



Welcome to our Autumn Edition of GENIE which I am sure you will find interesting with a considerable variety of topics covered in the articles from our various contributors. As ever, we would welcome any feedback. I am also very pleased to welcome Dave Murphy as a Partner into the Business Recovery Professionals Partnership of the firm. Dave joined the firm originally as a Manager back in December 1999 and his promotion recognises his significant contribution to the success of the business to date.



Colin R Burns

Oil, inflation and all that?

At the time of going to press for this edition of Genie, I have recently returned from my Summer vacation, having driven down to South West France. It amazed me how many cars are on the road and I began thinking about the price of oil and that the price has been hitting record highs, topping \$65 a barrel.

The significance of the high oil price is that it is associated with strong demand for oil putting pressure on limited refining capacity. Everything, in fact, seems at present to be conspiring to push up oil prices. No sooner that the Summer driving season will be over and Autumn and Winter heating demand will be prevalent. If the weather is cold, oil demand increases; if global warming makes it hot, then turn up the air conditioning.

It seems that our appetite for oil continues unabated in spite of record price levels, and the eastward shift of the global economy and rising demand from China with its record growth rate, is another seemingly permanent oil price booster.

The other news that I returned to was the decision by the Bank of England in cutting base rate from 4.75% to 4.5% on August 4th. The Governor of the Bank of England also presented a new inflation forecast. If this forecast turns out to be correct, the Monetary Policy Committee (MPC) will see little need to cut rates further. As is usual, there are various commentators posing serious questions about the forecast and the underlying growth assumptions.

To me however the big issue is currently oil and inflation. Inflation on the consumer prices – index measure targeted by the Bank of England – stood at 2% in June, exactly in line with its target. A year earlier it was 1.6%. What has caused this rise?

There are two competing views. One is that inflation has moved up because of pressure of demand, whilst the other explanation is oil. In just over two years oil prices have gone up from the mid-\$20's to more than \$60 a barrel. In the UK petrol has risen from under 70p a litre to more than 90p. In this context, the surprise is not that inflation has risen, but that it has risen so little. At a time when world oil prices have more than doubled, 2% inflation seems to be a minor miracle.

Core inflation, excluding energy and seasonal food, is running at only 1.5%. It is clear that part of the slow down that has been seen in Britain, is due to the fact that high oil prices act as a tax on growth. The more people and businesses spend on energy the less they have for other things.

Some commentators believe that petrol prices have yet to reflect the impact of the latest rise in crude oil and it is clear that gas and electricity bills will rise further over the winter months. Even the Bank of England have said that the current inflation rate of 2% is unlikely to represent the peak.

So what happens then? There are many speculators in the oil futures market that are forecasting a big rise in oil prices, but the surge in prices recently has all the characteristics of a classic bubble. The International Energy Agency recently reported that “The unfolding statistical picture increasingly reveals the fear of the unknown, and the consequent desire to make forward oil purchases, is behind oil’s higher price path”. It went on to state that any rise in oil demand over the next twelve months would be more than compensated by a bigger increase in supply, split between OPEC and non-OPEC countries.

This does not mean oil prices are going to collapse, although it is likely that they will to return to lower levels, probably between \$40 to \$50 a barrel. That, in turn, would expose the fact that Britain’s higher inflation is largely an oil phenomenon, which should enable the MPC to reduce interest rates further.

And what if oil prices were to hit \$100 a barrel? In these circumstances the Bank of England would need to take action to prevent an already slow-growing economy sliding into recession.

Either way despite the Bank’s recent cautious message, the August reduction in interest rates is unlikely to be last.

Richard Kleiner

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Changes to tax efficient investments

There are a reducing number of tax-sheltered investments available for UK tax payers, so investors should make full use of the choices which remain.

Apart from Pension tax relief, the ISA has been the first point of call for many investors to benefit from capital gains and income tax benefits. There are apparently 16 million ISAs now in existence.

The March 2005 Budget made changes to the operation of ISAs. Until now, there have been three components available within ISAs – Stock and Shares, Insurance and Cash. However, from this year, insurance will fall under the stocks and shares component.

The maximum ISA investment limit will remain at £7,000 until 2010, which brings the cumulative total which could be saved tax-efficiently since 1997 to over £100,000.

