



BUDGET UPDATE

The budget was of little surprise to anyone except those who believe what politicians say, or rather don't say. I am sure you have read plenty about it already, but just to make sure, here are the highlights.

- ✦ VAT is set to increase to 20% in January 2011. This generally is a simple and effective way to raise money because it is very easy to collect and, despite what some would have you believe, does not affect spending a great deal. It will, however, cause an increase in spending and demand in November and December as people look to make quick savings before its implementation in the New Year.
- ✦ CGT will remain at 18%, but will increase to 28% for higher rate taxpayers. However, this is not the whole story, because the rate at which you actually pay will be calculated by adding your income (chargeable to income tax) to your gains (after deduction of the £10,100 allowance). If the total falls into the higher rate band, then you will pay the 28%. But the higher rate threshold is being cut (see below), which means more people will fall into higher rate tax. This means that basic rate taxpayers will need to make very careful calculations when generating CGT gain, so that tax can be controlled by balancing over tax years.
- ✦ 10% entrepreneurs' rate will be increased to cover the first £5m of gains on the sale of a business.
- ✦ Basic rate/higher rate thresholds to be reduced to £34,900, a cut of £2,500.
- ✦ Income tax allowance increase by £1,000 to £7,475. These two are designed so that if you hit the HRT threshold, then your increased personal allowance will compensate. Therefore, all those earning below £34,900 will be better off, but those earning more will be worse off.



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- ✦ A bank levy will be introduced. In reality this will raise very little, because any payment made will be offset by a corresponding reduction in corporation tax liability. In addition, the banks will move holdings into different principalities in order to reduce and control their liability. This levy was really just to make the government look as though it is being tough on the banks.
- ✦ Various benefits increase, such as child benefit to £20.30 for the first and £13.40 for the second. For some reason the second child always gets the worst deal. Firstly, they get all the hand me downs; no one takes photos of them because everyone did the photo thing with the first; and they get less from the government!
- ✦ State pension age will increase to 66 from 2018. This is a sensible move for various reasons. The first is that increasingly fewer people are actually retiring at 65, as well as some preferring to carry on working even if it is only for fun. Secondly, life expectancy is to increase dramatically, such that someone born today has a life expectancy of close to 120! When the state pension was first put in place, the remaining life expectancy of a 65-year-old was about 5 years; today, it is closer to 15 years.
- ✦ State pension will be linked to earnings, or the consumer price index or 2.5%, whichever is the higher. This is generally bad news for the government, and has been introduced because it was a vote winner in the election. If people are living so much longer, the act of increasing the escalation will outweigh the benefit of increasing the pension age. In fact, it will more than outweigh the benefit and will put future governments in a tough position. This is an example of short-term thinking.
- ✦ A freeze in public sector pay for those earning over £21,000, and pensions to increase in line with CPI.
- ✦ 10% rise in duty on cider, but all others remain the same. Why is this? Look at who donates to the political parties, and you can make your own conclusions.
- ✦ The requirement to buy an annuity at age 75 has been moved to age 77, while the government has “talks” with the pension industry to decide what to do in the future. Interesting, as both the Conservatives and the Lib Dems had given an undertaking to remove this compulsion. All of a sudden they are pulling back from this, and it probably has nothing to do with the lobbying of the insurance companies!

New ISA Limits

From 6 April 2010, all ISA subscribers can contribute £10,200 into a Stocks and Shares ISA or £5,100 into a Cash ISA plus £5,100 into a Stocks and Shares ISA.

Divorce is expensive – a second is even more expensive



In 1985 Mr and Mrs Vaughan divorced, with their divorce agreement giving the wife maintenance of £27,000 each year. After the divorce the wife inherited a substantial amount. The man remarried, and then after a number of years divorced his second wife. The original divorce agreement in favour of the first wife was changed by the court because of the inheritance, so that more could be given to the second wife.

The Vaughan v Vaughan case went to the Court of Appeal, and last month the judgement was changed so that the first wife was awarded £46,000pa, and the inheritance almost totally ignored. The second wife then had her award reduced correspondingly.

It is clear from this that however unfair it may seem, the needs of a first wife can not be subjugated on remarriage, no matter how long the marriage lasts.

Trustees to make tax reclaims

The rates of income tax for Discretionary Trusts have been increased to 42.5% for dividends and 50% on all other income.

It is therefore very likely that the tax paid by the trust will be higher than that of the settlor (the person creating the trust) and so a tax reclaim for the balance can be made by the trustees, with the trust receiving the refund.

If you are presently a trustee of a trust, and the trust holds income generating assets, make sure

that you refer the trust accounts to an accountant or adviser who understands how to deal with this issue, otherwise it is likely that your trust will be overcharged and that you might be liable for the result.

