Don't forget the new ISA limits

The increase in ISA contribution limits to £10,200 for the over 50s has already come into effect.

The new limits will apply to people who are, or will be, aged 50 or over in this tax year and – just to make things difficult – the new limits will be extended to all from the 2010/11 tax year onwards.

Out of the new £10,200 limit, up to £5,100 may be invested in cash. Individuals who do this will have a number of options in terms of using the higher allowance for this tax year. Those of you who have not made any ISA subscription for 2009/10 can put up to £5,100 into a Cash ISA and the balance of their £10,200 total contribution limit into a Stocks & Shares ISA.

Those who have already contributed to an ISA can make up the difference between their existing contribution and £10,200, subject to holding a total maximum of £5,100 in cash. Any top ups must be invested with the same provider.

If you are over 50 and have already paid into an ISA you may wish to take advantage of the increased subscription limit. But if you're unhappy with your current provider, the only way to avoid the requirement to top up the existing ISA is to transfer the existing 2009/2010 subscription to a new provider. Any top up can then be paid to them.

The ability to save up to £850 per month (£1,700 per month for married couples) into a tax friendly and flexible savings vehicle, perhaps as a complement to pensions planning, is very attractive.

For more information, just get in touch.

Charity rather than Christmas cards in '09

In view of the financial problems experienced by many of the smaller charities last year, we took the decision to donate the same amount we usually spend on Christmas cards to charity.

So we chose to support the NACC – National Association of Colitis and Crohn's Disease.

Colitis and Crohn's are incurable inflammatory bowel diseases that most commonly afflict children, teenagers and young adults. Around 240,000 people in the UK currently suffer from these conditions.

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JOHN EAMES LIMITED
INDEPENDENT INVESTMENT & PENSION ADVISERS

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On the money

John S Eames
Managing Director

Restriction of pension tax relief – act now or risk losing out

As many of you may know, restrictions on pension tax relief for those with incomes in excess of £130,000 per annum were announced in the Pre-Budget Statement. The main change will come into effect from the 2011/12 tax year, with anti-forestalling provisions applying for this and the next tax years.

What does this mean for pension clients?

This is the second cut to higher rate tax relief within 8 months. While the government suggests that 300,000 higher rate taxpayers are now affected, research undertaken by Standard Life estimates this figure to be closer to 450,000!

Those still eligible for higher rate relief are beginning to stick out like a sore thumb. ***So how long before the relevant income limit is cut further?*** In these uncertain times, what factors should you be considering?

Those with relevant income above £130,000

The first £20,000 of pension contributions still qualifies for tax relief at your highest marginal rate. You should strongly consider paying in £20,000 during the 2009/10 and 2010/11 tax years, as it could be your last ever chance to do so on the most favourable terms.

Those paying regular monthly or quarterly contributions above £20,000 can continue to do so until 5 April 2011 and still receive tax relief at their highest marginal rate. Also, those with a history of annual and single contributions can pay up to their 3-year average, capped at £30,000.

Those joining new employer group schemes, or a category of a group scheme that includes another 19 people accruing benefits "on the same basis", can also pay more than £20,000 for the current and next tax year.

continued overleaf...

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...from overleaf

Those with taxable incomes up to £149,999 can duck back under the £130,000 relevant income threshold by paying a personal pension contribution of up to £20,000.

Those with relevant income below £130,000

If there is another change to the pension tax rules, those of you in this group are most likely to feel the pain next. Therefore, paying in a large pension contribution sooner rather than later may be in your interest – ***remember, there could still be another budget before the election.***

The £1 withdrawal of personal allowance for £2 of taxable income over £100,000 means that those with income in the £100,000 to £112,950 bracket can achieve an effective rate of tax relief of 60% on pension contributions. Salary sacrifice (including the saving of employer's national insurance) boosts that to around 65%.

