ST. JAMES'S PLACE
WEALTH MANAGEMENT

POST-ELECTION BRIEFING NOTE

After the closest fought General Election in recent history resulted in the first hung parliament since 1974, no single party could claim an overall majority in the House of Commons.

Negotiations between the leading parties lasted five days until the Conservatives and Liberal Democrats finally agreed to form the first coalition government in the UK for 70 years. David Cameron moved into No.10 Downing Street to form what Liberal Democrat leader, Nick Clegg, described as a 'stable and legitimate' government.

The basis of the coalition government's policy was announced today; below we outline some of the potential implications. We will continue to keep you updated as and when additional information is released.

Taxation

There will be an "Emergency Budget" within 50 days. Given the information reported so far, it is likely that there will be a number of tax changes. Early indications from the press and policy statements by both Conservative and Liberal Democrat spokesmen suggest we should expect:

- Increases in Capital Gains Tax (CGT) on "non-business" assets. This is likely to move the CGT rate towards the individual's Income Tax rate and would be consistent with the Liberal Democrats' manifesto. "Non-business" assets include collectives, Unit Trusts, second properties and shares/equities. Business assets are expected to be unaffected. The actual wording in the coalition agreement is

> We further agree to seek a detailed agreement on taxing non-business capital gains at rates similar or close to those applied to income, with generous exemptions for entrepreneurial business activities.

- Deferment of the plans to increase the Nil Rate Band for Inheritance Tax (IHT) of £1m per person, at the same time scrapping the Liberal Democrats' proposal for the 'mansion tax'. This means estate planning will continue to be important.
- A move towards increasing the Individual Personal Allowance from £6,475 to £10,000, to be funded in part by only partially incorporating the Conservatives' proposal to scrap the National Insurance (NI) increases with the employee's increases going ahead, but the employer's increases being scrapped.
- Further measures to tackle perceived tax avoidance. This is specifically mentioned in the coalition agreement and emphasises the importance of using mainstream tax planning techniques such as those available through St. James's Place.

Pensions

The changes made to tax relief on pension contributions of those with total income of £130,000 or more will not change. Both the Liberal Democrats and the Conservatives have said that they will not amend these rules.

One area where the Liberal Democrats have been different to the Conservatives is that saying they will abolish higher rate tax relief on all pension contributions. At the time of writing we do not know if this measure has been shelved. However, there is confirmation of the intention to abolish compulsory annuity purchase at age 75.

Action

A majority of the proposals, which we have yet to see as well as those highlighted here, will emerge in the Budget; waiting for the detail may not, however, be the best course of action. Areas to consider, therefore, include:

- The importance of maximising the planning opportunities in the current environment. Tax rates are expected to rise in a future Budget whereas exemptions and reliefs are expected to fall.
- There is no longer any reason to defer estate planning.
- As we are on notice that CGT will rise a review of your assets should be undertaken to consider whether it may be better to sell, re-invest or gift now.
- Pension planning and contributions should be brought forward wherever possible and acted on now, particularly for higher rate tax payers.
- All individuals, particularly the higher paid, should look at alternative options for Income Tax planning from the basic re-organisation of investments (eg between husband and wife) to planning techniques.