



25 June 2010

The Emergency Budget 2010

Tuesday saw the long awaited Coalition Budget in which George Osborne outlined his debt reduction plans for the new Parliament, subject to final ratification in the 2010 Finance Bill.

The main change impacting on investors was the decision to increase Capital Gains Tax so that it is treated as the top slice of income. This applies for disposals on or after 23 June 2010. Now, to the extent that your income and chargeable gains (that is capital gains, less your annual exemption of £10,100 and your capital losses brought forward) exceed, generally £43,875, the gains tax due on the capital gains element will be taxed at 28%. Below that level the rate is 18%. Capital Gains Tax for trusts will be 28%. Entrepreneurs will benefit from an extension of Entrepreneurs Relief which reduces liabilities to Capital Gains Tax in certain circumstances.

The other big question facing investors is 'what is the most appropriate way to hold investment assets?'; be it personally, through an onshore or offshore bond, through a company or perhaps something more esoteric?

We continue to explore a 'Fiscal' gross fund that allows tax free roll up, but to date, the compliance costs remain unpalatable. In the absence of this and with Capital Gains Tax rising, bonds do become more attractive, particularly if you think you might ultimately not need the income. We will be focusing on these issues at your ongoing reviews.

The other area which is creating greater interest than for some years for investors, is an investment wrapper which requires annual contributions for not more than ten years and potentially less, but then all proceeds are tax free. This may well be attractive to long term savers or those with significant surplus income. Also, with the reduction in the ability to fund pension schemes, these arrangements are very likely to become an interesting alternative. We are exploring ways of keeping the costs to a minimum whilst obtaining the benefits of such arrangements for clients. This may well involve Dimensional and Transact but we are not discounting alternatives.

Finally, to complete the personal finance picture, we are promised a further review of pensions, both in terms of the amount that can be contributed and the tax relief thereon. The output from work in this area and the potential permanent abolition of the need to buy an annuity, the age already having been amended to 77, will be widely awaited.

We see the above as the key matters arising from the Budget, for you, as a Fiscal Engineers' client. If you would like to discuss these or any other issues, please do give us a call.

Best regards

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Managing Director