

The Emergency Budget

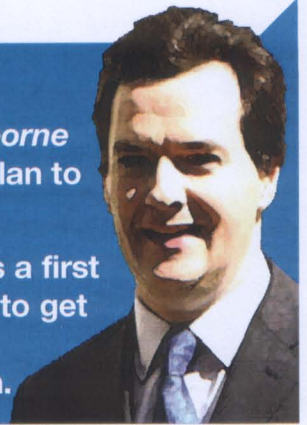
By David O'Connor

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Introduction

In his first Budget speech as Chancellor of the Exchequer, *George Osborne* set down a series of measures which will form the basis for a 5-year plan to rebuild the British Economy.

As with all budget statements the devil is always in the detail. This was a first attempt to point out the direction the coalition wants to travel in order to get the country back on track. More announcements will be made in the autumn therefore not all the depth and details of the changes are known.



The main points

It has to be recognised that some of the changes were expected, however the scale and depth of the financial situation in which the UK now finds itself is far worse than many imagined.

In order to reduce the deficit there will be an accelerated increase in the **State Retirement Age** from age 65 to 66, the date to be announced later this year. As state pension benefits diminish the need for private retirement provision will increase.

For many the removal of the requirement to secure a pension by age 75 has been welcomed. The government will now enter a consultation period to remove the age 75 rule by 2011-12. In the meantime, legislation will be introduced such that anyone who turns 75 on or after 22 June 2010 does not have to secure an income until their 77th birthday. In other words they can defer the decision until the new rules are finalised, however there is still a requirement to act by age 75. Members affected by the new interim rules **must** take their Pension Commencement Lump Sum (PCLS) and go into unsecured pension (which can be nil income) before their 75th birthday.

In terms of death benefits anyone age 75-77 in unsecured pension will be treated the same as the under 75's, i.e. a taxable dependant's pension can be taken from the fund or a lump sum less 35% tax.

In addition there have been strong indications that this government will also relax the rules to allow access to pension funds before a minimum retirement age currently set at age 55. However they have yet to set any guidelines for such access.

Restrictions to higher rate tax relief on pension contributions from 2011

The government has decided to scrap the current restrictions in favour of lowering the **Annual Allowance**. The government has recognised that the changes brought in to restrict higher rate tax relief have been over-complicated, confusing and expensive to implement. They have decided to enter into consultation with the pension industry with a proposal to repeal the rules set for April 2011 in favour of reducing the Annual Allowance to achieve a similar effect. It is proposed that the Annual Allowance for pension contributions will be set around £30,000 to £45,000 per annum from April 2011. The current anti-forestalling provisions will continue in the meantime.

If you have clients with incomes above £30,000 but below £130,000, there is a **window of opportunity** between now and next April to make contributions that are above the proposed Annual Allowance.

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Changes to Capital Gains Tax (CGT)

CGT has increased from **18% to 28%** for higher rate taxpayers. Investments held within a pension are exempt from CGT, so this strengthens the argument to invest via pensions rather than holding an investment personally.

If a pension plan purchases an asset from a member personally, or the member makes an in specie contribution, then a disposal for CGT purposes occurs. If the member is a higher rate taxpayer their liability for CGT has been increased.

The increase in CGT may also affect the choice of investments away from collectives towards Investment Bonds that have the ability to defer gains until such time as encashment can be made to basic rate taxpayers.

Trusts

Unfortunately as yet the Government has not reduced the rate of tax for Trusts as it remains at 50% plus the increased rate of 28% for CGT.

These changes increase the pressure on Trustees to seek out tax efficient investments, with investment bonds, low risk **Business Property Relief** (BPR) and/or low risk Enterprise Investment Schemes (EIS) that give income tax breaks and qualify for BPR after only 2 years, becoming the first choice for many due to the tax efficiency of such investments.

Tax Efficient Investments

In the face of rising taxation many clients will be reviewing their savings and investments, and may place a particular focus on tax-efficient investments.

With smaller companies' corporation tax rate reduced to 20% and the lifetime limit on gains that qualify for Entrepreneurs' Relief increasing from £2 million to £5 million, this is a good Budget for young, fast growing companies.

For established, growing businesses, the measures will allow more money to be kept within the businesses (rather than leaking out through corporation tax) thus encouraging reinvestment and enabling growth. The increase in **Entrepreneurs' Relief** limit on taxable gains should incentivise and support the start-up end of the market. It is very encouraging that the Government has recognised the importance of new companies, which is a key driver of employment and revenues for an economy coming out of recession.

Hence there should be renewed interest by clients in **Enterprise Investment Schemes** (EIS) which shelter CGT gains and offer income tax incentives. **Employee Benefit Trusts** (EBT) are also a method of extracting profits from businesses in a tax efficient manner. This is achieved by setting up an EBT for the owner/director of the company and transferring funds into the Trust that can then make loans to the owner/director at a commercial rate of interest. This in turn creates a debt against the owners/directors estate which could also be IHT effective.



Conclusion

I feel the best description of the coalition's first budget is 'firm yet fair'. Obviously there will be more changes and possibly greater taxation levels to come. More information should be available by the autumn statement.

Overall it would appear there has been an outbreak of common sense with a clear intention (hopefully) to simplify the revenue, benefit and taxation system for the good of all. Within all this potential turmoil it is probably stating the obvious to say that now, more than ever, it is imperative that all our clients seek independent financial advice to find the best ways of making the most tax efficient use of their money.

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