

Personal Finance and the Budget

Chris Budd looks at the recent budget and how it affects personal finance issues.

There were some very interesting announcements in the recent budget, but was it really a case of smoke and mirrors such as the reduction in the basic rate of income tax and the removal of the 10% tax band.

It's not all robbing Peter to pay Paul as the immediate benefits of the budget for pensioners are an increase in the guaranteed element of their pension credit from £114.05 to £119.05 a week if you are single, whilst couples will benefit from an extra £7.65 a week, up from £174.05 to £181.70. However, if your income passes the new minimum thresholds of £6,190 a year for a single person and £9,448 for a couple, the pension credit is reduced by 40%.

The Chancellor also announced that Age related personal allowances for those aged 65 and over will be increased by £1,180 over indexation. The personal allowance for those aged 75 and over will increase to £10,000 in 2011/12.

The budget in terms of tax allowances was a mixed bag for the retired and elderly, notably with the removal of the 10% income tax band effectively meaning anyone with an income under £18,000 would pay more tax.

Whilst we should all be delighted with the increase in ISA limits (an increase to £3,600 for cash ISAs, £7,200 for stocks and shares ISAs), this doesn't come into effect for another year or more (6th April 2008). Furthermore, this will be the first increase since they first replaced PEPs in 1999.

ISAs remain a core holding of any investment portfolio due to their tax efficiency, and therefore anyone holding or making significant investments should be utilising their allowance each year, by rolling over their investments into ISAs, whether this be cash or stocks and shares. This change will, at least, hasten the speed with which a portfolio can be transferred into ISAs – although not by much.

One point of simplification – PEPs will be renamed ISAs in the future, which will clear up one small anomaly, as these two vehicles are virtually identical.

For those individuals who operate a variety of savings and investments, including deposit, ISA, PEP, investment bonds, unit trusts, and even pensions (perhaps under

Drawdown), ISAs can be seen as just another, tax efficient, vehicle into which investments can be made. I have talked in previous articles about the importance of overall strategy (asset allocation) and review process, which should be applied to all the above investment vehicles.

Inheritance Tax – although this had been previously flagged, the threshold will rise from its current rate of £285,000 to £350,000 in 2010. To clarify, this means that, in the event of death, the first £285,000 currently will be free of tax, any holdings above this amount will be subject to tax at 40%. Clearly, this means that correct structure of a will, to make sure both partners in a marriage utilise their nil rate allowance, remains essential.

Some good news on pensions, the Financial Assistance Scheme (FAS) established specifically to help people whose final salary pension schemes which went bust before 2005, will receive an additional £6bn to the previous £2bn. Putting this in prospective, however, although this will extend the number of people and amount awarded, we should keep this in perspective as the upper limit has been raised to only £26,000. Whilst helpful, this is therefore not an overall answer.

And (in the words of Trevor McDonald) finally – if all of the above is too much to cope with, you will be able to go to your local pub, enjoy a (slightly more expensive) pint, but not be able to smoke. Instead, the cost of your nicotine patch will be reduced, thanks to the reduction of VAT from 17.5% to 5%. Who says that this is not a caring Chancellor?

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This article appeared in the Mature Times April 2007 edition – visit their website at www.maturetimes.co.uk

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