ST. JAMES'S PLACE
WEALTH MANAGEMENT

BUDGET OPPORTUNITIES BULLETIN

23 June 2010

Emergency Budget – The Opportunities

The Government has set out their plan for the next four or five years which brings stability and clarity enabling you to plan with certainty.

Pensions – a return to Simplification

The good news is higher rate tax relief was not abolished and will remain.

The Government intends to repeal the overly complicated regime for high earners with total income over £130,000 which was due to come into effect from April 2011. Instead, we expect to see a much simplified pensions regime which will apply to all earners.

Put simply, this means we expect a fixed annual allowance for all earners and everyone will get full tax relief at their marginal rate on contributions up to this level.

In the short term, there is a very significant opportunity for individuals with total income of less than £130,000. They have a one off opportunity to contribute up to 100% of their earnings before next April and attract full tax relief.

Areas to think about:

- Anyone with total income of less than £130,000 should consider maximising their pension contributions this tax year to maximise the tax relief on their contributions. From April 2011, the maximum they can contribute and on which they will get full tax relief will fall significantly to the new annual allowance.

- Anyone with total income in excess of £130,000 should still consider maximising their pension contributions now (up to £255,000), even if they only get basic rate tax relief. From April 2011, the total amount of tax relief they can receive will reduce.

Age 75 Rule

The news that you will no longer have to take benefits at 75 is welcome. You will be able to remain invested for longer without having to take an income. These changes will be welcomed by most people and will increase the attractiveness of pensions as a vehicle for retirement planning.

CGT and Entrepreneurs' Relief

Whilst we were fearing a CGT rate closer to 40%, the good news is that there is no change for basic rate taxpayers and the increase for higher rate taxpayers and trusts is to only 28%. The annual exemption of £10,100 remains for everyone. Basic rate taxpayers who have a gain which takes them into the higher rate tax band, will pay 28% tax on the excess. The increase in Entrepreneurs' Relief for lifetime gains of £5m is also good news.

These new rules complicate CGT compared to the previous flat rate and the need for advice remains paramount.

Areas to think about:

- You can transfer assets to your spouse or registered civil partner to benefit from different tax rates if one is not a higher rate taxpayer. Before disposing of an asset, you should consider this aspect of tax planning.

- The rules allow you to choose which gain to set the annual exemption against for 2010/11. Higher rate taxpayers should set this against post 22 June gains.

- Given the 28% CGT rate, the use of Enterprise Investment Schemes (EIS) becomes more attractive for higher rate taxpayers in terms of CGT deferral.

- If you are close to the basic rate limit consider making a pension contribution to ensure that any gains are only taxed at 18%.

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Inheritance Tax (IHT)

The Government have confirmed that the current IHT regime and threshold will not change before 2014/15 at the earliest. Over the coming years, more and more people will find themselves subject to IHT as the threshold remains frozen.

Even if your estate is below the IHT threshold, estate planning and trust schemes can offer wider benefits to you and your family.

Areas to think about:

- If you were delaying taking action regarding estate planning, expecting a substantial increase to the threshold, you may wish to rethink this and take action.

For more information on any of these opportunities please contact your St. James's Place Partner.