

## BUDGET GAIN FOR WEALTHY RETIRED

While the Chancellor is often accused of giving with one hand and taking away even more enthusiastically with the other, one group that should see a benefit from the Budget are wealthier pensioners.

From April 2008 the **22% tax band will reduce to 20%**. For most high earners the benefit of this will be largely cancelled out by the increase in the National Insurance threshold. However as pensioners do not pay NI, those who are able to utilise the full basic rate tax band will receive maximum benefit from the tax cut.

Higher rate taxpayers who have not yet retired could also gain from the reduction in the basic tax rate. They will continue to receive tax relief at 40% on any pension contributions they make, but when they come to retire some or all of their pension income will be taxed at only 20% rather than 22%. This is a welcome additional incentive to save via a pension.

From April 2009 the ceiling for employee National Insurance Contributions (NIC) will come into line with the threshold for higher rate income tax at approximately £43,000. This could make salary sacrifice attractive for individuals earning around this level and face paying NIC on a larger slice of their income.

Salary sacrifice is a formal arrangement whereby employees agree to sacrifice part of their salary in return for their employer making a corresponding contribution to their pension. Generous employers will top-up the contribution with a payment equal to the amount they save in employer's and employee's NIC.

The Revenue will usually accept these schemes as long as they are

set up correctly and the payments are regular and not one-off.

## FATAL BITE FOR ASP

Many wealthy individuals having built up large amounts of capital in their pension funds are reluctant to convert those funds into an annuity and thereby submit to the double whammy of currently low annuity income rates and the prospect of losing the capital on death.

It has been possible for more than 10 years to opt instead for income drawdown (now re-named Unsecured Income), which enables the retiree to retain their pension investments intact and to draw an income from them. The 2006 Budget held out the prospect that drawdown could be continued after the age of 75, when it would become known as **Alternatively Secured Pension** ('ASP') - one of the great advantages being that it would have been possible on death to pass the value of the pension fund to dependants' pension scheme through a 'family SIPPs' (self-invested pensions).

However, the Treasury began to get cold feet when it saw how popular this was likely to be, and the Chancellor has now confirmed a complete about-turn and proposes to tax ASP out of existence. The withdrawal of this financial planning option has sparked considerable activity among product developers, who are now rising to the challenge of creating vehicles for secure investment-based retirement income, with death benefits. More on this anon.

Although ASP is effectively dead, there is some good news in that the very attractive death benefits available under drawdown up to age 75 are very much intact. However, careful planning is required to maximise these benefits which can often be enhanced by arrangements which

direct the benefits to a trust rather than a surviving spouse.

For the fortunate few who commit to annuity purchase and find that this produces more income than they require, there may be another opportunity for estate planning. Gifts made from surplus pension income would normally qualify for the 'normal expenditure out of income' exemption from Inheritance Tax; and this would be additional to the other annual exemptions for gifts.

## MORE BUDGET NEWS

The limit for annual investment in an **ISA** is to be raised to £7,200 from April 2008 and the amount that can be invested in cash ISAs will be raised to £3,600. This is a modest but welcome increase in the allowance.

Several changes are being made to the conditions for the **EIS** and **VCT** schemes which allow tax privileged investment in smaller unlisted companies. These include the amount of capital companies can raise via this method and the maximum number of employees in qualifying companies.

Last year's budget reduced the size of company that could participate and lengthened the required holding period for VCT to 5 years. The changes this year will further limit the number of companies which qualify for investment. While the tax benefits of these schemes are still attractive, the level of risk and potentially long term nature of the holdings will ensure that they remain the preserve of the more sophisticated investor.

Finally, a level playing field is to be introduced between UK and **foreign dividends**, and those who own shares in foreign companies will as from next year receive a boost in the form of a 10% tax credit on dividend income.

March 2007



Clairville York Limited  
The Bellbourne  
103 High Street  
Esher  
Surrey KT10 9QE  
Telephone: 01372 470 477