Furnished holiday letting (FHL) rules repeal dropped

Sometimes it's a complete mystery as to how decisions get made, are then changed, and then changed again. The internal workings of the government and the Treasury never fail to surprise us, even after close to 20 years of this Update.

The repeal of the FHL rules in the Finance Act 2010 would have meant that profits from such lettings would be taxed as property income, not as profit from trade. The reinstated rules mean that furnished holiday lettings which satisfy certain criteria will be treated as a trade for tax purposes.

The change was meant to close a loophole whereby people would buy a "holiday let", but use it themselves and claim business property relief in order to avoid inheritance tax. Very few people actually managed to be successful in these claims because HMRC are used to this "fiddle" and so rarely accepted them. Even so,

to make their job easier, the rules were to be changed in the Finance Act this year. However, someone, somewhere, has decided that it will be best not to close this "loophole"! Therefore, if the property is available for holiday letting on a commercial basis for more than 140 days in a tax year, and is let for at least 70 days in that year, it should, and we emphasis should, qualify for business property relief.

This does all seem very strange in an environment where the government is trying to collect the maximum taxation possible, and where these kinds of anomalies are being corrected elsewhere.

Harper v HMRC

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Best Savings Selection

To get the best from your deposit based savings you often need to move the money around. Use these rates to help you with your arrangements.

Top Three No Notice Accounts without Bonus

Name	Contact	£1 Gross %	£500 Gross %	£1,000 Gross %
West Bromwich BS	via branch	n/a	n/a	2.65
West Bromwich BS	0845 330 0622	n/a	n/a	2.60
Stroud & Swindon BS	0845 7252423	n/a	n/a	2.25

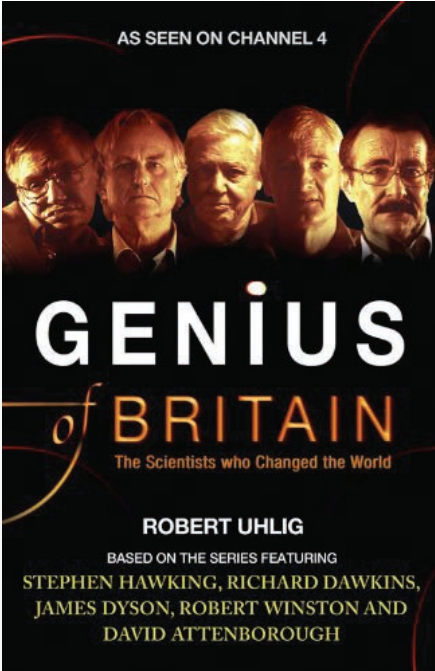
Top Three Monthly Interest Accounts

Name	Contact	£1K Gross %	£2.5K Gross %	£5K Gross %
Stroud & Swindon BS	0845 7252423	2.86	2.86	2.86
Birmingham Mids	0845 602 2828	2.72	2.72	2.72
Sainsbury's Finance	0500 405 060	2.67	2.67	2.67

Top Three Cash ISA's

Name	Contact	£1 Gross %	£500 Gross %	£1,000 Gross %
Nationwide BS	www.nationwide.co.uk	2.75	n/a	n/a
Newcastle BS	0845 605 0022	n/a	2.75	n/a
Cheltenham & Glos	0845 602 0022	2.70	n/a	n/a

Please check with the terms and conditions before opening any account. If in doubt consult with your financial adviser directly as the above are for information only.



Genius of Britain

by Robert Uhlig, ISBN 0007320671

This month's book is the companion to the Channel 4 series about great British inventors. The TV programmes themselves were interesting, but the book is even more so. Genius of Britain, by Robert Uhlig, reveals so much about so many great men, that the book itself is genius.

A couple of hundred years later it is difficult to see how such a small group of men created the modern world. It is even more difficult to see how they could physically have achieved it. Ask yourself, how do you work out that water consists of two hydrogen atoms and one oxygen atom in an age where people were not even sure what the elements were?

This book is one of the best in many years, rivalling Bill Bryson's 'A Short History of Nearly Everything'. We can not recommend it enough.

Ian Russell CERT DIP

Ian is the owner and principal of Polestar, a trading style of Positive Solutions.

Ian has over 10 years experience in financial services and is qualified to an advanced level in taxation and trusts (G10) and Pensions (AF3).

He works principally with private clients addressing their concerns around inheritance tax, investment (for growth or income) and retirement planning. Ian also completes a significant amount of Continued Professional Development each year, attending various seminars and conferences, on his client's behalf, so that they are always kept abreast of latest developments.

"We are proud to be a small, focused firm, because this means that we provide higher levels of personal care and attention to detail. This is why many of our clients, who previously dealt with Banks and larger advisory firms, have come to us. Our clients want to be treated as individuals, not numbers, to have a closer working relationship and to have someone they trust be available to them at all times."



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