

HEADlines

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the route
City wealth club

A TAXING TIME...

Unless you have been hiding out in the company panic room since September 2008 waiting for the haze of Britain's economic hangover to subside, you will no doubt have heard that the 2009 budget, announced by Alastair Darling, contained a higher rate of income tax than was generally expected.

Not that you want to hear it, but Mr Darling has proposed the following:

Instead of introducing the expected 45% rate of income tax from April 2011, a new top rate of income tax of 50% will be payable on all income over £150,000 from April 2010. If that wasn't enough, there will be a reduction of the personal allowance by £1 for every £2 over £100,000 reducing to zero for anyone earning over £112,950. Earners between these limits will be subjected to a marginal rate of income tax of, ahem, 60%.

Dividend income has also been affected. Currently, dividend income is taxed at 10% in the basic rate band and at 32.5% within the higher rate band. The new rate of 42.5% will be brought in for dividend income that falls into the income band at over £150,000.

Last, but by no means least, the ability to offset the impact of the tax increase will be impaired. Higher rate tax relief for pension contributions will be restricted to those earning over £150,000.

You will be affected by this if:

- You earn over £150,000 per year
- You change your normal ongoing regular pension savings pattern and
- Your total pension savings exceed £20,000 per year

In short, if you earn over £150,000 per year, contributions will be capped at £20,000 or £30,000 (dependant on a rule which has been 'simplified' beyond understanding, but don't worry, The Route R&D team are fully versed) per tax year to a pension arrangement to receive the full, higher rate relief. Relief will be tapered away so those earning over £180,000 will only receive basic rate relief. Any contributions made over the limits will only receive basic rate relief.

The methodology behind these arbitrary limits for pension contributions is a closely guarded secret, unknown to anyone in existence other than Mr Darling himself! This, unsurprisingly, has been met with a harsh reception from the entire pensions industry and savers alike, given the government has historically encouraged contributing to pension schemes.

Why, you may ask? Well, the press has widely reported that the top rate of income tax has been introduced to plug our record budget deficit. With government borrowing showing little sign of slowing down as yet, (we borrowed another £4.3 billion in January 2010) we are on track for a £178 billion deficit this year, with a total debt of

somewhere near £900 billion. However, economic theory suggests that increasing the top rate of income tax does not necessarily increase the tax take. Why is this? Well, a number of reasons spring to mind:

1. Tax strategies – Those affected by the top rate of tax are, on the whole, more 'savvy' with their funds and will have the ability to gain exposure to strategies aimed at reducing or eliminating tax.
2. Higher taxes? Work less! – There is less incentive to work when you know that you are being taxed at a higher rate.
3. Move abroad – A bit over the top? Maybe, but if your income is significant, and you can, why not up sticks, move to Zug and pay less tax on your income.
4. VAT take decreases – Those on higher incomes have less to spend, therefore the VAT take goes down.
5. Retire early – There is less incentive to work, so why bother?

If the above is true then one might suggest that this move was politically motivated, with an eye on the upcoming elections to rouse public support. Whatever the reasons, the change in legislation is almost here and it is a problem that can be addressed.

As a result of these impending changes, wealth managers, IFA's and private banks are now being forced to seek slightly more esoteric methods to mitigate this impact for their clients. This is where The Route, has the flexibility and experience to provide effective solutions beyond the reach of traditional IFA's and larger wealth managers.

As always, The Route are here to help. We know you are looking to maximise your income, build capital and achieve your long term 'Life Goals' whatever they may be.

Increasing the income tax rate does not necessarily increase the tax take, but action is required or you will be caught.



INCOME
TAX



Viewpoint

The end of the tax year is always a busy one at The Route, but with the impending general election on the horizon, and the 2009 budget changes to the tax rates waiting to trigger, this one has been the busiest yet.

Our focus at The Route – City wealth club is geared towards helping you create and preserve the wealth generated by your income. It is a very sobering thought that the new tax changes will have a direct impact on your ability to achieve your 'life goals'.

Paying in excess of half your earnings to the tax man is demoralising. Especially when you consider the other taxes you have to pay on that income, such as, stamp duty when buying a house, retirement and inheritance planning. So, it's time to box clever, and this is where The Route can assist.

Our Research and Development team are continually developing new solutions which can help mitigate as much of the direct impact of the tax changes as possible. These range from the esoteric, such as Stamp Duty mitigation, to the more well known tax efficient savings schemes including VCTs and EIS's.

There are, however, a myriad of other options, all of which are imperative to explore in order to preserve your asset base. It is vital now, more than ever, to get your planning right otherwise the negative effect will begin to compound.

We are here to help and your relationship manager is available to discuss the options and how they may benefit you.

Until the Summer .. (may it be a good one!)