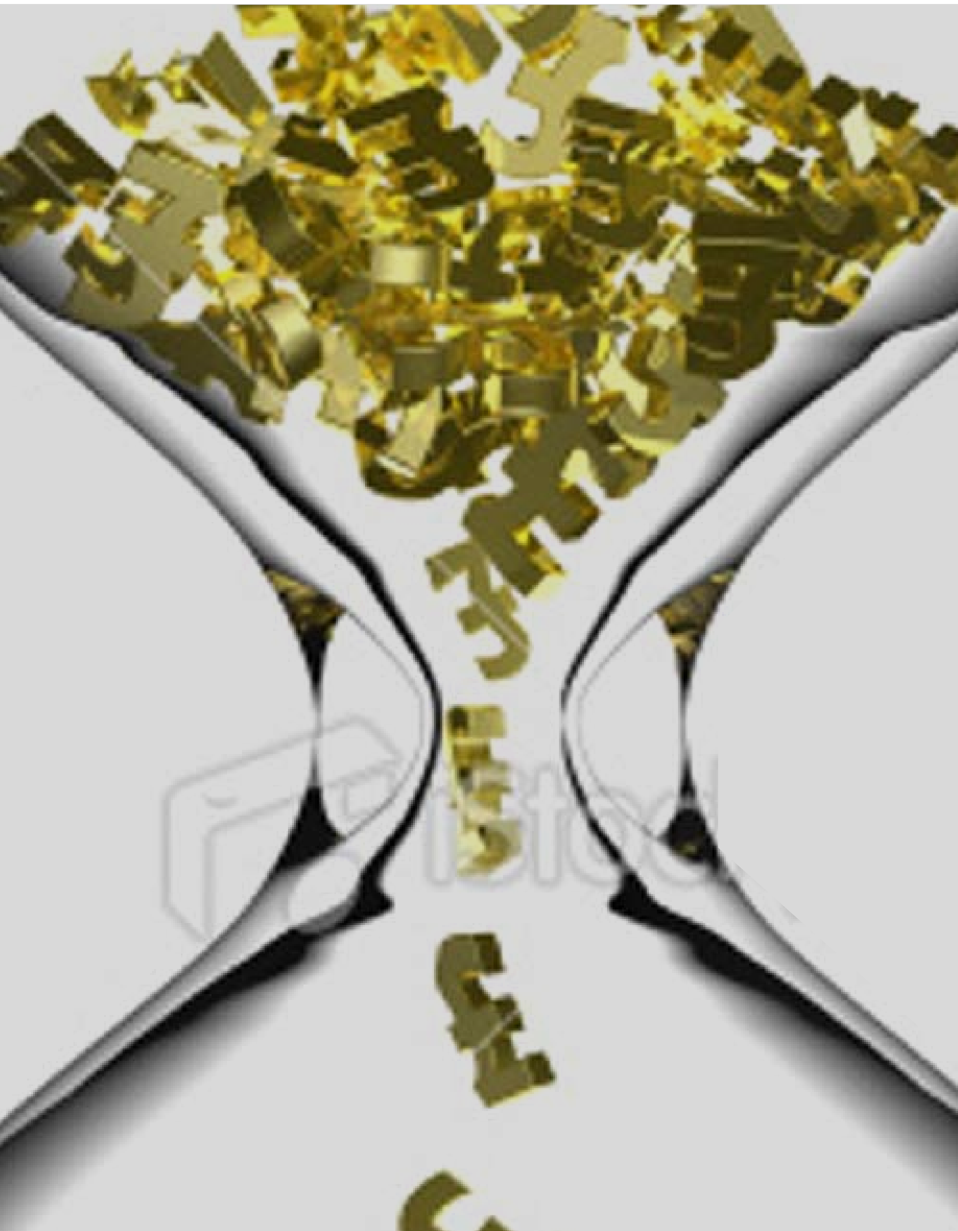
Those with relevant income between £43,875 and £100,000

Keeping taxable income below £100,000 will ensure those of you in this category retain your personal allowance. You can do this by making pension contributions.

