



May 2010

Financial update

HMRC ANNOUNCES WELCOME RELAXATION ON PENSION TRANSFERS

HMRC has relaxed regulations that were announced in the 2009 Budget, so that higher earners can now transfer protected regular pension contributions to new schemes or providers without incurring the Special Annual Allowance tax charge. This change in regulation was effective from the 19th March 2010.

In the Budget 2009 (amended by the Pre Budget Report 2009), it was announced that "high earners", defined as those with total income of £130,000 or more, would only benefit from higher rate tax relief on pension contributions of up to £20,000 per annum.

Where regular pension contributions (defined as being paid quarterly or more frequently) in excess of £20,000 were already being paid, having been started before the 22nd April 2009, then those contributions could continue to benefit from higher rate tax relief. These are known as Protected Pension Inputs.

However, a problem arose; if a pension with regular contributions in excess of £20,000 was switched to another arrangement, or to an alternative provider, the higher rate tax relief on those contributions in excess of £20,000 was lost. This meant that the individual would suffer from a reduction in their tax relief.

HMRC's announcement will allow pension arrangements to be transferred with their higher rate tax relief being maintained.

MIND THE PROTECTION AND INCOME GAP

There are worrying signs that the number of people with insufficient life insurance cover has increased sharply in recent years. Not only that, but there is real need for consumers to seek professional advice when considering the options available.

Swiss Re found that in the UK the 'Life Assurance Protection Gap' now stands at a sum assured of £2.3 trillion. This is the difference between the amount of life cover people have and the amount they realistically need. Just as worrying, the number of people insured either through a policy of their own or through an employer-sponsored scheme, remains between only 3.5m and 4m.*

The report centred on policies that provide lump sum and income benefits in the event of death and long term illness. By their nature these are uncomfortable issues which sadly too many choose to ignore. There is a very competitive market for life assurance policies. Consequently the cost of adequate protection is often surprisingly low and with streamlined application procedures now the norm, cost effective cover can often be put in place almost immediately.

We have found that deciding on the correct mix of protection plans can be a complex process. Advice is needed to ensure that appropriate levels of the right type of cover are put in place.

* Source: Insurance Report December 2009, The Cost of Doing Nothing, Swiss Re Europe S.A., UK Branch

CRITICAL ILLNESS COVER

According to the Office of National Statistics you are five times more likely to contract a critical illness, such as cancer or a serious heart condition, before reaching state retirement age (65) than to die.

As a result of medical and technical advances, many people are now surviving such illnesses and go on to lead long and healthy lives. For example, more than 90% of men diagnosed with testicular cancer are still alive more than five years later; more than 80% of women diagnosed with breast cancer have the same survival rate according to the Office of National Statistics.

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Whilst many survive these illnesses they may find that during the period of illness their income reduces whilst their outgoings actually increase. Critical Illness Cover can help. It provides a tax free lump sum on the diagnosis of one of a number of specified 'critical illnesses.' There are 21 'core conditions', listed by the Association of British Insurers (ABI) but most insurers cover at least 30.

The market for Critical Illness Cover is very competitive. New contracts are coming onto the market all the time and consequently premium rates are now more readily affordable. The cover should now be viewed as a key component of your personal and family protection strategy.

CAPITAL GAINS TAX AND INDIVIDUAL SAVINGS ACCOUNTS (ISAs)

The Government has announced that the rate for capital gains tax (CGT) on non-business assets is to rise, bringing it more closely in line with the rates of income tax. The details are yet to be announced but, if enacted, this increase in rates could see realised capital gains on non-business assets taxed at 40% or even 50%. This compares to the current capital gains tax rate of 18%.

In order to offset the effects of this planned tax rise immediate action could be beneficial. Crystallising gains on marketable assets at the current rate of CGT could be a useful first step. Thereafter, wherever possible, investing using tax efficient wrapper products such as ISA and pension plans is sensible as all gains realised within ISAs and pensions are tax-free.

Individual Savings Accounts

The ISA annual subscription limit is now £10,200 per annum. This allowance will increase annually in line with the rise in the retail prices index (RPI).

Up to £5,100 can be invested in a cash ISA with the balance invested in stocks and shares. If you wish, £10,200 can be invested in stocks and shares.

Whilst contributions into an ISA do not benefit from tax relief, once they are invested, funds in an ISA grow in a largely tax free environment. They can also provide a tax free income and, as mentioned previously, any realised gains are not subject to capital gains tax.

A couple can now contribute up to £20,400 per annum. This is a significant sum and for many will be sufficient to cover their short to medium term savings needs. Further, given the increases in the taxation of pension contributions for those earning £130,000 or more, ISAs can also be a viable way to boost tax efficient long term saving.

There are few good reasons to hold investments outside an ISA if you have any remaining unused ISA allowance. Indeed, if 'new money' is not available then you could consider transferring other assets into your ISA to utilise your allowance.

An ISA is a valuable, tax efficient savings vehicle which most would be well advised to utilise to the maximum.

If you would like to discuss how best to utilise your ISA allowance or if you require further advice on any of the above, then please contact UHY Financial Planning on the details listed opposite.

For further advice
please contact
Peter Miller APFS
Chartered Financial Planner
UHY Financial Planning
020 7767 2568
p.miller@uhy-uk.com
www.uhy-uk.com

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