Wise Words
the latest financial news from Aaron Tawny

The Budget Report June 2010

The Chancellor delivered his first budget report for the coalition Government on 22 June 2010. Here we have summarised some of the announcements we feel may be relevant. Of course, these proposals are subject to change and may be amended before they become law.

Personal Allowance and Basic Rate Limit: The Government has kept its promise to gradually increase the personal allowance for under 65's up to £10,000, but it's not going up to £10,000 immediately. From April, 2011 it's only being increased by £1,000 to £7,475. However, if a person is a higher rate tax payer they won't benefit from the rise. This is because the basic rate limit for tax is being reduced. Based on current estimates, it will be reduced by £2,500, but the exact amounts won't be known until September's Retail Prices Index (RPI) figures are published in October. As far as other income tax allowances and thresholds are concerned, they will 'be announced at the appropriate time' – When's that then? – Any suggestions? Answers on a postcard please!

National Insurance: The Upper Earnings/Profit Limit will be reduced to align it with the higher rate tax threshold. Based on current estimates for RPI, this is likely to be reduced by £1,650.

They've also confirmed another key election pledge – getting rid of the so-called "Jobs Tax".

Here's how – the point at which employers start to pay Class 1 NIC's is being increased by an extra £21 a week above indexation.

Guess what? – Yes, the exact amounts won't be known until September's RPI figures are published in October. So then – roll-on October!

Capital Gains Tax and Entrepreneurs' Relief: From midnight on 22 June, 2010 Capital Gains Tax (CGT) increased to 28% (from 18%) for higher rate taxpayers. This higher rate of CGT will also apply to Trustees and to Personal Representatives of deceased persons.

The annual CGT exemption and the rate for basic rate taxpayers haven't changed.

However, it's not all bad news on the CGT front. The lifetime limit on capital gains qualifying for entrepreneurs' relief has increased from £2m to £5m. The rate at which CGT applies to qualifying capital gains remains effectively unchanged at 10%. Any gains above this amount will, however, be subject to CGT of either 18% or 28%, depending on the individual's personal tax rate.

Indexation of State Pension and other benefits
State Pension: The basic State Pension will now increase each year by the higher of 2.5%, The Average Earnings Index (AEI) or the Consumer Price Index (CPI), giving a triple guarantee from April 2011.

However, in April 2011 the Retail Prices Index (RPI) will be used to ensure its value is at least as general, as under previous up-rating rules.

Benefits and Tax Credits: From April 2011 the CPI will be used instead of the RPI for the indexation of benefits and tax credits.

Changes of the age 75 Annuity rule: The age 75 Annuity rule is to finally be abolished from 6 April 2011 – Until then the Finance Bill 2010 will introduce legislation to increase the age by which a person either has to buy an annuity or take drawdown, to age 77. This only applies to those who haven't reached age 75 before 22 June 2010.

Individuals will still have to take any tax-free cash before age 75, but just won't have to use the rest to buy an Annuity or take income under Alternatively Secure Pension (ASP) rules. Instead, they can just keep all of their money invested and wait until next year when rules should be clearer.

Review of Restricting Pension Tax Relief: The new Government might just have done something right and listened to the concerns of the pension industry – will this continue!?

Like the rest of us, they've come to the conclusion that the new rules that were to come into play next April are a bit complex and could do more financial damage than the tax relief they're saving.

continued overleaf

The Budget Report June 2010 continued

The current anti-forestalling rules will stay in place before then, as they still need to decide on the alternative.

The favourite looks like a new reduced annual allowance for everyone between £30,000 and £45,000. They plan to repeal the legislation before the summer recess, once they've decided on their new approach. - Common sense wins for a change!

VAT – the time to shop is now!: The standard rate of VAT is to be increased from 17.5% to 20% from 4th January 2011 – Anti-forestalling legislation will be introduced to catch those trying to apply the 17.5% rate to services delivered or performed after 4th January 2011.

This legislation will catch those using artificial arrangements and is likely to affect those conducting business as usual.

