SimplyMoney

Your **independent** ***window on financial issues***

Will climate change affect you?

If anyone can avoid the impact of global climate change, the chances are they are already living on another planet. For the rest of us, there are financial implications that need to be considered.

Climate change—whether you accept that it is man-made or not—is certainly with us. You need only look at the news to see stories of devastating extreme-weather events happening throughout the world, with what appears to be alarming regularity.

In the UK, while winters seem to be shorter and less extreme, the summer (which was certainly late starting) was preceded by unseasonable flooding, and we can expect matters to get worse; especially if the Gulf Stream, which warms us for most of the year, weakens or dies off altogether.

There are likely to be a number of ways in which this will hit family finances. Not least of these is that most families are likely to face increased home insurance, because companies will seek to recoup the massive cost of claims they are now having to meet. The principle of insurance is that the losses of the few are paid for by the many; if claims grow in number and cost, premiums must rise.

However, there is also the threat to businesses and employment, caused by growing numbers of interruptions to trade resulting from poor weather. Although there is insurance that helps businesses to recover from disruptions caused by floods and similar events, this cannot really cover the resultant stress and additional workload on employers and employees alike.

Conversely, there are some potential benefits for those who are prepared to take advantage of them. For example, new investment opportunities exist in respect of firms set up to satisfy the need to fight global warming. These include the recycling sector and alternative energy.

In the latter case the rising price of oil, which, despite a fall during the second half of last year, has bounced back close to record levels during 2007. This could eventually provide much needed impetus for the development of viable alternative sources of energy. This is important for a number of reasons. Firstly, burning any fossil fuel simply contributes towards global warming. Secondly, oil is in any event a finite resource; it will not last for ever. Thirdly, reliance on oil means increasing dependence on imports, as North Sea resources diminish.

High interest rates in the UK are helping to keep the domestic cost of fuel artificially low because the pound is strong. Unfortunately, this also makes it more difficult for exporters to compete on world markets, which—together with high import levels—is undoubtedly damaging to our domestic economy.

This is by no means all doom and gloom. The UK economy is part of an integrated global one and we need to find new ways to benefit from this.

Supporting new "green" businesses could well be the solution both to world challenges and the need of each one of us to provide for our own financial future.

THIS ISSUE

Boost your pension now

With the basic rate of tax due to fall to 20p in April 2008 there is limited time for basic rate taxpayers – and those who do not pay tax at all – to maximise the value of their pension contributions.

The basic rate of tax is set to fall to 20% next April, so those paying £200 a month net who currently receive an investment value of £256.41 a month (thanks to grossing up of the basic rate tax relief) will then only benefit from £250 a month going into their pension. This might not sound much of a drop, but over time—and pensions are all about the long term—it will add up.

So, putting as much as you can into your pension this year could be well worth your while; especially when you remember that the growth of your pension fund is free of UK tax (other than the 10% withholding tax on dividends from UK companies, which can no longer be reclaimed).

For most people, pension contributions are paid out of income; which makes sense, because pensions are supposed to replace your income when you retire. However, there can be times when you suddenly have access to a large amount of money—perhaps as the result of a large bonus, an inheritance or even a win on the National Lottery.

New rules introduced in April 2006 mean that everyone can invest up to their entire income from employment, trade or profession into a pension scheme and receive tax relief on the contribution, up to the total amount of tax they pay. So if you earn £38,000 and are therefore a basic rate taxpayer, and wish to put (say) £29,640 into a pension you could currently receive an investment value of £38,000.

Next year, the same contribution would be worth £950 less to you.

Non tax-payers can also invest up to £2,808 a year and have an investment worth £3,600 made on their behalf, thanks to the tax relief available at source. Next year, the net contribution will be £2,880 to achieve the same result. The difference is almost half the amount by which the government has increased the state pension, this year.

For higher rate taxpayers, there is no change because they receive tax relief at up to 40%. However, their net payment will go up, with the balance of the tax relief coming through their self-assessment.

In any event, making a large payment at any time could make a substantial hole in their tax bill for the year; and provide valuable retirement benefits.

One word of caution—if somewhat early—remember that if you are making pension contributions by direct debit, your net payments will go up on the first contribution date on or after 6th April 2008.

Family protection: getting back to basics

We all know the importance of life assurance & income protection so that our families can carry on without us. But how much is enough? And have you reviewed your cover?

Life assurance costs have generally fallen during the last decade, so plans put in place in the 1990s may no longer represent the best deal. More importantly, perhaps, policies set up as much as ten years ago may no longer be adequate to provide the protection that your family needs to cover:

- Any outstanding mortgage you have arranged—especially if you have increased your borrowings to pay for home improvements or to buy a second home; and
- The cost of living generally for at least until the children are financially independent (which seems to be getting later and later) and to provide for a surviving partner.

