

Update for Professionals April 2010

The Budget & The General Election

By David O'Connor

We have always accepted that April is Budget time and with it comes a raft of changes. However, in recent years we have had the pre-budget report/statement that has taken the edge off the anticipation and has created the situation where the Chancellor of the day now has two bites at the cherry. If the November statement gets too much reaction then he is able to tone down the resulting budget or, as often seems the case, to bury items in the small print.



In this respect Mr Darling's latest performance proved to be as predictable and evasive as was generally forecast, hence the initial wave of apathy with which it was greeted by the markets.

Obviously with an election announced for next month, nothing less could be expected. I suppose we should be grateful that he resisted (under pressure?) the temptation to offer the electorate a basket of freebies to win their affection. As noted above the devil is in the detail, most of which was skimmed over in his short speech. However based on the figures given the following seem to be the main points:

X Personal Pensions Tax Relief

As previously announced from April 2011 tax relief on pension contributions will be restricted for those with gross income in excess of £150,000 per year (or relevant income above £130,000). These are now referred to as permanent changes. Currently there are 'anti-forestalling restrictions' already in place to prevent higher earners from paying large pension contributions before the permanent changes coming in to play next year.

X Change to Personal Allowance

In the April 2009 Budget, the Government announced that with effect from 6th April 2010 individuals receiving an income of more than £100,000 per year would face a cut in their Personal Allowance. This would reduce by £1 for every £2 of income above £100,000. This was restated in the March 2010 Budget. Also the level of Personal Allowance was 'frozen' at £6,475 together with the age-related allowance at £9,490 for individuals aged between 65 & 74 and at £9,640 for those aged 75 and over for 2010.

X New 'Additional' Rate of Tax

In the April 2009 Budget the Government announced it would be introducing a new 50% rate of Tax on income above £150,000 from April 2010. This was re-stated in the Budget. The rate applicable to Trusts in respect of trust income will be increased to 50% (from 40%) with the trustee's rate for dividend income increasing to 42.5% (from 32.5%).

X Inheritance Tax

As previously announced the nil rate band has been frozen at £325,000 until 2014/15.

X Capital Gains Tax

The current CGT rate of 18% remains unchanged. However, Entrepreneurs' Relief for CGT will be extended from £1m to the first £2m of qualifying gains over a lifetime from April 2010.

X Stamp Duty Allowance

For first time buyers Stamp Duty Allowance will double from £125,000 to £250,000. A new rate of 5% for properties valued over £1m is expected to be introduced in 2011/12.

X National Insurance Contributions

Although unchanged for this tax year it was confirmed that from 2011/12 NIC rates will increase by 1%.

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Commentary

Considering a downwardly revised GDP forecast of 3.0 to 3.5% for 2010/11 (which many leading economists expect to be halved) the budget appears to take no account of the inevitable fiscal belt tightening post election. The help for first time buyers, whilst very welcome, appears flawed given the poor outlook for employment and incomes and the discussions in the media regarding the definition of 'first time buyer'.

Most of the tax rises were known although the decision to defer the expected tax rises in VAT and CGT until after the election may be just my cynical view.

There was no strategy for growth given in the Budget statement, merely an assumption that renewed consumer spending (?), higher exports and corporate investment will generate higher tax returns sufficient to halve the budget deficit in four years.

Once again I feel this will be an unreachable target without further tax rises and reduced public spending. In some ways this reminds me of the old 5-year plan strategies that Russia used to produce in the 1950s and 60s that

would lead the nation to success whilst in reality they starved.

Mr Darling highlighted the fact that the UK economy had contracted less than Japan and Germany but did not mention that our current deficit (around 12% of GDP) is almost the same as that of Greece!

Overall, due probably to the imminent election, in my opinion the Budget was weak in that it did not tackle the problems of our economy and present us with the leadership required to get the country back on track. This may be due to a fear of a backlash from the Trade Unions over the necessary changes required within the public services to reduce the cost of public spending. Not to mention the drain on the public purse with regard to unfunded pension schemes in the NHS, Teachers, Police etc, etc.

All in all, whichever party wins the election the necessary steps required to bring the level of public spending down to an acceptable level will probably be the greatest problem that needs to be solved.

Conclusion

As with all planning, it is legally permissible to mitigate tax but not avoid it. However there are many ways in which we can help clients reduce or eliminate their tax burden.

Using all available allowances, be it ISA, CGT, BPR or even the unused spouse's tax allowance, can all have a positive effect on the family's tax position and future wealth for this and the next generation.

Pensions are still an excellent path to providing for income in the future even with the current restrictions for higher earners. Salary sacrifice, especially with the increase in NIC's next year, may be of interest.

Using the increased ISA allowances could be the first port of call for many.

Switching investments between spouses can be beneficial for many.

Investing into non-income producing assets within Trusts can eliminate the new 50% tax

band whilst still allowing income to be paid to the beneficiaries if necessary.

Finally, although the outlook may appear a little grey and unsettled I am sure that the future will become brighter. Having said that the only certain thing in life is death and taxes!

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