Insurance Premium Tax is a tax on general insurance premiums. There are currently two rates:

- a standard rate of 5 %
- a higher rate of 17.5 % for travel insurance and some insurance for vehicles and domestic/ electrical appliances

From 4th January 2011, the rates will increase to 6% for standard rate and 20% for higher rate, for premiums received or written by an insurer.

The amount people can save into ISA's will increase

Good news for savers- ISA allowance will still increase in line with RPI: From 6 April 2011, the amount people can save into ISA's will increase each year in line with RPI. This follows the previous announcement that from 6 April 2010, the ISA savings limit increased for everyone to £10,200 with up to £5,100 into a Cash ISA. The most a person can invest in a Cash ISA any year, will be half the new total limit.

Changes to the Child Trust Funds

You may have seen on the news that the Government intends to reduce and then completely stop Child Trust Fund payments.

The first of these changes are now in place and are as follows:

- From 1 August 2010, extra payments for seven year olds have ceased;
- From 3 August 2010, the £250 payments have been reduced to £50

To find out more about all the planned Government changes, you can follow this link

http://www.childtrustfund.gov.uk

Enhanced Annuities

Why they should be considered?

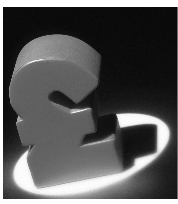
Many people are surprised at just how many conditions, either medical (such as diabetes) or lifestyle (such as smoking) could qualify for an income over and above that available from a non-underwritten Annuity.

Enhanced Annuities can provide:

- A long-term, stable, guaranteed income unaffected by investment and stock market performance.
- If you have one or more of over 1,500 medical or lifestyle conditions, you may qualify for an enhanced annuity.
- Enhanced Annuities could increase your retirement income by up to 50% for those who have more serious conditions.
- They are easy to arrange and clients are usually only asked to complete the shortest of medical questionnaires. It's unlikely that applicants will need to attend a medical examination.

For more information:

If you would like to find out more regarding the Budget Report, the following documents are available on the HM Treasury website:



The full budget report - **www.hm-treasury.gov.uk/d/junebudget_complete.pdf**
Budget notes - **www.hm-treasury.gov.uk/d/junebudget_notes.pdf**
The press notes - **www.hm-treasury.gov.uk/junebudget_press_notices.htm**

Pension Changes

The Government is proposing to bring in new laws from 2012, that will have a significant impact on every employer in the UK.

Key Facts

The framework for these new laws is already in place in the shape of the Pensions Act 2008.

- Employers will, for the first time, be required to automatically enrol eligible employees into a pension scheme.
- Employers will, for the first time, be required to pay pension contributions for any employees who join and stay in the pension scheme.
- The Pensions Regulator will police and enforce these new laws.
- Even if you have an existing workplace pension scheme, you may have to make changes so that it complies with the new laws.
- Employers can either use their own pension scheme to comply with these new laws or rely on a Government built scheme – the National Employment Savings Trust (NEST) scheme.

How we can help

As Financial Advisers with many years of experience in the pensions industry, we're familiar with the challenges that businesses will face in light of these new laws and regulations.

- We can - help you review your existing workplace pension scheme to make sure it will comply with, or exceed, the new requirements, or
- If you haven't got a pension scheme yet, we can help you put one in place.

We can also help with arrangements such as salary exchange that can save money and offset the impact that these new laws will have on your business.

What happens next?

We will be contacting all our clients who are employers, to discuss further, or you can contact us now to arrange a consultation.

Mortgages -

At last the sun shines on the mortgage market

- Mortgage rates have dropped to their lowest for almost seven years, as lenders start to offer cheaper home loans for those with smaller deposits.
- The average rate on a two-year fixed rate mortgage is now 4.52% - the lowest since September 2003 and compares with over 7% two years ago. At the start of this year, the average was 4.93%. The cost of five-year fixed rate mortgages has also improved, falling from 6.09% in January this year, to 5.61%
- The number of available mortgage products is also up at 2,635 compared with 1,601 six months ago. The biggest rise in availability is in mortgages for borrowers with only 15% or 20% deposits. The number of mortgages for people borrowing 80% Loan to Value (LTV) has more than doubled, since the start of the year, bouncing up from 153 to 318.