It is also important to remember that it is not just the principal breadwinner who needs insurance. A "non-working" partner—or one who is not economically active, to be more accurate—makes a valuable contribution to the family's financial wellbeing simply by undertaking such tasks as child care, cleaning, cooking, shopping, washing, ferrying children about and so on. If the individual was no longer there, it may become necessary to pay someone else to perform the tasks.

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For example, a widowed parent earning £25,000 a year, might face a child care bill for one child averaging £720 a month, assuming a 48-week year; that is not far short of half their take-home pay of £1,561 a month, allowing for tax and national insurance.

Of course, there is likely to be a substantial Working Tax Credit available (including child care element) under such circumstances. But child care is not the only financial challenge faced by a family when a parent dies, or is long-term incapacitated. Other "costs" can include:

- Extended support for children beyond normal school hours;
- Reduced principal income as remaining parent has to cut the hours worked to cope with children's personal and emotional needs; and
- Additional expense for catering and home responsibilities.

News in brief

FTSE100 up 1.33% to 31 August 2007

Despite a volatile July and August, when the FTSE100 wavered between 5,858.9 and 6,716.7, the index is still ahead.

During the same period, the mid-cap **FTSE250** has risen by 1.18%.

House prices up 11.2% to 31 July 2007

Since the start of 2007, the Halifax house price index shows that the average price of an average house has risen by 6.83%. The increase for July (the last month available) was 0.7%.

Oil prices to 31 August 2007

The price of Brent Crude 1-month futures has risen by 19.44% to $72.69 per barrel since the start of 2007.

However it is only 3.47% above its price at the same time last year.

Sterling to 31 August 2007

Sterling has risen against the Dollar by 2.97% to $2.02 = £1 since the start of 2007. Against the Euro, its value has fallen by 0.47% to €1.48 = £1 over the same period.

In this case, substantial life assurance, perhaps including critical illness cover, may be required.

Of course, it is not just death that threatens a family's financial wellbeing. A sustained period of ill health could not only reduce earning capacity, but also increase living costs. For example, a sustained period in hospital following an accident or picking up an infection could involve daily hospital trips for family members, as well as added expense in buying essential equipment and extras.

Income protection insurance can go a long way towards helping cover the costs and is available for a wide range of occupations including for those who are not economically active, but have caring responsibilities. It comes in a number of guises, including accident and sickness insurance (which offers an income as well as some lump sum benefits and is offered on an annual basis), permanent health insurance (which provides an income and is offered for a fixed number of years, even up to retirement) and critical illness insurance, which pays a lump sum, rather than an income. There are also special covers for mortgage repayments, which tend to be cheaper, but are more limited than other forms of income protection insurance.

Private medical insurance can also not only provide for the cost of health care but can result in a speedier recovery, as treatment is often faster so that a period of incapacity is shortened. This applies not just to those in work but also children, whose education could suffer during any sustained period away from school.

Finding overseas property taxing

When HM Revenue and Customs announced a partial amnesty on those with overseas assets to own up or face massive tax penalties, few realised that this covers more than just offshore bank accounts.

Of itself, ownership of an overseas property does not give rise to potential tax liabilities; it is the fact that it generates an income or capital gain for you that matters. So those keeping a home in the sun just for personal/family use are not affected in the short term, provided no money or value is received from friends and family using it (there are however, other local taxes that will apply and overseas assets are counted for UK inheritance tax). Capital gains tax will also apply in due course.

The rules are quite simple. If you are a UK resident, you are liable to tax in the UK on your income and capital gains worldwide from whatever source, including bank interest, property rental and income from trade or profession; so it is no use writing a book and having it published in Spain, it will still potentially be taxed in the UK if you live here for more than 90 days a year on average over any four-year period (subject to a maximum of 183 days in one year).

If any money you generate from renting out your overseas home is subject to local taxes, then you will probably benefit from double taxation relief in the UK, to the extent that you have already paid locally. So a basic rate taxpayer with rental income in Spain subject to 24% tax will have nothing further to pay; but a higher rate tax payer would be liable for a further 16%.

Under the amnesty, those with overseas assets had until 22 June 2007 to declare the income. Failure to do so will result in HMRC charging not just the **tax due plus 10%** when they find out about it—which they almost certainly will—but also a **100% penalty on top**. After making your declaration about overseas income to the UK taxman, you have up to five months within which to give them full details.

