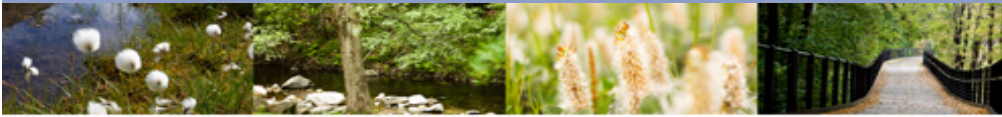


News & Views



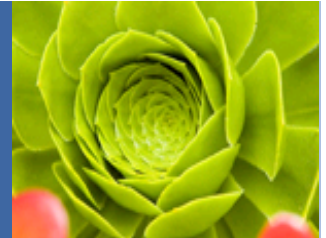
April 2010

Restricting contributions

The Budget brought more bad news for pension savers. A number of things had already been flagged in last November's pre-Budget report, but there were new restrictions on annual and lifetime allowances.

There were no changes from the pre-Budget announcement on the restriction of higher-rate tax relief for top earners. Higher-rate relief will be restricted from 2011 to all those with gross incomes of £150,000 and over. From £150,000, income tax relief will gradually be lost until, at £180,000, it will be 20%. 'Gross income' includes employers' pension contributions. The income floor is set at £130,000, excluding employer pension contributions. Anti-forestalling measures were also confirmed. These are designed to stop people loading up their pension schemes ahead of the new restrictions. Unless they can prove a 'normal pattern of contributions', the higher earners affected by the pensions restrictions will be subject to a clawback of higher-rate tax relief if their contributions exceed £30,000 a year.

The most significant measure not flagged in the pre-Budget report was the freezing of annual and lifetime allowances at £255,000 and £1.8m respectively. The Chancellor also confirmed the basic state pension would increase by 2.5% this year, allaying some fears it could be frozen. The Budget also confirmed the new personal Isa limit of £10,200, which will be indexed up annually. This could make Isas more attractive to higher earners. If tax relief on contributions is only 20%, but a saver may be paying twice that on income from their pension, Isas may prove more tax-efficient.



Welcome to the latest edition of our newsletter, our update on developments in the world of financial services.

If you have any questions about the issues raised in this issue, please do not hesitate to contact us.



Planning your inheritance

Soaring property prices have pushed many people above the Inheritance Tax (IHT) limit. For the 2010/11 tax year, the individual allowance is £325,000 (or £650,000 for married couples and civil partners). However, a little bit of planning can help you access the annual exemptions and allowances that are available to you, in advance. For example, regular gifts can be made from income without liability and small gifts can be made annually from capital to children and for weddings. Larger sums can become exempt if the donor survives 7 years. Alternatively, you can set up the funding for beneficiaries to pay the bill via some form of insurance policy so they don't have to sell items of sentimental value.

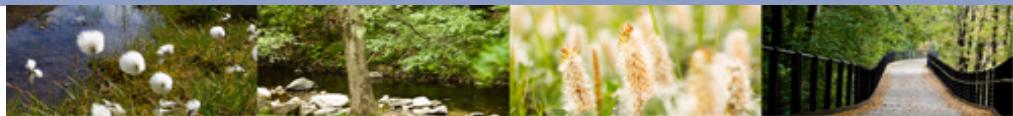
Contact Us:

Gregory Adam Financial Management Ltd, 16 Middle Bridge Business Park, Portis Fields, Portishead, North Somerset, BS20 6PN. Tel: 01275 847 649

Gregory Adam

Financial Management Limited
16, Middle Bridge Business Park
Portis Fields, Bristol Road
Portishead BS20 6PN

Tel: 01275 847649 Fax: 01275 814361
Email: ifa@gregoryadam.co.uk
www.gregoryadam.co.uk



Planning for success

No 3. CONSIDER ALL EVENTUALITIES

Treated with respect, money can help you to achieve something of the life that you want. However, when considering your financial plan, you should take time to consider not only what you want to happen, but also what might happen whether you like it or not! If you are planning to retire soon, start a family, take a career break or to change your home, this is likely to affect the strategy that you choose. You also need to think who depends on you and might suffer were you no longer around. Whatever your circumstances, a little extra work in planning can help make sure you and your family are well equipped to deal with all eventualities.

Preparing for the election

In the last Budget before the imminent General Election, the tone of Chancellor of the Exchequer Alistair Darling's speech was overwhelmingly political – indeed, the Confederation of British Industry (CBI) described it as a “clever political Budget”. Although the UK's budget deficit has declined slightly, it remains exceptionally high, and investors were eager to discover how the Chancellor intends to reduce the deficit without derailing Britain's fragile economic recovery.

The Chancellor confirmed his previous forecast for economic growth of between 1% and 1.5% in 2010, but cut his earlier forecast for 2011 to between 3% and 3.5%, bringing his predictions for 2011 in line with the Bank of England. The Chancellor expects the budget deficit to fall from 11.8% of GDP to 4% by April 2015, although critics pointed out his speech was somewhat short on detail about exactly how the deficit will be reduced. He promised the next review on public sector spending will be “very tough” and reiterated his belief that the Government is well positioned to achieve its targeted £11bn of efficiency savings.

Ahead of the Budget announcement, the CBI highlighted that Britain's economic recovery will be “slow and sluggish” and warned of the “lack of a clear driver for growth”, urging the Government to concentrate on cutting spending to reduce the budget deficit. Nevertheless, the Government intends to adhere to its plan to delay spending cuts until 2011 in order to give the economy time to recover.

The Chancellor refrained from imposing further increases in personal taxation. However, income tax allowances have already been frozen, automatically ensuring that many individuals will pay more tax. Stamp duty on homes costing less than £250,000 was abolished for first-time buyers with immediate effect while stamp duty on homes costing more than £1m was increased to 5% from April 2011. In total, 60% of tax increases over coming years will be funded by the top 5% of earners, triggering complaints that the middle classes are being disadvantaged in order to shore up support from grassroots Labour voters.

Most commentators seem to regard the Budget of March 2010 as a “holding” budget, believing that, whoever ends up in Number 11 Downing Street after the election, another Budget will be announced once the dust has settled. With the voting safely out of the way, any subsequent Budget is likely to contain more detail about the Government's plans to cut the budget deficit.



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