

There would not have been many who would have predicted an outright majority for the Conservative Party in last week's election. Whilst the dust settles in the corridors of power let us turn to think about what the future holds from a financial planning perspective. This paper first considers the main issues and then contemplates what it means in practice.

## What stays the same?

**Taxes** - David Cameron stated that he will pass a law prohibiting his own government increasing Income Tax, National Insurance or VAT. Whilst we wait and see if indeed a law is now felt necessary (cue mutterings about a busy parliamentary timetable) it would be a significant and damaging u-turn to renege on such a strong pledge. Further, there is a commitment to raise the higher rate threshold to £50,000 and the Personal Allowance (where no tax is paid) to £12,500. Do note, however, the absence of any commitment on Capital Gains Tax.

**Non-Doms** - There was a danger that a left leaning coalition would seek further taxes from non-doms. A Conservative government is more likely to maintain the current position, even if it has itself been increasing the Remittance Basis Charge for long term non-doms over the past few years.

**Pension death benefit rules** - Many commentators were sceptical that the rules introduced from this April allowing death benefits to be more effectively passed to the next generation were under threat from a change of government. The policy is now assured for the next five years and once bedded-in it will hopefully prove difficult to remove.

## What's going to be new?

**Lower pension contributions for high earners** - Those earning over £150kpa are likely to see the amount they can contribute into pensions reduce. The manifesto proposal was to reduce the £40k annual allowance by £1 for every £2 earned over £150k, subject to a £10k minimum allowance. Therefore, anyone earning over £210,000 will have the minimum allowance.



**New Nil Rate Band for property** - The above reduction in pension tax relief is proposed to fund a more generous Inheritance Tax (IHT) regime. Each person is set to receive an additional £175k Nil Rate Band for the main family home. As this will be transferable between husband and wife, just as the main £325k Nil Rate Band is, for married home owners no tax should be paid on the first £1m of the estate (£325k+£175k per person).

## What do Markets think?

The investment markets have reacted positively to the election result, in many ways it is a relief rally. As a general rule right of centre governments are considered good for business. Going forward the spectre of an exit from the EU and further questions regarding Scotland's independence are likely to weigh on markets.

## So what does it mean in practice?

The investment markets reacting positively to the election is good news for all investors. Equity markets have a positive outlook for growth and bond markets should benefit from a continued approach of fiscal austerity.

Clearly, high earners are going to need to look at alternatives to pension savings not only to protect themselves from current tax rules but also to ensure they have flexibility to cope with future tax changes. Arguably it is high earners who are in active Defined Benefit Schemes who now have the most difficult set of decisions as they face tax on accrual, tax on exit but a valuable guaranteed pension offering that one would be reluctant to forego.

Retirees can expect to retain the flexibility, choice and advantageous death benefit position for their pensions. Moreover, the higher nil rate band for IHT will be particularly welcome. The choices for retirees will be in what order and how should they draw an income from all of their assets to be as tax effective as possible across all taxes be it Income, Capital Gains or Inheritance Tax.

We wait and see if manifesto promises are kept but the probability is that the above will come into force and financial planning strategies will need to be adjusted and adapted over the coming months.

*Please remember that tax treatment depends on your individual circumstances and may be subject to change in future.*



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