LIGHTHOUSEGROUP

LighthouseGroup
26 Throgmorton Street
London
EC2N 2AN

T: 0870 1977 400
F: 0870 1977 499
www.lighthousegroup.plc.uk

FEATURE ARTICLE

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Issued by: **Andrew Gadd, Head of Research - Lighthouse Group**

Taxes on the Way Up?

"Death and taxes and childbirth! There's never a convenient time for any of them."
Margaret Mitchell, American Author of Gone With The Wind, 1900-1949

In the Autumn Statement it was announced that the capital gains tax allowance will be frozen in 2012/13 at £10,600. It was anticipated before this announcement that this allowance would increase by September's rate of inflation, equivalent to around £500.

In my opinion this announcement is, in fact, worse news than it might first appear as it actually represents a reduction in the tax allowance in real terms (i.e. after taking inflation into consideration).

As you may be aware, capital gains tax is paid at either 18% or 28% on gains realised above the annual capital gains tax allowance depending on the income tax band of the individual. This announcement therefore basically means that in the future for certain individuals more of their capital gains are potentially subject to tax.

On top of this it must be noted that legislation has been introduced as part of the final version of the Finance Bill 2012 which reflects the government's intention to move the underlying indexation for direct taxes from RPI to CPI, which means that inheritance and capital gains tax-free allowances will rise more slowly in future. The IHT nil rate band (NRB) will remain frozen at its current level of £325,000 up to and including 2014-15. It will then rise in line with CPI from 6 April 2015, rounded up the nearest £1,000, unless parliament determines a different amount should apply. (Latest figures available from the Office for National Statistics showed CPI annual inflation stood at 5% in October. while RPI was 5.4%.)

Ultimately my view is that when making investment decisions the Government policy regarding various tax allowances makes tax shelters, such as ISAs, even more valuable. (In simple terms within an ISA there is no tax to pay on any gains, and no further tax to pay on any income, although the exact tax benefits to an individual will depend on their circumstances.)

In a Feature Article that I wrote back in April 2010, "The Elephant in the Room", I said that: "The simple truth for me is that after the election taxes are going to have to go up, it may be VAT or it may be further reductions in the tax benefits on pension contributions or it might be through, for example, fiscal drag but taxes are going up and at the same time spending in certain areas is going to be slashed. My recommendation therefore is that you take maximum advantage of the various tax efficient investment opportunities available to you presently such as, for example, ISAs and pension contributions."

I believe that the announcement in the Autumn Statement regarding the CGT allowance for 2012/13 and other announcements in the Finance Bill 2012 further strengthens that recommendation.

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General enquiries phone number: 08000 85 85 90

General enquiries email address: enquiries@lighthousegroup.plc.uk