

## Budget 2010 – the devil is in the detail

March saw Alistair Darling announce a pre-election budget that was short on major headlines, but not without some important measures announced for individuals and businesses alike. Some of the important and relevant announcements are summarised below:

### Income Tax & National Insurance

A freeze in personal allowances for the 2010/2011 tax year and a 1% rise in National Insurance (from April 2011) was confirmed.

He also confirmed tax increases that he previously announced for higher earners from 6 April 2010. Individuals earning above £150,000 will have to face the prospect of 10% tax increases from 6 April 2010 (highest rate rises to 42.5% for dividend income and 50% for other income). This tax increase will also apply to many trustees.

Furthermore, personal allowances will be restricted for individuals earning over £100,000 from 6 April 2010.

*Several planning opportunities exist around these announcements. Pension contributions could be used to reduce income below the £100,000 limit to preserve the personal allowance and salary exchange could be used by many employees to reduce the impact of the NI increases.*

*Trustees should seek advice to ensure that appropriate assets are held (e.g. capital assets rather than income) and an appropriate strategy is used to distribute assets in order to minimise an otherwise very harsh tax position.*

### Inheritance Tax

The inheritance tax threshold, for individuals, will be frozen at £325,000 (£650,000 for married couples/civil partners) for the tax year 2010/2011 and the following 4 years. This overrides the original planned increase to £350,000 announced in Budget 2006.

Therefore any increases in estate values above the nil rate band (double NRB for married couples / civil partners) will likely mean that more IHT is payable. Remember, IHT is charged at a rate of 40% above the NRB and therefore this freeze could potentially severely reduce estate values on death if proper planning is not undertaken.

*Given the additional importance of proper IHT planning that these measures bring about we are repeating our offer of sending out our free guide to IHT to existing and prospective clients alike. Please see overleaf for how to request a copy, or speak to your usual adviser to arrange a meeting to discuss your IHT planning and mitigation options.*

### Capital Gains Tax

Despite much speculation about the possible raising of capital gains tax (CGT) the flat rate of CGT remains at 18% – as an increase in the rate (e.g. to 25%) would have been seen as a U-turn too far in an election year. The annual exemption for 2010/2011 remains at £10,100 for individuals.

There was good news with regards to entrepreneurs' relief from CGT which saw the relief double to £2m. This relief has certain criteria attaching to it, but basically is relevant for:

- gains made on the disposal of all or part of a business, or
- gains made on disposals of assets following the cessation of a business by certain individuals who were involved in running the business.

With effect from 6 April 2011, the first £2 million (a doubling from £1 million) of gains that qualify for entrepreneurs' relief will be charged to capital gains tax at an effective rate of 10%. Gains in excess of £2 million will be charged at the normal 18% rate.

An individual will be able to make claims for relief on more than one occasion, up to a lifetime total of £2 million of gains qualifying for relief.

### Corporation Tax

The planned increase in corporation tax from 21% to 22% for companies with chargeable profits of less than £300,000 has been deferred again, so the rate will remain at 21% from 1 April 2010 to 31 March 2011. This will be good news for many smaller companies. The full rate of corporation tax remains at 28%.

### Pensions

The Chancellor confirmed that, from 6 April 2011, individuals with gross incomes of £130,000 or more may have their tax relief restricted. For those with gross income of £180,000 or more, tax relief will be restricted to 20% as tax relief will be tapered at the rate of 1% withdrawn for every £1,000 of gross income above £150,000.

As part of these measures other clarity was given to issues such as the valuing of final salary benefit accruals and therefore we suggest that anyone falling into this bracket should contact their adviser to discuss the forthcoming changes. In the meantime, 'anti-forestalling' measures are still in place for the current tax year, as detailed in previous newsletters.

# What's going on?

## Market Commentary – End Quarter 1, 2010

The bull market in global equities continued during the quarter, extending its run to now over 12 months. This is reflected in the very healthy returns for most markets shown in the table below, with the FTSE 100 up over 50% (including reinvested dividends) over the year to the end of March, with other areas of the markets (e.g. smaller companies) delivering superior returns still.

