

The Pre-budget announcement

The pre-budget announcement was more of a "mini" budget this year than in any other. Now that the dust has settled we can see what the results of both his changes and planned changes are and will be. Perhaps those greatest changes are the actual changes to the Inheritance Tax schedules and the proposed changes to Capital Gains Tax.



Inheritance Tax

Under the new schedule each person still retains a Nil Rate Band (NRB), which is the amount that they can pass to another person on their death (or in the 7 years prior to their death) without any Inheritance Tax charge.

Changes in the schedule to the act mean that married couples and those in civil partnerships can "carry forward" any unused NRB of the spouse or partner on their death.

This means that a maximum of two sets of the NRB can be used by couples, but that you cannot exceed this allowance. The allowance is based upon the NRB level on second death, not first death. In obtaining the allowance, all gifts made in the 7 years prior to the first death must be deducted, or in the previous 14 years if a chargeable Lifetime Transfer has been made. In addition any gift made on first death must be deducted. The NRB remaining after these deductions can then be carried forward.

The carry forward allowance is not a right and must be applied for on second death. For this to be

completed correctly, very accurate records are required from the first death, as the first death probate details must be noted on the carry forward claim.

If the deceased had more than one spouse, then the executor, who will effectively be making the carry forward claim can decide which of the deceased's



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spouses' allowances are used. This will be very useful if one of them had made gifts on first death.

Generally speaking these new rules are good news, however there are a few downsides that the media have not picked up on.

1. As all of the assets will be passing to the surviving spouse to get the carry forward, the surviving spouse will own them out right. This means that if the survivor re-marries, then the deceased's assets fall into the new "married" estate. This means that these assets will then pass according to intestacy rules, or based upon a new wills.

2. ONLY two amounts of the Nil Rate Band can be used, compared to higher amounts where Discretionary Trusts have been used.

3. Those people who have Discretionary Will Trusts should re-write their wills. This is because the DWT clause in the Will would restrict the tax saving to the level on first death, and not receive the uplift to the higher amount without the trust. While you may be able to vary this with a deed of variation, you are relying on this piece of legislation still being available.

Existing Discretionary Trusts

Those people that have existing Discretionary Trusts in place are now in an even better position than prior to the new rules.

The Discretionary Trusts will provide two sets of the Nil Rate Band in the same way as the new legislation. However, the new legislation will only allow two sets of the Nil Rate Band as the level of second death as a maximum. Existing Discretionary Trust arrangements include trustees right to indexation and escalation. This means that the protection provided by the trust on the level of the Nil Rate Band can increase at any "reasonable rate" agreed by the trustees. The bottom line of this is that escalation above the level of the higher Nil Rate Band can be used, giving an even higher tax saving than the new legislation.

An even greater advantage is that, if the survivor were to out live the first to die by seven years or more, an additional set of the Nil Rate Band can be protected, giving a total of 3 sets of the Nil Rate Band. This is achieved by the loan charge within the arrangements passing on first death to the trusts. This means that the survivor still has the assets to use and spend as they see fit.

There are of course, many other benefits such as re-marriage protection, divorce protection, long term care ring fencing, that Discretionary Trusts provide and these continue as usual.

Capital Gains Tax

The chancellor plans from next April to change the CGT rules and replace the existing rules with a single 18% CGT tax payable across the board on all chargeable assets. Taper relief and indexation (except for companies) will be removed. The annual exemption (presently £9,200) will remain.

On Monday 29th October it emerged that the treasury may give an additional allowance to those selling their business at retirement. This seems to be a fair concession although we need to see the final regulations to know how it will work in the real world.

Residence and Domicile

From April a non-domiciled person who has been a UK tax resident for 7 years or more will only be able to use the remittance basis for taxation of overseas income if they pay an additional tax charge of £30,000 pa.

Anyone who is UK tax resident, but not domiciled or

not ordinary resident and who claims the remittance basis for taxing overseas income will only be able to claim personal allowances if foreign income is below £1000pa.

Arrival and departure days will be counted as days of residence.

Self-Assessment

The threshold below which taxpayers do not need to make payments on account will be introduced to £1000 from 09/10.

The turnover level for simplified business accounts is doubling to £30,000.

Stamp Duty

Stamp duty payable on transactions below £125,000 will be exempt.

Where a property has a consideration of below £40,000, HMRC notification will not be required.

Pensions Credit

Pensions Credit will be up rated to £124 pw for a single person and £189 for a couple.

Fuel Benefits

The fuel benefit charge for employees free fuel will rise by £2,500 to £16,000.

Company owned life insurance

For account periods after 1/4/08, annuity contracts and life policies will be subject to the loan regime. These are a complex set of rules that may result in companies paying corporation tax on the increase in the value of policies.

Consultations:

Offshore

A consultation paper has been issued on the treatment of offshore funds. This DOES NOT affect offshore accounts within investment bonds.

Income Shifting

The government will be consulting on the treatment of "income shifting". This is the process where small business owners shift income between different people to artificially reduce tax.

Reviews will also be issued on:

- How to simplify the VAT rules
- Anti-avoidance and how this can tie in with simplicity and revenue protection
- Simplification of corporation tax rules

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

Name	Contact	£1 Gross %	£500 Gross %	£1,000 Gross %
Icesave	www.icesave.co.uk	6.30 (minimum £250)	6.30	6.30
AA	theAA.com	N/A	6.30	6.30
Sainsbury's Bank	www.sainsburysbank.co.uk	6.25	6.25	6.25

Top Three Monthly Interest Accounts

Name	Contact	£1 Gross %	£500 Gross %	£1,000 Gross %
Chelsea BS	0800 432 0088	6.31	6.31	6.31
ICICI Bank UK	www.icicibank.co.uk	6.23	6.23	6.23
Icesave	www.icesave.co.uk	6.13 (minimum £250)	6.13	6.13

Top Three Cash ISA's

Name	Contact	£1 Gross %	£500 Gross %	£3,000 Gross %
National Savings & Investments	www.nsandi.com	N/A	N/A	6.30 (minimum £1,000)
Tipton & Coseley BS	0845 757 3749	N/A	N/A	6.30
Saffron BS	0800 072 1100	N/A	N/A	6.30 (minimum £1,000)

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.

Gold and precious metal soars!

In September and early October gold and precious metal shares increased dramatically, by just over 21%. This was on the back of uncertain credit problems in the UK and the US. In mid October the prices levelled off. Anyone who held these shares

should review their holding and transfer out their gains to deposit provided they have not already fallen, to lock in the gains already made. Like all volatile investments, the shares will fall again, and clients should re-invest when they do.

Manager Leaves

Stan Pearson the manager of Standard Life's European fund has moved to Aegon Asset Management. Pearson who has seen the fund, through his management move to 2nd place out of

53 managers in this sector will now run the Aegon European Ethical fund.

This is the second loss for Standard Life who lost Mark Niznik to Artemis in April.

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