



The hardest thing to understand?

“The hardest thing in the world to understand is income tax”. You may be wondering who is attributed with this quote. Well the answer is Albert Einstein. It therefore seemed an appropriate title for this article as following the proposed changes to income tax and pension tax relief that were announced by Mr. Darling in his Budget, this is a statement which in the UK is becoming ever more accurate and as a result sensible financial advice and planning is even more important than ever.

Consequently in this article I would like to discuss two areas – namely ISAs and pension planning.

Are ISAs worth doing?

I was speaking to an IFA recently and I was amazed to learn that the majority of the clients she had met in the week leading up to the end of the tax year had not used their ISA allowance. Apparently the most common reasons that were given for this were either that people were too busy and just hadn't got round to it or, with volatile stock markets and interest rates being low, ISAs didn't seem “worth doing”. Well I can understand that in this day and age people are very busy but the “not worth doing” argument simply does not stack up.

Investors can place money in an ISA, which is essentially just a tax-efficient wrapper or “empty box” and in the vast majority of cases the ISA “wrapper” actually does not cost the client anything. Obviously it is important for an individual to consider whether they want to invest in cash or stocks and shares including corporate bonds and whether they want to invest a lump sum at the beginning of the tax year or whether it may be better to “drip feed” money into an ISA over the course of a tax year. Indeed helping clients to make the appropriate investment choices is where a good IFA comes into their own. But at the end of the day I can see no reason why anybody with existing savings or indeed anybody who wants to start saving would not invest in an ISA.

Of course in line with Mr. Einstein's observation Mr Darling has decided to complicate even ISAs with the introduction of an enhanced allowance which is only

available to those aged 50 and over on 5 April 2010 from 6 October 2009, with the new allowance available to everyone from 6 April 2010. But in my view this has more to do with the election that has to be held by June next year rather than sensible management of the economy.

Free insurance against future tax rises

Nevertheless investors should perhaps look at an ISA as free “insurance”. We all understand the need to insure our homes, our lives and even our pets and my view is that an ISA represents the best free insurance available against future, almost inevitable, tax rises – whichever party wins the next election.

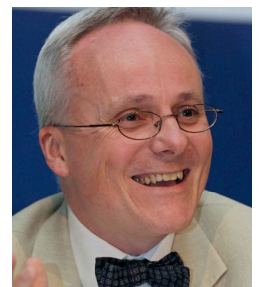
In addition we all understand that the economy may be in trouble but at some stage stock markets and interest rates will climb again and those who have made the most of their ISA allowances will reap the rewards – with no further tax to pay on income and any gains accruing free of capital gains tax for assets held within an ISA.

Clients born between 1955 and 1960?

Finally I would like briefly to touch on pensions. Unfortunately although we saw the introduction of pension simplification in April 2006 as we are all aware Mr. Darling has decided to make pension planning for those earning over £150,000 more complicated than ever. Now I accept that in many cases these changes will only affect some of your clients but I would like to take this opportunity to remind you of a pending pension change that is likely to affect many more of your clients.

Two “sure things” about ISAs

1. Invest in an ISA at the start of a new tax year, rather than the end and you will enjoy up to 12 months more tax-efficient income and the potential for more growth.
2. The over 65s have additional age-related personal allowances meaning that they can receive more income before tax is paid. These age related allowances are reduced once income is over £22,900 (2009/10) by £1 for every £2 of income. ISA income does not erode these age related allowances, so can help to preserve this tax benefit.



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If you have clients who were born between 6 April 1955 and 5 April 1960 they have until the end of this tax year to decide whether to take the benefits from their pensions, or they will have to wait until after they are 55. The reason for this deadline is that the minimum age from which you can take benefits from your pensions is being increased on 6 April 2010 from 50 to 55.

The rules mean, for example, that if an individual was born on exactly 5 April 1960 then he or she will only have 24 hours (5 April 2010) in which to start taking their pension benefits or alternatively they will have to wait until 2015.

Check the dates of birth of your clients

When an individual should take benefits from a pension can only be determined on a case by case basis but it may be worth reviewing your client bank and checking dates of birth. Whether somebody should take pension benefits at age 50 or not, individuals around that age are invariably those for whom it is an appropriate time to review their pension arrangements to ensure that they are meeting their retirement goals and with the changes announced by Mr. Darling in his Budget there is no guarantee that higher rate tax relief will be around for ever.

LighthouseCarrwood is one of the UK's leading providers of financial planning services to professional practices. To discuss how we could work with your firm please contact Mark Dallas, Managing Director, on 07899 981607 Mark.Dallas@lighthousegroup.plc.uk.