The Chancellor has extended the qualifying investments allowable in ISAs to include all retail collective investment schemes which do not have restricted encashment terms and are authorised by the FSA.

The Child Trust Fund is a tax efficient savings account for children born on or after 1 September 2002. It matures on their 18th birthday. Qualifying children will receive a voucher from the Government worth at least £250 to invest into a Child Trust Fund. The voucher must be used to open an account within twelve months of the issue date.

A total of £1,200 on top of the value of the voucher can be invested into the Child Trust Fund each year. At the child's 18th birthday, the fund will be available tax free.

Tax free income can be generated through certain National Savings products, such as fixed interest savings certificates and indexed linked savings certificates. A maximum of £15,000 can be invested in each issue.

Children's Bonus Bonds also offer tax free income with a limit of £3,000 per child in each issue.

Investment in Friendly Society Policies is limited to £270 per year or £25 per month. Although Friendly Society Life Funds are free of tax, the qualifying rules on life insurance policies apply. This means that profits on a Policy surrendered before maturity could be chargeable to personal income tax at the individual's full rate.

Friendly Society Bonds are a popular solution for children's investments because the returns are tax free at maturity and the bonds are not income producing assets. This avoids annual interest above £100 paid on a child's investment set-up in the name of a parent being treated as the income of the parent. The whole sum is taxable, not just the excess over £100 a year.

If your attitude to risk is adventurous, you might wish to consider Venture Capital Trusts or Enterprise Investment Schemes. Essentially, VCTs are investments in small, unlisted trading companies. At least 70% of the portfolio of a VCT must invest in the shares of unquoted trading companies or fledgling companies. The range of companies activities can be as far reaching as technology to home building. Certain investment companies specialise in offering packaged VCTs which can match your investment requirements.

Investors receive 40% of their investment as a deduction from their income tax bill up to a maximum £200,000 investment each tax year. Dividends are not subject to further tax in the hands of the investor and capital gains made on the VCT investment are tax free.

Enterprise Investment Schemes offer 20% income tax relief on new ordinary shares up to £200,000 each tax year. For most investors, an EIS is the only means of deferring capital gains tax liabilities. EISs tend to invest in individual companies, whilst VCTs spread your investment between a number of companies, thereby diversifying the risk.

The 100% tax relief available to individuals investing in British films via Film Partnerships has been extended to 31 March 2006. Gerald Edelman have virtually exclusive access to an innovative Film & Investment Partnership that can have the effect of reducing the top rate of income tax from 40% down to 27%. Reliefs can be carried back to 2002/2003 tax year thus recovering tax that has been paid in prior years. The minimum investment into these types of Partnerships is £70,000.

Whether using tax effective products such as ISAs, VCTs, EISs, Film Partnerships or a Pension Fund, you should never forget the fact that your overall holdings should match your risk profile and investment outlook. With all products, it is important to examine the returns provided and ensure that, if the product is tax efficient and offers little risk, this is equitable compensation for lower interest rates or returns.

Keep it in the family – preservation of pension funds down the generations!

The new pension tax rules being introduced from 6 April 2006 ('A' day) will allow income withdrawals (commonly referred to as drawdown) to continue after age 75 as opposed to being forced to buy an annuity as things currently stand. This income option is to be called Alternatively Secured Pension (ASP). In creating such a possibility, the Inland Revenue needed to decide what should happen to any residual pension fund left on death, where the member was not survived by a spouse or dependants. Their solution is to be known as the 'transfer lump sum death benefit'.

The specific rules allowing the transfer of residual funds on death whilst in drawdown after age 75, are contained in Schedule 29 of the Finance Act 2004. Paragraph 19(1) of Schedule 29 states that:

For the purposes of this Part a lump sum death benefit is a transfer lump sum death benefit if:

- (a) the member had reached the age of 75 at the date of the member's death,
- (b) there are no dependants of the member,
- (c) it is paid in respect of income withdrawal to which the member was entitled in respect of an arrangement at the date of the member's death, and
- (d) it is paid so as to become held for the purposes of, or to represent accrued rights under, arrangements under the pension scheme relating to one or more members of the pension scheme nominated by the deceased member (or if the member made no nomination, selected by the scheme administrator).

As an alternative to the 'transfer lump sum death benefit' any residual fund can be left to charity.

