GERRARD BYRNE FINANCIAL SERVICES LIMITED

Financial Commentary

Quarter 2 2010

INTRODUCTION

There are two major talking points on everyone's minds today that will overshadow all other news events – England's exit from the World Cup and the fantastic weather that we've had over the weekend and which is set to last the rest of the week.

What else has happened recently?

England have beaten Australia for the third consecutive match in the 5 Series One Day International Cricket, they have beaten Australia at Rugby in the last month and Andy Murray has shown there are two weeks in which to play Wimbledon.

Oh yes, and we had an Emergency Budget.

So much has gone in the world of finance over the past 24 months – recovery, bail out, regulation, coalition government and the inevitable emergency budget within 50 days of coming to power – the Emergency Budget has not had quite the impact associated with new budgets.

Commentary from the media and from the many financial newsletters we receive has been equally divided. Some say a budget for growth, some say a budget of austerity that will fail to deliver – everyone with a different take on what and who the impact will fall upon. Will it impact on you and if so, how?

Depending on your focus

Investing
Saving
Estate Planning
Business Owner
Retirement Planning

The following is a summarised version of the measures that are going to be put into place and whether you are already there, or are planning to place your focus in one or more of these areas, we strongly recommend a conversation to provide greater understanding of personal circumstances and the impact for you.

INVESTMENT/CAPITAL GAINS TAX

In the 'flat' world of 18% it did not matter whether you or your spouse realised gains. Now there is an appreciable difference in the rate paid by higher rate and additional rate taxpayers – it can be beneficial to ensure that taxable gains are made by the lower rated spouse.

Investing for capital growth
The £10,100 annual CGT exemption remains – it would therefore make 'tax sense' for higher rate taxpaying investors to consider investing for capital growth rather than income to generate annual gains of up to their CGT annual exemption. The options to explore for an investor are quite varied and vast and need consideration.

Investing to minimise the future impact of CGT – Saving In a time of higher rate taxes on income and capital gains, the ISA becomes even more important as a tax efficient home for investment income and gains. Tax freedom in an environment of higher rates of tax is very attractive. Spouses or civil partners can each invest £10,200 per annum - £204,000 jointly over 10 years.

Investing for growth – it will still be worth investing for capital growth because the investor is able to maintain control over the time of tax payment ie., on realising a gain from the investment. The investor may be able to use their annual CGT exemption. For a 28% CGT payer, this can save CGT of £2,828. each.

SAVING

Planning opportunities for savers
Aligned with attitude to risk and objectives future tax efficient returns can be achieved through maximising the annual subscription to an ISA. This is £10,200 for all qualifying investors. Qualifying savings plans are life assurance based on regular savings vehicles. The proceeds at maturity are completely tax free, irrespective of amounts. It may also be possible to take benefits as regular tax free payments.

The withdrawal of the new Child Trust Funds means you may consider tax efficient savings plans for any of your children/grandchildren.

ESTATE PLANNING

The inheritance tax nil rate band will be frozen at £325,000 for 2010/11 and until the end of 2014/15. Many people who hoped that they would be removed from exposure to inheritance tax will find that they could still be subject to the tax.

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PLANNING FOR BUSINESS OWNERS

The freezing of personal allowance at certain levels of income and the higher rate tax threshold will mean that many more people will for the first time, become higher rate (40%) taxpayers purely because of annual increments in pay.

Corporate business owners have a choice to make in regard to available funds – to leave them in the business or extract them for personal use. Where funds are required for future personal use, payment into an approved pension arrangement will trigger valuable corporation tax savings and subject to the rules that restrict higher rate tax relief, can also avoid any personal tax.

For funds to be removed for immediate personal use, dividend payments (as opposed to salary or bonus) will avoid National Insurance. This will be particularly important in the wake of the National Insurance increases which apply with effect from 6 April 2011.

For funds that are not required for immediate use, shareholders/directors may choose to reinvest income inside their company so as to benefit from the lower rate of corporation tax. Cash could then be released to the directors by salary or dividend when tax rates reduce.

However profitable your business may be there are few better substitutes for a good pension scheme as an independent source of wealth outside of your business.

RETIREMENT PLANNING

The good news here is the pledge by the new government to look at ways in which pension benefit flexibility can be improved. This will mean that you will not be locked into having to buy an annuity by age 75 or take income through the so called 'alternatively secured pension' from the 2011/12 tax year.

Planning for Retirement

Prior to the restrictions on pension savings in 2011/2012 being finalised, full advantage can be taken of the current rules by maximising your pension savings in 2010/2011 up to the level of your special annual allowance/protected pension input.

The pension tax relief changes are complex but opportunities for higher rate tax relief still exist provided you remain within the rules.

EDITOR'S COMMENT

While the interest rate is outside of the budget per se, it is indirectly affected by the results of economic growth and inflation.

These in turn are influenced by the rates of VAT which when the levy of VAT was reduced by 2.5% from 17.5% to 15%, the general consensus was that it did not produce the motivational effect to make people go out and spend more.

With the 17.5% levy back in place and a 2.5% increase set for January 2011, it is doubtful whether this will have a detrimental effect on spending.

The difference in cost between a flat screen TV priced at £400 plus vat will be £10 based on purchasing at the 17.5% rate and the 20% rate and demonstrates why the previous lowering of rate did not make great inroads.

Making the most of low interest rates

With the Bank of England base rate continuing at an all time low, and most economists forecasting that they will not rise until late this year or into 2011, now is a good time to approach your existing lender to renegotiate your borrowing and change to a repayment basis if currently on interest only.

The recession we have just experienced may have knocked people off track to repay their mortgage through savings and bonuses originally planned but taking full advantage of the low rates may help to put plans back on course.

The overall effects of the budget will not become clear until some time to come, but the overall feedback from businesses is initially positive and encouraging as is the weather for the remainder of the week.

It is hoped that England will win the final 2 of the 1-Day Internationals which will result in a whitewash over Australia and Andy Murray continues in his rich vein of form.

Maintaining consistency is the underlying factor to all success.

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