Lenders start to offer cheaper home loans for those with smaller deposits.

Holiday Home Owners - the losers as tax rules change

Tighter rules on rental income means that holiday home owners in the UK are set to lose £20 million worth of tax breaks. Although owners of homes, which are let for a large part of the year will be unaffected, the cost to the Exchequer of tax breaks enjoyed by 65,000 second homeowners in the UK could fall from £30 million to £10 million. Yet the coalition Government can justify the move as 'tidying-up' to bring Britain in line with the rest of Europe.

Previously, to qualify for the furnished holiday letting regime, owners had to make a home available for let for 140 days a year and let it for 70 – the new limits proposed by the Treasury and likely to take effect in April, 2011, are 210 and 105 days respectively. However, perhaps the key change is the Treasury's proposal to end the system whereby holiday home owners can charge losses on holiday homes against other income. From April, losses can be set only against income earned by the holiday home.

Financial Planning Service - update

We are currently undertaking extensive work behind the scenes to fine tune our service proposition and advice model, as previously mentioned.

This work includes attending various Financial Planning workshops, seminars and further CII examinations.

We are currently piloting a scheme with a small element of our clients, and we plan to role this out to all of our clients by the end of the year.

Based on the work we have done so far, the proposition will be based on the following model.

1. **Objective Setting -** our investment planning service focuses on what you wish to achieve through growing your wealth, taking income from your wealth or a combination of both and appropriate timescales.
2. **Personal Risk Profile -** we now use a risk profile questionnaire to uncover your attitudes towards investment risk. The questionnaire has been compiled by Towers Watson, a global professional services firm, which specialises in risk and capital management.
3. **Asset Allocation -** based on what we know from Steps 1 and 2. We will take into account the asset mix of your existing arrangements and use Towers Watson asset allocation models in order to retain consistency with the risk questionnaire outcomes in Step 2.
4. **Portfolio Construction -** we then will recommend a portfolio that corresponds to the asset allocation model relevant to your risk profile.

   There is more than one way to select the right portfolio for each client. For example, we may recommend a “fund of funds” managed by a single manager, where asset classes are automatically re-balanced within the structure of the fund.

   Alternatively, we now have access to model portfolios designed by Old Broad Street Research (OBSR), a well established and reputable fund ratings agency.

   OBSR research produces a suggested portfolio of funds relevant to each asset allocation model

   They have no vested interest in recommending funds from any particular fund management house.

As time passes, your attitude to risk or the scope and timescale of your investment goals can change.

   On a regular basis OBSR update these suggested portfolios to reflect current fund manager ratings and to match the latest version of the asset allocation models used in Step 3.

5. **Investment Administration and Valuation -** the most efficient method of putting your agreed portfolio into action is for us to utilise a secure, web-based investment administration service on your behalf. This service comes in the form of an account in your name, which acts like a window on the composition and valuation of the funds we purchase in your name. Once investments are made, you can use your unique password to view your holdings across different tax “wrappers”, such as ISA’s or Pensions. When changes are required, we can then administer changes on-line avoiding delays and additional paperwork.
6. **Ongoing Review -** investment planning is an ongoing activity. As time passes, your attitude to risk or the scope and timescale of your investment goals can change. Other factors affect the progress of your investment journey. Regular contact means we can keep each other up to date with such factors and take appropriate action to alter your investment strategy if necessary.

Depending on the level of service you select, we will review with you:

- The performance of your portfolio
- Your risk profile
- Whether the asset allocation in your portfolio is aligned to your latest profile result
- Options for action to ensure your portfolio remains allocated to the right mix of asset classes

(No action may sometimes be the most appropriate option).

The cost of unprotected success - Business Planning

If you are a Business owner, Shareholder or Director, the implications of not having adequate business cover are vast and could be very damaging to the long term future of the company.

Death or long-term absenteeism could affect productivity within a company, production and sales levels. It could also have an impact on the financial control and day to day running of the company. Also, replacing key personnel can be a lengthy and expensive process, so it is sensible to insure against these costs.

