

## 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 now have 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 managed to bounce back to almost 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 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.

**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.

## Finding your 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 for personal / family use only 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.



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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, 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.

## Other developments...

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- Professional Indemnity

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