It is also important to declare any capital gains you make when selling your overseas property, as this counts against your annual allowance in the UK (currently £9,200 per person). Due to an unprecedented level of inter-state co-operation, it is most unlikely that those with overseas property will escape detection, so honesty is definitely the best policy.

Having said this, owning a home in the sun and even letting it to help cover the costs should not be discounted. At the very least, this can provide a source of cheap holidays for yourself and friends; at best, it might prove a good investment, even after tax.

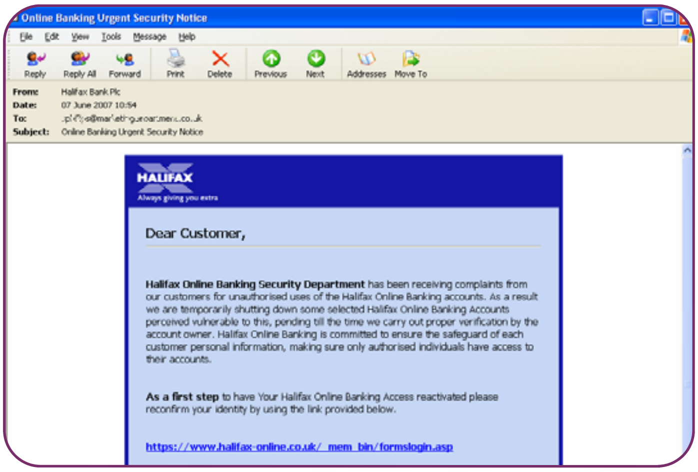
One important consideration will be how to finance your purchase. If you are re-mortgaging your UK home to release cash to buy a home overseas, your options are limited. If, however, you are intending to borrow against the security of the overseas property itself, you might wish to consider an overseas mortgage, perhaps in euros, dollars or whatever local currency applies.

The reason for this is that your rental income is probably going to be in the local currency (unless you let exclusively in the UK) as will be your main costs such as local taxes, management fees and so on. By having your mortgage in the same currency as the income generated by the asset, you avoid currency fluctuations making your mortgage disproportionately expensive, should exchange rates move against you.

Back page briefing:

Phishing still a popular sport—for criminals

Despite numerous press warnings, criminals still try to trap the unwary into giving them personal banking information.



Our e-mail in-boxes continue to benefit from the attention of those who wish to part us from our money without offering anything in return. We do not refer to the numerous adverts for wonder-cures for a wide range of personal problems (although these probably offer nothing of practical value) but the e-mails offering us millions of dollars if we will just provide (taken from an actual e-mail) our:

- Full name, phone and fax numbers;
- Name of your bank and the account number/sort-code; and
- Proof of identity, such as a driving license.

Anyone parting with information of this nature to a third party at all, let alone in response to an unsolicited e-mail from someone claiming to be (in this case) Deputy Governor of a Central African Bank and using a hotmail address, is likely to be disappointed if they expect to receive a brass farthing. More importantly, they will be lucky to find that their bank account has not been emptied for them.

These scams are easy to spot, because they offer something for nothing and as the old saying goes "you don't get anything for nothing"; or, more accurately, "if it looks too good to be true, it probably is".

More difficult to spot can be the genuine looking e-mail that appears to come from a recognised UK bank, telling you that there has been a security alert, or questionable access to your on-line account, and that you need to log on to re-confirm your identity.

The address on the e-mail will look perfectly correct, including the all important "HTTPS" at the start, indicating that it is a secure site. However, if you click on the link—and we strongly recommend that you never do so*—you will see that the actual address is completely different (although it will contain the all important www.halifax-online.co.uk to catch out anyone who takes the trouble to check).

The giveaway is that the actual address is everything in the lead up to the first "/"; this is where you are being directed. Everything else is simply routing within their website.

In the case of a series of fake Barclays e-mails, we have identified three different top level domains (that is the last letters after the "." at the end of the real address) including Hong Kong, Belgium and Niue. (For those who are interested Niue is a Polynesian island).

There are a few simple rules to remember:

(1) Your bank will NEVER ask you to confirm your account details and passwords over the internet, they have this information already;

(2) Never follow a link in an e-mail unless you really know, and trust, who it is from or have at least checked that the link goes where it says it does;

(3) Always look for "HTTPS" in the address bar of your browser and the closed padlock to show that this is a secure site;

(4) Never believe you are "helping someone out"—schemes saying they are liberating unclaimed money are invariably both fraudulent and illegal.

* Clicking on a link of this nature can help criminals to at least determine that your e-mail account is active, even if they do not plant a "Trojan" on your computer to monitor your keystrokes.