



### In this issue:

- New government, new budget
- Changes to pensions
- Markets update
- Celebrating 20 years in business!
- HHW – securing your financial future



### New government, new budget

In a controversial “emergency budget” aimed at reducing the UK’s spiralling debts, Chancellor of the Exchequer, George Osborne, announced sweeping – and contentious – cuts in spending on benefits and public services, accompanied by higher taxes.

VAT is set to rise from 17.5% to 20% from 4 January 2011, and the increase is expected to raise £13 billion of additional revenue by the end of 2011. Capital Gains Tax (CGT) has risen from 18% to 28% for higher-rate taxpayers. However, the personal income tax allowance will increase in April 2011 by £1,000 to £7,475, removing 880,000 people from the income tax system.

The Chancellor instigated average real budget cuts of 25% to most government departments over four years. Elsewhere, changes to the welfare system are expected to save £11 billion by 2014-15. From 2011,

tax credits, benefits and public service pensions will increase in line with the Consumer Price Index rather than the Retail Prices Index, which tends to be higher. Child benefit will freeze for three years, and tax credits cut for families earning more than £40,000. Housing benefit will be capped at a maximum of £400 per week. Meanwhile, the basic state pension will rise in line with earnings, prices or 2.5% from April 2011, whichever is the largest.

The threshold at which employers begin to pay National Insurance will rise from April 2011 by the rate of inflation plus £21 per week. Meanwhile, corporation tax will be reduced in 2011 to 27%, and then by 1% every year until it reaches 24%. Turning to the financial sector, the government is set to introduce a bank levy that is expected to raise £2 billion per year. It will apply to UK banks, building societies, and the UK operations of overseas banks, but will not apply to smaller banks.

### CGT rate to increase to 28% but annual exemption remains untouched

The much anticipated increase to the rate of Capital Gains Tax (CGT) has been set at 28% but will only apply to trustees and higher rate taxpaying individuals.

New CGT measures effective from 23 June 2010 will see a return to a link to income rather than a flat rate charge. The annual exempt amount has escaped any cuts and will remain at £10,100. The Finance Bill will introduce a new rate of 28% payable by individuals with capital gains in excess of their annual exemption which, when added to their income, exceed the income tax higher rate threshold (£37,400 2010/11). Where the income and capital gains do not exceed the threshold, the existing rate of 18% will continue to apply and gains straddling the threshold will pay 18% on the amount of gain below the threshold and 28% above it.

## CGT entrepreneurs' relief limit extended to £5M

The Government's pledge to encourage entrepreneurs has seen an extension to the lifetime limit on Capital Gains Tax (CGT) entrepreneurs' relief from £2M to £5M.

CGT entrepreneurs' relief is available on the disposals of entrepreneurial businesses, subject to certain conditions, providing an effective rate of CGT of 10% on disposals within a lifetime limit. The Finance Bill will extend the lifetime limit to £5M with effect from 23 June 2010 and simplify the method of providing the relief to a flat 10% on the amount within the lifetime limit. Gains which exceed the lifetime limit will be subject to the new CGT rules and taxed at either 18% or 28%.

## 2011 high earner pension tax rules under review

The Chancellor announced in his emergency budget statement that the complex pension tax rules for high earners from 2011, introduced by the Finance Act 2010, will be repealed. The Government will consult on the design of simpler rules to achieve the same aim of restricting the cost to the public purse of tax relief on pension funding.

Full details will emerge as the consultation progresses, but there is already a strong hint that the main feature of the 2011 changes is likely to be a significantly reduced pension annual allowance in the range of £30,000 to £45,000 a year.

This may not be entirely what was hoped for, but is a distinct improvement on the previous proposals. In particular, it would have the benefits of:

- Reinstating a level playing field for all pension savers.
- Maintaining the principle of tax relief at the highest marginal rate on personal contributions.
- Adhering to the original 'pension simplification' principles by providing a simple, clear yearly allowance for pension savers to use.

