

## The Darling of the people?

Quarter 2  
2008

### Budget 2008 Review

On 12<sup>th</sup> March, Alistair Darling presented his first budget as Chancellor of the Exchequer. Many of the changes had been debuted in the pre-budget report announcement published in October 2007, however as ever there were also some surprises revealed for the first time.

The challenging economic backdrop to the budget is a difficult initiation for Mr Darling, who as ever has to try and balance spending and income for UK PLC. Whilst the UK economy is predicted to continue to grow, growth forecasts for the current year have been trimmed from 3% down to 1.75%-2.25%, which some industry professionals believe is still over-optimistic.

As commentators pick through the details, and individuals work out what the budget means for them, we highlight some of the key changes below.

#### Income Tax

Major changes to the calculation rates of income tax including:

- Abolition of starting rate 10% band
- Basic rate of tax falls from 22% to 20%

Whether individuals will be better or worse off by these changes will depend on their age, earnings and eligibility for tax credits. There will also be knock-on effects for the tax relief given to pension contributions.

#### Inheritance Tax (IHT)

The Nil Rate Band (NRB) rises to £312,000 per person in 2008/9. The budget also ratified the proposals for any unused NRB to be inherited on their death by a person's spouse or civil partner. *This is potentially a very favourable change for couples whose estate is likely to be valued in excess of £312,000, but does mean that existing IHT planning (including any nil-rate band trusts) may need to be reviewed.*

#### Capital Gains Tax (CGT)

Major changes were also confirmed to the CGT regime. With effect from April 2008, taper relief and indexation ....

...allowance have been abolished and a new flat rate of 18% of CGT has been introduced.

As a concession primarily to smaller business owners, who would appear to have been significantly disadvantaged under these initial proposals, the Chancellor announced CGT Entrepreneur's Relief. From 6 April 2008, the first £1m of qualifying *lifetime* business capital gains will be subject to CGT at a rate of 10%. Gains in excess of this will be taxed at the standard rate of 18%.

#### ISAs

Annual ISA limits have increased to £7,200 overall, with up to £3,600 invested in a cash element. The concept of PEPs and Mini ISAs have been removed and merged into a single annual ISA wrapper and annual allowance. This means that monies held in Cash ISAs and PEPs can now be amalgamated into broader investment ISAs.

#### Need guidance?

Of course, there were many other more intricate announcements made in the budget, not to mention the by-now commonplace hikes in the cost of beer, wine and cigarettes!

*If you need guidance of how any of the specific changes may affect your circumstances, and whether you should be making any subsequent changes to your financial planning, please contact an adviser on 01473 255948.*

#### Planning for your longest holiday

There are two critical components of planning for retirement; making sure you have an adequate fund in the first place; and then using it in the most appropriate way.

Recent data from the Association of British Insurers (ABI) showed that almost one third of working people save nothing towards their future pension, with less than half making sufficient savings towards their retirement. You should regularly review your pension affairs and contribution levels to ensure they meet your future needs. **If you would like to schedule a review, please contact an adviser on 01473 255948.**

# What's going on?

## Market Commentary – End Quarter 1 2008

Our previous quarterly commentary alluded to the fact that we anticipated an increase in the levels of stock market volatility in the short term, and this certainly proved to be the case at the start of the year.

	3 Months	1 Year
FTSE 100 TR	-10.49	-6.26
FTSE 250 Mid TR	-5.59	-12.25
FTSE A British Govt All Stocks TR	1.43	7.58
FTSE All Share TR	-9.85	-7.74
FTSE All Small (X It) TR	-10.92	-28.76
FTSE Europe ex UK TR GBP	-7.44	2.84
FTSE World TR GBP	-8.67	-2.31
IPD UK All Property Monthly TR	-3.38	-10.69
LIBOR GBP 1 Month	1.14	4.82
UK Retail Price Index	0.57	3.77

Source: Lipper Hindsight, bid-bid, net income reinvested, to 31/03/08

January saw falls of between 5% – 10% across major markets, with the FTSE 100 retreating 8.9% on a total return basis during the month. Cash and government bonds provided a safe hedge against the falls in the equity markets. Markets calmed in February, with major indices posting slight positive returns, however further setbacks, albeit not of the scale of January, occurred again in March. This resulted in the sizeable negative total returns for the quarter, as shown above, for most markets.

We expect volatility to continue in the short to medium term, as markets come to terms with the fall out of the global credit crunch. This phenomenon, which has its roots in the USA has caused widespread disruption to global credit and money markets.

The knock-on effects are now in turn feeding through to the UK consumer, with mortgage and other borrowing costs increasing and availability decreasing. As a consequence, the housing market is showing signs of the cooling of recent months turning into falls. The question for investors is how much further these issues have to develop?

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It is reassuring to note the level of commitment that governments and central banks worldwide seem to have in tackling these issues and that they are prepared to take appropriate action.

Also, it is worth bearing in mind that the current levels of investment markets will of course have already priced-in some degree of future expectations.

Lastly, it is worth reiterating the mantra “time in the market, not market timing”, and to stress that by selling assets at low levels, you are simply crystallising losses and minimising future recovery potential.

## Mortgage Madness!

As mentioned above, the credit crunch is now having some significant effects on the availability of mortgages in the UK, with lenders withdrawing rates and changing deals on what seems like a daily basis.

Now more than ever, it is important to seek independent advice before committing to a mortgage, as valuable advice could save you thousands of pounds over the length of your mortgage.

We have up to the minute mortgage sourcing tools which help us to assess current deals from all lenders and match the best rate for your personal circumstances. Please contact us on 01473 255948 if you would like to discuss your circumstances with an adviser.

## Thought for the day

**When doing nothing is best** – In volatile times, it is only natural to be concerned about falling stock market levels and values of investments. However, often, by panicking and selling assets at low levels, you are crystallising falls and missing out on some of the potential large rebounds in markets.

Research from Fidelity shows that between 1992 – 2007 the FTSE All Share returned 9.84%p.a., however by missing just the best 10 days of growth during this period, this reduces to 6.89% p.a. This helps to illustrate that time, not timing is the key to investment.