

Pre Budget Report 6 December 2006

Gordon Brown delivered his Pre Budget Report on 6 December 2006.

Over the coming days and weeks we will review and digest it. But for now here is a quick first reaction on the key points that might directly effect wealth management clients.

Do remember that this is a pre Budget statement – by and large a statement of intent. Many of the measures are due to come into effect on 5 April 2007. Most of what was announced is likely to happen but there will be intense negotiations between now and the Budget, and again between Gordon Brown's Budget speech and the Finance Bill 2007 receiving Royal Assent and becoming the 2007 Finance Act.

Alternatively Secured Pensions

Following two years of Revenue road shows, huge swathes of legislation in April 2006 and massive changes for pension administrators, Mr. Brown has materially altered a device of interest to many of our clients.

Many individuals object to being compelled to use their pension fund to purchase an annuity. In April 2006 a new device became available known as Alternatively Secured Pension (ASP). Individuals could continue to draw a pension from their fund post age 75 without purchasing an annuity. Any funds that might be left on death could be used for a number of purposes including, in many circumstances, being passed on to other family members' pension funds (albeit subject to a tax charge).

The Chancellor has announced that transfers on death (known as "transfer lump sum benefit") will be treated as unauthorised payments. The total effective potential tax charge on such payments could be as high as 90%.

There will be other changes made designed to prevent other devices that might be used to pass pension assets on at death.

Comment

This is not good news. However at least ASP still exists and, subject to a whopping tax charge, funds will not just disappear. I hope against hope that this might just be a negotiating position. There will be sustained industry pressure on the Treasury to give ground on the detail here. Watch this space.

Capital Losses

There are usually a number of tax planning schemes doing the rounds. These are often targeted at those who have or are likely to enjoy a large capital gain, perhaps from the sale of their business. The Chancellor made it clear that schemes that depend on generating "artificial" capital losses will be attacked.

Comment

Mr. Brown has made it crystal clear that where his perception is that tax rules are being abused he will bring in legislation to outlaw the perceived abuse. In fact, very few clients will be affected by the proposed legislation and in any case the loss relief in question has only ever been available on "real" losses based on the disposal of assets. Genuine loss claims will not be affected.

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ISAs and PEPs

ISAs will become a permanent feature of the investment wrapper landscape. ISA and PEP rules will be brought into alignment and PEPs will effectively cease to exist – they will turn into ISAs. Also the complicated distinctions and investment rules regarding mini and maxi ISAs will be hugely simplified. For example ISAs previously established as cash ISAs will be able to invest in stocks and shares.

Comment

A welcome common sense measure. For many clients the actual quantum of tax savings achieved by investing in ISAs and PEPs is very small. Nonetheless it has been possible to acquire over the years substantial ISA and PEP portfolios which are shielded from Capital Gains Tax and higher rate tax; in most cases these portfolios also have almost no reporting requirements in terms of the annual tax return which is a real benefit.

Do not forget that these portfolios have no inheritance tax exemption.

Surprising Omission

There was not a word on the alignment of inheritance tax and trusts nor on the modernisation of the taxation of trusts. It is clear that second-guessing this Chancellor with any consistency is impossible but all the same I think it is extremely likely that we can expect some further measures in the Spring. We will have to wait to see whether this is a tidying of last year's changes or something more radical. There was no announcement on non-residence issues despite the uncertainty raised about the rules following two recent cases.

Conclusion

For many wealth management clients the most important point is the future of ASPs. The proposed tax penalty of at least 70% is little short of a kick in the teeth for affected clients. Expect concerted lobbying from all professionals. This sort of lobbying seemed to produce tangible results following the last Budget, though it was less successful on the Pre Owned Asset issue. A government that is committed to a fairer pensions system, and to an increased private pension provision, has taken an illogical and cack-handed approach to a perceived problem. An increase in the state married pension of £4.85 per week is a feeble sop for our clients.

That apart there is little to be concerned about. Investment and tax managers still have many tactics and strategies available to them, which will continue to be successful.

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If you would like to discuss any of the above in more detail, please contact Ben on 01442 220713 or email ben.sherwood@hllp.co.uk

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