Richard Roberts
Sales Director

ALL CHANGE - Mind the gap!

Barring a State of National Emergency being declared, we are now entering a three month period within which a General Election must now be called.

At the time of writing we do not know precisely on what date that Election will be held, nor can we find anyone brave enough to stick their neck out and predict what the outcome will be: for many months now the Tories have been ahead in the polls, but just how much of a lead is needed on Election Day to unseat the Labour government, or avoid a hung parliament, seems open to question.

Hopefully before June is out all will become clear, although anything other than one or other party claiming an outright victory will bring with it the possibility of having to go through the process all over again in a follow-up General Election possibly as early as the Autumn.

Of course regardless of who wins, the economy – and how to repair it – will be high on the agenda.

The mountain of debt accumulated by the nation over the last eighteen months is truly staggering. Leaving aside the question of whether or not the level of borrowing was wise or necessary (and clearly opinions are divided on this point), the fact is the debt is there and has to be dealt with.

Dealing with the debt requires that we generate surpluses within the public finances that can be used to pay down the principal, and the impact of that for the man in the street (assuming that particular man in the street is not in the import/export business), is that the government of the day – whoever that may be - will have to decide between raising additional revenue through increased taxes, or cutting overheads through spending cuts.

Tradition dictates that a Labour government would favour the former, whereas a Conservative government's inclination would be to pursue the latter, but such is the size of the debt mountain that in reality both parties are likely to have to face up to adopting both measures.

So from a taxpayer's point of view, where does the threat lie?

Firstly, on Income Tax, it seems unlikely that with the top rate of tax having just gone up to 50% that rate is going to go any higher – at least in the near future. But by the same token, nor is it likely to come down anytime soon.

What is more likely to happen is an ongoing general freezing of personal allowances and tax bands, with the added possibility of increasing the number of people for whom the Personal Allowance is scrapped altogether (as it already will be for all those earning

over £113,000 pa), together with the possibility of the introduction of interim tax rates (say of 30% and 45%) inside the existing 20%/40%/50% framework.

The prime target for any future government is surely likely to be Capital Gains Tax. The most likely option here is to further draw a distinction between an 'active' and a 'passive' capital gain, and to encourage the former by further expanding the scope of, and ceiling on, Entrepreneurs' Relief, whilst at the same time increasing CGT on passive investments from 18% (which already looks way out of step with Income Tax) to something much, much higher. And taking a lead from Income Tax, a removal of the Annual CGT Exemption for those reporting sizeable gains would seem a distinct possibility.

Following closely behind CGT is likely to be an overhaul of Inheritance Tax.

Although IHT is notionally charged at a flat rate of 40%, the reality is that the number of exemptions available, the most significant of which of course is the Nil Rate Band, mean that where IHT is paid at all, it rarely amounts to anywhere near 40% of the value of the estate.

On a £1m estate, for example, assuming no other planning in place, the amount of tax payable equates to 'just' 27% of the value of the estate. Introducing additional (higher) tax rates for estates above a certain size would be one option for addressing this, as would progressively clawing-back the Nil Rate Band for estates above a certain size (rather than simply leaving them frozen for the next few years, as is the case currently).

Another possibility would be to scrap IHT altogether and instead tax the proceeds in the hands of the recipient, according to their own personal tax position, rather than taxing the estate itself.

The above taxes all apply effectively to money received by an individual. The natural counterpoise to this (or complement, depending on just how much money the government needs to raise) is to increase tax on money as it is spent or invested. To this end the recent one year reduction in VAT, if anything, showed that expenditure is maybe not as price sensitive as people had assumed, and that therefore a rise of similar magnitude in VAT, whilst by definition inflationary, would generate additional tax income without necessarily slowing expenditure.

Similarly, a case could doubtless be made for introducing a higher 'luxury rate' of VAT on expenditure which is truly discretionary. And arm-in-arm with this, yet more tweaks to Stamp Duty on property transactions and share purchases cannot be ruled out.

Of course tax rates are irrelevant if taxpayers simply find ways of avoiding them, and so whilst tax avoidance (as opposed to tax evasion) remains a right enshrined in case law, any future government can be expected to spend yet more time and effort attempting to close loopholes as they emerge.



END OF THE **line**

Bonds

A couple of new investment initiatives that are highly tax efficient have recently found their way on to our desks at The Route - Future and we thought they were worth a mention.

