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The information in this Newsletter is to be viewed as general information and does not constitute advice. It is based on our understanding of the current legislation and market conditions, all of which are subject to change. If specific, individual advice is required, you should contact your IFA.
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Our Thoughts On Some Of The Announcements In The Budget In June

Capital Gains Tax: Although the rate of Capital Gains Tax (CGT) for Higher Rate Taxpayers increased by 10% it still remains at the previous level of 18% for Lower Rate Taxpayers; welcome news. Even the higher level of 28% remains significantly lower than income tax rates for the highest earners, so for assets taxed under CGT rules this can still be a valuable planning tool for investors. Furthermore, the annual exemption remains untouched at £10,100 per year which is positive as it allows investors to take %income+through withdrawing gains that can potentially be tax free . or at least taxed at a lower rate than income. One thing for investors to note is that capital gains are added to income and if the total exceeds the basic rate taxable income band and CGT allowance combined then the gain will be taxed at 28% - even if your income may be taxed at lower rates.

Pension Legislation: The rules surrounding pension funding and benefits are under review (again!). Investors have, under current rules, been entitled to contribute up to 100% of their income in a year subject to the upper annual allowance of £255,000. Highly complex rules were introduced for high earners over the last year, by the previous Government, to limit higher-rate tax relief on their pension contributions. The new Government is now in consultation with the industry on simplifying these rules and our opinion is that a much-reduced, overall maximum annual funding limit (annual allowance) will be introduced. We believe that this limit may be reduced to around £50,000. Despite the significant reduction, which may prove restrictive for some investors, this move would dramatically reduce the complexity which is leading many investors inadvertently to overfund their pensions. It also provides equality for all investors . once again we feel this is a welcome move. In addition to the maximum funding consultation, there is a further change planned. The requirement to buy an annuity at age 75 is to be abolished. Although there are already options for delaying annuity purchase further than age 75, the current rules make this unfavourable for almost all pension holders and there is, currently, rarely a viable alternative to annuity purchase at age 75. Once again there is now another consultation in progress and the new regulations are likely to be in place from the tax year 2011/2012. In the interim, the compulsory annuity purchase age limit has been increased to 77 and some restrictions on alternatively-secured pensions have been lifted.

It is difficult to say just how positive this news is without knowing more about the options that will be open to pension investors after age 75. Providing the new regulations are not too onerous - and the death benefits under them more favourable than at present - we feel this is a much-awaited positive step that may encourage investors to make more substantial retirement plans with the knowledge of added flexibility later in life. We will keep you updated on developments and in the meantime, if you require any advice on this matter, please do contact us.

Retirement Ages: The State Pension Age will increase to 66. Although this was already a planned move, it will now be brought forward, although we do not yet have set dates for this change. The State Pension Age has not changed (other than to bring women's retirement ages in line with men's) for many decades and given the substantial increase in life expectancy over the last couple of generations, combined with the deficit in the State finances, we are not at all surprised by this move.

ISA Limits: it was confirmed that these will increase by RPI each year from 2011 . so the current limit of £10,200 will gradually increase annually. Although this will not be a substantial increase in the early years, it will mean that, over a period of time, more realistic levels of investments can be made and sheltered from higher tax levels. We are pleased with this move as it will be a help for investors accumulating tax-preferred savings . particularly if the limit on pension contributions is to be restricted.

VAT Increase: The VAT rate will increase to 20% in January 2011. This was widely anticipated and although this will be inflationary initially, we don't believe that it will impact greatly on the potential recovery in the economy.

Income Tax Thresholds: These will increase by £1,000 in 2011/2012. However, this will only be a benefit to basic- rate taxpayers as the higher-rate threshold will be reduced correspondingly. An annual tax saving of up to £200 pa will be good news and a great help to some low earners. Overall, given the enormous deficit in public finances at the present time, we believe the effects of the Budget could have been far worse than this. There will of course be further pain to come with heavy spending cuts planned . but this is going some way to preserve faith in the UK economy and in Sterling.

There are a number of other changes but we cannot cover all of them in this newsletter. If you require information on other issues raised please contact us.

STRUCTURED PRODUCTS

These are usually fixed-term investments with the returns linked to an index . for example the FTSE100 index. They offer the investor some degree of protection or guarantee at the end of the fixed term - this is generally their attraction.

There has been a lot of bad press about these types of plans, but much of this has been focused on older-style plans, where gains and losses were potentially magnified and many investors faced large and often unexpected losses. Further problems faced these plans with the collapse of Lehmans Bank; however, this collapse was completely unexpected . even by the credit ratings agencies.

Structured Plans have become more transparent in recent times and - providing all of the risks are clearly understood - they can be appropriate as part of some investors portfolios.

There are two types of structured product . a Structured Deposit and a Structured Investment. The important difference between the two is that the former is usually cash based, even if the returns are linked to an index. In addition, it is covered by the Financial Services Compensation Scheme in the event of the company providing it becoming insolvent (up to the usual compensation limits). Structured Investments, however, have a more complex structure and as they are not deposits they are not normally covered by the Financial Services Compensation Scheme even if they are provided by a Bank such as HSBC or Barclays. In these cases it is therefore most important to seek advice on the financial strength of the counterparty providing the guarantee.

There are a number of structured deposits and investments available at the present time which are proving attractive. If this is something you would like more information about please do contact us.

The Retail Distribution Review and Adviser Remuneration

Many clients have read articles in the press about the Retail Distribution Review, or RDR, and wonder how the impending changes will affect them. In reality there will be limited impact on the way we work today with our clients.

The FSA launched the RDR in June 2006, when it began to look at how investments are distributed to retail consumers in the UK. Following extensive talks with the financial service industry and consumer representatives the FSA proposed amendments to its regulatory requirements to deliver various changes. Their proposals include improving the clarity with which firms describe their services to consumers, addressing adviser remuneration and increasing the professional standards of advisers.

RT Financial Planners Limited has always been . and will remain . independent, which means that we will always be able to offer products from the whole of the market so there will be no impact on our current service. Some advisers in the future will only be able to offer what will be called a restricted service, such as being able only to advise on their own range of products and . where this is the case - will have to be made clear to its customers.

With regard to how advisers are paid, we offer . and will continue to be able to offer - a variety of payment methods . either fees or commissions or a combination of these. You will still be able to have our charges deducted from your investments, if you wish, but the FSA's intention is to ban product providers from offering amounts of commission to secure sales from adviser firms and in turn to ban adviser firms from recommending products that automatically pay commission.

These proposals are scheduled to take effect from the end of 2012, and it is envisaged that the RDR will not be affected by the government's recent announcement to make changes to the face of financial regulation in the UK.

If you would like any further detail on any of the above - or to discuss flexible payment options with us - we will be pleased to discuss this with you.

A Reminder

We would like to remind our clients of our new address in Cirencester following our recent office move. You can now contact or visit us at Monmouth House, 26-28 Thomas Street Cirencester, GL7 2BD. If you need directions to our office please do contact us. Our telephone numbers remain unchanged and of course our Winchcombe office has not moved.