

Paul's Blog from the UK

I have recently returned from a business trip to London with the main purpose to visit the financial district in London the CBD. I wanted to talk with the people involved in banking and finance world to see for myself at the extent of the Global Financial Crisis at ground level.

As a Financial Planner, I thought it best to firstly get the views of a London based counterpart, so I arranged to meet with a Liverpool Street, Certified Financial Planner for lunch. My first impression was that he was quite protective of the way that they did financial planning there which gave me the feeling that the way that we do financial planning here in some ways may have been better than what they do there. Of course I wasn't there for that but he did seem a little uneasy and may have thought there was a hidden agenda. I imagine it's unusual for a Financial Planner from another country to just contact someone in the same profession simply for the purpose of having lunch and a discussion.

After about 20 minutes he seemed more relaxed and we discussed their tax system and the types of planning strategies that they implemented for clients to assist them with creating wealth and planning for retirement. I did do my homework prior to traveling to the UK and researched their tax laws and how their social security system works in conjunction with retirement and tax planning.

The most interesting part of the system there is that they are not able to claim a tax deduction for borrowing to purchase shares. This maybe a good thing after what we saw with demise of some well known financial planning groups and their clients with strategies heavily reliant on gearing.

There is also a limit on claiming deductions against a loan for purchasing an investment property. It got me thinking that without being able to gear to the extent that individuals can here, it really limits the opportunities around managing your wealth.

This really confirmed my view that in the UK, most people are very property focused particularly climbing the property ladder throughout their working lives which seems to be the basis for the creation of wealth and retirement funding.

Whilst gearing on shares doesn't exist and also gearing into investment properties is limited or restricted, it was interesting to discover that under Estate Planning, an inheritance tax on death forms a major focus on Financial Planning. On death, tax is levied at 40% on all assets of the Estate in excess of £325,000. A way of reducing tax on the amount over this exempt component is gifting the family home to a relative at least 7 years prior to death.

This tends not to be the greatest of inheritance tax strategies as no one really knows when their time is up.

But in my discussions with the UK Financial Planner our conversation went full circle, back to borrowing. It seems that should you have a mortgage, the amount of the mortgage reduces the total asset value of estate assets.

So it seems that under Inheritance Tax Planning there is a propensity to protect Estate Assets by increasing the mortgage to higher levels as you get older.

It is not surprising that if strategies around debt is encouraged as a lifetime tool to limit tax on death, that the Global Financial Crisis in the UK has had a significant impact on the economy and society as a whole.

In my opinion a culture around debt for wealth protection at the end of life rather than wealth creation at the beginning will have a huge impact on the economy generally, let alone in a global financial crisis.

I also had the opportunity to talk with a Bank Financial Planner and lenders with HSBC, Barclays, Halifax and Lloyds TSB Banks. Their view typically was that currently, to consider a loan, a potential borrower would need a deposit of around 35%-40%. So it seems that borrowing is going to be fairly tight for those living in the UK for some time to come.

Australia has always been referred to as the "Lucky Country". In my view it still is.

Paul