As a transfer lump sum death benefit will only be available when the scheme member is in ASP, then only schemes offering such drawdown facilities will be able to offer such death benefits. This means that the 'family scheme' is most likely to be found in the guise of something that looks like a self-invested personal pension (SIPP) or small self administered scheme (SSAS) does today.

The ability to pass funds on to other surviving family members, is likely to be a very popular feature of the new tax rules. Gerald Edelman Financial Solutions Ltd will offer the option of ASP from 6 April 2006 via our new SIPP product. This will allow other family members to join the Gerald Edelman SIPP, so that they can inherit any residual money left over from the pension pots of older family members who have died after age 75 without leaving a spouse or dependant.

Transfer lump sum death benefit is not a term that is currently recognised by inheritance tax law. So, under current legislation residual funds left on death after age 75 could be passed free of IHT. However, the Government have asked the Inland Revenue to consult interested parties on how inheritance tax law will be applied to new situations, such as the transfer lump sum death benefit, that arise under the simplified tax regime. The Inland Revenue plan to issue a document



setting out their analysis of the IHT issues for consultation. Therefore there is no guarantee that such transfers will be free from IHT.

For full details of the Gerald Edelman Financial Solutions Ltd new SIPP, please speak to your usual contact or alternatively to our Pensions specialist Graham Thomas on 01245-256926.

NEWSFLASH - IMPORTANT INLAND REVENUE CHANGES TO PENSIONS

You may be aware that the tax rules surrounding pensions are changing next April.

Both personal and company pension arrangements will be affected from 6 April 2006 referred to as A-Day. Transitional rules are available to protect those who will be adversely affected but these are not automatically granted and the onus may be on you to apply for this protection.

It is extremely important for individuals with pension benefits to have their arrangements reviewed prior to A-Day in order to ensure they benefit from the most advantageous set of rules available. If you do not take action before this time, you could be inadvertently reducing your pension entitlements including the tax-free cash lump sum available to you.

If you would like us to arrange for your pensions to be reviewed, please let us know and we can arrange for one of our Pension Specialist to contact you.

For an overview of the new pension legislation being introduced, we have available an extremely useful information guide entitled 'Pensions - the new tax regime'. A copy of this is available on request free of charge from Graham Thomas on 01245-256926, gthomas@geraldedelman.com or can be downloaded from our website on www.geraldedelman.com

How AIM stock can mitigate inheritance tax

If you are retired or thinking about retirement, inheritance tax (IHT) planning is likely to be high on your agenda in order to mitigate the tax payable on your Estate. Tax incentives currently on offer enable investors in qualifying AIM stocks to mitigate IHT without losing ownership of their underlying capital. Investments in AIM companies qualify for 100% IHT relief provided that they are held for a minimum of two years.

To qualify, in essence, a company must be a trading company carrying out the majority of its business in the UK. Certain activities make a company ineligible, primarily involving dealing in securities or land.

Most people would prefer that their Estate be passed on to their loved ones rather than to the Inland Revenue, and without effective IHT planning this is often not possible. In normal circumstances, a person's Estate valued at more than £275,000, is subject to 40% IHT upon death. As the value of property has risen steeply, more and more people are finding themselves caught in the IHT net before even taking account of their other assets.

Some stock market-quoted companies have moved to AIM from the full official list because it is more economical and this is having the effect of raising the overall quality of the companies on AIM. It is not unusual to find that AIM companies have large family shareholdings and they too seek shelter from IHT.

Given that many of these companies are small, and often less well established businesses, the risk of holding AIM stocks is considerably higher than investing in Blue-Chip stocks or holding cash. However, the spectrum for stock selection in the small company arena has never been greater, ensuring that portfolios can be well diversified and focused on companies with good balance sheets, strong liquidity and growth potential. We recommend that investors set-up a separate account with a stock broker with a holding in a nominee account. Investments can then be sold without losing the



inheritance tax relief, providing the funds are directly reinvested in qualifying companies. One other virtue is that if the shares are in trading companies and have been held for more than two years, the maximum rate of capital gains tax that can be charged on any gain arising is 10%.

Some examples of qualifying companies now on AIM are Young & Co – the brewers, Nichols – the makers of Vimto, Majestic Wine and Just Car Clinic which operates vehicle collision repair centres.

