

CHANGES TO TAX RULES FROM 6 APRIL 2008

This e-News focuses on some of the more significant changes to tax rules that will become effective from 6 April 2008.

CHANGES TO PEP AND ISA REGULATIONS

- Mini and Maxi ISA types will be removed
- In their place will be a "Cash ISA" and a "Stocks and Shares ISA", and you can invest in both within the same tax year
- Investing in both a Cash ISA and a Stocks and Shares ISA with different providers is permitted
- The maximum Cash ISA savings per tax year rises to £3,600
- The maximum Stocks and Shares ISA investment per tax year rises to £7,200
- A combination of the two is subject to an overall limit of £7,200 per tax year

Personal Equity Plans (PEPs) become Individual Savings Accounts (ISAs)

- If you are a PEP investor, your PEP will automatically become a Stocks & Shares ISA. This will not affect your ISA subscription limits for the current or next tax year

- PEPs that become ISAs will benefit from the wider 'Qualifying Investment Regime' available. This means that under ISA rules, Investors can choose a wider range of underlying investment types

These changes will be automatically applied by the provider and you are not required to take any action.

Other changes

- ISAs will become a permanent savings vehicle. Previously, the Government had planned to review ISA availability and had said the ISA scheme would only last for a certain period of time. Now there is no planned review date making ISAs available indefinitely
- From 6 April 2008 it will be possible to transfer a previous year's contribution (at their current value) from a Cash to a Stocks & Shares ISA, without affecting the current tax year allowance. Transfers can be from one provider to another

CAPITAL GAINS TAX REFORMS

The Chancellor has made another announcement in relation to the changes to Capital Gains Tax (CGT) he proposed in last year's Pre Budget Report. As you may remember, the original proposals were to introduce a single flat rate of CGT of 18% from 6 April 2008. Whilst this may sound attractive, it comes at a price – taper relief and indexation allowance will be abolished. This means that you will effectively have more gain taxed at a lower rate!

After a severe backlash from the business community, the Chancellor announced details of a new CGT relief for entrepreneurs to operate alongside

the above changes. The relief will deliver a 10% tax rate for up to the first £1 million of certain lifetime capital gains. Individuals will be able to claim relief for gains made on multiple occasions up to a cumulative total of £1 million. Gains in excess of the £1 million lifetime limit will attract the standard 18% rate of tax.

For the self employed, the relief will apply to gains arising on disposals of the whole or part of a trading business including professions and vocations but not including a property letting business other than furnished holiday lettings.

For shareholders, the relief will also apply to gains on disposals of shares in a trading company provided that the individual making the disposal has been an officer or employee of the company and owns at least 5 per cent of the ordinary share capital of the company (and that holding enables the individual to exercise at least 5 per cent of the voting rights in that company).

Trustees will also be able to benefit from entrepreneurs' relief on gains on assets used in a business. In order for trustees to benefit, a beneficiary of the trust with an interest in possession relating to those assets must be involved in carrying on the business in question, personally or as a partner. In the case of shares such a beneficiary must qualify as an officer or employee of the company in question. The conditions under which trustees qualify for relief will be generally similar to those for retirement relief. In particular, the £1 million maximum limit on gains eligible for relief will apply to the trustees and the qualifying beneficiary jointly.



The Exchequer cost of the entrepreneurs' relief is estimated at around £200 million a year. The measure will be formally recorded in the 2008 Budget Report.

CHANGES TO BASIC RATE TAX AND THE AFFECT TO PENSION CONTRIBUTIONS

From 6 April 2008 basic rate income tax will come down from 22% to 20%. This means that there will be a small reduction in the tax relief on the pension payments that you make.

How your pension payments will change

When making regular or lump sum contributions into a personal or stakeholder pension plan, the amount

that is invested by the pension provider is the 'gross' amount. This is made up of two parts; the payment which comes out of your bank account and the amount of tax added to your payment by HM Revenue & Customs.

As the rate of tax relief added to your payment is coming down, pension providers will be automatically increasing your existing payments to make sure you are still investing the same amount for your retirement. Any direct debit payments will therefore change and the pension provider will take your new payments after 6 April 2008 – all future payments after this date will receive tax relief at the 20% rate.

Example

	Gross contribution	Cost to you	Tax relief
Before 6 April 2008	£100	£78	£22 (i.e. 22%)
After 6 April 2008	£100	£80	£20 (i.e. 20%)

Higher rate tax relief can continue to be claimed in the usual way through self-assessment tax returns.

If you are thinking of making a pension contribution, it may be worth considering doing this before 6 April to benefit your allowances for the 2007/08 tax year and also to make use of the 22% relief.

impressive performance from British Land, Hammerson and Land Securities.

The rally could be a sign of a change in market sentiment from fearful to broadly optimistic, with many people predicting a swift end to losses and a wave of bargain hunting among canny investors.

COMMERCIAL PROPERTY – MARKET UPDATE

With commercial property values still falling and property funds suffering savage liquidity problems, who would have thought that some of the best-performing stocks on a besieged London market would be the property companies.

The commercial property sector has yielded total returns of more than 5 per cent so far this year, supported by

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