

Emergency Budget 2010 – the effects for you

The much anticipated emergency budget was announced by George Osborne on 22 June. This budget saw significant changes announced to the country's spending plans and the shape of future fiscal regime under the new coalition government. In this newsletter we consider the key taxation and legislative points that may affect our clients.

In general terms, the budget looked to tighten policy and raise revenue for the exchequer, whilst aiming to protect those on lower incomes and protect and provide stimulus for corporate growth. Furthermore, many changes were announced in general terms, with more detail to be released later in the year, ahead of potential implementation in future tax years. Some changes however were immediate. Please see our Quarter 2 newsletter for details of the March budget which covers some of the changes which are already planned to happen in April 2011, which may be referred to below.

Income Tax & National Insurance

The Chancellor confirmed that the basic personal allowance will increase to £7,475 from 6 April 2011. The basic rate tax threshold will reduce to effectively restrict the benefit of the increased allowance to lower earners, however those that remain as basic rate taxpayers will be £200 better off through this measure. The long term objective is to increase the personal allowance to £10,000, protecting low income individuals further.

The 1% National Insurance rise will still apply from April 2011, but employers will benefit from an increased secondary threshold which will reduce the impact of the increase. *Many employees can still reduce the impact of increased national insurance charges by using salary sacrifice/exchange.*

Inheritance Tax

No changes were announced in this area meaning that the inheritance tax threshold, for individuals, remains be frozen at £325,000 (£650,000 for married couples/civil partners) for the tax year 2010/2011 and the following 4 years.

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, at a rate of 40%.

It remains to be seen if the Conservatives will be able to increase this in the future (their manifesto talked about raising the threshold to £1m), however due to the current state of public finances it must be questionable if this would happen at any time in the near future.

Capital Gains Tax

From midnight, 22 June, a new rate of capital gains tax (CGT) of 28% will apply to individuals with total income and gains that exceed the basic rate limit (currently £37,400). This will apply to gains arising on or after 23 June 2010. Where just part of the gain falls into the higher rate tax band, only that part of the gain is taxed at 28%. The balance of the gain is taxed at 18%.

Gains for basic rate tax payers will still be subject to the existing 18% rules. Similarly, the same annual exemption applies (currently £10,100) and there was no reintroduction of taper relief.

Entrepreneur's relief, which had previously been increased to £2m in the March budget received a further increase to £5m. Individuals will be able to make claims for relief on more than one occasion, up to a lifetime total of £5 million of gains qualifying for relief, however they will be unable to benefit from the increased limit of £5m if they had previously made disposals exceeding the previous limits of £2m (before 23/06/10) or £1m (before 06/04/2010).

Corporation Tax

The planned increase in corporation tax from 21% to 22% for companies with chargeable profits of less than £300,000 has been reversed. Instead the tax rate will be reduced to 20% from 1 April 2011.

The full rate of corporation tax will reduce from 28% to 27% on 1 April 2011, with further reductions applying every year until it is down to 24%.

This will be good news for many companies and may encourage further incorporations and company investment.

ISAs

From 6 April 2011 the ISA subscription limits will increase annually in line with inflation from the current level of £10,200, (with a maximum of £5,100 which can be held in a cash ISA). With the basic rate threshold decreasing from next year, an increase in the rate of Capital Gains Tax and the current restriction of higher rate tax relief on pension contributions for high earners, tax efficient vehicles like ISAs will continue to be more important than ever.

See overleaf for changes regarding pensions going forward...

What's going on?

Emergency Budget continued

Pensions

The Government has announced it is considering restricting pension tax relief from 6 April 2011 by reforming the existing pension tax allowances, principally through a significantly reduced annual allowance as opposed to the much more complex measures hitherto proposed. There will be a consultation to determine what level the annual allowance should be set at but provisional analysis suggests this will be in the range of £30,000 - £45,000 and will commence on 6 April 2011. Until then the existing 'anti-forestalling' measures will apply to restrict higher rate relief for certain individuals from 22/04/09 to 05/04/11.

