



Capital Gains Tax - All Change!

One of the greatest surprises of last autumn's Pre-Budget Report was the radical proposal to reform capital gains tax (CGT).

This was followed in January by a U-turn on some of the proposals affecting business owners. For individuals and trustees, the changes that are due to come in from 6 April 2008 mean:

- The end of taper relief, which can currently reduce taxable gains on your

business assets by 75% and on your non-business assets by up to 40%.

- The launch of a new entrepreneurs' relief, which would produce a 10% rate tax on up to £1m of certain business-related gains.

- The elimination of indexation relief, which currently applies to assets owned before April 1998.

- The introduction of a new 18% flat rate tax to replace the current system under which gains are taxed as the top slice of income (or at 40% for trustees).

While the new structure was presented as a simplification, it is also a revenue-raising measure. The Exchequer expects to generate an extra £700m by 2010/11, however this does not necessarily mean you will pay more tax. The simplification is set to create both winners and losers (see article diagram).

These potential CGT changes make an initial review of your investments and investment strategy an urgent matter:

- It could make sense to sell or gift investments before the end of the tax year; that is if your current entitlement to taper relief and indexation relief would result in a lower CGT charge, but you should take into account the investment issues.

- You may wish to delay realising any gains until after 5 April 2008, when your CGT rate could fall from 40% to 18%.

- If you are a higher rate taxpayer, a maximum 18% CGT rate would make many capital gains much more lightly taxed than income.

For further information relating to the changes in Capital Gains Tax please visit

www.hmrc.gov.uk/cgt/disposal.htm

or call the HMRC Capital Gains Tax Team on 0207 147 2764.

Interest Rates - Going up or going down?

In 2007 there were three interest rate rises, taking the Bank of England base rate up to 5.75%. The New Year brought a new rate – In January 2008 the rate was cut to 5.5% and then in February 2008 the rate was reduced again to 5.25%.

Analysts predict interest rates may continue heading in a downward direction throughout 2008, as we continue to feel the effects of the credit crunch. A rapidly slowing economy could also encourage further rate cuts by the Bank, even if inflation remains above the target level.

Any further cuts could be good news if you have a mortgage, although the money market difficulties may make lenders reluctant to pass on the full benefits of such cuts by a similar

reduction in mortgage interest rates. On the other side of the road, the returns from your deposit accounts will almost certainly reflect the full cuts.

Some major banks quietly started to cut their deposit rates in November and December 2007, before the move by the Bank of England. Around the same time, National Savings & Investments also cut returns on their fixed rate products by up to 0.65%.

If you rely on deposit interest for your income and are willing to consider alternative sources, this could be a good time to ask us to examine the options available to you. Some of these deals can lock you in to rate for five years, while others will offer you the potential of a rising income, although you will not have capital security of a deposit.



REMEMBER it is important to consider your attitude to risk and personal circumstances when making choices; past performance is not a reliable indicator of future performance and the value of investments - and the income from them can go down as well as up.

Making the Most of Inheritance Tax

Another major change in the Pre-Budget Report from the new Chancellor represented a significant reform to inheritance tax (IHT). However, what happened to IHT is not quite as generous as he made it sound.

If you are married or in a civil partnership, the estate of the second person to die will benefit from any unused nil rate band from the first person to die. So, for example, if you leave everything to your spouse/partner, their estate will benefit from two nil rate bands (£600,000 at current rates and £624,000 from 6 April 2008).

This is good news if your estate planning is not designed to use the full nil rate band on first death - at current rates there could be IHT savings of up to £120,000 (£300,000 at 40%). However, if your wills are structured to use the nil rate band on the first death - perhaps by creating a discretionary trust - then the Chancellor has not saved you any IHT. Similarly,

if you are not married, the Chancellor's reform has made no difference to you - unless you are widowed.

This new transferability of the nil rate band applied on the death of a surviving spouse or civil partner after 8 October 2007, regardless of when the first spouse/partner died. Thus if you (or a parent) are widowed, the IHT liability on your (their) estate might be considerably less now than it was a few months ago (see box).

Until this change to IHT, couples were often advised to use the nil rate band by passing down assets at the death of the first spouse or partner. This is now probably no longer appropriate for most families, and a review of estate planning might be highly desirable.

