner just waiting for you to leave your car on a yellow line so that he can give you a parking ticket?

A few practical pointers that we saw recently may be of assistance to you:-

- If the meter has been withdrawn from service by being covered then do not park.

- If the meter is broken and no others are available then you should be okay to leave a note on the wind-screen explaining what has happened.

- If your parking ticket has fallen on the floor then if you send it in to the local Council they will reverse the penalty.

- Foreign number plates are not immune,-- it's just that to collect the fines is impractical and so Councils just don't bother.

One final point,-- if you have a camera with you then taking a photograph of the 'crime scene' might be helpful.

WOULD YOU BELIEVE IT?

The Los Angeles District Court received a letter on behalf of Barnabas Miller, who lives in California, applying to be excused from jury service. The letter said "I have a short attention span, I have to go to the bathroom quite often. And I'm a dog".

Barnabas's owner, in a protest against registration rules for jury service put his dog on the list as a protest. He was found guilty and fined \$250.

PASSWORD RECOVERY

It's sometimes important to keep others from viewing certain files but what happens when you forget your own password? It may be that you need to access some important files but the person who created and protected them has left the company.

For only £15 We can quickly recover lost or forgotten passwords for the three most commonly protected file types - Word, Excel and Access -usually within 20 minutes and return them by email.

You could even resell this as a service to your own clients.

To have a password recovered, contact Evan Jones or email: password@wheawill.co.uk

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