

THE ADVISER.

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Welcome to the latest edition of our newsletter, our update on developments in the world of financial services.

If you have any questions about the issues raised in this issue, please do not hesitate to contact us.

The Chancellors second Budget

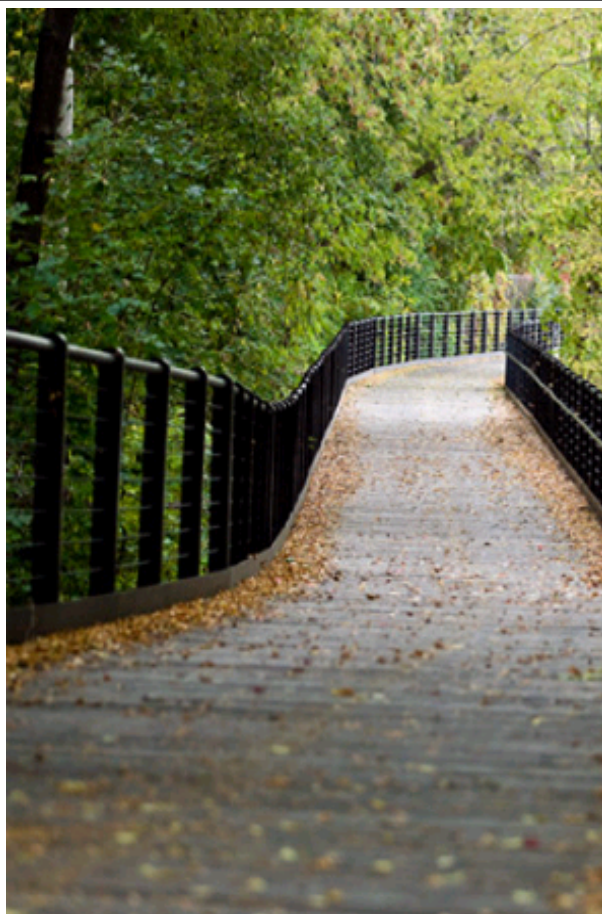
Delivering his second Budget in less than a year, Chancellor of the Exchequer George Osborne admitted UK economic growth is likely to be somewhat weaker than expected although he described his Budget as being "for growth" and focused on measures to boost UK businesses and entrepreneurship. These measures were then accompanied by a tax on North Sea oil companies and an increased levy on banks.

On an individual level, the personal tax allowance was increased by £630 to £8,105 from April 2012, a measure that will also benefit those paying the higher 40% tax rate (though the higher age allowance for pensioners remains untouched). The top tax rate of 50% remains intact for now, but Osborne warned it would cause "lasting damage to our economy if it were to become permanent." Interestingly, the Chancellor also announced a consultation about possible measures to merge Income Tax and National Insurance – a move that would ultimately increase transparency. Elsewhere, 10,000 first-time buyers are to be helped onto the housing ladder and given assistance to buy newly built properties.

The biggest changes, however, appeared to be aimed at entrepreneurs and investors in small business, with significant increases in entrepreneurs relief and in the limits and allowances surrounding business-related tax-efficient savings schemes. Despite concerns about growth from the Office of Budgetary Responsibility, these increases led to encouraging comments from the leading business investors as they welcomed the changes as a "shot in the arm".

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Beware headline rates

Cash ISAs are some of the most straightforward investment products on the market and are designed to appeal to both cautious investors and those looking to underpin a wider portfolio. In the 2011/12 tax year, you can invest a maximum of is £5,340 and the choice of investments is wide. Some providers offer flexibility and ease of access while others might offer higher rates but perhaps for a fixed period or only if you agree to tie up your money for longer. However, the headline rate is not everything. A survey for Consumer Focus (March 2010) found that over 80% of Cash ISA holders were earning less than 0.5% a year on existing savings because these headline rates had expired without savers realising the impact.



Time to take action

Total UK personal debt had reached £1,452bn by January 2011, according to figures from Credit Action – more money than the whole country produces in a year and a sum that equates to nearly £8,500 per household (excluding mortgages).

Contrast that with the nation's current savings levels, which have seen the average household save just £996 over the last 12 months – or £2.73 a day. However, in an environment where it has become the norm – and, until recently, all too easy – for individuals to make purchases with debt, changing this 'enjoy now, pay later' mentality is going to be difficult.

You may be sure, however, that the coalition government is keen to encourage such a change. Work & Pensions Secretary Iain Duncan Smith has been quoted as saying: "We do not save enough in this country...it is appalling, and changing the culture is critical." Right now, the main incentives to encourage such saving involve limiting the amount of tax you pay on certain savings products. Certainly, the Government needs to do more if they are going to generate the kind of interest that will push more people to act.

Yet, if there was ever a good reason to start changing our behaviour, it is surely the fact it costs the average household £2,500 a year in net income just to meet its interest payments. That is approximately 15% of the average net wage going to lenders that could otherwise be heading into our pockets. That fact really should be an incentive to start saving.



Extending tax allowances

Chancellor George Osborne had already decided to raise the personal allowance to £7,475 from 6 April this year. He used this latest Budget to extend that allowance by another £630 to £8,105 from April 2012. He has also brought down the rate at which people start to pay higher rate tax from £43,875 to £42,475. As a legacy from the last Labour budget, the personal allowance will still be withdrawn completely at an income of £115,000.

The Chancellor has also announced that, in future, tax allowances will be increased in line with the Consumer Prices Index rather than the Retail Price Index. Historically, the Retail Price Index has been higher, so this could have a long-term impact on the value of such increases for all taxpayers.

The rules on inheritance tax and capital gains tax (CGT) remained largely unchanged. However, anyone leaving more than 10% of their estate to charity will see their inheritance tax bill fall by 10% while the amount qualifying for Entrepreneur's Relief on CGT - where tax is charged at 10% rather than 18% or 28% - has doubled from £5m to £10m.

There were some changes at the top end of the investment scale. Upfront tax relief on Enterprise Investment Schemes will rise from 20% to 30% while the amount that can be invested annually will rise from £500,000 to £1m. The Chancellor is also relaxing some of the rules around eligible companies for these and venture capital trusts to expand the potential for attracting this type of investment.

A stable outlook

One of the first companies to show their appreciation for the measures in the Comprehensive Spending Review last year was Standard & Poor's. In their statement, they commented that "the coalition parties have shown a high degree of cohesion" to put the public finances onto "a more sustainable footing" and revised their outlook for the economy from 'negative' to 'stable'. Elsewhere, however, reaction was more muted. The Federation of Small Businesses was cautiously welcoming whilst opposition MPs highlighted the risk that such austerity could easily lead to a double dip recession. Economic figures for the fourth quarter were not great news but whether this negativity extends into 2011 now we know the cuts in more detail is anyone's guess.



'LEVELS & BASES OF AND RELIEFS FROM TAXATION ARE SUBJECT TO CHANGE'

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