Inherit the Difference

Tina's husband died in June 1994. In his will, he left a £50,000 (one-third of the then nil rate band) to his son and everything else to his widow. That inherited nil rate band is now worth two-thirds of £300,000.

- If Tina had died on 8 October 2007, she would have had only one nil rate band of £300,000.
- Were Tina to die now, £500,000 of her estate (£300,000 of her own nil rate band plus £200,000 of the nil rate band she inherited) would be free of IHT.



Investing With a Conscience

At first sight, ethics and investments are an unlikely combination; however, the two are increasingly coming together in the world of socially responsible investment (SRI).

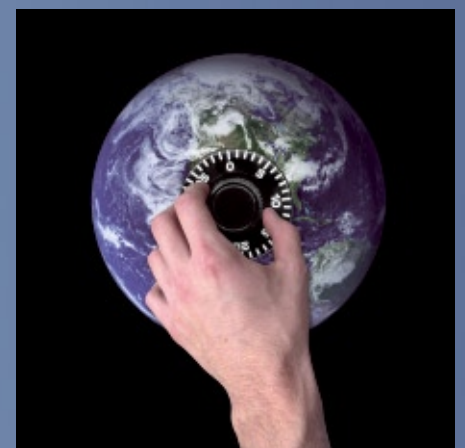
The impact of globalisation and climate change has prompted many major investors, such as pension funds, to take a broader view of their responsibilities, for them, a long term investment view now needs to take account of - and influence - the way the world is changing.

If you share that perspective, you can now choose from a growing range of funds that adopt SRI principles. These funds have a variety of approaches to the selection of their underlying investments because there is no common agreement on what constitutes an SRI/ethical strategy:

- Organic vineyards may be an ecologically sustainable investment for one fund, but a taboo dealing in alcohol for another.
- Some funds will invest in 'best of breed' in a sector, eg oil and gas, whereas others will choose to avoid the sector completely.
- Some funds will take a more pro-active role in raising issues with company managements, whereas others will rely on votes held at annual general meetings to get their message across.

There is no substitute for prioritising what is important for you and then seeking the funds that meet your criteria, as far as possible. We can assist you in this search, which is by no means straightforward. The Investment Management Association now lists over 50 'ethical' funds covering a variety of investment sectors. Most of these are eligible for ISA investment. Many life and pension plans also offer SRI funds as investment links.

SRI funds are often more volatile than other funds because they generally invest in smaller companies. Past performance is not a reliable indicator of future performance and the value of investments and the income from them can go down as well as up.



Is your Protection Cover Up To Date?

You could hardly have missed the increase in the petrol price to over 100p a liter late last year, which caught everyone's eye and gained plenty of news coverage. Less obvious is the gradual drift up in prices as retailers struggle to retain margins. Right now, it all adds up to yearly inflation of around 4%, as measured by the retail prices index (RPI).

While you probably pay attention to whether your income is keeping pace with inflation, you should also consider your life and health cover. These covers will often be designed with replacement of your current income in mind. It is therefore important that they are regularly reviewed and kept up to date.

For example, if you put in place life cover of £100,000 five years ago, then to maintain the same purchasing power now, you would need just over £117,500 of protection (the RPI has increased by 17.7% between November 2003 and November 2007, according to the

Office of National Statistics). If your earnings have grown faster than inflation over the last five years, then the necessary increase would be even higher. However, inflation is not the only factor that needs to be considered when reviewing your protection:

Have your family circumstances changed? A larger family may mean your cover needs to rise, regardless of inflation.

Has your employment changed? A new job will often mean a higher income that needs to be protected. It could also come with different health and pension provisions - which might make a review of these areas a sensible idea.

Have your borrowings increased? You may have remortgaged or taken out new personal loans. Usually any increase in debt should be matched with increased protection to cover payment in the event of illness or death.

Can equivalent cover be replaced at less cost or enhanced with no additional outlay? Competition between insurers in the protection market is intense, something that we may be able to exploit to your advantage.

If you want to make sure your protection is up to date, why not contact us for a review? Even if no changes are needed, at least you will know that your protection is at the right level - for now.