First of all, we would like to introduce the Wealth Planning Account (WPA) offered by AEGON Scottish Equitable. The WPA is an offshore bond. Offshore bonds are nothing new; chances are you have had some kind of exposure to them before. With the WPA, you get all the benefits of a standard offshore bond, such as tax free growth and gross roll up. With a standard offshore bond, an immediate tax liability would be incurred if you were to withdraw over 5% of the bond's value per annum. Here is where the WPA differs. The WPA allows the investor to withdraw almost 100% of the bonds initial value without

triggering an immediate tax liability, depending on the underlying investment. The WPA allows you to choose when to pay the tax on any gains made or re-assign the investment to a spouse or adult child who may be a lower rate or non taxpayer, without triggering an Income or a Capital Gains Tax event.

Next up, we have the Octopus Trust Builder.

Looking to establish a large Trust? Put off by the 20% upfront entry tax? The Octopus Trust Builder provides an innovative solution to the Chargeable Lifetime Transfer tax. The Trust Builder allows you to put money into a discretionary trust without paying the usual 20% entry tax. By first investing into a Business Property Relief (BPR)

qualifying asset, holding this asset for the 2 year qualifying period and transferring the asset into a trust, you are able to qualify for BPR related tax exemptions that eliminate the entry tax for trusts.

When assets are transferred into the trust it will be deemed as a disposal for Capital Gains Tax purposes and any gain on the investment may be subject to 18% tax. Designed to provide targeted net returns of 3% per annum and unlike some other solutions, you retain control and access to your investment. Octopus will even contribute 3% towards any shortfall in the per annum targeted return. Investments made by Octopus Inheritance Tax Service are in unquoted companies and carry a higher risk than companies on the London Stock Exchange.

DISCLAIMER:- The value of the investments can fall as well as rise and an investor may not get back the same amount as initially invested. Tax Rules and Regulations are subject to change. Please note that this article does not constitute advice, if you are interested in these projects please contact The Route – Finance.

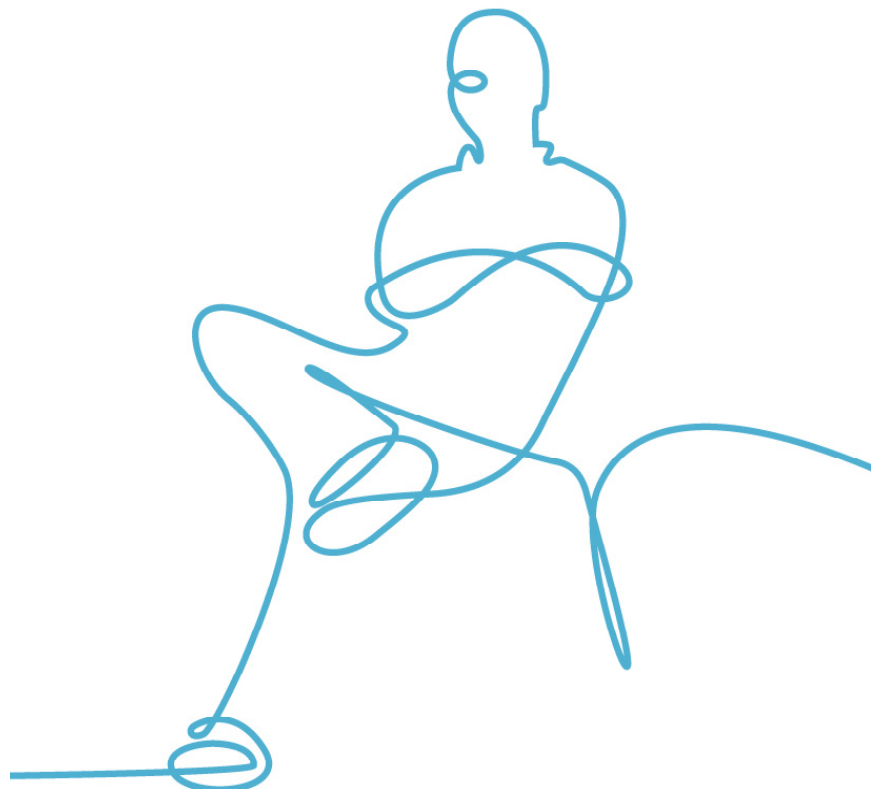
All Work and No Play...

...Makes Jack a dull boy.

With all the stresses and challenges of 2009 firmly behind us, The Route thought it worthwhile reminding our Members that there is life outside the office – and more importantly exclusive opportunities to exploit via the Club and its network. We are therefore pleased to introduce our Members to Eligo as the first of our lifestyle elements for 2010.

With only 100 Memberships available Eligo is the ultimate in golf club and social networking exclusivity. Membership brings full playing privileges at eleven of Europe's most exclusive golf courses, from Doonbeg and the Old Head in Ireland, to Valderrama in Spain, and access to unique member events around the world. This is an unrivalled opportunity for those who play or wish to entertain clients in an environment which is unsurpassed.

More information can be found at www.eligoclub.com



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