A portfolio of AIM stocks will not result in loss of control for the investor and is easily

accessible by the investor or the beneficiaries as there are no complex Trust arrangements involved.

As there is no upper investment threshold, an AIM portfolio can be a very cost effective and efficient tax planning tool if managed correctly. We would be more than happy to introduce you to a firm of stock brokers that can specialize in providing this type of portfolio as it is important your individual circumstances are taken into account before investing in AIM stocks.

Colin Burns

Judgement reserved in BA appeal (update)

Following on from the report in the last issue of GENIE, we note that an Employment Appeal Tribunal (EAT) has reserved judgement on an appeal by British Airways in a case of sex discrimination involving one of the company's female pilots.

Jessica Starmer, 26, an Airbus pilot, won a claim for indirect sex discrimination in April of this year after BA refused her request to work part-time.

The airline took its case to an EAT, arguing that its decision was based on safety considerations. The tribunal did not reach any conclusion and is now to give its judgement at a later date.

We will report that judgement in due course as it will have far reaching implications on employees' rights to request flexible working.

European savings directive & overseas bank accounts

Many of our clients with non-UK bank accounts have contacted us recently having received letters from their banks on this subject as from 1 July 2005, EU directive 2003/48/EC came into effect. This is better known as the European Savings Directive or EUSD.

The directive is largely an anti-avoidance measure aimed at reducing tax evasion, rather than a double taxation measure. It is Europe's second attempt to come to an agreement after an attempt in 1998 to allow states either to share information or impose a withholding tax. This directive imposes the same two systems but with no choice for the member state. Despite its similarity, the directive proved problematical to enact, with the result that the operative date had to be put back from 1 January 2005.

EUSD applies only to debt income which excludes shares, insurance claims and late payment charges, but not much else. The directive only applies to income which accrues from 1 July 2005, so any period which spans this date must have the income apportioned. The scope of income includes that from undertakings for collectives in transferable securities (UCITS) if they are either authorised by directive 85/611/EEC or invest more than 40% of their assets in debt claims.

In most cases, the directive simply requires that where interest earned in state A is paid to a resident of state B, the relevant authorities from A must tell those in B. The directive sets out the minimum information which must be given. This must be provided at least once a year within six months of the end of the year in which the income arose.



There is a long transitional period during which three EU states of Austria, Belgium and Luxembourg may apply a withholding tax instead of passing on information. Those three states may receive information on the same basis as other states. The transitional period ends when two things happen. First, Switzerland, Andorra, Liechtenstein, Monaco and San Marino must have "effective and complete" facilities for exchange of information. A set of agreements has already been executed with Andorra, Liechtenstein and Switzerland. Second, the council must unanimously agree that the USA is committed to the principle of exchange of information on the OECD model.

During the transitional period, the rates of withholding tax that these three states may impose are:

2005-2007:	15%
2008-2010:	20%
2011-2013:	35%

Where a withholding tax is imposed on income from one member state to a resident in another member state, the first state may keep a quarter of the tax and must pass the other three-quarters to the resident's state.

The directive does not seek to disturb double taxation arrangements, nor does it stop member states imposing other withholding taxes.

Do remember that all of these regulations can be avoided by "wrapping" your cash investments within an insurance company offshore single premium bond. Further details were given in the Winter 2003 GENIE which can be viewed in the newsletter archive section of our website at www.geraldedelman.com.

Colin Burns

You like home working, but does your home work?

With the current move to working at home as opposed to an office, what at first sight seems straight forward is not. In this article Steve Domb, Managing Director of Comms House Ltd. discusses the issues and finds the solutions.

Is this scene familiar to you?

You like to work from home, but it isn't easy. You have two or more phone lines in the house, and either have spaghetti wiring with odd phones at various places, or you have to sprint for the Business phone if you are in the wrong room when it rings. Your better half and the kids all use computers, so you had to buy extras to keep them off yours. Now they all need support and everyone wants access to the internet just when you are using it. You need open access, but you don't want to risk the kids looking at hardcore porn, and chat rooms are a parent's worst nightmare, and if those little brats don't stop screaming for each other every time one of their friends phones... well, you just won't be responsible for your actions!

