

# Finance



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## As one year starts another is nearly over



**The 2009/10 tax year ends on 5 April and, although it always makes sense to plan tax efficiently, this time of year traditionally brings some focus to our financial planning.**

There are several steps you can take at this time of year to make the most of the available tax concessions:

- paying a pension contribution and, within certain limits, receive full tax relief in the 2009/10 tax year

- saving in a tax-free environment such as individual savings accounts and child trust funds
- making use of your annual inheritance tax exemption
- using your annual capital gains tax allowance.

It is important that you seek financial advice before doing anything. So if you need to plan before the end of this tax year, contact us now.



# Capital gains tax – an overview

**In this article we aim to give an insight into capital gains tax (CGT). Of course, we cannot explain CGT in detail, and individual circumstances vary, but we hope it gives a useful overview.**

## What is capital gains tax?

Capital gains tax is a tax payable when you dispose of an asset. Dispose doesn't only mean sell; it can also mean a gift, certain transfers of ownership or an exchange for something else. As the name suggests, CGT is a tax payable on the gain, not the value.

## Are all assets potentially liable?

The short answer is no. Usually your main home is free from CGT but not other properties you may own. This explains last year's public outcry at the practice of MPs 'flipping' their main residence, ostensibly to avoid CGT.

Your car is exempt, as well as personal possessions valued individually at under £6,000. Investments in ISAs and approved pension schemes are also free from CGT.

## Is the whole gain taxable and how much do I have to pay?

No. Everyone has an annual exemption of £10,100 in the current tax year. This means you do not become liable to CGT until your total gains in a tax year exceed your exemption. Once your gains

exceed £10,100 you pay CGT at 18% of the excess. Let's look at an example.

Imagine you bought some shares in 1995 for £10,000 and sell them now for £25,000. Your CGT calculation will look something like this.

Proceeds from sale	£25,000
Deduct original purchase cost	£10,000
Total gain	£15,000
Deduct annual exemption	£10,100
Taxable gain	£4,900
CGT at 18%	£882

## Is it possible to avoid capital gains tax?

There are some steps you can take to avoid paying CGT but these often just defer the tax rather than mitigate it. One of the best ways of avoiding CGT is to invest in a tax-efficient way and this is where we can help you. If you want to find out more about tax-efficient investments just let us know.

Call The Financial Practice  
on **01249 715111** to discuss  
your requirements.

# Pre-budget report 2009

**The current recession and national debt meant that when Alastair Darling delivered his pre-budget report on 9 December 2009 few were expecting him to be dangling many carrots, even though this was the pre-cursor to his last budget before the next general election.**

## **So what were the key announcements that affect our personal tax position?**

- There will be no increases to income tax allowances and thresholds in 2010/11
- There will be no increase to the higher rate income tax threshold in 2011/12
- National Insurance contributions will increase by 1% from 6 April 2011
- VAT to return to 17.5% from 1 January 2010 (this was expected and has now happened)
- No change to inheritance tax thresholds

## **What does this mean?**

Freezing tax thresholds will pull more people into the higher rate tax bracket; this makes tax-efficient pension planning more important to more people.

The increase in National Insurance contributions will, of course, reduce net income. However, this may make salary sacrifice arrangements more tempting and we will discuss this in a future issue.

Keeping the current inheritance tax threshold at £325,000, and £650,000 for married couples and civil partnerships, means careful inheritance tax planning is as relevant as ever.

**Of course, depending on the result of the general election, a change of government may mean much of this is discarded and replaced with other fiscal measures. But, we can only plan with what we know. If you want to understand more about how this affects you and your plans please get in touch.**

# ISAs uncovered...

**Individual Savings Accounts (ISAs) were launched in 1999 as a replacement for Tax-Exempt Special Savings Accounts (TESSAs) and Personal Equity Plans (PEPs). ISAs encourage saving by giving valuable tax concessions.**

In the 2009/10 tax year, you can save up to £7,200 in an ISA. Of this, you can invest up to £3,600 in a cash ISA; the balance can only go into a stocks-and-shares ISA. Once invested, your savings grow free of personal income tax and capital gains tax. Anyone age 16 or over can have a cash ISA but you need to be 18 or over for a stocks-and-shares ISA.

On 6 April 2010, the annual investment limit increases to £10,200, of which you can invest up to £5,100 in a cash ISA.

However, anyone who is age 50 or over, by 5 April 2010, can take advantage of this higher limit right now.

If you already have ISAs you can transfer your holding from one ISA to another. This can be useful if the interest rate on your current cash ISA is no longer competitive or you are considering converting a cash ISA into a stocks-and-shares ISA. However, you cannot convert a stocks-and-shares ISA into a cash ISA.

**If you want to take advantage of your ISA allowance before the end of the tax year, or need advice on your existing holdings, contact us now.**

# Building a retirement NEST egg

**On 7 January 2010, the Personal Accounts Delivery Authority (PADA) announced that, what we had until now known as the personal accounts scheme, would from now on be called the National Employment Savings Trust (NEST).**

So what is NEST and how did it come to pass? First, some background.

Current projections of our population suggests that the number of us who are age 65 and older will roughly double between now and 2055. (Source: Personal Accounts Delivery Authority.) Also, the Department for Work and Pensions estimates that around seven million of us are not saving anything like enough to provide the income we might need or want when we retire.

In 2005 the Pensions Commission released its Turner report, which assessed the need for wholesale UK pensions reform. Among its recommendations was a national pensions savings scheme. This has now evolved into NEST. The government is carrying out its reforms gradually from 2012 and PADA is the body created to help make this happen.

For the first time in the UK, NEST will introduce a form of compulsion into retirement planning. Because of the inertia that surrounds retirement planning currently, employers will either have to set up their own qualifying workplace pension scheme or use NEST as their default alternative.

Employers will be compelled to make a contribution to NEST of at least 3% of a stipulated band of earnings. There will be a total minimum contribution of 8% of this earnings band made up of employer contributions, employee contributions



and tax relief. For someone earning £25,100 this would equate to a total contribution of about £1,600 a year. (Source: Personal Accounts Delivery Authority.) The minimum contribution requirements will be phased in gradually so employers and employees get used to the idea.

Any change that encourages people to save more for their retirement is welcome. However, NEST is not the panacea to a serious problem of under provision. NEST will not create a generation of wealthy pensioners, what it does is create an environment where everyone has access to a workplace pension scheme. Hopefully, over time, it will also create a mindset where saving for retirement becomes the norm.

**What NEST does not do is negate the need to take personal responsibility for ensuring you achieve the retirement you want by planning well in advance. If you want to make sure you're on track for the retirement you want, don't wait until 2012, contact us today.**



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If you wish to discuss your financial needs, or any of the content in this newsletter, please get in touch.

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