

## Paying for the recession – Budget 2009

Quarter 2  
2009

The 2009 Budget was never going to be a cheerful occasion. As expected, there was plenty of bad news for the public purse, with the dual measures of dramatic increases in public borrowing and significant spending squeezes announced to help finance the cost of the recession and the credit crunch.

Having previously announced a hike in National Insurance for everyone (deferred to 2011 to ease the pain) which will affect the majority of earners, this budget saw Alistair Darling focus on high earners to try and raise additional fiscal revenue. The Chancellor also announced modest measures to try and help ease the pain for savers and the less well off.

In this newsletter we summarise the main announcements and look at how they may affect different people.

### Income Tax – introduction of 50% band

The highest rate of Income Tax will rise to 50%, not 45% as previously announced, and will now take effect from April 2010 not April 2011. It will apply to taxable income over £150,000 a year. The tax rate on dividends for those with taxable income over £150,000 will be 42.5%. The highest rate (50% and 42.5%) will also apply to trusts.

In addition, from April 2010 personal allowances will be reduced by £1 for every £2 of adjusted net income over £100,000. For most people, adjusted net income is net income minus gross contributions to pensions and gross gift aid payments.

### ISAs – Good news for all!

It is proposed that the overall ISA limit for those who reach age 50 or more during 2009/10 will increase to £10,200 (up from £7,200) from 6 October 2009, of which up to £5,100 (up from £3,600) can be invested in a cash ISA. As before, the full allowance can be used for “Investment” purposes (i.e. non-cash) if preferred.

ISA investors who are over 50 and have already made contributions to ISAs in the current tax year (or who contribute regularly) should contact their adviser to should you wish to discuss these increases.

These new limits will apply to everyone from 6 April 2010 and show the Governments commitment to use ISAs as a part of the “long-term savings landscape”.

### Pensions Tax Relief – Another hit for high earners

Despite the intention that the wide ranging pension reforms introduced in April 2006 should have been able to last many years, this budget introduced significant changes with regards to pension tax relief for high earners. In summary, the changes are as follows:

Tax relief for those earning over £150,000 will be reduced from April 2011. Those earning up to £150,000 will receive full relief as at present, those earnings over £180,000 will be entitled only to basic rate relief, and those with earnings in between will be entitled to a rate between the basic and higher rates. The Government will consult on the details.

To prevent very high earners from making substantial contributions before April 2011, there will be a ‘special annual allowance’ of £20,000 for those who have earned over £150,000 in the current tax year or either of the two preceding ones. In broad terms:

- if there is any single contribution or an increase to a regular contribution not agreed before 22 April 2009, and the total paid in during the tax year is over £20,000, tax relief is available as normal, but there will be a 20% tax charge on the excess over £20,000; but
- current regular contribution levels of over £20,000 in the tax year will be eligible for tax relief as normal without any special tax charges, but any single contribution or regular contribution increase will attract the 20% charge. Contributions made before 22 April are unaffected

These changes are likely to add significant complexity to pension planning for high earners and therefore we would recommend that, should you fall into this bracket, you contact your adviser to discuss how you may be affected.

### Other changes

Other areas that have seen previously unannounced changes include: Pension Credit & Savings Gateway improvements (for low earners), Corporation Tax reclaim for companies making a loss and an temporary extension to the nil rate band for Stamp Duty on residential property.

# What's going on?

## Market Commentary – End Quarter 1, 2009

The first quarter of the year continued the trend of significant volatility in major investment markets that was so apparent at the end of 2008. However, whilst in December 2008 this volatility was represented by significant rises in equity markets, the beginning of this quarter showed markets turn southerly.

	3 Months	1 Year
FTSE 100 TR	-10.29	-18.07
FTSE 250 Mid TR	0.81	-17.98
FTSE A British Govt All Stocks TR	-0.81	9.35
FTSE All Share TR	-9.08	-18.34
FTSE All Small (X It) TR	-2.30	-28.15
FTSE Europe ex UK TR GBP	-16.04	-18.11
FTSE World TR GBP	-10.66	-13.55
IPD UK All Property Monthly TR	-7.13	-19.68
LIBOR GBP 1 Month	0.34	1.33
UK Retail Price Index	-0.75	-3.25

Source: Lipper Hindsight, bid-bid, net income reinvested, to 31/03/09

This is reflected in the numbers above which show that despite a recovery in March, most major equity markets are showing falls in the region of -10% in the year to date. However from the lows in mid-March markets have improved strongly, for example with the US market jumping more than 20% in just two weeks. This to a certain extent represents that some of the overwhelming fear from earlier in the quarter has lifted and markets are now pricing in a recession and the avoidance of a depression.

We feel it is a little early to say whether this is the start of a more sustained recovery, or merely a bear market rally which is providing temporary respite for investors. Consumers are in general still feeling somewhat better than might have been expected at this stage of an economic contraction, helped by their lower mortgage and energy costs. However unemployment and housing prices continue to deteriorate, although these are lagging indicators which do not necessarily represent the up to date economic backdrop and therefore will only reflect better news long after the economic cycle has actually turned.

We continue to feel that current market valuations represent decent long-term opportunities for investors, who will be rewarded for participating in the volatility in markets which will no doubt continue. For investors already in the market, our advice in general would therefore be to maintain exposure, whilst ensuring that your holdings are best positioned to benefit from the current climate. For new investors, particularly those looking to reinvest poorly returning cash deposits, we would suggest phasing monies into markets in order to somewhat negate the effects of any short-term volatility on your initial investments.

## Standard Life Sterling Fund – an apology!

Within days of our publishing our last newsletter, Standard Life announced they were reversing the price reduction that was applied in January (around 5%). This decision was a direct result of feedback from clients and intermediaries – including ourselves.

*If you are an investor in the fund, we are still typically encouraging clients to consider switching out of this fund to the safer Managed Cash fund alternative, or indeed to other funds (dependent on your circumstances and attitude to risk). Please feel free to contact an adviser to discuss your options in more detail.*

## Review your cash deposits

We are increasingly meeting new clients (personal & corporate) who have cash in savings accounts that are paying minimal, if any, interest. We would urge you review all of your monies on deposit and check what interest rates you are receiving. To check whether you are still getting a good deal, simply contact one of our team of advisers.

## A new member of the team!

Finally, we are pleased to announce that Henry's wife Nisha has recently given birth to a healthy baby boy. Baby Arthur Gaskin was born on 2 April and Henry is therefore looking forward to Arthur helping with tax year end preparations in years to come! Henry, Nisha and Arthur would like to pass their thanks to everyone who sent their best wishes.

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