In my experience, Home Working is most effective when you have the same facilities as you would in an office, and that is a business infrastructure issue. You see, odd as it may sound the problem isn't you, or the technology, or the kids, or the phone company, or anyone else. It's your house. Think of it like this. When your house was built, architects only had three utilities in mind, Water, Gas, and Electricity. Since then a fourth has appeared, Communications, and it has changed the way you live just as much as indoor toilets, gas cookers, or the light bulb. Communications includes Phones, Intercom, Satellite, Cable, Internet, Audio, and Radio, and what you need to solve your problem is the right plumbing to put it in the right rooms, and a Communications plumber to look after it for you.

Now, I could launch into a technospeak analysis of all the toys you can buy to address each aspect of linking up your home, but to do so would be missing the point. What I'm asking you to do is take a holistic view of your house and lifestyle, think of your house as a business tool,

recognise that a piece of infrastructure is missing, and that you need to address this in the same way as you would installing a new heating system or replacing old electrics.

In my home, we installed hidden wiring to each room for telephone, data, TV, FM and Satellite and used matching sockets so as not to mess up the decorations. We have a small office telephone system with one extension in each room. It lets us handle several phone lines from wherever we are, separate business from home calls, and transfer the calls to the people instead of having the people come to the call. It even has a built in PA system which is very handy when we want everyone down for dinner. The kids have PCs in their rooms, and we have two more in the spare room that my wife and I use as our office. The data system distributes the internet to all of them, and has a firewall across it to fend off the hackers. It also has a very clever "Net Guardian" that lets the grown ups have open access, but protects the kids from the nasty stuff and keeps them out the chat rooms. The TV, FM and Satellite also run along the same routes so we can connect what we like, where we like. The result is safe happy kids and a whole lot less shouting when they are home. The cost of the installation was about the same as we spent on double glazing, and an Estate Agent reckons it has added about twice that to the value of the house. What's more, the business portion of the work is an allowable expense, so the net cost for home workers is a lot less.

So many people asked me for the same in their homes, that I started Comms House to cater for the demand. The usual feedback that I get from clients is that having office type infrastructure doesn't just give better working facilities it also supports the family's needs and allows you a working atmosphere. If you really want to maximise your business efficiency when you work from home, then I suggest you get your home to work for you.

Clients who would like more information about making home working efficient can speak to their usual contact partner for further advice and assistance or may contact Steve directly on 0870 766 1065.

New age discrimination legislation

By the end of 2006, age discrimination in employment will be unlawful. Age legislation will cover direct and indirect discrimination, harassment and victimisation. Age laws will cover everyone either in or seeking employment or vocational training – this is not just about older workers.

Claims will be brought at an employment tribunal and there will be no limit on compensation. Costs, customer preference and length of time before retirement are unlikely to be a defence to an age discrimination claim.

Now is the time to start thinking about the issues and examine your policies and practices. For example, many of the following practices are routine to many organisations currently. After October 2006 they could be challenged and are likely to be regarded as discriminatory:

- Advertising a role that would suit a “mature and experienced person”
- Advertising for someone to join a “young, dynamic team”
- Advertising for someone with at least three years’ experience or a specific qualification, unless it is a requirement of the job
- Offering medicals to those over a certain age
- Requesting an individual’s age during an interview, rather than as part of your equal opportunity monitoring
- Operating work patterns that are likely to discriminate against certain age groups
- Moving those over a certain age off heavy manual work or shifts
- Restricting training to younger employees or refusing to train older employees
- Believing that younger people do not have the competence for management and overlooking them for promotion
- Overlooking older workers for roles that require drive and commitment simply because of their age
- Operating a pay structure that discriminates on the basis of age

The planned legislation will cover all aspects of employment ranging from recruitment, selection, training and development, compensation, promotion, restructuring and retirement. Employers need to start addressing these requirements as soon as possible to ensure that their employment policies will attract the best available employees and comply with the new laws.

For more information please contact Sean Lamb on 020 8492 5600

National minimum wage increased

Rises in the national minimum wage have been announced:

- The adult minimum wage will rise from £4.85 per hour to £5.05 per hour in October 2005 and to £5.35 per hour in 2006. The latter rise will be reviewed against prevailing economic conditions before implementation.
- The rate for 18 to 21-year-olds increases from £4.10 to £4.25 in October 2005 and to £4.45 in 2006.
- The rate for 16 to 17-year-olds is held at £3.00 per hour in 2005 and will be reviewed in 2006.

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