

Taxing times ahead

Macquarie Planner Services
Smart solutions made simple



As we approach the tax year end, John Porteous, Head of Distribution at Macquarie, considers the dilemma facing planners in building tax efficient investment solutions for their clients



Following on from the Chancellor's budget announcement if there ever was an opportunity to illustrate the need for high quality and insightful financial planning advice it surely comes in the form of the "Manhattan skyline" tax regime affecting High Net Worth investors in the UK today. Whilst there was relatively little change to direct personal taxation in the 2010 pre-election budget, the fiscal landscape is still challenging for investors.

As we approach the end of the financial year, Private Clients will be looking for guidance on how best to structure their investment and financial planning affairs against a backdrop of shifting priorities. While traditionally this time of year may have signified a last minute rush to top up pension funds, the tax treatment for wealthy clients may prove unappealing.

Clearly, this is not good news for the pension industry, although, perhaps the real sting in the tail is the additional complexity that has been added for long term investors – especially those who may be liable for tax at the new highest rate of 50%. The difference in the tax treatment of assets liable to Capital Gains and Income Tax respectively when coupled with any restrictions on tax relief relative to the prevailing marginal rate on pension contributions highlights the attraction of a diversified approach. While it is seldom prudent to let the tax tail wag the investment dog, it seems likely that tax planning will become even more integral as a part of any planning solution – especially when one considers the investment growth that may be required to compensate for a sub-optimal tax structure.

So what does this mean in practice? As we know, there is no magic formula that applies to all Private Clients; however, it seems reasonable to assume that advisers will adopt a wider range of tax wrappers and solutions than in the past. Given the growth in popularity of the platform market, this can be achieved in an administratively efficient manner while giving a clear and informative picture of accumulated wealth.

With greater administrative aggregation and efficiency, there is a need to fully understand and model the tax consequences of any asset allocation shifts or rebalancing. As planning strategies diverge away from single tax wrappers (such as pensions) which effectively act as conduit for tax mitigation or deferral this process will become more complex with advisers needing to analyse the tax consequences of their decisions.

While many advisers have started to adopt tools such as cash flow analysis as part of a scenario planning exercise, this can be greatly enhanced by modelling the tax consequences of investment decisions also. Further, as tax management moves to the heart of the wealth management proposition (driven as much by necessity as anything else) the ability for planners to work closely with other professional parties will be greatly enhanced.

For those planners who wish to leverage their value proposition, the fusion of tax management, investment planning and excellent execution will be very powerful indeed.

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