News Bites

2007 was a bumper year for building society savings, according to the Building Society Association (BSA), who announced a record inflow of £16.1bn in savings during last year. In comparison 2006 saw building society deposits stand at just £8.3bn. Part of the inflow came from money taken out of Northern Rock.

The Pensions Regulator has warned that many company final salary pension schemes are underestimating longevity. It has published a consultation document outlining plans to make schemes increase how long they think that their members are likely to live.

The Chancellor has announced that long term home loans will become the future of the mortgage market. In a speech to the Engineering Employer's Federation earlier in February 2008, Mr Darling announced that he wants to encourage 25 year mortgages - "to provide more security to home buyers".

According to the Council of Mortgage Lenders 27,100 homes were repossessed by lenders in 2007. This is the highest figure since 1999.

The number of people declared insolvent in England and Wales fell during 2007 by 0.6% to 106, 645, following record highs in 2006, according to the Insolvency Service.

From 6 April 2008 the basic rate of income tax will reduce from 22% to 20%. This will affect the amount of tax relief that will be reclaimed in respect of member contributions within pensions. For example, if you pay £78 into your pension each month (through your salary) then an additional £22 of tax relief will be added by the Government, giving you a gross contribution of £100. After 5 April 2008 you will need to increase your contribution to £80 if you want to maintain the gross contribution of £100. If you do nothing then the £78 contribution will gross up to £97.50.

Pensions Tax Change

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Time to Plan for Year End

Last autumn's Pre-Budget Report might have contained more surprises than the average Budget, but of course we had to wait until the March Budget before finding out the exact changes. There is now only a few weeks left before the beginning of the new tax year - when all of the changes take effect. For those of you who have not yet taken care of your 2007/08 taxation issues, then there is still an opportunity to engage in some intelligent year end tax planning.

2008



This year's planning needs to take account of the Pre-Budget Report announcements alongside the usual checklist.

Pension contributions

If you make a personal pension contribution before 6 April, then regardless of your personal tax rate you will receive 22% tax relief at source. For example, a gross contribution of £1,000 means writing a cheque for £780. From 6 April, when basic rate tax falls to 20%, contribution relief will fall too, so from 6 April onwards the cheque would need to be £800.

If you are a higher rate taxpayer, you will still receive 40% tax relief, but after 5 April, a 20% refund, rather than 18%, will arrive through your self-assessment tax return due to the 2% basic rate cut.

You could still contribute up to £3,600 (before tax relief) to a personal pension in 2007/08, even if you have no earnings. You could also make contributions of up to £3,600 on behalf of anyone else - your children or partner, for example. The change in basic rate tax is important here - this tax year, the net contribution is £2,808, but after 5 April it will be £2,880.

Disclaimer

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Contracting out

You should review whether to become a member of the State Second Pension (S2P) if you currently opt out (technically 'contract out') using a personal pension.

A new set of National Insurance Contribution rebates for contracting out was introduced from 6 April 2007. While these are higher than the previous rebates at younger ages, the size of the rebate is capped at the relatively young age of 43. If you are that age or older, there are only limited circumstances in which contracting out makes sense. It is important to take individual advice based on your own particular situation.

Inheritance tax (IHT)

The transferability of the nil rate band (see 'Making Inheritance Tax Work for You') has not removed IHT from the year end planning agenda.

You should still aim to make use of your annual IHT exemptions. Probably the most valuable is the £3,000 annual exemption. This can only be carried forward to the next tax year (2008/09) and then can only be used once the 2008/09 exemption has been fully used. So if you and your partner have made no gifts since before 6 April 2006, you could now jointly give away £12,000 free of IHT.

Capital Gains Tax (CGT)

By using the annual CGT exemption before 6 April 2008, you could make up to £9,200 of assessable capital gains without creating any tax liability. This is not an exemption that can be carried forward, so if you do not use it, you lose it.

This tax year it is more important than ever to consider making full use of your annual exemption because of the disappearance of taper relief after 5 April 2008.

In an Individual Savings Account (ISA) the maximum you can invest each tax year is currently £7,000. This cannot be carried forward; although from 6 April 2008 the limit does increase - by just £200. The fact that the Treasury has made such a small increase - the first since ISAs were introduced in 1999 - says something about the tax benefits of ISAs to investors.