Likewise, the death of a Shareholder could have huge implications for not only the company in question, but also the Shareholder's family. Again, it is important to put the necessary protection in place to secure both the company and the family's future.

A new type of policy has recently been launched which is unique, tax efficient, flexible and cost effective. If this area is of interest or concern, please do not hesitate to contact us.

Money doesn't grow on trees -

but how about a machine that produces you money every month!

Just imagine that you had one of these machines, but the manufacturer stopped selling them - however you found that you could buy a warranty that could protect the machine.

You find that this warranty costs just a few pounds each week and will guarantee you money each month, if the machine breaks down. It would continue to pay-out until you got the machine repaired, you reached retirement age or you died - Would you buy the warranty?

Of course there is no money machine- you are that machine - The warranty you buy is an income protection policy!

If you break-down the State will help - but could you survive on £79.15 a week?

Do a little calculation - jot down all your essential monthly outgoings- then see how much the State would give you (it will surprise you how little this is). You might find that there is a massive shortfall - how would you bridge the gap?

It doesn't cost the earth to protect your income - if you want to find out more, please give us a call.

Critical Illness Cover

Many of you will have Critical Illness policies, and these are very important policies to have. There have been many changes and developments to this type of policy over the years, so it is important to review your plans to make sure they remain the most suitable available.

Most policies will cover approximately 31 – 39* conditions, where as we can now offer a policy that will cover a minimum of 93 conditions.

It also offers 'severity based' cover, meaning that payouts are based on the severity of an illness, so you may be more likely to get a payout.

For example – blindness - most companies would only pay out once you are completely blind, this policy however would pay a proportion of the sum assured at the early stages of the condition, with further payments as the condition advances.

You can make unlimited claims until the Sum Assured is exhausted.

It also offers free cover for the children – up to £25,000 each, in addition to your cover.

You would also become a member of their Vitality program, where you are rewarded for being active and healthy. Such rewards can lead to discounts on the Life Insurance premiums, gym membership, holidays, health checks etc.

* Company Literature and Aequos 2009

For your titillation!

"Teach a parrot the word 'supply and demand' and you've got an Economist"
- Thomas Carlyle

"If all Economists were laid end to end, they'd never reach a conclusion"
- George Bernard Shaw

"An Economist is an expert who will know tomorrow why the things he predicted yesterday didn't happen today"
- Laurence J Peter

"The economy depends about as much on economics as the weather does on the weather forecasters"
- Jean Paul Kauffmann

Your financial needs: How we can help

All of our advisers are trained to offer unbiased, jargon-free advice on any of these areas:

- Pensions
- Inheritance Planning
- Pre & Post Retirement Planning
- Equity Release/Home Reversion Schemes
- Life Assurance/Income Protection
- Investments
- Mortgages/Re-Mortgages/Buy to Lets
- Commercial Mortgages
- Business Protection
- Financial Planning

Simply call us on 01536 512724 or email us your enquiry at: enquiries@atawny.co.uk

Efficient/Economic client communication

To help achieve more efficient and economic contact with you, we intend where possible to use e-mail communication. With this in mind and if you prefer this form of communication, please inform us of your e-mail address by sending an email to enquiries@atawny.co.uk - many thanks for your help and co-operation with this matter.

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We hope you find this a useful and informative read. With our constant strive for excellence in customer service we always appreciate to hear your feedback, whether good or bad.

Aaron Tawny

Aaron Tawny Mortgages Ltd is Authorised and Regulated by the Financial Services Authority. The Financial Services Authority does not regulate: Some forms of Buy to Lets, Commercial Loans & Tax Advice.

To detach please cut along dotted line

If you would like more information on any of the following areas, please tick the relevant section, fill in your details and send this back to us at:

Aaron Tawny Mortgages Ltd. 6 Market Place, Kettering, Northants, NN16 0AL

- ☐ Pensions/Annuities
- ☐ Child Trust Funds
- ☐ Budget Updates
- ☐ Financial Planning
- ☐ Life/Business Cover
- ☐ Mortgages

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Telephone: .... Email: ....