## Pensions - requirement to purchase an annuity deferred from age 75 to age 77

The Government's Coalition Agreement confirmed that the requirement to purchase an annuity at age 75 (or enter into an 'Alternatively Secured Pension') from a money purchase pension scheme would be abolished. This is planned to be introduced from 2011/12, and in the meantime, the age at which an annuity must be purchased has been increased from 75 to 77 with immediate effect.

The planned abolition of the requirement to purchase an annuity is now set for 2011/12. To help those approaching their 75th birthday, the requirement to purchase an annuity will be put back from age 75 to age 77 (although you will still be obliged to take tax free cash by 77), so they will be able to benefit from the formal abolition next year. This will be within the Finance Bill(2) 2010 and have effect from 22 June 2010.

At HHW we are delighted by this news. We have always felt that to make annuity purchase (effectively) compulsory at 75 was unfair. Inheritance Tax planning, ill-health and flexibility of income in retirement are all reasons why this change is overdue (accepting that for the majority buying an annuity by age 75 is a sensible idea).

## ISA limits to be increased by RPI

From 6 April 2011 the ISA limit will be increased with reference to RPI on an annual basis.

The current limit of £10,200 of which half can be invested in cash, will be increased from 6 April 2011 with reference to the RPI for September 2010. The cash ISA limit of half the value of the stocks and shares ISA limit will continue.

## UK interest rates

UK interest rates have now remained at their all-time low of 0.5% for over a year. The UK has crept tentatively out of recession but the new Government is now anxiously looking at ways to cut costs without doing anything to derail a fragile recovery.

However, the UK Consumer Price Index reached 3.4% during March. In his open letter to the Chancellor of the Exchequer back in January, the Governor of the Bank of England, Mervyn King, considered the rise to be a “temporary deviation” and suggested inflation will fall back below the Government-set target level of 2% in the second half of 2010. Even taking King’s explanation for the sudden rise in prices into consideration, it is worth remembering the rate of inflation has almost doubled since November 2009. Indeed, only a few months ago, deflation seemed the more credible risk. In normal circumstances, the Bank of England would increase the cost of borrowing in order to cool inflation. However, rates are unlikely to rise in the short term because policymakers fear higher interest rates could endanger the UK’s economic recovery.

Low interest rates are generally good news for borrowers, but are bad news for savers, who have already endured a year of exceptionally low interest rates. Returns on cash are meagre and high inflation is eroding the real value of cash. Looking ahead, the UK faces the combined problems of high inflation and rising taxes, both of which will put additional – and unwelcome – pressure on disposable income.

## Markets update July

Amid growing concerns about the strength and sustainability of the economic recovery, most major markets ended the month – and the second quarter – in negative territory, as investors pondered the possibility of a “double-dip” recession. Their concerns were exacerbated by Europe’s debt crisis, worries over the prospects for China’s economy and disappointing industrial production data from Japan.

At their meeting in Canada, the leaders of the G20 group of nations agreed that banks require higher levels of capital if they are to avoid a future financial crisis; however, they did not advocate a global bank tax. Meanwhile, in the US, Congress put the finishing touches to the most sweeping reform of US financial regulation since the Great Depression of the 1930s. In the UK, Chancellor of the Exchequer, George Osborne, announced changes to the regulation of the British financial sector that will hand overall control to the Bank of England.

Events in Europe continued to influence investors around the world, amid continued worries that the region’s debt crisis could hold back the economic revival. In the US, the S&P 500 index registered a decline of 11.4% over the second quarter of 2010 and fell by 6.7% over the first half of the year. Disappointing employment data, combined with the prospect of cuts to US state government budgets

and ongoing problems in Europe, continued to erode optimism about the strength of the economic recovery.

In the UK, the FTSE 100 index declined by 13.4% over the second quarter of 2010. Events in the Gulf of Mexico continued to overshadow equity markets as oil giant BP struggled to address the twin challenges of containing a massive oil spillage while attempting to appease US authorities.

Renewed concerns about prospects for economic recovery in the US weighed on share prices in Asia as investors digested news of lower-than-expected consumer confidence and disappointing news on jobs. Elsewhere, China announced plans to increase the flexibility of its exchange rate, although China’s central bank does not intend to instigate an immediate revaluation of the Yuan.

