

Retirement has more potential with

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Prudential's Summary of the 2009 Pre-Budget Report for Financial Advisers.

This document is intended to give you an understanding of the Government's Pre-Budget announcements which the Chancellor is expected to introduce in the 2010 Budget. We have focused on the key areas where your clients could be affected and therefore may need your advice as a result.

Subject	Measure	How this could affect your clients
Income Tax allowances, rates and bands.	These rates have been frozen from 2010/2011. Also the higher rate band starting point has been frozen for 2011/2012.	In general this will increase the tax burden on the average client and reinforce the need for tax based financial planning.
National Insurance Contributions.	NICs have been increased by an additional 0.5%. Those with earnings less than £20,000 per year will be unaffected.	This will reduce clients' disposable income. Consider salary sacrifice and for small companies pay dividends rather than salary.
Inheritance Tax.	Nil rate band for 2010/2011 will be frozen at £325,000. The Chancellor announced a consultation on the use of trusts in inheritance tax planning. Two specific inheritance tax avoidance schemes have been blocked.	This reinforces the need to consider inheritance tax planning strategies. Prudential's bond and trust arrangements are unaffected.
Corporation Tax.	The increase in the small company rate (from 21% to 22%) has been deferred for one year. The main rate remains unchanged (28%).	Smaller companies could consider deferring expenditure to attract tax relief at the higher rate.

Important information

The above is based on our understanding as at December 2009 of the current taxation, legislation and HM Revenue & Customs practice, all of which are liable to change without notice. The impact of any taxation (and any tax reliefs) depends on individual circumstances.

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Basic State Pension.	This will increase by 2.5% with effect from April 2010.	This appears generous but the BSP is unlikely to meet clients' long term retirement needs.
Pension Tax Relief.	<p>As previously announced in the April 2009 Budget, individuals on incomes above £150,000 will have tax relief on pensions restricted from 2011. The relief will taper down between £150,000 and £180,000 – eventually restricting relief to the basic rate (20%).</p> <p>Income will now include payments made by employers. However a lower level will be introduced so that anyone with earnings below £130,000 will have any employer contributions excluded from the restriction.</p> <p>The restriction of relief will normally be administered via the self-assessment process – rather than via the pension provider. Where the charge is particularly large, individuals will be able to elect to have their pension scheme pay the charge as a deduction from their pension fund.</p> <p>This will apply to defined contribution and defined benefits schemes.</p> <p>Because of this change the anti-forestalling measures introduced in April 2009 will be extended to cover anyone with an income above £130,000 from 9th December 2009.</p>	Consider pensions to benefit from tax relief and where anti forestalling measures apply, consider bonds and ISAs to supplement existing pension arrangements.
Personal Accounts.	<p>For larger firms the timetable appears to remain unchanged. Start ups and small firms will be able to start auto-enrolling later than planned - after October 2015.</p> <p>The phasing of minimum employee contribution levels will now be 3% from October 2016 and 4% from October 2017. Employer contributions will be 2% from October 2016 and 3% from October 2017. This delays the timetable to reach a final level ('steady state') by one year to 2017.</p>	Speak to employers and employees about the changes. Personal Accounts are unlikely to meet all financial needs in retirement. Also discuss other options for providing retirement income.

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Public Sector Pensions.	<p>The Chancellor has announced reforms to the Teachers, Local Government, NHS and Civil Service pension schemes which will cap the contribution to pensions made by employers, thereby limiting the liability of the taxpayer as pensions become more valuable.</p> <p>Cost increases below the cap will be shared equally between employers and employees, and those above the cap met solely by employees. In addition, as part of cap and share, the Government will expect those earning the highest salaries to pay a greater contribution towards their pension.</p> <p>These reforms will save an estimated £1 billion a year from 2012-13, and at least twice this amount over the long-term.</p>	<p>Public sector clients are likely to experience a pension shortfall - discuss other retirement options such as AVCs, personal pensions and tax efficient non pension investments.</p>

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