

planning opportunities

...while stocks last?



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With a General Election looming and the possibility of multiple Budgets in 2010, making a grab for financial planning opportunities that exist now may be a prudent approach.

Colin Jelley offers some election year tax planning considerations.

While none of us are lucky enough to possess a crystal ball or a direct line to the Chancellor's office, whoever is in residence, this election year has certainly prompted questions and commentary regarding the possible future direction of tax legislation – and the impact upon clients' long-term financial planning.

One area for debate is capital gains tax (CGT). The current rate of tax remains at 18%, with no change announced in December's Pre-Budget Report, despite some expectation that the Chancellor might align CGT more closely with income tax. But was this lack of announcement just delaying the inevitable?

The current flat rate of tax was introduced in 2008 and with it we saw the demise of taper relief. Indexation relief is also obsolete, apart from a few exceptions. Given the tax increases introduced in the April 2009 Budget, the CGT rate looks increasingly

isolated and perhaps an obvious area for revenue to be increased.

A quick look at the Government's own statistics (see table) shows a marked decrease in recent years since the CGT rate was altered.

HMRC – annual receipts

Year	Capital gains tax (£ billion)
2001/02	3.034
2002/03	1.596
2003/04	2.225
2004/05	2.283
2005/06	3.042
2006/07	3.813
2007/08	5.268
2008/09	7.852
2009/10	2.458*

*Projected figures. Source: HMRC.

In 2002/03 CGT accounted for £1.596 billion of Government revenue, rising year on year to a high of £7.852 billion in 2008/09. However, the expected revenue for 2009/10 is only £2.458 billion. Clearly the reduction of the CGT rate applicable is not the main factor given that 2008 and 2009 represent years where many clients suffered losses or investments just about broke even. However, if you factor in the reduced tax take in other sectors, particularly those speculating in the property market, you can see why the Government's expected tax take is down by £5 billion.

changing tax environment

The Budget and Pre-Budget Report have already introduced significant tax increases for nearly all taxpayers without an increase to the actual rate of mainstream income tax. The loss of the personal allowance for those earning in excess of £100,000 and the new



capital withdrawals – online financial planning tool

A new tool is available to help you plan efficient withdrawals from collective investments when looking to utilise an individual's or trustee's available capital gains annual exemption.

The tool can be accessed via SkandiaView and Skandia Investment Solutions with a user guide available to download from each site.



50% rate for income above £150,000 is forecast initially to impact some 650,000 taxpayers – and this is likely to increase if the Government continues with its stance of 'freezing' thresholds such as the lifetime allowance.

Taking these changes into account, the Government is still a long way short of increasing tax revenue enough to repay the significant national debt. The effective 2% increase in National Insurance from 2011/12 will impact a significantly greater band of taxpayers and offers very few planning strategies for clients to avoid the increase. This so-called 'stealth tax' is similar to a 2p increase in the basic rate of income tax and looks unlikely to be reversed in the foreseeable future.

potential changes

Inheritance tax (IHT) has gained considerable column inches in recent months and is set to be in the headlines again as the election approaches. The application of transferable nil-rate bands and the falling values of estates in recent

years have meant IHT revenue has also fallen. Given the political sensitivities around IHT it would be a brave move to increase tax in this area.

So, where can there be an increase in revenue without upsetting the electorate? This brings me back to CGT. In 2009/10 it is anticipated that only 200,000 individuals will actually suffer some form of CGT. For those sitting on significant gains it may be worth considering realising them at 18% and reinvesting (subject to the rules preventing bed and breakfast) over the next few weeks. If the rate remains unchanged after the Budget and any General Election, it could still prove to be valuable advice where the client has utilised their full annual exemption (£10,100 in 2009/10), rebased the investment for future growth, registered some losses or offset some gains against previous losses.

With an income tax rate of up to 50% and a capital gains rate of 18%, it may make sense to use the current rate while it is still around. ●

What is the likely impact of an upcoming election on pension planning? Adrian Walker offers his assessment.

The Chancellor's Pre-Budget Report has already sparked concerns that the changes to pension tax relief for higher earners may not yet be at an end. Whether it will make political sense to further reduce the £130,000 relevant income threshold announced on 9 December 2009 is a matter of opinion.

From an advice perspective, there should now be a focus on any clients whose relevant income currently falls slightly below the £130,000 threshold and who are planning significant contributions in the current tax year.

It may be sensible to bring any such funding forward to before the 2010 Budget, which is looking increasingly likely to fall before the Easter break. Doing so should protect relief for such funding for this tax year if the Chancellor announces a further decrease in the relevant income threshold at Budget Day. 'Sooner rather than later' should be the adopted mantra for these clients.

The Budget will also bring the outcomes from the Pre-Budget consultation document of the practical operation of the restricted tax relief rules from the 2011/12 tax year. This should offer a clearer picture in terms of the planning issues that will apply to such individuals both in this interim anti-forestalling period and from 2011/12. There is, of course, the possibility of a new Government seeking to change the proposed legislation in the intervening period.

This will clearly be a key planning area that will require detailed analysis, especially with the tapered removal of the personal allowance in 2010/11 for those individuals with income over £100,000.

With this in mind, starting next month in *informer* we will be looking at the planning issues for targeted client segments potentially affected by the current and proposed changes in legislation. Each monthly case study will help to set out the main considerations advisers need to take into account when looking at the future retirement planning for such clients.

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