According to figures from the Investment Management Association, May saw net retail fund sales fall below £1bn for the first time since November 2008. Nevertheless, funds under management for the month were the third-highest on record. Absolute Return was the best-selling sector during May, followed by Global Growth, suggesting that investors favour sectors with relatively flexible investment mandates in the current climate of uncertainty.

## Celebrating 20 years in business!

In September, Holland Hahn & Wills (HHW) will be celebrating 20 years in business, or should that read the first 20 years?

Holland Hahn & Wills is one of the few firms to achieve Chartered Status with both advising partners being both Chartered and Certified Financial Planners. As announced in the Financial Times in June, Simon Ainley was one of the first 1000 Chartered members of the Chartered Institute of Securities & Investments. Being both Chartered and fee only means that we are ideally placed for the 'Retail Distribution Review' (RDR) that threatens a long overdue shake up to the Financial Services Industry that will come into force in 2012.

Our model portfolios are regularly reviewed and we are delighted to announce that we will be introducing two new funds from **Vanguard**. Whilst relatively new to the UK market, Vanguard has over 30 years of index tracking experience in the United States and is one of largest fund management groups in the world.



### In the news

On the 30th May, The Sunday Independent interviewed Simon Ainley about the Government's decision to withdraw Child Trust Funds. Simon advised readers about different options for investing in their children's futures. The article can be viewed on line at: <http://www.independent.co.uk/money/spend-save/childrens-future-still-looks-bright-1986721.html>

### Holland Hahn & Wills – securing your financial future

Governments come and go. Taxation rates ebb and flow. For those that watch investment styles, they too also change on a regular basis. Who remembers 'Quant' funds? Software programmes designed by rocket scientists (literally) but disappeared when they failed to predict what the markets would actually do! The Hedge fund industry has been decimated over the last few years not helped, in my opinion, by their outrageous fees. As it turns out many of the 'Absolute Returns' funds are now failing to do what they 'say on the tin'.

The three Holland Hahn & Wills partners together, have over 70 years of experience in UK financial services. HHW's investment process is based on asset allocation, correlation and decades of asset class investment data. We differentiate between investing and speculating. We believe that successful wealth management is based on understanding risk, diversifying as much as possible and keeping the charges low. The same old truths are consistent. If you want to discuss what any of the changes we have outlined in this edition of Financial Futures means for your wealth management, do get in touch.

## Looking after you

At Holland Hahn & Wills we are happy to provide one-off advice or long term support. Either way we ensure it is closely tailored to your needs, long term goals and ambitions. We offer regular review meetings, followed up with detailed fund reports so you know exactly how your funds are doing. As a small firm you will always have the same financial planner looking after your interests and available for discussions by 'phone or at a regular review meeting. This helps you to develop the trust and understanding to plan for your independent, financial future.

## Tell us what you think

This newsletter aims to keep you up to date with financial developments so that you can secure your financial future. We would welcome your views and thoughts on the content and any suggestions for issues you would like to see covered in future editions.

You can send these directly to Simon Ainley at [simon@hhw-uk.com](mailto:simon@hhw-uk.com).

You can also visit our website for more information about our services at [www.hhw-uk.com](http://www.hhw-uk.com).



*Notes: Levels, bases of and reliefs from taxation are subject to change. Past performance is not a guide to future performance and the value of investments can go down as well as up. Tax planning is not regulated by the FSA. We have taken great care to ensure the accuracy of this newsletter. However it is written in general terms and you are strongly recommended to seek specific advice before taking any action on the information it contains. No responsibility can be taken for any loss arising from action taken or refrained from on the basis of this publication.*

- Independent wealth management
- Chartered financial planners



## Holland Hahn & Wills

2 High Street, Hampton Wick, Surrey, KT1 4DB T. 020 8943 9229 F. 020 8943 9334 E. [enquiries@hhw-uk.com](mailto:enquiries@hhw-uk.com)