The Pre-Budget changes, whilst not unexpected, are certainly unwelcome. However, whilst the nation remains heavily in debt, the chance of any future government reversing these changes looks remote.

References to legislation and taxation are based on our understanding of law, HMRC practice and the Pre-Budget report of 9 December 2009. Legislation and taxation are liable to change and the proposals in the Pre-Budget report will be subject to change before this year's Budget and subsequent Finance Act.

If you'd like more information, just get in touch with us.



Pension benefits – can you afford to wait?

From 6 April 2010, the minimum age at which you will be able to access your pension benefits jumps from 50 to 55.

If you're currently between the ages of 49 and 54 this change raises serious planning implications. If you don't take action before 6 April 2010 the option to access your pension benefits will be restricted.

Of course, not everyone in this group will need to access their pension immediately. Some may be quite comfortable with deferring their benefits for up to 5 years. But what about those of you who have a genuine short-term need to access your tax-free lump sum or regular income?

If you're concerned about this issue, please contact us for further details.

The outlook for 2010

After enduring a global recession, the credit crisis and the financial market meltdown, we are now experiencing a very different investment backdrop. With governments and central banks throughout the developed world injecting huge sums of money into the global economy, the economic data has begun to improve and financial markets have responded with enthusiasm.

So what does the future hold? Here's our latest assessment of the markets for the forthcoming year.

UK Equities

Equities appear well supported in the immediate future. Earnings are forecast to increase, with margins rising back towards historic highs. Valuations on these earnings are attractive. Individuals continue to sit on high cash levels despite interest rates being close to zero, which makes further inflows into equity funds likely. However, although a very embryonic recovery in the economy may be under way there are significant economic problems ahead.

US Equities

The negatives are the squeeze on corporate margins forcing cuts in investment and the continued uncertainty about the extent of the downturn in the housing sector. However, the recession is ending in response to major policy measures, such as fiscal packages and quantitative easing. The valuations are attractive, especially as more companies return to profitability.

European Equities

Exports remain under pressure due to the euro appreciation and the sharp slowdown in global trade. In addition, there are continued concerns about efficacy of policy response in Europe. Generally we would not suggest more than a slight exposure to this region.

Emerging Markets Equities

Domestic demand in Brazil remains both resilient and strong. Brazil is exhibiting stronger than expected economic growth and has weathered the financial crisis better than many market spectators had anticipated. China's government is actively supporting domestic growth. While high levels of savings are underpinning a trend of domestic consumption, the country's banking system is functioning well and is providing the economy with high levels of liquidity.

Russia saw the largest decline in earnings last year. However, with the recovery in commodity and energy prices, the rebound for the equity market will be the strongest. There is a distinct cyclical element here.

India is an interesting consumer story, partly because of population – we're talking about a middle class of 300 to 400 million people. There are similar numbers in China, but in India they have been using much more financial mediation to drive consumption. The debt levels of consumers have gone up, but they are still far below international levels. The rural areas, which are growing more quickly, are much more dependent on domestic themes. Therefore, India is probably the market that is least affected by the global environment and, as such, is a more defensive market. However, the central bank tightened monetary conditions much earlier than other economies at the end of 2006 and then, in mid 2009, went into very expansionary mode. We are now seeing inflationary expectations picking up.

The 2010 outlook for the BRIC economies remains positive.

UK Corporate Bonds

The lower volatility of the asset class, when combined with their current return potential, makes corporate bonds look particularly attractive. You should anticipate returns lower than in 2009. However, strong retail and institutional investor demand for extra yield still exists. The investment groups are still recommending a heavy exposure to this sector and we would not disagree with this view.

UK Commercial Property

Following two years of declines, capital values appear to have turned the corner in recent months. This has been driven by improved investor sentiment and increased demand, especially for prime properties with long leases and strong covenants. Investors are responding to improved property values, low returns on alternative assets (notably gilts and cash), and a growing confidence that the economic recovery has begun.