	3 Months	1 Year
FTSE 100 TR	5.99	50.42
FTSE 250 Mid TR	9.90	64.23
FTSE A British Govt All Stocks TR	1.14	0.77
FTSE All Share TR	6.42	52.30
FTSE All Small (X It) TR	1.66	70.03
FTSE Europe ex UK TR GBP	4.01	48.76
FTSE World TR GBP	9.87	47.13
IPD UK All Property Monthly TR	5.75	16.35
LIBOR GBP 1 Month	0.10	0.49
UK Retail Price Index	1.24	4.45

Source: Lipper Hindsight, bid-bid, net income reinvested, to 30/03/09

Convincing arguments can easily be made for either a continuation or indeed a reversal of this trend in the short-term, and therefore investors are best advised to remain committed to their long-term investment strategies, whilst remaining aware of the structure and exposure of their portfolios.

On the positive side, markets tend to perform well around this time of year and, taking a longer-term view, many companies are benefiting from strengthened balance sheets, an improving earnings outlook, reasonable valuations, low interest rates and low inflation (particularly in the Western world).

Contradicting this is the debt burden that many countries have brought upon themselves before and during the "credit crunch", which will take many, many years to resolve. This will help to ensure that real disposable incomes will fall and employment levels will stagnate as governments seek to address their deficits.

At home the election has been called for 6 May, and the contest appears to be much closer than many first thought. The outcome will be important in deciding how the UK addresses its own debt mountain, with the different fiscal and spending strategies of the major parties likely to be the main election fighting ground.

We believe that whilst the political class may idealise around the scenario of a hung parliament, what the country really needs is a decisive victory for one party so they have the power to push through vital reform. Whether this occurs or not of course remains to be seen.

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Gilt and share prices may come under short term pressure as investors and markets with the increased uncertainty that a hung parliament would bring.

Whilst we await the election results with great interest and baited breath, it is worth considering that global diversification of portfolios (and indeed the diversification of earnings of most large UK companies) will help to limit any impact on investors.

## Free guide to IHT

As mentioned in last quarter's newsletter, and overleaf, we have a free comprehensive guide to IHT and potential mitigation strategies, which is available upon request.

The guide provides a background to IHT, gives information about the IHT exemption rules and considers different strategies for IHT avoidance, including the use of trusts. The guide is written in straightforward language and therefore we hope is easy to follow. It has been designed to help you start to consider IHT issues, which we then recommend you discuss in detail with an advisor.

Simply contact any member of the team on 01473 255948 to request your free "Guide to IHT", or email [enquiries@stangaskin.co.uk](mailto:enquiries@stangaskin.co.uk).

## London to Paris in Lycra!

Henry is currently in training for a sponsored cycle ride from the Cutty Sark to the Eiffel Tower. The trip is to raise money for the Royal Marsden Hospital where his friend Joe Alexander was treated for cancer 10 years ago.

The trip is due to take place over 4 days in July and the team of riders (headed by Joe) are aiming to all complete the 300 mile trip in one piece and to raise at least £10,000 for the cause.

Whilst the Hospital is based in Sutton, Surrey, it treats and has treated people from all over the UK, including other friends and relatives of many of the riders. To make a donation please visit [www.justgiving.com/The-Royal-Marsden-Riders](http://www.justgiving.com/The-Royal-Marsden-Riders) and we will try to include some embarrassing photos in future newsletters!

## Other Charity News

Still on the charity front, our admin team members Angela, Bev and Aggie will be doing the Midnight Walk in Ipswich on May 22<sup>nd</sup>. Known as "Mikes Minxes" they will be walking in memory of Angela's husband Mike who died in December and raising money to support the good work of St Elizabeth's Hospice.

Should anyone wish to help this cause donations can be made to us, cheque payable to St Elizabeth's Hospice, or donations can be paid via their website, [www.stelizabethhospice.org.uk](http://www.stelizabethhospice.org.uk)

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