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## FINANCE MATTERS (NI) LTD

### Pre - Budget Report - January 2010

Following the Pre - Budget Report (PBR) on 9<sup>th</sup> December 2009, I have put together a brief summary of the main issues in relation to financial planning which may be of interest to you. Please do bear in mind that, as a summary, I have not covered much of the detail of the Report and so if you require further general information on the Report, please refer to [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk) website (see Links section on our website).

#### Key Points

The major issue from a publicity point of view was the one off levy of 50% on any bank bonuses of £25,000 and above. This will affect relatively few people, although it caught many headlines. This special one off levy on any individual discretionary bonus will be paid by the bank and not the employee and anti avoidance measures were introduced with immediate effect. As reported in the Financial Times (FT) on 9/10 January 2010, this tax does not appear to have changed behaviour as most banks advised the FT that “they would absorb all or part of the cost, by inflating the bonus pool, even at the risk of irritating the government and their own shareholders”. Thus, the banks’ shareholders are picking up the tab, with a consequent reduction in shareholders dividends. The only good point of this is that it is now expected that the Treasury will raise around £4billion to £6 billion in tax from this measure, rather than the initial estimate of £550 million.

Other key points in the PBR include a pledge to help young unemployed people back into work, tax rebates for wind farms and electric cars and a household boiler scheme which will look to pick up where the car scrapage scheme left off. The Chancellor also made the decision not to extend the Stamp Duty holiday in relation to housing for more modestly priced houses. Further, Mr Darling deferred the proposed increase in small business corporate tax.

However, the biggest issue, as far as individuals who are at work are concerned, is that all employer/employee and self-employed rates of National Insurance Contributions (NIC) would increase by a further 0.50% from April 2011. Please note that, as far as the NIC rise is concerned, pension incomes as well as “un-earned” income (such as investments and rental income) are not subject to NIC and therefore not affected.

As far as Income Tax is concerned, many individuals could now be drawn into the 40% income tax band over the next few years as the higher rate threshold and personal allowance were frozen. This freeze in allowances and thresholds commences April 2010. Thus, for those whose income rises, their income will be taxed more heavily, as more are pulled into the higher tax bands, while those already paying 40% will pay higher average rates on their overall income. This so called “fiscal drag”, in which tax bands fail to keep pace with earnings growth has already seen the number of higher rate tax payers rise to around 3 million people since 1997 and the freezing of tax thresholds will continue this upward trend.

## **Financial Services**

### **Pensions**

As far as the financial advice sector is concerned, the pension proposals attracted most attention.

The good news is that the state pension will rise by 2.50% when the new 2010/2011 tax year begins in April. However, there is a further limitation on higher rate tax relief on pensions, such limitation coming quickly on the previous limitations announced earlier in 2009.

The Government announced that the restriction on higher rate tax relief will now apply to those with gross incomes of £150,000 and over where gross income incorporates all pension contributions, including the value of any pension benefit funded by or eventually funded by an individual’s employer. This will however be subject to an income floor, so that those with pre-tax incomes excluding the value of any employer contributions of less than £130,000 are unaffected.

The Government also announced that the forestalling measures introduced in the 2009 budget were to be immediately extended so that all of those with income of £130,000 and over will be subject to the special annual allowance previously announced.

There was also discussion regarding contributions by the State to public sector pension schemes and how these will be capped, with public sector workers being asked to make a greater contribution to their pension schemes.

### **Capital Gains Tax**

It is now widely predicted that Capital Gains Tax (CGT) is likely to be raised in a pre (or most likely) post election budget to bring it more into line with the higher rates of Income Tax. Thus, for those with gains, this presents a potential opportunity to realise these gains at what may be an attractively taxed environment, bearing in mind the current flat rate of CGT is 18%.

## **Inheritance Tax**

Further, the Chancellor decided to freeze the individual Inheritance Tax allowance at £325,000 for next year. It is worth noting that, since 1997, the Inheritance Tax (IHT) starting point has increased by 51% compared with increases in house prices of over 130% in the UK as a whole. Clearly, the increase in the IHT threshold has not kept pace with most individual's major asset, namely their family home.

I hope this provides a sufficient summary of the PBR at this time. I suspect that significantly greater measures will be introduced by whichever party is in power during 2010 and I would hope to report to you on any measures at that time.

If you do have any issues arising out of this summary, please contact me by phone or email.

**David Graham**  
**CHARTERED FINANCIAL PLANNER**

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