The Government has also announced the end of so-called compulsory annuitisation at age 75. This will take effect from April 2011 following consultation. In the meantime, people who reach age 75 on or after 22 June 2010 without having secured a pension, won't have to buy an annuity or otherwise secure a pension income until they reach age 77.

Market Commentary – End Quarter 2, 2010

After well over a year of strong positive returns, global stock markets went into reverse over the 2nd quarter of 2010. Macro-economic issues weighed heavily on markets, wiping out all of gains from the 1st quarter and some of late 2009's rises as well. However looking back over a year markets are still significantly ahead of where they were in July 2009.

	3 Months	1 Year
FTSE 100 TR	-12.62	19.84
FTSE 250 Mid TR	-7.13	29.86
FTSE A British Govt All Stocks TR	4.49	6.71
FTSE All Share TR	-11.80	21.14
FTSE All Small (X It) TR	-4.98	19.79
FTSE Europe ex UK TR GBP	-14.44	15.86
FTSE World TR GBP	-11.26	22.87
IPD UK All Property Monthly TR	3.64	23.92
LIBOR GBP 1 Month	0.11	0.44
UK Retail Price Index	1.54	5.01

Source: Lipper Hindsight, bid-bid, net income reinvested, to 30/06/10

On a global level, fears about the future of the eurozone and more general anxiety about the sustainability of the global economic recovery knocked investor confidence. Worries about the solvency of Greece and some other European nations saw their sovereign debt de-rated, causing knock on effects for the value of the euro and European share values. Furthermore some extreme fiscal policy change programmes have been implemented quickly in these nations in order to try and reassure investors.

Such policies of cutting spending and raising taxes were not seen alone in these nations. Indeed many developed nations have now embarked on such austerity programmes, including the UK; now under the stewardship of the coalition government. This tightening of fiscal policy is viewed by many as necessary, however the speed and severity of the tightening could potentially pose a threat to the fragile growth of countries exiting recession.

In China stock markets have fallen heavily as investors have become wary that the perceived engine of global recovery in the post-credit crunch world is beginning to stall, however again, financial measures are also being implemented centrally to help cool the overheating economy in order to deliver more stable long-term growth.

With this uncertain backdrop, it is important to note that many individual companies still appear to be in rather good health. Whilst the macro issues have been weighing on share prices generally, companies have continued to focus on positioning themselves best to prosper in the economic "New World", and much of the pain of this change has already been borne.

There exist many opportunities for investment in companies for whom the current low share price levels should represent decent value for long-term investors.

Looking forward, the global economic backdrop suggests further volatility (both positive and negative) is to be expected throughout the remainder of the year and into 2011. In this environment, we believe that positioning portfolios so that they can be flexible and adapt quickly to changing circumstances is important in order to help protect and grow investment values.

London to Paris in Lycra!

At the time of writing, Henry is preparing to depart on a sponsored cycle trip from Cutty Sark in Greenwich 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.

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 and we will provide documentary evidence of the trip in the next newsletter.

The team have been fundraising throughout the year and are close now to their £10,000 target. Many thanks to everyone who has sponsored and supported them thus far.

Stan Gaskin Limited are authorised and regulated by the Financial Services Authority (FSA). This publication does not provide individually tailored advice and is for general guidance only. The information is based upon our understanding of current law and Inland Revenue practice, which may change in the future. We cannot assume any legal liability for any errors or omissions it may contain. The value of investments and the income produced from them can go down as well as up and you may not get back the full amount you invested, particularly if you withdraw in the early years. Past performance is not necessarily a guide to future returns, and may not be repeated. All data source: Lipper Hindsight, bid-bid, net income reinvested, unless otherwise stated. Changes in exchange rates may have adverse effects on certain investments. Your home may be repossessed if you do not keep up repayments on a mortgage. Loans are subject to status and written details are available on request. The FSA does not regulate all activities undertaken by Stan Gaskin Ltd.